ŠKODA

Simply clever

ŠKODA Annual Report 2011

ŠKODA AUTO a.s.

ŠKODA AUTO Group –
Deliveries to customers year-on-year

ŠKODA AUTO Group –
Sales revenues year-on-year (CZK million)

ŠKODA AUTO Group –
Operating result year-on-year (CZK million)

ŠKODA AUTO Group –
Number of employees year-on-year*

* Number of employees as at 31 December
excl. temporary staff, incl. apprentices.

Company Overview

ŠKODA AUTO, based in Mladá Boleslav in the Czech Republic, is one of the world's longest-standing automobile manufacturers. The tradition of the Company dates back to 1895, when Václav Laurin and Václav Klement formed a partnership that laid the foundation for over 100 years of Czech expertise in automotive engineering.

The ŠKODA brand has been a Volkswagen Group brand for 20 years. During this time, the ŠKODA AUTO Group's sales have more than tripled and its product portfolio has expanded significantly. Today, ŠKODA AUTO employs more than 26,500 people worldwide.

The ŠKODA AUTO Group has production facilities in the Czech Republic and India. Furthermore, ŠKODA cars are produced in China, Russia, Slovakia, the Ukraine and Kazakhstan.

This international presence will form the basis for the Group's planned growth over the next few years. The conditions for this are already in place: impressive automobiles, a strong brand, a motivated and capable team and the ability to turn innovations into Simply clever customer benefits.

Contents

2011 – a year of records, of special anniversaries, but above all, a year of success for ŠKODA AUTO. The Company's success took many different forms, but always came from its quest for smart solutions defined by the brand's signature "Human Touch". That is ŠKODA – Simply clever.

How to use QR Codes:
To fully utilise QR codes, you will need a mobile phone with a camera, QR code-reading software and access to the internet. Point your mobile phone at the QR code and take a picture. The QR code will decode instantly and you will be directed to the respective webpage.


1SN 4268

Prof. Dr. h.c. Winfried Vahland
Chairman of the Board of Management

Foreword

Ladies and Gentlemen,

ŠKODA AUTO once again demonstrated its high level of performance in 2011. We rigorously implemented the first year of our growth strategy and were able to pick up the pace significantly. We met and, in many cases, even exceeded, the ambitious goals we had set ourselves for this year.

Our cars are in demand worldwide: In 2011, we delivered 879,184 vehicles to our customers around the world – the highest number of deliveries ever in the history of our Company. We outperformed the overall market in all regions, especially Asia and Eastern Europe. Our market share is increasing. We also achieved new revenue and earnings highs in 2011. With our extensive investment in the expansion of our production capacities, we are setting the right course for the future. All of this proves that ŠKODA AUTO is on track for success!

We are therefore well on our way to realising our major goal for 2018: By then, we are aiming for annual sales of more than 1.5 million vehicles. We are vigorously implementing our successful growth strategy to achieve this. At the same time, we are also constantly working to enhance our efficiency. Becoming even more efficient will enable us to compete at a global level and, above all, exploit opportunities in growth markets.

We will do this in typical ŠKODA fashion: Our "Simply clever" brand claim defines the whole Company. Our automobiles have always stood for clever solutions with our signature "Human Touch" – in the future, the same will apply to all our processes and activities.

Our customers can experience the "Human Touch" approach in many different ways. The automobiles we produce embody the classic virtues of the ŠKODA brand: spaciousness, top-quality workmanship, maximum driveability and outstanding value for money. In other words, they are cars built for people!

Over the next few years, we aim to expand our product offering to target new segments, new markets and new customers. We already have a concrete example of this today – the ŠKODA Citigo, the car that launched our model offensive. In the coming years, we will present a new model on average every six months.

We also introduced the ŠKODA Rapid in India in late 2011. This car was specially designed for the Indian market and is manufactured locally in Pune. This marks an important step in our growth strategy, since ŠKODA is now represented in one of the largest vehicle segments in the Indian market.

The ŠKODA model offensive will continue in 2012 with our new compact sedan. We presented a production-ready concept of this vehicle, the MissionL, at the 2011 IAA Frankfurt Motor Show. The series-production vehicle will be introduced onto major international markets in 2012 and will fill out the ŠKODA product range between the existing ŠKODA Fabia and ŠKODA Octavia models.

In response to growing demand for the ŠKODA Yeti, we are expanding production of this model to Russia and China. In the future, the ŠKODA Yeti will be built at the plant of our Russian partner GAZ in Nizhny Novgorod. In 2013, we will also begin manufacturing this highly-successful model in China, further stepping up the pace in our largest market.

We aim to continue strengthening our position in our core European markets. Our new corporate design will help us to achieve this. It brings a breath of fresh air into our showrooms and defines our entire visual presentation. I am sure our customers will like it, too. The reason why I am so confident is the overwhelmingly positive response of the 5,000 dealers we presented the new design to at our largest-ever dealer conference in Prague in the first half of 2011.

Companies who want to succeed in global competition must be an attractive employer on an international scale. We achieved a great deal in this area in 2011. One example is our employer branding film "Curriculum Vitae", which won the German advertising industry's Deutsche Werbefilmpreis award in 2011. ŠKODA already attracts plenty of candidates today – in fact, we received more applications in 2011 than ever before. But we are also pursuing extensive employer branding activities to attract more potential employees to our Company going forward, and in this way secure our long-term growth.

This means working specifically on the future of mobility. We presented the ŠKODA brand's first pure electric vehicle, the ŠKODA Octavia Green E Line, back in 2010. In late 2011, we took the next step with the launch of a test fleet of ten cars in the Czech

Republic. This will provide us with key insights into the further development of electric drive trains. We are actively shaping the future of individual mobility – and, therefore, also the future of ŠKODA AUTO.

All of these examples illustrate that 2011 was a special year for ŠKODA AUTO in every respect. It was a year in which we celebrated two important anniversaries.

The first was our 20 years of partnership with the Volkswagen Group: To celebrate this anniversary we threw open our gates and invited people to join us for an "Open House". More than 75,000 people came to visit the Mladá Boleslav plant and to see for themselves how our Company has evolved. When ŠKODA first joined Volkswagen, people referred to ŠKODA as "the pearl of the East". Over the past 20 years, this Company's employees have really made that pearl shine! The partnership that has grown over the years not only has a strong tradition, but, even more importantly, a promising future. And our future is sustainable growth! We sent a clear message on the very day of our anniversary celebrations with a ground-breaking ceremony for the expansion of production capacity for the ŠKODA Octavia at our main Mladá Boleslav plant.

The second anniversary we celebrated in 2011 looked back even further: It marked 110 years of ŠKODA's involvement in motorsports. The ŠKODA team brought home the best anniversary present of all, with impressive victories in the IRC and SWRC world championship. The connection between motorsports and ŠKODA goes back almost as far as our Company itself. And, rest assured, we will continue to pursue this commitment in the future with the same passion and, I hope, considerable success. You could say that in many ways ŠKODA's heart belongs to motorsports. Our successes in this field also represent the energy and optimism that characterises our Company at this time.

Once again, we have ambitious plans for 2012, and are focusing our efforts on expanding our model line-up. We will leverage our global presence, and our extensive investments will create the conditions necessary for further growth. We will do everything we can to be an attractive employer and recruit the best talents for our Company – because, ultimately, people are what make the decisive difference!

Yours

Prof. Dr. h.c. Winfried Vahland

ŠKODA AUTO Board of Management

Dipl.-Ing. Karlheinz Hell
Member of the Board of Management for Purchasing

Ing. Bohdan Wojnar
Member of the Board of Management for Human Resources Management

Dipl.-Betrw. Jürgen Stackmann
Member of the Board of Management for Sales and Marketing

Prof. Dr. h.c. Winfried Vahland
Chairman of the Board of Management

Dr.-Ing. Eckhard Scholz
Member of the Board of Management for Technical Development

Dipl.-Kfm. Winfried Krause
Member of the Board of Management for Commercial Affairs

Dipl.-Ing. Michael Oeljeklaus
Member of the Board of Management for Production and Logistics


ŠKODA

When head meets heart

MissionL – a new car is born

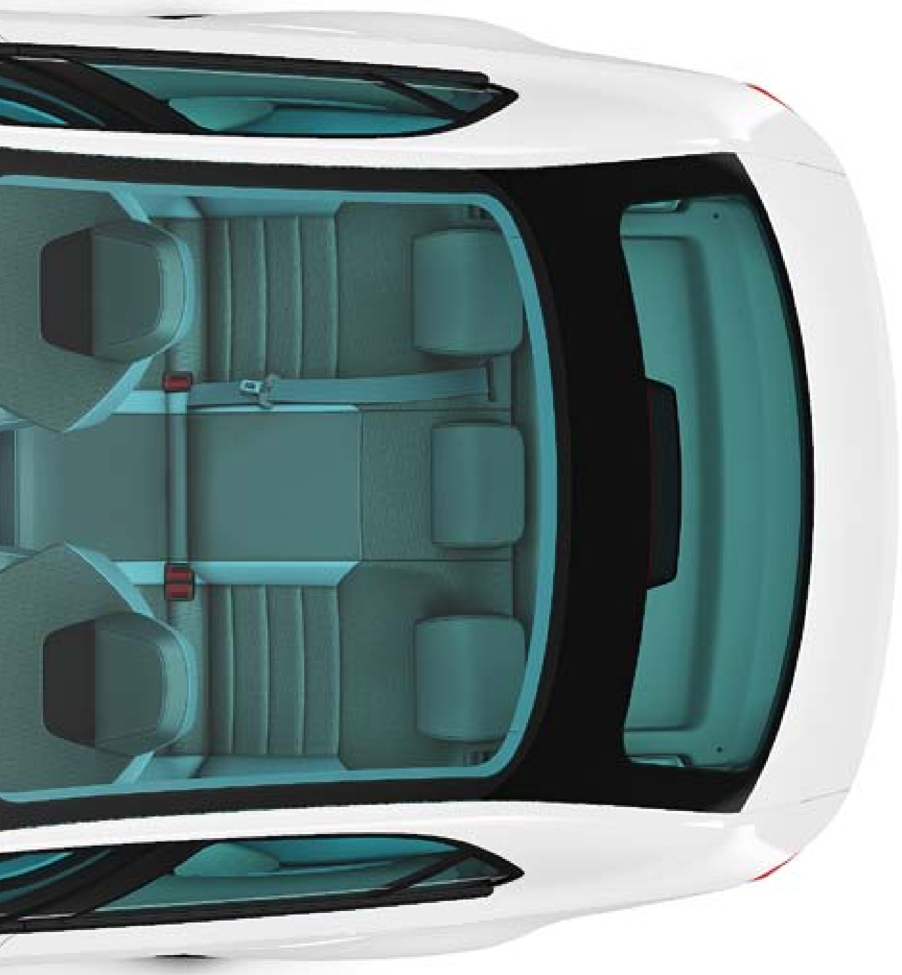
It all began with a vision of creating a totally new design language – of defining the key elements of the ŠKODA brand's future visual identity. This complex task became a top priority for ŠKODA. The new design was to forge a link between the past and the future of ŠKODA, to interpret the brand's traditional values in a new way. At the same time, it must meet the needs of the Company's global growth strategy, ensuring that ŠKODA projects a modern, precise and self-assured image at all times.

From VisionD to MissionL

The first step was the presentation of the revolutionary VisionD concept at the Geneva Motor Show in March 2011. ŠKODA chief designer Jozef Kabaň explains: "The VisionD gives the ŠKODA brand's ambitious goals a face. It represents growth with an exciting design that upholds our established virtues, such as high functionality, clarity and precision."

Karl Neuhold, head of exterior design at ŠKODA, refers to the VisionD as "the prototype for a new ŠKODA design". The public response to the VisionD was encouragingly positive. With its impressively clear and precise lines, the new style concept appeared both powerful and modern. It benefitted from exceptional attention to the not-so-ordinary details, as well as embodying traditional ŠKODA values: The long wheelbase with short overhangs ensured generous interior space, while the dynamic roofline gave the concept a sleek and sophisticated silhouette.

Just six months later, in September 2011 – to the surprise of many auto-industry experts – the production-ready MissionL concept car made its world debut at the IAA International Motor Show in Frankfurt. To develop the MissionL from the VisionD style concept in less than half a year was an amazing achievement. It reflected the strength of the ŠKODA brand and the extraordinary commitment of its employees – many of whom were still working on the MissionL right up to the start of the IAA. Exterior design head Karl Neuhold remembers: "The drive for perfection kept us going until we finally reached the point where the whole team was satisfied with what we had achieved. That was an unforgettable moment for all of us."



"The MissionL is a prototype for the unique creativity and efficiency of the ŠKODA brand."

Jozef Kabaň, head of Design, ŠKODA AUTO

Clear objective – little time

The Company's growth and internationalisation strategy also places new demands on the design of future ŠKODA vehicles. In February 2011, while the finishing touches were still being added to the VisionD for its premiere in Geneva, work was already getting started on the series-production version, which would become the MissionL.
An initial concept for a "show car" in the entry-level A-segment for the IAA in Frankfurt was discussed, and a team of exterior and interior design experts, headed by chief designer Jozef Kabaň, was formed. Interfaces with the technical departments were defined and a clay model built. Work began in parallel on a digital model. Even colours and materials were discussed at this stage. which create a smooth triangle evocative of cut-glass – while the headlights use actual lead crystal. Another extra, exclusive to the concept car, is its stained-glass panoramic roof – a one-of-a-kind piece manufactured and assembled with extreme care in collaboration with one of the most celebrated glass manufacturers in Venice.
In June 2011, ŠKODA built a prototype of the MissionL. At the same time, a mock-up of the show car was put together for film and photo purposes to avoid unnecessary wear to the costly prototype.
The team continued to grow as design experts from Italdesign Giugiaro (IDG) were brought in. The first papers and data were sent to Turin, where the famous design manufacturer built a show car based on the prototype. With less than two months to go to the IAA in Frankfurt in September, time was running out. But the ŠKODA team and their partners in Italy were used to being creative under pressure. The teams from Mladá Boleslav and Turin worked exceptionally well together, but, despite their meticulous planning, occasional surprises were inevitable and the teams had to think on their feet. Karl Neuhold recalls: "Working together on the MissionL, Czechs and Italians discovered that both sides had really good improvisational skills. That was a positive experience that helped us all a lot." Much of the work required time-consuming manual assembly: For instance, almost 1,000 LEDs were built into the car and body panels created based on the clay model. At times, double shifts were needed to meet deadlines, with the last shift of the day ending at two o'clock in the morning. The team certainly did a fine job. Thanks to their outstanding efforts, they achieved their goal:

Specifications were drawn up for the new five-door concept sedan: It had to be sporty and elegant in appearance, but, above all, it must embody the key strengths of ŠKODA automobiles – which meant that high functionality and roominess were a must. However, the biggest challenge lay elsewhere: Despite the constraints imposed by series production, the designers needed to give the MissionL the same emotional appeal that had been so impressive in the VisionD. They had to keep the joy of reduction alive in its purist, minimalist form, clean surfaces and precise lines – in other words: in a contemporary design suitable for today's world.
Chief designer Jozef Kabaň decided to take things a step further: He wanted the MissionL to showcase not only the more cosmopolitan side of the ŠKODA brand, but also its Czech roots. As a result, the MissionL pays tribute to the Czech Republic's fine glass-making tradition: The body features three sharply-chiselled lines on each side of the car, close to the rear lights,

"The MissionL was designed with a clear link to ŠKODA's history, as well as its relationship with Czech glass craftsmanship and modern architecture."

Jiří Hadaščok, Exterior Design, ŠKODA AUTO

The MissionL was ready on schedule within six months – in time for its big day at the IAA in Frankfurt.
The second phase of the MissionL project soon got underway. Extensive safety precautions were necessary to bring the costly show car safely to Frankfurt. The presentation of the MissionL on 12 September 2011 went down well with the press and general public. The concept was praised for its clear design, balanced proportions and ample space. It also gave rise to avid speculation about the final name for the model and its likely price. Chairman of the Board of Management Prof Dr. h.c. Winfried Vahland announced the premiere of the series-production vehicle for the Paris Motor Show in September 2012. With twelve months to go at that point, creativity and efficiency were called for once again, and ŠKODA employees given another opportunity to show what they can do. One thing is already clear: The outcome will be something to be proud of.

This one-of-a-kind car shows the way for future ŠKODA design: Much of the work on the MissionL was painstakingly performed by hand under considerable time pressure. Nevertheless, the highest level of precision and the greatest attention to every detail were still assured.


"The MissionL is an
example of how to transfer
design visions into
a compact-class sedan."
Miroslav Jaskmanicki, Interior Design, ŠKODA AUTO

The Autowelt Zürich showrooms are spacious, modern and customer-friendly in their new ŠKODA design: Jürgen Stackmann, member of the Board of Management for Sales and Marketing (right) and Morten Hannesbo, CEO of AMAG Automobil- und Motoren AG, are delighted with the positive feedback from employees, customers and colleagues.

Sending a clear message

ŠKODA's revamped corporate design sets a new tone at dealerships – and the first new-look ŠKODA showroom opens in Zurich.

Premiere at AMAG RETAIL Autowelt in Zurich, Switzerland on 7 April 2011: The very first ŠKODA showroom in the new corporate design opened at AMAG Automobil- und Motoren AG's new building in the Zurich suburb of Dübendorf. This special moment was also an important test – because this is where it really counts: Here, at the point-of-sale, the new design must deliver its maximum impact and provide customers with a clear impression of the ŠKODA brand. The guests all agree: Autowelt Zürich's generously dimensioned, open-plan sales area fits the ultramodern new corporate design perfectly, creating an ideal setting for the presentation of ŠKODA cars. Jürgen Stackmann, member of the Board of Management for Sales and Marketing at ŠKODA AUTO, is pleased with the outcome: "Congratulations to AMAG. I am confident that the new look will be reflected in steadily increasing sales figures."

The new design also plays a key role in ŠKODA's global growth strategy: The new corporate identity symbolises the strength of the brand for dealers and customers, in a way that is youthful, fresh and dynamic. The use of chrome and the fresh new "ŠKODA green" represents the Company's modern approach and focus on the future.

Today, almost a year after opening his new ŠKODA salesrooms, Roberto Battistini, member of the AMAG Automobil- und Motoren AG executive team, can confirm: "Customer and employee response to the new ŠKODA design has been overwhelmingly positive." From their discussions with customers, AMAG employees know that the new branding has definitely given ŠKODA a sharper profile. All of the sales associates have experienced for themselves how this creates new opportunities for closer customer contact: "Customers are spending a lot more time in our salesrooms – and that leads to more in-depth discussions," according to Roberto Battistini. He also points out how well the new visual presentation fits the brand promise: "The high-end facilities and generous dimensions of our new ŠKODA salesrooms emphasise two of the main sales arguments for all of its models: outstanding features and exceptional spaciousness."

However, the new ŠKODA design is not just for large-scale presentation and sales areas. The layout and colour scheme also reflect the needs of medium-sized and smaller dealerships. Bright, cheerful colours and a fresh new look make any salesroom appear more spacious and inviting. This also gives the new ŠKODA branding the necessary versatility for use throughout the global retail network. A wide range of different ŠKODA dealers are interested in the new style of presentation. Many want to see for themselves how the new approach works in Zurich. Roberto Battistini is happy for his salesrooms to be "prototypes" and welcomes the constant stream of visitors from other dealerships, mostly abroad: "We all agree that the people at ŠKODA responsible for the new branding have done a great job – it will be good for all of us."

There can be no doubt that ŠKODA's new corporate design creates the ideal conditions for continued growth at its dealerships. The signals are clear – let the future begin.

Seeking the best

Growth and internationalisation will determine how ŠKODA AUTO develops over the coming years. How will the Company meet the challenges this creates in the field of human resources?

> An interview with Bohdan Wojnar, member of the Board of Management of ŠKODA AUTO for Human Resources Management.

Mr Wojnar, internationalisation is central to the ŠKODA AUTO growth strategy. What does that mean for Human Resources?

> In the future, more than ever before, a company's competitiveness will be decided by the capabilities, motivation and loyalty of its employees. Those that recruit the best talents will have a competitive edge over the long term. You can see that quite clearly in the automotive industry. Our goal must be to become one of the most attractive employers – not just in the Czech Republic, not just in Europe, but worldwide.

How do you recognise an attractive employer?

> There are many different criteria – but you can mostly tell from the number of people applying for a job on a speculative basis. More than 21,000 people applied to our Company last year. That means that ŠKODA AUTO is already an attractive company for many people today. That's good, but it is just the beginning for us.

We have ambitious plans – which is why we must continue to work on becoming more attractive as an employer. It is not just a matter of winning over potential applicants. Employer branding is built on the reputation of the Company. We are part of society, and so we have always assumed responsibility at a local level. The quality of life at our locations, maintaining good relations with our neighbours – and, naturally, good cooperation between management and labour, based on trust – all of those are key aspects that make a company attractive. And, of course, we also benefit from being part of the Volkswagen Group: Anyone who works for ŠKODA AUTO can pursue a career within one of the world's largest automotive groups. That benefits both the Company and its employees equally.

You mentioned a substantial increase in job applicants. What led to this positive development?

> In recent years, we have deliberately invested in improving our recruitment quality and have expanded our personal marketing activities significantly. We are exploiting the opportunities offered by the internet in particular – from special recruiting websites to YouTube, where our recruiting campaign, for which we received two awards, is also online.

But, most importantly, we have stepped up our activities outside the Czech Republic. Although ŠKODA AUTO has an excellent reputation at home, the Czech labour market alone is unable to meet our complex personnel requirements.

