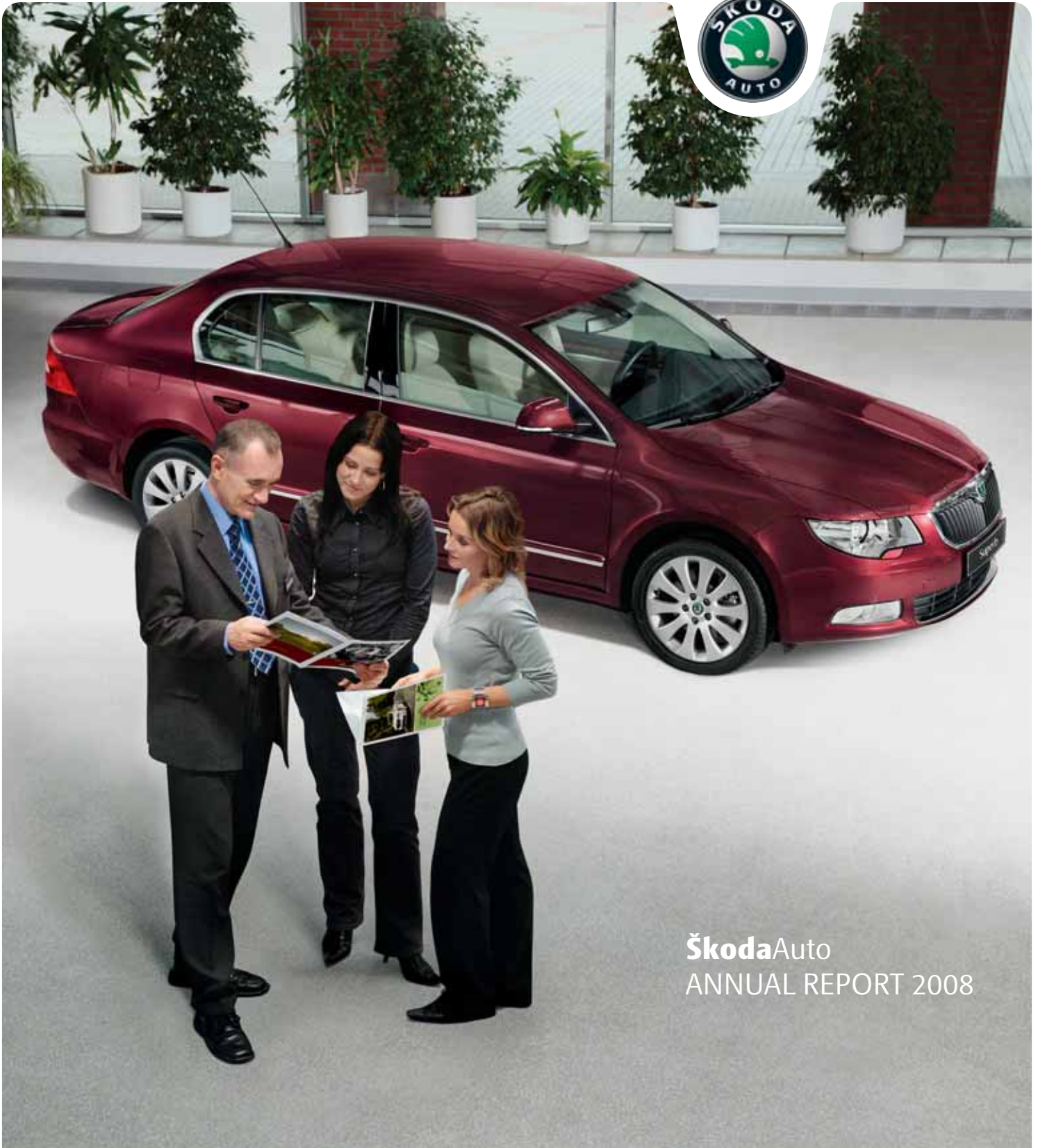


SIMPLY CLEVER



ŠkodaAuto
ANNUAL REPORT 2008

PEOPLE BEHIND ŠKODA



We stand on firm foundations built over a long history and tradition of automobile manufacturing. We offer attractive, functional, practical, and elegant vehicles at a high level of quality. We managed to further reinforce our positions in key world markets in 2008, despite the ongoing financial crisis. We are well prepared to meet growing competitive pressures and the knowledge and innovation of our people give us the strength and capacity to successfully face the risks and challenges to come.

ŠKODA AUTO A COMPANY WITH A TRADITION AND A FUTURE



67.5

percent of total Škoda Auto Group sales volume was realized on European Union markets.

200.2

billion CZK was the total level of Škoda Auto Group revenues.

26,695

was the worldwide number of Škoda Auto Group employees at year end.

674,530

Škoda-brand vehicles were delivered to customers worldwide.

2,000,000th

vehicle of the highly successful Škoda Octavia model line rolled off the assembly line in March.

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SELECTED DATA AND FINANCIAL FIGURES ACCORDING TO IFRS

		Škoda Auto Group			Škoda Auto Company		
		2006	2007	2008	2006	2007	2008
Volume Data*							
Deliveries to Škoda customers	vehicles	549,667	630,032	674,530	549,667	630,032	674,530
Sales	vehicles	562,251	619,635	625,819	555,202	623,085	622,090
Sales of Škoda cars	vehicles	559,821	617,269	621,683	555,202	623,085	622,083
Production	vehicles	556,347	623,291	606,614	556,433	623,529	603,247
Production of Škoda cars	vehicles	556,347	622,811	603,981	556,433	623,529	603,247
Number of employees	persons	27,680	29,141	26,695	26,738	27,753	25,331
of which: temporary	persons	3,879	4,680	1,759	3,704	4,194	1,709
Profit and Loss Account							
Sales	CZK millions	203,659	221,967	200,182	189,816	211,026	188 572
Gross profit	CZK millions	28,023	36,493	28,659	22,107	30,161	22,972
	% of sales	13.8	16.4	14.3	11.6	14.3	12.2
Operating profit	CZK millions	14,602	19,784	13,620	13,776	19,021	12,636
	% of sales	7.2	8.9	6.8	7.3	9.0	6.7
Profit before income tax	CZK millions	14,198	19,860	13,376	13,560	19,446	13,287
Profit before income tax-to-sales ratio	%	7.0	8.9	6.7	7.1	9.2	7.0
Profit after income tax**	CZK millions	11,062	15,982	10,818	10,882	15,892	11,267
Profit after income tax-to-sales ratio	%	5.4	7.2	5.4	5.7	7.5	6.0
Balance Sheet/Financing							
Fixed assets	CZK millions	54,292	56,767	60,017	53,936	56,903	60,119
Current assets	CZK millions	50,920	59,014	62,439	43,499	48,658	51,276
of which: lendings	CZK millions	23,950	25,554	25,721	23,950	25,554	25,238
Equity**	CZK millions	58,321	67,034	71,608	58,007	66,532	71,721
Non-current liabilities	CZK millions	12,354	13,940	13,693	9,457	10,281	9,782
of which: nominal value of bonds	CZK millions	2,000	2,000	2,000	2,000	2,000	2 000
Current liabilities	CZK millions	34,537	34,807	37,155	29,971	28,748	29,892
of which: nominal value of bonds	CZK millions	3,000	0	0	3,000	0	0
Total assets	CZK millions	105,212	115,781	122,456	97,435	105,561	111,395
Cash flow from operating activities	CZK millions	27,420	28,454	14,206	24,203	28,146	14,784
Cash flow from investing activities	CZK millions	(11,090)	(13,785)	(16,147)	(10,910)	(13,913)	(14,445)
Cash flow from financing activities	CZK millions	(156)	(11,387)	(1,027)	68	(11,259)	(1,623)
R&D expenditure	CZK millions	4,701	5,459	5,461	4,701	5,459	5,461
Investment ratio	%	4.1	4.9	5.6	4.3	4.9	5.4
Net liquidity	CZK millions	21,157	27,403	18,272	19,352	25,154	18,353
Equity ratio	%	55.4	57.9	58.5	59.5	63.0	64.4
Equity-to-fixed assets ratio	%	107.4	118.1	119.3	107.5	116.9	119.3

* Definitions of volume indicators are given in the table of selected terms and abbreviations on page 181.

** Figures for the consolidated group include minority shares.

LETTER FROM THE CHAIRMAN



Dear friends and supporters
of the Škoda brand,

Allow me to sum up and assess the year
2008.

Although the past year brought many
external hurdles – from further price growth
in raw materials and a strong Czech Koruna
to a global financial crisis that had a very
palpable impact on worldwide trade and
commerce in the second half of the year –
2008 was a successful year for Škoda Auto
Group.

We sold nearly 675 thousand vehicles,
a new record in Škoda Auto Group history.
With the opening of our new Technology
centre building, we further reinforced our
position within Volkswagen Group's
technical development function.

Most of all, 2008 was about building our
positions in the emerging markets of Russia,
China and India. At the Delhi Motor Show
in India early in the year, we unveiled and
subsequently launched our smallest model,
the Škoda Fabia. As the year closed,
production and sale of the Fabia got
underway in China as well. In Russia, during
the year we continued to build a joint
manufacturing plant in Kaluga with the
Volkswagen Group, in execution of our plan
to manufacture vehicles there at a higher
knocked-down level.

In terms of new products, early 2008 brought the launch of the Škoda Fabia Combi model line in world markets. The main event, however, came in March with the unveiling of the new generation of our flagship: the Škoda Superb model line. The new Superb gives its segment a new dimension, thanks to its combination of tasteful design with maximum practicality. In direct proof of our commitment to protecting the environment, we prepared an environmentally-friendly version of this model, entitled GreenLine. In the second half of 2008, at the Paris Motor Show, we introduced a rejuvenated Octavia, which has been our most successful model for a long time now. In the near future, fans of the Škoda brand can look forward to an entirely new vehicle in the A-SUV category, as well as a Combi version of the Superb.

The global financial and economic crisis that emerged in the past year could hardly leave unscathed a sector as large and important as the automotive industry. In addition to direct impacts of financial markets instability, in the second half of the year we faced a substantial slump in demand in major markets and ensuing cuts in production.

The financial performance result we achieved in 2008, in spite of a number of negative factors, demonstrates our financial strength and stability and confirmed that we remain a robust and solvent business partner even in difficult economic times.

The next year looks to be a complicated one, both for us and for the automotive industry as a whole. Our key task will be to correctly assess the true depth of the worldwide crisis, analyse and foresee its impacts and find optimum solutions with regard to the Group's long-term goals. We are convinced that we have prepared ourselves responsibly for this task.

In conclusion, allow me on behalf of the entire Board of Directors to sincerely thank all those who have played a role in our brand' success for their efforts, support and dedication.



Reinhard Jung
Chairman of the Board of Directors

MILESTONES OF THE YEAR 2008

January

- Combi version of new-generation Škoda Fabia goes on sale in world markets
- New-generation Škoda Fabia presented at international motor show in Delhi and launched in Indian market
- "Traffic Safety Research" project launched

February

- Testing of Fabia Super 2000, specially designed for motor racing, begins
- Production of Škoda Octavia begins at Volkswagen Group plant in Bratislava, Slovakia

March

- New-generation Škoda Superb unveiled at Geneva Motor Show
- Škoda Auto Annual Press Conference held and 2007 financial figures published
- Jubilee 2,000,000th Škoda Octavia car produced
- Celebration held to mark opening of Škoda Auto's third protected work space in Mladá Boleslav

April

- New-generation Škoda Superb vehicle enters production in Kvasiny
- Škoda-brand vehicles presented at international motor show in China
- Jubilee 2,000,000th Škoda Fabia produced

May

- New-generation Škoda Superb car awarded five stars in Euro-NCAP safety study
- For the sixteenth time, Škoda Auto is general sponsor of the World Ice Hockey Championships
- Škoda Auto wins tender to supply vehicles to the Police of the Czech Republic
- Sustainable Development Report 2007/2008 published

June

- New-generation Škoda Superb goes on sale in world markets
- Škoda-brand vehicles presented at Autotec 2008, a vehicles show held in Brno, Czech Republic
- Škoda Auto is official vehicle to the 48th annual International Film Festival for Children And Youth in Zlín

July

- For the fifth time, Škoda Auto is general partner of the Tour de France
- 35th annual Rally Bohemia begins under patronage of Škoda brand

August

- Škoda Auto is official automotive partner of the XXIXth Olympic Games in Beijing
- Launch of Škoda Plus, a program to support sales of used cars in the authorised dealer network
- New-generation Škoda Superb presented at the international motor show in Moscow



September

- Vrchlabí plant produces 1,000,000th vehicle since joining Volkswagen Group
- Škoda Auto supports Czech Team at Paralympic Games in Beijing

October

- "Rejuvenated" Škoda Octavia unveiled at Paris Motor Show
- Škoda brand presented at Autoshow Praha



November

- Rejuvenated Škoda Octavia launched in markets worldwide
- Production of Škoda Superb successor vehicle begins in Aurangabad, India

December

- Construction of new technical development centre in Mladá Boleslav completed
- Škoda Auto is general sponsor of World Floorball Championships
- Škoda Fabia model enters production in China and is launched in local market



List of awards won by Škoda brand in 2008

- Škoda Superb won a prestigious award in the COTY (Car of the Year 2009) competition
- Škoda Octavia won the Automobile of the Year 2008 award in a competition organized by SAE China and Sina Auto News
- The new Škoda Fabia won in two categories – Automobile of the Year 2008 in Ukraine in the small and mid-sized cars category, and Best Cost-Benefit Ratio 2008
- Readers of Auto Bild Allroad chose the Škoda Octavia 4x4 as the four-wheel drive vehicle of the year 2008
- The Škoda Octavia Combi and the Škoda Superb won the Company Car of the Year 2008 title in Germany in the mid-range/import and upper mid-range/import categories, respectively
- In the Driver Power 2008 survey by the British magazine Auto Express, the Škoda Octavia was named Best Car of the Year
- "One Tree Planted For Each Car Sold in the Czech Republic" won the Extraordinary Project award in the TOP Corporate Philanthropist of the Year 2008 competition
- German newspaper Bild am Sonntag awarded the Golden Steering Wheel 2008 for the best upper mid-range car to the Škoda Superb
- Several Škoda Auto models win in the Auto Trophy 2008 competition

ŠKODA AUTO AT HOME AND IN THE WORLD



Only a handful of automobile manufacturers can boast of a production tradition lasting continuously for over a century. During its history, Škoda Auto has become a globally recognized and sought after brand. Škoda Auto is one of the largest economic groupings in the Czech Republic, and we are at home in Slovakia, Germany, Poland, India, and Russia as well, thanks to our subsidiaries and associates there. Škoda brand vehicles are sold in 101 markets over the world.

ŠKODA AUTO GROUP PROFILE

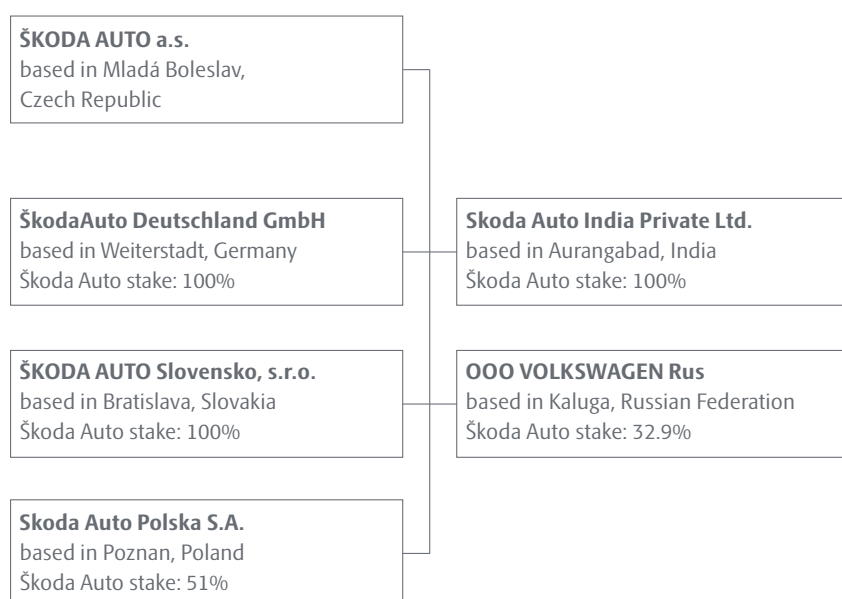
Who We Are

Škoda Auto Group (the “Group”) is one of the largest corporate groups in the Czech Republic. It consists of the parent company, ŠKODA AUTO a.s. (the “Company”) and its fully consolidated subsidiaries:

ŠkodaAuto Deutschland GmbH,
ŠKODA AUTO Slovensko, s.r.o.,
Skoda Auto Polska S.A.,
Skoda Auto India Private Ltd.
and the affiliate OOO VOLKSWAGEN Rus.

ŠKODA AUTO a.s.

The parent company, ŠKODA AUTO a.s., is a Czech company with an automotive manufacturing tradition that goes back over a hundred years. It is one of the oldest automotive brands in the world. The Company’s principal businesses are the development, manufacture and sale of Škoda-brand automobiles, components, genuine parts and accessories and the provision of related repair and maintenance services. From 18 July 2007, sole ownership of the parent company, ŠKODA AUTO a.s., passed to Volkswagen International Finance N.V. with its seat in Amsterdam, Kingdom of the Netherlands. Volkswagen International Finance N.V. is an indirect 100% subsidiary of VOLKSWAGEN AG.



101 markets across the globe

All over the world, Škoda Auto Group operates in a total of 101 markets, in which a total of 674,530 Škoda-brand vehicles were delivered in 2008.

ŠkodaAuto Deutschland GmbH

This company was established in 1991. It has been a subsidiary of ŠKODA AUTO a.s. since 1995. The company's principal businesses are the purchase and sale of vehicles, genuine parts and accessories.

ŠKODA AUTO Slovensko, s.r.o.

This company was formed in 1993 as a subsidiary of ŠKODA AUTO a.s. The company's principal businesses are the purchase and sale of vehicles, genuine parts and accessories.

Skoda Auto Polska S.A.

This company was formed in 1994 and it became a subsidiary of ŠKODA AUTO a.s. in the same year. The company's principal businesses are the purchase and sale of vehicles, genuine parts and accessories.

Skoda Auto India Private Ltd.

This company was established in 1999 as subsidiary of ŠKODA AUTO a.s. and its vehicle assembly operations commenced in 2001. The company's principal businesses are the purchasing, manufacture and sale of vehicles, components, genuine parts, accessories and other goods.

OOO VOLKSWAGEN Rus

This company was established in 2006 by VOLKSWAGEN AG, as sole owner, in accordance with an agreement entered into with the Russian Federation. ŠKODA AUTO a.s. took a stake in OOO VOLKSWAGEN Rus in late 2006 and the European Bank for Reconstruction and Development (EBRD) became the third shareholder in 2007. As of 31 December 2008, ŠKODA AUTO's stake was 32.9%, VOLKSWAGEN AG held 54.9%, and the EBRD held a 12.2% stake.

The company's principal businesses are the purchase, manufacture and sale of vehicles, genuine parts and accessories.

Whence We Come

Only a very small number of the world's automobile manufacturers can boast an unbroken tradition of motor vehicle production spanning a period of one hundred years. The road to today's prosperity began in 1895, when Václav Laurin and Václav Klement began manufacturing Slavia-brand bicycles. Just four years later, Laurin & Klement began manufacturing motorcycles.

1905

The first car, called the "Voiturette A", leaves the factory gates and thanks to its quality and attractive appearance soon gains a stable position in the emerging international automobile markets.

1907

Laurin & Klement set up a joint-stock company that goes on to export cars to markets the world over.

1908

Laurin & Klement's first major accomplishment in the field of motor sport. On a race track in Semmering, the motor racing version of the "Model F" won all the classes in which it started

1925

The Laurin & Klement automobile factory merges with the Škoda machinery manufacturing company in Plzeň.

1930

ASAP ("Akciová Společnost pro Automobilový Průmysl" – the Automotive Industry Joint-stock Company) is founded and begins using assembly-line production methods, which are revolutionary for their time.

1945

The enterprise is nationalised in the autumn of 1945, and its post-war reconstruction takes place under a new name: AZNP ("Automobilové závody, národní podnik" – Automotive Plants, National Enterprise).

1958

Škoda 450, the legendary cabriolet also known as the Škoda Felicia, goes into series production.

1987

Unveiling of the long-awaited Škoda Favorit, a car with a modern design that later helps to transform Škoda Auto.

1991

April 16 marks the beginning of a new chapter in the Company's history, when it is acquired by the strategic partner Volkswagen. Škoda becomes the Volkswagen Group's fourth brand.

1998

The Mladá Boleslav-based car manufacturer changes its name from Škoda automobilová a.s. to ŠKODA AUTO a.s., as it is known to this day.

Where We Stand

Since becoming a part of Volkswagen Group, Škoda Auto has more than tripled its production, significantly expanded its product portfolio, and reinforced the Škoda brand's image. Furthermore, it has built an extensive sales and service network and successfully established itself in international markets.

Škoda Auto Group

- operates in over 100 markets all over the world, in which it delivered 674,530 vehicles to customers in 2008; European Union countries account for 67.5% of sales (more on page 64);
- with total sales revenues of CZK 200.2 billion 2008, Škoda Auto is one of the largest corporate groups in the new European Union Member States measured by turnover (more on page 40);
- is a major employer; in 2008 it employed a total of 26,695 people, 1,364 of which were in foreign subsidiaries (more on page 69);
- in the Czech Republic, Škoda Auto has taken lead rankings in recent years in the "Largest Corporation" and "Most Admired Corporation" categories of the CZECH TOP 100;
- is the Czech Republic's largest exporter, with a 6.7%* share in the country's exports;
- has major capital holdings in companies in both the Czech Republic and abroad,
- is a socially responsible company; in 2007, Škoda Auto declared adherence to the principles of the Czech Code of Corporate Governance (see page 23), is a long-term supporter of a number of public-benefit projects in the social area (more on page 75), and continually exhibits maximum care for the environment (more on page 77).

* estimated for 2008

PRODUCT PORTFOLIO

We're not letting up in our search for new solutions. We develop and offer products that remain faithful to the unmistakable style typical of Škoda-brand models. Our generous offering full of imaginative ideas and interior space solutions, including cargo space, in keeping with "Simply Clever", the price/performance ratio of our vehicles while upholding a high standard of quality and environmental consideration – those are the typical characteristics and features that our customers have come to expect from us as a matter of course.

The Group's principal business is manufacturing and selling Škoda-brand vehicles, genuine parts and automobile accessories.

In 2008, the brand's product portfolio includes the following model lines:

Škoda Fabia

segment:	compact
in production since:	1999, 2nd generation since 2007
models:	hatchback, combi
variants:	Fabia, Classic, Ambiente, Sport, Elegance, GreenLine
engine options:	petrol engines 1.2 HTP/44 kW, 1.2 HTP/51 kW, 1.4 MPI 16V/63 kW, 1.6 MPI 16V/77 kW diesel engines** 1.4 TDI PD/51 kW, 1.4 TDI PD/59 kW**, 1.9 TDI PD/77 kW



Škoda Roomster

segment:	small MPV
in production since:	2005
model:	hatchback
variants:	Roomster, Style, Sport, Comfort, Scout, Praktik
engine options:	petrol engines 1.2 HTP/51 kW, 1.4 MPI 16V/63 kW, 1.6 MPI 16V/77 kW diesel engines** 1.4 TDI PD/51 kW, 1.4 TDI PD/59 kW, 1.9 TDI PD/77 kW



Škoda Octavia

segment:	lower mid-range
in production since:	2004
models:	liftback, combi
variants:	Classic, Ambiente, ^{***} Elegance, ^{***} Laurin & Klement, ^{**} RS, Scout*
engine options:	petrol engines 1.4 MPI/59 kW, 1.4 TSI/90 kW, 1.6 MPI/75 kW, 1.6 FSI/85 kW, 1.8 TSI/118 kW, 2.0 FSI/ 110 kW, 2.0 TSI/147 kW diesel engines** 1.9 TDI PD/77 kW, 2.0 TDI PD/103 kW, 2.0 TDI CR/125 kW ^{*****}

Škoda Octavia Tour

segment:	lower mid-range
in production since:	1996
models:	liftback, combi
engine options:	petrol engines 1.4 MPI/55 kW, 1.6 MPI/75 kW, 1.8 T/110 kW diesel engines** 1.9 TDI PD/74 kW, 1.9 TDI/66 kW

Škoda Superb

segment:	upper mid-range
in production since:	2001, 2nd generation since 2008
model:	limousine
variants:	Comfort, Ambition, Elegance, 4x4, GreenLine
engine options:	petrol engines 1.4 TSI/92 kW, 1.8 TSI/118 kW, 3.6 FSI V6/191 kW ^{*****} diesel engines** 1.9 TDI PD/77 kW, 2.0 TDI PD/103 kW, 2.0 TDI CR/125 kW ^{***}

- * Combi model only
- ** diesel engines with diesel particulate Filter (DPF) for selected markets
- *** a 4x4 version of the Combi is also available
- **** 4x4 only
- ***** only RS

Other Product Lines

In addition to entire vehicles, the Company also manufactures automobile components, both for its own use and for other Volkswagen Group companies. Thus, the Company's product line also includes the 1.2 HTP 44 kW 6V and 1.2 HTP 51 kW 12V low-volume engines and the MQ200 gearbox, noted for its high gear-shifting conformity and low noise. Škoda Auto also manufactures steel and cast-iron semi-finished parts as well as engine and gearbox components.



TRANSPARENCY, CREDIBILITY, MANAGEMENT QUALITY



Škoda Auto has an exclusive position in the Czech business environment. It remains in this position thanks to information openness and transparency, among other factors. Škoda Auto subscribes to the recommendations and rules laid down by the Code of Corporate Governance based on the OECD principles.

STATUTORY AND SUPERVISORY BOARDS OF ŠKODA AUTO

Board of Directors

List of Members of the Board of Directors

Reinhard Jung

Chairman of the Board of Directors
(since 1 October 2007)

Holger Kintscher

Member, Commercial Affairs
(since 1 September 2005)

Horst Mühl

Member, Production and Logistics
(since 1 January 2005)

Fred Kappler

Member, Sales and Marketing
(since 1 January 2004)

Klaus Dierkes

Member, Human Resources Management
(since 1 April 2008)

Eckhard Scholz

Member, Technical Development
(since 1 April 2007)

**Allocation of Powers
and Responsibilities**

The Chairman of the Board's Department is responsible for compliance with customers' requirements concerning product quality. Other tasks in this area include planning products, actively communicating with the media and professional circles, and organising meetings of senior management teams.

"Commercial Affairs" is responsible for financial planning, management, and effective use of financial resources. It is also tasked with securing information to meet the needs of the Company's management, and to secure timely and economically advantageous deliveries.

"Production and Logistics" is responsible for the manufacture of vehicles, original parts and accessories, power units and components thereof, as well as logistical activities and preparations for production.

"Sales and Marketing" is responsible for marketing the vehicles, original parts, and accessories produced by the Company.

"Human Resources Management" is responsible for providing human resources services, ensuring that all Company employees are optimally qualified, satisfied, and motivated. It also communicates on the Company's behalf with various interest groups.

"Technical Development" is responsible for new product development, styling, design, tests, caring for vehicles in production, and constantly improving the entire range of Škoda brand products. It bears the same responsibilities in relation to power train components manufactured for other Volkswagen Group brands.

Members of the Board of Directors

Dipl.-Ing. Reinhard Jung (*1951)

A graduate of Lemgo Institute of Technology, where he majored in production technology, Mr. Jung joined VOLKSWAGEN AG in 1974. Until the end of 1984, he worked first as a project engineer and then as head of vehicle production launch in various international projects. In January 1985, he accepted the position of project manager at the Volkswagen Sarajevo plant. In 1986–88 he was the VOLKSWAGEN AG head of international production and was responsible for the Europe area. From January 1989 to June 1993 he headed up various departments in central planning in Wolfsburg and Salzgitter. From July 1993 to December 1995 he was in charge of Volkswagen brand production management. From January 1996 to February 2002 he was head of the Volkswagen plant in Braunschweig. From March 2002 to July 2004 he was President of Volkswagen de Mexico, where he also served as member of the Board of Directors responsible for technical issues. From August 2004 to September 2007 he was the member of the Volkswagen Passenger Cars Board of Directors responsible for production and logistics. He has been Chairman of the Board of Directors of ŠKODA AUTO a.s. since October 2007.

Dipl.-Ing. Holger Kintscher (*1960)

A graduate of the Lippe Institute of Technology where he majored in Production Engineering, Mr. Kintscher joined VOLKSWAGEN AG in 1987, initially working in several positions in Education/Training and Finance. From January 1994 to March 1995 he was Deputy Head of Finance at Volkswagen's Poznan plant in Poland, where subsequently – from April 1995 to February 1997 – he served on the Board of Directors with responsibility for Commercial Affairs. From March 1997 to June 2000 he was in charge of the Development and Product Controlling area for Volkswagen's Commercial Vehicles brand in Hannover and from July 2000 to August 2005 he was its Chief Financial Officer. He has been the member of the Board of Directors of ŠKODA AUTO a.s. responsible for Commercial Affairs since September 2005.

Horst Mühl (*1947)

After serving an apprenticeship as a tooling technician, Mr. Mühl graduated in mechanical engineering from the Teutloff School in Braunschweig. He joined VOLKSWAGEN AG in 1969. In 1971–76 he worked in the production planning area. Starting in 1977 he worked as a department head in the body shop and at the same time he was appointed to the position of the Jetta I project manager. In 1979–82 he worked in the company TAS Sarajevo as head of technical preparation. From the year 1983 he was active at the Wolfsburg plant in various senior positions in production and logistics. In 1992–94 he was head of logistics at ŠKODA AUTO a.s. and, subsequently, starting in January 1995 he was head of production and logistics of the same brand. In 1996–2000 he served as Director of Volkswagen's power train plant in Salzgitter. From January 2001 to September 2004 he held the position of Technical Vice President of FAW/VW in Changchun, China. He has been the member of the Board of Directors of ŠKODA AUTO a.s. responsible for Production and Logistics since January 2005.

Dipl.-Ökonom Fred Kappler (*1958)

A graduate of business sciences at the Braunschweig Technical University and the University of Hannover, Mr. Kappler joined VOLKSWAGEN AG in 1982, at first working in several positions in sales. In 1995–97 he served as North-western Europe Head of Sales. In 1997 he became First Vice President of FAW/VW in China. From June 2000 he was Volkswagen Head of Sales for the Federal Republic of Germany. He has been the member of the Board of Directors of ŠKODA AUTO a.s. with responsibility for Sales and Marketing since January 2004.

Klaus Dierkes (*1957)

Mr. Dierkes holds university degrees in civil engineering and social sciences. After graduation, in 1983 he joined Triumph Adler in Nurnberg. From 1989 he worked as Assistant to Company Management. In the years that followed, he held various executive positions and served in the management of the employee health insurance company Volkswagen BKK. In 1995 he was placed in charge of the Central Tasks/Strategy department of Volkswagen BKK, and in January 1997 he was appointed Deputy Member of the Board of Directors. In June 1997, he was named Director of the company Gründungs- und Innovationszentrum Wolfsburg GmbH (Business and Innovation Centre). In July 1999 he was appointed a member of the Board of Directors of Wolfsburg AG with responsibility for the innovation campus, the personnel service agency, and the NHN Foundation. From April 2001 to December 2005 he served as Management Spokesperson of AutoVision GmbH for the areas of strategy, development, relations, and communications. In July 2002, he was named Spokesperson of the Board of Directors of Wolfsburg AG as well. In February 2006 he moved to VOLKSWAGEN AG, where he accepted the position of Personnel Director responsible for Volkswagen Deutschland and, from May 2007, the General Corporate Proxy of VOLKSWAGEN AG. Since April 2008 he has been with ŠKODA AUTO a.s. as the member of the Board of Directors with responsibility for Human Resources Management.

Dr.-Ing. Eckhard Scholz (*1963)

A graduate of the Braunschweig Technical University, with a major in Energy and Process Technology, Dr. Scholz received his doctorate in 2005 from Martin Luther University in Halle-Wittenberge. Dr. Scholz joined VOLKSWAGEN AG in early 1991, where he first worked in passenger car testing. From April 1995 to October 1996 he worked at IAV Gifhorn, where he was responsible for managing the vehicle testing operation. In November 1996 he returned to VOLKSWAGEN AG to work as Head of the Vehicle Body Engineering Department. After three years, he accepted the position of Head of Passenger Car Equipment and in May 2002 he was appointed Head of the Car Body Development. In 2005 he was placed in charge of E2 product line development (convertibles and other luxury cars). He has been the member of the Board of Directors of ŠKODA AUTO a.s. responsible for Technical Development since 1 April 2007.

BOARD OF DIRECTORS



Klaus Dierkes
Member of the Board of Directors,
Human Resources Management

Fred Kappler
Member of the Board of Directors,
Sales and Marketing

Horst Mühl
Member of the Board of Directors,
Production and Logistics



Reinhard Jung
Chairman of the Board of Directors

Holger Kintscher
Member of the Board of Directors,
Commercial Affairs

Eckhard Scholz
Member of the Board of Directors,
Technical Development

Supervisory Board

List of Members of the Supervisory Board

Hans Dieter Pötsch

Chairman (since 23 November 2007),
Member of the Board of Directors of
VOLKSWAGEN AG

Detlef Wittig

Member (since 1 November 2007),
VOLKSWAGEN AG General Corporate Proxy

Jochem Heizmann

Member (since 1 September 2007),
Member of the Board of Directors
of VOLKSWAGEN AG

Horst Neumann

Member (since 1 September 2007),
Member of the Board of Directors
of VOLKSWAGEN AG

Jaroslav Povšik

Member (since 16 April 1993),
Chairman of the Basic Organisation
OS KOVO ŠKODA AUTO a.s.

Jan Miller

Member (since 16 April 1993),
Secretary of the Basic Organisation
OS KOVO ŠKODA AUTO a.s.

Carl H. Hahn, Former Chairman of the Board of Directors of VOLKSWAGEN AG, is Chairman Emeritus of the Supervisory Board, an honourable position without the powers and responsibilities associated with Supervisory Board membership.

Members of the Supervisory Board

Dipl.-Wirtsch.-Ing. Hans Dieter Pötsch (*1951)

A graduate of the Darmstadt Technical University with a degree in commercial engineering, Mr. Pötsch began his professional career at BMW, where he worked in 1979–87, ending up as Group Head of Controlling. Subsequently, he was appointed Director General in charge of Finance and Administration at Trumpf GmbH & Co in Ditzingen. In 1991–95 he was Chairman of the Board of Directors of Traub AG in Reichenbach. In July 1995 he joined Dürr AG in Stuttgart, where until the end of 2002 he served as Chairman of the Board of Directors. Since September 2003 he has been the member of the VOLKSWAGEN AG Board of Directors responsible for Finance and Controlling. He has been a member of the ŠKODA AUTO a.s. Supervisory Board since January 2004 and was appointed Chairman of the Supervisory Board in November 2007.

Dipl. Kfm. Detlef Wittig (*1942)

A business administration graduate of the University of Göttingen, starting in 1968 Mr. Wittig worked at VOLKSWAGEN AG in several marketing and sales planning positions. In 1975–77 he was active in Tokyo as the "Resident Representative of Volkswagen". In 1977 he was appointed Head of Export Sales Planning at VOLKSWAGEN AG and, three years later, he took over the leadership of European Sales. In 1983–87 he led the Product Marketing function at AUDI AG. In early 1987 he transferred to Volkswagen Canada, where his first position was Vice President Sales and Marketing; in 1988 he was appointed Chairman of the Board of Directors. In 1989–95 he was back in the management of VOLKSWAGEN AG as Head of Sales for the Volkswagen brand. He joined ŠKODA AUTO a.s. in 1995 as the member of the Board responsible for Sales and Marketing, and was subsequently

appointed Vice Chairman of the Board and given responsibility for Finance and Controlling. In 2000 he was appointed to the Board of Directors of the Volkswagen brand, where he took responsibility for the Sales and Marketing portfolio, and, at the same time, he was made Chairman of the Supervisory Board of ŠKODA AUTO a.s. From October 2004 to August 2007 he was the Chairman of the Board of Directors of ŠKODA AUTO a.s. Effective from October 2007 he became General Corporate Proxy of VOLKSWAGEN AG with responsibility for Marketing and Sales. He has been a member of the ŠKODA AUTO a.s. Supervisory Board since November 2007.

Prof. Dr. Jochem Heizmann (*1952)

A graduate of the Karlsruhe Technical University with a major in commercial engineering, Dr. Heizmann received his Dr. rer. pol. degree at the same institution in 1980. In 1982 he joined Audi NSU AUTO UNION AG in Ingolstadt, where he worked in a number of management positions, including head of the main technological development department and head of the main vehicle assembly department. He joined VOLKSWAGEN AG in October 1991, and took over leadership of the Power Train Production central planning function in Wolfsburg. In August 1993 he was appointed Head of Production Planning for the Volkswagen brand. In this position he was responsible for planning, preparations for series production, and launch of production facilities for new vehicles and power train components all over the world. In January 2000, he was appointed Technical Director and Management Spokesman of Volkswagen Sachsen GmbH and Volkswagen Sachsen Immobilienverwaltung GmbH, where he was also responsible for factories in Mosel, Zwickau and Chemnitz. From February 2001 to the end of January 2007, he was the member of the AUDI AG Board of Directors responsible for production. On 1 December 2006 he was appointed

Professor Emeritus at the Mechanical Engineering Faculty of the Chemnitz Technical University. Since February 2007 he has been the member of the VOLKSWAGEN AG Board of Directors responsible for Group Production. He has been a member of the ŠKODA AUTO a.s. Supervisory Board since September 2007.

Dr. Horst Neumann (*1949)

A graduate in economics and social sciences of the Universities of Hamburg and Berlin, Dr. Neumann was awarded the Dr. rer. pol. degree in 1995 in Berlin. He began his career in 1973 as an assistant to the Berlin senator for economic affairs. In 1978–94 he was employed in the economics department at the Board of Directors of the IG Metall union in Frankfurt am Main, and promoted to Deputy Manager of the same department in 1983. In the same period, he was a member of the Supervisory Boards of Motorenwerke Mannheim AG (1981–86), Adam Opel AG (1985–95) and Rasselstein AG (1986–94). From 1994 to 2000 he was a member of the Board of Directors and Personnel Director at Rasselstein GmbH and Rasselstein Hoesch GmbH, subsidiaries of ThyssenKrupp Group in Andernach and Neuwied. In 2001 he was appointed to the Board of Directors with responsibility for human resources at ThyssenKrupp Elevator AG in Düsseldorf. In July 2002 he became the member of the AUDI AG Board of Directors responsible for Human Resources.

Since December 2005, he has been the member of the VOLKSWAGEN AG Board of Directors responsible for Human Resources and since 2006 for Human Resources and Organisation. He has been a member of the ŠKODA AUTO a.s. Supervisory Board since September 2007.

Jaroslav Povšík (*1955)

A graduate of the Secondary Industrial School of Chemical Science in Most, Mr. Povšík joined ŠKODA AUTO a.s. in 1977, at first holding various positions in logistics and social services. Starting in 1989, while continuing to work in the plant, he was a member of enterprise committee of the OS KOVO ŠKODA AUTO a.s. trade union. In 1991–97 he served as Vice Chairman of the OS KOVO ŠKODA AUTO a.s. Basic Organisation and became Chairman of the same in January 1998. Since then he has been reaffirmed in this position twice – in 2002 and 2006. Starting in 1994 he was Chairman of the Enterprise Committee, today's Council of Chairmen. He is a member of the Assembly of the Confederation of Czech and Moravian Labour Unions, as well as serving on the worldwide council of Volkswagen Group trade union representatives. Since 2001 he has been Chairman of the Supervisory Board of ZPŠ (Škoda Health Insurance Company). He was elected to the ŠKODA AUTO a.s. Supervisory Board in April 1993.

Ing. Jan Miller (*1948)

A graduate of the Czech Technical University, Prague, Faculty of Mechanical Engineering, and post-graduate studies at the University of Economics, Prague, Faculty of Production Economics, Mr. Miller has been with ŠKODA AUTO a.s. since 1971. Past positions at the Company include areas such as development technology and construction, where he was a member of the co-ordination group for starting up new production facilities and head of construction of Škoda-brand service centres, as well as the commercial affairs section, where he headed up the production plan department. Since 1990 he has served as an economist with the OS KOVO ŠKODA AUTO a.s. Basic Organisation. He was Chairman of the Supervisory Board of ZPŠ (Škoda Health Insurance Company) and currently serves as Vice Chairman of the Board of Administration of ZPŠ. He was elected by employees to the ŠKODA AUTO a.s. Supervisory Board in April 1993.

Changes in the Statutory and Supervisory Bodies

Appointed to the Board of Directors:

Klaus Dierkes

Member since 1 April 2008

Resigned from the Board of Directors:

Martin Jahn

Member from 23 February 2006 to 31 March 2008

Changes in the Supervisory Board:

There were no changes in the Supervisory Board during 2008.

REPORT OF THE SUPERVISORY BOARD



During the past fiscal year, the Supervisory Board was kept regularly and duly informed by the Board of Directors of the situation at ŠKODA AUTO a.s. (the "Company") and subsidiaries within the consolidated group (together, the "Group"), their financial performance, and their business policies.

Business processes for which the law or the Articles of Association require Supervisory Board approval or that the Supervisory Board be informed, as well as those of extraordinary importance, were discussed in detail at the meetings of the Supervisory Board. On the basis of written and oral reports by the Board of Directors, the Supervisory Board was able to continuously oversee the activities of the Company's management and that of the Group as a whole, thereby properly fulfilling the function entrusted to it by law.

Under a resolution dated 13 February 2008, Volkswagen International Finance N.V., as the sole shareholder of ŠKODA AUTO a.s., approved the appointment of PricewaterhouseCoopers Audit, s.r.o., Prague, as the auditor of the Company's financial statements for the accounting period 2008.

The auditors issued an unqualified opinion on the separate annual financial statements of ŠKODA AUTO a.s. according to IFRS, the consolidated Group financial statements according to IFRS for the year ended 31 December 2008 and the Report on Relations for 2008. At its meeting held on 5 March 2009, the Supervisory Board discussed the financial results and evaluated positively the proposal of the Board of Directors regarding the allocation of profit of the annual financial statements of Škoda Auto according to IFRS. The Supervisory Board also reviewed the Report on Relations for 2008 and gave it an unqualified, positive evaluation. The Supervisory Board authorised the Board of Directors to submit the 2008 financial statements and the profit allocation proposal to the sole shareholder, Volkswagen International Finance N.V.

A handwritten signature in black ink, appearing to read 'Pötsch', written in a cursive style.

Dipl.-Wirtsch.-Ing. Hans Dieter Pötsch
Chairman of the Supervisory Board

ŠKODA AUTO CORPORATE GOVERNANCE

Declaration of Compliance with Codex of Corporate Governance Recommendations

Škoda Auto is aware of its exclusive position in the Czech business environment and its ever-growing credibility within the Volkswagen Group, as well as among competing automotive manufacturers. For this reason, it is fundamentally important for us to be perceived – by our employees, business partners, all our customers, and the public at large – as a successful and, at the same time, transparent and informationally open company. We are aware of the tradition and reputation we have built up over many years; we perceive it as a key asset in the further successful development of our business activities.

In view of these facts, Škoda Auto adheres to the relevant recommendations and rules of the Codex of Corporate Governance based on OECD principles (the “Codex”) in the form in which it was updated in 2004, under the patronage of the Securities Commission. The Company’s aim is to continually improve internal processes and procedures and, in accordance with the Codex, to further promote transparency and ethical business practices in the Czech Republic.

Degree of Compliance with Codex of Corporate Governance Recommendations

In line with best practices utilised in the Volkswagen Group, the bulk of the Company’s internal governance processes have long been in accordance with the relevant Codex rules. In view of the Company’s shareholder structure (a single shareholder – Volkswagen International Finance N.V. based in Amsterdam), the Group organisation structure (see the VOLKSWAGEN AG Annual Report) and the fact that the Company’s shares are not listed, certain Codex recommendations are not relevant, while others are dealt with – commensurately and in the interests of achieving effectiveness and leveraging synergies – at the Group level.

Currently, Škoda Auto corporate policy includes an officially adopted Behaviour Code that stipulates principles of behaviour for Škoda Auto employees, based on application of Company values and universally recognised ethical standards.

Company Organisation

The Board of Directors is the Company’s statutory body, runs the Company’s operations and acts in its name. It is responsible for the Company’s long-term strategic direction, setting business and risk management policies, and managing the Company’s day-to-day business operations. The Board’s powers and responsibilities are defined by the Articles of Association, the Company’s internal directives, and Czech Republic legislation.

Pursuant to the Company’s Articles of Association, the Board of Directors has six members, all of whom play executive roles in the Company. Members of the Board are appointed by the sole shareholder for terms of three years, and multiple terms are possible. All Board members have the necessary personal and professional qualifications as well as the requisite practical experience for carrying out the duties of their office (see professional biographies on pages 16–17). They bear responsibility for their actions to the extent stipulated by Czech Republic legislation. The Board of Directors meets once per week.

To ensure its effective functioning, the Board of Directors delegates relevant powers and responsibilities to levels of management subordinate to it – the senior executives (see the Company’s organisation chart on page 186).

Senior executives, as holders of key positions in the Company structure, have power and responsibility for planning, managing and overseeing the Company's operations. Due to space constraints, the names and professional biographies of the individual senior executives, as well as descriptions of the key positions they hold in the Company, are published on the Company website (www.skoda-auto.cz). At year end 2008 there were a total of 36 senior executives.

The Supervisory Board oversees the Company's operations and the activities of the Board of Directors to ensure that they are compliant with applicable legislation, the corporate governance principles, the Articles of Association, the Supervisory Board's Rules of Order, and Volkswagen Group internal directives. The Supervisory Board ensures that appropriate systems are in place to protect the Company's interests and the entitlements of all stakeholders, as well as to ensure proper presentation of financial information. In accordance with the law, the Supervisory Board of Škoda Auto reviews the financial statements and Report on Relations, expresses an opinion on the selection of the auditor for the given accounting period, oversees financial reporting and evaluates all financial transactions that have serious consequences for Škoda Auto.

The Supervisory Board consists of six members, four of which are appointed by the sole shareholder and two of which are elected by Company employees in accordance with the law. Supervisory Board members serve four-year terms, and multiple terms are possible. Three regular Supervisory Board meetings are held per year.

The Company is not fully in compliance with Code recommendations pursuant to Chapter VI-E-1 – in particular item 5 of the commentary, according to which the Board of Directors and/or Supervisory Board should have a sufficient number of members that are not employed by the Company and do not have close economic, family or other ties to the Company or its management.

In this respect, the functional independence of the Škoda Auto Supervisory Board and the breadth of the Company's strategic development are ensured by the structure of the Volkswagen Group's organisation and the requisite number of independent members in the Supervisory Board of VOLKSWAGEN AG (see the VOLKSWAGEN AG Annual Report).

Shareholder Relations

The Company exercises all due care to ensure compliance with all statutory requirements to the full degree necessary with regard to two facts: first, the Company's shares are not listed and, second, all of the Company's shares are owned by a single shareholder – Volkswagen International Finance N.V.

Škoda Auto complies with statutory rules for extraordinary transactions (i.e. for transactions that, in terms of subject matter or value, exceed the scope of ordinary, day-to-day business). Within the Company, rules govern relations between Company bodies in preparing, approving and implementing measures and steps of extraordinary or fundamental importance such as financial and human resources planning, planning of production and sales, Company participation as a partner or shareholder in third party business ventures, disposition of assets beyond the level of day-to-day business, filling key positions in Company management, etc.

Information Openness and Transparency

The Company strictly adheres to and complies with all laws and regulation in the Czech Republic legal system as well as the principles of the Code of Corporate Governance set forth in Chapter V, and regularly releases to the public all material information on its business, financial and operating results, shareholder structure and other significant events. All information is prepared and released in accordance with standards for accounting and reporting of financial and non-financial information. In keeping with our strategy of openness, the Company's disclosures exceed statutory requirements in many areas.