For that reason, we are also specifically targeting university graduates in other countries. In Eastern Europe, in particular, there are many experts we would like to recruit for ŠKODA AUTO. And, of course, working closely with prominent universities and colleges worldwide will continue to be a priority. The most recent example is our cooperation with Tongji University in Shanghai – which is set to benefit both parties enormously.

Won't this development be detrimental to employees in the Czech Republic? Will jobs be transferred to the growth markets?

> No, quite the opposite: It is global growth that secures jobs at our Czech facilities. The Czech Republic is, and will always remain, our domestic market – it is, after all, where our Company has its roots. 1,850 new jobs were created here in 2011, but our future will depend upon opening up more to the rest of the world. National borders should not prevent us from participating in global competition. We all need to be open to new ideas and solutions. All of our employees are required to systematically enhance their skills, which also – at an individual level – improves their prospects within the Company. That also includes being prepared to work for our Company abroad for a period of time. We currently have more than 150 employees doing just that – and that number will continue to grow over the coming years. At the same time, the internationalisation of ŠKODA AUTO is also evident at our Czech locations, where we employ people from 37 different countries. So you see, there are always two sides to internationalisation.

The right people in the right place at the right time. How do you intend to achieve that? Especially in a company that is growing rapidly worldwide.

> You are quite right – that will be the main challenge for Human Resources over the next few years. We intend to plan our personnel requirements even better – with regard to quantity, and quality, in particular. We cannot allow a lack of key qualifications within the organisation to hinder our Company's development further down the line. On the contrary: We must work closely with our divisions right now to plan future requirements. That is currently a priority for us. And then, we have to do everything it takes to meet those requirements: in consultation with educational institutions, in collaboration with the universities – and, of course, through our own efforts, such as appropriate programmes at the ŠKODA University Na Karmeli and at the ŠKODA AUTO training college of engineering. I am quite sure that we will come up with plenty of good, "Simply clever" ideas to reach our goal.

Turn your CV into the opportunity of a lifetime – visit ŠKODA AUTO´s career website http://go.skoda.eu/career

Partnership with prospects

20 years of partnership with Volkswagen

provide the occasion for an anniversary celebration and an "Open House" in Mladá Boleslav.

On 15 April 2011, celebrations got underway in Mladá Boleslav to mark the anniversary of a unique success story: For 20 years, ŠKODA AUTO has been a part of Volkswagen. The Chairman of the Board of Management of ŠKODA AUTO, Prof. Dr. h.c. Winfried Vahland, summed it up nicely in his speech to high-ranking guests from politics and business: "Since 1991 we have seen the definite resurgence of a legendary automobile brand from the heart of Europe." He also outlined the strategic course for the future: "Our past and present successes … create an obligation for us to keep on going." Twenty years on, the relationship between Volkswagen and ŠKODA AUTO is not only a partnership founded in tradition, but also a partnership with prospects for the future. The solid foundation built over the past two decades serves as the basis for the further dynamic development of the ŠKODA brand.

16 April 1991: This day marked the beginning of a new era for ŠKODA AUTO: After long and intensive negotiations. ŠKODA became the Volkswagen Group's oldest brand, alongside VW, Audi

"Since 1991 we have seen the definite resurgence of a legendary automobile brand from the heart of Europe."

Prof. Dr. h.c. Winfried Vahland,
Chairman of the Board of Management of ŠKODA AUTO

Picture left:
Building for the future: Ground-breaking ceremony for the expansion of production capacity at the Mladá Boleslav plant marks the twentieth anniversary of the partnership between ŠKODA AUTO and Volkswagen.

Above: Strong interest among politicians and the general public (from left): Volkswagen Chairman of the Board of Management, Prof. Dr. Martin Winterkorn, and ŠKODA AUTO Chairman of the Board of Management, Prof. Dr. h.c. Winfried Vahland, welcome Czech President Prof. Ing. Václav Klaus, CSc.

Below: About 75,000 people attended the "Open House" at the Mladá Boleslav plant.

and SEAT. Even back then, the importance of the ŠKODA acquisition was clear to all those involved: Volkswagen had secured itself "the pearl of the East".
Volkswagen's involvement with ŠKODA was also seen as a vote of confidence in the newly-formed Czech and Slovak Federal Republic (ČSFR). Through Volkswagen's involvement, ŠKODA AUTO now accounts for 7.3 per cent of Czech exports. The Company is repeatedly confirmed as the country's most attractive employer and most important and most admired industrial company, and therefore serves as a high-profile role model.
ŠKODA's success today is largely due to the course set back in 1991. In particular, the decision not to downgrade Mladá Boleslav to an assembly plant, but to keep all research and development activities at the site, testifies to the farsightedness of those involved. Most importantly, this allowed the ŠKODA brand to maintain its identity. From the very beginning, Volkswagen showed considerable respect for the Company's Czech car-building tradition and the pride of the ŠKODA work-

force. This is certainly one of the main reasons why Winfried Vahland was able to congratulate all ŠKODA employees on their extraordinary sense of identification with the Company and the brand in his 2011 anniversary speech: "Thanks to your attention to detail, your passion and your Czech engineering expertise, you always manage to put outstanding cars on the roads around the world."

This lasting appreciation of the Company's employees and their families was very much in evidence at the "Open House", held on 16 April 2011 at the main plant in Mladá Boleslav: Exactly 20 years after ŠKODA AUTO joined Volkswagen, around 75,000 people visited the plant, confirming their strong attachment and keen interest in ŠKODA.

Even in these days of increasing internationalisation, the main plant retains its central importance to the Company: This was seen at the symbolic ground-breaking ceremony, where the expansion of body shop capacity, paint shop and assembly facilities in Mladá Boleslav got officially underway.

The evolution of ŠKODA AUTO from 1991 up until today is noteworthy in many respects: The former one–product company has transformed itself into an automobile brand with a clear profile and a broad model line-up. The company that used to be focused on Eastern Europe is now a global player that sells cars in more than 100 markets worldwide. Deliveries of 172,000 vehicles to costumers in 1991 grew to 879,000 cars by 2011. What is more, thanks to the Volkswagen Group's massive investments in development and production, ŠKODA automobiles now stand for exemplary quality, reliability, practicality and exceptional value for money. There can be no doubt that ŠKODA has found its rightful place as a key brand in the Volkswagen portfolio.

All future planning centres on the "ŠKODA growth strategy". Its main focus is on continued internationalisation, which will allow the Company to play a decisive role in the highly-attractive growth markets of China, India and Russia. The Volkswagen Group's global presence forms an excellent foundation for this. At the same time, these growth plans will strengthen the standing of ŠKODA AUTO within the Group.

Winfried Vahland: "We want our clever cars ... to contribute to the Volkswagen Group becoming the world's largest automobile manufacturer by 2018." ŠKODA has concrete plans to increase its vehicle sales to at least 1.5 million units by 2018. This growth will largely come from a unique model offensive: Over the next three years, a new model will be presented every six months on average.

Regardless of the Company's strong commitment to internationalisation, the European markets – and its domestic market of the Czech Republic, in particular – will retain their pivotal importance to ŠKODA. Investment is not limited to sites abroad, and expansion of production capacity in the core markets continues – not least at the main plant in Mladá Boleslav and at the Vrchlabí plant, which is set to become one of the most cutting-edge production facilities in the Volkswagen transmission production network.

It would be impossible to achieve any of this, or even imagine the future, without the strong backing of the Volkswagen Group in Wolfsburg – a fact that anyone who has followed the history of the alliance between Volkswagen and ŠKODA AUTO cannot fail to be aware of. The 20-year partnership is, in every respect, an impressive success story – one that is based on mutual respect, trust and shared goals. It forms an excellent foundation for the challenges of the years ahead. There can be no doubt for Winfried Vahland: "These will be good years for Volkswagen and for ŠKODA."

"With Volkswagen's commitment, the development of ŠKODA has been unique in the automobile industry."

Prof. Dr. h.c. Winfried Vahland,
Chairman of the Board of Management of ŠKODA AUTO

For ŠKODA AUTO, 2011 was a year of reflecting on its historic roots and conquering new horizons: An official celebration marked its 20-year partnership with the Volkswagen Group; during the same year, new and revolutionary style concepts and a new corporate design were unveiled, new alliances formed, the greatest rally victories in its history won and new sales records achieved. By the end of eventful twelve months, it was clear that 2011 had been ŠKODA's most successful year ever.

ŠKODA Highlights 2011

The year in review

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January 19 - 22 > Monte Carlo

The Intercontinental Rally Challenge (IRC) season opens with the 100 years anniversary race of the world's toughest rally, the Rally Monte Carlo. The ŠKODA Motorsport team fields no fewer than ten ŠKODA Fabia Super 2000 cars in the starting line-up. At this point, no one knows that the 2011 season will prove to be the most successful so far in the history of ŠKODA Motorsport. Even customers have reason to celebrate: ŠKODA releases a super-sporty special edition ŠKODA Fabia Monte Carlo to coincide with the "centenary Monte".

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February 12 - 19 > Liberec

The Czech city of Liberec hosts the 10th European Youth Olympic Winter Festival, the largest European multisport event for young athletes. Up-and-coming athletes between the ages of 15 and 18 from 45 European countries compete in eight disciplines: ice hockey, figure skating, cross-country skiing, ski jumping, Nordic combined, downhill skiing, snowboarding and biathlon. ŠKODA provides a fleet of 50 vehicles for the festival, which also hosts the 4x4 ŠKODA Park, an entertainment event for the entire family, showcasing the ŠKODA brand's four-wheel drive vehicles.

More information on the 10th European Youth Olympic Winter Festival to be found here:
http://go.skoda.eu/eyowf

.03

March 3 - 13 > Geneva

ŠKODA unveils its new Corporate Design at the International Motor Show in Geneva. All future communications will be characterised by this fresh new approach, signifying precision and conciseness. To project a sharper, professional image, ŠKODA completely revitalised its visual presentation. In Geneva, the Company also demonstrates what this means for upcoming ŠKODA automobiles with the "VisionD" concept car. This vehicle provides a first glimpse of forthcoming design elements and the brand's enhanced design architecture.

.04

April 16 > Mladá Boleslav
Anniversary celebrations at ŠKODA AUTO headquarters, with an "Open House" to mark 20 years of successful partnership with Volkswagen: For the first time in six years ŠKODA opens its gates to the public – and the turnout is overwhelming. More than 75,000 visitors come to take a peek behind the scenes of one of the Czech Republic's largest companies. A full entertainment programme and other exciting activities make the visit quite an event for all ages. Half of one of the production halls was reserved for small children and converted into a theme park with numerous attractions.

.05

May 10 > Reutte, Austria
"Fuel-economy world champion" Gerhard Plattner drives 2,006 kilometres on one tank in a ŠKODA Fabia GreenLine. His route takes him from Austria to Denmark – and back again. The Austrian sets a new fuel consumption record of 2.21 l/100 km. His verdict: "The ŠKODA GreenLine models provide an outstanding example of efficient driving. With fuel prices as they are, that makes financial sense as well as reducing environmental impact."

Learn more about the "fuel-economy world champion" Gerhard Plattner and his record-breaking drive with the ŠKODA Fabia GreenLine:
http://go.skoda.eu/fech

.06

June 14 > Wolfsburg/Nizhny Novgorod
Volkswagen and the Russian GAZ Group finalise their plans for the contract manufacture of Volkswagen and ŠKODA models at the GAZ plant in Nizhny Novgorod. The two companies had already signed a memorandum of understanding on joint automobile production in Russia in February 2011. To respond quickly to strong growth in demand in the Russian automobile market, the first model to be produced by GAZ is the ŠKODA Yeti. "Russia is one of the most important growth markets for our Company," stated Prof. Dr. h.c. Winfried Vahland, Chairman of the Board of Management of ŠKODA AUTO. "Our partnership with GAZ will allow us to continue on our successful growth course in this country."

.07

July 16 > Ponta Delgada
Halfway through the IRC season, ŠKODA Motorsport already dominates the competition, taking the top three spots in the Sata Rallye Açores in extreme weather conditions. Juho Hänninen and co-driver Mikko Markkula lead the field for the third time this season, followed by Andreas Mikkelsen and Ola Fløene in second, and Jan Kopecký and Petr Starý in third. This is the fifth time in IRC history that ŠKODA has achieved a one-two-three finish.

.08

August 23 > Shanghai
ŠKODA agrees on extensive cooperation with Tongji University. The Company will support research and talent promotion at the Chinese university. Students of both ŠKODA University Na Karmeli and Tongji University will also benefit from an exchange programme between the two universities. Professor Li Zhenyu, head of the local International Exchange and Cooperation Office, is delighted with the agreement: "It is a great honour for us to be the first university in China to enter into a cooperation of this kind with ŠKODA. This collaboration will help us on our way to becoming a top international university."

.09

September 15 - 25 > Frankfurt
ŠKODA presents the production-ready MissionL concept car at the IAA Motor Show. The new compact sedan will come onto the market in Europe, Russia and China by autumn 2012. The ŠKODA MissionL also marks the beginning of a comprehensive model offensive. Over the coming years, ŠKODA will present a new model every six months.

Further information on the presentation of the MissionL concept car at the IAA in Frankfurt:
http://go.skoda.eu/iaa

.10

October 7 > Pune

Series production of the ŠKODA Rapid begins at the ŠKODA plant in Pune, India. This model, tailored to the needs of Indian customers, will strengthen the position of ŠKODA in this key growth market. Prof. Dr. h.c. Winfried Vahland: "The Indian market plays a central role for ŠKODA: It is one of the markets with the greatest potential, alongside China and Russia. The new ŠKODA Rapid is the right model at the right time for these growth markets. It also represents an important step along our route to growth over the next few years."

.11

November 29 > Mladá Boleslav

The new ŠKODA Citigo debuts on the Czech market. With its seventh model line, ŠKODA expands its offering into the small car segment, and continues its product offensive. The flexible, compact and reasonably-priced ŠKODA Citigo is designed to appeal primarily to young families and older couples. The ŠKODA Citigo will initially be available as a three-door version, with a five-door version to follow in spring 2012.

All about the new
"city clever" ŠKODA Citigo:
http://go.skoda.eu/citigo5

.12

December 2 > Paris

ŠKODA and its winning drivers are honoured for their resounding success in the Intercontinental Rally Challenge (IRC) in the French capital. ŠKODA has secured the IRC manufacturers' title for the second consecutive year. In the drivers' ranking, ŠKODA racer Andreas Mikkelsen tops the podium, with Jan Kopecký and Juho Hänninen alongside him in second and third. The Red Bull ŠKODA Team of Hänninen/Markkula also won the rally world championship for the first time in the SWRC category. This makes 2011 the most successful year in the 110-year history of ŠKODA Motorsport.

Faster than ever

2011 turned out to be the most successful year so far in the history of ŠKODA Motorsport. Exactly 110 years after ŠKODA first became involved in the sport, a dream came true: ŠKODA not only repeated its previous year's victories in both the manufacturer and driver rankings of the renowned Intercontinental Rally Challenge (IRC) – in 2011, ŠKODA also brought the SWRC (Super 2000 World Rally Championship) title home to Mladá Boleslav for the first time in motorsports history.

Experienced teams and the technical maturity of the ŠKODA Fabia Super 2000 played a crucial role in these successes. By the end of the season, ŠKODA had notched up eight wins in individual races to take the prestigious IRC manufacturers' and drivers' titles, as well as three first places in the SWRC – in addition to four national titles. All in all, ŠKODA certainly left its mark on rally sports in 2011.

ŠKODA started the 2011 season in a confident mood – and, sure enough, the talents of the previous year's winning team of Juho Hänninen and Mikko Markkula soon shone through. The Finnish pair was competing not only in the IRC, but also in the SWRC races. With a total of three wins and two second places in the SWRC, they pulled away

With a one-two-three in the IRC and victory in the SWRC, ŠKODA celebrated 110 years in motorsports with its most successful year ever.

from the rest of the pack and secured ŠKODA its first world championship title. In the IRC they finished third overall, but were overtaken in the final race by Andreas Mikkelsen with Ola Fløene, and Jan Kopecký and Petr Starý – both of these teams also driving ŠKODA Fabia Super 2000 cars. ŠKODA driver Andreas Mikkelsen was the surprise season-winner: By finishing first in the last two races of the IRC season, the 22-year-old Norwegian became the youngest IRC winner in history. ŠKODA's Czech factory team of Kopecký and Starý also delivered another solid performance in 2011. Their two IRC wins earned them second place – the same as the previous year. Belgian driver Freddy Loix also contributed to ŠKODA's successful scorecard with several good placings and a first in Ypres.

ŠKODA's commitment to motorsports dates back to 1901, when racing pioneer Narcis Podsedníček successfully completed the Paris-Berlin race on a motorcycle built by L&K, which later merged with ŠKODA. Unlike today's drivers, who can rely on the support of a highly-professional service team, Podsedníček mostly had to fend for himself on his racing adventure 110 years ago. Fortunately, an obliging Parisian woman with a sewing machine helped him rein-

force the treads and sidewalls of his tyres with linen – otherwise poor road conditions would almost certainly have forced Podsedníček to turn around, and he would never have made it to Berlin. Today, his success is regarded as ŠKODA's racing debut.
Even in the early days, racing was never just an end in itself. Racing successes were the ideal way to convince the public of the reliability of the brand's products. Between 1904 and 1906 L&K even employed its own factory driver, Václav Vondřich, an enthusiast who was totally committed to racing and would go to any lengths for the sport.

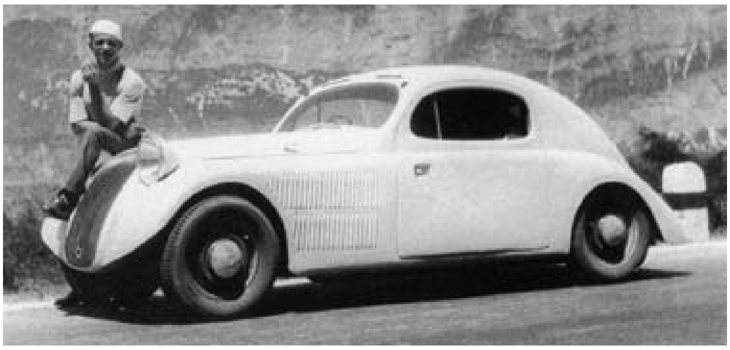
A passion inspired by tradition: The Company's commitment to motorsports goes back almost as far as ŠKODA itself – more than 110 years. Today, motorsports can be considered an integral part of the brand's identity.

By the early twentieth century, racing competitors had to be ahead of their time. They had to be fighters, driven by a strong desire to be the best. That was precisely the kind of fighting spirit shared by L&K founders, Václav Laurin and Václav Klement, who had started out building bicycles, and soon progressed to producing motorcycles. Their first automobile, the "Voiturette A" came onto the market in 1905. Over the next few years, the Company also built the legendary FCS and FCR race cars alongside series-produced automobiles. These cars were renowned for their speed and durability. The FCS clocked speeds of around 115 km/h – which was quite remarkable for the time; while the 1909 FCR, with its enormous 5,672 cm^3 four-cylinder engine, achieved a total output of almost 100 hp (73 Kw).

In the years after 1925, when L&K merged with ŠKODA, several attractive vehicles were built, including the streamlined ŠKODA Rapid Six with a water-cooled six-cylinder four-stroke 1961 cm^3 engine. With 50 hp (37 kW), it was able to reach a maximum speed of 130 km/h.
However, during difficult economic times and world wars, reliability and sturdiness mattered more than top speed. For ŠKODA, participating in "marathons" and high-profile endurance tests became more important than chasing racing trophies. Instead, ŠKODA automobiles were seen crossing the United States and Mexico and photographed navigating unpaved roads in Africa. Adventurers like Jiří Hanuš and František Alexander Elstner and his wife Eva Růžena Elstnerová captured the public attention. On expeditions that tested both the drivers and their cars, they delivered impressive proof of ŠKODA vehicles' exceptional reliability.
Volkswagen's involvement with ŠKODA from 1991 on marked the end of the long period of compromise and improvisation that followed the Second World War. With a modern car and Volkswagen's clear commitment to motorsports, the Company was able to make a fresh start. The ŠKODA Felicia Kit Car was on the racetrack by 1995, and delivered a series of good performances.
The next chapter in ŠKODA's racing history began in 1997,

when the FIA created a new WRC racing category. It was the ŠKODA Octavia WRC, launched in 1999, that earned ŠKODA a place among the rally elite. By then, Mladá Boleslav had its eyes firmly on the future: Work was already fully underway on the ŠKODA Fabia WRC, which debuted in 2003.

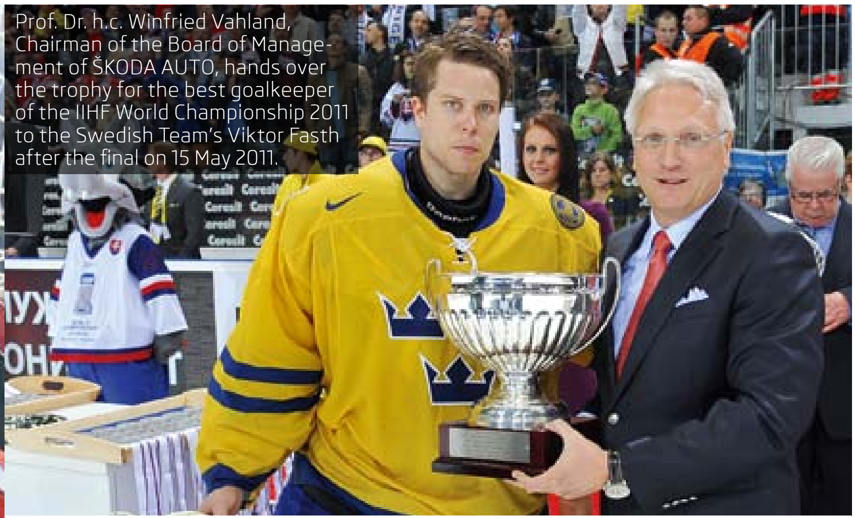
The breakthrough finally came in 2009, when the newly-developed ŠKODA Fabia Super 2000 transformed ŠKODA into one of the top players. In its very first racing season, ŠKODA Motorsport took second place in the IRC driver and manufacturer competitions with this car. This was followed in 2010 by a comfortable victory in both rankings and crowned, in 2011, with an impressive repeat performance. This second IRC win, combined with the Red Bull ŠKODA Team's triumph in the SWRC, marked the high-point so far in the fascinating history of ŠKODA Motorsport. The brand's on-going commitment to racing is strengthened by an awareness of its long and impressive tradition. Rally racing will continue to define the ŠKODA brand in the future and remain an integral part of its identity. In many ways, ŠKODA's heart belongs to motorsports.