The Company regularly publishes annual and semi-annual reports. The Annual Report contains the audited financial statements and presents a detailed picture of the Company's operations and financial situation. The Annual Report also includes the Report on Relations.

In order to prevent any potential conflicts of interest, all members of the Board of Directors and Supervisory Board and all senior executives of the Company are required by internal directives to notify the Company in writing of any and all material interest they may have in transactions that benefit third parties and to refrain from exercising direct influence over decision-making in respect of such transactions. No circumstances were recorded in 2008 that could have led to a conflict of interest in any of the relevant groups of Company employees.

Committees Formed by the Company's Statutory and Supervisory Boards

Committees Formed by the Supervisory Board

The Company is not fully in compliance with Code recommendations pursuant to Chapter VI-E-2 (item 18 of the commentary), according to which the Company should set up three separate committees for audit, remuneration and appointments. In view of the Company's unique shareholder structure, committee-related activities are synergic and transferred to the VW Group level to the extent it is effective to do so. Remuneration and appointments are dealt with by the Personnel Issues Committee of the VOLKSWAGEN AG Board of Directors in co-operation with the appropriate committees of the VOLKSWAGEN AG Supervisory Board (see the VOLKSWAGEN AG Annual Report). Activities customarily performed by the audit committee fall within the remit of the independent Internal Review unit of VOLKSWAGEN AG. This unit, together with the Audit Committee of the VOLKSWAGEN AG Supervisory Board, oversees the Škoda Auto Internal Audit department and the Company's system of internal controls.

Committees Formed by the Board of Directors

In order to support the Board of Directors' activities, meet its internal needs and ensure fulfilment of its responsibilities, the Company has formed the following committees and panels that report to the Board of Directors:

- Product Strategy Committee
- Strategic Planning and Integration Team
- Quality Committee
- Business Meeting and Financial Review
- Liquidity Management Committee
- Inventory Management Committee
- Investment Committee
- Production Programme Planning Committee
- Personnel Team
- Strategic Commission for the Environment
- Corporate Culture Team
- Sponsorship Management Circle
- Property Management Committee
- Products Committee

These committees are advisory bodies that the Board of Directors forms by resolution. Their purpose is to initiate, prepare and submit recommendations to the Board of Directors on specialised issues. Their scope of authority and composition are governed by their respective Rules of Procedure.

Company Policy Toward Stakeholders

Škoda Auto is one of the largest corporations in the Czech Republic. Its interests are aligned with the sustained development of the society of which it is a part, and at the same time it fully recognises its responsibility for the stability of this business environment. Developing the Company's good reputation, credibility and reliability toward business partners, employees and other stakeholders is a key focus area. Škoda Auto openly declares its adherence to values of enterprise social responsibility and in accordance with these principles we adapt our operations to the needs of our surroundings.

RESPONSIBILITY AWARENESS



Škoda Auto takes pride in being perceived by employees, business partners, all its customers, and the public as a successful and, at the same time, informationally open company. Social responsibility is an important part of our corporate culture and strategy.

ŠKODA AUTO

SOCIAL RESPONSIBILITY

With regard for our position in the Czech Republic economy and numerous international ventures, we at Škoda Auto are aware of our responsibility toward the general public and our employees. At the same time, we consider responsible behaviour toward the public and our employees to be an integral part of our corporate strategy.

Škoda Auto complies with relevant recommendations and rules laid down by the Code of Corporate Governance based on the OECD Principles, thereby declaring its openness toward the outside environment and the transparency of its internal processes and relations with the principal shareholder.

The Company also pays extraordinary attention to its employees, both in issues of occupational safety and health and with regard for the development of their professional qualifications and off-the-job needs. The Company takes the initiative in supporting equal opportunity and addressing issues related to an ageing population and work force ethnic composition. The Company also operates protected workshops in which handicapped persons find permanent and temporary employment. For a long time now the Company has exceeded employee training standards by operating its own secondary vocational school, as well as a Company university – the only one of its kind in the Czech Republic.

The Company's priority is to manufacture for the customer in the spirit of the heritage of Škoda Auto founders Laurin and Klement, whose motto was "Only the best we can do is good enough for our customers." It is in the Company's interest to maintain good, long-term relationships with suppliers who meet the most demanding environmental and social standards – relationships based on trust, high quality of mutual services, and continual development.

Škoda Auto has a long-term programme in which it dedicates extraordinary efforts to minimising the negative environmental impact of its operations. This relates not only to the Company's own manufacturing and sales operations, including emphasis on recycling and conservation of resources, but also extends to preferring suppliers that meet the most demanding environmental standards – ISO 14000. New products are developed with the aim of limiting CO₂ emissions. By using alternative sources of energy (e.g., biofuels), the Company helps to mitigate negative environmental impacts.

The Company implements its sponsorship programme at the local and regional levels – i.e., directly in the areas where we operate – as well as at the international level. In co-operation with major foundations and charity organisations, we support a number of social, cultural and humanitarian projects. Our sport sponsorship activities also include support for the handicapped.

For a detailed summary of Škoda Auto measures and activities relating to social responsibility, see the Sustainable Development Report 2007/2008, which was released in June 2008 and can be found on the Company website (www.skoda-auto.cz).

REPORT ON THE OPERATIONS





MACROECONOMIC AND MARKET DEVELOPMENTS

The world economy slowed significantly in 2008. The main reason was the outbreak of a major financial crisis with all its negative impacts – a number of investment banks in bankruptcy, uncertainty in the financial markets, and slower growth in many world economies. As a result, Asian countries – China and India in particular – contributed more to global economic growth. The economies of the European Union also grew at a slower pace, and some of them – such as Ireland, Spain, and Germany – found themselves in recession, i.e. they reported negative GDP growth in two consecutive quarters.

Development of the Economy

Global

The world economy continued to grow up until the financial crisis broke out. Afterwards, it began to slow and in the latter part of the year a decline was recorded. As a result of the above developments, the final figure for 2008 was growth of slightly under 2%* (2007: 3.5%). In the beginning, the global financial crisis appeared to be just a problem with poor-quality mortgages, but in mid-September it entered a new, intense phase and began to threaten the viability of the global financial system as a whole.

A number of banks were hit, and financial and capital markets the world over dropped precipitously. Developed countries rushed to find tools to stabilize them. These were found in a combination of directly injecting liquidity into selected banks against purchases of bad assets, providing loan guarantees on the interbank market and, in some cases, taking direct equity stakes in commercial banks. In all regions, economic activity began to decline sharply. The bottom fell out of commodity prices: over the space of five months the price of oil fell by 70% to a four-year low of 40 U.S. Dollars. Inflation risks were quickly replaced by worries over deflationary pressures. Central banks all over the world reacted by cutting interest rates to levels seldom, if ever, seen in history, while market interest rates remained high due to the increased risk premium.

Of course, a sector as important as the automotive industry could hardly pass through the global financial and economic crisis unscathed. In addition to the direct effect of financial market instability, the most dramatic impact of the crisis on the automotive industry came from weakness in demand. The vast majority of world auto manufacturers had to face a major drop in sales, and the unavoidable impact that had on their financial performance. Logically, this led to a further slowing of global economic growth.

Czech Republic

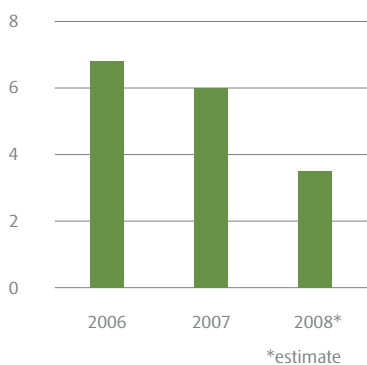
In 2008, the Czech economy saw the pace of growth in its Gross Domestic Product (GDP) slow to 3.5%* (2007: 6.0%). The main reason for the slowdown was a substantial reduction in household demand and, late in the year, demand for the country's exports as well. The weakness in demand was attributable to both the global financial crisis and growth in consumer prices.

Consumer prices were up 3.6%* in December 2008, compared to December 2007. The average year-on-year inflation rate in December 2008 was 6.3%. At first, in February, the Czech National Bank raised its two-week repo rate by 0.25 of a percentage point, to 3.75%. During the rest of the year, on the other hand, it cut the rate three times, down to a level of 2.25%.

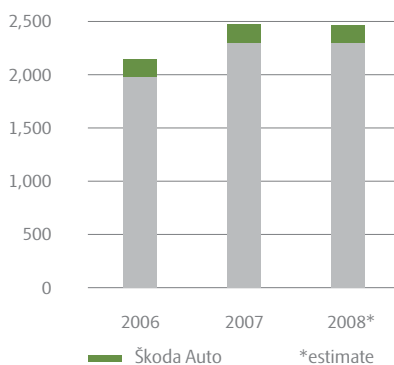
The balance of trade was affected by a strong Czech Koruna in the first three quarters, while in the latter part of the year it was hit by a drop in demand for the country's exports. For the entire year, the result was a trade surplus of CZK 69.4 billion* (2007: CZK 88 billion). Overall, however, the year 2008 was a poor one for Czech exporters due to the drop in demand associated with the financial crisis and stagnation in many major world markets. The strength of the domestic currency was another negative factor for Czech exporters.

The Koruna's exchange rates against the Euro and the U.S. Dollar broke records during the year. As a result, some mid-sized and smaller enterprises lost their competitiveness, or even went out of business. However, the strength of the domestic currency had a very negative impact even on large, stable corporations, as it caused a major worsening of their financial performance results. While in late 2007 the Czech Koruna was trading at 26.62 to the Euro, at the end of July 2008 it was at 23 CZK/EUR (an increase of over 13%). Performance against the U.S. Dollar was similar. In the second half of the year the Koruna reversed its direction completely, and by year end 2008 it had weakened against the Euro to 26.93 and against the U.S. Dollar to 19.35.

Czech GDP Growth (%)

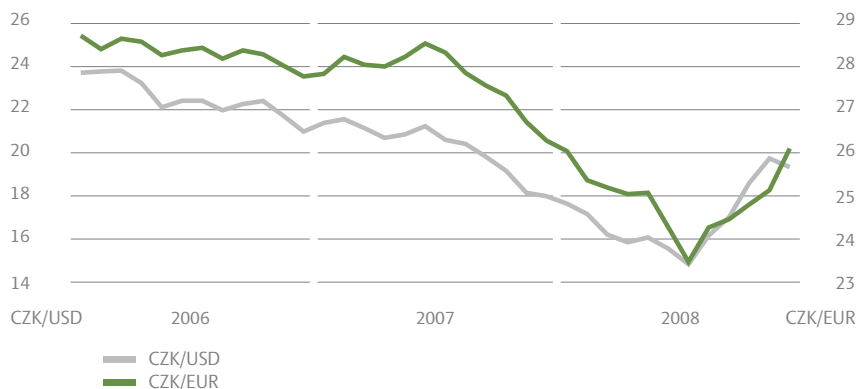


Czech Exports (CZK billion)



Late in the year, the Czech economy's problems began to be evident in the labour market as well. The unemployment rate, which declined during the year, began to grow again at year end. In December 2008, it ended up at 6%, the same level as in the previous year.

CZK/EUR and CZK/USD Exchange Rates



Central Europe

The countries of the Central European region retained a rate of economic expansion that outpaced growth in the Eurozone. The fastest GDP growth was in Slovakia, and the slowest in Hungary.

GDP growth in Slovakia was 7.1%* in 2008 (2007: 10.4%), driven by high exports, investment, and household spending. Inflation rose to 3.4%* in December 2008 (2007: 2.9%). The Slovak National Bank prepared the country to join the Eurozone as of 1 January 2009. In July the Slovak Koruna was fixed to the Euro at an exchange rate of 30.126. The labour market improved, with unemployment falling by 2.6 percentage points to a level of 8.4%* (2007: 11.0%).

The Polish economy saw its GDP grow by 5%* in 2008 (2007: 6.7%). Growth was seen particularly in household spending and fixed investments, and the economy was stimulated by foreign direct investment as well. As the economy grew, the unemployment rate fell in year-on-year terms, but remained at a relatively high level of 9.1%* (2007: 11.4%). The average rate of inflation compared to 2007 fell and in December 2008 it was at 3.3%* (2007: 4.1%).

Eastern Europe

The countries of the Eastern Europe region also retained a high rate of economic expansion, outpacing the Eurozone.

According to preliminary figures, Russia's GDP grew 5.6%, a substantially slower pace of growth compared to 2007, when the Russian economy expanded by 8.1%.

Western Europe

In 2008, the Eurozone economy entered a recession as GDP declined in both the second and third quarters. The pace of growth for the whole year slowed to 0.9%* from 2.7% in 2007. The ECB cut interest rates three times: by a total of 1.75 percentage points to a resulting level of 2.5%. The inflation rate at year end was 3.3%* (2007: 2.1%), and was spurred by high commodity prices in world markets. The year-end unemployment rate grew to 8.0%* (2007: 7.4%). Clear signs of a slowdown were seen, particularly in the economies of Denmark, Italy, Ireland, and the UK.

The German economy, which is the largest in Europe and the third biggest economy of the world, was still growing at a solid rate of 1.5% in the first quarter of 2008, compared to the immediately preceding quarter. This growth was driven primarily by massive investments in manufacturing plant and equipment. In the second quarter, however, GDP fell by 0.4 of a percentage point. In the next quarter, the German economy was hit heavily by the global economic slowdown. Industrial activity fell to a seven-year low. The GDP decline in the third quarter only confirmed that the economy was in recession. Particularly negative was the performance in foreign trade, a key component of the German economy. For the entire year the German economy grew by just 1.3%* (2007: 2.5%). Consumer prices increased in December to 2.9%* (2007: 2.3%). The unemployment rate reached 7.8%* (2007: 8.1%).

Asia

The global financial crisis put a damper on economic growth in China and India. In the fourth quarter the Chinese economy saw growth slow to 6.8%*, the slowest rate in over seven years. This resulted in a fall in commodity prices (oil, iron ore and steel), as China is their largest consumer. Inflation slowed in December to 1.2%*. Food prices fell the most. China's GDP grew 9%* in 2008. Thus, China's was the fastest growing of the world's big economies.

Last year the Indian economy grew at a rate of 6.7%* (2007: 9%). Economic growth, which has been in the 8–10% range in recent years, has turned India into a major economic power. However, India is still dealing with a number of problems: for example, income inequality. Inflation grew in 2008 to a level of 10.5% (2007: 5.5%).

* Estimate based on information available as of Annual Report closing date.

Development of Automobile Markets

Worldwide passenger car sales, after reaching record levels in the past year, fell by 5.8% in 2008 to a total of 55.7 million vehicles. During the year the impact of the global financial crisis grew more and more evident, resulting – due to the tense situation in the banking markets – and the reluctance of end consumers to spend money. This development was made even more severe in the first half of the year by increases in the prices of raw materials and energy. Above-average declines in sales were seen, particularly in the regions of North America and Western Europe. On the other hand, developments were positive in the markets of Central and Eastern Europe and also in Asia. Nevertheless, in the second half of the year growth slowed substantially even there. Global motor vehicle production fell during the period in question, by 3.9% to a total of 69.2 million units, 57.5 million of which were passenger cars (2007: 71.9 million / 60.4 million).

Czech Republic

During the year the domestic market for passenger cars continued with the sales growth trend established in the previous year. Thanks, among other factors, to positive economic development, the Czech Republic saw an 8.4% increase in new passenger car registrations, with total sales of 144 thousand units. The impact of the global financial crisis did not show up here until the very end of the year. Demand for light commercial vehicles fell 3.3% in 2008 to 60 thousand units. The passenger car market in 2008 was heavily influenced by ongoing growth in used car imports, 231 thousand of which were registered during the year (up 8.5% year-on-year). As a result, the proportion of used vehicles to overall registrations reached 61.7%.

Central Europe

2008 brought growth in most Central European markets for new passenger cars, 845 thousand of which were sold throughout the region, up 4.7% from 2007. Late in the year the rates of growth were affected by the ongoing financial crisis. A major increase in car sales continued in the largest Central European market, Poland. This market grew overall by 9.1% compared to the previous year, to 320 thousand automobiles. The market with the highest year-on-year growth (+17.3%) was Slovakia, with 70 thousand new passenger cars registered. During the period in question, growth was also registered in Croatia (+7.2%, 86 thousand vehicles) and Slovenia (+3.8%, 68 thousand vehicles), while demand for new cars fell significantly in Hungary – by 10.4% to a total of 159 thousand vehicles.

Eastern Europe

The market for new passenger cars continued to grow significantly in 2008. As a result of the financial crisis, however, the pace of growth slowed heavily in the second half, and especially toward the end of the year. A non-functioning banking market and consumer reluctance were evident, particularly in Ukraine and the Baltic States. All told, 3.9 million vehicles were sold in the region, up 11.4% from the previous year. Year-on-year growth was highest in Russia (2.7 million vehicles sold, up 15.4%), Ukraine (623 thousand, +14.9%) and Bosnia and Herzegovina (14.5 thousand, +17.5%). Major year-on-year declines, on the other hand, were seen in Latvia (overall market of 19 thousand vehicles, year-on-year decline -40.9%), Estonia (24 thousand, -21.3%) and Romania (267 thousand, -14.5%).

Western Europe

The total number of newly registered passenger cars in Western Europe fell last year (-8.4%), reaching a level of just 13.6 million units (2007: 14.9 million). The financial crisis had a fundamental impact on market volumes in Spain (-27.6% year-on-year), Italy (-13.4%) and the UK -11.3%). The passenger car market in France (-0.7%) maintained its level from the past year thanks only to incentives from the bonus/malus system put into place early in the year. Other Western European markets such as Ireland (-18.6%), Sweden (-17.3%), Norway (-14.4%) and Denmark (-7.4%) showed that they were not immune to losses, too while light growth was seen in 2008 only in Portugal (+5.7%), Belgium (+2.1%) and Switzerland (+1.4%).

The biggest Western European market for passenger cars, Germany, shrunk 1.8% to 3.1 million units. In addition to growing fuel prices and uncertainty emanating from the ongoing financial crisis, this decline was caused by announced legislative changes in automobile taxation tied to CO₂ emissions.

Asia

Demand for new passenger cars in this region continued to grow in 2008. In China, the second strongest world market after the USA, a total of 5.5 million passenger cars were registered (+7.8% compared to 2007). The pace of growth slowed significantly, however, particularly because of increased fuel prices and measures introduced during the year to suppress inflationary pressures. Positive development in the Indian market continued as well. Compared to 2007, however, the volume of new passenger cars sold increased only slightly, by 2.1%, to 1.2 million units.

FACING RISKS HEAD ON



For risk management to be effective, it is essential to obtain timely, relevant information. Rational assessment of this information and taking of appropriate measures lead to minimise or, in some cases, complete elimination of individual risks. Thanks to its highly developed “Risk Management” system, Škoda Auto is prepared to face and successfully overcome potential risks, and thereby maintain its competitive edge.



RISK MANAGEMENT SYSTEM

Škoda Auto Group operates in various countries of the world, where it is confronted with a wide range of risks, which could potentially have a negative impact on its financial performance. On the other hand, changes in the economic and legal environment can also lead to opportunities that the Group endeavours to leverage toward reinforcing and further improving its competitive position.

Risk Management Organisation

The risk management structure at Škoda Auto Group is based on unified risk management principles within the Volkswagen Group. The entire risk management remit falls within the central controlling function in co-ordination with the internal audit function. Unified implementation of the risk management system is ensured by the "Risk Management" organisational directive with the utilisation of standardised procedures. Compliance with the approved rules is enforced, among other things, by regular internal reviews performed by the managements of individual companies in the Group.

The risk monitoring system is based on decentralised accountability. Individual units within the Group are assigned specific areas of risk that they monitor. These risks are identified, documented and quantified by the departments responsible for risk management.

A basic prerequisite for effective risk management is the provision of timely and relevant information to decision-makers. Management regularly receives a report detailing the most significant risks and containing an up-to-date summary of the risks to which individual Group companies are exposed. In accordance with Group strategic objectives, measures are proposed and subsequently implemented to eliminate or mitigate these risks. The results of the measures are regularly reviewed and evaluated.

The system itself is also subject to regular review of its effectiveness and adequacy and is integrated into the planning, controlling and business processes system.

Description of Individual Risk Categories and Their Management

The most significant risks facing the Group are financial and sector-specific risks, risks ensuing from changes in larger economic and political frameworks, changes in legislation, operational risks, and other risks such as changes in quality and risks relating to human resources.

Financial Risk

Developments in financial markets are considered the most significant risk factor. Movements in exchange rates, in particular, represent a major risk as the Group generates a substantial portion of its cash flows in foreign currencies. For this reason, fluctuation of exchange rates can pose a considerable risk for the Group's future economic performance. To manage currency risk, the Group makes use of standard derivative hedging instruments.

In similar fashion to exchange rate risks, the Company actively manages the potential negative impact of changes in the interest rates we use within our business activities. Exposure to interest rate movements occurs in medium and long-term obligations, and in particular bonds outstanding. Cash flow risk in this area is hedged using interest rate swaps.

Other risks threatening the Group's performance are related to ongoing price growth in international commodities markets. Management of commodity risks is coordinated at the Volkswagen Group level, as well as through long-term contracts with key suppliers.

Credit risk is dealt with by the Group using hedging instruments, both preventive (e.g. reserving the right of ownership, payment in advance, documentary credit, etc.) and subsequent (e.g. recognition of obligation, instalment calendar, promissory note).

Risks that could occur as a result of fluctuation in payment streams (liquidity risks) are addressed by the Group using standard financial market instruments. The aggregate volume of credit lines taken out with banks is managed to cover potential liquidity shortfalls over a period determined by internal rules.

More detailed information on how the Group manages and quantifies financial risk is set forth in the Financial Section (Notes to the Consolidated Financial Statements 2008, in particular Chapter 3, "Financial risk management").

Sector-specific Risk

Competition in the automotive sector continues to grow and intensify, and sales support initiatives must be bolstered in response. This situation is exacerbated by market risk. In order to eliminate sector-specific risk to the maximum extent possible, the Group regularly analyses the behaviour of both customers and the competition.

Co-operation between car manufacturers and their suppliers is close and economically advantageous. At the same time, it also poses certain risks that can disturb the production process. These risks include, e.g. late deliveries, failure to deliver and quality defects. Other risks ensue from increased competition among suppliers. For this reason, the Group works with multiple suppliers when sourcing parts for assembly. In addition, preventive measures are taken within the risk management system to address the possibility of supplier insolvency.

Economic, Political and Legislative Risk

In view of the character of the Group's business, our financial positions are substantially influenced by the overall condition of the economy and related phenomena such as the economic cycle, changes in legislation, as well as the political situation in countries where the Group has operations.

The Group operates in many countries of the world, not only as an exporter but also as a local manufacturer and as such is influenced by macroeconomic developments at the global and national levels. Recessions, especially in Western and Central Europe, India and China, could have a direct impact on consumer behaviour in the automotive sector. This exposes the Group to the negative influence of cyclic fluctuations, and the risk of decreased turnover due to recession or collapse of individual economies and subsequent market contraction cannot be entirely eliminated.

Export contracts to countries with potential territorial and political risks are identified sufficiently in advance and hedged using standard, approved products available in the financial and insurance markets. Our partners in this area are Czech and international banking institutions, including EGAP. Political crises, terrorist attacks or even pandemics could have a negative impact on world automotive markets and thereby on the Group's financial situation as well.

Potential negative influences on Group financial performance could also originate from additional technical development costs that could be incurred as a result of changes in legislation, such as stricter legislative requirements on vehicle safety, fuel consumption and/or air emissions, and changes to standard vehicle specifications. In the area of environmental legislation, potential risks include stricter European Union legislation governing car exhaust pipes. Risks also ensue from the law guaranteeing free-of-charge disposal of old vehicles at facilities designated by manufacturers and importers; these risks are already sufficiently covered by a provision.

Operating Risks

Our day-to-day operations harbour various risks that could potentially weaken the Group's financial position and performance.

Business risks that could result from production interruptions due to, e.g., energy outages, technical failures, fires, floods, etc. are commensurately hedged using insurance contracts.

New products inherently carry the risk that customers might not accept them. For this reason, the Group conducts extensive analyses and customer surveys. Trends are identified in timely fashion and examined closely to determine their relevance to customers.

Another possible risk is that the Group might not launch new products within the planned time periods, at the appropriate quality level, and within cost targets. This risk is eliminated by reviewing projects regularly and monitoring progress being made toward project goals. This enables necessary measures to be taken in the event discrepancies are found.

Quality Risk

Due to the increasing complexity of production technologies and the growing number of suppliers, quality assurance is a major part of the production process. Despite our effective and systematic approach to quality assurance, product liability risk cannot be eliminated entirely. In order to reduce quality risk to a minimum right from the very beginning, preventive methods are used and suppliers are involved in the development of new models. In order to identify trends in a timely fashion, it is important to transfer know-how and to work with suppliers to develop control tools and opportunities for managing the quality level, to ensure we meet customer expectations (more on page 60).

Human Resources Risk

Important focus areas in human resources management include adaptation of new employees, stabilizing of existing employees, career development, and personal growth.

The labour market is heavily influenced by unfavourable demographic trends: a low birth rate and emigration of younger workers made possible by the opening of EU labour markets.

In order to overcome the present risks, we support collaboration with the school system with the aim of early identification of qualified future employees.

In conjunction with our international expansion and the negative trends in the Czech labour market, we are working to internationalise the Company by supporting dual education programmes for foreign students from areas near our international branches, thereby enabling them to study at Czech universities.

Information Technology (IT) Risk

In the information systems and technologies area, the Group uses a variety of measures to protect itself against risks related to data availability, confidentiality and integrity. Increased attention is paid to unauthorised access to data and abuse of data. These measures apply to employees, the organisation, applications, systems and networks. Employees are subject to a company directive on handling information as well as internal directives dealing with safe use of information systems. Technical measures include standard activities such as use of a firewall tool, controlling access to individual Group systems and applications. Anti-virus protection, managed application administration and restricted access permissions represent another level of protection against abuse of sensitive information.

Legal Risk

The Group has operations in over 100 countries. This can entail risks, due to differences in legal systems from country to country. The Group does not face any known court, administrative or arbitration proceedings that could have a material impact on its financial situation.

Overall Risk Assessment

Based on all facts and circumstances known to us, we are not aware of any risks that could, in the foreseeable future, seriously damage the Group's financial position and/or performance or pose a threat to the Group's existence.

ŠKODA AUTO A STRONG AND RELIABLE PARTNER



The ongoing global financial and economic crisis has caused demand to drop in all major markets and has been reflected in the commercial performance results of the largest Czech exporter as well. Despite all the negative impacts, Škoda Auto has maintained its financial stability and remains a strong, solvent business partner.



FINANCIAL SITUATION

Financial Situation of Škoda Auto Group

Negative development of Czech Koruna exchange rates against other currencies and the world financial crisis, which caused a recession in the Group's key sales territories, were also reflected in the financial results of Škoda Auto, the largest Czech exporter. Despite year-on-year growth in vehicles delivered to customers (+7.1%), all significant financial indicators were down for the year. Thus, Group turnover declined by CZK 21.8 billion (-9.8% year-on-year), the operating result was down CZK 6.2 billion (-31.2%) and profit before tax fell by CZK 6.5 billion to CZK 13.4 billion (-32.6%).

The consolidated financial performance figures of Škoda Auto Group are reported in accordance with International Financial Reporting Standards (IAS/IFRS). The consolidated financial figures include the results of the parent company Škoda Auto and those of the subsidiaries Škoda Auto Deutschland, Škoda Auto Slovensko, SkodaAuto Polska and Skoda Auto India as well as a share in the result of the associate Volkswagen Rus.



Result and Financing

The Group's total sales in 2008 reached CZK 200.2 billion (-9.8% year-on-year).

The reduction in sales was caused in particular by the deepening recession in the Group's key sales territories, the full impact of which on the world economy began to be felt in the last quarter of 2008. The Group reacted immediately to the drop in demand and strong competitive pressures in key markets and took appropriate measures to support sales. Another result of the unfavourable development of Czech Koruna exchange rates against other currencies (EUR, USD and RUB in particular) was a fall in sales. The total sales figure was distributed as follows: vehicles 87.7%, original parts and accessories 7.4%, supplies of parts and components to other Volkswagen Group companies 3.2%, and the remaining 1.7% consisted of revenues from sales of other goods and services.

Costs of products, merchandise and services sold declined by CZK 14 billion (-7.5% year-on-year) despite the fact that production fell by just 2.7%. This development was given by continual cost structure optimising supported by the launch of the Group-wide Scout program which reacts to the negative turn of events in the economic environment.

Gross profit reached CZK 28.7 billion (-21.5% year-on-year).

Distribution costs were down CZK 397 million (-3.0%), primarily due to optimising of marketing support and advertising costs. Administrative expenses rose by CZK 505 million (+12.0%) year-on-year. The Group incurred costs to streamline processes, mainly by expanding systemic support.

The other operating result, which is defined as the difference between other operating revenues and costs, increased by CZK 1.8 billion (over 100% year-on-year). The positive development of the other operating result was driven in particular by accelerated growth in other operating revenues. This, in turn, was caused predominantly by gains on hedging transactions that at least partially offset the negative impact of foreign currency exchange rates against the Czech Koruna. The total negative impact of exchange rates on the operating result was CZK 6.3 billion.

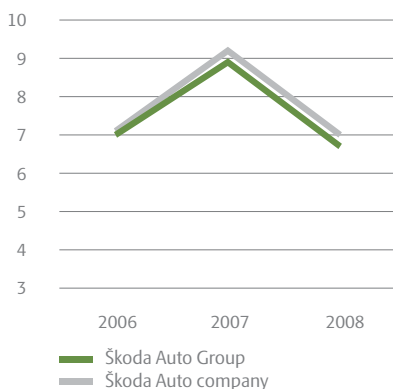
The operating result fell to CZK 13.6 billion in the year in question (-31.2% year-on-year).

The financial result, on the other hand, was up 53.2%, particularly on increased interest income from investing surplus cash.

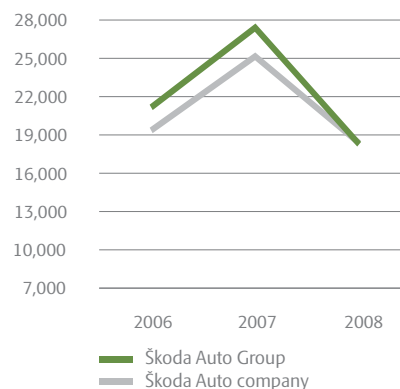
Profit before tax after taking into account our share in the loss posted by the associate (CZK -506 million) reached CZK 13.4 billion (2007: CZK 19.9 billion). After deduction of income tax, profit after tax came to CZK 10.8 billion (2007: CZK 16.0 billion).

Cash flows from operating activities fell CZK 14.3 billion (-50.1%) to a level of CZK 14.2 billion. Cash flows from investing activities were down CZK 2.4 billion (-17.1%) to CZK -16.1 billion. Cash flow from financing activities increased by CZK 10.4 billion (+91.0%), due in particular to drawing of bank loans.

Profit Before Income Tax-to-Sales Ratio (%)



Net Liquidity (CZK million)



Asset Structure and Capital Expenditure

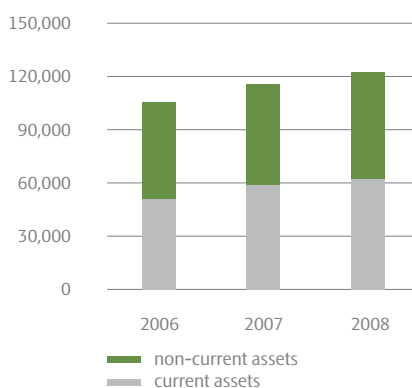
The total assets figure rose by CZK 6.7 billion (+5.8%) to a level of CZK 122.5 billion. Fixed assets were up CZK 3.3 billion (+5.7%) from the comparable previous period. This increase was caused in particular by investments in new projects. From the beginning of the year, a total of CZK 11.1 billion was invested in tangible and intangible fixed assets (not including development expenditures). The bulk of this amount went on product investments (CZK 6.8 billion), particularly in the Škoda Superb successor vehicle and the upcoming SUV-class model line. Another CZK 838 million was invested during the period in renewal of plant and equipment and new infrastructure. In addition to the above investments, the Group made a CZK 1.3 billion in-kind contribution to the basic capital of its associate, Volkswagen Rus.

Compared to the preceding period, the value of current assets increased by CZK 3.4 billion (+5.8%), due particularly to growth in the fair value of derivative contracts held for the purpose of hedging currency risk. Year-on-year growth was also registered in inventories (up CZK 1.6 billion, +11.8%) and trade receivables (up CZK 1.5 billion, +18.8%). The higher receivables were caused primarily by increased deliveries to the assembly plant of our associate, Volkswagen Rus. The inventory growth corresponds with economic developments in late 2008, which played a role in reduced vehicle sales.

Capital Structure

In year-on-year terms, shareholders' equity grew by CZK 4.6 billion (+6.8%). The principal consequence of the lower rate of growth in shareholders' equity, which was partially off-set by a lower dividend pay-out and growth in reserves for cash flow hedges, was a year-on-year decrease in profit. Liabilities were up slightly (by CZK 2.1 billion) to a total of CZK 50.8 billion. The bulk of the increase was due to higher current financial liabilities (up over 100% year-on-year) resulting from the drawing of a bank loan. This step was taken in accordance with VW Group strategy in order to optimise the Group's capital structure. Other items in liabilities were down, with the exception of other liabilities. The biggest decrease (by CZK 2.2 billion) was seen in tax liabilities, which are reported net of advance tax payments. This development is related to a decline in income taxes due.

Group Assets Structure (CZK million)



Group Capital Structure (CZK million)



Consolidated Balance Sheets (CZK million)

	31. 12. 2006	31. 12. 2007	31. 12. 2008	2008/2007 (%)
Non-current assets	54,292	56,767	60,017	5.7
Current assets	50,920	59,014	62,439	5.8
of which: lendings*	23,971	25,592	25,766	0.7
Total assets	105,212	115,781	122,456	5.8
Equity**	58,321	67,034	71,608	6.8
Non-current liabilities	12,354	13,940	13,693	-1.8
of which: nominal value of bonds	2,000	2,000	2,000	0.0
Current liabilities	34,537	34,807	37,155	6.7
of which: nominal value of bonds	3,000	0	0	-
Total liabilities	105,212	115,781	122,456	5.8

* interest included

** minority shares included

Consolidated Profit and Loss Account (CZK million)

	2006	2007	2008	2008/2007 (%)
Sales	203,659	221,967	200,182	-9.8
Cost of goods, sold	175,636	185,474	171,523	-7.5
Gross profit	28,023	36,493	28,659	-21.5
Distribution expenses	11,903	13,201	12,804	-3.0
Administrative expenses	3,587	4,207	4,712	12.0
Other operating income	4,747	4,368	8,826	102.1
Other operating expenses	2,678	3,669	6,349	73.0
Operating profit	14,602	19,784	13,620	-31.2
Financial result	-404	171	262	53.2
Profit before income tax	14,198	19,860	13,376	-32.6
Income tax expense/income	3,136	3,878	2,558	-34.0
Profit after income tax	11,062	15,982	10,818	-32.3

Group Financing – Development (CZK million)

	2006	2007	2008	2008/2007 (%)
Cash and cash equivalents at 1.1.	12,376	28,483	31,790	11.6
Cash flows from operating activities	27,420	28,454	14,206	-50.1
Cash flows from investing activities	-11,090	-13,785	-16,147	-17.1
Cash flows from financing activities	-156	-11,387	-1,027	91.0
Gross liquidity	28,483	31,790	28,806	-9.4
Balance of financial liabilities	-7,326	-4,387	-10,534	-
of which: factoring	-2,333	-2,376	-1,189	-
Net liquidity	21,157	27,403	18,272	-33.3

Financial Situation of Individual Group Companies

This portion of the Annual Report contains commentary on the financial results of the parent company Škoda Auto and its subsidiaries, which are reported according to International Financial Reporting Standards (IFRS).

Škoda Auto

In view of the fact that the parent company, Škoda Auto, accounts for over 90% of the Group's financial results, the Company's financial performance and financial position are highly correlated with those of the Group as a whole. The Company's operating result was CZK 12.6 billion (-33.6%), profit before tax fell to CZK 13.3 billion (-31.7%), and profit after tax was down by CZK 4.6 billion (-29.1%) in year-on-year terms.

Result and Financing

Compared to the previous period, revenues were down CZK 22.5 billion (-10.6%), reaching a level of CZK 188.6 billion. Costs of products, merchandise and services sold were down CZK 15.3 billion (-8.4%) year-on-year. As a consequence of the above, gross profit fell 23.8% year-on-year, to CZK 23.0 billion. Sales costs declined slightly (-4.7%) compared to the previous period. Administrative expenses, on the other hand, were up CZK 522 million (+14.1%). The financial result continued on a positive trajectory, thanks primarily to interest on loans provided to Volkswagen Group companies, and once again reached a positive level of CZK 651 million. After deduction of income tax due and deferred (CZK 2.0 billion), the profit after tax was CZK 11.3 billion.

Cash flows from operating activities, at CZK 14.8 billion, covered the Company's total capital expenditures, as they did in the previous year. The Company's net liquidity reached CZK 18.4 billion.

Asset and Capital Structure

Compared to 31 December 2007, total assets grew CZK 5.8 billion (+5.5%). Non-current assets were up CZK 3.2 billion to CZK 60.1 billion (+5.7% year-on-year). In 2008, investments in tangible and intangible assets (not including development expenditures) totalled CZK 10.2 billion (-0.6%). Of this amount, additions to tangible assets accounted for CZK 9.7 billion (-0.7%) and spending on intangible assets totalled CZK 551 million (+1.0%). In accordance with the Company's strategy of international growth and expansion of assembly plants abroad, we made an in-kind investment in the base capital of our associate, VOLKSWAGEN Rus. Current assets were up CZK 2.6 billion (+5.4%) in year-on-year terms, particularly as a result of increases in trade receivables and other receivables.

Compared to the previous period, shareholders' equity increased by CZK 5.2 billion (+7.8%). Total current liabilities increased by CZK 1.1 billion (+4.0%) year-on-year, while non-current liabilities declined by CZK 499 million (-4.9% year-on-year), due in particular to lower non-current provisions.

Škoda Auto Deutschland

2008 was another very successful year for the Škoda brand in the German market. Despite a decline in the overall market, the Company managed to grow its market share to 3.9% of new vehicle registrations. In year-on-year terms, sales slightly passed the previous year's figure to reach 112,504 vehicles sold. Within the product portfolio, the above result was driven primarily by the Škoda Octavia and Škoda Fabia models. In addition, the Škoda Octavia was the best selling import car in Germany in 2008. The Company successfully launched the new-generation Škoda Superb, which also showed up in the sales results – with 3,695 units sold from June to year end. The Škoda Roomster model line, including the Praktik line, contributed the overall volumes with 14,636 vehicles sold.

Compared to 2007, Škoda Auto Deutschland's sales revenues declined 13.7% as a result of increased competition in the market, and reached a total of CZK 40.6 billion (EUR 1.6 billion). Compared to the previous year, profit before tax rose by CZK 315.2 million (EUR 13.5 million) to CZK 632 million (EUR 25.1 million). Net liquidity reached CZK 1.1 billion (EUR 39.5 million).

The Škoda brand took highest honours in a number of prestigious competitions. The new-generation Škoda Superb won the Goldenes Lenkrad 2008 award, the Auto Trophy 2008 in the Oberklasse/Import category, and the Firmenauto des Jahres 2008 – Oberklasse/Import category. The Škoda Octavia won the Firmenauto des Jahres – Mittelklasse/Import category and the Flotten – Award 2008 in the Importwertung/Mittelklasse category. The Škoda Fabia won the Flotten – Award 2008 in the Importwertung / Kleinwagen category as well as the red dot Designpreis 2008 award.

Škoda Auto Polska

In 2008, the Polish market found itself under pressure from a dramatic increase in the Polish Zloty against the Euro and the U.S. Dollar. This resulted, among other things, in increased imports of used cars from other countries.

As a result of distinctive pricing pressure from the competition, Škoda reacted in kind and adapted the prices of its products to the prevailing market conditions.

The extremely competitive environment, combined with harsher market conditions caused by the arrival of new importers and a shift in market segments (growth in segments where Škoda is not represented), led to a reduction in market share to 10.5% (2007: 11.2%).

Nonetheless, Škoda maintained its status as the second best-selling brand in the country and sold 33,986 vehicles, up 776 vehicles from 2007. This accomplishment was driven primarily by the Škoda Octavia, Škoda Roomster and new Škoda Fabia models. The year also saw three major launches: the new Škoda Fabia Combi, the successor to the Škoda Superb and, late in the year, an updated version of the Škoda Octavia.

ŠkodaAuto Polska posted sales revenues of CZK 11.1 billion (PLN 1.6 billion) in 2008. Profit before tax reached CZK 110.2 million (PLN 15.8 million), down CZK 5 million from 2007. Net liquidity fell by CZK 68.2 million (-11.5 million PLN) in year-on-year terms, to -129.7 million CZK (-20 million PLN).

In 2008, for the third year in a row, the Škoda brand's sales and service network took the first place in Auto Świat magazine's dealership test. The new Škoda Fabia Combi won the comparison tests of the motorist magazines Auto Motor i Sport and Auto Świat. In addition, the new Škoda Superb won the Nicest Looking Car prize at the trade show in Katowice. The new Superb also won in its category of the comparison tests by Auto Świat magazine and Auto Motor i Sport.

Škoda Auto Slovensko

During 2008, Škoda Auto Slovensko delivered 17,809 vehicles to its customers. With a market share of 25.4% the Škoda brand retained its position as the Slovak automotive market leader. Compared with the previous year, 2007, the number of Škoda vehicles sold declined by 1,549 vehicles. This lower sales figure was influenced primarily by the Slovak Koruna's strength against the Euro, which led to increased pressure from the competition.

The absolute best-selling car model in the Slovak market was once again the Škoda Fabia, at 9,355 units sold. The Škoda Octavia continued to be very popular and the best-selling vehicle in its class. In 2008, 6,933 new Škoda Octavias and Škoda Octavia Tours were sold in Slovakia. The Škoda Roomster model also found its clientele, becoming the most successful vehicle in its class thanks to sales of 1,003 units in 2008. The successor to the Škoda Superb limousine was launched in the Slovak market. In total, 518 Škoda Superbs were sold, up 20.8% from the number of this model sold in the previous year.

Škoda Auto Slovensko's sales revenues fell from CZK 7.6 billion (SKK 9.3 billion) in 2007 by CZK 1 billion (SKK 1 billion) to CZK 6.6 billion (SKK 8.3 billion) in 2008. Profit before tax reached CZK 79.6 million (SKK 74.4 million). Net liquidity reached a level of -149.0 million CZK (-166.8 million SKK).

An important event in 2008 was the commencement of production of Škoda Octavia vehicles in the Volkswagen plant in Bratislava. This move represented a symbolic return of Škoda to Slovakia as a domestic brand.

Skoda Auto India

In 2008, Škoda Auto India delivered a total of 16,051 vehicles to customers, up 32% from the previous year (2007: 12,170 vehicles). This accomplishment was driven primarily by the success of the Škoda Fabia model, 6,303 units of which were sold from its market launch in January. As a result, the Škoda brand reached an overall market share of 1.07% (2007: 0.84%). As part of its market development initiatives, the company expanded its dealer network to 60 sales locations (2007: 51).

In 2008, the Company's sales revenues declined by CZK 33 million to a total of CZK 6 billion (INR 15.3 billion). The Company posted a net loss of CZK -175 million (INR -440 million) for 2008. In particular, the loss was caused by a rise in marketing costs in conjunction with market launches of new models, and defence of market shares in the face of the negative market trend in the second half. Net liquidity underwent a planned reduction from CZK 1.1 billion (INR 2.4 billion) to -528 million CZK (INR -1.33 billion), primarily as a result of capital expenditures totalling CZK 872.7 million (INR 2.2 billion). The bulk of these expenditures went on the Škoda Fabia model line as production capacities were expanded and depth of production increased. Other capital expenditures were incurred to ramp up production of Volkswagen Group models.

An important event of 2008 was the commencement of production of other Volkswagen Group models in the company's plant. The VW Jetta went into production in May and the Audi A4 followed in September. This raised the number of models in production to nine (2007: six models). In total, 20,975 vehicles were produced (2007: 12,870 vehicles), 18,342 of which were of the Škoda brand.

In 2008, the Škoda won more awards in India: it took the first place in the J.D. Power Sales Satisfaction Index (SSI) and the Octavia Tour defended its top position in the overall customer satisfaction survey conducted by TNS company.

Volkswagen Rus

In 2008, the company produced a total of 62,327 units, 37,312 of which were Škoda brand vehicles. The Škoda Octavia Tour contributed the most to this result, accounting for 63% of the Škoda brand's unit sales volume in the Russian market.

Throughout the year 2008, in addition to assembling vehicles from kits, the company continued in activities related to building its manufacturing facility.

The company's sales revenues in 2008 reached CZK 18.8 billion (RUB 27.2 billion), which represents considerable growth compared to 2007 (CZK 329 million, RUB 475 million). Compared to the previous year, the company's profit before income tax fell by CZK 1.5 billion (RUB 2.1 billion) to -1.7 billion CZK (-2.5 billion RUB). Similar development was seen in net liquidity, which was down -1.3 billion CZK (-1.9 billion RUB) to -6.0 billion CZK (-8.7 billion RUB). The negative performance in key financial indicators was due to the fact that the company is currently in the early phases of its operations.

During the year the company's owners decided to raise its base capital by investing a total of RUB 5.8 billion. Škoda Auto participated in the capital raise through an in-kind investment valued at RUB 2.0 billion, corresponding to a Czech Koruna equivalent of CZK 1.3 billion.

Effective as of 12 January 2009, Volkswagen Rus merged with the company OOO VOLKSWAGEN Group Rus (for more information, see the Financial Section of the Annual Report – Note 29 to the Consolidated Financial Statements).

VALUE-ORIENTED MANAGEMENT

We use the resources entrusted to us with an awareness of responsibility for our growth. The aim is to ensure long-term, continual growth in the value of Škoda Auto Group and thereby retain our independence.

Sustainable Economic Development

Every company is subject to many, often contradictory, demands – from the markets in which it operates, from investors and owners, and from other interest groups. Customers expect fantastic products, shareholders expect dividends and returns on their investments, employees expect job security, and suppliers expect commensurate consideration for products supplied and services rendered.

The fulfilment of expectations of various interest groups is possible only if the company has a healthy economic foundation. From a long-term perspective, this means that it is able to generate sufficient resources above and beyond capital costs for investment in products, quality and technology, and thereby continually maintain its competitiveness.

Therefore, the Group pays extraordinary attention to effective utilisation of resources as a tool for achieving sustainable economic growth.

Financial Management System

The basis of the internal financial management system is a focus on attaining continual Group's growth in value. This objective is closely related to the utilisation of all available resources.

In order to optimise the asset and capital structure and, further, to measure the effectiveness of invested resources, the Return on Capital Employed indicator is used. This indicator allows us to measure the success of the Company as a whole, and it also serves well as a criterion for comparing, assessing and subsequently deciding on investment proposals, projects, and products, or to evaluate individual areas. The Group uses the indicator in day-to-day decision-making with the aim of achieving planned short-term results, as well as to achieve strategic goals.

Group Return on Invested Capital (CZK million)

	2006	2007	2008
Operating profit before tax	14,602	19,784	13,620
Notional income tax*	5,111	6,924	4,086
Operating profit after notional tax	9,491	12,860	9,534
Capital employed	56,485	57,214	63,095
Return on capital employed (%)	16.8	22.5	15.1

* Long-term effective tax rate of the Volkswagen Group (2006 and 2007: 35%, 2008: 30%).

Return On Capital Employed (ROCE) is defined as the ratio of operating profit after deduction of a notional income tax to the value of capital employed in achieving the operating result. The notional income tax liability is determined on the basis of the Volkswagen Group's long-term effective tax rate. Capital employed is the average value of operating assets (tangibles and intangibles, inventory, trade receivables, and that portion of receivables which is reported in the item "Other") less the value of non-interest-bearing capital (trade payables with the exception of advances received and invoiced deliveries).

In 2008, the Group's ROCE was 15.1% (2007: 22.5%). This value puts Škoda Auto Group in a leading position among automotive manufacturers.

ŠKODA AUTO THINKING FOR THE FUTURE



With the opening of a new Technology Centre, which expanded our development-related floor space by over 70%, Škoda Auto took a major step forward in building its position within the Volkswagen Group technical development function. Thanks to an investment of nearly CZK 1.16 billion, over 300 new jobs were created for highly qualified specialists.



TECHNICAL DEVELOPMENT

The unveiling of new products and technical advances, intensive development of existing and new models, the final phase of construction and completion of a new Technology Centre, and renewal of our ISO certifications – these are just some of the activities that further built and reinforced the Technical Development function of Škoda Auto in 2008.

Technical expertise and skill are attributes that for years have been associated with Škoda Auto technical development. The result is attractive vehicles at a high technical and qualitative level that thrill customers by their functionality, reliability, and good price/performance ratio. For a long time now, technical development has focused in particular on in-house design, engineering vehicle exteriors and interiors, manufacturing prototypes, and conducting tests of both entire vehicles and individual components. In 2008, ongoing vehicle development was part of the job description of a total of 1,598 employees, i.e. 89 more than in the previous year.

In 2008, as in previous years, most work was concentrated on developing new products as well as caring for existing models in all model lines. A big challenge for the Technical Development function this year was to further optimize materials costs.

International cooperation with other development centres – now a tradition – contributed to employees' professional growth and technical expertise, and thereby to Škoda Auto technical development as well. We are now the third largest development centre in the Volkswagen Group. Another, no less important event of the past year was the completion of construction on the new Technology Centre building. Now a matter of course, the centre's ISO certificates were renewed.

In terms of technical development, the past year brought several milestones in Škoda brand history. The beginning was the launch and commencement of series production of the successor to the brand's flagship – the second-generation Škoda Superb. Another important moment was the completion of development activities to rejuvenate the Škoda Octavia model line, followed by series production late in the year.

In the past year, outlays for technical development totalled CZK 5.7 billion, which represents 3.0% of the Company's overall turnover (2007: CZK 5.5 billion, 2.6%).

Technology, New Products

The New Škoda Superb

The new Škoda Superb was successfully unveiled in March at the Geneva Motor Show. The launch of the second generation model further enhanced Škoda Auto's image and reaffirmed our competence in the higher mid-range segment.

The brand's new flagship features several unique technical solutions, elegant design, a highly attractive and modern engine line-up and, last but not least, plenty of room. Compared to its predecessor, the new Superb is 35 mm longer, 52 mm wider, and 7 mm lower. The biggest difference for passengers is in the back seats, where knee room has been enlarged by 19 mm. However, the area where the new Superb excels the most is the cargo bay, which at 565 litres is a full 103 litres bigger than its predecessor's. In addition, the size of the cargo bay underlines the groundbreaking, patented fifth-door design, dubbed "TwinDoor."

As the name itself would indicate, the cargo bay door allows for two different modes of access. For everyday use, the small door is entirely sufficient. When necessary, however, the entire fifth door, including window glass, can be opened for better cargo bay accessibility. This gives much more room for loading and unloading and, in this moment, the elegant limousine is transformed into a practical liftback, making it possible to transport even very large suitcases. In the independent crash test E-NCAP, the new model received five stars (the highest number possible), further underlining the vehicle's technical advancement and safety standard.

Updated Škoda Octavia

The rejuvenated Škoda Octavia model was officially unveiled at the autumn motor show in Paris. Here, the designers were faced with the difficult task of rejuvenating the look of this successful and popular model. The result of their labours is the most striking "facelift" in Škoda Auto history. The headlights, rear lights, front and back bumper, radiator grille, and parts of the interior were modified. Under the bonnet there are new engines that comply with EU 5 tailpipe emission standards, and the 4x4 variant uses a new, fourth-generation Haldex clutch.

Products and the Environment

Our environmentally-friendly GreenLine line-up is a direct expression of the Company's commitment to maintaining a healthy living environment. In 2008, the GreenLine range was bolstered by the addition of an environmentally-friendly Škoda Superb fitted with a 1.9 l 77 kW TDI PD DPF engine with combined fuel consumption of just 5.1 l/100 km. The engine's CO₂ emissions (136 g/km) are excellent for this category. All GreenLine models feature lower fuel consumption, which is achieved through the selection of an appropriate energy-conserving engine, modified gearbox ratios, special tires with decreased rolling resistance, and aerodynamic modifications. Diesel particulate filters go without saying on all GreenLine models.

TSI Turbo Engines

TSI engines are the Volkswagen Group's direct response to the worldwide trend of down-sizing, i.e. reducing engine volumes. As legislation changes and oil prices develop, this is one way to reduce fuel consumption and comply with future strict tailpipe emission limits while at the same time retaining sufficient engine performance to ensure that the vehicle is fun to drive for the customer. Turbocharged Stratified Injection engines achieve high performance and torque even when engine volume is low. The 1.8 l 118 kW TSI engine, introduced last year, was this year joined by two more TSI power trains: the 1.4 l 92 kW TSI for the new Škoda Superb and the 90 kW for the Škoda Octavia facelift model. The Škoda Superb fitted with this engine is capable of accelerating from 0–100 km/h in just 10.5 seconds. Combined fuel consumption is a respectable 6.5 l/100 km. Both engines satisfy EU5 tailpipe emission limits.

Modern DSG Gearboxes

The latest generation, DSG (Direct Shift Gearbox), represents the absolute top standard in terms of comfort, acceleration, and economy. The new 7-gear DSG gearbox supplied with the 1.8 l 118 kW TSI engine achieves not only lower fuel consumption than the same engine with a mechanical gearbox, but also a shorter time necessary to accelerate from 0 to 100 km/h. At the same time, it continues to offer the possibility of selecting between automatic shifting and sequential hand-shifting using a gear-shift lever.

Comfortable Electronic Functions

AFS (Adaptive Frontlighting System) headlights are one of several new comfort functions introduced in 2008. AFS headlights are capable of automatically changing the shape of the light cone and adapt it to changing road and/or weather conditions to ensure that the road surface is optimally lighted at all times. Adaptive AFS headlights not only increase driver comfort, they contribute to traffic safety.

Another new comfort function is the parking assistant. Vehicles equipped with this feature have sensors that recognise the space available for parking and, if the space is sufficient in size, the vehicle's on-board computer is capable of parking in that space automatically.

Certifications

In 2007, Škoda Auto received a "Manufacturer preliminary audit certificate pursuant to 2005/64EC" which is a necessary prerequisite for type-approval under Directive 2005/64/EC – Recycling. The manufacturer preliminary audit certificate confirms that Škoda Auto has introduced and is implementing measures to ensure compliance with the above directive, represented by a recyclability quota of $\geq 85\%$ of vehicle weight and a reusability quota of $\geq 95\%$ of vehicle weight. In 2008, all Škoda model lines received type-approval pursuant to Directive 2005/64/EC – Recycling.

Also, in October 2008 Škoda Auto Technical Development successfully underwent ISO 9001 and ISO 14001 certification audits.

Construction of Technology Centre

Along with the higher demands being placed on the specialised expertise of employees of Škoda Auto Technical Development, it is necessary – among other things – to invest considerable sums to expand work spaces and purchase cutting-edge equipment. In December, two years after the cornerstone was laid, the Company's new technical development building – dubbed the Technology Centre – was ceremonially opened for trial operation. One of the biggest Volkswagen Group investments in recent years, the Technology Centre is yet another demonstration of the competence of Škoda Auto technical development. The nearly 50,000 m² building stands on the left bank of the Jizera River and a newly built bridge connects it with the existing technical development facility. The new building houses laboratories and office space for over 500 employees.

Škoda Motorsport

As one of the oldest producers of race cars in the world, the Škoda brand has a long racing tradition. Historical records show that Škoda race cars at all kinds of international sports events going back over 100 years.

Based on a decision taken by Company in late 2007 to further develop the brand's motorsport tradition, and in accordance with the VW Group's motorsport strategy which gives the Škoda brand a role in the rallying category, in 2008 final development and testing continued on the Škoda Fabia Super 2000 rally car. In mid-2008, the vehicle was presented in rallying circles for the first time. Afterwards, the Škoda Fabia Super 2000 successfully completed the Barum Rallye and Rallye San Remo competitions as a reconnaissance car. The main objective – obtaining homologation for the vehicle – was achieved towards the end of the year.

PURCHASING

Successful cooperation in launching series production of the new-generation Škoda Superb, support for international projects, and continuation of the tradition of supplier symposia all contributed to a further strengthening of our relationships with suppliers.

In 2008, Purchasing continued to develop existing suppliers and seek out appropriate new ones. The primary selection criteria were unchanged from last year's: quality, reliability and price, as well as capability to innovate and deliver the required volumes. In order to leverage synergies and reach savings in material costs, we proceeded in close cooperation with the Volkswagen Group purchasing function. In supplier management, an important task was to build relationships with suppliers with an emphasis on optimising processes, quality and costs.

A key task was to secure supplies for production of the new-generation Škoda Superb. During the year, we commenced preparing for production of the Škoda Yeti, our first SUV-class vehicle. These activities included providing support for international projects within the framework of the Group's expansion strategy.

Like in the previous year, the situation in commodity markets remained tense in 2008. At the present time there is no way to say in advance in which direction oil prices will move, i.e. whether they will remain flat following the 2008 price drop or whether they will rise as a result of an artificially induced shortage of this raw material. The Group is prepared to take targeted measures to eliminate the risk of rising raw materials prices.

In addition to rising prices of raw materials and inputs, Purchasing had to deal with a very strong Czech Koruna, which had a direct impact on the competitiveness of local suppliers.

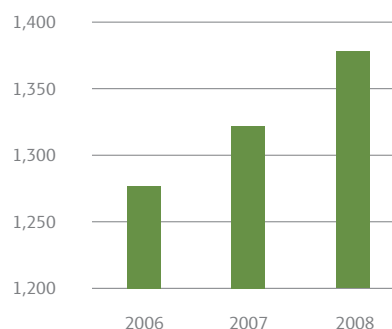
Supplier Management

The Company recognises the crucial role suppliers play in the process of successfully developing the brand. We therefore place extraordinary emphasis on intensifying relations with suppliers, improving the effectiveness of co-operation and information exchange, and other methods for directly developing partners' professional competencies.

With regard to the latest developments in international markets, risk management is focusing on timely discovery of problems being experienced by suppliers. In the event a supplier is insolvent, appropriate measures are put in place to ensure smooth supplies for manufacturing operations.

Regular workshops with suppliers, which are also attended by representatives of Technical Development and Quality, provide a venue for exchanging know-how and developing new projects, as well as an opportunity to identify new standards and potentials for optimising materials costs.

Total Number of Production Purchasing Suppliers



The Company's second Supplier Symposium was held in June 2008 on the occasion of the unveiling of the new-generation Škoda Superb, with 70 key suppliers and the Company's Board of Directors in attendance. The primary aim of the event was to foster an open discussion of anticipated future trends in the automotive industry, define common goals and examine other strategic topics.

Development of the Supplier Network

In addition to traditional supplier territories (Czech Republic and Europe), sourcing from countries such as Russia, India and China is becoming more feasible. On one hand, this trend is related to the advantage of supplying directly to local manufacturing plants. On the other hand, it also offers potential cost savings for supplies to other Group factories. Another aspect is the need to meet the growing needs of our international projects. In 2008, development of the supplier network continued, and the criteria used to evaluate local suppliers included currency exchange rates and the local partner's know-how in the quality and development areas, in addition to cost and capacity factors.

General Purchasing

One of General Purchasing's primary tasks in 2008 was to secure supplies, materials, and services for expanding the Kvasiny branch production plant. In addition to construction of a new assembly hall and body shop, this included manufacturing equipment and technologies to enable integrated production of multiple models – in this case, the Škoda Superb, the Škoda Superb Combi, and the Škoda Yeti. Another major project was the acquisition of testing technologies for the new Škoda Auto development Technology Centre. As the Škoda Superb and updated version of the Škoda Octavia models went into full production, and the number of knocked-down vehicles shipped continued to rise, General Purchasing was faced with more tasks to secure the necessary logistical streams.

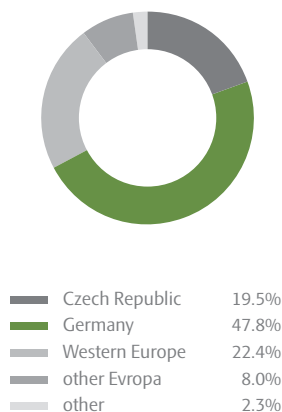
In 2008, the total number of suppliers reached 5,460 (2007: 5,579), while total general purchasing volume was CZK 17.4 billion (2007: CZK 17.7 billion).

Production Purchasing

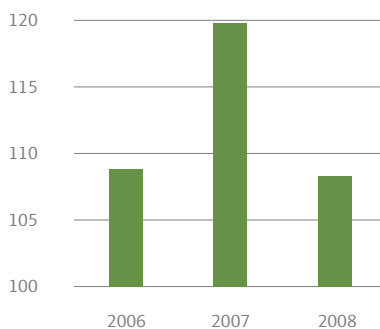
The Company's total production purchasing volume in 2008 was CZK 108.3 billion, down CZK 11.5 billion from the previous year (CZK 119.8 billion). The fact that local suppliers were of strategic importance to the Company was confirmed by their long-term high volume share (61%). Germany-based suppliers, with nearly one quarter of production purchasing volume, were another important supplier group.

The total number of production-related suppliers was 1,378 (2007: 1,322). Of this number, 269 were Czech companies, 18 of them from the immediate area surrounding Mladá Boleslav. The strongest supplier region in terms of corporate registered offices was Western Europe, with 972 partners.

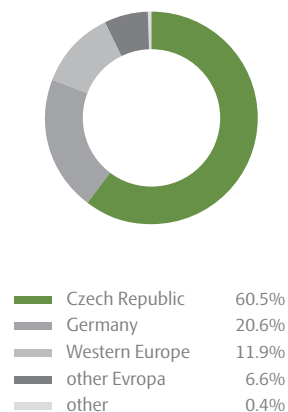
Production Purchasing Suppliers by Region, 2008 (%)



Production Purchasing Volume (CZK billion)



Production Purchasing Volume by Region, 2008 (%)



NEW MODELS ON THE PRODUCTION LINES



The year 2008 was characterized by the launch and production of the new-generation Škoda Superb. Despite the generation change, the brand's flagship recorded the biggest year-on-year growth in production volumes. The Škoda Octavia model line, which underwent a successful "facelift" late in the year, reassured its strong position in the Group's production range.



PRODUCTION AND LOGISTICS

The successful start-up of series production of the new-generation Škoda Superb, launch of production of the “facelifted” version of the Škoda Octavia, and further expansion of international projects – these were the principal milestones of 2008, a year when the Group produced 607 thousand vehicles. When vehicles produced in Slovakia and China are included, worldwide production of Škoda cars reached 677 thousand units.

The parent company Škoda Auto’s traditional manufacturing plants are located in Mladá Boleslav, Vrchlabí and Kvasiny (Czech Republic). In addition, Škoda Auto Group has assembly plants in Aurangabad, India, and Kaluga, Russia.

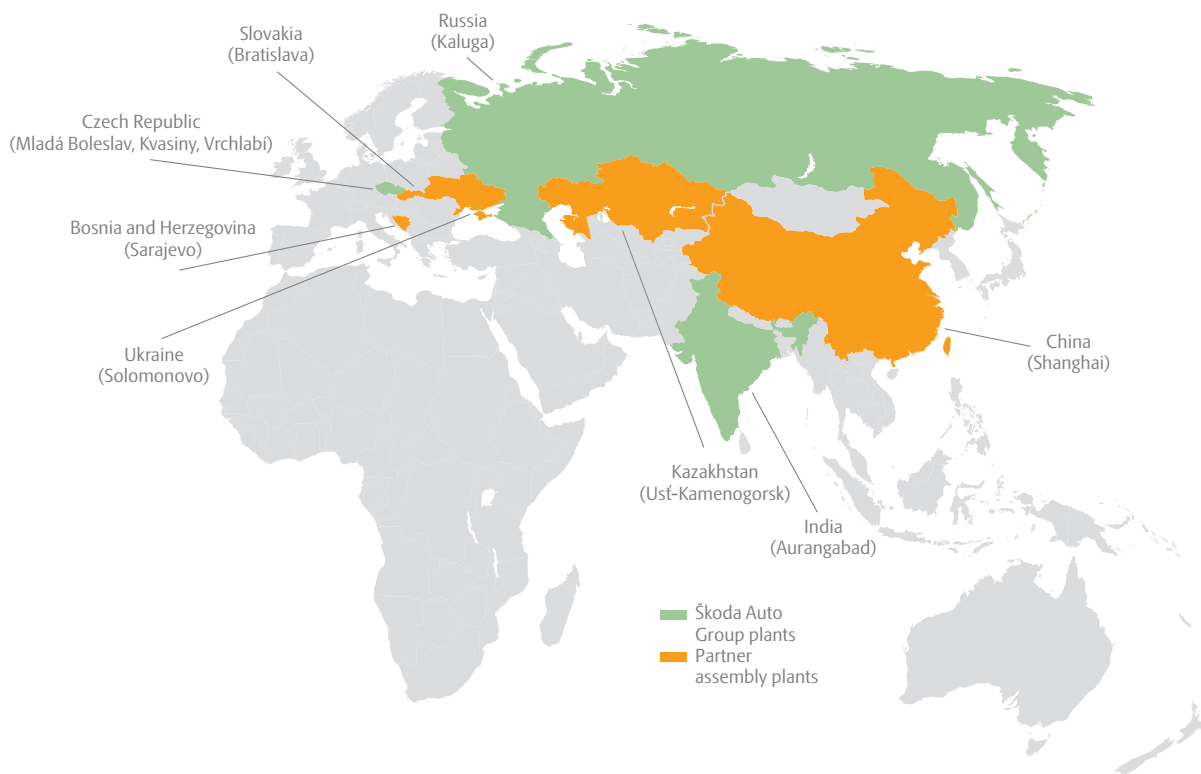
In addition to our own manufacturing and assembly plants, the Group has long co-operated with partner plants in Solomonovo (Ukraine), Sarajevo (Bosnia and Herzegovina) and Ust Kamenogorsk (Kazakhstan). From March 2008, we also utilize production capacity of the VW Bratislava plant (Slovakia). Škoda brand vehicles are also produced under a licence agreement at the SVW plant in Shanghai (China).

In its plants, the parent company Škoda Auto produces finished vehicles as well as vehicle kits at various knocked-down levels. At the same time, it also produces power trains (engines and gearboxes), engine and gearbox components, and original parts and accessories. Vehicle kits are shipped from the Group’s production plants to partner plants in other countries for final assembly.

In order to leverage synergies within the Volkswagen Group, the Škoda Auto Group’s product portfolio includes Volkswagen- and Audi-brand vehicles assembled in Aurangabad, India, in addition to Škoda-brand vehicles.



Škoda Auto Group Production and Assembly Plants



Group Vehicle Production

A total of 606,614 vehicles rolled off Group assembly lines in 2008. Due to the ongoing worldwide financial crisis and weak demand in key markets, production was cut back late in the year. As a result, in year-on-year terms the Group's production volume was reduced by 2.7% (2007: 623,291 vehicles). In the first half of 2008, particular attention was paid to launching production of the new-generation Škoda Superb, while in the second half the primary focus shifted to launching production of the "facelifted" Škoda Octavia.

Škoda Fabia

In 2008, the new-generation Škoda Fabia completely replaced its successful predecessor on the assembly lines. Production of the Sedan – the last variant of the model's previous generation in production – was terminated in March.

The Škoda Fabia accounted for 40.3% of the Company's total production volume in 2008, which equates to 244,602 units (figure is for both generations). Compared to 2007 (243,669 units), production increased by 0.4%. Available in Hatchback, Combi, and Sedan variants, the Škoda Fabia made up the bulk of the production programme.

Škoda Roomster

In 2008, a total of 49,535 Škoda Roomsters and Praktik were manufactured at the Kvasiny plant.

Škoda Octavia

The highly successful Škoda Octavia line reaffirmed its position in the production line-up. The main event was the glitch-free launch of production of the "facelifted" version of this model. In total, the Group manufactured 198,827 units of model line in the period in question (2007: 208,848). When the 18,278 vehicles assembled by our partner plant VW Bratislava (Slovakia) are taken into account, production increased by 3.9% from the previous year.

Škoda Octavia Tour

The Škoda Octavia Tour, which comes in Limousine (Liftback) and Combi body variants, continues to be produced by the Vrchlabí plant. In 2008, the vehicle's continued high popularity drove yet another production increase, to 83,753 units, up 14.6% from 2007.

Another indicator of the success of the Škoda Octavia model line came in March, when the 2,000,000th Škoda Octavia/Škoda Octavia Tour vehicle rolled off the production lines.

Škoda Superb

2008 was characterized by the launch of production of the next generation of the Škoda brand's flagship. In March, the new model completely replaced its predecessor on the Kvasiny plant's production lines. Up to the end of the year, 21,428 new-generation Superbs were produced.

Thus, despite the generation change, the number of Škoda Superb vehicles produced rose to a record level of 27,264 units, up 27.8% from the previous year. This means the Superb had the highest percentage year-on-year growth of all Škoda-brand model lines.

VW Group Models

Production of the VW Group brands VW and Audi in the Aurangabad, India plant became fully established in 2008. In addition to existing VW Passat and Audi A6 assembly operations, assembly of the VW Jetta began in May and assembly of the AUDI A4 for the local market followed in September. In total, 396 AUDI and 2,237 Volkswagen vehicles were assembled in 2008.

Portfolio of Models Produced or Assembled in Group Plants (as at 31 December 2008)

	Fabia II	Fabia	Roomster	Octavia	Octavia Tour	Superb II	Superb	VW Jetta	VW Passat	Audi A6	Audi A4
Mladá Boleslav	●	●		●							
Vrchlabí				●	●						
Kvasiny			●			●	●				
Aurangabad	●			●	●	●	●	●	●	●	●
Kaluga	●			●	●						

Production of Group Vehicles

	2006	2007	2008	2008/2007 (%)
Fabia	121,506	33,296	-	-
Fabia Combi (including Fabia Praktik)	107,176	74,053	12	-100.0
Fabia Sedan	12,237	13,137	2,844	-78.4
Fabia II	196	118,770	140,890	18.6
Fabia II Combi	-	4,413	100,856	>200
Fabia, total	241,115	243,669	244,602	0.4
Roomster	25,055	69,637	43,247	-37.9
Praktik	-	6,238	6,288	0.8
Roomster, total	25,055	75,875	49,535	-34.7
Octavia Tour	53,631	58,388	72,233	23.7
Octavia Combi Tour	15,493	14,692	11,520	-21.6
Octavia Tour, total	69,124	73,080	83,753	14.6
Octavia	99,840	101,891	94,117	-7.6
Octavia Combi	100,810	106,957	104,710	-2.1
Octavia, total	200,650	208,848	198,827	-4.8
Superb	20,403	21,339	5,836	-72.7
Superb II	-	-	21,428	-
Superb, total	20,403	21,339	27,264	27.8
Škoda brand, total	556,347	622,811	603,981	-3.0
VW Passat	-	426	608	42.7
VW Jetta	-	-	1,629	-
Audi A6	-	54	266	>200
Audi A4	-	-	130	-
VW Group brands, total	-	480	2,633	>200
Total production	556,347	623,291	606,614	-2.7

International Group Projects

2008 saw continued expansion of Škoda brand international production. Projects are being implemented in the Group's assembly plants in India and Russia.

In addition to expanded assembly of Volkswagen Group brands, in November the plant in Aurangabad, India began assembling the new-generation Škoda Superb. By year end a total of 56 vehicles of this model line had been assembled. In 2008, a total of 18,342 Škoda cars (2007: 12,390) and 2,633 vehicles of other Volkswagen Group brands (2007: 480) rolled off the Indian plant's assembly lines.

In 2008, assembly of the Škoda Octavia, Škoda Octavia Tour, and new-generation Škoda Fabia models continued in Kaluga, Russia, as part of a joint Škoda Auto and VOLKSWAGEN AG project. The total number of vehicles assembled in Russia in 2008 was 37,312, which represents a year-on-year increase in production (in 2007, the year production commenced, 1,109 vehicles were assembled).

Vehicle Production in Partner Plants

The total number of vehicles assembled and/or produced in partner plants in 2008 was 107,371, which represents year-on-year growth of nearly 62.3%.

Assembly of knocked-down vehicle kits in the Sarajevo plant was terminated in December 2008 due to changes in legislation. The total number of vehicles assembled in Bosnia and Herzegovina in 2008 was 2,720. In future, the local

market will be supplied by shipments of completed vehicles.

In Ukraine, August saw the successful launch of assembly of the new-generation Škoda Superb in partnership with Eurocar Solomonovo. In total, 30,172 vehicles were assembled in Ukraine.

A total of 281 Škoda Octavia vehicles were assembled at the plant in Kazakhstan (Ust Kamenogorsk).

As of March 2008, production capacity of the Volkswagen Group's plant in Bratislava, Slovakia, are being utilized for the Škoda Octavia. In total, 18,278 vehicles were assembled there.

In Shanghai, China, December 2008 saw the successful launch of production of the Škoda Fabia model under licence. Including the Škoda Octavia, a total of 55,920 vehicles rolled off the assembly lines.

Portfolio of Models Assembled or Manufactured in Partner Plants (as at 31 December 2008)

	Fabia II	Fabia	Roomster	Octavia	Octavia Tour	Superb II	Superb
Bosnia and Herzegovina*	●	●	●	●	●	●	●
Ukraine	●	●	●	●	●	●	●
Kazakhstan				●	●		●
Slovakia				●			
China **	●			●			

* production terminated in December 2008

** produced in SVW plant

Vehicle Assembly/Production in Partner Plants

	2006	2007	2008	2008/2007 (%)
Bosnia and Herzegovina	2,170	2,579	2,720	5.5
Ukraine	19,013	23,337	30,172	29.3
Kazakhstan	1,124	1,557	281	-82.0
Slovakia	-	-	18,278	-
China *	-	38,664	55,920	44.6
Total	22,307	66,137	107,371	62.3

* produced in SVW plant

Logistics

The large number of vehicles produced by the Group put very high demands on logistic processes, particularly in the production preparation and launching phases. In this respect, 2008 was the year of the new-generation Škoda Superb and the updated version of the Škoda Octavia. Precise management of logistic processes and successful implementation of all planned production launches laid the foundations for effective utilisation of the capacities of the Group's manufacturing and assembly plants and those of partner plants as well.

Power Train Production

Within the Volkswagen Group, Škoda Auto has established itself as a renowned supplier of engines, gearboxes and their components. Demand for MQ 200 gearboxes continued to rise in 2008, necessitating increased production to a total of 538,069 units, setting a new record and representing a year-on-year increase of 3.6%. The increase was seen not only in gearboxes produced for Škoda Auto, but also in gearbox orders from VW Group customers. Of the total number of gearboxes produced, VW Group supplies were accounted for 50.0%.

In response to falling demand for cars, demand for 1.2-litre three-cylinder engines declined as well. In total, 270,875 of these engines were produced in 2008 (-11.7% year-on-year). 60.3% of these engines were supplied to VW Group customers.

Production of Power Trains

	2006	2007	2008	2008/2007 (%)
1.2-litre engine	282,564	306,783	270,875	-11.7
MQ 200 gearbox	457,314	519,135	538,069	3.6

QUALITY

Continual optimising of development, production, sales and product service processes and fulfilment of all requirements placed on the Company's EN ISO 9001:2000-compliant quality management system, with subsequent confirmation of the international standards compliance certificate, were the main events of 2008 that contributed to end customer satisfaction with our products.

Quality Assurance

Quality is a fundamental key to winning customer satisfaction and trust, and thereby to building customer loyalty to the brand. It has a decisive influence on the brand's overall image and also substantially influences customer decision-making on vehicle purchase. In today's highly complex automobile industry, the term "quality" comprises an extensive system of processes and methods touching nearly all areas of the Company, from technical development and purchasing, through actual production, to repair and maintenance services. Škoda Auto is fully aware of fundamental importance of the term "quality" and fulfilment of product quality requirements and quality company management continued to be top priorities in 2008.

Product Quality

The term quality when applied to a product, especially from a long-term perspective, is understood to mean primarily the product's reliability. To measure and effectively manage it, we use indicators such as "number of defects per vehicle" and "repair costs" over the time the vehicle is in use.

In 2008, we continued on a monthly basis to gather current information from the service network, focusing primarily on identifying and monitoring trends in vehicle defects and related costs. Knowledge of this information enabled a special team consisting of representatives of quality management, technical development, production, and service to respond quickly and take corrective and preventive measures for all models in production.

Further in the process, these measures were monitored in light of the defined goals, their effectiveness evaluated, and the results regularly submitted to management of the company for approval.

Vehicle Development Quality

Final vehicle reliability is not only a matter of production and workmanship – the vehicle's design and the technical solutions used in it are also very important.

Right from the earliest development stages, teams are set up (Simultaneous Engineering Teams – SET) in which representatives of all functions use various preventive methods to take stock of current trends and customer requirements and identify the optimum technical solutions. These conceptual solutions are further revised with the aim of minimising future defects and achieving planned customer satisfaction with the new vehicle. Also important in this respect is co-operation with a prestigious company, which enables us very early on – in the first prototype phase – to compare the concept with predicted customer requirements and, if deviations are identified, proceed appropriately in further developing the product.

Production Process Quality

The quality of production processes is a major factor determining the quality of the resulting product. The goal of production process quality is to consistently and reliably achieve the planned product quality levels. Reliable quality was achieved in 2008 by inspection the production process from the moment the first design proposal is submitted up until its final implementation. Parameters monitored included, in particular, production flow set-ups, machine and equipment placements, involvement of commensurately qualified employees and use of appropriate control mechanisms with effective process management feedback.

Later, in series production, the quality of the production process is evaluated in terms of process fitness, in order to ensure that every car produced meets planned parameters.

Among other methods, the fitness or stability of the process is verified through a series of process audits using VW Group methodology, and regularly assessed by management.

Quality of Repair and Maintenance Services

From the moment we hand over a new vehicle to the customer, through regular service check-ups, to possible repairs during the time the vehicle is in service, quality care is the most important tool for building the customer's brand loyalty. After the actual purchase, a service centre visit is one of the few occasions we have for direct contact with the customer, as well as a unique opportunity to gather information on the customer's satisfaction with our products. The knowledge and experience gained in repair and maintenance services make up a substantial portion of the information in the Company's quality management system.

In 2008, Škoda Auto worked on improving the quality of repair and maintenance services, primarily in the sense of ongoing optimising and fine-tuning. Right from the development phase, vehicle engineering design was confronted directly with the need to effect maintenance and repairs in the future. Also in 2008, work continued on rolling out a globally accessible defects database that will enable quick diagnostics and substantially improve the effectiveness of processes at our service partners.

Certifications

Škoda Auto has had a certified quality management system in place since 1994.

In November 2008 the Company successfully passed the first follow-up audit of the quality management system pursuant to the ISO 9001:2000 standard and the certification company TÜV NORD Praha issued the Company confirmation of the validity of the certificate issued in 2007.

Caring for the Customer

The year 2008 saw continued work on a new, globally accessible service database to facilitate diagnostics and streamline processes at our service partners.

THE ŠKODA BRAND'S SUCCESSES IN WORLD MARKETS



The Group delivered a total of 674,530 vehicles to its customers in 2008. This is an increase of 7.1% from the previous year, despite a perceptible cooling of demand in key markets. Thanks to its unique technical features and attractive design, the new-generation Škoda Superb model line increased sales volumes by nearly a quarter.



SALES AND MARKETING

Further expansion of the global sales and service network, successful introduction of a new generation of the prestigious Škoda Superb and an updated version of the Škoda Octavia contributed to record sales performance and reinforced the Škoda brand's position worldwide. This was achieved in spite of the negative impacts of the ongoing financial crisis, which caused demand to drop significantly in key world markets.

Vehicle Sales by Region

Škoda Auto Group managed another increase in sales volumes in 2008. In total the Group delivered 674,530 vehicles to customers, 7.1% more than in the previous year and at the same time a new sales record.

Czech Republic

The Group resoundingly defended its position as the domestic market leader in both the passenger car and the light commercial vehicle segments. A total of 58,908 vehicles were registered, a decrease of 8.4% from the previous year (2007: 64,306 vehicles).



Central Europe

In addition to the domestic market, the Group maintained its dominant position in the Central Europe region. In Poland, deliveries to customers, at 33,986 vehicles, reached roughly the previous year's level (2007: 33,210 units). This equated to a market share of 10.5%. The Group continues to hold the position of market leader in the Slovak market. In total, 17,809 vehicles were delivered to customers here, down 8.0% year-on-year (2007: 19,358). In line with declining overall sales of passenger cars in Hungary, sales of Škoda brand vehicles there were down (12,015 units delivered to customers, i.e. -17.4% compared to 2007).

Eastern Europe

The Group achieved substantial sales growth in Eastern Europe. In total, 123,630 vehicles were delivered to customers in this region, up 30.1% from the previous year. The strongest territory for the Group was the expanding Russian market, where our sales nearly doubled to 50,733. This equated to a market share of 1.9% (2007: 1.2%). Ukraine became the Group's second key market in this region. Despite a significant slowdown late in the year resulting from the economic crisis, 28,524 vehicles were delivered to customers there (+25.2% year-on-year). In Romania, 22,937 vehicles were sold (-4.5% year-on-year). Positive trends from last year continued in other countries of Eastern Europe as well, e.g. Serbia (4,557 vehicles, or +13.8% year-on-year), Bosnia and Herzegovina (3,402 vehicles, +23.4% year-on-year) and Estonia (1,854 vehicles, +22.1% year-on-year).

Western Europe

Despite a dramatic slump in markets overall, particularly in the second half of the year, the Group managed to grow market share in its strongest territory to 2.3% (2007: 2.2%). The total number of vehicles delivered to customers in this region was 315,571 (-3.6% year-on-year). Over 10% sales growth was posted in Finland and Switzerland. In nearly all countries of Western Europe, the Group managed to further increase market shares, achieving the biggest shares in Finland (5.9%), Denmark (5.9%), Austria (5.6%) and Sweden (4.0%). The largest number of vehicles, 121,277 total, were registered in Germany; this corresponds to a 2.2% increase over 2007 and a market share of 3.9%. In the UK, 37,072 vehicles were delivered to customers for year-on-year decline of 8.3% (market share in 2008 was 1.7%). In Italy, vehicles were delivered to customers totalled 20,809 (+8.9% year-on-year), while in France the figure was 19,480 (+0.4% year-on-year).

Overseas/Asia

The substantial growth potential of the Overseas/Asia region was reflected in the Group's sales results. Deliveries to customers in this region in 2008 totalled 104,245 vehicles, up 59.7% from the previous year. China with the volume of 59,284 (+117% year-on-year) became the Group's second biggest market. In India, traditionally a strong market for us, 16,051 vehicles were sold total, up 31.9% from 2007. In addition, Škoda is the strongest European car brand in India. Other important markets in this region included Israel (6,659 vehicles, +54.0% year-on-year), Egypt (5,264 vehicles, +3.5%), and Turkey (3,893 vehicles, -28.8%).

Vehicle Sales by Model Line

In 2008, the Group launched the new-generation Škoda Fabia Combi, a new generation of the Škoda Superb, and a "facelifted" Škoda Octavia. At the same time, we launched an environmentally-friendly derivate of the Škoda Fabia and Škoda Fabia Combi under the GreenLine mark. All of these products place maximum emphasis on quality and safety, intelligent functional details and a balanced price/performance ratio.

Škoda Fabia

This model line has been the backbone of the Group's product range for some time. In January 2008, a new generation of this model went on sale in a Combi version. At the same time, sales of the first-generation Fabia Sedan were phased out during the year. The new Fabia has fully lived up to volume expectations and successfully took over from its predecessor, which sold 1.7 million units during its eight-year life cycle. The total number of Fabias sold in 2008 was 246,561 (compared to 232,890 in 2007). In accordance with the Group's environmental strategy, March 2008 saw the launch of a Škoda Fabia and Fabia GreenLine derivate, and by year end the first 7,010 units of this environmentally-friendly Fabia had been produced.

Škoda Roomster

Sales of this model line in 2008 were negatively impacted by the negative development of the A0-MPV segment as a whole. Although the Škoda Roomster fully established itself in the Group's markets and achieved the position of leader in its segment in 13 European countries, the total number of vehicles sold fell to 57,467 (2007: 62,527). Of the total number sold, 7,013 units were Škoda Praktik (2007: 4,134).

Škoda Octavia Tour

Last year was already the twelfth in the Octavia Tour model line's life cycle. Even so, 2008 saw a 7.0% increase in sales volumes, to 77,590 units (2007: 72,529). The Škoda Octavia Tour sold particularly well in Eastern European markets. In the model mix, 84.4% of sales were attributable to the Limousine variant and 15.6% to the Combi.

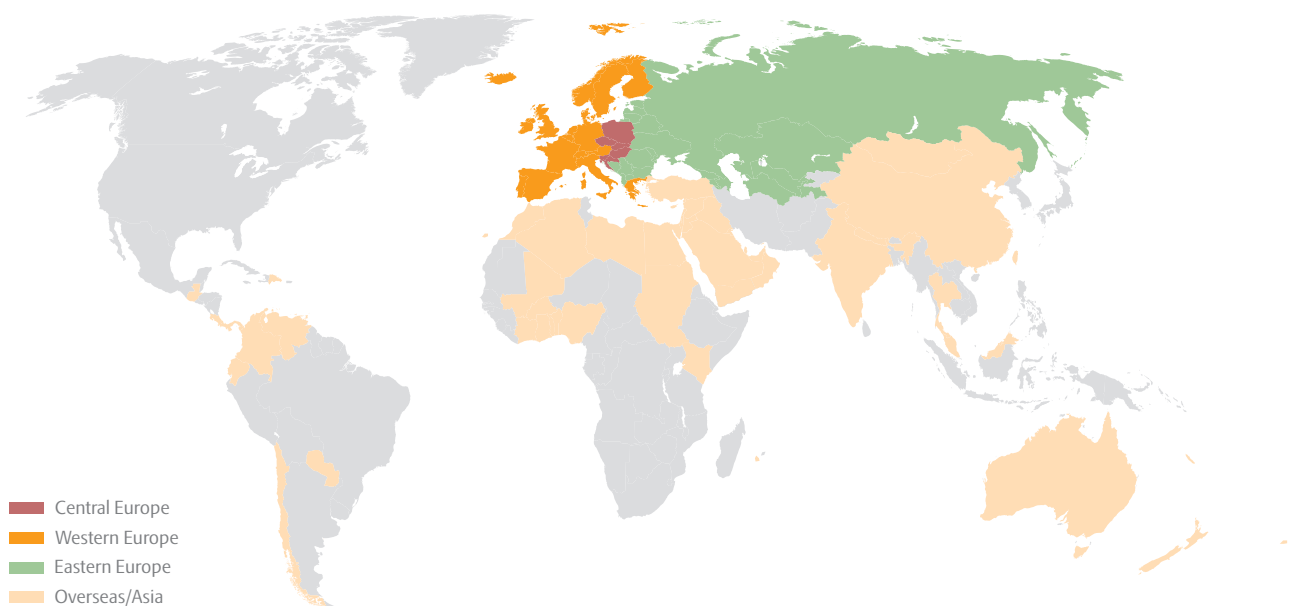
Škoda Octavia

In 2008, this line reaffirmed its position as the Group's best-selling model. In November, the "facelifted" version was gradually launched in world markets, and the innovative design change was very well received by the public. The total number of units delivered to customers was 267,267, up 12.6% from 2007. Of this number, 12,032 units were the RS (sports-car) variant and 9,116 were Scouts. The Combi version's share in the model mix in 2008 was 38.4%.

Škoda Superb

In 2008 a new generation of the Superb, the Škoda brand's prestigious limousine, was introduced. The new model was launched in world markets gradually, starting in June. Thanks to its unique technical solutions and attractive design, the new vehicle drove the Superb's sales volumes up by nearly one quarter, to 25,645 units. As of late 2008, the Škoda Superb is also available in a 4x4 variant – for the first time in the model's history.

Škoda Auto Group Sales Regions



Deliveries to Customers, by Region

	2006	2007	2008	2008/2007 (%)
Central Europe	140,797	142,483	131,084	-8.0
Eastern Europe	70,986	95,032	123,630	30.1
Western Europe	301,343	327,222	315,571	-3.6
Overseas/Asia	36,541	65,295	104,245	59.7
Total	549,667	630,032	674,530	7.1

Deliveries to Customers, by Model

	2006	2007	2008	2008/2007 (%)
Fabia	123,170	51,561	191	-99.6
Fabia Combi (including Fabia Praktik)	107,906	80,799	5,533	-93.2
Fabia Sedan	12,906	12,970	5,191	-60.0
Fabia II	0	85,998	146,465	70.3
Fabia II Combi	0	1,562	89,181	>200
Fabia, total	243,982	232,890	246,561	5.9
Roomster	14,422	62,527	50,454	-19.3
Praktik	0	4,134	7,013	69.6
Roomster, total	14,422	66,661	57,467	-13.8
Octavia Tour	53,783	58,287	65,544	12.5
Octavia Combi Tour	15,540	14,242	12,046	-15.4
Octavia Tour, total	69,323	72,529	77,590	7.0
Octavia	100,584	131,934	164,543	24.7
Octavia Combi	100,367	105,488	102,724	-2.6
Octavia, total	200,951	237,422	267,267	12.6
Superb	20,989	20,530	10,164	-50.5
Superb II	0	0	15,481	-
Superb, total	20,989	20,530	25,645	24.9
Total	549,667	630,032	674,530	7.1

Deliveries to Customers – Biggest Markets

	2006	2007	2008	2008/2007 (%)
Total	549,667	630,032	674,530	7.1
Germany	103,931	112,452	112,504	0.0
China	660	27,325	59,284	117.0
Czech Republic	65,171	66,806	58,001	-13.2
Russia	14,835	27,535	50,733	84.2
United Kingdom	38,801	40,430	37,072	-8.3
Poland	28,783	33,210	33,986	2.3
Ukraine	19,007	22,775	28,524	25.2
Romania	20,153	24,015	22,937	-4.5
Italy	16,515	19,103	20,809	8.9
Spain*	24,869	26,920	19,519	-27.5
France	16,754	19,404	19,480	0.4
Slovakia	21,380	19,358	17,809	-8.0
Austria	16,943	16,012	16,700	4.3
India	12,105	12,170	16,051	31.9
Belgium	11,152	14,001	14,130	0.9

* not including the Canary Islands

Sales of Genuine Parts and Accessories

Sales of original parts and accessories is an important part of the Group's sales policy, and is a major factor in overall customer satisfaction. Our sales philosophy is based on an offer of top quality products, a broad product range, availability and timeliness of supply. As the Group's offer of models and derivatives expands, the range of parts and accessories supplied to world markets grows as well.

Revenues from sales of genuine parts totalled CZK 12.6 billion, i.e. +3.1% from the previous year.

The offer of genuine accessories is the Group's reaction to the ever growing segment of customers who demand a higher degree of individuality and, at the same time, compliance with the strict qualitative criteria guaranteed by the manufacturer. Revenues from sales of genuine Škoda accessories reached CZK 2.2 billion (+8.3%).

In 2008, sales of genuine parts and accessories once again contributed significantly to the Group's financial results.

Sales and Service Network

Expansion into new markets is an integral part of fulfilling the Group's sales and growth strategy. In 2008, the Škoda brand was represented in 101 world markets. Expansion of the exclusive sales and service network continued in 2008 in China, with the opening of another 72 new dealerships (bringing the total to 201 sales points). Concurrently with the expansion into new markets, the Group supported the development of sales and service partners in existing markets. As of the end of 2008, there were a total of 5,017 registered sales and service partners worldwide (2007: 4,763). This represents year-on-year growth of 5.3%, affirming the attractiveness of the Škoda brand for business partners and the success of our chosen strategy.

Thorough implementation of the "Human Touch" programme in 2008 enabled us to improve the quality and level of services provided by the sales and service network. The program's main pillars continue to be willingness and helpfulness of personnel, individual approach to customers, and an individualised customer service model. Thanks to the program, customer satisfaction is growing steadily, as shown by the results of conducted studies.

One of the key themes in 2008 was expansion of used car sales, through our sales and service network. This programme is based on a comprehensive offer of customer services, professional approach, quality guarantee on offered vehicles and accompanying financing services.

Sale of Vehicles to Fleet Customers

Despite unfavourable development in most European markets, the positive trend in sales to fleet customers seen in the previous year continued in 2008 as well. In total, 161,800 vehicles (+0.2) were delivered to this customer segment. 115,200 vehicles (+1.1%) were sold in Western Europe. In Central Europe the number was 46.6 thousand automobiles. The Group's biggest wholesale market by a large margin, with 25% of annual fleet sales, is Germany, followed by the Czech Republic, the UK, Poland and Spain. Compared to private customers, sales to fleet customers are in generally less sensitive to changes in the economic environment. Thus, in 2008 these sales helped Škoda Auto Group to partially offset the negative impacts seen in the private customer segment.

Marketing Communication

Marketing communication in 2008 revolved mostly around the launch of the new Škoda Superb. This model was unveiled to the public at the Geneva Motor Show in March. The presentation of the model in June to nearly 5,000 salespeople from 81 countries gathered in Lisbon, Portugal was one of the key moments of 2008. In the same month, an advertising campaign was launched featuring the vehicle's unique technology – the TwinDoor system which provides two ways for opening the fifth door. At the Moscow Motor Show in August 2008, the Group presented not only its products, but a completely new exhibition booth concept. The world premiere of the "facelifted" Octavia model took place at the Paris Motor Show in October, and was accompanied by a campaign featuring the slogan "Good made better".

ŠKODA AUTO INVESTS IN EDUCATION



A total of 830 students were enrolled in Bachelor's and Master's programmes at the Škoda Auto University in 2008. Of this number, over 100 were Škoda Auto employees enrolled in a work-study programme. During the year, the university also hosted over 150 educational and social events.



HUMAN RESOURCES

At the end of 2008 the Škoda Auto Group work force numbered 26,695 employees. All of them together helped make the year's accomplishments a reality – new models were launched and customers took delivery of a record number of vehicles.

Employment development

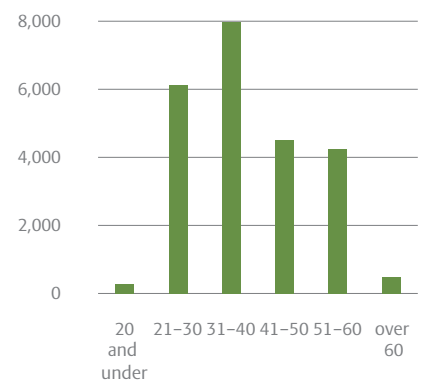
In 2008, the Group provided employment for 23,622 permanent and 1,709 temporary employees in the Czech Republic (figures as at 31 December 2008). During the year, the Group hired a total of 1,866 new employees in this region. Another 1,364 employees, total, worked in our subsidiaries in Slovakia, Germany, Poland, and India.

Qualification Structure of Company Permanent Staff (%)



Primary	6.7%
Secondary	50.6%
Completed secondary	32.2%
University	10.5%

Age Structure of Company Permanent Staff



Group Work Force

	2006	2007	2008	2008/2007 (%)
ŠKODA AUTO a.s. – permanent employees	23,034	23,559	23,622	0.3
of which: Mladá Boleslav plant	19,401	19,548	19,790	1.2
Vrchlabí plant	1,127	1,205	1,133	-6.0
Kvasiny plant	2,506	2,806	2,699	-3.8
ŠKODA AUTO a.s. – temporary employees	3,704	4,194	1,709	-59.3
ŠKODA AUTO a.s. – employees total	26,738	27,753	25,331	-8.7
Subsidiaries – permanent employees	767	902	1,314	45.7
Subsidiaries – temporary employees	175	486	50	-89.7
Subsidiaries – employees total	942	1,388	1,364	-1.7
Škoda Auto Group employees total	27,680	29,141	26,695	-8.4

New Human Resources Concept

In 2008, Human Resources Management continued to implement the new human resources concept, whose objective was closer integration with the Company's other functions in order to increase the quality and availability of employee care. First and foremost, emphasis was placed on employees' personal growth and development. As part of this approach, we created a new concept of employee development – the so-called Fachlaufbahn – which encourages career growth of highly specialized experts.