"2011 was a great year for ŠKODA. Defending our IRC title and winning the SWRC, as well as four national titles, was a fantastic achievement for everyone. The drivers, the teams and all of the people involved did a terrific job. We are extremely happy."

Michal Hrabánek, head of ŠKODA Motorsport

Chasing records



Prof. Dr. h.c. Winfried Vahland, Chairman of the Board of Management of ŠKODA AUTO, hands over the trophy for the best goalkeeper of the IIHF World Championship 2011 to the Swedish Team's Viktor Fasth after the final on 15 May 2011.

The ice hockey world championships and the Tour de France are just two of the highlights of ŠKODA AUTO's sports sponsorship in 2011.

> All professional sportsmen and women like to break records. Sponsors, too, expect top performance. But for sponsors to set a record themselves is something of an exception. ŠKODA AUTO holds just such a record for its ongoing support of the Ice Hockey World Championships – the Company even scored an entry in the Guinness Book of Records as "the longest-standing main sponsor in the history of sporting world championships".

"Our commitment to ice hockey is one of the central pillars of our sponsorship strategy. It contributes significantly to the recognition and image of the ŠKODA brand on the international markets," explains Jürgen Stackmann, member of the Board of Management for Sales and Marketing at ŠKODA AUTO.

What that means in concrete terms was seen at the men's ice hockey world championships in Slovakia in May 2011. The ŠKODA brand was visible almost everywhere during the competition. Banner advertising around the stadiums and the ŠKODA logo in the centre of the rink assured the necessary presence. The winged arrow was also seen on many teams' jerseys and helmets. Teams from Slovakia, Norway, Slovenia, Russia and, of course, the Czech Republic all competed wearing the ŠKODA logo.

A fleet of 40 ŠKODA Superb Combi and ŠKODA Yeti cars shuttled officials and guests to and from the stadiums – where ŠKODA automobiles were also on display inside. In addition, ŠKODA allowed fans who could not be there in person to follow the excitement of the world championships online. The www.skoda-auto.com website was linked to a special page with the latest results and scoreboards. There was even a championship app for smartphones.

The event ended with Finland winning the world championship, Sweden in second and the Czech Republic in third place. ŠKODA reached more than 700 million fans all over the world through this sponsorship. And although the world championship title could be anyone's next year, one thing is already certain: There is no risk of ŠKODA losing its world record any time soon – shortly after the 2011 world championships, the Company renewed its contract with the International Ice Hockey Federation for another four years.

Get important details and all highlights of the 2011 IIHF World Championships in Slovakia.
http://www.iihf.com/channels-11/iihf-world-championship-wc11/home.html

The driving force behind the Tour de France

ŠKODA has been similarly successful – if "only" for the past eight years – in competitive cycling, and primarily the Tour de France, the world's best-known cycling race. No fewer than nine professional teams and the Mavic technical support service rely on ŠKODA as their partner. The sponsorship reached a new highpoint this year with a fleet of 300 vehicles and many other race-related activities. ŠKODA kept the Tour managers, VIPs and media from around the world mobile, with all models from the ŠKODA Fabia to the ŠKODA Superb in action. The winged arrow logo also featured prominently in the Tour de France publicity caravan. The finishing touch was the presentation of the Tour de France trophy to winner Cadel Evans by Jürgen Stackmann, member of the Board of Management for Sales and Marketing. ŠKODA chief designer Jozef Kabaň also helped design the trophy, which was handmade by glass craftsmen from Bohemia.

"We are proud to partner with this fantastic sporting event for the eighth consecutive year," said Jürgen Stackmann. "It has been a tremendous three weeks all round – and what a perfect opportunity for ŠKODA to present the brand and its cars to millions of viewers worldwide!"

Cycling represents the second major pillar of ŠKODA AUTO's sports sponsorship, alongside ice hockey. Besides the Tour de France, ŠKODA is also involved with other classic races, such as the Giro d´Italia and the World Road Cycling Championship. ŠKODA also performs well on two wheels in amateur sports. The Company sponsors the event "Bike for Life" in the Czech Republic as well as the Berlin "Velothon".

Both on ice and on two wheels, ŠKODA will remain a reliable partner for sports over the coming years. Jürgen Stackmann hit the nail on the head: "Sport brings people together and represents emotion – what could be more powerful when it comes to strengthening a brand?"

Photo: ASO – P.Perreve

Photo: ASO – B.Bade

Learn all about the 98th Tour de France (July 2 - July 24, 2011) http://www.letour.fr/us/homepage_courseTDF.html

Pure energy

ŠKODA launches a fleet of ten Octavia Green E Line cars – and takes the next step towards emission-free mobility.

The presentation of the first ŠKODA Octavia Green E Line concept at the Paris Motor Show in 2010 heralded the beginning of a new era for the Company. Within a year, the concept car had evolved into a whole fleet of vehicles ready to hit the roads, seeking valuable insights for the future of electro-mobility at ŠKODA.

A total of 15 ŠKODA Octavia Green E Line models were built in Mladá Boleslav in June 2011. A few of these vehicles became prototypes for technical development and quality assurance purposes, but most were launched on the roads as a small fleet: Ten ŠKODA Octavia Green E Line models were given the chance to prove themselves in everyday driving situations. Viewed from the outside, the only difference between these mid-sized cars and the series-produced ŠKODA Octavia Combi they are based on is their special label.

A closer look inside the vehicle reveals other differences. First, the battery: A total of 180 lithium-ion battery cells with a weight of 315 kilograms and a capacity of 26.5 kWh are located to the rear of the car under the floor panels. This gives the vehicle a range of about 150 kilometres. The electric motor delivers a power output of 85 kW and 270 Nm of torque, available from a standing start. The ŠKODA Octavia Green E Line accelerates from 0 to 100 km/h in twelve seconds, with an electronically-limited top speed of 135 km/h. This kind of performance makes the ŠKODA Octavia Green E Line a top choice for city driving, as does another of this electric car's special features: All ŠKODA Octavia Green E Line models are fitted with a sound generator that simulates driving and engine sounds at speeds up to 30 km/h for maximum safety.

"The ŠKODA Octavia Combi's modular solutions make it easy to fit with battery, electric motor and performance electronics. In developing this car, we were also able to use modules from the Volkswagen Group," explains Petr Kristl, head of e-mobility at ŠKODA. He leads a team of nine people, responsible for promoting the development of electro-mobility at ŠKODA AUTO.

"Once we had built the vehicles for the test fleet here in Mladá Boleslav, we registered them through the normal channels – without any kind of special permits or exemptions," adds Kristl. "Because, at the end of the day, we want our test drivers to be able to use the cars without any restrictions – and you can't expect special treatment in everyday situations."

By October 2011, everything was in place: Once the fleet had been approved, the road tests could begin. The cars will be tested on Czech roads for at least twelve months by com-

"The Octavia Green E Line brings us another step closer to reaching our goals for future mobility. It will provide us with valuable insights and represents an important milestone in the on-going development of electric propulsion at ŠKODA."

Dr.-Ing. Eckhard Scholz, member of the Board of Management for Technical Development at ŠKODA AUTO.

pletely different drivers, in all weathers, always mindful of the relevance for the customer. Kristl: "Everyone uses a car in different ways – so, for an electric vehicle to be successful on the market, it needs to meet all those demands." For this reason, the test will focus not just on vehicle technology but also on driving behaviour and customer needs, as well as future sales channels and business models.

ŠKODA is adopting its own unique approach to testing. Selected managers – led by members of the Board of Management – and employees from the divisions involved in the project will initially test the cars before they are released to external partners from April 2012 on.

Each of the cars will clock up around 15,000 kilometres over the duration of the test period. Kristl and his team are prepared for the occasional technical problem: "Every vehicle is connected online to our server and we record all relevant data, so we always know whether everything is okay with the cars." In the initial phase, the vehicles will be driven only within the Czech Republic – primarily so that any problems can be solved quickly locally. If necessary, a team of service technicians will be on hand to respond immediately. All drivers will be surveyed on their impressions and experiences during the test. Kristl is looking forward to their feedback: "We are especially interested in hearing their criticisms, so that we can learn and refine our technologies. The best way to do that is by analysing our weaknesses."

So, where do they go from here? Kristl explains: "Electro-mobility is a complex, multifaceted topic. It is not just about having the right vehicles. There are questions surrounding energy generation and distribution, auxiliary services, totally new business models ... No automobile manufacturer in the world can solve these problems alone. And that is where the cooperation within the Group really helps us.

Plugged in: A fleet of ten ŠKODA Octavia Green E Line models will demonstrate their everyday driveability in all conditions in year-long road trials.

The renowned Czech Top 100 Association honoured ŠKODA as the most attractive Czech company in 2011: Miroslava Němcová, Speaker of the Chamber of Deputies of the Parliament of the Czech Republic, and Bohdan Wojnar, member of the Board of Management of ŠKODA AUTO for Human Resources Management, proudly present the award.

Awards 2011

Both the ŠKODA AUTO Company and ŠKODA brand automobiles received numerous awards once again in 2011. The awards recognise ŠKODA's special commitment and at the same time set new standards for the future. A selection of the most important awards can be found here.

CZECH REPUBLIC

Best Cars Auto motor a sport ŠKODA Yeti
Best Cars Auto motor a sport ŠKODA Superb
Best Cars Auto motor a sport ŠKODA Octavia
Best Cars Auto motor a sport ŠKODA Roomster
4x4 2011 4x4 Car ŠKODA Superb
Most important company of the Czech Republic Czech TOP 100 ŠKODA AUTO
Employer without barriers Konto Bariéry ŠKODA AUTO
Socially worthwhile project of the year/The best full responsibility enterprises CSR Europe ŠKODA AUTO

UK

Best Car Auto Express Driver Power ŠKODA Yeti (2nd place)
Best Car Auto Express Driver Power ŠKODA Superb
Best Car Auto Express Driver Power ŠKODA Octavia (4th place)
Best Manufacturer Auto Express Driver Power ŠKODA AUTO
Best Crossover Auto Express ŠKODA Yeti
Best Family Car Auto Express ŠKODA Superb
Best Estate Auto Express ŠKODA Superb
Driver Power Award Auto Express ŠKODA AUTO

GERMANY

Best Cars Auto Motor und Sport ŠKODA Superb (1st place)
Best Cars Auto Motor und Sport ŠKODA Roomster (Cat.: van/import, 3rd place)
Best Cars Auto Motor und Sport ŠKODA Fabia (Cat.: imported small cars, 2nd place)
Best Cars Auto Motor und Sport ŠKODA Octavia (Cat.: compact class/import, 2nd place)
Fleet Award Autoflotte ŠKODA Fabia (Cat.: import, small cars)
Fleet Award Autoflotte ŠKODA Octavia (Cat.: import, compact class)
Fleet Award Autoflotte ŠKODA Superb (Cat.: import, upper compact class)
Best Family Car AUTO Straßenverkehr ŠKODA Octavia Combi, ŠKODA Superb Combi, ŠKODA Roomster
All - Wheel - Drive Car of the Year Auto Bild ŠKODA Superb 4x4 (Cat.: 25' – 40' EUR)
Taxi of the Year Taxi heute ŠKODA Superb
Company Car of the Year Firmenauto ŠKODA Octavia Combi (Cat.: import compact class)
Company Car of the Year Firmenauto ŠKODA Superb Combi (Cat.: import/export class)
Three gold medals 10th Automotive Film and Multimedia Festival, Frankfurt Motor Show (IAA) ŠKODA AUTO (Cat.: TV/Cinema, Website, Corporate Video)
Deutscher Werbefilmpreis 2011 Assoc. of German Advertising Spot Producers ŠKODA AUTO (Cat.: Animation and Cartoons)

SWITZERLAND

Best Cars Auto Illustrierte ŠKODA AUTO Cat.: price/performance (11th consecutive year)

INDIA

People's Choice Award Sedan of the Year ŠKODA Rapid
Family Car of the Year Top Gear Awards ŠKODA Rapid
SUV of the Year ET Zigwheels ŠKODA Yeti
SUV of the Year CNBC Overdrive ŠKODA Yeti

CHINA

Most Reliable A-class Model of the Year Auto.163.com ŠKODA Octavia Mingrui
Best Sports Model of the Year Youth Daily ŠKODA Octavia RS
China Auto Market Media Award West China Metropolis Daily ŠKODA Octavia Mingrui (Cat.: Well-selling Intermediate Model)
China Auto Market Media Award West China Metropolis Daily ŠKODA Superb Hoarui (Cat.: Model of the Year)
Best Branding Award 2011 China Times and Automotive Business ŠKODA AUTO

Go,
Citigo!

Small car, big plans: For the very first time, ŠKODA AUTO is venturing into the small car segment with the ŠKODA Citigo – starting out in the Czech Republic, with other markets to follow later. The seventh model line's future role within the ŠKODA product family is clearly defined: gain a foothold in the fast-growing small car market and so play a key role in the Company's growth strategy.


CZ
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The prospects look good: ŠKODA automobiles traditionally embody many of the qualities valued in the small car segment, such as good everyday driveability and an excellent price/performance ratio. ŠKODA Chairman of the Board of Management Prof. Dr. h.c. Winfried Vahland is enthusiastic about the smallest ŠKODA: "It's compact but roomy, economical and agile, attractive and full of smart ideas – that's what the ŠKODA Citigo is about." It is also "a real Simply clever car" that combines all of ŠKODA's brand values in the smallest possible space, making it perfect for our times.
"The ŠKODA Citigo will take us into the small car segment," adds Winfried Vahland. "This vehicle class makes up almost ten per cent of the global automobile market today." In numbers, that means more than 5.8 million small cars were delivered to customers worldwide in 2011 – almost a quarter of them in Western Europe. All signs point to growth, resulting from urbanisation and rising demand for small cars with low fuel consumption and maintenance costs – especially in Europe. Experts expect the segment to grow strongly over the next years.
The ŠKODA Citigo was designed for different target groups living in Europe's urban centres: in particular, young drivers and older people – so-called "best agers" – but also families looking to buy a second or third car. The diversity of these target groups was reflected in the specifications for the design of the new small car: The ŠKODA Citigo had to be instantly recognisable as a typical ŠKODA, but at the same time appeal to people of different ages with different needs. It was also important for the new car to be taken seriously, despite its small size, and assert its unique personality.
The ŠKODA designers certainly managed to achieve that: The front grille was carefully modified, but retains a "typical ŠKODA" look to it; the C-shaped rear lamps give the ŠKODA Citigo a distinctive appearance from the back, while large windows and precise contours ensure the car appears well-balanced and modern. Its compact dimensions and excellent handling ensure perfect manoeuvrability in city traffic.
ŠKODA has used its usual high standard of materials to provide the right look and feel for the ŠKODA Citigo's attractive and highly-practical interior. The long wheelbase creates a spaciousness not usually found in the compact class. Many carefully thought-out and innovative details ensure that the ŠKODA Citigo remains a Simply clever ŠKODA, inside and out. One of many examples of this is the photo and document holder on the dashboard, which adds ŠKODA's signature "Human Touch" and helps make life easier for the driver.

Safety knows no classes

ŠKODA realises that customers desire the same level of highly-effective safety measures in the compact class as in any





Simply clever – lots of smart details in the new ŠKODA Citigo make the smallest ŠKODA a truly "city-clever" vehicle for urban target groups. ŠKODA's seventh model line also boasts top-quality workmanship, state-of-the-art safety features and an exceptionally spacious interior. ŠKODA definitely sets the standard in the small car segment with the ŠKODA Citigo.




other and has therefore incorporated a whole range of innovations into the ŠKODA Citigo: Active safety is significantly enhanced by the new "City Safe Drive" brake assistant. This optional emergency braking function is automatically activated at speeds of below 30 km/h with a laser sensor that identifies any danger of collision. In this way, "City Safe Drive" significantly reduces the risk and severity of rear-end collisions - particularly in cities.

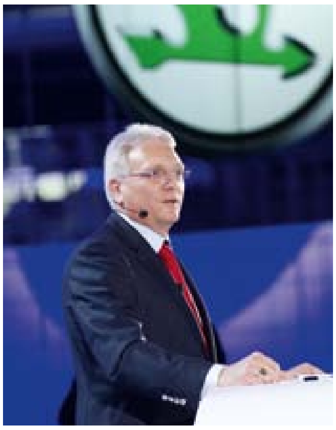
ŠKODA has implemented the head-thorax side airbag for driver and passengers in the ŠKODA Citigo, thereby protecting the occupants' head and upper body in the event of a lateral impact. ABS naturally comes as standard. The effectiveness of these active and passive safety measures has been confirmed by top marks in the Euro NCAP crash test – a five-star rating for the ŠKODA Citigo speaks for itself.

It goes without saying that all ŠKODA Citigo engines are especially environment-friendly. Two new three-cylinder 1.0-litre petrol engines, one with an output of 60 hp, and the other 75 hp, have been available since market launch. In the most economical Green tec version, average consumption is 4.1 l/100 km and 4.2 l/100 km respectively, with CO_2 emissions of 96 g and 98 g/km respectively. The ŠKODA Citigo engines and transmissions are specially designed for city driving and therefore reach the temperature they need to operate efficiently extremely quickly, even on short trips. These engines produce a high torque with little noise despite their limited capacity. A natural-gas engine will be offered in addition to the petrol engines at a later date. This will generate CO_2 emissions of only 79 g/km.

The ŠKODA Citigo was launched in the Czech Republic in November 2011, initially as a three-door version. The remaining European markets will follow in 2012, with an additional five-door model that is likely to prove particularly popular in Central Europe.

The ŠKODA Citigo may be small in size, but it is hugely important to the ŠKODA growth strategy. Together with the ŠKODA Rapid for the Indian market, it marks the beginning of the largest model offensive in the Company's history: A new ŠKODA model is set to be presented to the public on average every six months. "The Citigo launches our model offensive. This car has an excellent chance of gaining a permanent foothold in the small car segment," says Dr. Eckhard Scholz, member of the Board of Management for Technical Development at ŠKODA AUTO. The Company was already able to establish itself quickly in a new market segment back in 2009 with the ŠKODA Yeti. Now, the ŠKODA Citigo is well on its way to repeating that impressive feat.


ŠKODA



Approximately 5,000 ŠKODA partners from all over the world gathered in Prague for the largest ŠKODA World Dealer's Conference ever. They wanted to get the latest news on the Company's recent performance and learn more about the future growth and internationalisation strategy of ŠKODA AUTO from Chairman of the Board of Management, Prof. Dr. h.c. Winfried Vahland.

Embarking on a new era

The biggest ŠKODA World Dealers' Conference ever, under the motto "New Power of ŠKODA", sent a strong signal to the roughly 5,000 ŠKODA partners from all over the world who came together in Prague on 10 February 2011 to discuss the future development of the Company.

The message was clear: ŠKODA will not rest on its laurels, but will set itself ambitious goals for the near future, focusing on growth, further internationalisation and a one-of-a-kind model offensive. "We are ready to take ŠKODA to a new dimension," asserted Chairman of the Board of Management Prof. Dr. h.c. Winfried Vahland in his opening speech. Plans call for continued expansion of the product range and the brand's global market presence to double sales by the year 2018 to at least 1.5 million cars.

Conditions are right: ŠKODA has established itself on its traditional European markets as a strong brand with the best prospects for future growth. ŠKODA cars are locally manufactured in Russia, India and China – where the Company aims to participate in the highly-dynamic growth forecast for these markets: "We will considerably expand our current position," emphasised Winfried Vahland, as he laid down the strategic approach for these markets.

It is not just its close partnership with Volkswagen that makes ŠKODA such an effective global player. Its vehicles' core properties – their excellent value for money, their tremendous everyday driveability and reliability – all make ŠKODA cars especially attractive for a large segment of buyers in growth markets. Winfried Vahland explains: "ŠKODA is not going for bells and whistles. We focus on the things that really matter ... all at a fair price. We build good cars people can afford."

Conference participants greeted the presentation of a ŠKODA City Car concept with resounding applause. By late 2011, that car was already on the market as the ŠKODA Citigo in the Czech Republic. The concept version of a compact sedan scheduled for release in 2012 and revealed for the first time at the ŠKODA World Dealers Conference, also received a rousing reception.

The new global strategy is evident in both models: The ŠKODA Citigo was designed not least in response to increasing global urbanisation. The so-called "Global Compact" sedan, destined in particular for growth markets, even signals its globe-spanning approach in its name.

The new corporate design, which will support ŠKODA's global growth and was presented in Prague for the first time, also points the way. It appears fresh, youthful, dynamic and open to the world. It will define future visual presentation at all ŠKODA dealerships. And not just for dealers: All newly-developed ŠKODA automobiles will display the attractive new chrome-effect ŠKODA arrow in the future.

New strategy, new models, new corporate design: ŠKODA is approaching the tasks ahead full of confidence and optimism – that much was clear from this highly-significant conference for ŠKODA. The response of the dealers who were there showed that the Company has every reason to believe in the "New Power of ŠKODA".

Product portfolio

A new record of 879,184 deliveries to customers in 2011 confirms the appeal of the entire range of ŠKODA models on markets around the world. With the launch of the ŠKODA Citigo in the small car segment, ŠKODA now has attractive models in virtually all market segments. With its GreenLine models and Green tec versions, ŠKODA also offers low-consumption vehicles with especially low emissions throughout its model line-up.

Product portfolio

ŠKODA Superb

ŠKODA Superb Combi

An uncompromising approach to quality and unbeatable value for money – that is the simple but effective formula behind the success of the ŠKODA Superb and the ŠKODA Superb Combi. The ŠKODA Superb combines high utility value with timeless, elegant design and state-of-the-art technology. Top-quality materials, in conjunction with practical high-end solutions, such as ventilated front seats, define the character of these cars. The spaciousness of the ŠKODA Superb is nothing short of remarkable. In addition to an impressive luggage space of up to 1,835 litres, the legroom for backseat passengers is unusually generous, even for an upper mid-sized car. These vehicles are powered by a wide range of high-performance, highly-efficient and environmentally-friendly diesel and combustion engines. The consumption-optimised Green tec package is also available for buyers who place particular emphasis on efficiency and resource conservation. The ŠKODA Superb boasts several completely new features. For the first time in ŠKODA vehicles there are a driver's knee and rear side airbags (up to nine airbags), parking assistant and bi-xenon headlights with AFS (Adaptive Frontlight System).
A selection of attractive exterior colours ensure that the ŠKODA Superb appears elegant or sporty, but always striking. Elegance and common sense are rarely found in such perfect harmony in a car. That is why the success of ŠKODA's top-of-the-range model should come as no surprise. Steadily rising sales – in markets including China – are the reward. The ŠKODA Superb is, and will remain, one of the most attractive alternatives in the upper mid-sized segment.

ŠKODA Octavia

ŠKODA Octavia Combi

The most successful model in the history of the ŠKODA brand underlined its pivotal importance to the Company once again in 2011 by setting new global sales records. The ŠKODA Octavia, which was first introduced in 1996, followed by a second generation in 2004, is still setting standards today – for workmanship, everyday driveability, utilisation of space and, not least, value for money. The ŠKODA Octavia Combi is extremely popular and, with a 1,620-litre luggage compartment, it is also remarkably spacious. Environmentally-compatible mobility is a focal point for all series-produced ŠKODA Octavia cars: The new Green tec technology, with automatic start/stop function, brake energy regeneration and tyres with optimised rolling resistance, enables the ŠKODA Octavia and ŠKODA Octavia Combi to achieve the highest possible emission reductions and fuel savings. The ŠKODA Octavia also plays a part in exploring the future of driving: A ŠKODA Octavia Combi forms the basis of the brand's first electric vehicle, the ŠKODA Octavia Green E Line. A test fleet of ten of these cars has been on the roads since autumn 2011 with the aim of gaining detailed insights into driving behaviour and safety aspects. The four-wheel-drive ŠKODA Octavia Scout and ŠKODA Octavia 4x4 versions round off the ŠKODA Octavia line-up and have a strong appeal to new target groups, particularly in growth markets around the world. In other words, the ŠKODA Octavia success story has only just begun.

Product portfolio

ŠKODA Yeti

In its second full year of production, the ŠKODA Yeti continued to gain momentum. In fact, it reported the most impressive gains across the entire ŠKODA line-up in 2011. This compact SUV scores highly for its excellent handling, both on-road and off, as well as for comfort and spaciousness. It is a model of versatility for all needs. Since its market launch in 2009, the ŠKODA Yeti has constantly exceeded already-high expectations: By June 2011, no fewer than 100,000 of these compact SUVs had rolled off the assembly line. Customers showed a marked interest in the all-wheel version. The ŠKODA Yeti also plays an important role in the growth markets of Russia, India and China. In the future, the ŠKODA Yeti will be built in Nizhny Novgorod in Russia and in Shanghai as well as at the existing production facilities in Kvasiny in the Czech Republic and Aurangabad, India. After a very promising start in Europe, the ŠKODA Yeti is now ready to take on the world.

ŠKODA Roomster

As the name suggests, the ŠKODA Roomster is all about "room" – and this minivan certainly fulfils its promise, with a maximum luggage capacity of up to 1,780 litres. Ample space and extraordinary versatility are what make the ŠKODA Roomster stand out. With a wide variety of different seating and loading configurations, this vehicle can be adapted to any kind of transport needs. The expandable and adjustable Varioflex seating system, in particular, makes the ŠKODA Roomster extremely versatile. Its large windows and compact dimensions ensure easy handling and manoeuvrability for city driving, and its finely-tuned driving properties make the ŠKODA Roomster ideal for longer trips. This car with a unique design proves that design and everyday drivability are not mutually exclusive. Since its debut in 2005, the ŠKODA Roomster has become a permanent fixture in the minivan segment. Rising sales are proof of its growing appeal and continued importance to the ŠKODA brand.

ŠKODA Fabia

ŠKODA Fabia Combi

The ŠKODA Fabia has been one of the best-selling ŠKODA models for years. It confirmed its appeal once again in 2011 with a further increase in global sales figures. One of the ŠKODA Fabia's greatest assets is the car's fine balance between size and spaciousness. It effortlessly combines compact size and manoeuvrability with comfort – also for longer trips. The ŠKODA Fabia Sedan boasts a maximum luggage compartment volume of 1,163 litres, while the ŠKODA Fabia Combi, with a luggage compartment of up to 1,485 litres, is even more spacious. Six airbags ensure the highest level of passenger safety, with optional integrated bend lighting to enhance driving safety. The ŠKODA Fabia demonstrates its suitability as an everyday family car through its attention to detail. It is also extremely economical, with an impressive price/performance ratio and a choice of fuel-efficient petrol and diesel engines. Several of the petrol engines are available as environmentally-friendly Green tec versions, ensuring that the ŠKODA Fabia is also state-of-the-art from the environmental perspective. Different option packages allow the ŠKODA Fabia to be configured to suit individual needs and tastes. But this practical car is not short on aesthetics either: In fact, attractive exterior colours make the ŠKODA Fabia quite an eye-catcher, especially in the optional two-tone design with a contrasting roof. The sum of all these features makes the ŠKODA Fabia an especially attractive option in its class.

Product portfolio

ŠKODA Citigo

The newest member of the ŠKODA product family, the ŠKODA Citigo, is opening up the small car segment to the brand. ŠKODA's new model line initially debuted on the Czech market in late 2011. The strikingly sharp and modern-looking ŠKODA Citigo offers maximum space in the smallest possible package: Only 3.56 metres long, it is one of the most compact vehicles in its class, but is still able to seat four people. Its 251-litre luggage compartment can be extended to 951 litres by folding down the rear seats. Safety was another top priority during development of the ŠKODA Citigo. Its top five-star rating in the Euro NCAP crash test confirms that the measures implemented have been highly effective. Active safety is also enhanced by the new "City Safe Drive" brake assistant option which uses a laser sensor to warn of – and therefore help avoid – potential collisions at speeds below 30 km/h. It goes without saying that all ŠKODA Citigo engines are fuel-efficient as well as environmentally-friendly. The most economical Green tec version has a fuel consumption of only 4.1 l/100km, and CO_2 emissions of 96 g/km. The new model is of major significance to the Company's growth strategy. It is designed to give the brand access to new target groups in Europe in particular.

ŠKODA Rapid

The ŠKODA Rapid compact sedan was developed specially for the needs of the Indian market and is manufactured at the local plant in Pune. Shortly after the official market launch in October 2011, the car was named "Family Car of the Year" by the renowned auto magazine "Top Gear India". This provided impressive confirmation of the ŠKODA Rapid's special appeal for the Indian automobile market just in time for the start of sales.
The sixth ŠKODA model line combines all the usual ŠKODA virtues. The ŠKODA Rapid was designed to be an excellent all-rounder. Top priority was given to developing a family-friendly car with great everyday driveability. That is why the ŠKODA Rapid offers such a roomy interior despite its compact dimensions of only 4.39 metres by 1.70 metres. It incorporates the latest technology and state-of-the-art safety features, while its spaciousness, equipment options and design are tailored specifically to suit the wishes and tastes of Indian customers. The ŠKODA Rapid is nevertheless instantly recognisable as a ŠKODA, both inside and out: This is ensured by characteristic ŠKODA design elements on the radiator grille and rear of the vehicle, as well as practical details inside. In one of the fastest-growing automobile markets in the world, the ŠKODA Rapid is set to play a particularly important role in the ŠKODA growth strategy. It will secure the brand a permanent foothold in the region's highly dynamic compact sedan segment and thereby lay the foundation for further expansion of the ŠKODA AUTO presence in the Indian market.

Management Report

Management Report

ŠKODA AUTO Group profile

ŠKODA AUTO is one of the leading corporate groups in the Czech Republic. It comprises the parent company ŠKODA AUTO a.s., its fully consolidated subsidiaries ŠKODA AUTO Deutschland GmbH, ŠKODA AUTO Slovensko, s.r.o., Skoda Auto Polska S.A., Skoda Auto India Private Ltd., and associates.

ŠKODA AUTO a.s.

The parent company, ŠKODA AUTO a.s., is a Czech company with a tradition of automotive manufacturing dating back more than a century, making ŠKODA one of the world's oldest automotive brands. The Company's principal business is the development, manufacture and sale of ŠKODA-brand automobiles, components and genuine parts and accessories and the provision of maintenance services. The sole shareholder of the parent company, ŠKODA AUTO a.s., is the company Volkswagen International Finance N.V., seated in Amsterdam, the Netherlands. Volkswagen International Finance N.V. is an indirect 100% subsidiary of VOLKSWAGEN AG.

ŠKODA AUTO Deutschland GmbH

ŠKODA AUTO Deutschland GmbH was established in 1991 and has been a subsidiary of ŠKODA AUTO a.s. since 1995. The company's principal business comprises the purchase and sale of vehicles, genuine parts and accessories.

ŠKODA AUTO Slovensko, s.r.o.

ŠKODA AUTO Slovensko, s.r.o. was established in 1993 as a subsidiary of ŠKODA AUTO a.s. Its principal business is focused on the purchase and sale of vehicles, genuine parts and accessories.

Skoda Auto Polska S.A.*

This company was established in 1994 and became a subsidiary of ŠKODA AUTO a.s. in the same year. It engages in the purchase and sale of vehicles, genuine parts and accessories.

Skoda Auto India Private Ltd.

This company was established as a subsidiary of ŠKODA AUTO a.s. in 1999 and began assembling vehicles in 2001. Its principal business comprises the purchase, manufacture and sale of vehicles, genuine parts, accessories and other goods.

OOO VOLKSWAGEN Group Rus

The company's principal business comprises the purchase, manufacture and sale of vehicles, genuine parts and accessories. ŠKODA AUTO a.s. holds a minority interest in this company.

In addition to OOO VOLKSWAGEN Group Rus, the company ŠKODA AUTO a.s. also has substantial influence in other associated companies. However, their impact on the consolidated entity's results is insignificant.

ŠKODA AUTO a.s.

registered office: Mladá Boleslav, Czech Republic

ŠKODA AUTO Deutschland GmbH	ŠKODA AUTO Slovensko, s.r.o.	Skoda Auto Polska S.A.*	Skoda Auto India Private Ltd.	OOO VOLKSWAGEN Group Rus
registered office: Weiterstadt, Germany	registered office: Bratislava, Slovakia	registered office: Poznan, Poland	registered office: Aurangabad, India	registered office: Kaluga, Russia
ŠKODA AUTO's ownership interest: 100%	ŠKODA AUTO's ownership interest: 100%	ŠKODA AUTO's ownership interest: 51%	ŠKODA AUTO's ownership interest: 100%	ŠKODA AUTO's ownership interest: 16.8%

* With effect as at 1 January 2012 the share of Skoda Auto Polska S.A. has been sold to Volkswagen International Finance N.V.

Report of the Supervisory Board

In the past fiscal year, the Supervisory Board was regularly and extensively informed by the Board of Management of the operations of ŠKODA AUTO a.s. and subsidiaries within the consolidated group, their financial performance, and their business policies.

Business processes which, due to legal regulations or the Articles of Association, require the Supervisory Board's approval or briefing, or which were of extraordinary importance, were discussed in detail at meetings of the Supervisory Board. Based on written and oral reports from the Board of Management, the Supervisory Board was able to continuously oversee the activities of the ŠKODA AUTO a.s. management as well as that of the entire Group, thus duly executing its powers entrusted to it under the law.

Under its resolution of 30 March 2011, Volkswagen International Finance N.V., as the sole shareholder of ŠKODA AUTO a.s., approved a proposal for commissioning PricewaterhouseCoopers Audit, s.r.o., Prague, to carry out an audit of the Company's financial statements for the 2011 accounting period.

The auditor, reviewing separate financial statements of the ŠKODA AUTO a.s. pursuant to IFRS, the consolidated Group financial statements pursuant to IFRS as at 31 December 2011, and the Report on Relations issued an unqualified opinion. At its meeting on 8 March 2012, the Supervisory Board discussed the financial results and favourably assessed a proposal of the Board of Management for distribution of the ŠKODA AUTO a.s. profits based on the annual financial statements pursuant to IFRS. The Supervisory Board also reviewed the Report on Relations for 2011 and assessed it favourably without reservations. The Supervisory Board authorised the Board of Management to submit the annual financial statements for 2011 and the proposal for the distribution of profits to the sole shareholder, Volkswagen International Finance N.V.

Prof. Dr. Martin Winterkorn
Chairman of the Supervisory Board

ŠKODA AUTO bodies

General Meeting

The General Meeting is the highest body of a joint-stock company. It decides on matters entrusted to its competence by the Articles of Association and the Commercial Code. In view of the fact that ŠKODA AUTO has a sole shareholder, no General Meeting is held and its powers are executed by the sole shareholder. Resolutions of the sole shareholder are made in writing and in cases stipulated by law take the form of a notarial record.

Supervisory Board

The Supervisory Board oversees the activities of the Board of Management and the Company's business operations in compliance with applicable legal regulations, principles of corporate governance and the Articles of Association.
The Supervisory Board ensures that relevant systems are in place to protect the Company's interests and the entitlements of all stakeholders and that adequate financial information is presented. In accordance with the law, ŠKODA AUTO's Supervisory Board reviews the financial statements and the Report on Relations, voices its standpoint on the recommendation of selection of an auditor, oversees financial reporting and assesses all financial transactions that may have a major impact on ŠKODA AUTO.
The Supervisory Board consists of six members, four of whom are appointed by the sole shareholder and two are elected by Company employees in accordance with the law. The chairperson of the Supervisory Board is elected by the members of the Supervisory Board. Members of the Supervisory Board serve four-year terms, with reappointment or re-election for additional terms possible. The Supervisory Board meets three times a year.
Independent decision-making of ŠKODA AUTO's Supervisory Board is ensured by the corresponding organisational structure of VOLKSWAGEN AG and the respective number of independent members present on the Supervisory Board of VOLKSWAGEN AG (see VOLKSWAGEN AG's Annual Report).

Supervisory Board

Prof. Dr. rer. nat. Martin Winterkorn (*1947)
Chairman of the Supervisory Board since 29 January 2010 (member of the Supervisory Board since 1 January 2010)
Chairman of the Board of Management, VOLKSWAGEN AG

Christian Klingler (*1968)
Member of the Supervisory Board since 6 November 2010
Member of the Board of Management for Sales and Marketing, VOLKSWAGEN AG

Dr. h.c. Michael Macht (*1960)
Member of the Supervisory Board since 6 November 2010
Member of the Board of Management for Production, VOLKSWAGEN AG

Ing. Martin Jahn (*1970)
Member of the Supervisory Board since 1 April 2009
Head of International Fleet Sales, VOLKSWAGEN AG

Jaroslav Povšík (*1955)
Member of the Supervisory Board since 16 April 1993
Chairman of the basic organisation of OS KOVO ŠKODA AUTO

Ing. Jan Miller (*1948)
Member of the Supervisory Board since 16 April 1993
Secretary of the basic organisation of OS KOVO ŠKODA AUTO

Board of Management

As the statutory body of the Company, the Board of Management runs the Company's operations and acts on its behalf. The Board of Management is responsible for the Company's long-term strategic goals, devises business and risk-management policies and ensures business and operations management. The Board's powers are laid down in the Articles of Association, the Company's internal regulations and legislation of the Czech Republic.
Pursuant to the Company's Articles of Association, the Board of Management has seven members, all of whom have an executive role within the Company. Board members are appointed by the sole shareholder for a three-year term and may be reappointed for additional terms. The chairperson of the Board of Management is elected by the members of the Board of Management. All members of the Board possess the personal and professional qualifications and practical experience necessary for the performance of their duties. The extent to which they are responsible for performing such duties is governed by Czech legislation. The Board of Management usually meets once a week. In order to ensure its effective functioning, the Board of Management delegates relevant powers and responsibilities to its subordinate levels of management – senior executives.

Committees of the Board of Management

In order to support the activities of the Board of Management, ensure internal management and fulfilment of its responsibilities, the Company has set up committees and panels. These committees are advisory bodies or bodies with decision-making powers that the Board of Management forms on the basis of resolutions. Their purpose is to initiate, draft and submit to the Board of Management recommendations pertaining to specific issues. Competencies and composition of the committees are governed by their rules of procedure.

Board of Management

Prof. Dr. h.c. Winfried Vahland (*1957)

Chairman of the Board of Management since 1 September 2010, Central Management
Previous job positions:
– President and CEO, Volkswagen China Investment Company Ltd. (2005–2010) and Global Vice President, VOLKSWAGEN AG (since 2006)
– Member of the Board of Management for Commercial Affairs, ŠKODA AUTO (2002–2005) and Vice-Chairman of the Board of Management, ŠKODA AUTO (2003-2005)

Dipl.-Kfm. Winfried Krause (*1962)

Member of the Board of Management since 1 April 2010, Commercial Affairs
Previous job position:
Head of Group Controlling, VOLKSWAGEN AG (2006–2010)

Dipl.-Betrw. Jürgen Stackmann (*1961)

Member of the Board of Management since 1 September 2010, Sales and Marketing
Previous job positions:
– VOLKSWAGEN AG (07-08/2010)
– Managing Director, Ford of Germany (2006–2010)

Dipl.-Ing. Michael Oeljeklaus (*1963)

Member of the Board of Management since 1 August 2010, Production and Logistics
Previous job position:
Member of the Board of Management for Production and Technical Development, Shanghai Volkswagen Automotive Company Limited (2005–2010)

Dr.-Ing. Eckhard Scholz (*1963)

Member of the Board of Management since 1 April 2007, Technical Development
Previous job position:
Head of Large Vehicles and Convertibles Product Line, Passenger Car Development, VOLKSWAGEN AG (2005–2007)

Dipl.-Ing. Karlheinz Hell (*1963)

Member of the Board of Management since 1 January 2010, Purchasing
Previous job position:
Head of Purchasing, Volkswagen of South Africa (Pty.) Ltd. (2007–2010)

Ing. Bohdan Wojnar (*1960)

Member of the Board of Management since 1 January 2011, Human Resources Management
Previous job position:
Member of the Board of Management for Human Resources, Volkswagen Slovakia, a.s. (2009–2010)

Audit Committee

The scope of powers of the Audit Committee comprises primarily monitoring the process of preparing and auditing the financial statements and consolidated financial statements, assessing the effectiveness of the Company's internal controls, internal audit and risk management systems, and recommending an auditor. Selection of an auditor is performed by the sole shareholder.
Members of the Audit Committee are appointed by the sole shareholder. The Audit Committee has three members, who elect their chairperson. The term of service is four years, with reappointment for additional terms allowed.

Audit Committee

Martin Mahlke (*1962)
Audit Committee Chairman since 27 April 2010
(Audit Committee member since 1 April 2010)
Head of Group Controlling, VOLKSWAGEN AG

Dr. Ingrun-Ulla Bartölke (*1967)
Audit Committee Member since 1 January 2010
Head of Group Accounting and External Reporting, VOLKSWAGEN AG

Bernd Rumpel (*1959)
Audit Committee Member since 1 January 2010
Head of the ŠKODA Liaison Office, VOLKSWAGEN AG

Changes in the Supervisory Board, Board of Management and Audit Committee
Appointed to the Board of Management, effective as at 1 January 2011: Bohdan Wojnar - Member since 1 January 2011

The CVs of the members of the Board of Management, Supervisory Board and Audit Committee are available on the Company´s website:
http://go.skoda.eu/management-en

Company organisation

The Company´s organisational structure

The Company is organisationally divided into seven divisions:

— The Central Management division is responsible for ensuring compliance with customer product-quality requirements, global growth and foreign business development. The division's other tasks include strategic planning, active communication with the media and experts and organisation of meetings of senior management panels. In the year under review, the division was expanded to incorporate the Governance, Corporate Risk & Compliance department.

— The Commercial Affairs division is responsible for planning and management, and thus the effective use of financial resources. In addition, its tasks include securing information and systems to meet the needs of the Company's management.

— The Production and Logistics division is responsible for the production of vehicles, genuine parts and accessories, engines and components thereof, as well as logistical operations and production preparation.

— The Sales and Marketing division is responsible for marketing manufactured vehicles, genuine parts and accessories.

— The Human Resources Management division is responsible for providing personnel services, ensuring that all of the Company's employees are optimally qualified, motivated and satisfied. It also handles communication with various interest groups.