Customer-oriented processes were further developed during the year. Thanks to close cooperation between HR Business Partners and competency centres, the year saw a number of personnel tools updated and HR processes themselves became more effective. In particular, HR business partners were given greater roles as internal consultants in personnel matters. Great attention was also paid to the Company's ongoing internationalization, the result of which was integration of international employees and the completion of seconding and internship programmes for sending Czech employees to work abroad.

In another development that increased employee comfort, employee ID cards were replaced with modern, chip-based multifunction cards. In addition to verification upon entering Company buildings, the new cards are also used for meal and other services, as well as for identification when using multifunctional equipment.

Internal Communications

2008 saw the launch of the Employee Portal, whose easy-to-use and sophisticated system replaces the erstwhile corporate Intranet. Thanks to the installation of PC information islands in various work areas, the Company also gave all its employees access to information. During the year, the Company's weekly newsletter, Týdeník, was distributed regularly in both paper and electronic form, keeping employees up-to-date particularly on internal developments at the Company. In order to encourage communication between employees and management, chats were held with individual members of the Board of Directors. 2008 also brought an expansion in the number of informal meetings between members of the Board of Directors and other members of management, focusing on direct, person-to-person communication. In April 2008, we launched the project "Škoda – That's US", which aim is to regularly monitor the state of employee opinion and satisfaction. In reaction to one of the project's outputs, entitled "People already have enough information; what they need is personal contact in communication", an "Internal partnership" training session was held to support and encourage internal communication at a personal level and further ingrain the customer principle.

Support for Employee Growth

In 2008 – as in previous years – the Company's main training and development programmes were focused on supporting key groups: development, marketing, controlling, and IT specialists; foremen, maintenance personnel, and production supervisors; managers; and candidates for these positions.

The Company invested CZK 183.9 million to encourage and foster employee growth and development in 2008. A total of 3,635 courses were attended by 38,199 employees. In order to save time and make less popular topics more attractive, as at 31 December 2008 a total of 57 e-learning programs (+67.6% year-on-year) had been implemented and were being offered.

In 2008, nearly half of all executives attended a training session entitled "The Key to Your Human Resources", which focused on improving HR work.

The Company also supports international training programmes. For example, a new project entitled "Employee Qualifications for Work in a New Plant" is running in Kaluga (Russia), and Pune (India). Škoda sends its specialists to both countries and, at the same time, secures the motivation process and development of both theoretical and practical know-how in selected key professions for ramping up new production operations in Škoda Auto plants in the Czech Republic. During 2008, 142 specialists from the Mladá Boleslav, Kvasiny, and Vrchlabí plants attended such training programmes, the duration of which was 1-2 months on average.

As Škoda Auto grows stronger in international markets, Russia, India and China in particular, the Education function has come out with an innovated concept of employee inter-cultural preparation. Particular emphasis is placed on positive motivation for perceiving cultural differences and on practical information for communicating with international colleagues. The programme also benefits from the involvement of employees who have served long-term international assignments, as they can share with their colleagues their experience with situations typical for Škoda Auto in the given region.

Education

In 2008, 928 future employees prepared for their future vocation at the in-house Secondary Vocational School focused primarily on mechanical and electrical engineering. Of this total number, 241 students graduated and another 320 were registered as first-year students. This year saw the vocational school get involved in the Enersol project – a nationwide secondary school competition in the area of environmental projects. When it comes to educating children, Škoda Auto shares its know-how. In another nationwide project, IQ Auto, the goal of which is to inspire secondary school teachers in technical subjects and thereby build and support future work force quality, over 244 secondary school teachers have undergone training at Škoda Auto since 2006, 64 of them in 2008. To commemorate the conclusion of the IQ Auto project, the Company organized a conference on the theme INNOVATION at Škoda Auto, which was attended by 300 specialists.

A total of 830 students were enrolled in Bachelor's and Master's programmes at the Škoda Auto University in 2008. Of this number, over 100 were Škoda Auto employees enrolled in a work-study programme. This year, the first 15 students completed the Master's programme and received diplomas in a graduation ceremony held in the auditorium of the Na Karmeli Education Centre. Like in previous years, the university held numerous specialized seminars catering to attendees from the corporate and academic sectors. In newly renovated space, over 150 educational and social events were held (working meetings, VW Group meetings, conferences, workshops, employee training sessions, concerts, exhibitions, and other social events). The Company also further developed cooperation with other technical universities both at home and abroad – e.g., universities in Germany, Ukraine, Russia, India, and China.

Social Aspects

In order to support work force stability in the regions surrounding its plants, in 2008 the Company increased its interest-free employee loans up to CZK 350,000 for purchasing or building a home or apartment and up to CZK 125,000 for renovations. A total of 676 employees received this form of support in 2008, and new lending totalled CZK 129.9 million.

The Company also supports work force mobility by making employees eligible for discounts on purchases of new vehicles. They also have the right of first refusal on sales of used cars and may take advantage of special leasing terms for employees.

The Company affirms its social responsibility by contributing to employees' Supplemental Pension Insurance accounts and, in so doing, motivates employees to make responsible decisions regarding their senior years. In 2008, the Company's Supplemental Pension Insurance contributions totalled of CZK 112.8 million.

Out of a large number of other social programmes, we can name Company day-care, in which employees can obtain a contribution from the Company to help pay for their children's stays in day-care centres in Mladá Boleslav and other areas surrounding Company plants.

Z.E.B.R.A.

In 2008, a total of 5,012 employees utilized the programme to file 10,046 improvement proposals. The success rate of the proposals was 67.6% and the benefits of implementing them were estimated at CZK 251.2 million.

Health Management

Support for employee health is not limited to their health condition – it also extends to ergonomic measures in vehicle construction and technology design. In 2008 the Company offered 10,627 employees a programme called Škoda-Check-up to support their health. Of this total, 10,336 (i.e. 97.3%) accepted the offer. The programme's goal is to work together with employees to maintain their job fitness throughout the entire period of their employment.

In the health-care benefits area, we offered free flu vaccinations to all employees (5,306 employees elected to be vaccinated) as well as distributing free Vitamin C. Employees attended preventive programmes in the Company sanatorium and employees from selected work areas went on spa sojourns for reconditioning and rehabilitation.

The 50+ Programme, currently poised for launch, is designed to identify job positions appropriate for older employees to leverage their capabilities and know-how.

Occupational Safety

Systematically ensuring a high level of employee safety and health is at the forefront of Škoda Auto's interest. Our strategy is supported by a document binding for all Volkswagen Group plants – the Volkswagen Group Occupational Safety Policy.

For several years in a row, the Company has had one of the lowest injury rates among both European and world auto manufacturers – even after injury index criteria changed in 2008 to include technical professions in addition to blue-collar workers. The index for 2008 is 1.8 injuries per million man-hours worked. In the past year, our long-standing, very good level of occupational safety and health was reaffirmed by a 19.5% reduction in injuries resulting in injury-related leave compared to 2007.

Good Ideas are Appreciated

Regular workshops were held in 2008 at individual workplaces, the objective of which was continuous process improvement (elimination of waste, improved work conditions and ergonomics, etc.). Implemented measures were rewarded as improvement suggestions through the Z.E.B.R.A. programme. Thanks to a newly launched electronic platform, called e-Z.E.B.R.A., the process of filing, administrating and rewarding improvement suggestions or optimising proposals was simplified and accelerated. At PC information islands located directly on the shop floor, any employee can use e-Z.E.B.R.A. to easily track the processing of his or her improvement proposal.

In 2008, a total of 5,012 employees filed 10,046 proposals. The success rate of the proposals was 67.6% and the benefits of implementing them were estimated at CZK 251.2 million.

ŠKODA AUTO IN TOUCH WITH PUBLIC



Our long-standing support for social, cultural, and sports projects and collaboration with major institutions and charitable organizations sets the tone of our communications with the public. For us, involvement in society is an important part of building the image of the Škoda brand and its products.

SPONSORSHIP AND CORPORATE CITIZENSHIP

Ongoing support for social, cultural and sport projects and co-operation with major institutions and charity organisations led to further reinforcement of the Company's position in the field of social responsibility as well as to strengthening of the positive image of the brand and its products.

Sponsorship

Sponsorship is an important part of the Company's corporate communication and social responsibility strategy. Support for organisations, institutions and top events at the international, national and regional levels reflect the Company philosophy of striving for top performance, endurance, will to win, and thinking as a team.

Sport

Support for international sporting events is a fundamental part of the brand's sponsorship profile. Strategic pillars of our corporate sponsorship include support for cycling and ice hockey. From 2004, the Company became a general partner of the legendary Tour de France and from 2006 we became general partner of another top race, the Giro d'Italia. Nor have we neglected domestic cycling – for example, we support the national cross-country cycling team. Škoda Auto has been a continual supporter of the World Ice Hockey Championships since 1992 and last

year the sponsorship contract was extended until 2011. The fact that no other commercial partner has supported a world championship of any sport as general sponsor for longer than we have led to the Company being recorded in the Guinness Book of World Records. In addition to the world championship, we also support the Czech Ice Hockey Extra-League, also as general partner and are a long-standing sponsor of the Czech National Ice Hockey Team. Since 1992, Škoda Auto has been general partner of the Czech Olympic Committee.

Motorsport has a unique position in the brand's history, going back over one hundred years, and the development of the Škoda Fabia Super 2000 represents a continuation of that tradition. 2008 was a year of testing the vehicle with the aim of successful homologation and a subsequent start in the Super 2000 category at both the national and international levels.

Culture and the Arts

In this area, the Company supports top arts performances that represent Czech culture. Our traditional partners include the Czech Philharmonic, the National Theatre, the National Technical Museum, and the National Museum. In 2008, we added a partnership with the F. X. Šalda Theatre in Liberec.

Škoda Auto also supports selected international music festivals and projects outside of Prague such as, for example, "Smetana's Litomyšl" and Gabriela Demeterová's tour of the Czech Republic.

In 2008 the Company continued to co-operate with the International Film Festival for Children and Youth in Zlín as general partner and provider of the festival's official vehicle. Also, the Company supported the Festival of European Film Smiles in Mladá Boleslav for the sixth time.

Corporate Social Responsibility (CSR)

Škoda Auto supports a number of projects in the social and charity areas and assists handicapped persons in their efforts to live full lives. For years now, Škoda Auto has been helping Centrum Paraple by providing three manually operated cars with hand controls that help patients return to an active lifestyle. Another way the Company helps the handicapped is through the Car Club, which provides a wide range of advice and social aid. The Company also subsidises the "Handy Car" program, a transportation service for immobile citizens.

Other Company-supported projects include the Český Krumlov Castle Baroque Theatre Foundation, ADRA, the Czech Television Foundation People In Need, the Our Child Foundation, and the Czech UNICEF Committee. Among regional activities supported by the Company we can mention Centrum 83, a provider of social services in Mladá Boleslav, and the Czech Red Cross in Rychnov nad Kněžnou.

Škoda Auto continued in its long-term "Health-care Clown" project, a non-profit organisation that organises visits by professional clowns to seriously ill children all over the Czech Republic. Its slogan is "Laughter – the Best Medicine".

Through participation in the multi-year "Traffic Rules Learning Playgrounds" project, Škoda Auto supported the operation of these unique playgrounds in Jičín, Rychnov nad Kněžnou, and Častolovice. The Company continued to co-operate closely with the Partnership Foundation as a general partner of "City Paths" competition, which promotes high-quality traffic management solutions focused on calming traffic in Czech cities and towns. The project "One Tree Planted for Each Car Sold in the Czech Republic" got employees involved, and they helped to plant 66,806 young trees in regions where the Company has manufacturing plants.

Charity

The Company supports a number of projects in the social and charity areas and helps handicapped citizens in their efforts to lead full lives. For a long time now, we have been providing Centrum Paraple with vehicles equipped with hand controls.

THE ENVIRONMENT

Construction of new production capacities in the Kvasiny plant in compliance with environmental protection criteria, environmental clean-up work at other Company sites, and measures to protect the climate – those were the concrete projects of 2008. These activities, together with a tried, tested and effective environmental management system, rational utilisation of natural resources and the selection of environmentally appropriate technologies contributed to the favourable development of the Company's environmental indicators over time.

Škoda Auto has a long-term programme of minimising the environmental impact of its operations. In 2008, the Company continued to meet all statutory requirements as well as all its obligations under the Škoda Auto Corporate Policy. In this manner, we contributed to fulfilment of sustainable development principles and demonstrated our considerate and sensitive approach to life and nature. This was documented by the fact that we defended the ISO 14001:2004 certification of our Environmental Management System in a follow-up audit held in late 2008.

In 2008, the established system of environmental protection was affected primarily by increasing production capacities, legislative amendments and application of Volkswagen Group environmental guidelines. In this respect, the Company:

- obtained consenting opinions from relevant Government agencies under the Act on Environmental Impact Assessment for expanding the body shop, assembly operation, logistical facilities, and increased paint shop capacity at the Kvasiny plant to prepare for production of the new Škoda Yeti and, further, to expand parking lots for employee vehicles and holding areas for finished vehicles at the Mladá Boleslav plant;

- underwent an official review of integrated permits for paint shop and foundry facilities in the Mladá Boleslav plant, with the result that requirements imposed on their operation and compliance with Best Available Technology (BAT) were fulfilled;
- continued clean-up work at the Mladá Boleslav plant by vacating production floor areas to make way for renovation in older mechanical machining halls and foundry operations; the final phase will be installation of floors secured against seepage of harmful substances into the underlying soil
- implemented new statutory measures to protect the climate by restricting emissions of fluorinated greenhouse gases from all refrigeration and air conditioning equipment containing these substances.

Despite a tripling of vehicle production volume between 1991 and 2008, there was no increase in environmental burdens in absolute terms, and air emissions and water consumption actually declined over the same period.

Air Protection

In 2008, the Company operated over 300 sources of air pollution, all of which were in compliance with statutory emission limits. The largest sources of emissions are industrial paint shops of car bodies in the Mladá Boleslav and Kvasiny plants, which generate over 90% of all emissions.

Volatile organic compounds (VOC) are the principal air pollutant emitted by the Company. These substances are generated in the operation of paint shops of car bodies, and they account for over 80% of total air emissions. Our modern paint shops use mostly water soluble paints. A substantial portion of VOC emissions are already removed through mixing with natural gas and firing in the heat plant to produce thermal energy for heating. Even so, by optimising painting processes (expanded robotisation, painting in colour blocks) the Company has managed in recent years to further reduce VOC emissions per square metre of painted area, to far below the statutory limit (see Graph).

Upgrades of power plants and foundry operations have helped bring about a substantial drop in emissions of sulphur dioxide, nitrogen dioxide, solids and carbon monoxide.

While vehicle production volumes have increased, thanks to implementation of rationalisation measures we have managed to keep overall energy consumption flat for several years now, thereby not burdening the environment with additional emissions, including emissions of greenhouse gases. Since 2006, per vehicle energy consumption has been kept below 2 MWh (see Graph).

Soil and Groundwater Protection, Water Management

Škoda Auto has fully secured its operation against the occurrence of environmental damage and is successfully correcting the consequences of insensitive industrial manufacturing processes used prior to the merger with Volkswagen Group.

Substances that pose a threat to water resources are only handled in facilities and infrastructure which has sufficient technical measures in place, for which emergency plans have been adopted, and which are appropriately equipped to deal with possible leaks.

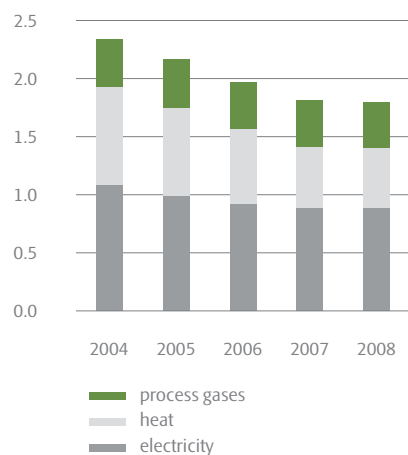
By the end of 2008, clean-up had been completed on over 80% of environmental damage requiring clean-up work, at a total cost of CZK 570 million.

One of Škoda Auto's fundamental tasks is to keep water consumption to the minimum level necessary and return water to the natural cycle with a minimum environmental burden. The success of measures taken to implement this task is demonstrated by per vehicle water consumption and wastewater discharge figures (see Graph) and, further, by the fact that discharged wastewater is much cleaner than the prescribed limits call for, thanks to newly introduced technologies.

Volatile Organic Compounds (VOC) Emissions per m² of Vehicle Body Surface Area Painted



Energy Consumption per Vehicle Produced (MWh)



Waste Management

In the waste area, Škoda Auto follows a long-standing strategy focused first and foremost on preventing waste from arising, reducing waste volume and hazardous characteristics, and reuse of waste. Only if none of these are possible, waste is removed in the manner that has the least environmental impact.

The strategy's effectiveness can be documented by figures on waste volume (not including metals) per vehicle produced. While in 1997 this indicator stood at 84 kg/vehicle, in 2008 it was just 39 kg/vehicle (see Graph). Of the total amount of waste generated in 2008, only 10.7% ended up in landfills and incinerators. Most of the waste, including metals, was recycled – i.e. glass, paper, waste oils, solvents, cables, toner cartridges, foundry sand, plastics and plastic film. In 2008, special attention was paid to separating waste materials and reusing non-returnable packaging and office paper.

Products and the Environment

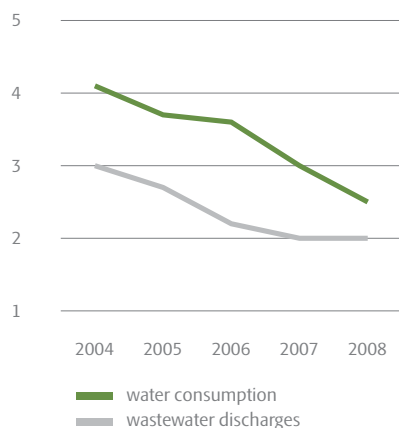
The Company also fulfils the principles of sustainable development through its products, both by appropriately selecting recyclable production materials and by utilising high-performance production technology. Utilization of modern engines in the vehicles helps on one hand to reduce local emissions (including greenhouse gas emissions), and on the other hand it substantially reduces our dependence on limited crude oil reserves. In petrol engines, we use a modern TSI technology that combines direct fuel injection with a turbocharger, inspired by the successful TDI concept in diesel engines. Compared to conventional engines, the TSI engines achieve 20% better fuel efficiency when driving style is kept constant. Another example of high-performance drive technology is the DSG gear-clutch gearbox, which features 15% less fuel consumption at a substantially higher degree of efficiency compared to conventional automatic transmission with a torque convertor.

Under the GreenLine name, Škoda Auto offers special environmentally friendly vehicle models with substantially reduced greenhouse gas (CO₂) emissions parameters and optimised fuel consumption.

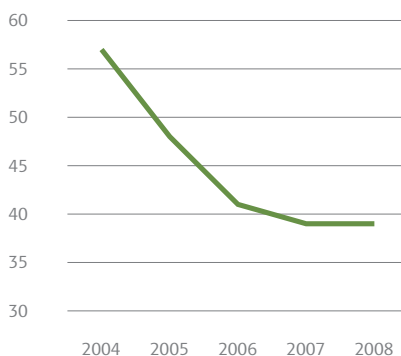
Capital Expenditure

A total of CZK 170 million was expended in 2008 on preventive environmental measures in the course of new construction and upgrades. Since 1991, total investment in environmentally-related projects has reached CZK 9.93 billion.

Water Consumption and Wastewater Discharges Per Vehicle Produced (m³)



Waste per Vehicle Produced (kg)



LONG-STANDING TRADITION COMMITMENT FOR THE FUTURE



We follow the footsteps of our founders Laurin and Klement and in the spirit of their motto: "Only the best we can do is good enough for our customers". We want to impress our customers so that they keep coming back to the Škoda brand with confidence.



WHERE WE'RE HEADED

Only four automakers in the world can boast over 100 years of unbroken manufacturing tradition. Škoda Auto is one of them. For us, this tradition both motivates us and symbolises our commitment, and that's something we want to build on and develop in the future as well.

Strategy

"Strategy 2018" is an integral part of the planning process both for Škoda Auto Group and for the entire Volkswagen Group. It is the cornerstone for fulfilling the Group's vision and goals, as well as for maintaining its long-term prosperity and competitiveness. The strategy lays out the main points of the Company's philosophy, policy, relations with employees and interest groups, as well as defining the basic competencies, contours and identity of the Škoda brand and its position in the market. It also stipulates the Group's primary goals for the period until 2018 in all strategic areas, including regional and international production, markets, finance, quality and social responsibility. The objectives defined in "Strategy 2018" remain in effect even in today's difficult economic conditions.

Markets and Products

The strategic goal for markets is to further reinforce our positions in Western Europe while at the same time retaining our dominant position in Central Europe. As part of the "Go East" strategy, our priority is to penetrate emerging markets in Eastern Europe and Asia, through international projects and assembly plants, among others.

The strategic goal in the product area is to launch one new model every year. This goal will be achieved in two ways: first, by upgrading existing models and developing successor models and, second, by expanding the product portfolio with completely new models in high-growth segments where we are not currently represented. The strategy also includes minimising environmental impacts of our products, especially in terms of exhaust gas emissions and noise.



Finance

Here the strategic goal is to ensure sustained growth in the value of the Group's companies. The achievement of this goal is possible only if earnings grow and there is long-term profitability, and it is certain that further developments in the global financial and economic crisis and its subsequent impact on the economy will have major significance in this regard. The automotive industry is one of the sectors that has been considerably hit by this crisis. Therefore, demand trends over the next few years will be decisive for the Group.

Capital renewal is important for ensuring the Group's continued growth and development. Our primary goal in financing is to generate enough cash internally to cover the Group's capital expenditure needs.

In particular, initiatives will focus on strengthening the Group's economic stability. The Group's investment decision-making process must ensure a commensurate return on capital employed.

Quality

We walk in the footsteps of our founders Laurin and Klement and in the spirit of their heritage: "Only the best we can do is good enough for our customers". We want to thrill our customers so that they keep coming back to the Škoda brand with confidence.

The strategic objective in this area is to achieve top quality not only of vehicles but also of all the services we provide, so that they satisfy the ever-increasing demands and needs of our customers. Related to this is the achievement of top quality of all internal processes – from product development to sales and after-sale service.

In the years to come, the core activities will focus on medium and long-term customer satisfaction with Škoda-brand products.

Social Responsibility

Here the strategic goal is to maintain the financial, environmental and social areas in a long-term balance as a fundamental precondition for sustainable development.

Human Resources

The strategic objective in human resources is to effectively harmonise current Group needs with labour market supply while taking all possible social aspects into account. For human resources planning, the objective is to ensure estimates are realistic, with emphasis on the development of new manufacturing plants and projects with priority on optimising direct and indirect areas. In recruiting, emphasis will be placed on hiring new personnel in the right structure, qualification and quality with maximum utilisation of in-house human resources. In order to promote career development and stabilise our human resources, our focus will be on helping employees adapt, stabilising the work force in the regions surrounding our plants, strengthening employees' loyalty to the Company, personal development and career growth.

Our social policy goal is to care for our employees comprehensively and to foster a work environment that supports employee motivation, performance and high creativity.

The Environment

The strategic goal is to minimise negative environmental impacts of our production and commercial operations. The goal is achieved by making products that comply with demanding environmental standards throughout all phases of their life cycle. The Group will continue to put high demands on its contractual partners, especially in the areas of waste management and air and water protection.

Public Relations and Corporate Citizenship

The strategic goal is to be a long-term contributor to increasing the standard of living in regions and countries where the Group has direct operations. This goal will be met by creating new, often highly qualified job positions, providing long-term support for education opportunities for the general public in our in-house educational facilities, support for regional culture, sport and other public-benefit activities. Another integral part of this strategy is the expansion of our research and development operations, which will help increase the country's international prestige.

Short-term and Medium-term Outlook

Economic Forecast

In 2009, as the full impact of the financial crisis becomes apparent, the global economy will enter a major recession. Despite received measures and considerable spending to bail out individual economies, the recovery phase is not expected until 2010.

Czech Republic

In 2009, the Czech economy will slow considerably. GDP is expected to fall in 2009 by 2%. The average rate of unemployment is to be at or around 6.7%. As for the average inflation rate, which spiked upward in 2008, forecasts call for it to fall to approximately 1.5%. The trade surplus is expected to shrink from CZK 69.4 billion down to CZK 1 billion in 2008. Over the longer term, the Czech Koruna is expected to remain strong and return to levels around 29–30 CZK/EUR. Over the long term, however, the anticipated overall trend is for the Koruna to return to strength against the Euro (back to 25 CZK/EUR). The U.S. Dollar is expected to trade at or around 19–20 CZK.

Europe

In 2009, the Eurozone will experience its first recession. Currently, an overall economic decline of nearly 2% is being forecasted for the EU countries (2008: growth of 1%). Dramatic declines (of 4% or more) are expected in Ireland and the Baltic States, while declines in the EU's stronger economies Germany, the UK, Spain, and Italy are expected to be less dramatic, but still significant (2%–4%). In the emerging economies of Central and Eastern Europe, only moderate year-on-year GDP growth around 2% is predicted.

Asia

The Chinese economy will continue to grow in 2009, but only at a single-digit pace. The Indian economy is also not expected to retain its current high pace of year-on-year growth and will slow substantially in 2009.

Automotive Markets Forecast

2009 will be characterised by a full-blown global economic crisis. New vehicle registrations are projected to decline in nearly all world markets.

Czech Republic

In 2009 the Group expects a significant decline in the overall domestic market for new automobiles. The negative declining demand trend seen in the last quarter of 2008 will continue. At the same time, due to legislative amendments currently in preparation, there will be major movements between the passenger car and light commercial vehicle segments.

Europe

A major drop in demand, particularly in the first half of 2009, is expected in the countries of Western Europe. While the second half could bring a moderate recovery in vehicle demand, as the economic contraction plays itself out and measures to jump-start growth begin to take effect, nevertheless auto sales in terms of whole-year figures will be down significantly in 2009 compared to 2008. The declines in 2009 are expected across the continent, even in the erstwhile high-growth markets of Central and Eastern Europe.

Asia

After years of robust growth, markets are expected to decline across the entire region, with the markets of India and China to decline at a moderate pace.

Overview of Planned Activities and Goals for 2009–2011

Technical Development, New Products

2009 will be no exception and Škoda Auto will once again unveil further new products. First, the striking optical facelift of the derivatives Octavia RS and Scout with a number of new technical features, but most importantly a completely new vehicle in the A-SUV category, the Škoda Yeti. The latest model line will be the Company's fifth and represent a major expansion of the product portfolio. In 2009, final development work will take place on the Škoda Superb Combi. Another important event will be the completion of indoor technologies at the newly built Technological Centre, allowing selected Technical Development units to move into the new space.

Production and Logistics

The main focus in production and logistics in 2009 will be on production launch of the new Škoda Yeti model line and the new-generation Škoda Superb Combi, both in the Kvasiny plant. During the year, facelift modifications of the Škoda Octavia line will be completed for the Scout and RS derivatives.

In accordance with the area strategy, activities will continue in international projects. Production of the new-generation Škoda Superb under license in Shanghai, China will begin. At the new plant in Kaluga, Russia, preparations will take place for local production of the Škoda Octavia, which has heretofore been assembled from kits supplied from the parent company's plants. Preparations of similar scope will also take place in India, where the new-generation Škoda Fabia is to enter full-scale production during the course of the year.

Markets, Sales and Marketing

Based on expectations of a major fall in demand in all major markets, the main thrust of our activities in 2009 will be on stabilising sales volumes and keeping our market shares. Despite the anticipated unfavourable developments in individual markets, the Group will continue to develop its sales and service networks and offer new products, both in the established European markets as well as in new markets like China, India, and Russia.

In 2009, the Group will strive to minimise the impact of contractions in key markets. The tools for reaching this goal remain the same: an individualised approach to fulfilling customer needs, and compliance with Škoda corporate standards across the entire sales and service network.

Human Resources

Škoda Auto thinks of the future. The pilot phase of the "Škoda – That's US" project successfully started a long-term process of mapping employee motivation. Based on responses from 81% of employees, the upcoming period will see the preparation and implementation of measures that will lead to maintaining and improving the level of employee motivation. 2009 will also see implementation of the bulk of activities in the electronic time and attendance monitoring system, which encompasses the electronic timecard and jobsite access system processes. The goal of these processes is to replace the current system of paper timecards with a modern, electronic system that leverages the Company's multifunction, chip-based employee ID cards.

Finance

In view of the unfavourable trends expected in automobile markets in 2009, the Group will endeavor primarily to maintain its current level of commercial performance. The meeting of this goal is closely tied to the actual impact of the financial crisis from region to region. Of key importance will be the prices of commodity inputs as well as the Koruna's exchange rates against foreign currencies, and against the Euro in particular.

The Group has reassessed its medium-term capital expenditure plans and for the 2009–2011 period we are planning to invest surplus cash mainly in product-related projects related to new models and/or components and in necessary renewals and upgrades of plant and equipment.

In accordance with our long-term strategy, capital investment will be financed from capital generated internally.

The Environment

In the years to come, activities in all phases of the life cycle of Škoda-brand vehicles will focus on rational utilisation of energy and natural resources, restricting air emissions, protecting the climate, protecting water and soil resources, and minimising waste with preference given to recycling and reuse. The Company's tried, proven and effective system of environmental protection and strict application of its principles right from the initial, preparatory phases of projects for new technology and products represent a guarantee that the environmental impact of Škoda Auto's operations and products in the years to come will be minimised.

Remark: The chapter "Where We're Headed" contains a forecast of Škoda Auto Group's future development. It was prepared on the basis of then-current estimates of the future performance of individual country economies, automotive markets, exchange rates and prices of various commodities, as well as of the automotive industry in general. There is a certain degree of risk that the forecasts and predicted trends used can differ from actual future developments.

FINANCIAL SECTION

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AUDITOR'S REPORT ON THE ANNUAL REPORT AND THE REPORT ON RELATIONS

PricewaterhouseCoopers Audit, s.r.o.
Kateřinská 40/466
120 00 Prague 2
Czech Republic
Telephone +420 251 151 111
Facsimile +420 251 156 111

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF ŠKODA AUTO A.S.

We have audited separated financial statements of ŠKODA AUTO a.s. ("the Company") for the year ended 31 December 2008 disclosed on pages 134 to 175 and issued the opinion dated 16 February 2009 and disclosed on page 133. We have also audited consolidated financial statements of the Company for the year ended 31 December 2008 disclosed on pages 89 to 132 (together "the financial statements") and issued the opinion dated 16 February 2009 and disclosed on page 88.

Report on the Annual Report

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2008 is consistent with the financial statements referred to above. The Board of Directors is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

Auditor's Responsibility

We conducted our verification procedures in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2008 is consistent, in all material respects, with the financial statements referred to above.

Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2008 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors of the Company. Our responsibility is to review the accuracy of information included in the Report.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 and related application guidance of the Chamber of Auditors of the Czech Republic for review of the report on relations. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 66a of the Commercial Code.

25 February 2009



PricewaterhouseCoopers Audit, s.r.o.
represented by



Petr Kříž
Partner



Pavel Kulhavý
Auditor, Licence No. 1538

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AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS



PricewaterhouseCoopers Audit, s.r.o.

Kateřinská 40/466
120 00 Prague 2
Czech Republic
Telephone +420 251 151 111
Facsimile +420 251 156 111

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF ŠKODA AUTO A.S.

We have audited the accompanying consolidated financial statements of ŠKODA AUTO a.s. ("the Company") and its subsidiaries (together, "the Group"), which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and notes, including a summary of significant accounting policies ("the consolidated financial statements"). Details of the Company are disclosed in note "Company information" to these consolidated financial statements.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2008, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

16 February 2009

PricewaterhouseCoopers Audit, s.r.o.

represented by

Petr Kříž
Partner

Pavel Kulhavý
Auditor, Licence No. 1538

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CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Consolidated income statement for the year ended 31 December 2008 (CZK million)

	Note	2008	2007
Sales	17	200,182	221,967
Cost of sales		171,523	185,474
Gross profit		28,659	36,493
Distribution expenses		12,804	13,201
Administrative expenses		4,712	4,207
Other operating income	18	8,826	4,368
Other operating expenses	19	6,349	3,669
Operating profit		13,620	19,784
Financial income		1,431	1,111
Financial expenses		1,169	940
Financial result	20	262	171
Share on loss of associates		(506)	(95)
Profit before income tax		13,376	19,860
Income tax expense	22	2,558	3,878
Profit for the year		10,818	15,982
Attributable to:			
Equity holder of the Company		10,777	15,939
Minority interests		41	43
		10,818	15,982

The notes on pages 93 to 132 are an integral part of these consolidated financial statements.

Consolidated balance sheet as at 31 December 2008 (CZK million)

ASSETS	Note	31.12.2008	31.12.2007
Intangible assets	5	13,912	14,039
Property, plant and equipment	6	43,548	41,197
Investment in associate	7	1,113	390
Other receivables and financial assets	8	1,131	798
Deferred tax assets	14	313	343
Non-current assets		60,017	56,767
Inventories	9	15,136	13,543
Trade receivables	8	9,351	7,874
Prepaid income tax	8	583	601
Other receivables and financial assets	8	32,649	30,798
Cash	10	4,720	6,198
Current assets		62,439	59,014
TOTAL ASSETS		122,456	115,781

LIABILITIES	Note	31.12.2008	31.12.2007
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Reserves	12	53,198	48,631
Equity attributable to equity holders of the Company		71,485	66,918
Minority interests		123	116
Equity		71,608	67,034
Non-current financial liabilities	13	1,998	1,997
Other non-current liabilities	13	1,805	1,136
Deferred tax liabilities	14	1,634	1,790
Other tax liabilities	13	453	522
Non-current provisions	15	7,803	8,495
Non-current liabilities		13,693	13,940
Current financial liabilities	13	8,536	2,390
Trade payables	13	19,403	21,540
Other current liabilities	13	4,105	3,268
Other tax liabilities	13	208	2,434
Current provisions	15	4,903	5,175
Current liabilities		37,155	34,807
TOTAL LIABILITIES		122,456	115,781

The notes on pages 93 to 132 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2008 (CZK million)

	Note	Share capital	Share premium	Retained earnings	Other reserves*	Equity attributable to equity holders of the Company	Minority interests	Total equity
Balance as at 1 January 2007		16,709	1,578	38,669	1,292	58,248	73	58,321
Profit for the year		-	-	15,939	-	15,939	43	15,982
Exchange differences		-	-	-	(34)	(34)	-	(34)
Financial derivatives**	8.13	-	-	-	1,186	1,186	-	1,186
Total recognised income for the year		-	-	15,939	1,152	17,091	43	17,134
Dividends paid		-	-	(8,430)	-	(8,430)	-	(8,430)
Transfer to statutory reserve fund		-	-	(544)	544	-	-	-
Share option scheme	27	-	-	-	9	9	-	9
Balance as at 31 December 2007		16,709	1,578	45,634	2,997	66,918	116	67,034
Balance as at 1 January 2008		16,709	1,578	45,634	2,997	66,918	116	67,034
Profit for the year		-	-	10,777	-	10,777	41	10,818
Exchange differences		-	-	-	(224)	(224)	(2)	(226)
Financial derivatives**	8.13	-	-	-	1,130	1,130	-	1,130
Total recognised income for the year		-	-	10,777	906	11,683	39	11,722
Dividends paid		-	-	(7,117)	-	(7,117)	(32)	(7,149)
Transfer to statutory reserve fund		-	-	(795)	795	-	-	-
Share option scheme	27	-	-	-	1	1	-	1
Balance as at 31 December 2008		16,709	1,578	48,499	4,699	71,485	123	71,608

* Explanatory notes on Other reserves are presented in Note 12.

** Explanatory notes on cash flow hedges are presented in Note 2.7.3.

The notes on pages 93 to 132 are an integral part of these consolidated financial statements.

Consolidated cash flow statement for the year ended 31 December 2008 (CZK million)

	Note	2008	2007
Cash and cash equivalents at 1 January	16	31,790	28,483
Profit before income tax		13,376	19,860
Depreciation and impairment of non-current assets	5.6	10,842	11,802
Change in provisions	15	(964)	2,131
(Gain)/loss on disposal of non-current assets		29	(12)
Net interest (income)/expense		(362)	(126)
Change in inventories		(1,794)	(1,295)
Change in receivables		(1,105)	(2,937)
Change in liabilities		(2,131)	3,103
Income tax paid from operating activities		(5,234)	(4,401)
Interest paid		(901)	(906)
Interest received		1,283	1150
Share on loss of associate		506	95
Other gains from investing activities		(18)	(19)
Other adjustments for non-cash transactions		679	9
Cash flows from operating activities		14,206	28,454
Purchases of non-current assets	5.6	(12,451)	(10,603)
Additions to capitalised development costs	5	(2,066)	(3,097)
Increase in financial investments	7	-	(298)
Increase in loans provided		(1,677)	-
Proceeds from sale of non-current assets		29	41
Proceeds from other investing activities		18	172
Cash flows from investing activities		(16,147)	(13,785)
Net cash flows (operating and investing activities)		(1,941)	14,669
Dividends paid		(7,149)	(8,430)
Change in liabilities from other financing	13	(1,192)	43
Repayment of bonds	13	-	(3,000)
Increase in loans received	13	7,314	-
Cash flows from financing activities		(1,027)	(11,387)
Net change in cash and cash equivalents		(2,968)	3,282
Exchange gains/(losses) on cash and cash equivalents		(16)	25
Cash and cash equivalents at 31 December	16	28,806	31,790

The notes on pages 93 to 132 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2008

Company information

Foundation and company enterprises:

ŠKODA AUTO a.s. was incorporated as a joint-stock company on 20 November 1990. The company's principal business activities are the development, production and sale of vehicles and related accessories.

Registered office: Tř. Václava Klementa 869
 293 60 Mladá Boleslav
 Czech Republic
 IČ: 00177041
 www address: www.skoda-auto.cz

The company is registered in the Commercial Register maintained with the Municipal Court in Prague, Section B, Insert 332, with File No. Rg. B 332.

Organisational structure of the company is divided into the following main areas:

- Chairman of the Board's department;
- Technical development;
- Production and logistic;
- Sales and marketing;
- Commercial affairs; and
- Human resource management.

The company has its main production plant in Mladá Boleslav and two other production plants in Vrchlabí and Kvasiny.

ŠKODA AUTO a.s. is a subsidiary included in the consolidation group of its ultimate parent company, VOLKSWAGEN AG ("Volkswagen Group"), with a registered office in Wolfsburg, the Federal Republic of Germany (for detail see Note 30).

Note

The financial statements have been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of these financial statements takes precedence over the English version.

1. Summary of significant accounting policies and principles

1.1 Summary statement

The consolidated financial statements of ŠKODA AUTO a.s. ("the Company"), its subsidiaries and associate (together "the Group") for the year ended 31 December 2008 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") as at 31 December 2008.

All International Financial Reporting Standards issued by the IASB and effective for the accounting periods beginning on or after 1 January 2008 have been adopted by the European Union through the endorsement procedure established by the European Commission. As at 31 December 2008 the Council of the European Union has not endorsed the following interpretations: IFRIC 15, IFRIC 16, IFRIC 17 and amended or revised standards: IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 32 and IAS 39, which are not yet effective.

The Company, as an issuer of listed bonds, is obliged under paragraph 19 (9) of Act No.563/1991 on Accounting to prepare consolidated financial statements and an annual report in accordance with IFRS.

1.2 Adoption of new or revised standards, amendments and interpretations to existing standards

1.2.1 New standards, amendments and interpretations to existing standards mandatory for accounting period 2008

The following standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2008 do not have a material impact or are not relevant to the Company's operations:

- IFRIC 12 – Service Concession Arrangements (effective from 1 January 2008),
- IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from 1 January 2008).

The following standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2008 were fully adopted by the Company:

- IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions (effective from 1 March 2007). Interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. In connection with this interpretation, a Share option fund which is debited against the personnel cost category, has been defined as a new item within the Statement of changes in equity. Application of the interpretation did not have a material impact on the financial statements.

1.2.2 New standards, amendments and interpretations to existing standards published not yet effective

The following standards, amendments and interpretations will be relevant for the Company but were not early adopted by the Company:

- IAS 1 – Revised – Presentation of Financial Statements (revised September 2007; effective from 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.
- IFRS 8 – Operating Segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Company is currently assessing the impact of the amendment on its financial statements.

The following standards, amendments and interpretations will not be relevant for the Company or are not expected to have a material impact on the Company's operations:

- IAS 23 – Revised – Borrowing Costs (effective from 1 January 2009). The revised IAS 23 was issued in March 2008. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset.
- IAS 27 – Revised – Consolidated and Separate Financial Statements (effective from 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.
- Amendment to IAS 32 – Financial Instruments: Presentation and IAS 1 – Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 1 – Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability.

Amendment to IAS 39 – Financial Instruments: Recognition and Measurement, and IFRS 7 – Amendment – Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments are applicable with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 takes effect only from the date when the reclassification is made.

- IAS 39 – Amendment – Financial Instruments: Recognition and Measurement (effective from 1 July 2009). The amendment provides guidance for identification of inflation as a hedged item and hedging with options. Inflation is subject to hedging only in the case that changes in inflation are contractual portion of financial instrument cash-flows. The amendment also specifies effectiveness of hedging by options.
- IFRIC 13 – Customer Loyalty Programmes (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.
- IFRIC 15 – Agreements for the Construction of Real Estate (effective from 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions.
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16.
- IFRIC 18 – Transfers of Assets from Customers (effective from 1 July 2009). The interpretation clarifies the accounting for transfer of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.
- IFRS 1 – Amendment – First-time Adoption of International Financial Reporting Standards and IAS 27 – Amendment – Consolidated and separate financial statements: The presentation of costs on investment to the subsidiaries at the first-time adoption of IAS/IFRS (effective from 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment.
- IFRS 2 – Amendment – Share-based Payment – Vesting conditions and cancellations (effective from 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment

- IFRS 3 – Revised – Business Combinations (effective from 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

Improvements to International Financial Reporting Standards (issued in May 2008)

In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

1.3 Comparative amounts

Due to the change in the method of presentation the Total Liabilities of the Associate disclosed in Note 7 "Investment in Associate" line has been increased by CZK 928 million to CZK 4,286 million in the comparable period. The adjustment reflects the fact that based on a puttable option, equity holders of OOO companies with registered office in the Russian Federation have the right to sell their shareholding back to the company at any time.

Due to the change in method of presentation of Contractual obligations and other future commitments (Note 25), the column "Payable until year end 2008" has been decreased by CZK 139 million to CZK 66 million in the comparable period and the column "Payable 2009-2012" has been decreased by CZK 259 million to CZK 0 million and the total in the column "31. 12. 2007" has been decreased by CZK 398 million to CZK 66 million. Newly adopted presentation discloses only the future minimum rates from non-cancellable operating leasing as required by IAS 17.

2. Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared under the historical cost convention, as modified by fair value measurement of available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss including all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Amounts in the consolidated financial statements and in the notes are disclosed in millions of Czech crowns (CZK million), unless stated otherwise.

2.1 Details of the Group

In addition to ŠKODA AUTO a.s. located in Mladá Boleslav, the consolidated financial statements include all significant subsidiaries and the associate.

See "Company information" note on page 93 for the Company's details.

Subsidiaries are all companies in which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The controlled companies ("subsidiaries") are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control of the Group ceases.

The significant subsidiaries of the Company are as follows:

- ŠkodaAuto Deutschland GmbH (100%);
- ŠKODA AUTO Slovensko, s.r.o. (100%);
- Skoda Auto Polska S.A. (51%);
- Skoda Auto India Private Ltd. (100%).

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The Company has significant influence over its associate OOO VOLKSWAGEN Rus, Russian Federation, established in 2006.

2.2 Consolidation principles

The subsidiaries are consolidated using the full-scope consolidation method. Assets and liabilities of the subsidiaries are recognised in accordance with the uniform accounting policies used within the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in associate are accounted for using the equity accounting and are initially recognised at cost. The Group's investment in associate includes goodwill identified on acquisition.

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in CZK, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.3.2 Foreign subsidiaries and associate

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Foreign subsidiaries and associate are subject to legal and accounting regulations in their respective country. The respective local currency is their functional currency. The exchange rates published by the Czech National Bank were used when incorporating their financial statements into the consolidated financial statements of the Group:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at monthly average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the income and expenses are translated on the dates of the transactions; and
- All resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Balance sheet foreign exchange rate as at 31 December			
	CZK/Currency	2008	2007
Poland	PLN	6,485	7,412
India	INR	0,397	0,460
Slovakia	SKK	0,893	0,792
Germany	EUR	26,932	26,620
Russia	RUB	0,652	0,739

2.4 Intangible assets

Purchased intangible assets are recorded at cost less amortisation and accumulated impairment losses. All research costs are recognised as expenses when incurred. In accordance with IAS 38, all development costs of new Škoda models and other products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility, and costs can be measured reliably. Capitalised development costs and other internally generated intangible assets are carried at cost less accumulated amortisation and impairment. If the criteria for recognition as an asset are not met, the costs are recognised in the income statement in the year in which they are incurred. The right to use Volkswagen's tooling is capitalised as an intangible asset. Capitalised costs include all direct costs as well as an appropriate portion of development-related overheads.

The development costs are amortised using the straight-line method from the start of production over the expected life cycle of the models or components. Amortisation recognised during the year is allocated to the relevant functions in the income statement.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate on the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised, only tested annually for impairment and carried at cost less accumulated impairment losses.

Other intangible assets are amortised applying the straight-line method over their estimated useful lives as follows:

- Development costs 2 - 9 years according to the product life cycle
- Software 3 years
- Royalties 8 years
- Other intangible fixed assets 5 years

Intangible assets not yet available for use are tested annually for impairment and are carried at cost less accumulated impairment losses.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and -where necessary - write-downs for impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

All repairs and maintenance costs, as well as borrowing costs, are charged to the income statement during the reporting period in which they are incurred. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over its estimated useful life, as follows:

- Buildings 10 - 50 years
- Technical equipment and machinery (incl. special tools) 2 - 18 years
- Other equipment, operating and office equipment 3 - 15 years

2.6 Impairment of assets

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

2.7 Financial instruments

2.7.1 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Assets in this category are classified as current assets. Realised and unrealised profits and losses from changes in the fair value of financial assets valued at fair value through profit or loss are

recognised under financial income or expenses in the period in which they arise. During the accounting period 2008 the Group had within this category only financial derivatives revalued to fair value, which did not fulfil conditions for hedge accounting and options on foreign exchange rates, for which the hedge accounting could not be applied. During the accounting period 2007 the Group did not have financial assets within this category.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade receivables, or other receivables and financial assets in the balance sheet (Note 8).

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Dividend income from these activities is included in other financial income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as a part of other operating revenues or expenses. In the accounting period 2008 (2007), the Group had within the category of available-for-sale financial assets only investments to equity instruments that did not have quoted price in an active market.

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets, with the exception of financial assets carried at fair value through profit or loss, are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Equity instruments that do not have quoted price in an active market and their fair value can not be reliably measured are valued at cost. Long-term loans and receivables are carried at amortised cost using the effective interest method.

The Group determines at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Initially the Group determines, in line with IAS 39, if objective evidence exists that individually material financial assets are impaired and performs the same assessment individually or collectively for individually immaterial financial assets. In the event that the Group does not find objective evidence of impairment for individually assessed financial assets, whether material or not, these assets are included in the group of financial assets with common credit risk characteristics and the group of financial assets is assessed collectively for impairment. Individual assets for which objective evidence of impairment has been identified are not included in a group of assets that are assessed collectively for impairment.

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired.