— The Technical Development division is responsible for the development of new products, design, construction, testing, support for vehicle production and on-going improvement of the entire range of ŠKODA products. It bears the same responsibility in relation to engines produced for other VW Group brands.

— The Purchasing division ensures purchases of production and other material, services and investment units to meet the needs of ŠKODA AUTO.

Relations between Company and shareholders

The Company rigorously complies with all legal regulations to the extent necessitated by the fact that the Company's shares are not listed and that it has a specific shareholder structure in the form of a sole shareholder – Volkswagen International Finance N.V.

ŠKODA AUTO complies with the rules set forth in legislation for execution of extraordinary transactions (i.e. for transactions which in terms of their scope or value significantly exceed the scope of ordinary business activities). Within the Company, there are rules governing the relations between Company bodies in the preparation, approval and implementation of measures and actions of extraordinary or fundamental importance, such as financial and human resources planning, production and sales planning, the Company's participation as a partner or shareholder in the business of third parties, acquisition or disposal of assets beyond the scope of ordinary business activities, filling of key positions in Company management, etc.

Information openness and transparency

The Company rigorously adheres to and complies with all Czech laws and the principles of the Code of Corporate Governance set forth in its Chapter V, and regularly discloses all relevant information about its business, financial and operating results, shareholder structure and other significant events. All information is prepared and disclosed in compliance with the accounting standards and regulations for the disclosure of financial and non-financial information. Within the strategy of openness, the scope of the disclosure of information is, in many areas, beyond that stipulated by law.

The Company regularly publishes annual reports. The Annual Report contains audited annual consolidated and separate financial statements and presents a detailed picture of the Company's business activities and financial position. The Report on Relations between Related Parties is attached to the Annual Report.

In order to prevent a possible conflict of interest, all members of the Board of Management and the Supervisory Board and all senior executives are required by internal regulations to notify the Company in writing of any and all material interest they may have in transactions benefiting third parties and to refrain from exercising direct influence on decision-making in relation to such transactions. No incidents were recorded in 2011 that could have led to a conflict of interest in any of the relevant groups of Company employees or board members.

Company policy towards stakeholders

ŠKODA AUTO ranks among the largest companies in the Czech Republic and is committed to the sustainable development of the society of which it is a part. The Company is fully aware of its responsibility for the stability of the business environment. Making every effort to foster the Company's good reputation, credibility and reliability with its business partners, employees and other stakeholders is of key importance.

Principles for remuneration of members of the Supervisory Board, the Board of Management, the Audit Committee and Senior Executives

The principles for remuneration of members of the Supervisory Board, the Board of Management, the Audit Committee and senior executives are in accordance with generally binding laws and regulations and fulfil all material aspects of the recommendations of the Code of Corporate Governance based on the OECD principles.

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.

Board of Management

The system for remunerating members of the Board of Management is defined 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 Management 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 Management 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 fulfilment of individual goals set for the Board member, thereby ensuring the Board of Management' interests are aligned with those of the sole shareholder.

In addition to the income described above, the company ŠKODA AUTO provides the Board of Management 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 programme, and insurance.

Audit Committee

The Company does not provide any remuneration to members of the Audit Committee.

Senior Executives

Similarly to the members of the Board of Management, 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 Management, 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 work contracts.

Declaration of Compliance with the Code of Corporate Governance

ŠKODA AUTO is aware of its outstanding position in the Czech business environment and its ever-growing respect within Volkswagen Group and among competing manufacturers in the automotive sector. Therefore, it is fundamentally important that ŠKODA AUTO be perceived – by its employees, business partners and all customers, and by the general public – as a successful, transparent and open company. ŠKODA AUTO is conscious of its tradition and reputation built up over many years, which is considered of key significance for the further successful development of the Company's business activities.

In light of these facts, since 2007 ŠKODA AUTO has been committed to abiding by the relevant recommendations and rules set forth in the Code of Corporate Governance based on the OECD principles (hereinafter referred to as the "Code") in the form in which it was updated in 2004 under the patronage of the Securities Commission. Through an unceasing improvement of its internal processes and procedures in accordance with the Code, the Company's aim is to further promote transparency and ethical business practices in the Czech Republic.

Degree of compliance with the recommendations of the Code of Corporate Governance

In line with best practice employed at Volkswagen Group, a predominant part of the internal processes of the Company's corporate governance has, in the long run, been established in accordance with the relevant rules of the Code. Given the shareholding structure of the Company (a sole shareholder – Volkswagen International Finance N.V.), the Group's organisation structure (see the website of VOLKSWAGEN AG) and the fact that the Company's shares are not listed on any stock exchange, some of the recommendations contained in the Code are not relevant, or are transferred, to the corresponding degree, to the level of the Group within the framework of efficiency and synergies, as the case may be.

At the same time, the Company's policies are derived from the adopted Code of Conduct, which prescribes the principles of conduct for ŠKODA AUTO employees. These adopted principles are based on the application of generally recognised social values and further developed in Volkswagen Group's Code of Conduct, newly compiled in 2010.

The Company is not in full compliance with the recommendations of the Code pursuant to Chapter VI-E-2 (in conjunction with article 18 of the Commentary on the Code), according to which it should establish committees in charge of remuneration and nomination. In view of the Company's specific shareholding structure, the activities associated with the committees are in synergy and to the effective degree transferred to the level of the Group. The activities of the remuneration and nomination committees are undertaken by the personnel committee of the Board of Management of VOLKSWAGEN AG.

Moreover the Company is not in full compliance with the recommendations of the Code pursuant to Chapter VI-E-1 (in conjunction with article 5 of the Commentary on the Code), according to which the Board of Management and/or the Supervisory Board should have a sufficient number of members who are not employed by the company and who are not in a close relationship with the company or its management through significant economic, family or other ties.

Nevertheless, the aforementioned non-compliance with respective Code requirements does not represent non-fulfilment of the mandatory requirements of the law of the Czech Republic and legal risk for the Company.

Compliance

A new Governance, Risk & Compliance department was formed during 2011 as part of the distribution and adjustment of responsibilities. Before this, Compliance was handled by the Legal department. One of this department's responsibilities is to advise the Board of Management in all compliance matters and implement preventative measures to manage and monitor compliance.

The full text of the "Declaration by ŠKODA AUTO a.s. Board of Directors and Supervisory Board regarding recommendations of the Corporate Administration and Management Code based on the OECD Principles (2004)" and "Degree of Harmony with Recommendations of the Corporate Administration and Management Code" are posted at **http://go.skoda.eu/sus-dev-en**

The financial year in review

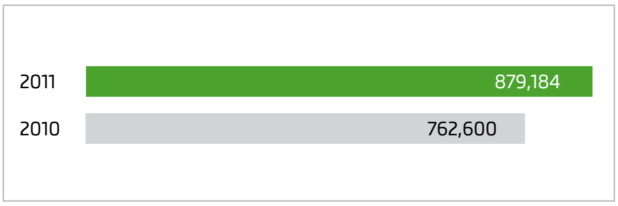
The 2011 financial year was the most successful in the history of ŠKODA AUTO Group. The Group achieved new sales, revenue and profit after tax records. It also reached important milestones in the implementation of its growth and internationalisation strategy.
A total of 879,184 ŠKODA automobiles were delivered to customers in 2011, exceeding the previous year's record high by 15.3%.
This sales success is rooted in highly-efficient production. More ŠKODA-brand vehicles were built in 2011 than ever before in the Company's history.
Global production of ŠKODA-brand vehicles reached a new record of 900,628 vehicles – an increase of some 118,000 units over 2010 (+15.0%). ŠKODA AUTO also delivered numerous parts for other brands in the Volkswagen Group and confirmed its position as an important pillar of the Volkswagen Group's global production network.

The number of ŠKODA AUTO Group employees rose to 26,565 by the end of 2011. This represents an increase of 7.5%.

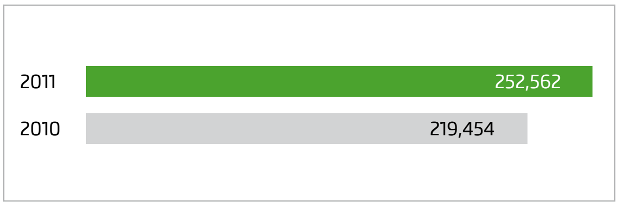
Financial strength as the basis for further development

Bolstered by an increase in sales and an improved model mix, the Group's sales revenue and earnings also rose. The cost situation was also improved and net liquidity increased. This provides ŠKODA AUTO with a solid foundation for further investments in new products, capacity and markets.
ŠKODA AUTO's Group revenue rose by 15.1% to reach CZK 252.6 billion – another new record. The operating result reflected this positive development and, at CZK 18.3 billion, easily exceeded the previous year's figure, with an increase of 61.3%. Consolidated profit after tax climbed 81.9% to CZK 16.1 billion. The Group's net liquidity climbed to CZK 47.3 billion – an improvement of 17.7% year-on-year. Capital expenditure (without capitalised development costs) for the year 2011 totalled CZK 14.2 billion.

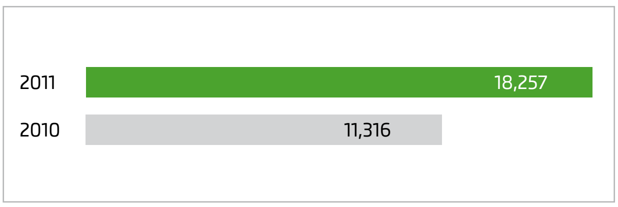
ŠKODA AUTO Group – Deliveries of ŠKODA automobiles to customers year-on-year



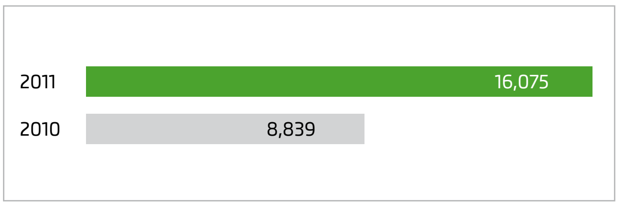
ŠKODA AUTO Group – Sales revenues year-on-year (CZK million)



ŠKODA AUTO Group – Operating result year-on-year (CZK million)



ŠKODA AUTO Group – Profit after tax (CZK million)



Strategy

ŠKODA growth strategy off to a good start

Implementation of the ŠKODA growth strategy began in 2010 and was already starting to produce results by 2011: Sales figures exceeded expectations and ŠKODA AUTO embarked on its planned product offensive with the market launch of the ŠKODA Citigo, and the ŠKODA Rapid in India.

Thanks to its strong business performance in 2011, the Group is in an excellent position for the years ahead. The goal is to increase annual sales to more than 1.5 million vehicles by 2018. This involves substantial expansion of the model line-up. Over the next few years, a new ŠKODA model will be released, on average, every six months. The focus will be on space-oriented vehicles that are highly practical and offer excellent value for money.

The Group's increasing internationalisation is another key element in the ŠKODA growth strategy, and leveraging additional potential in the growth markets of China, India and Russia is a priority. From 2013 on, the ŠKODA Yeti will also be produced in China.

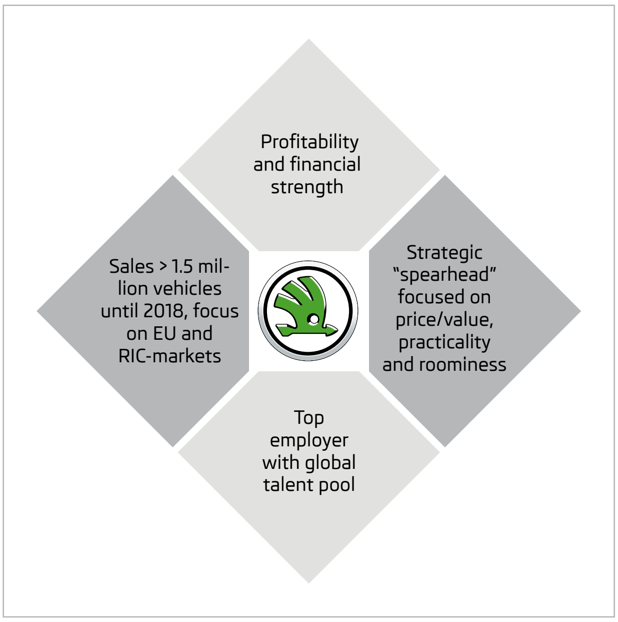
The Group is investing in market development in India. Series production of the ŠKODA Rapid, a new compact sedan developed specially for the needs of the Indian market, began in October 2011. In Russia, a cooperation agreement was signed between Volkswagen Group and the GAZ Group in Nizhny Novgorod which will provide ŠKODA AUTO with additional capacity in the future.

In general, the ŠKODA growth strategy is being accompanied by extensive activities to boost profitability and lay the foundation for further investments in the growth of the Group. ŠKODA AUTO also aims to become a more attractive employer at international level.

"Simply clever" – the Company's mission

More than ever before, all Company activities are defined by its global "Simply clever" claim. It sets expectations for the entire organisation – and, as the core of the brand, it captures the essence of the mission of ŠKODA AUTO and shapes its products and processes equally. For customers, "Simply clever" stands for sophisticated, smart solutions with a high practical value. At ŠKODA AUTO, it is the responsibility of all employees in all areas to achieve "Simply clever" solutions that are well thought-out, smart and cost-effective.

New markets, new models, higher sales – ŠKODA growth strategy



Economic and market development

World economic situation dominated by debt crisis

Global economic trends were mixed in 2011. First and foremost, the public finance situation in the major European economies – and the burden it placed on the financial sector – produced a negative impact over the course of the year.

Highly-volatile financial markets

The downgraded credit rating of leading economies, such as the U.S. and Italy, led to increasing insecurity on the financial markets and extremely high volatility.

Strong exchange rate fluctuations

Although the national debt crisis considerably weakened the value of the euro, the Czech koruna depreciated by 2.9% against the euro over the course of the year: After starting 2011 at an exchange rate of 25.06 CZK/EUR, the rate reached between 24.00 and 24.50 CZK/EUR by the middle of the year, before finishing at 25.80 CZK/EUR by the last trading day of the year.

Although the average exchange rate between the U.S. dollar and the euro changed little, strong fluctuations were reported over the course of the year: The U.S. dollar fell by approximately 13% in value against the euro in the first half of the year (from 1.30 to 1.47 USD/EUR), but finished the second half-year at a rate of 1.29 USD/EUR.

High raw material prices

Strong price fluctuations were also seen on the raw material markets. Although prices for most industrial raw materials fell towards the end of 2011, price levels were still relatively high after the strong increase the previous year.

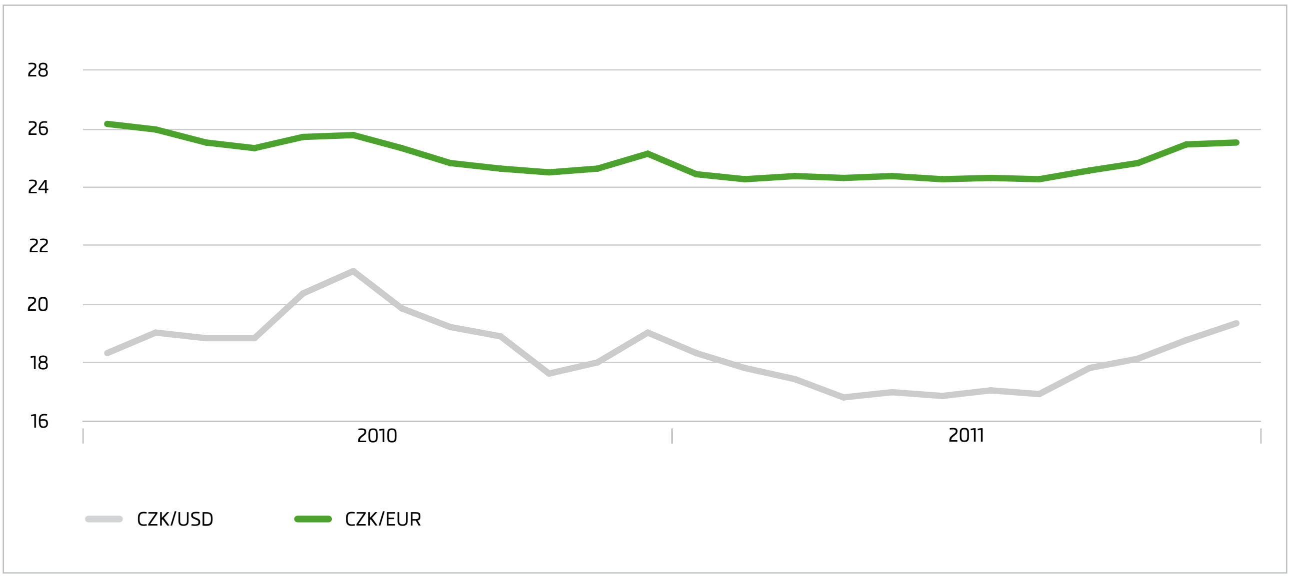
Oil prices rose steeply in the first quarter from approx. USD 92 per barrel to a high for the year of around USD 128 per barrel in May 2011. The average price per barrel for the year of USD 110 was therefore 37% higher than the previous year.

The price of copper hovered between USD 9,000 and USD 10,000 per tonne up until September, before falling to USD 7,500 at the end of the year. Aluminium prices rose to almost USD 2,800 per tonne until the middle of the year, but prices also dropped sharply late in the year. At the end of December aluminium cost USD 2,000 per tonne.

Europe – slowing after a dynamic start

The euro-zone economy grew only slightly in 2011, with a 1.6% increase in gross domestic product. After a dynamic start to

CZK/EUR and CZK/USD exchange rates



the year, a definite slowdown was seen in the second half of 2011. The on-going debate about how to resolve the national debt crisis, and, in particular, the situation in Greece and Italy, was the main factor dampening the economic climate. The resilience of the individual European economies varied. While Greece, Spain, Portugal, Italy and Ireland had to contend with high unemployment and the collapse of retail spending, the situation in Germany remained stable.

Likewise, the U.K. was unable to escape the impact of the euro-zone crisis. High unemployment and a weak economy dominated the situation there. The British economy grew by only 0.8% in 2011.

The Czech Republic's positive growth continued in 2011. GDP grew by 1.7%. ŠKODA AUTO accounted for about 7.3% of Czech exports in 2011.

Household spending, on the other hand, continued to fall and finished the year down 0.4% on the previous year. The inflation rate in the Czech Republic was reported at 1.9% in 2011.

Russia – steady, moderate growth

Russia's economic development continued at a moderate pace in 2011. Russian gross domestic product grew at a rate of 3.8% from the previous year. The main force driving expansion was private consumption, which climbed dramatically despite slower growth in real incomes as a result of inflation.

Asia – China and India remain strong

In China, the growth curve flattened somewhat from the previous year, but still showed a definite upward trend. Overall, the Chinese economy grew by 9.2% in 2011. Political measures and higher wages ensured the positive development of the domestic market.

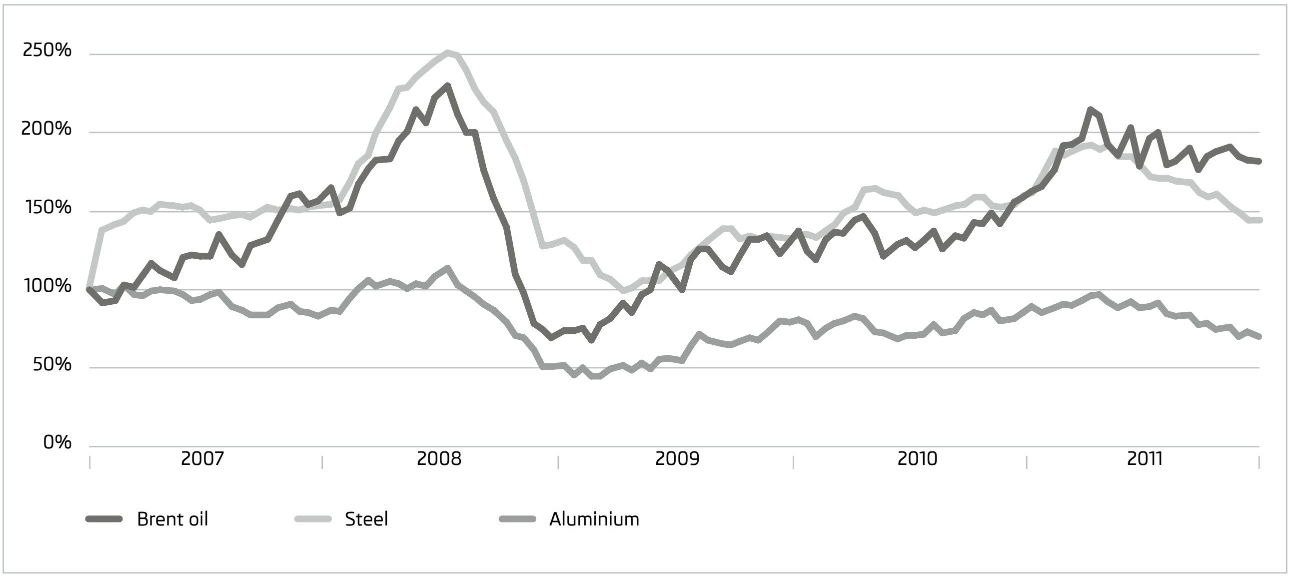
India's strong rate of economic growth remained relatively strong. GDP grew by 7.0% in 2011. The overall situation was characterised by dynamic growth in domestic demand. Besides private spending, Indian industry's willingness to invest also powered general economic developments.

U.S. and Latin America

The U.S. economy grew by 1.7% in 2011. Unemployment remained at a high level despite a continued and pronounced expansionary monetary policy. However, the emerging markets of Latin America continued their positive development, although at a slower rate.

Development of prices for oil, steel, aluminium in five-year comparison (USD)

1 January 2007 = 100%



Overview of developments on the automobile markets

Positive developments on the global automobile market

The recovery that had begun in 2010 on the global automobile markets continued in 2011. However, the positive overall growth rate was dampened by stagnation in the euro zone. Germany was an exception to this and reported healthy growth. The Russian automobile market also grew significantly once more in 2011. Thanks to positive development in the emerging markets of China and India and a slight recovery on the U.S. market, total global automobile sales increased by 4.5%. The global sales volume therefore totalled roughly 73.1 million automobiles, including around 62.1 million passenger cars.

Central Europe – slight decrease overall

The weakness of the Polish market could not be offset by gains in other markets. For this reason, the Central European market contracted slightly overall, finishing 3.3% below the previous year.

As in 2010, a positive development was reported on the Czech automobile market. Year-on-year gains reached 2.4%, with a market volume of around 173,282 vehicles. A slight increase of 4.6% was reported in Hungary.

Croatia (+7.6%) and the Slovak Republic (+6.5%) were the fastest-growing markets in Central Europe. A total of 40,581 vehicles were sold in Croatia and 68,203 in Slovakia.

A substantial decrease in sales was reported in Poland in 2011, however, where weak overall domestic demand impacted the development of the automobile market. After a weak performance the previous year, the Polish market shrank by a further 10.7% in 2011, with 297,937 vehicles sold.

Western Europe – mixed trends

The number of new vehicle registrations in Western Europe was 1.4% lower than the previous year in 2011. Individual markets varied greatly. Of the major markets, only Germany reported positive growth of 8.8%. The U.K. (-4.4%) and French (-2.1%) markets contracted slightly, while Italy's automobile business reported a strong downward trend of 11.7%.

Some Western European automobile markets, on the other hand, saw positive developments. The strongest growth came from the Netherlands (+15.2%), followed by Finland (+12.7%), Denmark (+10.7%), Norway (+8.3%), Austria (+8.4%), Switzerland (+8.4%) and Sweden (+5.3%). Despite the country's economic problems, the Irish automobile market also showed signs of recovery and grew at a rate of 1.6%. Belgium (+4.5%), also posted moderate gains.

Southern Europe experienced a strong downward trend. The Spanish market reported major losses in sales (-18.3%). Hardest hit were Greece (-31.0%) and Portugal (-31.3%), where the market virtually collapsed.

Eastern Europe – strong growth thanks to Russia

The Eastern European automobile market showed a very positive development in 2011; the total market grew at a rate of 35.2%. The momentum came once again from Russia, which also plays an important part in the ŠKODA growth strategy. The Russian automobile market grew at a rate of 39.8% compared with the previous year; the Ukrainian market also reported strong gains (+35.7%). The automobile market in Romania, however, showed a negative trend, with a decrease of 11.0%.

Asia/Overseas – China and India still going strong

The Asian growth markets once again provided the main impetus for the global automobile market with an increase in sales of 5.5% overall in 2011.

After two years of massive gains, the Chinese auto market resumed a slightly more moderate rate of growth in 2011. The number of vehicles sold nevertheless rose by 8.1% from 2010. In India, increases in interest rates and petrol prevented an even higher rate of growth. However, India still posted an increase in sales from the previous year, with 2,287,460 vehicles sold (+5.6%). Trends in the remaining countries in the Asia/Overseas region were also predominantly positive, with growth of 4.4% overall.

Financial situation

ŠKODA AUTO Group's consolidated financial statements are reported in accordance with the IAS/IFRS methodology. The consolidated financial statements include financial results of the parent company ŠKODA AUTO, financial results of the subsidiaries ŠKODA AUTO Deutschland, Skoda Auto Polska, ŠKODA AUTO Slovensko, Skoda Auto India, and a share in financial performance of the affiliated companies.

ŠKODA AUTO Group

As a result of strong growth in automobile sales and successful implementation of measures to boost efficiency, ŠKODA AUTO Group was able to enhance its financial performance once again in 2011.

Group sales revenues rose by 15.1% year-on-year to CZK 252.6 billion, the highest in the Group's history. Group operating profit grew by 61.3% over the previous year to reach CZK 18.3 billion. The Group's profit after income tax of CZK 16.1 billion represents another new all-time high. The ŠKODA AUTO Group thereby continued on its successful course, with improvements in all key financial indicators compared with 2010.

Group business performance

In 2011, ŠKODA AUTO Group delivered a total of 879,184 automobiles to customers worldwide – an increase of 15.3% over the previous year and also a new record. Group sales revenues reflected the trend in sales, with an increase of 15.1% to CZK 252.6 billion. Automobile sales accounted for 84.3% of total Group revenues in the year under review. The best-selling models in 2011 were the ŠKODA Octavia and the ŠKODA Fabia. The strongest year-on-year growth was once again reported by the ŠKODA Yeti, followed by the ŠKODA Superb models. Sales of genuine parts and accessories also performed well in 2011, generating roughly 7.1% of total Group revenues. Income from the sale of parts to other Volkswagen Group companies, plus other revenues, accounted for around 8.6% of total revenues.

Mainly due to significantly higher production volumes, the cost of sales rose by 13.5% year-on-year to CZK 216 billion – although the rate of increase was slower than growth in revenues. Material costs (costs of raw materials, production material and purchased goods), which comprise around three-quarters of the Group's total costs, accounted for much of the increase. Distribution expenses rose by 20.9% year-on-year to CZK 17.5 billion. Administrative expenses for 2011 totalled CZK 6.1 billion – an increase of 16.5% over the previous year.

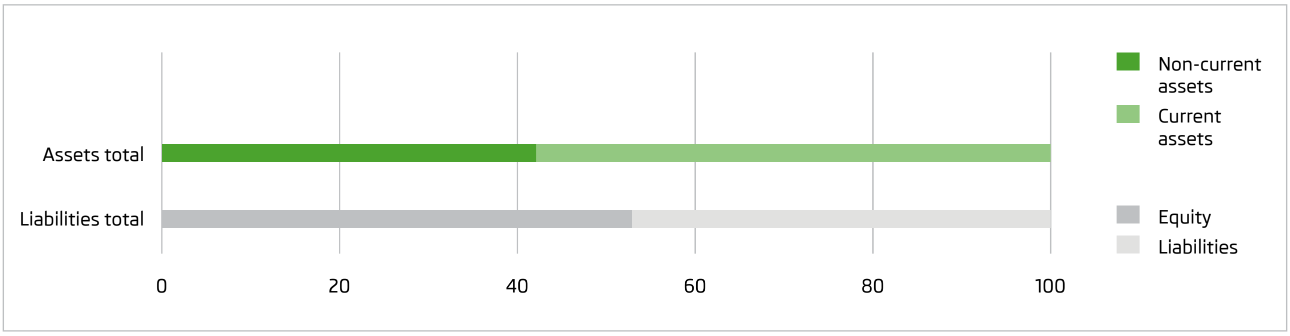
Gross profit was 25.3% higher than the previous year at CZK 36.6 billion. The gross profit margin (gross profit/revenues ratio) climbed to 14.5% and was therefore 1.2 percentage points higher than in 2010. This was essentially due to improved model mix effects, favourable trends in parts and accessories and further product cost optimisation. Group operating profit surged 61.3% to CZK 18.3 billion. The financial result increased by CZK 1.2 billion from the previous year, resulting in a profit of CZK 791 million for the reporting period. This was caused by the accounting evaluation of financial currency instruments.

Consolidated profit before tax climbed 82.1% to CZK 19.3 billion. After income tax deductions, profit after tax amounted to CZK 16.1 billion, an 81.9% year-on-year increase and the highest profit so far in the history of the Group.

Group cash flows

Cash flows from Group operating activities reached CZK 28.3 billion in 2011. Net liquidity rose by 17.7% year-on-year to reach CZK 47.3 billion as at 31 December 2011.

Consolidated balance sheet structure (%)



Consolidated balance sheet (CZK million)

	31. 12. 2011	31. 12. 2010	2011/2010
Non-current assets	64,686	58,864	9.9%
Current assets	88,871	76,872	15.6%
Of which: deposits*	49,088	35,678	37.6%
Total assets	**153,557**	**135,736**	**13.1%**
Equity**	81,211	74,772	8.6%
Non-current liabilities	21,347	15,480	37.9%
Current liabilities	50,999	45,484	12.1%
Total liabilities	**153,557**	**135,736**	**13.1%**

* interest included ** non-controlling interests included

Consolidated profit and loss account* (CZK million)

	2011	2010	2011/2010
Sales revenue	**252,562**	**219,454**	**15.1%**
Costs of sales	215,956	190,234	13.5%
Gross profit	**36,606**	**29,220**	**25.3%**
Distribution expenses	17,549	14,509	20.9%
Administrative expenses	6,123	5,256	16.5%
Other operating income	10,040	7,856	27.8%
Other operating expenses	4,717	5,995	-21.3%
Operating profit	**18,257**	**11,316**	**61.3%**
Financial result	791	-382	>100%
Profit before income tax	**19,275**	**10,586**	**82.1%**
Income tax expense/income	3,200	1,747	83.2%
Profit after income tax**	**16,075**	**8,839**	**81.9%**

* As a result of a change in accounting policy for presentation of reversals of excess provisions and accruals in 2011 the comparative figures of the Group for 2010 have been changed. For more information please refer to note 1.3.2. in consolidated financial statements for the Group.
** non-controlling interests included

Development of Group financing (CZK million)

	2011	2010	2011/2010
Cash and cash equivalents as at 1 January 2011	**35,986**	**34,809**	**3.4%**
Cash flows from operating activities	**28,251**	**28,168**	**0.3%**
Cash flows from investing activities	**-28,225**	**-23,313**	**21.1%**
Cash flows from financing activities	**-4,854**	**-3,640**	**33.4%**
Gross liquidity*	**52,791**	**46,002**	**14.8%**
Balance of financial liabilities**	-5,443	-5,791	-6.0%
Net liquidity	**47,348**	**40,211**	**17.7%**

* Gross liquidity consists of closing balance of cash and cash equivalents in the amount of CZK 31,251 million (2010: CZK 35,986 million) and closing balance of other deposits in the amount of CZK 21,540 million (2010: CZK 10,016 million).
** The position Balance of financial liabilities contains in addition to financial liabilities also liabilities to a factoring company within the Volkswagen Group in the amount of CZK 2,302 million (2010: CZK 2,563 million).

Group asset and capital structure

The Group's balance sheet total grew by CZK 17.8 billion, or a rate of 13.1% year-on-year, to reach CZK 153.6 billion as at 31 December 2011. This growth stemmed primarily from an increase in current assets. Short-term investments and deposits, trade receivables and inventories especially contributed to this development.

Non-current assets rose significantly to CZK 64.7 billion at balance sheet date – an increase of around 9.9% from 31 December 2010. In particular, property, plant and equipment saw a major increase of CZK 3.9 billion (+9.2%) over the previous year, mainly due to expansion of the production network. In addition, deferred tax assets of CZK 1.3 billion (+101%) were formed, which also contributed to the increase in non-current assets.

The Group's capital structure, as defined by the relative amounts of equity and liabilities, shifted slightly from the previous year. Group equity, less minority interests, rose by CZK 6.5 billion to CZK 81.1 billion over the course of the year. Profit for the year boosted equity by CZK 16.1 billion, and dividends totalling CZK 4.7 billion were settled.

The Group's current liabilities increased by CZK 5.5 billion (+12.1%) during the reporting period. Non-current liabilities rose CZK 5.9 billion – to end the year 37.9% higher than the previous year.

Tangible and intangible investments (less development costs) reached a total of CZK 14.2 billion in 2011 and were therefore 4.1 billion higher than in 2010. The bulk of spending went into product investments in connection with new models and engines.

ŠKODA AUTO Company

Since parent company ŠKODA AUTO plays the most significant role in the Group's financial results, the development of the Company's financial position corresponds with the development of the Group's financial position.

Company business performance

Thanks to strong sales development, the Company's revenues also increased significantly during the reporting period, with year-on-year growth of 13.8% to CZK 231.7 billion. Parts and accessories and component deliveries to other Volkswagen Group companies, sales of results of technical development, revenues from license fees and revenues from sale of scrap also contributed to this development.

Higher vehicle sales also raised the total cost of sales in the reporting period by 11.9% to CZK 201.8 billion. However, the cost of sales grew at a slower rate than sales revenue.

Gross profit climbed sharply to CZK 30 billion, for a 28.4% year-on-year increase. Positive model mix effects, the sale of parts and accessories and product cost optimisation were the main factors behind this, and also contributed to a better gross margin profit.

In this reporting period, distribution expenses rose by CZK 2.2 billion (+22.9% year-on-year), due to both higher sales activity and an increase in marketing and advertising expenses. Administrative expenses climbed 18.0% year-on-year and other operating profit totalled CZK 4.4 billion. The Company's operating profit for the reporting period increased by 56.1% year-on-year to reach a total of CZK 17.2 billion. The Company reported a decrease in financial result for the year under review, however. After posting a profit of CZK 180 million the previous year, it recorded a loss of CZK 69 million for 2011. Profit before tax totalled CZK 17.2 billion in 2011 – a 53.0% increase over the previous year. This also had a positive impact on the profit to sales ratio, which rose from 5.5% in 2010 to 7.4% in the year under review. After income tax deductions, profit after tax for the reporting period amounted to CZK 14.3 billion, thereby exceeding the previous year's total by 51.9%.

Company cash flows

Operating cash flow rose by CZK 1.0 billion (+3.8% year-on-year) to reach CZK 27.3 billion, mainly due to higher profit before tax. This was reflected in an increase in net liquidity, which reached CZK 41.4 billion as at 31 December 2011 (+18.1%).

Company asset and capital structure

The Company's balance sheet total grew by CZK 13.3 billion or a rate of 10.9% year-on-year, to reach CZK 135.6 billion as at 31 December 2011.

Non-current assets rose by CZK 4.5 billion to CZK 64.4 billion (+7.4%). Within the non-current assets categories, the main changes in the reporting period occurred in property, plant and equipment. Deferred tax assets also contributed to the increase in non-current assets, which grew by CZK 1.4 billion and were therefore four times higher than at the close of the previous year. The Company's total deferred tax assets amounted to CZK 1.8 billion.

Current assets increased by a total of CZK 8.9 billion to 71.1 billion CZK as at 31 December 2011.

The Company's equity increased by CZK 4.7 billion (+6.2% year-on-year). At the same time, liabilities rose by 8.6 billion CZK (+18.4% year-on-year) to reach a total of CZK 55.2 billion as at 31 December 2011.

Subsidiaries and affiliated companies

ŠKODA AUTO Deutschland GmbH

ŠKODA remains the leading import brand in Germany, and ŠKODA AUTO Deutschland reported substantial growth in deliveries to customers in 2011. A total of 128,011 ŠKODA automobiles were delivered to customers – an increase of 13.0% over the previous year.

The best-selling ŠKODA models in Germany in 2011 were once again the ŠKODA Octavia and the ŠKODA Fabia, which remains one of the most popular import cars in Germany. The strongest growth was posted by the ŠKODA Yeti with a 43.6% increase in retail over the previous year.

In 2011, ŠKODA AUTO Deutschland generated revenues of CZK 55.3 billion (EUR 2.25 billion). This represents an increase of 22.8% year-on-year.

Profit before tax also improved significantly to reach CZK 540.4 million (EUR 22.7 million), exceeding the previous year's figure by 22.8%.

Skoda Auto Polska S.A.

Despite the continued sluggishness of the overall market, Skoda Auto Polska was able to maintain automobile deliveries to customers at the previous year's level. A total of 38,116 ŠKODA vehicles were delivered to customers in the reporting period (+0.5%), thereby increasing the ŠKODA market share from 11.3% in 2010 to 12.7%. ŠKODA was therefore able to expand its traditionally strong position in Poland and further distance itself from its competitors.

The ŠKODA Octavia continued to lead the Polish sales ranking, followed by the ŠKODA Fabia and the ŠKODA Superb. The launch of the ŠKODA Citigo in 2012 will also open up additional opportunities for growth in Poland.

Skoda Auto Polska reported sales revenues of CZK 11.7 billion (-4%) for the reporting period. Profit before tax was 25.4% lower at CZK 114 million.

ŠKODA AUTO Slovensko s.r.o.

The ŠKODA brand remains the market leader in Slovakia. It was able to strengthen its position in 2011 and increase market share by 0.9 percentage points to 22.1%. Solid sales growth laid the foundation for this. Deliveries to customers rose by 11.2% year-on-year to reach 15,182 vehicles.

The ŠKODA Octavia is the best-selling ŠKODA model in Slovakia with 6.659 vehicles, followed by the ŠKODA Fabia with 5.749 deliveries to customers.

The subsidiary generated sales revenues of CZK 5.8 billion for the reporting period – an increase of 10.2% over the previous year. Profit before tax rose by 17.9% to CZK 62.6 million.

Skoda Auto India Private Ltd.

In the rapidly-growing Indian market, ŠKODA was able to gain market share once again in 2011. A total of 30,005 ŠKODA automobiles were delivered to customers on the Indian subcontinent – an increase in sales of 49.9% compared with the previous year.

The positive trend in sales was reported across the model lines ŠKODA Fabia and ŠKODA Yeti. After a face-lift the previous year, the ŠKODA Fabia achieved record sales in the Indian market once again in 2011.

Production of the ŠKODA Rapid developed specially for the Indian market will open up further growth opportunities for the ŠKODA brand in India.

The Indian subsidiary's 2011 revenues totalled CZK 15.4 billion, a 23.4% increase year-on-year.

Profit before tax increased in the reporting period to CZK 63.7 million, surpassing the previous year's figure by 62.9%.

OOO Volkswagen Group Rus

The ŠKODA brand crossed the 3% market share threshold in Russia in 2011. A total of 74,074 ŠKODA vehicles were delivered to customers there in 2011 – 62.5% more than the previous year. ŠKODA therefore strengthened its position in this crucial growth market. The ŠKODA Octavia is also the best-selling ŠKODA model in Russia.

The associate's total 2011 revenues amounted to CZK 120.4 billion and were therefore 64% higher than the previous year. Profit before tax reached CZK 2 billion in the year under review, an improvement of CZK 3.8 billion

Value-based management

The top priority for the management of ŠKODA AUTO is to continuously increase the value of the Group over the long term. Through its responsible use of the available resources, the Group is not only securing its own future but also helping ensure a viable environment.

Consistent value enhancement as the foundation for sustainable development

Like any company, ŠKODA AUTO faces many different demands. The interests of the various stakeholders – from owners through customers, employees and neighbours to diverse interest groups – can only be served within the context of the sound economic development of the Group. Business success and sustainable development are mutually dependent and therefore inseparable.

As a company, ŠKODA AUTO therefore faces the challenge of generating reliable long-term operating profits to exceed the cost of capital. This is what creates the scope for further investments, new products and technologies and improvements in quality.

The management of ŠKODA AUTO is therefore geared towards the efficient use of all resources and assuring the Group's long-term, sustainable growth.

Financial management: focusing on capital efficiency

In this context, the financial management of the ŠKODA AUTO Group aims for an optimised asset and capital structure. The Group tracks "return on capital employed" (RoCE) to measure the efficiency of its capital investments. This indicator is used as the key measure of the success of the ŠKODA AUTO Group. It also plays an important role in investment decisions, evaluating the economic viability of products and projects, and measuring the success of different Company activities.

Return on capital employed is defined as the ratio of operating profit after national income tax to the value of capital employed in achieving the operating profit. The notional tax liability is based on the Volkswagen Group's long-term effective tax rate. The capital employed corresponds to the average value of operating assets (tangible and intangible assets, inventories, trade receivables and a portion of receivables reported under the "Other" item), less the value of non-interest-bearing capital (trade liabilities with the exception of advances received and unbilled deliveries). In 2011, the Group's RoCE was 21.1% (2010: 13.2%).

Group return on invested capital (CZK million)

	2011	2010
Operating profit before tax	18,257	11,316
Notional income tax *	5,477	3,395
Operating profit after notional tax	**12,780**	**7,921**
Capital employed	**60,591**	**60,084**
Return on capital employed (%)	**21.1**	**13.2**

* Long-term effective tax rate of the Volkswagen Group (2010 and 2011: 30%).

Technical development

The on-going expansion of the model range and the diverse demands of customers in markets around the world will be the key challenges for ŠKODA AUTO's Technical Development division over the coming years. To face these challenges, the Company created 153 new jobs in Technical Development in the year under review and now employs 1,737 people in this area. ŠKODA AUTO's expenditure for technical development totalled CZK 9.4 billion in 2011. This is an increase of 22.3% over the previous year.
The close cooperation between research centres within the Volkswagen Group is a key success factor for the whole Group. ŠKODA AUTO is an important partner in this network. In the year under review, ŠKODA AUTO's Technical Development received CZK 547 million worth of orders from other Volkswagen Group brands – an increase of CZK 96 million or 21.0% year-on-year.

New design concept: VisionD and MissionL

ŠKODA AUTO unveiled examples of the brand's characteristic new design line with the VisionD design study at the Geneva Motor Show and the production-ready MissionL at the IAA Motor Show in Frankfurt. With its clean, sharp looks, the MissionL is designed to appeal to a global public and therefore play a central role in the ŠKODA's worldwide growth strategy. The new ŠKODA will be released in Europe, Russia and China in 2012.