The trade receivables are considered to be impaired if objective evidence exists at the balance sheet date that the Group will not be able to collect all outstanding balances in accordance with initially agreed conditions. Significant financial difficulties, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delays in payment of liabilities are considered indicators that trade receivables are impaired. For trade receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. When the receivable is assessed as uncollectible, an allowance equal to 100% of the receivable balance is created. For other receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. The value of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the receivable. The value of the allowance is recognised in the income statement within Other operating expenses. When the receivable cannot be collected through legal action (i.e. the receivables have lapsed; insufficient assets due to bankruptcy of the debtor; debtor was liquidated without a legal successor, etc.), it is written off through profit and loss and the allowance is utilised.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2.7.2 Financial liabilities

a) Financial liabilities measured at fair value through profit and loss

Financial liabilities at fair value through profit or loss are financial liabilities that are derivatives, which do not fulfil the hedge accounting conditions. During the accounting period 2008 the Group had in this category only derivatives carried at fair value that did not fulfil the function of effective hedging instrument. During the accounting period 2007 the Group had no financial liabilities in this category.

b) Financial liabilities measured at amortised cost

The Group's liabilities that were transferred by original creditor to factoring company are classified as financial liabilities. Long-term liabilities are measured at fair value net of transaction costs at initial recognition. Subsequent measurement is at amortised cost by applying the effective interest rate method.

2.7.3 Financial derivatives

The Group uses derivatives to hedge interest rate and currency risks. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument or instrument held for trading. The Group designates as hedging instruments only those which fulfil the requirements of hedge accounting.

The Group uses derivatives to hedge future cash flows. The hedged items are as follows:

- Highly probable future transactions; and
- Cash flow from selected liabilities.

The Group is hedging against changes in cash flows from selected liabilities caused by changes in interest rates and against changes in cash flows from highly probable future transactions caused by changes in forward foreign exchange rates for expected maturity of transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Amounts accumulated in equity are recycled into the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity from the effective part of the hedging instrument at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Certain derivative instruments do not qualify for hedge accounting according to IAS 39. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as by discounting the future cash flows at the market interest rates. The fair value of forward foreign exchange contracts is determined as the present value of future cash flows based on forward exchange market rates at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of future cash flows based on market interest rates at the balance sheet date.

2.8 Deferred income tax

Deferred income tax is provided, using the balance-sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

Deferred income tax is determined using tax rates and tax laws, that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In accordance with IAS 12, deferred tax assets and liabilities are offset if the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority, and where the companies of the Group have the enforceable right to offset the current tax assets and liabilities.

Deferred tax relating to items recognised directly in equity (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges) is also recognised directly in equity.

The Group recognises deferred income tax assets on unused investment tax credits against deferred tax income in the income statement to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

2.9 Inventories

Purchased inventories (raw materials, consumables, supplies and materials used in production, goods) are stated at the lower of cost and net realisable value. Costs include purchase costs and other acquisition costs (e.g. transport, customs duty, and packaging).

Inventories generated from own production, i.e. work in progress and finished goods, are stated at lower of own production costs or net realisable value. Own production costs include direct material, direct wages and production overheads. The administration overhead expenses are not included in the valuation of work in progress and finished goods.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion less applicable variable selling expenses. Net realisable value reflects all risks of obsolete and redundant raw materials and excessive original parts.

A weighted-average calculation is used to account for the consumption of materials and for all sales.

2.10 Provisions for long-term employee benefits

The following types of long-term employee benefits are included in the provision for long-term employee benefits:

- service jubilee;
- long service benefits.

The entitlement to these benefits is usually conditional on the employee remaining in service for a certain service period, e.g. up to the retirement age in the case of other long service benefits or up to the moment of the completion a certain work anniversary of the employee. The amount of provision corresponds to the present value of the long-term employee benefits at the balance sheet date using the projected unit credit method. These obligations are valued annually by independent qualified actuaries. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are charged or credited to the income statement.

The present value of the long-term employee benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds to the balance sheet date. If a market of such bonds does not exist, the Group uses the market yields of treasury bonds. The conditions and currency of these corporate or treasury bonds are consistent with the currency and conditions of the respective other long-term employee benefits.

2.11 Other provisions

In accordance with IAS 37, provisions are recognised where a present obligation exists to third parties as a result of a past event; where a future outflow of resources is probable; and where a reliable estimate of that outflow can be made. Future outflows are estimated with respect to particular specific risks. Provisions not resulting in an outflow of resources within one year are recognised at their settlement value discounted to the balance sheet date based on the effective interest rate method. Discounting is based on market interest rates.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.12 Share based payments

The ultimate parent company VOLKSWAGEN AG provides the option for the acquisition of ordinary shares of VOLKSWAGEN AG to its employees in line with the share option plan established based on decision of the board of directors with the approval of the supervisory board of VOLKSWAGEN AG and authorization of the annual general meeting held on 19 June 1997. The share option plan entitles qualified employees for a subscription of convertible bonds of VOLKSWAGEN AG for a price of EUR 2.56 per convertible bond. Each convertible bond is convertible into 10 ordinary shares of VOLKSWAGEN AG.

The costs relating to share option plan are debited by the Group to the income statement and, as the costs are not invoiced by VOLKSWAGEN AG to the Group, the corresponding amounts are credited to the share option reserve in equity as a capital contribution.

These equity-settled share based payments are measured at fair value at the date of being granted to the employees and are accrued over the vesting period. The fair value of the convertible bonds is estimated using a binomial option pricing model.

2.13 Revenue and expense recognition

Revenue comprises the fair value of consideration received or receivable for the goods sold and services provided, net of value-added tax, rebates and discounts and after elimination of sales within the Group.

Sales of goods are recognised only when the goods have been delivered, that is, when the significant risks and rewards have passed to the customer, the sales price is agreed or determinable and receipt of payment is probable. This corresponds generally to the date when the products are provided to dealers outside the Group, or to the delivery date in the case of direct sales to consumers.

Income from the license fees is recognised in accordance with the substance of the relevant agreements. Dividend income is generally recognised on the date at which the dividend is legally approved and when the payment is probable.

Costs of sales include production costs, costs of goods purchased for resale, and additions to warranty provisions. Research and development costs not eligible for capitalisation in the period and amortisation of capitalised development costs are likewise presented as costs of sales.

Distribution expenses include personnel and material costs, and depreciation and amortisation applicable to the distribution function, as well as the costs of shipping, advertising, sales promotion, market research and customer service.

Administrative expenses include personnel costs and overheads as well as depreciation and amortisation applicable to administrative functions.

2.14 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.15 Investment incentives and subsidies

The Group recognises deferred income tax assets on unused investment tax credits against deferred tax income in the income statement to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

Subsidies of entrepreneurial activities and of employee training and retraining costs are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants, including non-monetary grants related to the purchase of tangible and intangible assets, are recognised at fair value as deferred income in non-current liabilities and amortised to the income statement in proportion to the depreciation charge for the related asset.

2.16 Related parties

Related parties as defined by IAS 24 are parties that the Group has the ability to control, are under common control, or over which it can exercise significant influence, or parties that have the ability to control or exercise significant influence over the Group.

2.17 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.18 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions are continuously assessed by management. The estimates and assumptions are based on historical experience and other factors, including the realistic assessment of future developments. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for warranty claims

The Group recognises provisions for warranty claims for future expenses connected with the basic guarantee (2 years), with the guarantee for corrosion (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic guarantee, especially goodwill (the 3rd and the 4th year). The Group recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model line.

The amount of the rate for the basic guarantee is determined on the basis of a management estimate of the average number of failures in the guarantee period and average single failure costs with regard to the specifics of individual countries and on the basis of other specific assumptions (inflation, customers groups development, etc.). The amount of the provision for corrosion is determined through a mathematical model which extrapolates the curve of future costs development for the relevant period on the basis of weighted average of actual values of costs from previous calendar years of the model production. The amount of the provision for goodwill is determined on the basis of a management estimate of existing goodwill costs and defined strategy of the goodwill trademark policy with regard to specifics of individual countries.

The estimates of the rates are continuously revised with the use of the most recent historical data about the number of failures and their repair-costs. Changes in these estimates can significantly influence the total amount of the provision. The detailed analysis of the provision according to the single types, production years, guarantee types and the sales regions is prepared at the year end.

3. Financial risk management

The Group operates in the automotive industry, sells its products in many countries around the world and performs transactions connected with a variety of financial risks. The objective of the Group is to minimize these risks through application of flexible hedging strategy with utilization of various instruments. In compliance with the Volkswagen Group policy all hedging operations are reconciled and implemented in cooperation with the Treasury department of Volkswagen Group.

The Board of Directors of the Company is regularly informed of the current financial and other related risks (free liquidity, foreign exchange rates, interest rates, invoice currencies, payment conditions, taxes etc.), which is achieved through regular "liquidity meeting" attended by representatives from Treasury, Controlling and Accounting, Volkswagen Group Treasury, representatives of subsidiaries and management of Commercial affairs department. These meetings have predefined agenda, which includes also information on main macroeconomic indicators from all important countries, in which the Company sells its products. Meetings have a formalised structure and all minutes including the decisions are recorded and their fulfilment is periodically reviewed.

The global financial crisis deepened the global liquidity crisis which gradually resulted in i.e. lower financing dimensions through the capital market, in decreased level of banking sector liquidity and in a huge instability of stock markets. The uncertainty on global financial markets also led to defaults of significant bank institutions. The impact of the global financial crisis on the Czech financial sector was not primary – banks did not have large exposures to foreign securities and they were not dependent on money from the central bank as well. In spite of above-mentioned, Czech bank institutions battled especially with low liquidity on the government bonds market and generally low transaction volume on interbank market.

The global financial crisis also reflected in the development of world economy, which should go according to a prediction of the World Bank through a deep recession in 2009. As far as the Group's key supply areas are concerned, the recession has already begun in Germany and Great Britain. As far as other economies are concerned, a significant slow-down of growth is expected.

In contrast to the economic crisis which will result in decrease of sales volume, the Company does not expect a significant impact of the global financial crisis on its financial position.

Nevertheless, the Company's management is ready to use all necessary measures to support the sustainable development and growth of Company's activities and to effectively react to chances, which the financial and economic crisis bring, especially the decrease in prices of some key commodities.

The estimate of impacts of the global financial crisis on the financial position of the Company and other financial indicators are presented further in individual chapters of financial risk management.

3.1 Credit risk

Credit risk is a risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk arises in the normal course of the Group's operations, as well as through activities connected to the financial markets (money market, currency conversion, derivatives transactions, etc.).

The quantification of credit risks is based on several different primary criteria, of which the most significant are the country risk and the counterparty risk. In assessing these risks, attention is paid to the country in which the headquarters of the counterparties are situated. The credit rating of these countries is monitored closely and attention is focused on the analysis of macroeconomic indices. Considerable support in this area is provided by VOLKSWAGEN AG, and consultations take place on a case by case basis with the Volkswagen Group's Risk Management Department. Apart from the Volkswagen Group's Risk Management Department, the Group also uses the services of external agencies (D&B, Creditreform, Reuters, etc.).

The acceptance of new business partners is reliant on standard approval procedures. The Group's involvement with counterparties is managed by means of credit limits that are monitored and re-evaluated on a regular basis.

Active administration and management of receivables is incorporated into the credit risk management process. In respect of the trade receivables security strategy, trade receivables are divided into receivables from domestic customers, foreign customers, Volkswagen Group entities and subsidiaries. The Group uses factoring and other standard financial market instruments such as forfaiting, bank guarantees, letters of credit and advance payments are used to reduce the risk. In addition, the following instruments and their combinations are used to secure high-risk receivables: acknowledgements of debt, payment schedules and bills of exchange.

Loans to employees are secured by other employee guarantee.

During the accounting period 2008 (2007) the Group did not accept any pledges to secure loans.

3.1.1 Maximum exposure to credit risk (CZK million)

The maximum exposure to credit risk in case of activities connected to business operations, granting of loans, supplier credits provided to customers and bank deposits is calculated as the gross carrying amount of the above mentioned financial assets less any impairment provisions. The exposure to credit risk of derivatives is measured at fair value of the derivative.

	Carrying amount as at 31 December 2008			Total
	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	
Loans to employees	339	-	-	339
Loans to Volkswagen Group companies	25,766	-	-	25,766
Positive fair value of financial derivatives	4,516	-	-	4,516
Others	553	-	4	557
Trade receivables	6,139	3,210	2	9,351
Cash	4,720	-	-	4,720
Total	42,033	3,210	6	45,249

	Carrying amount as at 31 December 2007			Total
	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	
Loans to employees	300	-	-	300
Loans to Volkswagen Group companies	25,592	-	-	25,592
Positive fair value of financial derivatives	1,922	-	-	1,922
Others	462	-	7	469
Trade receivables	6,648	1,212	14	7,874
Cash	6,198	-	-	6,198
Total	41,122	1,212	21	42,355

3.1.2 Risk concentration

The Group monitors concentration of credit risk by distribution regions and by the denomination currency. The sensitivity of the Group to foreign exchange risk is disclosed in note 3.4.1. During the accounting period 2008 (2007) the Group did not identify a significant risk concentration on the basis of distribution region. Significant portion of financial assets was of intra-group nature and the Group did not consider as probable that a default could occur. Possible risk of unpaid receivables from third parties was individually not significant (spread between various debtors and regions).

3.1.3 Solvency of financial assets not yet due and not impaired (CZK million)

The Group uses the following criteria when setting ratings of financial assets that are not yet due and not impaired. Solvency class 1 includes receivables and loans from related parties and receivables from third parties (hedged receivables and receivables that will be subject to factoring without recourse) for which there is no objective evidence indicating impairment. Solvency class 2 includes unsecured trade receivables from third parties for which there is no objective evidence indicating impairment (receivables from dealers and receivables from dealers with a schedule of payments).

Balance as at 31 December 2008	Solvency class 1	Solvency class 2	Total
Loans to employees	339	-	339
Loans to Volkswagen Group companies	25,766	-	25,766
Positive fair value of financial derivatives	4,516	-	4,516
Other receivables and financial assets	553	-	553
Trade receivables	5,040	1,099	6,139
Cash	4,720	-	4,720
Total	40,934	1,099	42,033

Balance as at 31 December 2007	Solvency class 1	Solvency class 2	Total
Loans to employees	300	-	300
Loans to Volkswagen Group companies	25,592	-	25,592
Positive fair value of financial derivatives	1,922	-	1,922
Other receivables and financial assets	462	-	462
Trade receivables	5,391	1,257	6,648
Cash	6,198	-	6,198
Total	39,865	1,257	41,122

3.1.4 Carrying amount of financial assets past due and not impaired (CZK million)

	Months past due			Total
	Less than 1 month	1-3 month	More than 3 months	
Trade receivables				
Balance as at 31 December 2008	2,139	895	176	3,210
Balance as at 31 December 2007	959	186	67	1,212

Receivables older than 3 months are hedged, therefore there is no risk of impairment loss.

3.1.5 Valuation allowance for receivables and other financial assets (CZK million)

Impairment status and development of other receivables and trade receivables has been analysed as follows:

	2008	2007
Other receivables and financial assets		
Gross balance as at 31 December	295	379
Valuation allowance:		
Balance as at 1 January	(291)	(438)
Additions	(4)	(4)
Utilised	2	30
Released	2	40
Balance as at 31 December	(291)	(372)
Net balance as at 31 December	4	7
Trade receivables		
Gross balance as at 31 December	364	335
Valuation allowance:		
Balance as at 1 January	(321)	(330)
Additions	(75)	(32)
Utilised	10	22
Released	24	19
Balance as at 31 December	(362)	(321)
Net balance as at 31 December	2	14

During the accounting period 2008 (2007) the Group had valuation allowances on individual financial assets only. During the accounting period 2008 the Group had valuation allowances only on financial assets included in category of loans and receivables.

3.1.6 Estimate of the impact of the global financial crisis on the Group in the area of credit risk

The credit crisis could have an influence on payment discipline of debtors. The Group's debtors can be influenced by lower liquidity, which can influence their ability to pay outstanding amounts. The Group's management believes that under current circumstances it uses all necessary instruments in the area of credit risk management (especially hedging instruments) to support the sustainable development and growth of Group's activities.

The worsening operating position of debtors could also have an impact on judgment whether the financial assets should be impaired. With respect to the extent of available information, the Company's management considered this risk and found it insignificant.

3.2 Liquidity risk

Liquidity risk is a risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The objective of liquidity risk management is to ensure the balance between the funding of operating activities and financial flexibility in order to ensure that all claims of the Groups suppliers and creditors are settled timely.

Management of the Group monitors the liquidity at the regular monthly meetings, so called "liquidity meetings", attended by the representatives of Treasury, Controlling and Accounting departments. The predetermined agenda generally includes the information about daily development of liquidity and its structure. The Group management is also presented with the short-term forecasts of the liquidity development

Contracted lines of credit are available at various banks, at 31 December 2008 in total amount of CZK 8,607 million, in the event that the Group cannot meet its liquidity requirements. The use of these credit lines is limited according to internal guidelines of the Group. As at 31 December 2008 the Group drew CZK 7,307 million on agreed credit lines. (The Group did not draw any contracted credit lines as at 31 December 2007.)

Contractual maturity analysis (undiscounted amounts in CZK million)

Balance as at 31 December 2008	Less than 3 months	3-12 months	1-5 years	Longer than 5 years	Unspecified*	Total
Cash	4,720	-	-	-	-	4,720
Other receivables and financial assets (except derivatives)	24,652	1,790	253	60	73	26,828
Trade receivables	6,139	-	-	-	3,212	9,351
Financial liabilities	(6,671)	(1,970)	(2,044)	-	-	(10,685)
Other liabilities (except derivatives)	-	-	-	-	(53)	(53)
Trade payables	(15,147)	(1,563)	-	-	(2,139)	(18,849)
Derivatives with positive fair value:						
Currency forwards						
Inflow of financial resources	10,811	26,779	11,364	-	-	48,954
Outflow of financial resources	(10,146)	(25,135)	(11,049)	-	-	(46,330)
Compound currency options - cash flow hedging						
Inflow of financial resources	-	-	-	-	-	-
Outflow of financial resources	-	-	-	-	-	-
Derivatives with negative fair value:						
Currency forwards						
Inflow of financial resources	1,896	5,141	3,602	-	-	10,639
Outflow of financial resources	(2,154)	(5,859)	(4,061)	-	-	(12,074)
Interest swaps	-	(1)	(39)	-	-	(40)
Total	14,100	(818)	(1,974)	60	1,093	12,461

Balance as at 31 December 2007	Less than 3 months	3-12 months	1-5 years	Longer than 5 years	Unspecified*	Total
Cash	6,198	-	-	-	-	6,198
Other receivables and financial assets (except derivatives)	26,088	66	192	78	96	26,520
Trade receivables	6,641	-	-	-	1,233	7,874
Financial liabilities	(2,376)	(83)	(2,174)	-	-	(4,633)
Other liabilities (except derivatives)	-	-	-	-	(16)	(16)
Trade payables	(15,395)	(24)	(25)	-	(5,501)	(20,945)
Derivatives with positive fair value:						
Currency forwards						
Inflow of financial resources	5,181	14,869	6,308	-	-	26,358
Outflow of financial resources	(4,762)	(13,814)	(5,762)	-	-	(24,338)
Interest swaps	-	-	12	-	-	12
Derivatives with negative fair value:						
Currency forwards						
Inflow of financial resources	2,711	8,410	2,804	-	-	13,925
Outflow of financial resources	(2,775)	(8,647)	(2,827)	-	-	(14,249)
Total	21,511	777	(1,472)	78	(4,188)	16,706

* Unspecified represents the un-discounted cash flows from un-invoiced deliveries where it is not possible to determine the invoice maturity (the usual maturity is six months) as well as past due receivables for which separate maturity cannot be determined.

3.2.1 Estimate of the global financial crisis impact on Group's liquidity

The global financial crisis deepened the global liquidity crisis which resulted in i.e. decrease of the level of bank sector liquidity, which resulted in tightening of credit conditions.

Identically as in previous years, in 2008 cash and cash equivalents significantly exceeded the net debt of the Group (see note 3.5). In previous years (2006 and 2007) the Group used almost only its own resources to finance its activities and did not draw on agreed credit lines. The Group reported several years in a row a record free liquidity, which creates sufficient space for financing the business activities even in the period of recession.

With respect to the above-mentioned facts, and in spite of significant decrease in corporate financing, the Group does not expect that these circumstances could influence its ability to pay its liabilities. On the other hand, the worsening operating situation of Company's debtors could influence the prognosis of cash flows prepared by Group's management. With respect to the extent of available information, the Group's management considered mentioned circumstances and adapted estimates of future cash flows.

3.3 Market risk

Market risk is a risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk includes three types of risks: currency risk, interest rate risk and price risk. Developments on the financial markets are considered to be the most significant risk factor, especially the fluctuation of exchange rates.

3.3.1 Currency risk

Currency risk is a risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

The fluctuation of exchange rates represents significant risk in that the Group sells its products, and purchases material, parts and services concurrently in various foreign currencies. The Group actively manages this risk through continually updated market analysis, worldwide procurement of material and equipment and production of its products in the sales regions. Standard derivative hedging instruments are used by the Company to manage the currency risk. The risk exposure, as determined by the analysis of income and expense structures by foreign currency, is hedged on the basis of expected future foreign currency cash flows.

Forward exchange contracts, currency swaps and from accounting period 2008 also the options on foreign exchange forwards are used hedging instruments. The basic parameters of the hedging policy are defined by the hedging directive valid for the entire Volkswagen Group, which includes also the list of permitted hedging instruments. Hedging contracts are concluded in the name of the individual Group companies by the Treasury Department of the Volkswagen Group. The most important trading currencies are the EUR, USD, GBP and RUB. In addition to these currencies, currencies of the other European and non-European markets are hedged.

The Group applies hedge accounting for currency risk.

For the analysis of sensitivity to exchange rates please refer to note 3.4.1.

3.3.2 Interest rate risk

Interest rate risk is a risk that the fair value of future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

The objective of the interest rate risk management is to eliminate the risk arising from fluctuations of interest rates of financial liabilities with floating interest rates by maintaining an appropriate structure of financial liabilities

The management of the Group monitors the interest rate risk at the regular monthly meetings attended by the representatives of Treasury, Controlling and Accounting departments. The predetermined agenda generally includes the following - information about current development of interbank interest rates (especially PRIBOR, EURIBOR and LIBOR) and information about central banks' interest rates in the regions where the Group operates. The Group management is also presented with the short-term forecasts of the interest rates development.

The exposure to interest rate risk arises from short-term loans provided to the Volkswagen Group companies, and from issued bonds with floating interest rate. Interest rate swaps are used to hedge against interest rate risks in this area.

The Group applies hedge accounting for cash flow interest rate risk.

For the analysis of sensitivity to interest rates please refer to note 3.4.2.

3.3.3 Price risk

Price risk is a risk that the fair value of future cash flows from the financial instruments will fluctuate because of changes in market prices (apart from that which result from currency risk and interest risk).

Due to the continuous increase in the prices of the raw material commodities, price volatility and limited accessibility to specific commodities, management has aimed to eliminate these risks through target risk management strategies. In this regard, utilisation of alternative production materials and procedures as well as utilisation of recycled material is being examined. In addition, emphasis is placed on extending the international supply chain in co-operation with the Volkswagen Group. High risk commodities include primarily aluminium, copper, palladium, lead, platinum and rhodium. Those commodities identified as high risk are controlled at the Volkswagen Group level through the long term supply contracts with the suppliers. All commodity derivative hedging transactions are concluded centrally in the name of the company VOLKSWAGEN AG and therefore are not financial instruments of the Group. From 1 January 2009 the commodity derivative hedging transactions will be concluded in the name of the Group.

The Group did not own any financial instruments as at 31 December 2008 (31 December 2007) that would expose the Group to commodity price risk.

3.3.4 Derivative financial instruments

Nominal and fair value of derivatives (CZK million)

	Nominal value of derivatives				Fair value of derivatives			
	Balance as at 31 December 2008		Balance as at 31 December 2007		Balance as at 31 December 2008		Balance as at 31 December 2007	
	With positive fair value	With negative fair value	With positive fair value	With negative fair value	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps - cash flow hedging	-	2,000	2,000	-	-	37	11	-
Currency instruments								
Currency forwards - cash flow hedging	48,314	10,639	26,352	14,219	4,509	1,503	1,911	307
Compound currency options	271	-	-	-	7	-	-	-
Total	48,585	12,639	28,352	14,219	4,516	1,540	1,922	307

The fixed interest rates for interest rate swaps fluctuated between 4.06% and 4.10% as at 31 December 2008 (2007: 3.39% to 4.10%).

Volume of hedged cash flows (CZK million)

Balance as at 31 December 2008	Volume of hedged cash flows		
	Within 1 year	1-5 years	Total
Interest risk exposure			
Hedging of receivables	-	-	-
Hedging of liabilities	(82)	(44)	(126)
Currency risk exposure			
Hedging of receivables	25,352	7,984	33,336
Hedging of liabilities	(18,340)	(7,369)	(25,709)
Total	6,930	571	7,501

Balance as at 31 December 2007	Volume of hedged cash flows		
	Within 1 year	1-5 years	Total
Interest risk exposure			
Hedging of receivables	-	-	-
Hedging of liabilities	(83)	(180)	(263)
Currency risk exposure			
Hedging of receivables	20,344	5,737	26,081
Hedging of liabilities	(9,527)	(2,860)	(12,387)
Total	10,734	2,697	13,431

The Group has no significant trading derivatives.

3.3.5 Estimate of the impact of the global financial crisis on the Group in the area of market risk

The global financial crisis resulted in an instability of stock and other financial markets. As a consequence of the current instability on financial markets, regular transactions do not occur under common market conditions and markets are becoming less liquid.

With respect to its foreign activities, the Group is exposed to the risk of fluctuation in foreign exchange rates. In the current situation the Group's management is not able to estimate reliably all impacts of further worsening and growing instability of monetary markets on the financial position of the Group. However, the Group's management believes that under current circumstances it uses all necessary instruments in the area of risk management to support the sustainable development and growth of its activities.

The Group did not and does not invest its free liquidity into traded securities and therefore it is not exposed to the risk of decrease of their prices.

3.4 Sensitivity analysis

3.4.1 Sensitivity to exchange rates

The Group is exposed to the foreign currency risk arising mainly from transactions performed with EU countries (EUR). The foreign currency risk is measured against the functional currency (CZK) as at the balance sheet date, when the financial assets and liabilities denominated in foreign currencies are recalculated to CZK applying the Czech National Bank exchange rate.

The sensitivity analysis includes only the unpaid financial assets and liabilities denominated in foreign currencies, and measures the impact from recalculation of these items as at balance sheet date by using adjusted exchange rates published by Czech National Bank. The Group considers the movements of exchange rates EUR and GBP against CZK in the following period +10% (appreciation of CZK) and -10% (depreciation of CZK) as possible. The Group considers the movements of exchange rates USD and RUB against CZK in the following period +20% (appreciation of CZK) and -20% (depreciation of CZK) as possible.

The sensitivity analysis to exchange rate changes is based on the assumption of expected possible exchange rate movements.

The following table presents possible impact on profit and loss and on equity before tax of expected possible appreciation or depreciation of CZK to foreign currencies:

2008 (CZK million)	CZK appreciation by 20%		CZK appreciation by 10%			Total
	USD	RUB	EUR	GBP	other currencies	
Income statement						
Non-derivative financial instruments	(138)	(904)	669	14	(2)	(361)
Equity						
Derivative financial instruments	2,867	539	(2,399)	547	922	2,476

2008 (CZK million)	CZK depreciation by 20%		CZK depreciation by 10%			Total
	USD	RUB	EUR	GBP	other currencies	
Income statement						
Non-derivative financial instruments	138	904	(669)	(14)	2	361
Equity						
Derivative financial instruments	(2,867)	(539)	2,399	(547)	(922)	(2,476)

2007 (CZK million)	CZK appreciation by 10%					Total
	USD	RUB	EUR	GBP	other currencies	
Income statement						
Non-derivative financial instruments	(93)	(122)	812	(26)	(69)	502
Equity						
Derivative financial instruments	233	65	(881)	802	1,358	1,577

2007 (CZK million)	CZK depreciation by 10%					Total
	USD	RUB	EUR	GBP	other currencies	
Income statement						
Non-derivative financial instruments	93	122	(812)	26	69	(502)
Equity						
Derivative financial instruments	(233)	(65)	881	(802)	(1,358)	(1,577)

3.4.2 Sensitivity to interest rates

The Group is exposed to interest rate risk mainly in relation to short-term loans provided to Volkswagen Group companies and due to the existence of financial liabilities arising from issued bonds with floating interest rate. Cash flow interest rate risk on the issued bonds is mitigated by interest rate swaps.

The analysis of sensitivity to changes in interest rates was based on exposure to derivative financial assets and liabilities as at the balance sheet date, as well as to non-derivative financial assets and liabilities. The Group assumes possible movements of the yield curve in the following period by +/- 100 of basis points. The Group is most sensitive to movements of the CZK yield curve. In the case of derivative financial instruments, the Group measures the impact on the change in fair value of these derivatives that results from the change in the yield curve. For granted loans and issued bonds the impact on profit and loss is determined on the basis of defined change in the interest rate, which arose at the beginning of the accounting period and based on the assumption that no other changes in the interest rate occurred during the entire accounting period. Other non-derivative financial assets and liabilities are not considered to be sensitive to interest rate movements.

The following table presents possible impact on profit and loss and on equity before tax of expected increase (+100 basis points) or decrease (-100 basis points) of interest rates:

2008 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 100 basis points
Income statement		
Non-derivative financial instruments	198	(198)
Derivative financial instruments	20	(20)
Total	218	(218)
Equity		
Derivative financial instruments	28	(29)

2007 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 100 basis points
Income statement		
Non-derivative financial instruments	262	(262)
Derivative financial instruments	20	(20)
Total	282	(282)
Equity		
Derivative financial instruments	44	(46)

3.5 Capital risk management

The optimal capitalisation of the Group is the compromise between two interests - the return on capital and the ability to meet all liabilities when they become due.

The main objective of the Group in capital risk management is to keep a healthy ratio between the equity and liabilities in order to minimize the total cost of capital and in parallel maximize the Group value for the shareholder. The Group primarily monitors the capital structure by application of debt ratio, which is based on ratio of net debt to total capital. The net debt is a result of the difference between the total debt less cash and cash equivalents. Total debt includes long-term debts and short-term loans. Total capital is defined as sum of net debt and equity.

Balance as at 31 December	2008	2007
Total debt (CZK million)	10,534	4,387
Less cash and cash equivalents (CZK million)	28,806	31,790
Net debt (CZK million)	(18,272)	(27,403)
Equity (CZK million)	71,608	67,034
Total capital (CZK million)	53,336	39,631
Debt ratio in %	0	0

The debt ratio was zero during the accounting period 2008 (2007) as the net debt resulted in negative figure.

4. Segment reporting

Primary reporting format – business segments

At the end of 2008, the Group has identified only one business segment – development, production and sale of the passenger and utility cars, engines and original parts and car accessories. Other activities do not constitute a separate reportable segment as their financial results, revenues and total assets are not material in comparison to the business segment identified.

Secondary reporting format – geographical segments

The Company and main production facilities are situated in the Czech Republic.

Sales are generated from four basic geographical regions: the Czech Republic; Western Europe; Central and Eastern Europe; and Overseas/Asia/Africa/Australia. Overseas/Asia/Africa/Australia region is not considered to be a region with similar factors of economic environment, does not meet the size criteria for a separately reportable segment, and therefore is reported as Unallocated.

2008	Czech Republic	Western Europe	Central and Eastern Europe	Unallocated	Total
Sales – based on location of customers	23,899	106,005	54,873	15,405	200,182
Costs incurred to acquire segment assets	12,300	54	1,350	852	14,556
Assets – according to their location	107,928	6,277	2,345	5,906	122,456

2007	Czech Republic	Western Europe	Central and Eastern Europe	Unallocated	Total
Sales – based on location of customers	26,117	129,397	51,522	14,931	221,967
Costs incurred to acquire segment assets	13,397	76	24	461	13,958
Assets – according to their location	102,319	5,270	3,140	5,052	115,781

5. Intangible assets (CZK million)

	Goodwill	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs					
Balance as at 1 January 2008	79	24,213	4,822	3,578	32,692
Additions	-	512	1,554	579	2,645
Disposals	-	(8,965)	-	(62)	(9,027)
Transfers	-	2,927	(2,927)	7	7
Foreign exchange differences	1	-	-	2	3
Balance as at 31 December 2008	80	18,687	3,449	4,104	26,320
Cumulative amortisation and impairment losses					
Balance as at 1 January 2008	-	(16,310)	-	(2,343)	(18,653)
Amortisation	-	(2,326)	-	(427)	(2,753)
Disposals and transfers	-	8,965	-	35	9,000
Foreign exchange differences	-	-	-	(2)	(2)
Balance as at 31 December 2008	-	(9,671)	-	(2,737)	(12,408)
Carrying amount as at 31 December 2008	80	9,016	3,449	1,367	13,912

	Goodwill	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs					
Balance as at 1 January 2007	83	22,983	2,955	3,149	29,170
Additions	-	306	2,791	590	3,687
Disposals	-	-	-	(159)	(159)
Transfers	-	924	(924)	4	4
Foreign exchange differences	(4)	-	-	(6)	(10)
Balance as at 31 December 2007	79	24,213	4,822	3,578	32,692
Cumulative amortisation and impairment losses					
Balance as at 1 January 2007	-	(13,860)	-	(1,959)	(15,819)
Amortisation	-	(2,450)	-	(457)	(2,907)
Disposals and transfers	-	-	-	68	68
Foreign exchange differences	-	-	-	5	5
Balance as at 31 December 2007	-	(16,310)	-	(2,343)	(18,653)
Carrying amount as at 31 December 2007	79	7,903	4,822	1,235	14,039

Other intangible assets include mainly rights to use the equipment of other companies from the Volkswagen group, software and software licences.

Amortisation of intangible assets of CZK 2,431 million (2007: CZK 2,702 million) is included in the cost of sales, CZK 126 million (CZK 2007: 27 million) in distribution expenses, and CZK 196 million (2007: CZK 178 million) in administrative expenses.

Impairment tests of goodwill

Goodwill is allocated to ŠkodaAuto Deutschland GmbH as the cash-generating unit for the purpose of impairment testing. The recoverable amount of a cash-generating unit is calculated based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management and covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate that does not exceed the long-term average growth rate for automotive industry. The expected growth rate for the impairment test in 2008 was 1% (2007: 1%). The discount rates used are pre-tax rates reflecting specific risks and characteristics of the segment where the cash-generating unit operates. For the year 2008, the discount rate of 9.0% (2007: 9.8%) was used.

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Group's management in relation to the global financial crisis and its potential impacts on the carrying amount of the Group's long-term intangible assets. Based on performed analyses, the Group has not identified any factors indicating a need to recognise impairment losses. The analyses included the expected impacts of the global financial crisis on the Group's business and on developments in individual sales markets in the following years.

The following amounts were recognised in the income statement as research and development expenses (CZK million)

	2008	2007
Research and non-capitalised development costs	3,395	2,362
Amortisation of development costs	2,326	2,450
Research and development costs recognised in the income statement	5,721	4,812

6. Property, plant and equipment (CZK million)

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Payments on account and assets under construction	Total
Costs					
Balance as at 1 January 2008	26,708	54,954	38,037	5,816	125,515
Additions	577	3,488	2,843	5,003	11,911
Disposals	(35)	(2,746)	(1,495)	-	(4,276)
Transfers	974	1,462	2,018	(4,461)	(7)
Foreign exchange differences	(75)	(37)	(18)	13	(117)
Balance as at 31 December 2008	28,149	57,121	41,385	6,371	133,026
Cumulative depreciation and impairment losses					
Balance as at 1 January 2008	(8,513)	(45,765)	(30,040)	-	(84,318)
Depreciation	(1,046)	(3,016)	(4,121)	-	(8,183)
Reversal of cumulative impairment losses	-	120	6	-	126
Disposals and transfers	20	1,496	1,359	-	2,875
Foreign exchange differences	9	12	1	-	22
Balance as at 31 December 2008	(9,530)	(47,153)	(32,795)	-	(89,478)
Carrying amount as at 31 December 2008	18,619	9,968	8,590	6,371	43,548

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Payments on account and assets under construction	Total
Costs					
Balance as at 1 January 2007	25,136	52,023	35,149	4,547	116,855
Additions	871	2,186	2,484	4,730	10,271
Disposals	(90)	(519)	(944)	-	(1,553)
Transfers	797	1,270	1,368	(3,439)	(4)
Foreign exchange differences	(6)	(6)	(20)	(22)	(54)
Balance as at 31 December 2007	26,708	54,954	38,037	5,816	125,515
Cumulative depreciation and impairment losses					
Balance as at 1 January 2007	(7,499)	(42,028)	(27,519)	-	(77,046)
Depreciation	(1,034)	(4,355)	(3,429)	-	(8,818)
Reversal of cumulative impairment losses	-	78	-	-	78
Disposals and transfers	21	540	898	-	1,459
Foreign exchange differences	(1)	-	10	-	9
Balance as at 31 December 2007	(8,513)	(45,765)	(30,040)	-	(84,318)
Carrying amount as at 31 December 2007	18,195	9,189	7,997	5,816	41,197

Total depreciation of the buildings and equipment of CZK 7,393 million (2007: CZK 8,259 million) is included in the cost of sales, CZK 219 million (2007: CZK 217 million) in distribution expenses, and CZK 571 million (2007: CZK 342 million) in administrative expenses.

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Group's management in relation to the global financial crisis and its potential impacts on the carrying amount of the Group's long-term tangible assets. Based on performed analyses, the Group has not identified any factors indicating a need to recognise impairment losses. The analyses included the expected impacts of the global financial crisis on the Group's business and on developments in individual sales markets in the following years.

7. Investment in associate (CZK million)

	2008	2007
OOO VOLKSWAGEN Rus:		
Total Assets	21,646	4,286
Total Liabilities	21,646	4,286
Total Revenue	18,611	398
Loss	1,370	228
Statutory shareholding in %	32.9	30.0
Share of profits or losses in %	37.5	37.5

Total Assets and Total Liabilities are translated at the Czech National Bank exchange rate as at 31 December 2008 (31 December 2007). Total Revenue and Loss is translated at the Czech National Bank exchange rate for the year 2008 (2007).

On 26 October 2006, the Company acquired a 37.5% share in OOO VOLKSWAGEN Rus (Kaluga, Russian Federation) at cost of CZK 187 million. In 2007 the Company invested additional CZK 298 million to the share capital of this associate. In 2008 the Company increased the investment in share capital of OOO VOLKSWAGEN Rus in form of assets contribution in the amount of CZK 1,337 million. The share on the associate increased to 32.9% (2007: 30%).

The Group's share of profits or losses of the associate remained unchanged at 37.5%.

After the balance sheet date the company OOO VOLKSWAGEN Rus merged with the company OOO VOLKSWAGEN Group Rus. For more details please refer to note 29.

8. Other non-current and current receivables, financial assets and trade receivables (CZK million)

Balance as at 31 December 2008	Financial assets at fair value through profit or loss	Loans and receivables	Available for sale financial assets	Financial instruments designated as hedging instruments	Others*	Total
Other receivables and financial assets						
Loans to employees	-	339	-	-	-	339
Loans to companies within Volkswagen Group (note 30)	-	25,246	-	-	-	25,246
Loans to associates	-	520	-	-	-	520
Positive fair value of financial derivatives	7	-	-	4,509	-	4,516
Available for sale financial assets	-	-	6	-	-	6
Tax receivables (excl. income tax)	-	-	-	-	2,452	2,452
Others	-	557	-	-	144	701
Total	7	26,662	6	4,509	2,596	33,780
Trade receivables						
Third parties	-	3,308	-	-	-	3,308
Related parties	-	6,043	-	-	-	6,043
Total	-	9,351	-	-	-	9,351

Other non-current and current receivables, financial assets and trade receivables (CZK million)

Balance as at 31 December 2007	Loans and receivables	Available for sale financial assets	Financial instruments designated as hedging instruments	Others*	Total
Other receivables and financial assets					
Loans to employees	300	-	-	-	300
Loans to companies within Volkswagen Group (note 30)	25,338	-	-	-	25,338
Loans to associates	254	-	-	-	254
Positive fair value of financial derivatives	-	-	1,922	-	1,922
Available for sale financial assets	-	6	-	-	6
Tax receivables (excl. income tax)	-	-	-	3,087	3,087
Others	469	-	-	220	689
Total	26,361	6	1,922	3,307	31,596
Trade receivables					
Third parties	4,596	-	-	-	4,596
Related parties	3,278	-	-	-	3,278
Total	7,874	-	-	-	7,874

* The category Others does not meet a definition of financial instruments in terms of IAS 32.

Fair value of Loans to employees is determined as present value of future cash flows based on PRIBID yield curve and at 31 December 2008 was CZK 349 million (31 December 2007: CZK 287 million). The carrying amount including impairment of any of the category Other financial assets which are not carried at fair value approximates fair value.

The weighted average effective interest rate based on the carrying amount of loans provided to Volkswagen Group companies as of 31 December 2008 was 3.69% (31 December 2007: 3.88%). From the total of loans provided to Volkswagen Group CZK 24,569 million are denominated in CZK and CZK 677 million in EUR.

Line Others in other receivables and financial assets include mainly other receivables from employees and advances paid. There are no significant restrictions regarding the rights of use imposed on the other receivables and financial assets. Cumulative impairment losses reflect the incurred risks of the debtors' delays or defaults.

The allowance for the impairment of trade receivables of CZK 362 million (2007: CZK 321 million) has been included in the presented values of trade receivables. The carrying amount of trade receivables approximates the fair value at the balance sheet date after the valuation allowance is taken into account.

9. Inventories (CZK million)

Structure of the inventories	Carrying value as at 31 December 2008	Carrying value as at 31 December 2007
Raw materials, consumables and supplies	3,629	3,259
Work in progress	1,895	1,791
Finished products	4,919	4,113
Goods	4,693	4,380
Total	15,136	13,543

The amount of inventories recognised as an expense during 2008 was CZK 169,097 million (2007: CZK 179,533 million).

10. Cash (CZK million)

	31.12.2008	31.12.2007
Cash in hand	5	4
Bank accounts	4,715	6,194
Total	4,720	6,198

The weighted effective interest rate based on carrying amount of bank deposits as of 31 December 2008 was 1.54% (31 December 2007: 3.54%).

11. Share capital

The issued share capital consists of 1,670,885 ordinary shares at par value of CZK 10,000 per share. Volkswagen International Finance N.V., Amsterdam, The Kingdom of the Netherlands, holds 100% of the shares in the Company. The shares were purchased from VOLKSWAGEN AG on 18 July 2007 within the Volkswagen Group restructuring plan. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of VOLKSWAGEN AG.

There was no movement in the Group's share capital during the accounting period 2008 (2007: no movement).

In 2008 the Group paid a dividend of CZK 7,117 million (2007: CZK 8,430 million). In 2008 the dividend per share was CZK 4,259 (2007: CZK 5,045).

12. Other reserves (CZK million)

	31.12.2008	31.12.2007
Currency translation reserve	(336)	(112)
Reserves for cash flow hedges*	2,394	1,264
Subtotal reserves representing capital maintenance	2,058	1,152
Statutory reserve fund	2,631	1,836
Funds contributed by owner	10	9
Total	4,699	2,997

* Net of deferred tax from financial derivatives.

Movement in reserve for cash flow hedges:

Balance as at 1 January 2008 (CZK million)	1,264
Total change in fair value in the period	3,152
Deferred tax on change in fair value	(522)
Total transfers to net profit in the period - effective hedging	(1,694)
Total transfers to net profit in the period - ineffective hedging	(83)
Deferred tax on transfers to net profit	277
Balance as at 31 December 2008	2,394

Balance as at 1 January 2007 (CZK million)	78
Total change in fair value in the period	1,192
Deferred tax on change in fair value	(243)
Total transfers to net profit in the period - effective hedging	224
Total transfers to net profit in the period - ineffective hedging	-
Deferred tax on transfers to net profit	13
Balance as at 31 December 2007	1,264

The statutory reserve fund may be used only to offset losses. According to relevant regulations of the commercial code of the Czech Republic, the Company is required to transfer 5% of its annual net profits to the statutory reserve fund until the balance of this reserve reaches 20% of the subscribed capital.

In compliance with the relevant regulations of the commercial code, the unconsolidated profit of the Company for the year 2008 (determined in accordance with IFRS) is going to be appropriated based on the decision of the Company's annual general meeting.

Minority interests on equity of the Group solely represent the minority shareholders of Skoda Auto Polska S.A.

13. Financial, other and trade liabilities (CZK million)

Balance as at 31 December 2008	Financial liabilities carried at amortised costs	Financial instruments designated as hedging instruments	Others*	Total
Financial liabilities				
Bonds	2,015	-	-	2,015
Bank loans	7,329	-	-	7,329
Other financial liabilities	1,190	-	-	1,190
Total	10,534	-	-	10,534
Other liabilities				
Negative fair value of financial derivatives	-	1,540	-	1,540
Other tax liabilities (excl. income tax)	-	-	2,421	2,421
Liabilities to employees	-	-	1,596	1,596
Social security	-	-	300	300
Others	53	-	-	53
Total	53	1,540	4,317	5,910
Trade liabilities to				
Third parties	14,118	-	287	14,405
Related parties	4,924	-	74	4,998
Total	19,042	-	361	19,403

Balance as at 31 December 2007	Financial liabilities carried at amortised costs	Financial instruments designated as hedging instruments	Others*	Total
Financial liabilities				
Bonds	2,011	-	-	2,011
Other financial liabilities	2,376	-	-	2,376
Total	4,387	-	-	4,387
Other liabilities				
Negative fair value of financial derivatives	-	307	-	307
Other tax liabilities (excl. income tax)	-	-	2,057	2,057
Liabilities to employees	-	-	1,705	1,705
Social security	-	-	319	319
Others	16	-	-	16
Total	16	307	4,081	4,404
Trade liabilities to				
Third parties	17,022	-	595	17,617
Related parties	3,923	-	-	3,923
Total	20,945	-	595	21,540

* The category Others includes items that are not financial instruments in terms of IAS 32.

The fair value of issued bonds is determined based on quoted market prices as at 31 December 2008. The fair value of the issued bonds amounts to CZK 2,000 million (31 December 2007: CZK 2,000 million).

The detailed information relating to the liabilities arising out of financial derivatives can be found under note 3.3.4.

The carrying value for other classes of current liabilities (other current financial liabilities, trade payables and current tax payables) approximates the fair value in all material respects.

Other financial liabilities include liabilities to a factoring company within the Volkswagen Group which have arisen from the transfer of the Volkswagen intercompany payables to the factoring company within the Volkswagen Group.

None of the financial liabilities are secured by a lien.

The Group issued bonds with total nominal value of CZK 10 billion on 26 October 2000, each in a nominal value of CZK 100,000. The bonds are publicly traded without restrictions of transferability on the primary market of the Prague Stock Exchange. The bonds were issued pursuant to Czech legislation and are governed by Czech law. Commerzbank Capital Markets (Eastern Europe) a.s. was the lead manager and Československá obchodní banka, a.s. with its registered seat at Na Příkopě 14, 115 20, Prague 1, is the administrator of the issue. The issue was realised by registration at the Securities Centre in Prague.

	ISIN	Total nominal value in million CZK	Nominal value per bond in thousand CZK	No. of bonds in pcs	Issue rate
3rd tranche	CZ0003501199	2,000	100	20,000	100 %
Total		2,000		20,000	

Interests and principal of bonds are paid only in CZK through the administrator.

	ISIN	Due date for principal	Due date for interest	Bond yield
3rd tranche	CZ0003501199	26 October 2010	Semi-annually on 26 April and on 26 October	6M Pribor + 0.22%

The first instalment of CZK 5,000 million related to the five-year issued bonds was settled at 26 October 2005. The second instalment of CZK 3,000 million was settled at 26 October 2007.

In the table below, the financial conditions attached to loans received, bonds and liabilities to financial institutions are summarised at their carrying amounts:

Carrying amount as at 31 December 2008								
Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity			Total
					< 1 year	1 - 5 years	> 5 years	
CZK	floating	1 -5 years	4.65 %	2,000	17	1,998	-	2,015
CZK	floating	< 1 year	5.32 %	7,307	7,329	-	-	7,329
EUR	floating	< 1 year	-	1,190	1,190	-	-	1,190
Total financial liabilities				10,497	8,536	1,998	-	10,534

Carrying amount as at 31 December 2007								
Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity			Total
					< 1 year	1 - 5 years	> 5 years	
CZK	floating	1 -5 years	3.92 %	2,000	14	1,997	-	2,011
EUR	floating	< 1 year	-	2,376	2,376	-	-	2,376
Total financial liabilities				4,376	2,390	1,997	-	4,387

14. Deferred tax liabilities and assets (CZK million)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

Balance as at 31 December 2008	< 1 year	> 1 year	Total
Deferred tax liabilities	(217)	(1,417)	(1,634)
Deferred tax assets	170	143	313

Balance as at 31 December 2007	< 1 year	> 1 year	Total
Deferred tax liabilities	(153)	(1,637)	(1,790)
Deferred tax assets	202	141	343

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting, are as follows:

Deferred tax liabilities							
	Depreciation	Financial derivatives	Provisions	Tax deductible losses	Consolidation differences	Other	Total
Balance as at 1 January 2007	(4,298)	(79)	-	-	-	18	(4,359)
Credited/(debited) to the income statement	865	-	-	-	-	(18)	847
Charged to equity	-	(209)	-	-	-	-	(209)
Balance as at 31 December 2007	(3,433)	(288)	-	-	-	-	(3,721)
Credited/(debited) to the income statement	12	-	-	-	-	5	17
Charged to equity	-	(244)	-	-	-	(6)	(250)
Exchange differences	-	-	-	-	-	-	-
Balance as at 31 December 2008	(3,421)	(532)	-	-	-	(1)	(3,954)

Deferred tax assets							
	Depreciation	Financial derivatives	Provisions	Tax deductible losses	Consolidation differences	Other	Total
Balance as at 1 January 2007	101	-	1,991	1	45	29	2,167
Credited/(debited) to the income statement	(32)	-	58	(1)	68	37	130
Charged to equity	-	-	-	-	-	(21)	(21)
Exchange differences	(2)	-	(1)	-	-	1	(2)
Balance as at 31 December 2007	67	-	2,048	-	113	46	2,274
Credited/(debited) to the income statement	(52)	-	(58)	-	(10)	494	374
Charged to equity	-	-	-	-	-	-	-
Exchange differences	(15)	-	1	-	-	(1)	(15)
Balance as at 31 December 2008	-	-	1,991	-	103	539	2,633

Out of CZK 494 million reported in Other column, CZK 453 million represents the increase in deferred tax asset from the investment incentive tax credit, which was granted for the SUV model and 1.2 TSI engine projects, see also Note 23.

Non recognised part of deferred tax receivable was at 31 December 2008 CZK 64 million (2007: CZK 0).

15. Non-current and current provisions (CZK million)

	Provisions for warranty claims	Provisions for other obligations arising from sales	Provisions for personnel costs	Provisions for the disposal of end-of-life vehicles	Other provisions	Total
Balance as at 1 January 2007	8,377	1,688	600	338	536	11,539
Utilised	(3,467)	(1,662)	(210)	-	(90)	(5,429)
Additions	5,376	1,746	518	40	230	7,910
Interest costs	21	-	-	(38)	-	(17)
Reversals	-	(165)	(4)	-	(68)	(237)
Foreign exchange differences	(52)	(29)	(2)	(7)	(6)	(96)
Balance as at 1 January 2008	10,255	1,578	902	333	602	13,670
Utilised	(3,079)	(1,365)	(193)	(20)	(187)	(4,844)
Additions	3,411	1,185	332	59	337	5,324
Interest costs	87	-	-	(16)	-	71
Reversals	(1,208)	(218)	(3)	-	(69)	(1,498)
Foreign exchange differences	(2)	15	-	-	(30)	(17)
Balance as at 31 December 2008	9,464	1,195	1,038	356	653	12,706

Non-current and current provisions according to the time of expected use of resources:

Balance as at 31 December 2008	< 1 year	> 1 year	Total
Provisions for warranty claims	2,703	6,761	9,464
Provisions for other obligations arising from sales	1,169	26	1,195
Provisions for personnel costs	287	751	1,038
Provisions for the disposal of end-of-life vehicles	91	265	356
Other provisions	653	-	653
Total	4,903	7,803	12,706

Balance as at 31 December 2007	< 1 year	> 1 year	Total
Provisions for warranty claims	2,689	7,566	10,255
Provisions for other obligations arising from sales	1,552	26	1,578
Provisions for personnel costs	230	672	902
Provisions for the disposal of end-of-life vehicles	102	231	333
Other provisions	602	-	602
Total	5,175	8,495	13,670

Provisions for disposal of end-of-life vehicles relate to costs of liquidation of end-of-life vehicles according to EU guideline no. 200/53/EC and are determined mainly on the basis of registered cars in the country of the individual companies, official statistics, expected costs of the cars ecological scraping and legal requirements valid in individual countries.

Provisions for other obligations arising from sales include provision for sale discounts, sale bonuses and similar allowances incurred, settlement of which is expected after the balance sheet date, but for which there is a legal or constructive obligation attributable to sales revenue before the balance sheet date. The additions to provision for other obligations arising from sales are decreasing the revenues.

Provisions for personnel costs include mainly provisions for long-term employee benefits and severance payments.

Other provisions include mainly provision for retrospective changes in purchase prices, provision for legal fees, penalty interest and other risk followed from the legal proceedings.

The Group is not involved in any legal cases or arbitration proceedings that could have a significant impact on the financial position and the financial results (financial statements) of the Group and there are no material proceedings expected in the near future. The Group provides for the probable expenses for existing legal and arbitration proceedings by means of a relevant provision.

16. Cash flow statement

The cash and cash equivalents contained in the cash flow statement also comprise, in addition to cash reported in the balance sheet, short-term loans to related parties with original maturity of less than three months of CZK 24,086 million as at 31 December 2008 (31 December 2007: CZK 25,592 million). Cash flows are presented in the cash flow statement and are classified into cash flows from operating activities, investing activities and financing activities.

Cash flows from operating activities are derived indirectly from profit before tax. Profit before tax is adjusted to eliminate non-cash expenses (mainly depreciation and amortisation) and income and changes in working capital.

Investing activities include additions to property, plant and equipment, financial assets, as well as to capitalised development cost.

Financing activities include besides the outflows of cash from dividend payments, redemption of bonds and liabilities from other financing, also outflows and inflows from other borrowings.

17. Sales (CZK million)

	2008	2007
Cars	175,480	195,913
Spare parts and accessories	14,784	15,402
Supplies of components within Volkswagen Group	6,480	6,703
Revenue from royalties	732	1,337
Other	2,706	2,612
Total	200,182	221,967

18. Other operating income (CZK million)

	2008	2007
Foreign exchange gains	3,752	1,994
Income from foreign currency trading	3,566	1,264
Gains on non-current assets disposal	14	17
Reversal of receivables' impairment losses	14	58
Other	1,480	1,035
Total	8,826	4,368

Foreign exchange gains include mainly gains from differences in exchange rates between the dates of recognition and payment of receivables and payables denominated in foreign currencies, as well as exchange rate gains resulting from revaluation at the balance sheet date of the monetary receivables and payables. Foreign exchange losses from these items are included in the other operating expenses.

Line Other includes among others also revenues from one-off recharges relative to the launch of production. In 2008 this revenue amounted to CZK 168 million (2007: CZK 94 million).

19. Other operating expenses (CZK million)

	2008	2007
Foreign exchange losses	4,283	1,923
Losses from foreign currency trading	1,770	1,368
Receivables write-offs	16	33
Other	280	345
Total	6,349	3,669

20. Financial result (CZK million)

	2008	2007
Interest income	1,282	1,040
Other financial income	149	71
Financial income total	1,431	1,111
Interest expenses	920	824
Other financial expenses	249	116
Financial expenses total	1,169	940
Net financial result	262	171

21. Net gains and losses from financial instruments (CZK million)

	2008	2007
Financial assets at fair value through profit or loss	81	-
Loans and receivables	582	491
Available for sale financial assets	18	28
Financial liabilities carried at amortised costs	(770)	(170)
Financial instruments designated as hedging instruments	1,692	(223)
Net gains/(losses) total	1,603	126

The item Financial assets at fair value through profit or loss represents net gain on financial derivatives on which hedge accounting could not be applied and do not include any related interest income or expense. Other items contain mainly unrealized and realized foreign exchange gains and losses on trade receivables and liabilities, from hedging instruments, interest expense incurred on issued bonds, interest revenue from loans provided, net interest loss from derivative hedging instruments and impairment losses on financial assets.

22. Income tax (CZK million)

	2008	2007
Current tax expense - domestic	2,422	4,526
Current tax expense - foreign	527	329
Current tax expense - total	2,949	4,855
Deferred tax income - domestic	(402)	(1,041)
Deferred tax income - foreign	11	64
Deferred tax income - total	(391)	(977)
Income tax total	2,558	3,878

Statutory income tax rate in the Czech Republic for the 2008 assessment period was 21% (2007: 24%). Effective since 1 January 2009 the statutory income tax rate in the Czech Republic has changed to 20% and effective from 1 January 2010 to 19%.

As at 31 December 2008, deferred income taxes attributable to the Czech tax jurisdiction were measured at a tax rate of 19.04% (2007: 19.04%) that corresponds with the weighted average of statutory tax rates enacted for the future periods when realisation of deferred tax assets and liabilities is expected. The local income tax rates applied for companies outside the Czech Republic vary between 19% and 33.99%.

Reconciliation of expected to effective income tax expenses (CZK million)

	2008	2007
Profit before income tax	13,376	19,860
Expected income tax expense	2,809	4,766
Effect of different tax rates outside the Czech Republic and impact of the consolidation adjustments	207	102
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(142)	(68)
Expenses not deductible for tax purposes	231	241
Other permanent differences	19	3
Tax allowances and other investment tax credits	(467)	(515)
Prior-period current tax expense	308	(179)
Effect of tax rate changes	5	(367)
Investment tax credits	(453)	-
Other taxation effects	41	(105)
Effective income tax expense	2,558	3,878
Effective income tax rate	19%	20%

Out of CZK 453 million reported in Investment tax credits, CZK 130 million represents the 1.2 TSI engine project and CZK 324 million was granted for the SUV model.

23. Investment incentives

In the year 2008 the Company received CZK 19.4 million (2007: CZK 27 million) in form of a subsidy for operating activities related to the project of development and technological centre.

From the total maximum granted amount of investment incentives of CZK 428 million for the model Roomster project, the Company utilised the total amount of CZK 285 million in 2005 – 2007 in the form of tax credit in the amount of CZK 249 million and in the form of the transfer of a technically equipped area at a reduced price of CZK 37 million. In this way, the Company finished drawing on investment incentives for the project Roomster.

In accordance with Investment Incentives Law No. 72/2000 Coll., as amended based on resolution dated on 4 August 2008 the Company was granted an investment incentive for the SUV model in the plant Kvasiny in form of tax credit. The total amount of the subsidy is limited to the amount of CZK 560.5 million corresponds to 40% of the total eligible invested costs related to the investment project.

In accordance with Investment Incentives Law No. 72/2000 Coll., as amended based on resolution dated on 31 December 2007 the Company was granted an investment incentive for its project of engine 1.2 TSI production in the plant in Mladá Boleslav in form of tax credit. The total amount subvention of CZK 548 million corresponds to 40% of the total eligible invested costs related to the investment project.

To be granted the investment incentives the Company has to meet the General conditions of § 2 art. 2 of the Investment Incentive Law no. 72/2000 Coll., as amended and Special conditions of § 35 b of the Income Tax Law no. 586/1992 Coll., as amended. The Company expects to comply with all provisions necessary to receive the investment incentives.

24. Contingent liabilities (CZK million)

The tax authorities may at any time inspect the accounting books and records within thirteen years subsequent to the reported tax year, and may impose additional tax assessments and penalties.

The Group management is not aware of any circumstances that could result in material liabilities arising from current and potential future tax audits.

25. Contractual obligations and other future commitments (CZK million)

Cash outflows relating to commitments to acquisition of non-current tangible and intangible assets and non-cancellable operating leases existing at the balance sheet date are as follows:

CZK million	Payable until year 2009	Payable 2010–2013	31.12.2008
Investment commitments - property, plant and equipment	4,169	249	4,418
Investment commitments - intangible assets	6	-	6
Operating leasing installments	59	-	59

CZK million	Payable until year 2008	Payable 2009–2012	31.12.2007
Investment commitments - property, plant and equipment	5,387	373	5,760
Investment commitments - intangible assets	27	-	27
Operating leasing installments	66	-	66

On the basis of non-cancellable operating lease agreements, the Group is allowed to rent different machine equipment. In the case of termination of these agreements, the Group has to terminate them with a maximum six-month notice period.

26. Expenses by nature – additional information (CZK million)

	2008	2007
Material costs – raw materials and other supplies, goods	138,889	151,125
Production related services	2,286	5,568
Personnel costs	14,953	14,242
Wages	11,337	10,425
Pension benefits	2,216	2,378
Social insurance and other personnel costs	1,400	1,439
Depreciation and amortization	10,936	11,725
Other services	21,975	20,222
Total cost of sales, distribution and administrative expenses	189,039	202,882
Number of employees		
Number of employees*	28,878	28,896

* Average number of employees (including temporary employees)

27. Related party transactions

The Group participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2008	2007
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	3,844	4,071
Associates		
OOO VOLKSWAGEN Rus	8,688	453
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	297	457
VOLKSWAGEN Group United Kingdom Ltd.	10,066	13,821
Groupe VOLKSWAGEN France s.a.	6,027	6,812
VOLKSWAGEN SLOVAKIA, a.s.	1,146	950
Volkswagen Navarra, S.A.	1,423	1,391
Volkswagen Group Sverige AB	3,027	3,896
Import VOLKSWAGEN Group s.r.o.	831	812
OOO VOLKSWAGEN Group Rus	4,294	6,232
Volkswagen do Brasil Ltda.	817	1,215
AUDI HUNGARIA MOTOR Kft.	19	-
AUDI AG	191	20
SEAT, S.A.	726	726
ŠkoFIN s.r.o.	972	1,157
Volkswagen Bank GmbH	72	10
Volkswagen Leasing GmbH	67	31
Volkswagen India Private Ltd.	54	-
Volkswagen Group Italia S.p.A	5,607	5,760
Volkswagen-Audi España S.A.	5,453	8,852
AUDI BRUSSELS S.A./N.V.	780	795
Gearbox del Prat, S.A.	28	19
Volkswagen Motor Polska Sp.z o.o.	57	61
Volkswagen Logistics GmbH & Co OHG	15	15
Volkswagen Group Australia Pty. Ltd.	281	262
Raffay GmbH	270	506
VOLKSWAGEN SARAJEVO, d.o.o.	643	709
ŠKO-ENERGO, s.r.o.	147	169
E. Winter Autom. GmbH&Co. KG	348	-
Other	7	6
Other related parties*		
Shanghai Volkswagen Automotive Co. Ltd.	811	1,148
SAIC-Volkswagen Sales Company Ltd.	15	-
Other related parties	-	-
Total	57,023	60,356

* Items in category Other related parties do not meet the definition of a controlled entity pursuant to § 66a of the Act No. 513/1991 Coll., Commercial Code, as amended.

Out of sales to Shanghai Volkswagen Automotive Co. Ltd., a joint venture of the ultimate parent company VOLKSWAGEN AG, in 2008 CZK 669 million (2007: CZK 1,148 million) relates to revenue from licence fees. The Group also realised in 2008 revenue from licence fees of CZK 43 million (2007: CZK 0 million) from associate OOO VOLKSWAGEN Rus.

The Group also realised in 2008 revenue from intercompany loan interests, mainly CZK 468 million (2007: CZK 0 million) from Volkswagen International Payment Services, CZK 124 million (2007: CZK 61 million) from ŠkoFIN s.r.o. and CZK 501 million (2007: CZK 884 million) from VOLKSWAGEN AG.

Purchases from related parties (CZK million)

	2008	2007
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	24,722	25,503
Associates		
OOO VOLKSWAGEN Rus	2	301
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	1,900	2,879
Volkswagen Versicherungsvermittlungs GmbH	145	141
Volkswagen Versicherungsdienst GmbH	21	30
VOLKSWAGEN Group United Kingdom Ltd.	246	465
IAV Ingenieurgesellschaft GmbH	19	27
Groupe VOLKSWAGEN France s.a.	211	240
VOLKSWAGEN SLOVAKIA, a.s.	4,061	180
AUDI AG	556	273
Volkswagen Bank GmbH	926	559
Volkswagen Original Teile Logistik GmbH	1,798	596
AUDI HUNGARIA MOTOR Kft.	10,257	13,492
Import VOLKSWAGEN Group s.r.o.	103	135
OOO VOLKSWAGEN Group Rus	69	-
ŠkoFIN s.r.o.	482	670
Volkswagen Navarra, S.A.	-	16
Volkswagen Group Sverige AB	111	129
SEAT, S.A.	1,615	1,578
Volkswagen Group Italia S.p.A	305	250
Gearbox del Prat, S.A.	25	-
Volkswagen-Audi España S.A.	253	279
Volkswagen Poznan Sp.z o.o.	213	281
Volkswagen do Brasil Ltda.	9	16
VOTEX, GmbH	18	21
Autostadt GmbH	20	19
Volkswagen Leasing GmbH	259	208
Volkswagen de Mexico S.A. de C.V.	723	86
Volkswagen Transport GmbH	276	348
VOLKSWAGEN OF AMERICA INC.	31	23
ŠKO-ENERGO, s.r.o.	1,688	1,792
Volkswagen Group Services	7,461	130
Volkswagen Motor Polska Sp.z o.o.	469	-
VOLKSWAGEN SARAJEVO, d.o.o.	20	32
Volkswagen Logistics GmbH & Co OHG	1,632	1,545
Volkswagen Gebrauchtfahrzeughandels und Service GmbH	-	264
Volkswagen Argentina S.A.	280	50
Volkswagen India Private Ltd.	1	11
Raffay GmbH	13	11
AUTOEUROPA Automóveis, Lda.	10	-
INIS International Insurance Service s.r.o., ve zkratce INIS s.r.o.	61	67
Volkswagen Group Insurance and Risk Management Services Ltd.	245	-
Volkswagen Financial Services AG	172	-
E. Winter Autom. GmbH&Co. KG	16	-
Volkswagen Bank Polska S.A.	82	-
Volkswagen Group Sales India P.L.	1,007	-
Other	47	29
Other related parties*		
e4t electronics for transportation s.r.o.	53	54
SAIC-Volkswagen Sales Company Ltd.	-	300
Other related parties	2	2
Total	62,636	53,032

* Items in category Other related parties do not meet the definition of a controlled entity pursuant to § 66a of the Act No. 513/1991 Coll., Commercial Code, as amended.

Receivables from related parties (CZK million)

	31.12.2008	31.12.2007
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	226	201
Associates		
OOO VOLKSWAGEN Rus	3,972	429
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	15	36
VOLKSWAGEN Group United Kingdom Ltd.	8	138
Groupe VOLKSWAGEN France s.a.	10	104
VOLKSWAGEN SLOVAKIA, a.s.	33	38
Volkswagen Navarra, S.A.	70	54
Volkswagen Group Sverige AB	24	44
Volkswagen do Brasil Ltda.	28	97
Import VOLKSWAGEN Group s.r.o.	59	51
OOO VOLKSWAGEN Group Rus	557	801
Volkswagen-Audi España S.A.	-	173
ŠkoFIN s.r.o.	19	273
AUDI AG	31	17
SEAT, S.A.	62	98
Volkswagen Group Italia S.p.A	2	74
Gearbox del Prat, S.A.	9	5
Volkswagen Group Australia Pty. Ltd.	48	239
Volkswagen Bank GmbH	10	10
Volkswagen Leasing GmbH	15	31
AUDI BRUSSELS S.A./N.V.	108	159
Volkswagen India Private Ltd.	47	-
VOLKSWAGEN SARAJEVO, d.o.o	130	188
Other	43	7
Other related parties*		
Shanghai Volkswagen Automotive Co. Ltd.	709	11
Other related parties	13	
Total	6,248	3,278

* Items in category Other related parties do not meet the definition of a controlled entity pursuant to § 66a of the Act No. 513/1991 Coll., Commercial Code, as amended.

Receivables from related parties in all disclosed categories of related parties include only trade receivables, with an exception of the receivable from Shanghai Volkswagen Automotive Co. Ltd. that aside from trade receivables, consists of receivables from royalties in of CZK 205 million (as at 31 December 2007: CZK 0 million).

All receivables from related parties have arisen from transactions, which were realised on an arm's length basis.

No impairment loss was identified for any of the receivables from related parties.

Receivables from related parties are considered by the Group to be of the least risk. The products are supplied with payment at a due date, secured by an advance payment or they are transferred to factors.

In addition to receivables stated in the table above, the Group provided as at 31 December 2008 loans to VOLKSWAGEN AG of CZK 22,127 million (31 December 2007: CZK 22,000 million), ŠkoFIN s.r.o. of CZK 3,000 million (31 December 2007: CZK 3,000 million), Import VOLKSWAGEN Group s.r.o. of CZK 0 million (31 December 2007: CZK 300 million), ŠKO-ENERGO, s.r.o. of CZK 520 million (31 December 2007: CZK 254 million) and Volkswagen India Private Ltd. of CZK 74 million (31 December 2007: CZK 0 million). Interest from these loans outstanding as at 31 December 2008 was CZK 45 million (31 December 2007: CZK 38 million).

Investment in associate is disclosed in note 7.

Liabilities to related parties (CZK million)

	31.12.2008	31.12.2007
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	1,239	826
Associates		
OOO VOLKSWAGEN Rus	2	1
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	98	160
Volkswagen Poznan Sp.z o.o.	14	17
VOLKSWAGEN Group United Kingdom Ltd.	159	186
Groupe VOLKSWAGEN France s.a.	63	62
Volkswagen de Mexico S.A. de C.V.	339	21
VOLKSWAGEN SLOVAKIA a.s.	232	18
Volkswagen Group Sverige AB	90	41
ŠkoFIN s.r.o.	6	42
Volkswagen-Audi España S.A.	316	91
AUDI AG	348	106
AUDI HUNGARIA MOTOR Kft.	284	787
Volkswagen Group Italia S.p.A	422	132
SEAT, S.A.	3	35
Volkswagen Bank GmbH	32	120
Volkswagen Original Teile Logistik GmbH	61	43
Volkswagen Leasing GmbH	31	16
VOLKSWAGEN OF AMERICA INC.	18	15
VOLKSWAGEN Finančné služby Slovensko	-	12
Volkswagen Group Sales India P.L.	427	-
Volkswagen Group Services	1,141	2,376
Volkswagen Motor Polska Sp.z o.o.	170	-
Volkswagen Group Australia Ptg. Ltd.	73	-
Volkswagen Logistics GmbH & Co OHG	489	1,164
Other	39	19
Other related parties*		
Other related parties	43	9
Total	6,139	6,299

* Items in category Other related parties do not meet the definition of a controlled entity pursuant to § 66a of the Act No. 513/1991 Coll., Commercial Code, as amended.

Liabilities to related parties represent for all the categories stated above only trade liabilities for all the categories stated above.

All liabilities relate from transactions concluded at common market conditions.

Information on key management personnel remuneration (CZK million)

	2008	2007
Salaries and other short-term employee benefits*	285	313
Post-employment benefits	9	32
Share-based payments	1	2
Total	295	347

* Salaries and other short-term employee benefits include besides the remuneration paid, payable or provided by the Company in the form of salaries, bonuses and non-monetary remuneration also health and social insurance paid by employer for employees.

The remuneration of the members of the Board of Directors, Supervisory Board and other key management personnel includes besides the remuneration paid, payable or provided by the Group in the form of salaries, bonuses and non-monetary remuneration also remuneration from other Volkswagen Group companies in exchange for services rendered to the Group. The remuneration from the other Volkswagen Group companies includes also awards to certain key management personnel in the form of share options to VOLKSWAGEN AG's shares.

Key management personnel include members of the Board of Directors, Supervisory Board and managers of the Company having authority and responsibility for planning, directing and controlling the activities of the Group. In 2008, the key management personnel included 48 persons (2007: 53 persons). CZK 105 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding at 31 December 2008 (31 December 2007: CZK 110 million).

28. Other information (CZK million)

The compensation paid to auditors for the accounting period was CZK 29 million (2007: CZK 28 million) and covered the following services:

	2008	2007
Audit and other assurance services	18	18
Tax and related services	5	2
Other advisory services	6	8
Total	29	28

29. Significant events after the balance sheet date

After the balance sheet date, there were no events that could have a significant impact on the consolidated financial statements of the Group for the year ended 31 December 2008.

As at 5 January 2009, the company Porsche Automobil Holding SE increased its share of the ordinary share capital of the company VOLKSWAGEN AG to 50.76%. In compliance with § 66a Article No. 5 of Act No. 513/1991 Coll., the Commercial Code, as amended, the company Porsche Automobil Holding SE has become the controlling entity of the Group and its related party according to IAS 24.

Effective from 12 January 2009, the merger of the company OOO VOLKSWAGEN Group Rus and the company OOO VOLKSWAGEN Rus (the associate), which ceased to exist through the merger, has been registered. As a result of the merger, the Company has become one of the shareholders of the company OOO VOLKSWAGEN Group Rus. As at the merger date, the Company's share of the share capital of the successor company OOO VOLKSWAGEN Group Rus was 16.80%.

30. Information about Volkswagen Group

ŠKODA AUTO a.s. is a subsidiary included in the consolidation group of its ultimate parent company, VOLKSWAGEN AG, with a registered office in Wolfsburg, the Federal Republic of Germany.

The Volkswagen Group consists of two divisions – Automotive and Financial Services. The activities related to the Automotive Division include the development of cars and aggregates, production and sale of passenger and commercial cars, trucks and buses as well as the business with spare parts. The following brands belong to Volkswagen Group: Volkswagen Passenger Cars, Audi, Škoda, SEAT, Volkswagen Commercial Vehicles and Bentley.

The Financial Services Division includes activities related to the dealer and customer financing, leasing, banking and insurance services and the fleet management.

Škoda Auto and its subsidiaries (ŠkodaAuto Deutschland GmbH, Skoda Auto Polska S.A., ŠKODA AUTO Slovensko, s.r.o. and Skoda Auto India Private Ltd.) and associate OOO VOLKSWAGEN Rus are included in the consolidation of Volkswagen Group's financial statements. These consolidated financial statements, and other information relating to the Volkswagen Group, are available in the annual report of VOLKSWAGEN AG and on the internet site of VOLKSWAGEN AG (website: www.volkswagenag.com).

Mladá Boleslav, 16 February 2009



Reinhard Jung
Chairman
of the Board of Directors



Holger Kintscher
Member
of the Board of Directors,
Commercial Affairs Department



Jana Šrámová
Director of Accounting



Marek Růžička
Head of Closing Accounts
and External Reporting

AUDITOR'S REPORT ON THE SEPARATE FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF ŠKODA AUTO A.S.

PricewaterhouseCoopers Audit, s.r.o.
Kateřinská 40/466
120 00 Prague 2
Czech Republic
Telephone +420 251 151 111
Facsimile +420 251 156 111

We have audited the accompanying separate financial statements of ŠKODA AUTO a.s. ("the Company"), which comprise the balance sheet as at 31 December 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies ("the financial statements"). Details of the Company are disclosed in note "Company information" to these financial statements.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2008, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

16 February 2009



PricewaterhouseCoopers Audit, s.r.o.
represented by



Petr Kříž
Partner



Pavel Kulhavý
Auditor, Licence No. 1538

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

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SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Income statement for the year ended 31 December 2008 (CZK million)

	Note	2008	2007
Sales	18	188,572	211,026
Cost of sales		165,600	180,865
Gross profit		22,972	30,161
Distribution expenses		7,590	7,964
Administrative expenses		4,223	3,701
Other operating income	19	7,750	3,754
Other operating expenses	20	6,273	3,229
Operating profit		12,636	19,021
Financial income		1,432	1,099
Financial expenses		781	674
Financial result	21	651	425
Profit before income tax		13,287	19,446
Income tax expense	23	2,020	3,554
Profit for the year		11,267	15,892

The notes on pages 138 to 175 are an integral part of these financial statements.

Balance sheet as at 31 December 2008 (CZK million)

ASSETS	Note	31.12.2008	31.12.2007
Intangible assets	5	13,779	13,908
Property, plant and equipment	6	41,999	40,323
Investments in subsidiaries	7	1,388	1,388
Investment in associate	8	1,822	485
Other receivables and financial assets	9	1,131	799
Non-current assets		60,119	56,903
Inventories	10	8,662	8,454
Trade receivables	9	8,452	7,268
Other receivables and financial assets	9	31,165	30,235
Cash	11	2,997	2,701
Current assets		51,276	48,658
TOTAL ASSETS		111,395	105,561

LIABILITIES	Note	31.12.2008	31.12.2007
Share capital	12	16,709	16,709
Share premium		1,578	1,578
Reserves	13	53,434	48,245
Equity		71,721	66,532
Non-current financial liabilities	14	1,998	1,997
Deferred tax liabilities	15	1,625	1,777
Non-current provisions	16	5,658	6,496
Other non-current liabilities		501	11
Non-current liabilities		9,782	10,281
Current financial liabilities	14	6,658	1,143
Trade payables	14	16,727	19,235
Other current liabilities	14	2,945	2,300
Income tax liabilities		49	2,354
Current provisions	16	3,513	3,716
Current liabilities		29,892	28,748
TOTAL LIABILITIES		111,395	105,561

The notes on pages 138 to 175 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2008 (CZK million)

	Note	Share capital	Share premium	Retained earnings	Other reserves*	Total equity
Balance as at 1 January 2007		16,709	1,578	38,309	1,411	58,007
Profit for the year		-	-	15,892	-	15,892
Financial derivatives**	14	-	-	-	1,054	1,054
Total recognised income for the year		-	-	15,892	1,054	16,946
Dividends paid		-	-	(8,430)	-	(8,430)
Transfer to statutory reserve fund		-	-	(544)	544	-
Share option scheme	28	-	-	-	9	9
Balance as at 31 December 2007		16,709	1,578	45,227	3,018	66,532
Balance as at 1 January 2008		16,709	1,578	45,227	3,018	66,532
Profit for the year		-	-	11,267	-	11,267
Financial derivatives**	14	-	-	-	1,038	1,038
Total recognised income for the year		-	-	11,267	1,038	12,305
Dividends paid		-	-	(7,117)	-	(7,117)
Transfer to statutory reserve fund		-	-	(795)	795	-
Share option scheme	28	-	-	-	1	1
Balance as at 31 December 2008		16,709	1,578	48,582	4,852	71,721

* Explanatory notes on Other reserves are presented in Note 13

** Explanatory notes on cash flow hedges are presented in Note 2.5.3.

The notes on pages 138 to 175 are an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2008 (CZK million)

	Note	2008	2007
Cash and cash equivalents at 1 January	17	28,293	25,319
Profit before income tax		13,287	19,446
Depreciation and impairment of non-current assets	5.6	10,698	11,671
Change in provisions	16	(1,041)	1,797
(Gain)/loss on disposal of non-current assets		26	(14)
Net interest (income)/expense	21	(659)	(353)
Change in inventories	10	(208)	464
Change in receivables		(717)	(2,325)
Change in liabilities		(2,870)	962
Income tax paid from operating activities		(4,709)	(3,816)
Interest paid		(501)	(695)
Interest received		1,178	1,112
Dividends and other income from investing activities		(125)	(112)
Other adjustments for non-cash transactions		425	9
Cash flows from operating activities		14,784	28,146
Purchases of non-current assets	5.6	(11,534)	(10,044)
Additions to capitalised development costs	5	(2,066)	(3,097)
Increase in financial investments	7.8	-	(1,078)
Increase in loans provided		(1,000)	-
Proceeds from sale of non-current assets		30	41
Proceeds from dividends and other investing activities		125	265
Cash flows from investing activities		(14,445)	(13,913)
Net cash flows (operating and investing activities)		339	14,233
Dividends paid		(7,117)	(8,430)
Change in liabilities from other financing	14	(806)	171
Repayment of bonds	14	-	(3,000)
Increase in loans received	14	6,300	-
Cash flows from financing activities		(1,623)	(11,259)
Net change in cash and cash equivalents		(1,284)	2,974
Cash and cash equivalents at 31 December	17	27,009	28,293

The notes on pages 138 to 175 are an integral part of these financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS 2008

Company information

Foundation and company enterprises:

ŠKODA AUTO a.s. was incorporated as a joint-stock company on 20 November 1990. The company's principal business activities are the development, production and sale of vehicles and related accessories.

Registered office: Tř. Václava Klementa 869
 293 60 Mladá Boleslav
 Czech Republic
 IČ: 00177041
 www address: www.skoda-auto.cz

The company is registered in the Commercial Register maintained with the Municipal Court in Prague, Section B, Insert 332, with File No. Rg. B 332.

Organisational structure of the company is divided into the following main areas:

- Chairman of the Board's department;
- Technical development;
- Production and logistic;
- Sales and marketing;
- Commercial affairs; and
- Human resource management.

The company has its main production plant in Mladá Boleslav and two other production plants in Vrchlabí and Kvasiny.

ŠKODA AUTO a.s. is a subsidiary included in the consolidation group of its ultimate parent company, VOLKSWAGEN AG ("Volkswagen Group"), with a registered office in Wolfsburg, the Federal Republic of Germany (for detail see Note 31).

Note

The financial statements have been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of these financial statements takes precedence over the English version.

1. Summary of significant accounting policies and principles

1.1 Summary statement

These financial statements are separate financial statements of ŠKODA AUTO a.s. ("the Company") for the year ended 31 December 2008 and relate to the consolidated financial statements of ŠKODA AUTO a.s. and its subsidiaries and associates for the year ended 31 December 2008. Users of these separate financial statements should read them together with the consolidated financial statements for the year ended 31 December 2008 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

The separate financial statements of the Company for the year ended 31 December 2008 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") as at the day these separate financial statements are published.

Refer to the Company information note on page 138 for the Company details.

All International Financial Reporting Standards issued by the IASB and effective for the accounting periods beginning on or after 1 January 2008 have been adopted by the European Union through the endorsement procedure established by the European Commission. As at 31 December 2008 the Council of the European Union has not endorsed the following interpretations: IFRIC 15, IFRIC 16, IFRIC 17 and amended or revised standards: IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 32 and IAS 39, which are not yet effective.

The Company, as an issuer of listed bonds, is obliged under paragraph 19 (9) of Act No.563/1991 on Accounting to prepare financial statements and an annual report in accordance with IFRS.

1.2 Adoption of new or revised standards, amendments and interpretations to existing standards

1.2.1 New standards, amendments and interpretations to existing standards mandatory for accounting period 2008

The following standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2008 do not have a material impact or are not relevant to the Company's operations:

- IFRIC 12 – Service Concession Arrangements (effective from 1 January 2008),
- IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from 1 January 2008).

The following standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2008 were fully adopted by the Company:

- IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions (effective from 1 March 2007). Interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. In connection with this interpretation, a Share option fund which is debited against the personnel cost category, has been defined as a new item within the Statement of changes in equity. Application of the interpretation did not have a material impact on the financial statements.

1.2.2 New standards, amendments and interpretations to existing standards published not yet effective

The following standards, amendments and interpretations will be relevant for the Company but were not early adopted by the Company:

- IAS 1 – Revised – Presentation of Financial Statements (revised September 2007; effective from 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.
- IFRS 8 – Operating Segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Company is currently assessing the impact of the amendment on its financial statements.

The following standards, amendments and interpretations will not be relevant for the Company or are not expected to have a material impact on the Company's operations:

- IAS 23 – Revised – Borrowing Costs (effective from 1 January 2009). The revised IAS 23 was issued in March 2008. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset.
- IAS 27 – Revised – Consolidated and Separate Financial Statements (effective from 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.
- Amendment to IAS 32 – Financial Instruments: Presentation and IAS 1 – Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 1 – Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability.
- Amendment to IAS 39 – Financial Instruments: Recognition and Measurement, and IFRS 7 – Amendment – Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments are applicable with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 takes effect only from the date when the reclassification is made.
- IAS 39 – Amendment – Financial Instruments: Recognition and Measurement (effective from 1 July 2009). The amendment provides guidance for identification of inflation as a hedged item and hedging with options. Inflation is subject to hedging only in the case that changes in inflation are contractual portion of financial instrument cash-flows. The amendment also specifies effectiveness of hedging by options.
- IFRIC 13 – Customer Loyalty Programmes (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.
- IFRIC 15 – Agreements for the Construction of Real Estate (effective from 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions.
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16.
- IFRIC 18 – Transfers of Assets from Customers (effective from 1 July 2009). The interpretation clarifies the accounting for transfer of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.
- IFRS 1 – Amendment – First-time Adoption of International Financial Reporting Standards and IAS 27 – Amendment – Consolidated and separate financial statements: The presentation of costs on investment to the subsidiaries at the first-time adoption of IAS/IFRS (effective from 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment.
- IFRS 2 – Amendment – Share-based Payment – Vesting conditions and cancellations (effective from 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment

- IFRS 3 – Revised – Business Combinations (effective from 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

Improvements to International Financial Reporting Standards (issued in May 2008)

In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, IAS 10, IAS 18, IAS 20, IAS 29, IAS 34, IAS 40, IAS 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

1.3 Comparative amounts

Due to the change in the method of presentation the Total Liabilities of the Associate disclosed in Note 8 "Investment in Associate" line has been increased by CZK 928 million to CZK 4,286 million in the comparable period. The adjustment reflects the fact that based on a puttable option, equity holders of OOO companies with registered office in the Russian Federation have the right to sell their shareholding back to the company at any time.

Due to the change in method of presentation of Contractual obligations and other future commitments (Note 25), the column "Payable until year end 2008" has been decreased by CZK 139 million to CZK 66 million in the comparable period and the column "Payable 2009-2012" has been decreased by CZK 259 million to CZK 0 million and the total in the column "31. 12. 2007" has been decreased by CZK 398 million to CZK 66 million. Newly adopted presentation discloses only the future minimum rates from non-cancellable operating leasing as required by IAS 17.

2. Basis of preparation of financial statements

The separate financial statements have been prepared under the historical cost convention, as modified by fair value measurement of available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss including all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Amounts in the financial statements and in the notes are disclosed in millions of Czech crowns (CZK million), unless stated otherwise.

2.1 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in CZK, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.2 Intangible assets

Purchased intangible assets are recorded at cost less amortisation and accumulated impairment losses. All research costs are recognised as expenses when incurred. In accordance with IAS 38, all development costs of new Škoda models and other products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility, and costs can be measured reliably. Capitalised development cost and other internally generated intangible assets are carried at cost less accumulated amortisation and impairment. If the criteria for recognition as an asset are not met, the costs are recognised in the income statement in the year in which they are incurred. The right to use Volkswagen's tooling is capitalised as an intangible asset. Capitalised costs include all direct costs as well as an appropriate portion of development-related overheads.

The development costs are amortised using the straight-line method from the start of production over the expected life cycle of the models or components. Amortisation recognised during the year is allocated to the relevant functions in the income statement.

Other intangible assets are amortised applying the straight-line method over their estimated useful lives as follows:

- | | |
|---------------------------------|---|
| - Development costs | 2 - 9 years according to the product life cycle |
| - Software | 3 years |
| - Royalties | 8 years |
| - Other intangible fixed assets | 5 years |

Intangible assets not yet available for use are tested annually for impairment and are carried at cost less accumulated impairment losses.

2.3 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and -where necessary - write-downs for impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

All repairs and maintenance costs, as well as borrowing costs, are charged to the income statement during the reporting period in which they are incurred. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over its estimated useful life as follows:

- | | |
|---|---------------|
| - Buildings | 10 - 50 years |
| - Technical equipment and machinery (incl. special tools) | 2 - 18 years |
| - Other equipment, operating and office equipment | 3 - 15 years |

2.4 Impairment of assets

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

2.5 Financial instruments

2.5.1 Financial Assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Assets in this category are classified as current assets. Realised and unrealised profits and losses from changes in the fair value of financial assets valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting period 2008 the Company had within this category only financial derivatives revalued to fair value, which did not fulfil conditions for hedge accounting and options on foreign exchange rates, for which the hedge accounting could not be applied. During the accounting period 2007 the Company did not have financial assets within this category.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade receivables, or other receivables and financial assets in the balance sheet (Note 9).

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Dividend income from these activities is included in other financial income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as a part of other operating revenues or expenses. In the accounting periods 2008 (2007) the Company had within the category of available-for-sale financial assets only investments to equity instruments that did not have quoted price in an active market.

Purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets, with the exception of financial assets carried at fair value through profit or loss, are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Equity instruments that do not have quoted price in an active market and their fair value can not be reliably measured are valued at cost. Long-term loans and receivables are carried at amortised cost using the effective interest method.

The Company determines at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Initially the Company determines, in line with IAS 39, if objective evidence exists that individually material financial assets are impaired and performs the same assessment individually or collectively for individually immaterial financial assets. In the event that the Company does not find objective evidence of impairment for individually assessed financial assets, whether material or not, these assets are included in the group of financial assets with common credit risk characteristics and the group of common financial assets is assessed collectively for impairment. Individual assets for which objective evidence of impairment has been identified are not included in a group of assets that are assessed collectively for impairment.

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired.

The trade receivables are considered to be impaired if objective evidence exists at the balance sheet date that the Company will not be able to collect all outstanding balances in accordance with initially agreed conditions. Significant financial difficulties, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delays in payment of liabilities are considered indicators that trade receivables are impaired. For trade receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. When the receivable is assessed as uncollectible, an allowance equal to 100% of the receivable balance is created. For other receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. The value of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the receivable. The value of the allowance is recognised in the income statement within Other operating expenses. When the receivable cannot be collected through legal action (i.e. the receivables have lapsed; insufficient assets due to bankruptcy of the debtor; debtor was liquidated without a legal successor, etc.), it is written off through profit and loss and the allowance is utilised.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

d) Investments in subsidiaries and associates

Investments in subsidiaries and associates are carried in the separate financial statements at cost.

2.5.2 Financial liabilities

a) Financial liabilities measured at fair value through profit and loss

Financial liabilities at fair value through profit or loss are financial liabilities that are derivatives, which do not fulfil the hedge accounting conditions. During the accounting period 2008 the Company had in this category only derivatives carried at fair value that did not fulfil the function of effective hedging instrument. During the accounting period 2007 the Company had no financial liabilities in this category.

b) Financial liabilities measured at amortised cost

The Company's liabilities that were transferred by original creditor to a factoring company are classified as financial liabilities. Long-term liabilities are measured at fair value net of transaction costs at initial recognition. Subsequent measurement is at amortised cost by applying the effective interest rate method.

2.5.3 Financial derivatives

The Company uses derivatives to hedge interest rate and currency risks. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument or instrument held for trading. The Company designates as hedging instruments only those which fulfil the requirement of a hedge accounting.

The Company uses derivatives to hedge future cash flows. The hedged items are as follows:

- Highly probable future transactions; and
- Cash flow from selected liabilities.

The Company is hedging against changes in cash flows from selected liabilities caused by changes in interest rates and against changes in cash flows from highly probable future transactions caused by changes in forward foreign exchange rates for expected maturity of transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Amounts accumulated in equity are recycled into the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity from the effective part of the hedging instrument at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Certain derivative instruments do not qualify for hedge accounting according to IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as by discounting the future cash flows at the market interest rates. The fair value of forward foreign exchange contracts is determined as present value of future cash flows based on forward exchange market rates at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of future cash flows based on market interest rates at the balance sheet date.

2.6 Deferred income tax

Deferred income tax is provided, using the balance-sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

Deferred income tax is determined using tax rates and tax laws, that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In accordance with IAS 12, deferred tax assets and liabilities are offset if the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority, and where the Company has the enforceable right to offset the current tax assets and liabilities.

Deferred tax relating to items recognised directly in equity (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges) is also recognised directly in equity.

The Company recognises deferred income tax assets on unused investment tax credits against deferred tax income in the income statement to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

2.7 Inventories

Purchased inventories (raw materials, consumables, supplies and materials used in production, goods) are stated at the lower of cost and net realisable value. Costs include purchase costs and other acquisition costs (e.g. transport, customs duty, and packaging).

Inventories generated from own production, i.e. work in progress and finished goods, are stated at lower of own production costs or net realisable value. Own production costs include direct material, direct wages and production overheads. The administration overhead expenses are not included in the valuation of work in progress and finished goods.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion less applicable variable selling expenses. Net realisable value reflects all risks of obsolete and redundant raw materials and excessive original parts.

A weighted-average calculation is used to account for the consumption of materials and for all sales.

2.8 Provisions for long-term employee benefits

The following types of long-term employee benefits are included in the provision for long-term employee benefits:

- service jubilee;
- long service benefits.

The entitlement to these benefits is usually conditional on the employee remaining in service for a certain service period, e.g. up to the retirement age in the case of other long service benefits or up to the moment of the completion a certain work anniversary of the employee. The amount of provision corresponds to the present value of the long-term employee benefits at the balance sheet date using the projected unit credit method.

These obligations are valued annually by independent qualified actuaries. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustment are charged or credited to the income statement.

The present value of the long-term employee benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds to the balance sheet date. If a market of such bonds does not exist, the Company uses the market yield of treasury bonds. The conditions and currency of these corporate or treasury bonds are consistent with the currency and conditions of the respective other long-term employee benefits.

2.9 Other provisions

In accordance with IAS 37, provisions are recognised where a present obligation exists to third parties as a result of a past event; where a future outflow of resources is probable; and where a reliable estimate of that outflow can be made. Future outflows are estimated with respect to particular specific risks. Provisions not resulting in an outflow of resources within one year are recognised at their settlement value discounted to the balance sheet date based on the effective interest rate method. Discounting is based on market interest rates.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.10 Share based payments

The ultimate parent company VOLKSWAGEN AG provides the option for the acquisition of ordinary shares of VOLKSWAGEN AG to its employees in line with the share option plan established based on decision of the board of directors with the approval of the supervisory board of VOLKSWAGEN AG and authorization of the annual general meeting held on 19 June 1997. The share option plan entitles qualified employees for a subscription of convertible bonds of VOLKSWAGEN AG for a price of EUR 2.56 per convertible bond. Each convertible bond is convertible into 10 ordinary shares of VOLKSWAGEN AG.

The costs relating to share option plan are debited by the Company to the income statement and, as the costs are not invoiced by VOLKSWAGEN AG to the Company, the corresponding amounts are credited to share option reserve in equity as a capital contribution.

These equity-settled share based payments are measured at fair value at the date of being granted to the employees and are accrued over the vesting period. The fair value of the convertible bonds is estimated using a binomial option pricing model.

2.11 Revenue and expense recognition

Revenue comprises the fair value of consideration received or receivable for the goods sold and services provided, net of value-added tax, rebates and discounts.

Sales of goods are recognised only when the goods have been delivered, that is, when the significant risks and rewards have passed to the customer, the sales price is agreed or determinable and receipt of payment is probable. This corresponds generally to the date when the products are provided to dealers outside the Company or to the delivery date in the case of direct sales to consumers.

Income from the license fees is recognised in accordance with the substance of the relevant agreements. Dividend income is generally recognised on the date at which the dividend is legally approved and when the payment is probable.

Costs of sales include production costs, costs of goods purchased for resale, and additions to warranty provisions. Research and development costs not eligible for capitalisation in the period and amortisation of capitalised development costs are likewise presented as cost of sales.

Distribution expenses include personnel and material costs, and depreciation and amortisation applicable to the distribution function, as well as the costs of shipping, advertising, sales promotion, market research and customer service.

Administrative expenses include personnel costs and overheads as well as depreciation and amortisation applicable to administrative functions.

2.12 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.13 Investment incentives and subsidies

The Company recognises deferred income tax assets on unused investment tax credits against deferred tax income in the income statement to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

Subsidies of entrepreneurial activities and of employee training and retraining costs are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants, including non-monetary grants related to the purchase of tangible and intangible assets, are recognised at fair value as deferred income in non-current liabilities and amortised to the income statement in proportion to the depreciation charge for the related asset.