Clever solutions for city traffic: ŠKODA Citigo

The ŠKODA Citigo marks ŠKODA AUTO's debut in the small car segment and was designed primarily as a city car. In 2011, the four-seater small car was launched on the Czech market. Over the course of 2012, it will also be released in other European countries. Offering generous space in a compact package as well as a high level of efficiency, the ŠKODA Citigo perfectly embodies the ŠKODA "Simply clever" brand philosophy. Active and passive safety were of particular importance in the development of this vehicle. With its head-thorax side impact airbags for extra passenger protection and the "City Safe Drive" braking assistant, the ŠKODA Citigo guarantees an unusually high standard of safety for its class. Newly-developed engines ensure excellent fuel economy and low CO_2 emissions. The Green tec version of the 44kW engine uses only 4.1l/100 km and produces no more than 96g CO_2/km in emissions.

Innovative safety concepts for wider model range

The expansion of the model range also increases the need for research and development in the field of active and passive safety. With the acquisition of the crash-test facility in the Czech town of Úhelnice from the previous owner, TÜV SÜD AG, in September 2011, ŠKODA AUTO added further capacity for important crash-test programmes. The Company therefore enabled itself to expand its own crash-test programme to entire vehicles or vehicle parts and step up its research into passenger safety. Further investment in the expansion of the facility is planned.

New engine test centre: expansion of ŠKODA AUTO engine development

ŠKODA AUTO's decision to build its own engine testing centre underlines the importance of development and optimisation of fuel-efficient and environmentally-friendly engines to the Group. Construction of the test centre is slated to begin in November 2012, with commissioning in the second half of 2013.

Further steps towards emission-free mobility

ŠKODA AUTO is systematically pursuing a future of zero-emission driving. Following on from the presentation of the ŠKODA Octavia Green E Line at the Paris Motor Show in October 2010, the next logical step was taken in 2011 with the launch of a fleet of these cars for practical everyday testing. The goal is to gain ground-breaking insights into driving behaviour and the safety of these vehicles over short and long ranges. The evaluation of the findings from this field trial will provide the basis for further development of e-mobility under the ŠKODA brand.

Fuel efficiency: Record-breaking drive confirms efficiency

ŠKODA automobiles already set the standard for fuel economy. Austrian driver Gerhard Plattner proved this in May 2011 by driving more than 2,000 kilometres without stopping once for fuel. On his route from Austria to Denmark and back he drove through the whole of Germany, not just once, but twice, in a series-produced ŠKODA Fabia GreenLine. The vehicle's average fuel consumption at the end of the journey was exactly 2.21 litres/100 km.

Major rally wins – the reward for years of development work

Victories in the 2010 and 2011 IRC manufacturer and driver competitions and the first-ever Super 2000 WRC world championship title in 2011 showcased the exceptional qualities of the ŠKODA Fabia Super 2000. Without such a high-performance car, these major sporting successes would never have been thinkable. Continuous research and development laid the foundations. The successful use of ŠKODA technology under rally's extreme conditions also prove the high quality of series production and therefore the outstanding reliability of ŠKODA automobiles in everyday driving.

Purchasing

Creating the right conditions for growth and internationalisation

The successful implementation of the ŠKODA growth strategy also creates many challenges for purchasing – both in the procurement of purchased parts and in the planning and monitoring of the relevant processes. It was also essential for the companies in the Volkswagen Group to work together to master the difficult situation on the raw materials markets and further reduce material costs, in light of the anticipated increases in volume.

A large number of production ramp-ups were in preparation in 2011, with corresponding procurement needs to be fulfilled. To meet requirements for the ramp-up of the ŠKODA Citigo, for example, ŠKODA AUTO worked closely with Volkswagen Group Purchasing and assumed responsibility for key areas at Group level: For instance, ŠKODA AUTO is in charge of procuring equipment for production in Mladá Boleslav of the MQ 100 transmission used throughout the Volkswagen Group's Up! product family.

From 2012 on, the DQ 200 dual clutch transmission will be manufactured at the Vrchlabí site. Here, once again, procurement plays a key role in process and production planning as well as the supply of purchased parts.

On-going construction activities at the plants – in particular, the expansion of ŠKODA Octavia production at the Mladá Boleslav plant, the retooling of the Vrchlabí plant to manufacture transmissions and the capacity expansion in Kvasiny – have brought new responsibilities for the purchasing division. The priority is to implement these plans in the most economical and timely manner possible.

Plant preparations for the production ramp-up of ŠKODA automobiles at the Company's Russian production partner, GAZ, are on schedule. This is also largely the responsibility of the purchasing division. The first ŠKODA Yeti manufactured by GAZ is due to roll off the assembly line in Nizhny Novgorod by late 2012.

Working with Volkswagen Group India Private Ltd. and Volkswagen Group Purchasing, the purchasing division of ŠKODA AUTO also assured the start of production of the ŠKODA Rapid in Pune, India.

Opportunities from internationalisation

The Group's increasing internationalisation opens up new opportunities for the procurement of purchased parts and production material: The inclusion of additional suppliers creates a wider range of options, while greater purchasing localisation also boosts efficiency.

Securing material supplies over the long term

The planned increase in sales to 1.5 million vehicles by 2018 also means much higher purchasing volumes. Key steps were therefore taken in conjunction with Volkswagen Group Purchasing in 2011 to ensure the supply of parts and production material over the long term. This was also undertaken in response to the parts supply crisis caused by the earthquake in Japan in March 2011. By working with Group Purchasing and the departments concerned, it was possible to resolve the difficult supply situation.

Much higher purchasing volume

The Group reported total expenditure of CZK 127.9 billion for the purchase of production material in 2011 – an increase of CZK 17.5 billion or 15.9% year-on-year. The Czech Republic still accounts for the majority (55%) of this purchasing volume, followed by Germany, where about a quarter (26%) of production materials by volume is purchased.

The number of suppliers for production-related resources rose to 1,432 (2010: 1,317 suppliers). 288 of these business partners are based in the Czech Republic, 31 in the direct vicinity of the Mladá Boleslav site.

In 2011, the total number of suppliers in general purchasing reached 6,044 (2010: 5,749); with a corresponding purchasing volume of CZK 28.5 billion (2010: CZK 20.7 billion).

Negative impact from raw materials

2011 was characterised by the on-going difficult situation on the international raw material markets. Volatility is on the increase in most markets – which presents new challenges for purchasing. Price developments in steel, plastics and rubber, in particular, but also, increasingly, rare earth elements, had a negative impact on purchasing prices. However, countermeasures using new sources and different types of contracts, as well as alternative and new technologies, were launched in conjunction with Volkswagen Group Purchasing.

"Simply clever" – in Purchasing as well

Spreading the "Simply clever" idea throughout the Group leverages additional potential for Purchasing. This is exploited alongside on-going process improvements, so that available resources can be used more efficiently. For example, in 2011, by optimising materials and reducing the number of variants, life-cycle savings of several million euros were achieved for the gear lever knob alone.

Production and logistics

Expansion of production capacity for global growth

Efficient production is an essential requirement for global growth. With a view to ŠKODA's internationalisation and growth strategy, measures to expand production were therefore a priority in 2011. Capacity expansion got underway at the Mladá Boleslav and Kvasiny plants in the Czech Republic. Outside the country, measures to expand production at partner plants in Shanghai, China, Aurangabad, India and in Kaluga and Nizhny Novgorod in Russia also started.

New production sites for the ŠKODA Yeti in Russia and China

To meet growing demand for the ŠKODA Yeti compact SUV, production will be expanded to Russia and China.
ŠKODA AUTO has great expectations for Russia: An agreement was reached with Russian automobile manufacturer GAZ in June 2011 and the assembly of the ŠKODA Yeti at its plant in Nizhny Novgorod started in October 2011.
Over the past four years, more than 500,000 ŠKODA cars have been built at Volkswagen Shanghai, China. With the production of the ŠKODA Yeti at the facility from 2013 on, this will gain further momentum.

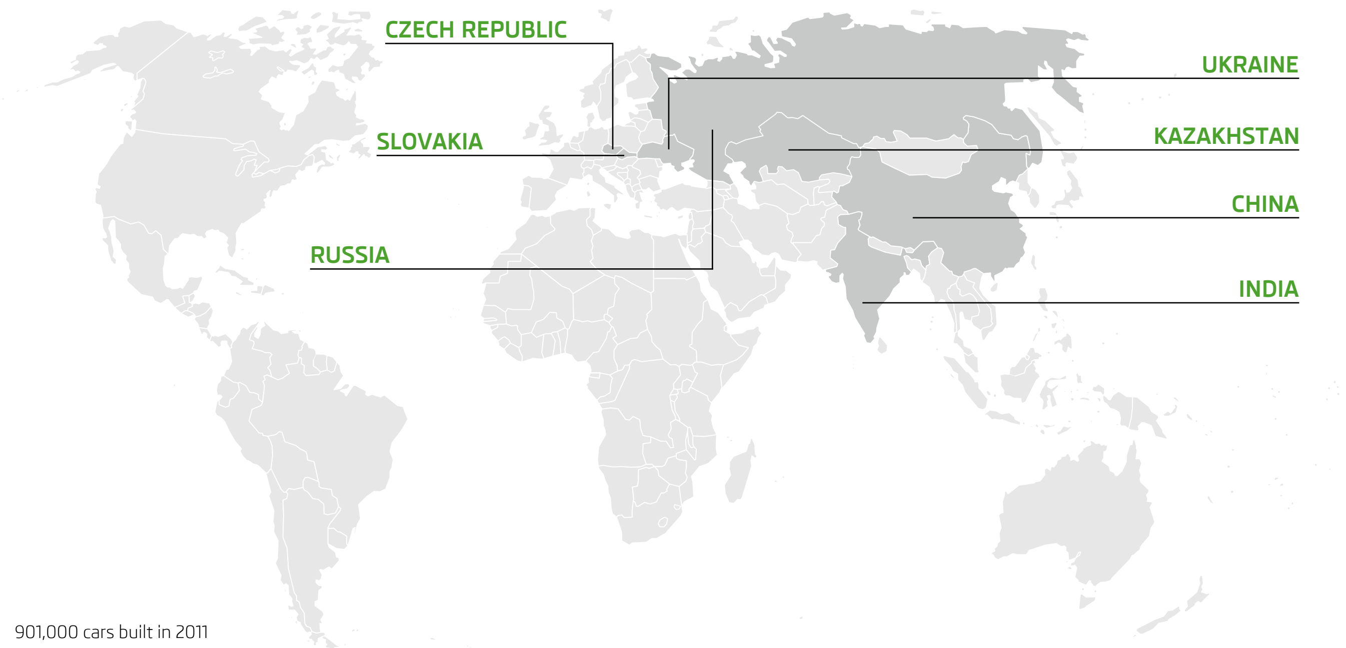
New models as growth drivers

In the second half of the year, ŠKODA AUTO launched its planned product offensive with the ŠKODA Citigo in the small car segment and the compact sedan, ŠKODA Rapid, positioned between the ŠKODA Fabia and the ŠKODA Octavia. Series production of the ŠKODA Citigo, initially as a three-door variant, began in October 2011 at the Company's partner plant in Bratislava. Production of the ŠKODA Rapid also started the same month at the Pune plant in India.

Mladá Boleslav – main plant with prospects for the future

Ten million vehicles have been built at the plant in Mladá Boleslav since automobile production began there in 1905. The ten-millionth car, a white ŠKODA Fabia Monte Carlo, rolled off the assembly line on 12 October 2011. It underscored the importance of the plant to the ŠKODA brand and its identity built on tradition.
The Mladá Boleslav location is central to the implementation of the ŠKODA growth strategy. The flexibility of the body shop and paint shop there has been enhanced, while SKODA Octavia assembly capacity will be expanded by mid-2012. The cere-

Production of ŠKODA vehicles worldwide



901,000 cars built in 2011

mony to mark the twentieth anniversary of the partnership with Volkswagen began with ŠKODA AUTO clearly looking to the future of the brand as well as its past – with a symbolic ground-breaking for the new construction measures.
The expansion mainly concerns production of the highly-successful ŠKODA Octavia. To meet growing global demand for this model, assembly capacities in Segment I will be substantially increased from 800 vehicles/day currently to 1200 vehicles/day. Once the Mladá Boleslav plant expansion is complete, plans also call for a third model to be built there alongside the best-selling ŠKODA Octavia and ŠKODA Fabia.

Higher production – for individual components also

The main ŠKODA AUTO plant celebrated another anniversary on 13 October 2011: more than 500,000 1.2l TSI engines built at the Mladá Boleslav facility since the start of production in 2009.
A total of 529,522 engines were produced in Mladá Boleslav in 2011: 287,100 of which were 1.2 l TSI aggregates, plus another 242,422 1.2 l MPI engines.
Implementation of the ŠKODA growth strategy also requires increased production of individual components. The new vehicle generation, known as NSF "New Small Family" demands new and smaller aggregates. For this reason, the new weight and space-optimised MQ 100 transmission went into production at the Mladá Boleslav plant in July 2011 with a production capacity of 1,100 units/day. Mladá Boleslav also produces the MQ 200 transmission with a capacity of 2,200 units/day alongside the MQ 100 transmission. The MQ 200 transmission production figures increased from 534,033 units in 2010 to 604,096 units in 2011.
ŠKODA AUTO uses its transmission and engine production capacities not just for its own models, but also to supply other brands within the Volkswagen Group. A total of 413,645 MQ 100 and MQ 200 transmissions and 338,605 1.2 l MPI and 1.2 l TSI engines were manufactured in Mladá Boleslav for the Volkswagen Group in 2011.

Substantial investments were made in the manufacture of front and rear axles for the ŠKODA Superb, ŠKODA Yeti and ŠKODA Octavia models at the Mladá Boleslav plant in 2011. The new, 66-metre production line for rear axles doubled the existing production capacity to 1,700 axles/day. The cycle time was thus reduced to 30 seconds. The new production line will also build axles for the ŠKODA Roomster, ŠKODA Fabia and ŠKODA Octavia in the future.

Vrchlabí plant – switching to high-end transmission manufacture

Production of the ŠKODA Octavia and ŠKODA Roomster continued at the Vrchlabí plant in 2011. From late 2012 on, the innovative and technologically-sophisticated high-end DQ 200 dual clutch transmission will be produced in Vrchlabí. The DQ 200 will be used in ŠKODA brand vehicles, as well as in other Volkswagen Group brands. The first steps of this production conversion were already undertaken in 2011. Once transmission manufacture begins, the Vrchlabí plant will be producing one of the most innovative automatic transmissions in the entire automobile industry. ŠKODA AUTO will be investing a total of CZK 5.9 billion in the plant over the coming years.

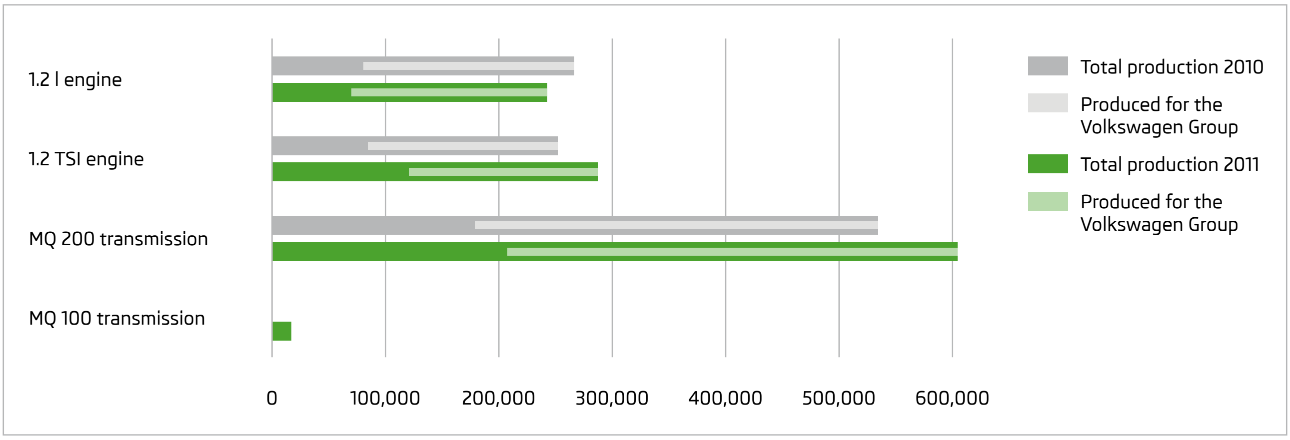
Kvasiny plant – 100,000 Yeti per year in the future

The ŠKODA growth strategy also calls for a capacity increase at the Kvasiny plant. A total of 100,000 ŠKODA Yeti per year are to be built there in the future to meet strong global demand for this model. To achieve this, a new 18-shift model was introduced in Kvasiny to further boost the plant's efficiency.

Training ensures competition and growth opportunities

The ŠKODA growth strategy and the additional demands it places on employees mean that on-going professional training plays a crucial role in achieving the Company's goals. For this reason, in-company training in the area of production and

Production of engines and transmissions (units)



logistics was intensified in 2011 with the opening of new training centres for the paint and pressing plant at the Mladá Boleslav location. Furthermore, the foundation of the new Lean Centre was laid on 13 December 2011 and a new training facility was opened at the service centre in Kosmonosy. An assembly training centre and a Lean Centre were also set up at the Aurangabad plant in India.
ŠKODA AUTO will make substantial investments in the future to ensure training for all production and logistics employees at its locations in the Czech Republic and abroad.

Production increases for all models

A total of 900,628 ŠKODA vehicles were manufactured worldwide in 2011. This represents a 15% increase compared with the previous year. The importance of Shanghai, China continued to grow: A total of 223,030 ŠKODA Octavia, ŠKODA Fabia and ŠKODA Superb cars were produced here in 2011 – a year-on-year production increase of 13.2%.
Production of Volkswagen and Audi brand models in Aurangabad, India also increased. A total of 7,870 vehicles of these two brands were manufactured here.

ŠKODA Fabia — The ŠKODA Fabia was in strong demand once again in 2011 and remains one of the mainstays of ŠKODA automobile production. A total of 261,107 ŠKODA Fabia vehicles were produced worldwide – 10.2% more than the previous year (2010: 236,973 ŠKODA Fabia vehicles).

ŠKODA Roomster — The ŠKODA Roomster, which is produced exclusively at the Vrchlabí plant, reported a production increase of 19.5% over the course of 2011. 36,427 units of this model were manufactured in total (2010: 30,473 ŠKODA Roomster vehicles).

ŠKODA Octavia — The ŠKODA Octavia remained the main volume model in the ŠKODA product family once again in 2011. A total of 402,462 vehicles were produced worldwide. The Octavia therefore accounted for the largest share of ŠKODA AUTO production in 2011 with 44.7% (2010: 357,129 ŠKODA Octavia vehicles, 45.6% of total ŠKODA AUTO production).

ŠKODA Yeti — The growing success of the ŠKODA Yeti led to another significant increase in production of this model in 2011. With 77,312 vehicles produced, the ŠKODA Yeti reported the highest production gains for a single model over the year. The year-on-year increase reached 47.1% (2010: 52,550 ŠKODA Yeti vehicles).

ŠKODA Superb — The ŠKODA Superb confirmed its appeal on many markets with a further upturn in sales in 2011, which was reflected in a corresponding increase in production. A total of 119,732 ŠKODA Superb and ŠKODA Superb Combi vehicles left the production lines. This represents an increase of 13.3% over the previous year (2010: 105,694 ŠKODA Superb vehicles).

Portfolio of models manufactured worldwide (as at 31 December 2011)

	Citigo	Fabia	Rapid	Roomster	Octavia	Yeti	Superb II	VW Jetta	VW Passat	Audi A6	Audi A4	Audi Q5
Mladá Boleslav (Czech Republic)		●			●							
Vrchlabí (Czech Republic)				●	●							
Kvasiny (Czech Republic)						●	●					
Bratislava (Slovakia)	●											
Kaluga (Russia)		●			●							
Aurangabad (India)					●	●	●	●	●	●	●	●
Pune (India)		●	●									
Shanghai (China)		●			●		●					

ŠKODA production

	2011	2010	2011/2010
ŠKODA brand production			
Fabia*	142,115	125,596	13.2%
Fabia Combi	73,023	68,079	7.3%
Fabia total	**215,138**	**193,675**	**11.1%**
Roomster	33,414	27,728	20.5%
Roomster Praktik	3,013	2,745	9.8%
Roomster total	**36,427**	**30,473**	**19.5%**
Octavia*	142,289	119,884	18.7%
Octavia Combi	131,953	113,221	16.5%
Octavia total**	**274,242**	**233,105**	**17.6%**
Yeti	**77,312**	**52,550**	**47.1%**
Superb II	26,009	24,970	4.2%
Superb Combi	44,882	40,969	9.6%
Superb total	**70,891**	**65,939**	**7.5%**
Total ŠKODA brand	**674,010**	**575,742**	**17.1%**
Production of other Volkswagen Group brands			
VW Passat	1,338	786	70.2%
VW Jetta	1,858	4,339	- 57.2%
Audi A6	1,254	810	54.8%
Audi A4	2,328	1,224	90.2%
Audi Q5	1,092	432	> 100%
Total other Volkswagen Group brands	**7,870**	**7,591**	**3.7%**
Total ŠKODA Group	**681,880**	**583,333**	**16.9%**
Production of ŠKODA cars in Pune			
Rapid	**2,561**	**-**	**-**
Total ŠKODA Pune	**2,561**	**-**	**-**
Production of ŠKODA cars in Bratislava			
Octavia	-	10,000	-
Octavia Combi	-	-	-
Octavia total	**-**	**10,000**	**-**
Citigo	1,027	-	-
Total ŠKODA Bratislava	**1,027**	**10,000**	**-**
Production of ŠKODA cars in China			
Fabia	45,969	43,298	6.2%
Octavia	128,220	114,024	12.5%
Superb II	48,841	39,755	22.9%
Total ŠKODA China	**223,030**	**197,077**	**13.2%**
Total ŠKODA worldwide	**900,628**	**782,819**	**15.0%**

* including disassembled vehicle kits distributed to production plants outside ŠKODA AUTO Group
** includes Octavia, Octavia Tour I and Octavia Tour II, production of Octavia Tour I was suspended in 2010

Sales and marketing

New sales record in 2011

ŠKODA AUTO Group ended 2011 with a new record of 879,184 vehicles delivered to customers worldwide – an increase of 15.3% over the year 2010. All regions contributed to this development, confirming that ŠKODA's growth and internationalisation strategy was already having a definite impact in its first year of implementation.