2.14 Related parties

Related parties as defined by IAS 24 are parties that the Company has the ability to control, are under common control, or over which it can exercise significant influence, or parties that have the ability to control or exercise significant influence over the Company.

2.15 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.16 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions are continuously assessed by management. The estimates and assumptions are based on historical experience and other factors, including the realistic assessment of future developments. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for warranty claims

The Company recognises provisions for warranty claims for future expenses connected with the basic guarantee (2 years), with the guarantee for corrosion (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic guarantee, especially goodwill (the 3rd and the 4th year). The Company recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model line.

The amount of the rate for the basic guarantee is determined on the basis of a management estimate of the average number of failures in the guarantee period and average single failure costs with regard to the specifics of individual countries and on the basis of other specific assumptions (inflation, customers groups development, etc.). The amount of the provision for corrosion is determined through a mathematical model which extrapolates the curve of future costs development for the relevant period on the basis of weighted average of actual values of costs from previous calendar years of the model production. The amount of the provision for goodwill is determined on the basis of a management estimate of existing goodwill costs and defined strategy of the goodwill trademark policy with regard to specifics of individual countries.

The estimates of the rates are continuously revised with the use of the most recent historical data about the number of failures and their repair-costs. Changes in these estimates can significantly influence the total amount of the provision. The detailed analysis of the provision according to the single types, production years, guarantee types and the sales regions is prepared at the year end.

3. Financial risk management

The Company operates in the automotive industry and sells its products in many countries around the world and performs transactions connected with a variety of financial risks. The objective of the Company is to minimize these risks through application of flexible hedging strategy with utilisation of various instruments. In compliance with the Volkswagen Group policy all hedging operations are reconciled and implemented in cooperation with the Treasury department of Volkswagen Group.

The Board of Directors of the Company is regularly informed of the current financial and other related risks (free liquidity, foreign exchange rates, interest rates, invoice currencies, payment conditions, taxes etc.), which is achieved through regular "liquidity meeting" attended by representatives from Treasury, Controlling and Accounting, Volkswagen Group Treasury, representatives of subsidiaries and management of Commercial affairs department. These meetings have predefined agenda, which includes also information on main macroeconomic indicators from all important countries, in which the Company sells its products. Meetings have a formalised structure and all minutes including the decisions are recorded and their fulfilment is periodically reviewed.

The global financial crisis deepened the global liquidity crisis, which gradually resulted in i.e. lower financing dimensions through the capital market, in decreased level of banking sector liquidity and in a huge instability of stock markets. The uncertainty on global financial markets also led to defaults of significant bank institutions. The impact of the global financial crisis on the Czech financial sector was not primary – banks did not have large exposure to foreign securities and they were not dependent on money from the central bank as well. In spite of above-mentioned, Czech bank institutions battled especially with low liquidity on the government bonds market and generally low transaction volume on interbank market.

The global financial crisis also reflected the development of world economy, which should go according to a prediction of the World Bank through a deep recession in 2009. As far as the Company's key supply areas are concerned, the recession has already begun in Germany and Great Britain. As far as other economies are concerned, a significant slow-down of growth is expected.

In contrast to the economic crisis which will result in decrease of sales volume, the Company does not expect a significant impact of the global financial crisis on its financial position.

Nevertheless, the Company's management is ready to use all necessary measures to support the sustainable development and growth of Company's activities and to effectively react to chances, which the financial and economic crisis brings, especially to the decrease in prices of some key commodities.

The estimate of impacts of the global financial crisis on the financial position of the Company and other financial indicators are presented further in individual chapters of financial risk management.

3.1 Credit risk

Credit risk is a risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk arises in the normal course of the Company's operations, as well as through activities connected to the financial markets (money market, currency conversion, derivatives transactions, etc.).

The quantification of credit risks is based on several different primary criteria, of which the most significant are the country risk and the counterparty risk. In assessing these risks, attention is paid to the country in which the headquarters of the counterparties are situated. The credit rating of these countries is monitored closely and attention is focused on the analysis of macroeconomic indices. Considerable support in this area is provided by VOLKSWAGEN AG, and consultations take place on a case by case basis with the Volkswagen Group's Risk Management Department. Apart from the Volkswagen Group's Risk Management Department, the Company also uses the services of external agencies (D&B, Creditreform, Reuters, etc.).

The acceptance of new business partners is reliant on standard approval procedures. The Company's involvement with counterparties is managed by means of credit limits that are monitored and re-evaluated on a regular basis.

Active administration and management of receivables is incorporated into the credit risk management process. In respect of the trade receivables security strategy, trade receivables are divided into receivables from domestic customers, foreign customers, Volkswagen Group entities and subsidiaries. The Company uses factoring and other standard financial market instruments such as forfaiting, bank guarantees, letters of credit and advance payments are used to reduce the risk. In addition, the following instruments and their combinations are used to secure high-risk receivables: acknowledgements of debt, payment schedules and bills of exchange.

Loans to employees are secured by other employee guarantee.

During the accounting period 2008 (2007) the Company did not accept any pledges to secure loans.

3.1.1 Maximum exposure to credit risk (CZK million)

The maximum exposure to credit risk in case of activities connected to business operations, granting of loans, supplier credits provided to customers and bank deposits is calculated as the gross carrying amount of the above mentioned financial assets less any impairment provisions. The exposure to credit risk of derivatives is measured at fair value of the derivative.

	Carrying amount as at 31 December 2008			Total
	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	
Loans to employees	339	-	-	339
Loans to Volkswagen Group companies	25,015	-	-	25,015
Positive fair value of financial derivatives	4,333	-	-	4,333
Others	457	-	2	459
Trade receivables	5,421	3,031	-	8,452
Cash	2,997	-	-	2,997
Total	38,562	3,031	2	41,595

Maximum exposure to credit risk (CZK million)

	Carrying amount as at 31 December 2007			Total
	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	
Loans to employees	300	-	-	300
Loans to Volkswagen Group companies	25,592	-	-	25,592
Positive fair value of financial derivatives	1,832	-	-	1,832
Others	351	-	6	357
Trade receivables	6,478	790	-	7,268
Cash	2,701	-	-	2,701
Total	37,254	790	6	38,050

3.1.2 Risk concentration

The Company monitors concentration of credit risk by distribution regions and by the denomination currency. The sensitivity of the Company to foreign exchange risk is disclosed in note 3.3.1. During the accounting period 2008 (2007) the Company did not identify a significant risk concentration on the basis of distribution region. Significant portion of financial assets was of intra-group nature and the Company did not consider as probable that a default could occur. Possible risk of unpaid receivables from third parties was individually not significant (spread between various debtors and regions).

3.1.3 Solvency of financial assets not yet due and not impaired (CZK million)

The Company uses the following criteria when setting ratings of financial assets that are not yet due and not impaired. Solvency class 1 includes receivables and loans from related parties and receivables from third parties (hedged receivables and receivables that will be subject to factoring without recourse) for which there is no objective evidence indicating impairment. Solvency class 2 includes unsecured trade receivables from third parties for which there is no objective evidence indicating impairment (receivables from dealers without risk and receivables from dealers with schedule of payments).

Balance as at 31 December 2008	Solvency class 1	Solvency class 2	Total
Loans to employees	339	-	339
Loans to Volkswagen Group companies	25,015	-	25,015
Positive fair value of financial derivatives	4,333	-	4,333
Other receivables and financial assets	457	-	457
Trade receivables	5,128	293	5,421
Cash	2,997	-	2,997
Total	38,269	293	38,562

Balance as at 31 December 2007	Solvency class 1	Solvency class 2	Total
Loans to employees	300	-	300
Loans to Volkswagen Group companies	25,592	-	25,592
Positive fair value of financial derivatives	1,832	-	1,832
Other receivables and financial assets	351	-	351
Trade receivables	6,084	394	6,478
Cash	2,701	-	2,701
Total	36,860	394	37,254

3.1.4 Carrying amount of financial assets past due and not impaired (CZK million)

	Months past due			Total
	Less than 1 month	1-3 month	More than 3 months	
Trade receivables				
Balance as at 31 December 2008	2,009	700	322	3,031
Balance as at 31 December 2007	623	113	54	790

Receivables older than 3 months are hedged, therefore there is no risk of impairment loss.

3.1.5 Valuation allowance for receivables and other financial assets (CZK million)

Impairment status and development of other receivables and trade receivables has been analysed as follows:

	2008	2007
Other receivables and financial assets		
Gross balance as at 31 December	288	292
Valuation allowance:		
Balance as at 1 January	(286)	(339)
Additions	(2)	-
Utilised	2	30
Released	-	23
Balance as at 31 December	(286)	(286)
Net balance as at 31 December	2	6
Trade receivables		
Gross balance as at 31 December	268	245
Valuation allowance:		
Balance as at 1 January	(245)	(268)
Additions	(36)	(8)
Utilised	4	22
Released	9	9
Balance as at 31 December	(268)	(245)
Net balance as at 31 December	-	-

During the accounting period 2008 (2007) the Company had valuation allowances on individual financial assets only. During the accounting period 2008 the Company had valuation allowances only on financial assets included in category of loans and receivables.

3.1.6 Estimate of the impact of the global financial crisis on the Company in the area of credit risk

The credit crisis could have an influence on payment discipline of debtors. The Company's debtors can be influenced by lower liquidity, which can influence their ability to pay outstanding amounts. The Company's management believes that under current circumstances it uses all necessary instruments in the area of credit risk management (especially hedging instruments) to support the sustainable development and growth of Company's activities.

The worsening operating position of debtors could also have an impact on judgment whether the financial assets should be impaired. With respect to the extent of available information, the Company's management considered this risk and found it insignificant.

3.2 Liquidity risk

Liquidity risk is a risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The objective of liquidity risk management is to ensure the balance between the funding of operating activities and financial flexibility in order to ensure that all claims of the Company suppliers and creditors are settled timely.

Management of the Company monitors the liquidity at the regular monthly meetings, so called "liquidity meetings", attended by the representatives of Treasury, Controlling and Accounting departments. The predetermined agenda generally includes the information about daily development of liquidity and its structure. The Company management is also presented with the short-term forecasts of the liquidity development

Contracted lines of credit are available at various banks, at 31 December 2008 in total amount of CZK 7,600 million, in the event that the Company cannot meet its liquidity requirements. The use of these credit lines is limited according to internal guidelines of the Company. As at 31 December 2008 the Company drew CZK 6,300 million on agreed credit lines. (The Company did not draw any contracted credit lines as at 31 December 2007.)

Contractual maturity analysis (undiscounted amounts in CZK million)

Balance as at 31 December 2008	Less than 3 months	3-12 months	1-5 years	Longer than 5 years	Unspecified*	Total
Cash	2,997	-	-	-	-	2,997
Other receivables and financial assets (except derivatives)	24,512	1,113	253	60	40	25,978
Trade receivables	5,421	-	-	-	3,031	8,452
Financial liabilities	(5,694)	(1,119)	(2,044)	-	-	(8,857)
Other liabilities (except derivatives)	-	-	-	-	(50)	(50)
Trade payables	(14,227)	(203)	-	-	(1,924)	(16,354)
Derivatives with positive fair value:						
Currency forwards						
Inflow of financial resources	9,893	25,649	11,364	-	-	46,906
Outflow of financial resources	(9,297)	(24,121)	(11,049)	-	-	(44,467)
FX compound options						
Inflow of financial resources	-	-	-	-	-	-
Outflow of financial resources	-	-	-	-	-	-
Derivatives with negative fair value:						
Currency forwards						
Inflow of financial resources	1,896	5,141	3,602	-	-	10,639
Outflow of financial resources	(2,154)	(5,859)	(4,061)	-	-	(12,074)
Interest swaps	-	(1)	(39)	-	-	(40)
Total	13,347	600	(1,974)	60	1,097	13,130

Balance as at 31 December 2007	Less than 3 months	3-12 months	1-5 years	Longer than 5 years	Unspecified*	Total
Cash	2,701	-	-	-	-	2,701
Other receivables and financial assets (except derivatives)	25,953	66	192	78	23	26,312
Trade receivables	6,478	-	-	-	790	7,268
Financial liabilities	(1,129)	(83)	(2,174)	-	-	(3,386)
Other liabilities (except derivatives)	-	-	-	-	(13)	(13)
Trade payables	(13,897)	(22)	(25)	-	(4,676)	(18,620)
Derivatives with positive fair value:						
Currency forwards						
Inflow of financial resources	4,445	13,138	6,309	-	-	23,892
Outflow of financial resources	(4,051)	(12,147)	(5,762)	-	-	(21,960)
Interest swaps	-	-	12	-	-	12
Derivatives with negative fair value:						
Currency forwards						
Inflow of financial resources	2,711	8,410	2,804	-	-	13,925
Outflow of financial resources	(2,775)	(8,647)	(2,827)	-	-	(14,249)
Total	20,436	715	(1,471)	78	(3,876)	15,882

* Unspecified represents the un-discounted cash flows from un-invoiced deliveries where it is not possible to determine the invoice maturity (the usual maturity is six months) as well as past due receivables for which separate maturity cannot be determined.

3.2.1 Estimate of the global financial crisis impact on Company's liquidity

The global financial crisis deepened the global liquidity crisis which resulted in i.e. decrease of the level of bank sector liquidity, which resulted in tightening of credit conditions.

Identically as in previous years, in 2008 cash and cash equivalents significantly exceeded the net debt of the Company (see note 3.5). In previous years (2006 and 2007) the Company used almost only its own resources to finance its activities and did not draw on agreed credit lines. The Company reported several years in a row a record free liquidity, which creates sufficient space for financing the business activities even in the period of recession.

With respect to the above-mentioned facts, and in spite of significant decrease in corporate financing, the Company does not expect that these circumstances could influence its ability to pay its liabilities. On the other hand, the worsening operating situation of Company's debtors could influence the prognosis of cash flows prepared by Company's management. With respect to the extent of available information, the Company's management considered mentioned circumstances and adapted estimates of future cash flows.

3.3 Market risk

Market risk is a risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk includes three types of risks: currency risk, interest rate risk and price risk. Developments on the financial markets are considered to be the most significant risk factor, especially the fluctuation of exchange rates.

3.3.1 Currency risk

Currency risk is a risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

The fluctuation of exchange rates represents significant risk in that the Company sells its products, and purchases material, parts and services concurrently in various foreign currencies. The Company actively manages this risk through continually updated market analysis, worldwide procurement of material and equipment and production of its products in the sales regions. Standard derivative hedging instruments are used by the Company to manage the currency risk. The risk exposure, as determined by the analysis of income and expense structures by foreign currency, is hedged on the basis of expected future foreign currency cash flows.

Forward exchange contracts, currency swaps and from accounting period 2008 also the options on foreign exchange forwards are used hedging instruments. The basic parameters of the hedging policy are defined by the hedging directive valid for the entire Volkswagen Group, which includes also the list of permitted hedging instruments. Hedging contracts are concluded in the name of the individual Company companies of the Treasury Department of the Volkswagen Group. The most important trading currencies are the EUR, USD, GBP and RUB. In addition to these currencies, currencies of the other European and non-European markets are hedged.

The Company applies hedge accounting for currency risk.

For the analysis of sensitivity to exchange rates please refer to note 3.4.1.

3.3.2 Interest rate risk

Interest rate risk is a risk that the fair value of future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

The objective of the interest rate risk management is to eliminate the risk arising from fluctuations of interest rates of financial liabilities with floating interest rates by maintaining an appropriate structure of financial liabilities.

The management of the Company monitors the interest rate risk at the regular monthly meetings attended by the representatives of Treasury, Controlling and Accounting departments. The predetermined agenda generally includes the following - information about current development of interbank interest rates (especially PRIBOR, EURIBOR and LIBOR) and information about central banks' interest rates in the regions where the Company operates. The Company management is also presented with the short-term forecasts of the interest rates development.

The exposure to interest rate risk arises from short-term loans provided to the Volkswagen Group companies, and from issued bonds with floating interest rate. Interest rate swaps are used to hedge against interest rate risks in this area.

The Company applies hedge accounting for cash flow interest rate risk.

For the analysis of sensitivity to interest rates please refer to note 3.4.2.

3.3.3 Price risk

Price risk is a risk that the fair value of future cash flows from the financial instruments will fluctuate because of changes in market prices (apart from that which result from currency and interest risk).

Due to the continuous increase in the prices of the raw material commodities, price volatility and limited accessibility to specific commodities, management has aimed to eliminate these risks through target risk management strategies. In this regard, utilisation of alternative production materials and procedures as well as utilisation of recycled material is being examined. In addition, emphasis is placed on extending the international supply chain in co-operation with the Volkswagen Group. High risk commodities include primarily aluminium, copper, palladium, lead, platinum and rhodium. Those commodities identified as high risk are controlled at the Volkswagen Group level through the long term supply contracts with the suppliers. All commodity derivative hedging transactions are concluded centrally in the name of the company VOLKSWAGEN AG and therefore are not financial instruments of the Company. From 1 January 2009 the commodity derivative hedging transactions will be concluded in the name of the Company.

The Company did not own any financial instruments as at 31 December 2008 (31 December 2007) that would expose the Company to commodity price risk.

3.3.4 Derivative financial instruments

Nominal and fair value of derivatives (CZK million)

	Nominal value of derivatives				Fair value of derivatives			
	Balance as at 31 December 2008		Balance as at 31 December 2007		Balance as at 31 December 2008		Balance as at 31 December 2007	
	With positive fair value	With negative fair value	With positive fair value	With negative fair value	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps - cash flow hedging	-	2,000	2,000	-	-	37	11	-
Currency instruments								
Currency forwards - cash flow hedging	46,450	10,639	23,892	14,219	4,326	1,503	1,821	307
Compound currency options	271	-	-	-	7	-	-	-
Total	46,721	12,639	25,892	14,219	4,333	1,540	1,832	307

The fixed interest rates for interest rate swaps fluctuated between 4.06% and 4.10% as at 31 December 2008 (2007: 3.39% and 4.10%).

Volume of hedged cash flows (CZK million)

Balance as at 31 December 2008	Volume of hedged cash flows		
	Within 1 year	1-5 years	Total
Interest risk exposure			
Hedging of receivables	-	-	-
Hedging of liabilities	(82)	(44)	(126)
Currency risk exposure			
Hedging of receivables	25,352	7,984	33,336
Hedging of liabilities	(16,292)	(7,369)	(23,661)
Total	8,978	571	9,549

Balance as at 31 December 2007	Volume of hedged cash flows		
	Within 1 year	1-5 years	Total
Interest risk exposure			
Hedging of receivables	-	-	-
Hedging of liabilities	(83)	(178)	(261)
Currency risk exposure			
Hedging of receivables	20,294	5,717	26,011
Hedging of liabilities	(7,053)	(2,848)	(9,901)
Total	13,158	2,691	15,849

The Company has no significant trading derivatives.

3.3.5 Estimate of the impact of the global financial crisis on the Company in the area of market risk

The global financial crisis resulted in an instability of stock and other financial markets. As a consequence of the current instability on financial markets, regular transactions do not occur under common market conditions and markets are becoming less liquid.

With respect to its foreign activities, the Company is exposed to the risk of fluctuation in foreign exchange rates. In the current situation the Company's management is not able to estimate reliably all impacts of further worsening and growing instability of monetary markets on the financial position of the Company. However, the Company's management believes that under current circumstances it uses all necessary instruments in the area of risk management to support the sustainable development and growth of its activities.

The Company did not and does not invest its free liquidity into traded securities and therefore it is not exposed to the risk of decrease of their prices.

3.4 Sensitivity analysis

3.4.1 Sensitivity to exchange rates

The Company is exposed to the foreign currency risk arising mainly from transactions performed with EU countries (EUR) and with the subsidiary Skoda Auto India Private Ltd. located in India (EUR). The foreign currency risk is measured against the functional currency (CZK) as at the balance sheet date, when the financial assets and liabilities denominated in foreign currencies are recalculated to CZK by applying the Czech National Bank exchange rate.

The sensitivity analysis includes only the unpaid financial assets and liabilities denominated in foreign currencies, and measures the impact from recalculation of these items as at balance sheet date by using adjusted exchange rates published by Czech National Bank. The Company considers the movements of exchange rates EUR and GBP against CZK in the following period +10% (appreciation of CZK) and -10% (depreciation of CZK) possible. The Company considers the movements of exchange rates USD and RUB against CZK in the following period +20% (appreciation of CZK) and -20% (depreciation of CZK) possible.

The sensitivity analysis to exchange rate changes is based on the assumption of expected possible exchange rate movements.

The following table presents possible impact on profit and loss and on equity before tax of expected possible appreciation or depreciation of CZK to foreign currencies:

2008 (CZK million)	CZK appreciation by 20%		CZK appreciation by 10%			Total
	USD	RUB	EUR	GBP	other currencies	
Income statement						
Non-derivative financial instruments	(138)	(904)	669	14	(2)	(361)
Equity						
Derivative financial instruments	2,867	539	(2,399)	547	922	2,476

2008 (CZK million)	CZK depreciation by 20%		CZK depreciation by 10%			Total
	USD	RUB	EUR	GBP	other currencies	
Income statement						
Non-derivative financial instruments	138	904	(669)	(14)	2	361
Equity						
Derivative financial instruments	(2,867)	(539)	2,399	(547)	(922)	(2,476)

2007 (CZK million)	CZK appreciation by 10%					Total
	USD	RUB	EUR	GBP	other currencies	
Income statement						
Non-derivative financial instruments	(93)	(122)	812	(26)	(69)	502
Equity						
Derivative financial instruments	233	65	(881)	802	1,358	1,577

2007 (CZK million)	CZK depreciation by 10%					Total
	USD	RUB	EUR	GBP	other currencies	
Income statement						
Non-derivative financial instruments	93	122	(812)	26	69	(502)
Equity						
Derivative financial instruments	(233)	(65)	881	(802)	(1,358)	(1,577)

3.4.2 Sensitivity to interest rates

The Company is exposed to interest rate risk mainly in relation to short-term loans provided to Volkswagen Group companies and due to the existence of financial liabilities arising from issued bonds with floating interest rate. Cash flow interest rate risk on the issued bonds is mitigated by interest rate swaps.

The analysis of sensitivity to changes in interest rates was based on exposure to derivative financial assets and liabilities as at balance sheet date, as well as to non-derivative financial assets and liabilities. The Company assumes possible movements of the yield curve in the following period by +/- 100 of basis points. The Company is most sensitive to movements of the CZK yield curve. In the case of derivative financial instruments, the Company measures the impact on the change in fair value of these derivatives that results from the change in the yield curve. For granted loans and issued bonds the impact on profit and loss is determined on the basis of defined change in the interest rate, which arose at the beginning of the accounting period and based on the assumption that no other changes in the interest rate occurred during the entire accounting period. Other non-derivative financial assets and liabilities are not considered to be sensitive to interest rate movements.

The following table presents possible impact on profit and loss and on equity before tax of expected increase (+100 basis points) or decrease (-100 basis points) of interest rates:

2008 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 100 basis points
Income statement		
Non-derivative financial instruments	198	(198)
Derivative financial instruments	20	(20)
Total	218	(218)
Equity		
Derivative financial instruments	28	(29)

2007 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 100 basis points
Income statement		
Non-derivative financial instruments	262	(262)
Derivative financial instruments	20	(20)
Total	282	(282)
Equity		
Derivative financial instruments	44	(46)

3.5 Capital risk management

The optimal capitalisation of the Company is the compromise between two interests - the return on capital and the ability to meet all liabilities when they become due.

The main objective of the Company in capital risk management is to keep a healthy ratio between the equity and liabilities in order to minimize the total cost of capital and in parallel maximize the Company value for the shareholder. The Company primarily monitors the capital structure by application of debt ratio, which is based on ratio of net debt to total capital. The net debt is a result of a difference between the total debt less cash and cash equivalents. Total debt includes long-term debts and short-term loans. Total capital is defined as sum of net debt and equity.

Balance as at 31 December	2008	2007
Total debt (CZK million)	8,656	3,140
Less cash and cash equivalents (CZK million)	27,009	28,293
Net debt (CZK million)	(18,353)	(25,153)
Equity (CZK million)	71,721	66,532
Total capital (CZK million)	53,368	41,379
Debt ratio in %	0	0

The debt ratio was zero during the accounting period 2008 (2007) as the net debt resulted in negative figure.

4. Segment reporting

Primary reporting format – business segments

At the end of 2008, the Company has identified only one business segment – development, production and sale of the passenger and utility cars, engines and original parts and car accessories. Other activities do not constitute a separate reportable segment as their financial results, revenues and total assets are not material in comparison to the business segment identified.

Secondary reporting format – geographical segments

The Company head office and main production facilities are situated in the Czech Republic.

Company's sales are generated from four basic geographical regions: the Czech Republic; Western Europe; Central and Eastern Europe; and Overseas/Asia/Africa/Australia. Overseas/Asia/Africa/Australia region is not considered to be a region with similar factors of economic environment, does not meet the criteria for a separately reportable segment and therefore is reported as Unallocated.

2008 (CZK million)	Czech Republic	Western Europe	Central and Eastern Europe	Unallocated	Total
Sales – based on location of customers	23,899	98,731	52,410	13,532	188,572
Costs incurred to acquire segment assets	12,300	-	1,337	-	13,637
Assets – according to their location	108,185	198	1,872	1,140	111,395

2007 (CZK million)	Czech Republic	Western Europe	Central and Eastern Europe	Unallocated	Total
Sales – based on location of customers	26,117	122,798	49,390	12,721	211,026
Costs incurred to acquire segment assets	13,397	-	-	-	13,397
Assets – according to their location	103,688	198	535	1,140	105,561

5. Intangible assets (CZK million)

	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs				
Balance as at 1 January 2008	24,212	4,821	3,347	32,380
Additions	512	1,554	551	2,617
Disposals	(8,965)	-	(57)	(9,022)
Transfers	2,927	(2,927)	7	7
Balance as at 31 December 2008	18,686	3,448	3,848	25,982
Cumulative amortisation and impairment losses				
Balance as at 1 January 2008	(16,310)	-	(2,162)	(18,472)
Amortisation	(2,326)	-	(401)	(2,727)
Disposals and transfers	8,965	-	31	8,996
Balance as at 31 December 2008	(9,671)	-	(2,532)	(12,203)
Carrying amount as at 31 December 2008	9,015	3,448	1,316	13,779

	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs				
Balance as at 1 January 2007	22,982	2,954	2,958	28,894
Additions	306	2,791	545	3,642
Disposals	-	-	(158)	(158)
Transfers	924	(924)	2	2
Balance as at 31 December 2007	24,212	4,821	3,347	32,380
Cumulative amortisation and impairment losses				
Balance as at 1 January 2007	(13,860)	-	(1,801)	(15,661)
Amortisation	(2,450)	-	(428)	(2,878)
Disposals and transfers	-	-	67	67
Balance as at 31 December 2007	(16,310)	-	(2,162)	(18,472)
Carrying amount as at 31 December 2007	7,902	4,821	1,185	13,908

Other intangible assets include mainly rights to use the equipment of other companies from the Volkswagen group, software and software licences.

Amortisation of intangible assets of CZK 2,595 million (2007: CZK 2,701 million) is included in the cost of sales, CZK 16 million (CZK 2007: 12 million) in distribution expenses, and CZK 116 million (2007: CZK 165 million) in administrative expenses.

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Company's management in relation to the global financial crisis and its potential impacts on the carrying amount of the Company's long-term intangible assets. Based on performed analyses, the Company has not identified any factors indicating a need to recognise impairment losses. The analyses included the expected impacts of the global financial crisis on the Company's business and on developments in individual sales markets in the following years.

The following amounts were recognised as research and development expenses (CZK million)

	2008	2007
Research and non-capitalised development costs	3,395	2,362
Amortisation of development costs	2,326	2,450
Research and development costs recognised in the income statement	5,721	4,812

6. Property, plant and equipment (CZK million)

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Payments on account and assets under construction	Total
Costs					
Balance as at 1 January 2008	26,161	54,729	37,466	5,811	124,167
Additions	528	2,831	2,687	4,974	11,020
Disposals	(34)	(2,738)	(1,451)	-	(4,223)
Transfers	975	1,460	2,018	(4,460)	(7)
Balance as at 31 December 2008	27,630	56,282	40,720	6,325	130,957
Cumulative depreciation and impairment losses					
Balance as at 1 January 2008	(8,443)	(45,677)	(29,724)	-	(83,844)
Depreciation	(1,023)	(2,986)	(4,056)	-	(8,065)
Reversal of cumulative impairment losses	-	120	6	-	126
Disposals and transfers	19	1,489	1,317	-	2,825
Balance as at 31 December 2008	(9,447)	(47,054)	(32,457)	-	(88,958)
Carrying amount as at 31 December 2008	18,183	9,228	8,263	6,325	41,999

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Payments on account and assets under construction	Total
Costs					
Balance as at 1 January 2007	24,844	51,864	34,706	4,540	115,954
Additions	610	2,114	2,328	4,703	9,755
Disposals	(89)	(518)	(933)	-	(1,540)
Transfers	796	1,269	1,365	(3,432)	(2)
Balance as at 31 December 2007	26,161	54,729	37,466	5,811	124,167
Cumulative depreciation and impairment losses					
Balance as at 1 January 2007	(7,449)	(41,960)	(27,247)	-	(76,656)
Depreciation	(1,015)	(4,334)	(3,366)	-	(8,715)
Reversal of cumulative impairment losses	-	78	-	-	78
Disposals and transfers	21	539	889	-	1,449
Balance as at 31 December 2007	(8,443)	(45,677)	(29,724)	-	(83,844)
Carrying amount as at 31 December 2007	17,718	9,052	7,742	5,811	40,323

Total depreciation of the buildings and equipment of CZK 7,532 million (2007: CZK 8,221 million) is included in the cost of sales, CZK 182 million (2007: CZK 190 million) in distribution expenses, and CZK 351 million (2007: CZK 304 million) in administrative expenses.

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Company's management in relation to the global financial crisis and its potential impacts on the carrying amount of the Company's long-term tangible assets. Based on performed analyses, the Company has not identified any factors indicating a need to recognise impairment losses. The analyses included the expected impacts of the global financial crisis on the Company's business and on developments in individual sales markets in the following years.

7. Investments in subsidiaries (CZK million)

	Country of incorporation	Book value		Shareholding %
		31.12.2008	31.12.2007	
Subsidiaries:				
ŠkodaAuto Deutschland GmbH	Germany	198	198	100
ŠKODA AUTO Slovensko, s.r.o.	Slovakia	49	49	100
Skoda Auto Polska S.A.	Poland	1	1	51
Skoda Auto India Private Ltd.	India	1,140	1,140	100
Total		1,388	1,388	

The subsidiaries' results are included in the consolidated results of the Company.

The subsidiaries in which the Company has a financial investment paid dividend to the Company in the amount of CZK 106 million (2007: CZK 85 million).

8. Investment in associate (CZK million)

	2008	2007
OOO VOLKSWAGEN Rus:		
Total Assets	21,646	4,286
Total Liabilities	21,646	4,286
Total Revenue	18,611	398
Loss	1,370	228
Statutory shareholding in %	32.9	30.0
Share of profits or losses in %	37.5	37.5

Total Assets and Total Liabilities are translated at the Czech National Bank exchange rate as at 31 December 2008 (31 December 2007). Total Revenue and Loss is translated at the Czech National Bank exchange rate for the year 2008 (2007).

On 26 October 2006, the Company acquired a 37.5% share in OOO VOLKSWAGEN Rus (Kaluga, Russian Federation) at cost of CZK 187 million. In 2007 the Company invested additional CZK 298 million to the share capital of this associate. In 2008 the Company increased the investment in share capital of OOO VOLKSWAGEN Rus in form of assets contribution in the amount of additional CZK 1,337 million. The share on the associate increased to 32.9% (2007: 30%).

The Company's share of profits or losses of the associate remained unchanged at 37.5%.

After the balance sheet date the company OOO VOLKSWAGEN Rus merged with the company OOO VOLKSWAGEN Group Rus. For more details please refer to note 30.

9. Other non-current and current receivables, financial assets and trade receivables (CZK million)

Balance as at 31 December 2008	Financial assets at fair value through profit or loss	Loans and receivables	Available for sale financial assets	Financial instruments designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	-	339	-	-	-	339
Loans to companies within Volkswagen Group (note 31)	-	24,495	-	-	-	24,495
Loans to associates	-	520	-	-	-	520
Positive fair value of financial derivatives	7	-	-	4,326	-	4,333
Available for sale financial assets	-	-	6	-	-	6
Tax receivables (except income tax)	-	-	-	-	2,052	2,052
Others	-	459	-	-	92	551
Total	7	25,813	6	4,326	2,144	32,296
Trade receivables						
Third parties	-	-	-	-	-	-
Subsidiaries	-	2,120	-	-	-	2,120
Other related parties	-	360	-	-	-	360
Other related parties	-	5,972	-	-	-	5,972
Total	-	8,452	-	-	-	8,452

Balance as at 31 December 2007	Loans and receivables	Available for sale financial assets	Financial instruments designated as hedging instruments	Other*	Total
Other receivables and financial assets					
Loans to employees	300	-	-	-	300
Loans to companies within Volkswagen Group (note 31)	25,338	-	-	-	25,338
Loans to associates	254	-	-	-	254
Positive fair value of financial derivatives	-	-	1,832	-	1,832
Available for sale financial assets	-	6	-	-	6
Tax receivables (except income tax)	-	-	-	2,730	2,730
Others	357	-	-	217	574
Total	26,249	6	1,832	2,947	31,034
Trade receivables					
Third parties	3,085	-	-	-	3,085
Subsidiaries	917	-	-	-	917
Other related parties	3,266	-	-	-	3,266
Total	7,268	-	-	-	7,268

* The category Other does not meet a definition of financial instruments in terms of IAS 32.

Fair value of Loans to employees is determined as present value of future cash flows based on PRIBID yield curve and at 31 December 2008 was CZK 349 million (31 December 2007: CZK 287 million). The carrying amount including impairment of any of the category Other financial assets which are not carried at fair value approximates fair value.

The weighted average effective interest rate based on the carrying amount of loans provided to Volkswagen Group companies as of 31 December 2008 was 3.69% (31 December 2007: 3.88%). All loans provided to Volkswagen Group companies are denominated in CZK.

Line Others in other receivables and financial assets include mainly other receivables from employees and advances paid. There are no significant restrictions regarding the rights of use imposed on the other receivables and financial assets. Cumulative impairment losses reflect the incurred risks of the debtors' delays or defaults.

The allowance for the impairment of trade receivables of CZK 268 million (2007: CZK 245 million) has been included in the presented values of trade receivables. The carrying amount of trade receivables approximates the fair value at the balance sheet date after the valuation allowance is taken into account.

10. Inventories (CZK million)

Structure of the inventories	Carrying value as at 31 December 2008	Carrying value as at 31 December 2007
Raw materials, consumables and supplies	2,625	2,531
Work in progress	1,807	1,695
Finished products	2,302	2,483
Goods	1,928	1,745
Total	8,662	8,454

The amount of inventories recognised as an expense during 2008 was CZK 163,676 million (2007: CZK 176,237 million).

11. Cash (CZK million)

	31.12.2008	31.12.2007
Cash in hand	4	3
Bank accounts	2,993	2,698
Total	2,997	2,701

The weighted effective interest rate based on the carrying amount of bank deposits as of 31 December 2008 was 1.54% (31 December 2007: 3.54%).

12. Share capital

The issued share capital consists of 1,670,885 ordinary shares at par value of CZK 10,000 per share. Volkswagen International Finance N.V., Amsterdam, The Kingdom of the Netherlands, holds 100% of the shares in the Company. The shares were purchased from VOLKSWAGEN AG on 18 July 2007 within the Volkswagen Group restructuring plan. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of VOLKSWAGEN AG.

There was no movement in the Company's share capital during the accounting period 2008 (2007: no movement).

In 2008 the Company paid a dividend of CZK 7,117 million (2007: CZK 8,430 million). In 2008 the dividend per share was CZK 4,259 (2007: CZK 5,045).

13. Other reserves (CZK million)

	31.12.2008	31.12.2007
Reserves for cash flow hedges*	2,211	1,173
Statutory reserve fund	2,631	1,836
Funds contributed by owner	10	9
Total	4,852	3,018

* Net of deferred tax from financial derivatives.

Movement in reserve for cash flow hedges:

Balance as at 1 January 2008 (CZK million)	1,173
Total change in fair value in the period	2,740
Deferred tax on change in fair value	(522)
Total transfers to net profit in the period - effective hedging	(1,374)
Total transfers to net profit in the period - ineffective hedging	(83)
Deferred tax on transfers to net profit	277
Balance as at 31 December 2008	2,211

Balance as at 1 January 2007 (CZK million)	119
Total change in fair value in the period	1,329
Deferred tax on change in fair value	(250)
Total transfers to net profit in the period - effective hedging	(38)
Total transfers to net profit in the period - ineffective hedging	-
Deferred tax on transfers to net profit	13
Balance as at 31 December 2007	1,173

The statutory reserve fund may be used only to offset losses. According to relevant regulations of the commercial code of the Czech Republic, the Company is required to transfer 5% of its annual net profit to the statutory reserve fund until the balance of this reserve reaches 20% of the subscribed capital.

In compliance with the relevant regulations of the commercial code, the unconsolidated profit of the Company for the year 2008 (determined in accordance with IFRS) is going to be appropriated based on the decision of the Company's annual general meeting.

14. Financial, other and trade liabilities (CZK million)

Balance as at 31 December 2008	Financial liabilities carried at amortised costs	Financial instruments designated as hedging instruments	Other*	Total
Financial liabilities				
Bonds	2,015	-	-	2,015
Bank loans	6,318	-	-	6,318
Other financial liabilities	323	-	-	323
Total	8,656	-	-	8,656
Other liabilities				
Negative fair value of financial derivatives	-	1,540	-	1,540
Other tax liabilities (excl. income tax)	-	-	-	-
Liabilities to employees	-	-	1,556	1,556
Social security	-	-	298	298
Others	52	-	-	52
Total	52	1,540	1,854	3,446
Trade liabilities				
Third parties	12,575	-	251	12,826
Subsidiaries	422	-	7	429
Other related parties	3,398	-	74	3,472
Total	16,395	-	332	16,727

Balance as at 31 December 2007	Financial liabilities carried at amortised costs	Financial instruments designated as hedging instruments	Other*	Total
Financial liabilities				
Bonds	2,011	-	-	2,011
Bank loans	-	-	-	-
Other financial liabilities	1,129	-	-	1,129
Total	3,140	-	-	3,140
Other liabilities				
Negative fair value of financial derivatives	-	307	-	307
Other tax liabilities (excl. income tax)	-	-	-	-
Liabilities to employees	-	-	1,674	1,674
Social security	-	-	318	318
Others	12	-	-	12
Total	12	307	1,992	2,311
Trade liabilities				
Third parties	15,149	-	376	15,525
Subsidiaries	24	-	239	263
Other related parties	3,447	-	-	3,447
Total	18,620	-	615	19,235

* The category Other includes items that are not financial instruments in terms of IAS 32.

The fair value of issued bonds is determined based on quoted market prices as at 31 December 2008. The fair value of the issued bonds amounts to CZK 2,000 million (31 December 2007: CZK 2,000 million).

The detailed information relating to the liabilities arising out of financial derivatives can be found under note 3.3.4.

The carrying value for other classes of current liabilities (other current financial liabilities, trade payables and current tax payables) approximates the fair value in all material respects.

Other financial liabilities include liabilities to a factoring company within the Volkswagen Group which have arisen from the transfer of the Volkswagen intercompany payables to the factoring company within the Volkswagen Group.

None of the financial liabilities are secured by a lien.

The Company issued bonds with a total nominal value of CZK 10 billion on 26 October 2000, each in a nominal value of CZK 100,000. The bonds are publicly traded without restrictions of transferability on the primary market of the Prague Stock Exchange. The bonds were issued pursuant to Czech legislation and are governed by Czech law. Commerzbank Capital Markets (Eastern Europe) a.s. was the lead manager and Československá obchodní banka, a.s. with its registered seat at Na Příkopě 14, 115 20, Prague 1, is the administrator of the issue. The issue was realised by registration at the Securities Centre in Prague.

	ISIN	Total nominal value in million CZK	Nominal value per bond in thousand CZK	No. of bonds in pcs	Issue rate
3rd tranche	CZ0003501199	2,000	100	20,000	100.00%
Total		2,000		20,000	

Interests and principal of bonds are paid only in CZK through the administrator.

	ISIN	Due date for principal	Due date for interest	Bond yield
3rd tranche	CZ0003501199	26 October 2010	Semi-annually on 26 April and on 26 October	6M Pribor + 0.22%

The first instalment of CZK 5,000 million related to the five-year issued bonds was settled at 26 October 2005. The second instalment of CZK 3,000 million was settled at 26 October 2007.

In the table below, the financial conditions attached to loans received, bonds and liabilities to financial institutions are summarised at their carrying amounts:

Carrying amount as at 31 December 2008								
Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity			Total
					< 1 year	1-5 years	> 5 years	
CZK	floating	1-5 years	4.65 %	2,000	17	1,998	-	2,015
CZK	floating	< 1 year	5.32 %	6,300	6,318	-	-	6,318
EUR	floating	< 1 year	-	323	323	-	-	323
Total financial liabilities				8,623	6,658	1,998	-	8,656

Carrying amount as at 31 December 2007								
Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity			Total
					< 1 year	1-5 years	> 5 years	
CZK	floating	1-5 years	3.92 %	2,000	14	1,997	-	2,011
EUR	floating	< 1 year	-	1,129	1,129	-	-	1,129
Total financial liabilities				3,129	1,143	1,997	-	3,140

15. Deferred tax liabilities and assets (CZK million)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

Balance as at 31 December 2008	< 1 year	> 1 year	Total
Deferred tax liabilities	(208)	(1,417)	(1,625)

Balance as at 31 December 2007	< 1 year	> 1 year	Total
Deferred tax liabilities	(140)	(1,637)	(1,777)

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting, are as follows:

Deferred tax liabilities					
	Depreciation	Financial derivatives	Provisions	Other	Total
Balance as at 1 January 2007	(4,293)	(79)	-	25	(4,347)
Credited/(debited) to the income statement	865	-	-	(25)	840
Charged to equity	-	(209)	-	-	(209)
Balance as at 31 December 2007	(3,428)	(288)	-	-	(3,716)
Credited/(debited) to the income statement	13	-	-	5	18
Charged to equity	-	(244)	-	(6)	(250)
Balance as at 31 December 2008	(3,415)	(532)	-	(1)	(3,948)

Deferred tax assets					
	Depreciation	Financial derivatives	Provisions	Other	Total
Balance as at 1 January 2007	-	-	1,828	-	1,828
Credited/(debited) to the income statement	-	-	84	48	132
Charged to equity	-	-	-	(21)	(21)
Balance as at 31 December 2007	-	-	1,912	27	1,939
Credited/(debited) to the income statement	-	-	(69)	453	384
Charged to equity	-	-	-	-	-
Balance as at 31 December 2008	-	-	1,843	480	2,323

The amount CZK 453 million reported in Other column represents the increase in deferred tax receivable from the investment incentive tax credit, which was granted for the SUV model and 1.2 TSI engine projects, see also Note 24.

16. Non-current and current provisions (CZK million)

	Provisions for warranty claims	Provisions for other obligations arising from sales	Provisions for personnel costs	Provisions for the disposal of end-of-life vehicles	Other provisions	Total
Balance as at 1 January 2007	6,721	770	543	78	303	8,415
Utilised	(2,649)	(750)	(182)	-	(88)	(3,669)
Additions	4,151	652	486	8	213	5,510
Interest costs	47	-	-	(7)	-	40
Reversals	-	(20)	-	-	(64)	(84)
Balance as at 1 January 2008	8,270	652	847	79	364	10,212
Utilised	(2,208)	(642)	(163)	-	(183)	(3,196)
Additions	2,604	160	295	3	323	3,385
Interest costs	76	-	-	9	-	85
Reversals	(1,208)	(43)	-	-	(64)	(1,315)
Balance as at 31 December 2008	7,534	127	979	91	440	9,171

Non-current and current provisions according to the time of expected use of resources:

Balance as at 31 December 2008	< 1 year	> 1 year	Total
Provisions for warranty claims	2,618	4,916	7,534
Provisions for other obligations arising from sales	127	-	127
Provisions for personnel costs	237	742	979
Provisions for the disposal of end-of-life vehicles	91	-	91
Other provisions	440	-	440
Total	3,513	5,658	9,171

Balance as at 31 December 2007	< 1 year	> 1 year	Total
Provisions for warranty claims	2,437	5,833	8,270
Provisions for other obligations arising from sales	652	-	652
Provisions for personnel costs	184	663	847
Provisions for the disposal of end-of-life vehicles	79	-	79
Other provisions	364	-	364
Total	3,716	6,496	10,212

Provisions for disposal of end-of-life vehicles relate to costs of liquidation of end-of-life vehicles according to EU guideline no. 200/53/EC and are determined mainly on the basis of registered cars, official statistics and expected costs of the cars ecological scrapping.

Provisions for other obligations arising from sales include provision for sale discounts, sale bonuses and similar allowances incurred, settlement of which is expected after the balance sheet date, but for which there is a legal or constructive obligation attributable to sales revenue before the balance sheet date. The additions to provision for other obligations arising from sales are decreasing the revenues.

Provisions for personnel costs include mainly provisions for long-term employee benefits and severance payments.

Other provisions include mainly provision for retrospective changes in purchase prices, provision for legal fees, penalty interest and other risk followed from the legal proceedings.

The Company is not involved in any legal cases or arbitration proceedings that could have a significant impact on the financial position and the financial results (financial statements) of the Company and there are no proceedings expected in the near future. The Company provides for the probable expenses for existing legal and arbitration proceedings by means of a relevant provision.

17. Cash flow statement

The cash and cash equivalents contained in the cash flow statement also comprise, in addition to cash reported in the balance sheet, short-term loans to related parties with original maturity less than three months of CZK 24,012 million as at 31 December 2008 (31 December 2007: CZK 25,592 million). Cash flows are presented in the cash flow statement and are classified into cash flows from operating activities, investing activities and financing activities.

Cash flows from operating activities are derived indirectly from profit before tax. Profit before tax is adjusted to eliminate non-cash expenses (mainly depreciation and amortisation) and income and changes in working capital.

Investing activities include additions to property, plant and equipment, financial assets, as well as to capitalised development cost.

Financing activities include in addition to the outflows of cash from dividend payments, redemption of bonds and liabilities from other financing, also outflows and inflows from other borrowings.

18. Sales (CZK million)

	2008	2007
Cars	168,011	189,283
Spare parts and accessories	11,300	11,659
Supplies of components within Volkswagen Group	6,479	6,703
Revenues from royalties	733	1,347
Other	2,049	2,034
Total	188,572	211,026

19. Other operating income (CZK million)

	2008	2007
Foreign exchange gains	3,708	1,889
Income from foreign currency trading	3,215	1,262
Gains on non-current assets disposal	14	17
Reversal of receivables' impairment losses	9	32
Other	804	554
Total	7,750	3,754

Foreign exchange gains include mainly gains from differences in exchange rates between the dates of recognition and payment of receivables and payables denominated in foreign currencies, as well as exchange rate gains resulting from revaluation at the balance sheet date of these monetary receivables and payables. Foreign exchange losses from these items are included in other operating expenses.

Line Other includes among others also revenues from one-off recharges relative to the launch of production. In 2008 this revenue amounted to CZK 168 million (2007: CZK 94 million).

20. Other operating expenses (CZK million)

	2008	2007
Foreign exchange losses	4,047	1,887
Losses from foreign currency trading	1,736	1,106
Receivables write-offs	16	33
Other	474	203
Total	6,273	3,229

21. Financial result (CZK million)

	2008	2007
Interest income	1,177	944
Other financial income	255	155
Financial income total	1,432	1,099
Interest expenses	518	563
Other financial expenses	263	111
Financial expenses total	781	674
Net financial result	651	425

22. Net gains and losses from financial instruments (CZK million)

	2008	2007
Financial assets at fair value through profit or loss	81	-
Loans and receivables	471	414
Available for sale financial assets	18	27
Financial liabilities carried at amortised costs	(170)	66
Financial instruments designated as hedging instruments	1,375	38
Net gains/(losses) total	1,775	545

The item Financial assets at fair value through profit or loss represents net gain on financial derivatives on which hedge accounting could not be applied and does not include any related interest income or expense. Other items contain mainly unrealised and realized foreign exchange gains and losses on trade receivables and liabilities, from hedging instruments, interest expense incurred on issued bonds, interest revenue from loans provided, net interest loss from derivative hedging instruments and impairment losses on financial assets.

23. Income tax (CZK million)

	2008	2007
Current tax expense	2,422	4,526
of which: effect of adjustment of tax base of prior periods	(10)	(196)
Deferred tax expense/(income)	(402)	(972)
Income tax total	2,020	3,554

Statutory income tax rate in the Czech Republic for the 2008 assessment period was 21% (2007: 24%). Effective since 1 January 2009 the statutory income tax rate in the Czech Republic has changed to 20% and effective from 1 January 2010 to 19%.

As at 31 December 2008, deferred income taxes attributable to the Czech tax jurisdiction were measured at a tax rate of 19.04% (2007: 19.04%) that corresponds with the weighted average of statutory tax rates enacted for the future periods when realisation of deferred tax assets and liabilities is expected.

Reconciliation of expected to effective income tax expense (CZK million)

	2008	2007
Profit before income tax	13,287	19,446
Expected income tax expense	2,790	4,667
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(56)	(64)
Expenses not deductible for tax purposes	216	154
Tax allowances and other investment tax credits	(467)	(515)
Prior-period current tax expense	(10)	(196)
Effect of tax rate changes	-	(388)
Investment tax credits	(453)	-
Other taxation effects	-	(104)
Effective income tax expense	2,020	3,554
Effective income tax rate	15%	18%

Out of CZK 453 million reported in Investment tax credits, CZK 130 million represents the 1.2 TSI engine projects and CZK 324 million was granted for the SUV model.

24. Investment incentives

In the year 2008 the Company received CZK 19.4 million (2007: CZK 27 million) in form of a subsidy for operating activities related to the project of development and technological centre.

From the total maximum granted amount of investment incentives of CZK 428 million for the model Roomster project, the Company utilised the total amount of CZK 285 million in 2005 – 2007 in the form of tax credit in the amount of CZK 249 million and in the form of the transfer of a technically equipped area at a reduced price of CZK 37 million. In this way, the Company finished drawing on investment incentives for the project Roomster.

In accordance with Investment Incentives Law No. 72/2000 Coll., as amended based on resolution dated on 4 August 2008 the Company was granted an investment incentive for the SUV model in the plant Kvasiny in form of tax credit. The total amount of the subsidy is limited to the amount of CZK 560.5 million corresponds to 40% of the total eligible invested costs related to the investment project.

In accordance with Investment Incentives Law No. 72/2000 Coll., as amended based on resolution dated on 31 December 2007 the Company was granted an investment incentive for its project of engine 1.2 TSI production in the plant in Mladá Boleslav in form of tax credit. The total amount subvention of CZK 548 million corresponds to 40% of the total eligible invested costs related to the investment project.

To be granted the investment incentives the Company has to meet the General conditions of § 2 art. 2 of the Investment Incentive Law no. 72/2000 Coll., as amended and Special conditions of § 35 b of the Income Tax Law no. 586/1992 Coll., as amended. The Company expects to comply with all provisions necessary to receive the investment incentives.

25. Contingent liabilities

The tax authorities may at any time inspect the accounting books and records within thirteen years subsequent to the reported tax year, and may impose additional tax assessments and penalties.

The Company's management is not aware of any circumstances that could result in material liabilities arising from the tax audits in the future.

26. Contractual obligations and other future commitments

Cash outflows relating to commitments to acquisition of non-current tangible and intangible assets and non-cancellable operating leases existing at the balance sheet date are as follows:

CZK million	Payable until year 2009	Payable 2010-2013	31.12.2008
Investment commitments - property, plant and equipment	4,165	249	4,414
Investment commitments - intangible assets	6	-	6
Operating leasing installments	59	-	59

CZK million	Payable until year 2008	Payable 2009-2012	31.12.2007
Investment commitments - property, plant and equipment	5,368	373	5,741
Investment commitments - intangible assets	27	-	27
Operating leasing installments	66	-	66

On the basis of non-cancellable operating lease agreements, the Company is allowed to rent different machine equipment. In the case of termination of these agreements, the Company has to terminate them with a maximum six-month notice period.

27. Expenses by nature – additional information (CZK million)

	2008	2007
Material costs - raw materials and other supplies, goods	134,231	148,172
Production related services	1,449	4,290
Personnel costs	14,141	13,425
Wages	10,608	9,697
Pension benefits	2,216	2,378
Social insurance and other personnel costs	1,317	1,350
Depreciation and amortisation	10,792	11,594
Other services	16,800	15,049
Total cost of sales, distribution and administrative expenses	177,413	192,530
Number of employees		
Number of employees*	27,514	27,508

* Average number of employees (including temporary employees)

28. Related party transactions

The Company participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2008	2007
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	3,844	2,754
Subsidiaries		
Skoda Auto India Private Ltd.	4,146	3,856
ŠkodaAuto Deutschland GmbH	33,442	40,445
ŠKODA AUTO Slovensko, s.r.o.	5,517	6,607
Skoda Auto Polska S.A.	9,806	10,110
Associates		
OOO VOLKSWAGEN Rus	8,688	481
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	299	459
VOLKSWAGEN Group United Kingdom Ltd.	10,066	13,756
Groupe VOLKSWAGEN France s.a.	6,027	6,779
VOLKSWAGEN SLOVAKIA, a.s.	1,150	961
Volkswagen Navarra, S.A.	1,431	1,397
Volkswagen Group Sverige AB	3,027	3,814
Import VOLKSWAGEN Group s.r.o.	833	987
OOO VOLKSWAGEN Group Rus	4,294	6,185
Volkswagen do Brasil Ltda.	817	1,215
AUDI HUNGARIA MOTOR Kft.	19	1
AUDI AG	191	26
SEAT, S.A.	729	726
Volkswagen Group Italia S.p.A	5,607	5,651
Volkswagen-Audi España S.A.	5,453	8,756
Gearbox del Prat, S.A.	28	19
AUDI BRUSSELS S.A./N.V.	785	799
Volkswagen Motor Polska Sp.z o.o.	58	62
Volkswagen Logistics GmbH & Co OHG	15	15
VOLKSWAGEN SARAJEVO, d.o.o.	643	709
Volkswagen India Private Ltd.	54	-
ŠkoFIN s.r.o.	972	1,157
Volkswagen Group Australia Ptg. Ltd.	281	263
ŠKO-ENERGO, s.r.o.	147	169
AutoVize s.r.o.	-	174
Other	24	26
Other related parties*		
Shanghai Volkswagen Automotive Co. Ltd.	811	1,148
SAIC-Volkswagen Sales Company Ltd.	15	-
Other related parties	2	1
Total	109,221	119,508

* Items in category Other related parties do not meet the definition of a controlled entity pursuant to § 66a of the Act No. 513/1991 Coll., Commercial Code, as amended.

In 2008 sales to Skoda Auto India Private Ltd. include revenues from royalties in the amount of CZK 20 million (2007: CZK 47 million).

Out of sales to Shanghai Volkswagen Automotive Co. Ltd., a joint venture of the ultimate parent company VOLKSWAGEN AG, in 2008 CZK 669 million (2007: CZK 1,148 million) relates to revenue from licence fees. The Company also realised in 2008 revenue from licence fees of CZK 43 million (2007: CZK 0 million) from associate OOO VOLKSWAGEN Rus.

The Company also realised in 2008 revenue from intercompany loan interests, mainly CZK 468 million (2007: CZK 0 million) from Volkswagen International Payment Services, CZK 124 million (2007: CZK 61 million) from ŠkoFIN s.r.o. and CZK 501 million (2007: CZK 884 million) from VOLKSWAGEN AG.

Dividends received from subsidiaries are disclosed in note 7.

Purchases from related parties (CZK million)

	2008	2007
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	23,843	23,603
Subsidiaries		
Skoda Auto India Private Ltd.	18	13
ŠkodaAuto Deutschland GmbH	425	494
ŠKODA AUTO Slovensko, s.r.o.	86	220
Skoda Auto Polska S.A.	125	263
Associates		
OOO VOLKSWAGEN Rus	2	301
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	1,898	2,875
Volkswagen Versicherungsvermittlungs GmbH	126	140
IAV Ingenieurgesellschaft GmbH	19	27
VOLKSWAGEN Group United Kingdom Ltd.	245	465
Groupe VOLKSWAGEN France s.a.	211	240
VOLKSWAGEN SLOVAKIA, a.s.	4,061	180
AUDI AG	213	273
VOLKSWAGEN SARAJEVO d.o.o.	20	32
AUDI HUNGARIA MOTOR Kft.	10,257	13,492
Import VOLKSWAGEN Group s.r.o.	103	134
ŠkoFIN s.r.o.	482	670
Volkswagen Navarra, S.A.	-	16
Volkswagen Group Sverige AB	111	129
SEAT, S.A.	813	808
Volkswagen Group Italia S.p.A	305	250
Gearbox del Prat, S.A.	25	-
Volkswagen-Audi España S.A.	253	279
Volkswagen Poznan Sp.z o.o.	208	278
Volkswagen Motor Polska Sp.z o.o.	469	-
Volkswagen do Brasil Ltda.	9	16
VOTEX, GmbH	-	18
Autostadt GmbH	20	19
Volkswagen de Mexico S.A. de C.V.	117	86
VOLKSWAGEN OF AMERICA INC.	31	23
OOO VOLKSWAGEN Group Rus	69	-
ŠKO-ENERGO, s.r.o.	1,688	1,792
Volkswagen Argentina S.A.	280	50
Volkswagen Group Services	5	130
AUTOEUROPA - Automóveis, Lda.	10	-
INIS International Insurance Service s.r.o., ve zkratce INIS s.r.o.	61	67
Volkswagen Group Insurance and Risk Management Services Ltd.	245	-
Volkswagen Logistics GmbH & Co OHG	1,632	1,545
Other	37	33
Other related parties*		
SAIC - Volkswagen Sales Company Ltd.	-	158
e4t electronics for transportation s.r.o.	53	54
Other related parties	2	2
Total	48,577	49,175

* Items in category Other related parties do not meet the definition of a controlled entity pursuant to § 66a of the Act No. 513/1991 Coll., Commercial Code, as amended.

Receivables from related parties (CZK million)

	31.12.2008	31.12.2007
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	226	200
Subsidiaries		
Skoda Auto India Private Ltd.	357	629
Skoda Auto Polska S.A.	-	222
ŠKODA AUTO Slovensko, s.r.o.	11	110
Associates		
OOO VOLKSWAGEN Rus	3,972	429
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	16	36
VOLKSWAGEN Group United Kingdom Ltd.	8	138
Groupe VOLKSWAGEN France s.a.	10	104
VOLKSWAGEN SLOVAKIA, a.s.	33	38
Volkswagen Navarra, S.A.	70	54
Volkswagen Group Sverige AB	24	44
Volkswagen do Brasil Ltda.	28	97
Import VOLKSWAGEN Group s.r.o.	59	51
OOO VOLKSWAGEN Group Rus	557	801
Volkswagen-Audi España S.A.	-	173
ŠkoFIN s.r.o.	19	273
AUDI AG	31	17
Volkswagen India Private Ltd.	47	-
SEAT, S.A.	49	95
Volkswagen Group Italia S.p.A	2	74
AUDI BRUSSELS S.A./N.V.	108	159
Volkswagen Group Australia Pty. Ltd.	48	239
VOLKSWAGEN SARAJEVO, d.o.o	130	188
Other	18	-
Other related parties*		
Shanghai Volkswagen Automotive Co. Ltd	709	-
Other related parties	13	56
Total	6,545	4,227

* Items in category Other related parties do not meet the definition of a controlled entity pursuant to § 66a of the Act No. 513/1991 Coll., Commercial Code, as amended.

Receivables from related parties in all disclosed categories of related parties include only trade receivables, with an exception of the receivable from Shanghai Volkswagen Automotive Co. Ltd. that, aside from trade receivables, consists of receivables from royalties of CZK 205 million (as at 31 December 2007: CZK 0 million), and receivables from Skoda Auto India Private Ltd. that, aside from trade receivables, consist of receivables from royalties of CZK 8 million (2007: CZK 44 million).

All receivables from related parties have arisen from transactions, which were realised on an arm's length basis.

No impairment loss was identified for any of the receivables from related parties.

Receivables from related parties are considered by the Company to be of the least risk. The products are supplied with payment at a due date, secured by an advance payment or they are transferred to factors.

In addition to receivables stated in the table above, the Company provided as at 31 December 2008 loans to VOLKSWAGEN AG in the amount of CZK 21,450 million (31 December 2007: CZK 22,000 million), ŠkoFIN s.r.o. in the amount of CZK 3,000 million (31 December 2007: CZK 3,000 million), Import VOLKSWAGEN Group s.r.o. in the amount of CZK 0 million (31 December 2007: CZK 300 million) and ŠKO-ENERGO, s.r.o. of CZK 520 million (31 December 2007: CZK 254 million). Interest from these loans outstanding as at 31 December 2008 was CZK 45 million (31 December 2007: CZK 38 million).

Investment in associate is disclosed in note 8.

Liabilities to related parties (CZK million)

	31.12.2008	31.12.2007
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	939	525
Subsidiaries		
Skoda Auto India Private Ltd.	1	1
Skoda Auto Polska S.A.	104	3
ŠKODA AUTO Deutschland GmbH	321	255
ŠKODA AUTO Slovensko, s.r.o.	3	4
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	98	160
Volkswagen Poznan Sp.z o.o.	14	17
Volkswagen Motor Polska Sp.z o.o.	170	-
VOLKSWAGEN Group United Kingdom Ltd.	160	186
Groupe VOLKSWAGEN France s.a.	63	62
Volkswagen de Mexico S.A. de C.V.	13	21
VOLKSWAGEN SLOVAKIA, a.s.	233	18
Volkswagen Group Sverige AB	90	41
ŠkoFIN, s.r.o.	6	42
Volkswagen Group Australia Pty. Ltd.	73	-
Volkswagen-Audi España S.A.	316	91
AUDI AG	42	58
AUDI HUNGARIA MOTOR Kft.	284	787
Volkswagen Group Italia S.p.A	422	132
SEAT, S.A.	-	30
Volkswagen Group Services	323	1,129
Volkswagen Logistics GmbH & Co OHG	466	1,106
VOLKSWAGEN OF AMERICA INC.	18	15
Other	35	98
Other related parties*		
Other related parties	30	58
Total	4,224	4,839

* Items in category Other related parties do not meet the definition of a controlled entity pursuant to § 66a of the Act No. 513/1991 Coll., Commercial Code, as amended.

Liabilities to related parties represent for all the categories stated above only trade liabilities for all the categories stated above.

All liabilities relate from transactions concluded at common market conditions.

Information on key management personnel remuneration (CZK million)

	2008	2007
Salaries and other short-term employee benefits*	285	313
Post-employment benefits	9	32
Share-based payments	1	2
Total	295	347

* Salaries and other short-term employee benefits include besides the remuneration paid, payable or provided by the Company in the form of salaries, bonuses and non-monetary remuneration also health and social insurance paid by employer for employees.

The remuneration of the members of the Board of Directors, Supervisory Board and other key management personnel includes in addition to the remuneration paid, payable or provided by the Company in the form of salaries, bonuses and non-monetary remuneration also remuneration from other Volkswagen Group companies in exchange for services rendered to the Company. The remuneration from the other Volkswagen Group companies includes also awards to certain key management personnel in a form of share options to VOLKSWAGEN AG's shares.

Key management personnel include members of the Board of Directors, Supervisory Board and managers of the Company having authority and responsibility for planning, directing and controlling the activities of the Company. In 2008, the key management personnel included 48 persons (2007: 53). CZK 105 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding at 31 December 2008 (31 December 2007: CZK 110 million).

29. Other information (CZK million)

The compensation paid to auditors for the accounting period was CZK 22 million (2007: CZK 22 million) and covered the following services.

	2008	2007
Audit and other assurance services	14	13
Tax and related services	2	2
Other advisory services	6	7
Total	22	22

30. Significant events after the balance sheet date

After the balance sheet date, there were no events that could have a significant impact on the consolidated financial statements of the Company for the year ended 31 December 2008.

As at 5 January 2009, the company Porsche Automobil Holding SE increased its share of the ordinary share capital of the company VOLKSWAGEN AG to 50.76%. In compliance with § 66a Article No. 5 of Act No. 513/1991 Coll., the Commercial Code, as amended, the company Porsche Automobil Holding SE has become the controlling entity of the Company and its related party according to IAS 24.

Effective from 12 January 2009, the merger of the company OOO VOLKSWAGEN Group Rus and the company OOO VOLKSWAGEN Rus (the associate), which ceased to exist through the merger, has been registered. As a result of the merger, the Company has become one of the shareholders of the company OOO VOLKSWAGEN Group Rus. As at the merger date, the Company's share of the share capital of the successor company OOO VOLKSWAGEN Group Rus was 16.80%.

31. Information about Volkswagen Group

ŠKODA AUTO a.s. is a subsidiary included in the consolidation group of its ultimate parent company, VOLKSWAGEN AG, with a registered office in Wolfsburg, the Federal Republic of Germany.

The Volkswagen Group consists of two divisions – Automotive and Financial Services. The activities related to the Automotive Division include the development of cars and aggregates, production and sale of passenger and commercial cars, trucks and buses as well as the business with spare parts. The following brands belong to Volkswagen Group: Volkswagen Passenger Cars, Audi, Škoda, SEAT, Volkswagen Commercial Vehicles and Bentley.

The Financial Services Division includes activities related to the dealer and customer financing, leasing, banking and insurance services and the fleet management.

Škoda Auto and its subsidiaries (ŠkodaAuto Deutschland GmbH, Skoda Auto Polska S.A., ŠKODA AUTO Slovensko, s.r.o. and Skoda Auto India Private Ltd.) and associate OOO VOLKSWAGEN Rus are included in the consolidation of Volkswagen Group's financial statements. These financial statements, and other information relating to the Volkswagen Group, are available in the annual report of VOLKSWAGEN AG and on its internet site (website: www.volkswagenag.com).

Mladá Boleslav, 16 February 2009



Reinhard Jung
Chairman
of the Board of Directors



Holger Kintscher
Member
of the Board of Directors,
Commercial Affairs Department



Jana Šrámová
Director of Accounting



Marek Růžička
Head of Closing Accounts
and External Reporting

REPORT ON RELATIONS

Report on relations between VOLKSWAGEN AG and ŠKODA AUTO a.s. and between ŠKODA AUTO a.s. and other entities controlled by VOLKSWAGEN AG in the accounting period 1 January 2008 - 31 December 2008

The report on relations between VOLKSWAGEN AG, having its registered office in Wolfsburg, Federal Republic of Germany, (hereinafter referred to as the "Controlling Entity" or "Volkswagen") and ŠKODA AUTO a.s., having its registered offices in Mladá Boleslav, Tr. Václava Klementa 869, Post code: 29360, ID No.: 00177041 (hereinafter referred to as the "Controlled Entity" or "the Company" or "Škoda Auto"), and between Škoda Auto and other entities controlled by Volkswagen in the accounting period 1 January 2008 to 31 December 2008 (hereinafter referred to as the "accounting period") was prepared pursuant to provision § 66a paragraph 9 of the Act No. 513/1991 Coll., Commercial Code, as amended.

Volkswagen was the sole shareholder of Škoda Auto with 100% voting rights till 18 July 2007. Since the date Volkswagen International Finance N.V., having its registered offices in Amsterdam, The Kingdom of the Netherlands, became a new sole shareholder of Škoda Auto due to structural changes within the Volkswagen Group. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of Volkswagen AG.

Contracts concluded

Škoda Auto and Volkswagen, and Škoda Auto and the companies controlled by Volkswagen concluded contracts in the following areas during the accounting period:

1. Sale of own products, goods and services

a) vehicles

Škoda Auto did not conclude any vehicle sale contracts in the accounting period.

b) genuine parts

Škoda Auto did not conclude any genuine part sale contracts in the accounting period.

c) other

Škoda Auto entered into service, licence and other products sale contracts with the following companies:

AUDI AG
VOLKSWAGEN AG
SEAT, S.A.
Škoda Auto India Private Ltd.
OOO VOLKSWAGEN Rus

2. Purchase of goods and services

a) production material

Škoda Auto concluded production material purchase contracts with the following companies:

AUDI AG
VOLKSWAGEN AG
VOLKSWAGEN SLOVAKIA, a.s.
Volkswagen Sachsen GmbH
Volkswagen Poznan Sp. z o.o.
Volkswagen de Mexico S.A de C.V.
SEAT, S.A.
AUDI HUNGARIA MOTOR Kft.
Auto 5000 GmbH
Gearbox del Prat, S.A.
AUTOEUROPA-Automóveis Lda.
Volkswagen Motor Polska Sp.z o.o.

b) indirect material and services

Škoda Auto entered into the following indirect material and service purchase contracts (indirect material and services purchase, research and development cooperation, IT services, licences, software and hardware supplies, customer services consultancy, logistic systems support, logistic systems consultancy, standardisation cooperation, rent of properties, rent of testing areas) with the following companies:

VOLKSWAGEN AG	VOLKSWAGEN Group Japan K.K.
Volkswagen Sachsen GmbH	Volkswagen-Audi España S.A.
AUDI AG	Volkswagen Group Sverige AB
Volkswagen Immobilien Service GmbH	SEAT, S.A.
Volkswagen of South Africa (Pty.) Ltd.	CENTRO TÉCNICO DE SEAT, S.A.
VOLKSWAGEN OF AMERICA INC.	IAV Ingenieursgesellschaft GmbH
Volkswagen Coaching GmbH	ŠKO-ENERGO, s.r.o.
Auto 5000 GmbH	ŠkodaAuto Deutschland GmbH
Gearbox del Prat, S.A.	Volkswagen Logistics GmbH
Import VOLKSWAGEN Group s.r.o.	Audi Akademie GmbH
Skoda Auto Polska S.A.	Autostadt GmbH
Groupe VOLKSWAGEN France s.a.	Volkswagen Group Australia Ptg. Ltd.
Sitech Sp. z o.o.	AUTOEUROPA-Automóveis Lda.
Skoda Auto India Private Ltd.	SITECH Sitztechnik GmbH
ŠKODA AUTO Slovensko, s.r.o.	Volkswagen Motor Polska Sp.z o.o.
ŠkoFIN s.r.o.	Volkswagen Coaching GmbH
OOO VOLKSWAGEN Rus	VW Group Sales India P.L.
Volkswagen Poznan Sp. z o.o.	AUDI BRUSSELS S.A./N.V.
VOLKSWAGEN SLOVAKIA, a.s.	Volkswagen Motorsport Verwaltungs GmbH
Volkswagen Group Italia S.p.A.	Fahrzeugteile Service – Zentrum Mellendorf GmbH
AUDI HUNGARIA MOTOR Kft.	

c) genuine parts

As part of genuine parts purchasing, Škoda Auto entered into contracts with the following companies:

AUDI AG
Volkswagen Poznan Sp. z o.o.
VOLKSWAGEN AG
Volkswagen de Mexico S.A. de C.V.
Volkswagen do Brasil Ltda.
Sitech Sp. z o.o.
Volkswagen Sachsen GmbH
AUTOEUROPA-Automóveis Lda.
Volkswagen Motor Polska Sp.z o.o.
Volkswagen Navarra, S.A.
Volkswagen Group Sverige AB

d) investments

Škoda Auto entered into investment purchase contracts with the following companies:

VOLKSWAGEN AG
Volkswagen Sachsen GmbH
AUDI AG
AUTOEUROPA-Automóveis Lda.
Volkswagen Poznan Sp. z o.o.
AUDI HUNGARIA MOTOR Kft.

3. Other contractual relationships

Škoda Auto also established contractual relationships (marketing services, training, sales support, financial services, system support, short-term loans, production of cars) with the following companies:

OOO VOLKSWAGEN Rus
VOLKSWAGEN AG
VOLKSWAGEN Group Italia S.p.A.
Volkswagen Group Sverige AB
Volkswagen-Audi España S.A.
Import VOLKSWAGEN Group s.r.o.
ŠkoFIN s.r.o.
ŠkodaAuto Deutschland GmbH
Skoda Auto Polska S.A.
Volkswagen Group Australia Ptg. Ltd.
ŠKO-ENERGO, s.r.o.
Volkswagen International Payment Services N.V.
Groupe VOLKSWAGEN France s.a.
Volkswagen India Private Ltd.
Skoda Auto India Private Ltd.
VOLKSWAGEN SLOVAKIA a.s.

Other legal acts

In the accounting period no legal acts were reported which were carried out in favour of Volkswagen and entities controlled by Volkswagen, which went beyond the scope of standard legal acts carried out by Volkswagen while exercising its rights as the Controlling Entity of Škoda Auto.

Škoda Auto paid a dividend of CZK 7,117 million to Volkswagen International Finance N.V., as the sole shareholder, on 10 March 2008 based on the Decision of the sole shareholder Volkswagen International Finance N.V. from 25 February 2008.

On 1 December 2008 an agreement was concluded between ŠKODA AUTO a.s., VOLKSWAGEN AG, VOLKSWAGEN INTERNATIONAL FINANCE N.V., OOO VOLKSWAGEN Group Rus and EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT as future shareholders of OOO WOLKSWAGEN Group Rus defining their mutual cooperation, without stating any value.

In 2008 Škoda Auto increased the share capital of its associate OOO VOLKSWAGEN Rus through a non-monetary investment of CZK 1,337 million (RUB 1,975 million). After the increase of the share capital of the associate OOO WOLKSWAGEN Rus the Company's share amounts to 32.90%.

In 2008 dividends and share in profit of CZK 106 million were paid out to the Company by the subsidiaries.

Other measures, their advantages and disadvantages

During the accounting period, Škoda Auto did not adopt or take any measures on the behalf of or at the incentive of Volkswagen, and other entities controlled by Volkswagen, other than steps normally taken vis-a-vis Volkswagen as the Controlling Entity of Škoda Auto.

Performance provided and counter-performance accepted

In the accounting period no other performance and counter-performance in favour or at the initiative of Volkswagen, and entities controlled by Volkswagen, which exceeded the scope of standard performance and counter-performance taken by Škoda Auto regarding Volkswagen, as the Controlling Entity of Škoda Auto, were taken or implemented by Škoda Auto.

Transactions with related parties during the accounting period are disclosed in the notes 7, 8, 9, 12, 14 and 28 of the notes to separate financial statements.

The Board of Directors of the Controlled Entity declares that Škoda Auto did not suffer from any damage or detriment as a result of the conclusion of the above mentioned contracts, the other aforesaid legal acts, other measures, performance provided or accepted counter-performance.

OTHER INFORMATION MADE PUBLIC PURSUANT TO SECTION 118(3)(C)-(Q) OF THE ACT ON DOING BUSINESS IN THE CAPITAL MARKET*

Information on remuneration principles and monetary and in-kind income of the Board of Directors, executives, and the Supervisory Board (Section 118(3)(c) and (e))

As defined in Section 2(c) of the Act, the executives of Škoda Auto consist of the members of the Board of Directors as the Company's statutory body. In order to increase transparency, company Škoda Auto discloses the above information not only for executives and supervisory board members, but also for senior executives (for more information on senior executives, see page 24).

* The Act No. 256/2004 Coll., on doing business in the capital market, as amended based

Remuneration Principles

The principles for remunerating members of the Board of Directors, senior executives and members of the Supervisory Board are in accordance with generally binding laws and regulations and fulfill all material aspects of the recommendations of the Code of Corporate Governance based on OECD principles.

Board of Directors

The system for remunerating members of the Board of Directors is defined by internal directives in accordance with Volkswagen Group procedures. In terms of form, the remuneration is based on four main pillars: fixed remuneration, variable remuneration, benefits, and other in-kind income provided by the Company. The specific conditions for remunerating individual members of the Board of Directors are set forth in the relevant contractual documents.

The basic portion of the remuneration consists of fixed cash income that enables members of the Board of Directors to carry out their duties in the Company's interests and with due care, without being dependent on meeting the Company's short-term targets. In addition to the fixed income component in the form of the base remuneration, their remuneration also includes variable income in the form of one-off bonuses. These variable components are dependent on the financial results of the Company and Volkswagen Group, as well as the fulfillment of individual goals set for the Board member, thereby ensuring the Board of Directors' interests are aligned with those of the sole shareholder.

In addition to the income described above, the company Škoda Auto provides the Board of Directors with a portfolio of benefits in a pre-defined amount, as well as other in-kind income. The latter include use of company cars, accommodation, educational programmes, and insurance.

Senior Executives

Similarly to the Board of Directors, the system for remunerating senior executives is defined by internal directives in accordance with Volkswagen Group procedures. Like the system for remunerating members of the Board of Directors, in terms of form the remuneration is based on the four basic pillars mentioned above. The specific conditions for remunerating individual senior executives are set forth in the management contracts.

Supervisory Board

Members of the Supervisory Board are paid remuneration in the form of a fixed amount stipulated by the Company's sole shareholder. Members of the Supervisory Board also have the option of using company cars.

The Company does not provide any loans to members of the Board of Directors, senior executives and/or members of the Supervisory Board as a result of their positions. Variable remuneration of members of the Board of Directors and senior executives, relating to the fulfillment of targets set for 2008, had not been approved as of the Annual Report closing date and will be paid in 2009. For this reason, the values set forth below include actually paid amounts of remuneration relating to the result for the year 2007.

All cash and in-kind income of members of the Board of Directors, senior executives and/or members of the Supervisory Board were received exclusively from the company Škoda Auto and were the following (CZK):

	2008			2007		
	Monetary income	In-kind income	Total income	Monetary income	In-kind income	Total income
Board of Directors	13,497,488	8,067,406	21,564,894	14,775,256	7,122,386	21,897,642
Supervisory Board	390,000	144,101	534,101	739,200	291,400	1,030,600
Key managers	90,169,466	18,632,124	108,801,590	89,896,781	14,612,500	104,509,281
Total	104,056,954	26,843,631	130,900,585	105,411,237	22,026,286	127,437,523

Information on shares owned by the Board of Directors, Supervisory Board, executives, and persons close to them (Section 118(3)(d))

Members of the Board of Directors and Supervisory Board and executives and persons close to them own no shares issued by Škoda Auto. No option contracts or similar agreements are entered into with the above mentioned persons.

Information on fees paid to auditors for the accounting period (Section 113(d)(f))

Information on fees paid to auditors for the accounting period, broken down by individual types of services, appears in the financial section of the Annual Report: for Škoda Auto in the separate financial statements – note 29 and for the consolidated group in the consolidated financial statements – note 28.

Information on the structure of shareholders' equity (Section 118(3)(g))

Information on the structure of Škoda Auto shareholders' equity appears in the financial section of the Annual Report: in the separate financial statements – notes 12 and 13.

Information on restriction of transferability of securities (Section 118(3)(h))

The transferability of Škoda Auto's securities is not restricted in any way.

Information on material direct and indirect shares in voting rights (Section 118(3)(i))

The voting rights of Škoda Auto are controlled directly (100%) by Volkswagen International Finance N.V. with its seat in Amsterdam, Kingdom of the Netherlands, and indirectly (100%) by VOLKSWAGEN AG with its seat in Wolfsburg, Federal Republic of Germany. (Volkswagen International Finance N.V. is an indirect 100% subsidiary of VOLKSWAGEN AG.)

Information on owners of securities with special rights (Section 118(3)(j))

None of the securities of Škoda Auto are associated with special rights.

Information on restriction of voting rights (Section 118(3)(k))

The voting rights associated with individual shares of Škoda Auto or with any particular number of shares are not restricted in any way.

Information on contracts between shareholders that make it more difficult to transfer shares or voting rights (Section 118(3)(l))

The fact that Škoda Auto has only one shareholder rules out the existence of any contracts between shareholders.

Information on special rules governing election to and removal from office of members of the Board of Directors and amendments to the Company's Articles of Association (Section 118(3)(m))

Škoda Auto does not have any special rules governing election to and removal from office of members of the Board of Directors or amendments to the Company's Articles of Association. The rules governing election to and removal from office of members of the Board of Directors are described in the editorial section of the Annual Report – see pages 23 and 24.

Information on special powers of members of the Board of Directors (Section 118(3)(n))

Members of the Škoda Auto Board of Directors do not have any special powers, nor are they vested with any special powers or authority pursuant to Sections 161(a) and 210 of the Commercial Code.

Information on material contracts relating to any change in control over the Company resulting from a takeover offer (Section 118(3)(o))

Škoda Auto is not a party to any contract that could be triggered, changed, or nullified by a change in control over the Company resulting from a takeover offer.

Information on contracts between the issuer and members of its Board of Directors or employees in conjunction with a takeover offer (Section 118(3)(p))

There are no contracts between Škoda Auto and the members of its Board of Directors that bind the Company to provide consideration in the event membership of the Company's Board of Directors is terminated in conjunction with a takeover offer. Škoda Auto has not entered into any contracts with its employees that would bind the Company to provide consideration in the event of termination of an employee in relation to a takeover offer.

Information on programs enabling acquisition of the Company's equity securities (Section 118(3)(q))

Škoda Auto has not implemented any programs that would enable employees and members of the Company's Board of Directors to acquire its equity securities, options to purchase these securities, or other rights to them under advantageous terms and conditions.

GLOSSARY OF TERMS AND ABBREVIATION

A-SUV - Sport utility vehicle in the mid-range category of cars

CAS - Czech accounting standards for businesses and other accounting regulations valid in the Czech Republic, particular Act No. 563/1991 Coll. on Accounting and Decree No. 500/2002 Coll., implementing selected provisions of the Accounting Act

Company - in the Annual Report, the term "the Company" is used as a synonym for the company ŠKODA AUTO a.s.

Consolidated group - in addition to ŠKODA AUTO a.s. with registered office in Mladá Boleslava, also includes all significant subsidiaries and associates

Deliveries to customers - number of Škoda-brand vehicles delivered to end customers that were produced in Škoda Auto Group and/or partner plants

e-learning - a training method based on electronic training programs running on personal computers

Gross liquidity - liquid funds, i.e. cash and cash equivalents including short-term lendings

Group - in the Annual Report, the terms "the Group" and "the Škoda Auto Group" are used as synonyms for the Škoda Auto Consolidated Group

IAS / IFRS - International Accounting Standards / International Financial Reporting Standards

Investment ratio - ratio of capital expenditures (less capitalised development expenses) to total sales revenues

Net liquidity - gross liquidity less financial obligations, including factoring obligations

Production - number of vehicles produced. The total production figure also includes production of vehicles for other Volkswagen Group brands (Volkswagen- and Audi-brand vehicles produced by SAIPL). For accuracy, vehicle assembly kits are reported in the vehicles segment

Profit-to-sales ratio - profit expressed as a percentage of sales

Registrations - number of new Škoda-brand vehicles officially registered in a given country

Sales - number of vehicles sold to importers and dealers. The unit sales figure also includes sales of vehicles manufactured by other Volkswagen Group brands (SEAT vehicles sold by ŠAS; VW and AUDI vehicles sold by SAIPL). For accuracy, vehicle assembly kits are reported in the vehicles segment

TDI / TSI - Turbocharged diesel engine with direct fuel injection / Turbocharged petrol engine with direct fuel Injection

Temporary workers - employees of a labour agency who are temporarily seconded to work for a different employer

Z.E.B.R.A. - an internal corporate system of proposals for work improvements

LIST OF NON-CONSOLIDATED CAPITAL HOLDINGS OF ŠKODA AUTO

ŠKODA AUTO a.s.

ZAO Evroavto*

Sergiev Posad, Russian Federation
Škoda Auto stake: 75.10%
Company has no operations.

e4t electronics for transportation s.r.o.

Prague, Czech Republic
Škoda Auto stake: 49%
Principal businesses: research and development in the field of natural, technical, and social sciences, training and consulting services.

ŠKO-ENERGO FIN, s.r.o.

Mladá Boleslav, Czech Republic
Škoda Auto stake: 10%
Principal businesses: letting of property and non-residential premises, industrial and office equipment.

ŠKO-ENERGO, s.r.o.

Mladá Boleslav, Czech Republic
Škoda Auto stake: 34%
Principal businesses: generation and distribution of heat energy, generation of power, trading in electricity, gas distribution, production of drinking and service water, operation of water mains and sewage systems.

* On 27 January 2009, the General Meeting decided on the liquidation of ZAO Evroavto.

PERSONS RESPONSIBLE FOR THE ANNUAL REPORT AND POST-BALANCE SHEET EVENTS

Events after the Balance Sheet Date

No material events have occurred between the balance sheet date and the date of preparation of this Annual Report that have had an impact on an assessment of the Company's or Group's assets, liabilities and equity or the results of its operations.

As at 5 January 2009, the company Porsche Automobil Holding SE increased its share of the ordinary share capital of the company VOLKSWAGEN AG to 50.76%. In compliance with § 66a Article No. 5 of Act No. 513/1991 Coll., the Commercial Code, as amended, the company Porsche Automobil Holding SE has become the controlling entity of the Group and its related party according to IAS 24.

Effective from 12 January 2009, the merger of the company OOO VOLKSWAGEN Group Rus and the company OOO VOLKSWAGEN Rus (the associate), which ceased to exist through the merger, has been registered. As a result of the merger, the Company has become one of the shareholders of the company OOO VOLKSWAGEN Group Rus. As at the merger date, the Company's share of the share capital of the successor company OOO VOLKSWAGEN Group Rus was 16.80%.

Affirmation

The persons stated below, responsible for the preparation of this Annual Report, hereby declare that the information contained in this Annual Report is factual and that no substantive matters that could influence an accurate and correct evaluation of the securities issuer have been knowingly omitted or distorted.

Mladá Boleslav, on 25 February 2009



Reinhard Jung
Chairman of the Board of Directors



Holger Kintscher
Member of the Board of Directors
Commercial Affairs Department



Jana Šrámová
Director of Accounting



Marek Růžička
Head of Closing Accounts
and External Reporting

This version of the Annual Report 2008 is a translation from the original, which was prepared in Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of these Annual Report 2008 takes precedence over this translation.

KEY FIGURES AND FINANCIAL RESULTS AT A GLANCE*

Škoda Auto Key Figures and Financial Results According to CAS

Production, Sales and Technical Data

		1999	2000	2001	2002	2003	2004
Deliveries to customers	vehicles	385,330	435,403	460,252	445,525	449,758	451,675
Sales	vehicles	376,329	448,394	460,670	440,572	438,843	441,820
Production	vehicles	371,169	450,910	460,886	442,469	437,554	444,121
Employees	persons	22,030	25,833	24,129	23,470	22,798	24,561
of which:							
External persons	persons	1,708	3,245	2,735	2,179	2,308	3,664

Profit and Loss Account

		1999	2000	2001	2002	2003	2004
Sales	CZK millions	110,409	136,283	153,271	145,694	145,197	153,550
of which:							
Domestic	%	19	18	18	18	17	15
Export	%	81	82	82	82	83	85
Raw materials and consumables	CZK millions	80,426	105,996	116,350	109,868	108,283	115,382
	% of revenues	72.8	77.8	75.9	75.4	74.6	75.1
Value added	CZK millions	18,513	18,977	22,296	22,056	23,343	24,884
	% of revenues	16.8	13.9	14.6	15.1	16.0	16.2
Staff costs	CZK millions	6,629	7,465	7,583	7,834	8,060	8,500
Depreciation	CZK millions	6,516	7,768	9,646	10,826	10,296	10,606
Operating profit	CZK millions	5,237	5,204	4,643	3,677	5,209	5,856
	% of revenues	4.7	3.8	3.0	2.5	3.6	3.9
Financial result	CZK millions	(1,422)	(1,029)	(1,969)	(1,188)	(2,692)	(1,041)
Profit before income tax	CZK millions	3,814	4,175	2,674	2,489	2,517	4,815
Profit before income tax-to-revenues ratio	%	3.5	3.1	1.7	1.7	1.7	3.2
Tax on profit or loss	CZK millions	1177	839	545	664	1039	1318
Profit for the year	CZK millions	2,637	3,336	2,129	1,825	1,478	3,497
Profit for the year-to-revenues ratio	%	2.4	2.4	1.4	1.3	1.0	2.3

Balance sheet/Financing

		1999	2000	2001	2002	2003	2004
Fixed assets	CZK millions	33,687	39,175	45,008	44,873	44,074	41,143
Current assets and other assets	CZK millions	21,923	27,486	21,603	21,945	22,077	30,694
of which:							
Lendings	CZK millions	-	-	-	-	-	8600
Equity	CZK millions	22,700	26,032	28,157	29,817	31,758	32,844
Liabilities and other liabilities	CZK millions	32,910	40,629	38,454	37,001	34,393	38,993
of which:							
Bonds	CZK millions	-	10,000	10,000	10,000	10,000	10,000
Provisions under special regulations	CZK millions	4,949	4,284	3,939	4,398	5,108	6,522
Bank loans	CZK millions	3,000	4,850	2,000	5,000	-	-
Assets	CZK millions	55,610	66,661	66,611	66,818	66,151	71,837
Net liquidity	CZK millions	(1,339)	(4,007)	(798)	(4,660)	2,495	4,534
Investments	CZK millions	11,313	13,873	16,235	11,586	10,248	8,430
Investment ratio	%	10.2	10.2	10.6	8.0	7.1	5.5
Equity ratio	%	40.8	39.1	42.3	44.6	48.0	45.7
Equity-to-fixed assets ratio	%	67.4	66.5	62.6	66.4	72.1	79.8

Key Figures and Financial Results According to IFRS

Production, Sales and Technical Data

		Škoda Auto Group				Škoda Auto (company)			
		2005	2006	2007	2008	2005	2006	2007	2008
Deliveries to customers	vehicles	492,111	549,667	630,032	674,530	492,111	549,667	630,032	674,530
Sales	vehicles	498,467	562,251	619,635	625,819	493,119	555,202	623,085	622,090
Sales of Škoda cars		496,387	559,821	617,269	621,683	493,119	555,202	623,085	622,083
Production	vehicles	494,127	556,347	623,291	606,614	494,637	556,433	623,529	603,247
Production of Škoda cars		494,127	556,347	622,811	603,981	494,637	556,433	623,529	603,247
Employees	persons	26,742	27,680	29,141	26,695	26,014	26,738	27,753	25,331
of which:									
External persons	persons	3,460	3,879	4,680	1,759	3,460	3,704	4,194	1,709

Profit and Loss Account

		Škoda Auto Group				Škoda Auto (company)			
		2005	2006	2007	2008	2005	2006	2007	2008
Sales	CZK millions	187,382	203,659	221,967	200,182	177,822	189,816	211,026	188,572
of which:									
Domestic	%	13.3	12.6	11.8	11.9	14.0	13.5	12.4	12.7
Export	%	86.7	87.4	88.2	88.1	86.0	86.5	87.6	87.3
Cost of sales	CZK millions	163,738	175,636	185,474	171,523	159,187	167,709	180,865	165,600
	% of revenues	87.4	86.2	83.6	85.7	89.5	88.4	85.7	87.8
Gross profit	CZK millions	23,644	28,023	36,493	28,659	18,635	22,107	30,161	22,972
	% of revenues	12.6	13.8	16.4	14.3	10.5	11.6	14.3	12.2
Distribution expenses	CZK millions	10,611	11,903	13,201	12,804	6,558	6,905	7,964	7,590
Administrative expenses	CZK millions	3,676	3,587	4,207	4,712	3,329	3,161	3,701	4,223
Balance of other operating revenues/costs	CZK millions	1,503	2,069	699	2,477	1,256	1,735	525	1,477
Operating profit	CZK millions	10,860	14,602	19,784	13,620	10,004	13,776	19,021	12,636
	% of revenues	5.8	7.2	8.9	6.8	5.6	7.3	9.0	6.7
Financial result	CZK millions	(787)	(404)	171	262	(564)	(216)	425	651
Profit before income tax	CZK millions	10,073	14,198	19,860	13,376	9,440	13,560	19,446	13,287
Profit before income tax-to-revenues ratio	%	5.4	7.0	8.9	6.7	5.3	7.1	9.2	7.0
Income tax expense	CZK millions	2,180	3,136	3,878	2,558	2,077	2,678	3,554	2,020
Profit for the year**	CZK millions	7,893	11,062	15,982	10,818	7,363	10,882	15,892	11,267
Profit for the year-to-sales ratio	%	4.2	5.4	7.2	5.4	4.1	5.7	7.5	6.0

Balance sheet/Financing

		Škoda Auto Group				Škoda Auto (company)			
		2005	2006	2007	2008	2005	2006	2007	2008
Non-current assets	CZK millions	55,424	54,292	56,767	60,017	55,023	53,936	56,903	60,119
Current assets	CZK millions	34,331	50,920	59,014	62,439	28,956	43,499	48,658	51,276
of which:									
Lendings	CZK millions	11,200	23,950	25,554	25,721	11,200	23,950	25,554	25,238
Equity**	CZK millions	46,757	58,321	67,034	71,608	46,483	58,007	66,532	71,721
Non-current and current liabilities	CZK millions	42,998	46,891	48,747	50,848	37,496	39,428	39,029	39,674
of which:									
Nominal value of bonds	CZK millions	5,000	5,000	2,000	2,000	5,000	5,000	2,000	2,000
Assets	CZK millions	89,755	105,212	115,781	122,456	83,979	97,435	105,561	111,395
Net liquidity	CZK millions	4,911	21,157	27,403	18,272	6,070	19,352	25,154	18,353
Cash flows from operating activities	CZK millions	23,550	27,420	28,454	14,206	21,421	24,203	28,146	14,784
Cash flows from investing activities	CZK millions	(11,566)	(11,090)	(13,785)	(16,147)	(11,299)	(10,910)	(13,913)	(14,445)
Investment ratio	%	4.7	4.1	4.9	5.6	4.8	4.3	4.9	5.4
Equity ratio	%	52.1	55.4	57.9	58.5	55.4	59.5	63.0	64.4
Equity-to-fixed assets ratio	%	84.4	107.4	118.1	119.3	84.5	107.5	116.9	119.3

* The financial result reported according to CAS are not comparable with the financial results reported according to IFRS.

** Consolidated figures are given net of minority shares.

ŠKODA AUTO ORGANISATION CHART



* Key positions

EVENTS ANTICIPATED IN 2009

January

- First ever start of Škoda Fabia S2000 rally car at Rallye Monte Carlo

March

- World premiere of the new Škoda Yeti at the Geneva Motor Show in Switzerland
- Manufacture of 7,000,000th Škoda-brand vehicle since merger with Volkswagen Group in 1991
- Annual Press Conference and 2008 financial figures published

April

- Presentation of Škoda brand at Shanghai Motor Show in China
- Škoda Auto is general sponsor of World Ice Hockey Championships in Switzerland
- Publishing of interim results of Škoda Auto consolidated group according to IFRS

May

- Production of new model, the Škoda Yeti, launched in Kvasiny Plant
- Conference on the topic Škoda Auto and sustainable development of the automotive industry
- Škoda Auto is general sponsor of Giro d'Italia
- Production of Škoda Superb launched in China
- Assembly of Škoda Fabia begins at Volkswagen Group plant in Pune, India

June

- Presentation of Škoda brand at the Brno Motor Show

July

- Škoda Auto is general sponsor of the Tour de France
- Semiannual report of Škoda Auto consolidated group according to IFRS published

September

- Presentation of Škoda brand at Frankfurt Motor Show in Germany
- Kvasiny Plant celebrates its 75th anniversary

October

- Interim results of Škoda Auto consolidated group according to IFRS published

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Tř. Václava Klementa 869

293 60 Mladá Boleslav

Czech Republic

ID No.: 00177041

Recorded in the Commercial Register

maintained by the Prague

Municipal Court, Part B, Entry No. 332

Telephone: +420 326 811 111

Fax: +420 326 721 328

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www.skoda-auto.cz

www.skoda-auto.com

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