Central Europe – positive trend overall in weak markets

In Central Europe, ŠKODA AUTO Group was able to boost sales and gain valuable market share. A total of 123,156 vehicles were delivered to customers – an increase of 1.7%. Difficult economic conditions in several Central European countries prevented even better sales figures.
In the Czech Republic, ŠKODA maintained its undisputed position as the leading automobile brand and was able to increase the number of vehicles delivered to customers to 58,202 units. Sales gains were also reported in markets with moderate growth, such as Slovakia (+11.2%) and Slovenia (+10.4%). ŠKODA AUTO Group recaptured market share in Poland, with 38,116 vehicles delivered, and continued to expand its position as market leader. The same applied to Hungary, where ŠKODA AUTO delivered 5,750 vehicles (+0.4%) to customers in a weak consumer market.

Eastern Europe – Russia still driving sales

ŠKODA continued to make gains in Eastern Europe, where it delivered a total of 108,423 vehicles to customers – an increase of 47.0% over the previous year.
Russia, one of the key markets in ŠKODA's growth strategy, was once again the main growth driver in 2011. Building on the previous year's growth of 38.1%, deliveries to customers rose 62.5% to reach a total of 74,074 automobiles. ŠKODA AUTO also increased delivered volumes in the Ukraine for the second consecutive year. The Company delivered 10,909 automobiles to customers there and ended 2011 with a significant sales increase of 42.6% (2010: +17.1%). ŠKODA AUTO was even able to expand its market share and improve its market position in Romania's otherwise shrinking automobile market, with the delivery of 8,192 automobiles (+2.4%).

Deliveries to customers – largest markets

	Deliveries to customers (vehicles)		Change in %	% share of passenger car market**	
	2011	2010	2011/2010	2011	2010
Total ŠKODA brand	**879,184**	**762,600**	**15.3%**	**1.4%**	**1.3%**
China	220,089	180,515	21.9%	1.8%	1.6%
Germany	128,011	113,323	13.0%	4.0%	3.9%
Russia	74,074	45,577	62.5%	3.0%	2.6%
Czech Republic	58,202	58,033	0.3%	33.4%	34.0%
United Kingdom	45,282	41,632	8.8%	2.3%	2.1%
Poland	38,116	37,918	0.5%	12.7%	11.3%
India	30,005	20,019	49.9%	1.3%	0.9%
France	22,356	20,394	9.6%	1.0%	0.9%
Austria	21,208	18,803	12.8%	5.9%	5.7%
Netherlands	20,879	15,408	35.5%	3.8%	3.2%
Belgium	18,900	15,756	20.0%	3.3%	2.9%
Italy	17,345	18,276	-5.1%	1.0%	0.9%
Switzerland	16,298	14,320	13.8%	5.1%	4.8%
Spain*	15,873	18,944	-16.2%	2.1%	2.0%
Slovakia	15,182	13,650	11.2%	22.1%	21.2%

* excl. Canary Islands ** total markets

Western Europe – strong growth in a mixed field

ŠKODA AUTO improved its sales figures for Western Europe in 2011. Despite the difficult economic situation in several countries within the euro zone, a total of 361,777 vehicles were delivered to customers in this region, resulting in a sales increase of 8.6%.

In the key German market, ŠKODA AUTO once again expanded its market share, to 4.0% currently. With 128,011 vehicles delivered to customers (+13.0%), Germany remains ŠKODA AUTO's second-largest single market.

ŠKODA AUTO was also able to boost sales in other major Western European markets in 2011. In the fiercely competitive French market, the number of deliveries rose 9.6% to 22,356 automobiles in 2011. ŠKODA AUTO was also successful in the U.K., where it delivered 45,282 cars (+8.8%) to customers and expanded its market share; in Ireland, it reported a slight decrease in deliveries to customers of 5.2% as a result of the economic crisis. The Netherlands, on the other hand, performed well with a growth rate of 35.5% and total deliveries of 20,879 vehicles.

Most Southern European automobile markets saw deliveries to customers fall, due to the tense economic situation in the region. Nevertheless, ŠKODA AUTO was able to gain market share in Italy. In Spain, ŠKODA deliveries to customers were lower than in 2010 at 15,873 vehicles, although the brand was still able to gain market share in a sharply declining market. Portugal's automobile market felt the full impact of the economic and financial crisis in the country and turned significantly negative. As a result, ŠKODA AUTO was also impacted and deliveries to customers decreased by 1,888 vehicles (-41.9%).

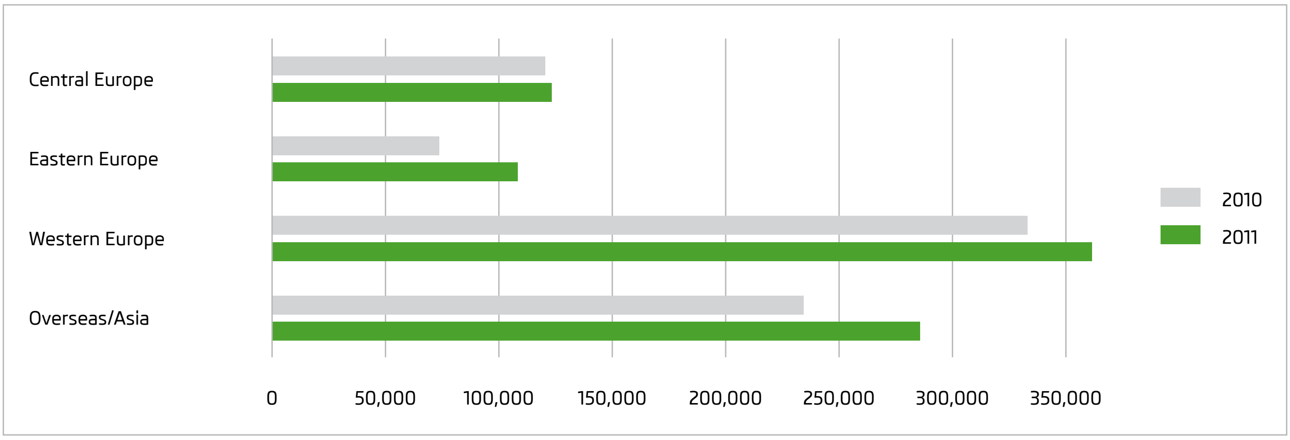
Overseas/Asia – China and India remain strong

The Overseas/Asia region, including the growth markets of China and India, plays a key role in ŠKODA's growth strategy. Deliveries to customers in this region grew dynamically once again in 2011, with a total of 285,828 ŠKODA automobiles delivered here (+21.9%).

With 220,089 vehicles delivered to customers (+21.9%), China in particular, as the world's largest market for ŠKODA automobiles, was the driving force behind this positive trend. India also confirmed its growth potential for ŠKODA with an impressive increase of 49.9% to reach a total of 30,005 vehicles delivered to customers. ŠKODA had already reported growth in deliveries to customers of 37.7% here in 2010.

The introduction of the ŠKODA Rapid reflects the growing significance of the Indian market for ŠKODA AUTO, which began building this compact car in the Indian city of Pune in September 2011. The car was developed specially for the needs of the Indian market and released in late 2011. Positioned between the ŠKODA Fabia and the ŠKODA Octavia, the ŠKODA Rapid is designed to capture additional market share in India's key compact class.

Deliveries to customers by region



	Deliveries to customers (vehicles)		Change in %	% share of passenger car market**	
	2011	2010	2011/2010	2011	2010
Central Europe*	123,156	121,063	1.7%	17.7%	16.8%
Eastern Europe	108,423	73,747	47.0%	3.6%	3.3%
Western Europe	361,777	333,261	8.6%	2.8%	2.6%
Overseas/Asia	285,828	234,529	21.9%	0.6%	0.5%
Total ŠKODA brand	**879,184**	**762,600**	**15.3%**	**1.4%**	**1.3%**

* incl. Czech Republic ** total markets

A total of 35,734 ŠKODA automobiles were delivered to customers in the remaining markets of the Overseas/Asia region in 2011 – an increase of 5.1% year-on-year.

Success in all market segments

ŠKODA Fabia

ŠKODA Fabia confirmed its status as one of ŠKODA's high-volume models once again in 2011. After a decrease in percentage terms on a year-on-year basis due to the impact of national measures to revive car sales during the 2009 crisis, demand for this model increased substantially in the year under review. A total of 266,763 ŠKODA Fabia cars were delivered to customers worldwide – this is the highest annual ŠKODA Fabia volume ever delivered. The largest market for this series is Europe. More than 70% of ŠKODA Fabia vehicles worldwide in 2011 were delivered to customers on this continent. One of the main performance drivers was the new ŠKODA Fabia Monte Carlo with a delivered volume of 7,554 vehicles in Europe.

ŠKODA Roomster

Sales of the ŠKODA Roomster rebounded in 2011 from the previous year's decline. A total of 36,010 models were delivered worldwide. This represents an increase of 11.4%. 3,005 vehicles (8.3%) were ordered as the utility version, the ŠKODA Praktik.

ŠKODA Octavia

The ŠKODA Octavia once again underscored its key role as the best-selling car in ŠKODA's global model line-up. With 387,183 vehicles delivered to customers in 2011, volumes grew by another 10.7%, building on an already strong 2010. With 125,611 vehicles delivered to customers, the ŠKODA Octavia Combi now accounts for 32.4% of total ŠKODA Octavia sales.

ŠKODA Yeti

The ŠKODA Yeti is currently the car with the highest rate of sales growth among all ŠKODA vehicles. 70,321 ŠKODA Yeti vehicles were delivered to customers in 2011, 33.7% more than the previous year. In only its second full year of production, the ŠKODA Yeti is already firmly established within the ŠKODA model family. The success of this compact SUV also proves how the Company can quickly and successfully position itself with a new model in a new market segment.

ŠKODA Superb

The top-of-the-range ŠKODA Superb model performed well in 2011 with a healthy increase in sales volumes. A total of 116,726 ŠKODA Superb models were delivered to customers worldwide in the year under review – an increase of 18.1% compared with the previous year. The ŠKODA Superb is especially popular in China: In this country alone, no fewer than 48,000 of these models were delivered, 28.5% more year-on-year.

Deliveries to customers by model

	2011	2010	2011/2010
Citigo	**510**	**-**	**-**
Fabia	192,852	161,358	19.5%
Fabia Combi	73,911	67,687	9.2%
Fabia total	**266,763**	**229,045**	**16.5%**
Rapid	**1,671**	**-**	**-**
Roomster	33,005	29,514	11.8%
Roomster Praktik	3,005	2,818	6.6%
Roomster total	**36,010**	**32,332**	**11.4%**
Octavia	261,572	235,735	11.0%
Octavia Combi	125,611	114,011	10.2%
Octavia total*	**387,183**	**349,746**	**10.7%**
Yeti	**70,321**	**52,604**	**33.7%**
Superb	-	5	-
Superb II	73,125	63,146	15.8%
Superb Combi	43,601	35,722	22.1%
Superb total	**116,726**	**98,873**	**18.1%**
Total ŠKODA brand	**879,184**	**762,600**	**15.3%**

* includes Octavia, Octavia Tour I and Octavia Tour II; production of Octavia Tour I was suspended in 2010

Sixth and seventh model lines added

ŠKODA AUTO unveiled its production-ready MissionL concept car at the IAA International Motor Show in Frankfurt, providing a first glimpse of its previously-announced sixth model line – the all-new compact limousine. The new car will premiere in European markets in 2012 followed closely by Russia and China. A variant of the new model developed specially for the Indian market, the ŠKODA Rapid, was already delivered to customers there in 2011.

November 2011 saw the launch of ŠKODA's seventh model line, the ŠKODA Citigo, in the Czech Republic. ŠKODA AUTO expects the new model line to generate new momentum for growth in Europe over the year 2012.

Further expansion of the model range will be top priority for ŠKODA AUTO over the coming years. Plans call for a new model to be presented and launched on the market every six months on average.

Fleet business as growth driver

The fleet market was once again one of the fastest-growing business fields in 2011. ŠKODA fleet sales (not incl. China) in this market segment rose to 239,413 units (2010: 188,900).

The strongest sales region for fleet business was, as in the previous year, Western Europe, with 147,138 vehicles. This was followed by Central Europe with 59,555 units and Eastern Europe – the Ukraine and Russia in particular – with 16,809 vehicles. Germany remained the largest single market for fleet business in 2011. A total of 56,153 vehicles joined German fleets, accounting for 23.5% of ŠKODA's total annual fleet sales.

ŠKODA AUTO also launched its "Fit For Fleet" programme in 2011 to create a more comprehensive and professional offering for commercial customers and small and mid-sized companies in particular. The programme consists of three main pillars to be developed within the importers' and especially the dealers' organisations to upgrade them to fleet centres, establishing professional processes, developing the necessary sales competence and providing adequate products and tools for the fleet customer. The programme has already been rolled out at more than 40 pilot fleet centres in six European countries. After a significant jump in sales figures at these fleet centres, "Fit For Fleet" is set to roll out at more dealers and expand to other countries in 2012.

Higher capacity for distribution of Genuine Parts and Accessories

Quality, wide assortment, availability and last, but not least, customer satisfaction – these are the guiding principles of the ŠKODA Genuine Parts and Accessories department. Thanks to the widening of the product range, the number of Genuine Parts and Accessories delivered to more than 100 different markets all over the world is also growing. The Genuine Parts and Accessories logistics department ships more than 24,000 customer items every day. That is why the number of items processed has increased significantly over the last decade. This development has prompted the extension of the logistics centre for Genuine Parts and Accessories. The first expansion phase – the extended incoming and distribution terminal – was finished and put into test operation in November 2011. The second phase of the ŠKODA parts centre expansion will entail construction of a fully-automated high-rack warehouse with a height of 40 metres and a capacity of 30,000 palettes, and will be completed by the end of next year. The overall space of this warehouse will comprise 74,500 m^2.

The ŠKODA E-shop was launched in November 2011 to boost customer satisfaction and increase the availability of ŠKODA Genuine Parts and Accessories. In the initial phase, customers from the Czech Republic can order Genuine Accessories and gift products. In the second phase, the ŠKODA E-shop will be rolled out in other markets.

Revenues from sales of Genuine Parts totalled CZK 15.7 billion in 2011, representing an annual increase of 3.1% (2010: CZK 15.2 billion).

The Group is responding by offering Genuine Accessories to the growing segment of customers who demand a higher degree of individuality, and is at the same time widening its leisure product offering to meet high quality criteria.

The revenues generated from sales of ŠKODA Genuine Accessories have reached CZK 2.2 billion. This represents a total increase of 5.8% compared to 2010 (CZK 2.1 billion).

Customer orientation as top priority

An efficient sales and service network plays an integral part in the ŠKODA growth strategy and is imperative to its success. For this reason, numerous process and quality optimisation initiatives were launched in this area in 2010 and continued in 2011 to help maintain ŠKODA's renowned high standards of delivery speed and reliability as the sales and service network expands, particularly in growth markets. The continued implementation of the "Human Touch" programme is designed to ensure that the sales and service network retains its customer-friendliness and customer orientation in times of dynamic growth.

Customer service employees recognised

Customer service is becoming increasingly important in today's highly-competitive automotive business. ŠKODA AUTO is responding to this development with a whole range of measures to improve service quality.

A new Service Training Centre for the continuous training and professional education of ŠKODA's service team all over the world was opened in late 2011 in Mladá Boleslav - Kosmonosy. Its purpose is to guarantee and further enhance the quality of customer service.

In 2011, ŠKODA AUTO launched its "ŠKODA Service Challenge" for service staff worldwide. Only service mechanics and receiving technicians who had excelled in preliminary national contests in 38 countries made it through to the challenging final round in Prague. Theory and practical skills in all major areas of customer service were rigorously tested.

New corporate design showcases "New Power of ŠKODA"

In March 2011 ŠKODA AUTO introduced its new corporate design at the Geneva Motor Show. It is intended to support systematic internationalisation and to mark the beginning of a new era of growth at the ŠKODA brand. The core of the visual solution is the traditional "winged arrow", which in its modern shape and usage of the newest design elements, symbolises "New Power of ŠKODA", creating a bridge between the tradition of the brand and its modern approach to the future.

New media for new target groups

In connection with its new corporate design, ŠKODA AUTO also expanded its social media activities in 2011. Brand, product and company news are now instantly available around the world via ŠKODA sites on Facebook and YouTube. This initiative is aimed at promoting closer contact with customers and reaching out to new and younger target groups.

Sports sponsorship entered in Guinness Book of World Records

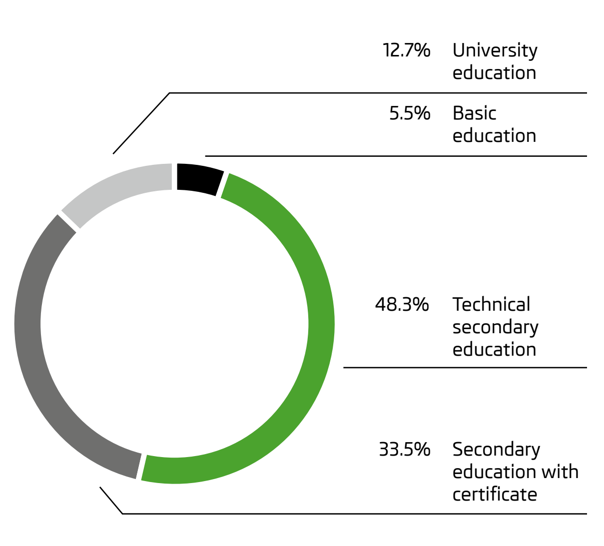
Recognition of the ŠKODA brand and its new image got a decisive boost from sponsorship activities in 2011. The brand's sponsorship of the Ice Hockey World Championships and the Tour de France, in particular, with global TV and internet coverage, brought it into contact with relevant target groups. ŠKODA AUTO reached roughly 700 million viewers worldwide through its Ice Hockey World Championship involvement alone.

Professional sports promotion has a long tradition at ŠKODA AUTO. Its 19-year cooperation with the organisers of the Ice Hockey World Championships has even earned ŠKODA AUTO a place in the Guinness Book of World Records as "the longest-standing main sponsor in the history of sporting world championships".

Human resources management

Implementation of ŠKODA's growth strategy and the internationalisation of the Group defined activities in the area of human resources management during the year 2011. The top priority for Human Resources is to enhance ŠKODA AUTO's attractiveness as an employer in international competition over the coming years.
ŠKODA AUTO's Human Resources Management division is a proactive partner for the departments and supported them in 2011 with a wide range of activities to recruit and retain the best employees over the long term. Their work focused on intensive qualification measures and more aggressive recruitment. A successful international recruitment campaign led to a substantial increase in the number of job applicants. More than 21,000 people applied for a job with ŠKODA AUTO in 2011.
The strong loyalty and motivation of its employees remain the backbone of the Company's success. This was confirmed by an employee survey conducted in 2011 with 93% participation. The results also confirmed a further increase in motivation.

Qualification structure of the Company's core employees



ŠKODA AUTO continues to attach great importance to retaining qualified employees over the long term. Long-term employment, work-life balance, health protection and gender and diversity management are an everyday reality for Company employees. In light of the increasing internationalisation of the Company, a further challenge for the Human Resources division is to promote employee mobility and make foreign assignments more attractive, particularly in management functions. This will intensify know-how transfer within the Company and at the same time offer employees extensive opportunities for personal development – which more personal and flexible HR support will make easier to take advantage of than in the past.

Number of employees increases

At the end of 2011, ŠKODA AUTO Group employed 26,565 permanent staff worldwide (+1,851 employees, including trainees). The number of active permanent employees therefore increased by 7.5% from the previous year. The average number of permanent employees during the year totalled 25,787 – an increase of 4.4%.
Internationalisation and the Group's steady growth also secure employees' jobs in the Czech Republic. In the year under review, the number of employees in both Mladá Boleslav and Kvasiny increased. Production of the DQ 200 dual clutch transmission for the Volkswagen Group from 2012 on will also secure the future of the Vrchlabí site. ŠKODA AUTO employed a permanent workforce of 24,936 in the Czech Republic at the end of 2011 – 7.0% more than at the end of 2010. Outside the Czech Republic – at subsidiaries in Slovakia, Germany, Poland and India – ŠKODA AUTO employed 1,629 people as at 31 December 2011. This represents a substantial increase in workforce of 15.9%.
The Company also uses temporary employment to be able to respond flexibly to changing conditions. The average number of temporary ŠKODA AUTO employees worldwide during 2011 totalled 2,336.

Focus on vocational and professional training

Professional development of employees, with a focus on training, is a key element of ŠKODA AUTO's human resources policy.

To prepare employees for the further development of ŠKODA and enhance the competitiveness of the Company in accordance with its growth strategy, a main focus in professional training was laid on language courses and intercultural training.

Thanks to its secondary education institutes and its own ŠKODA AUTO university, the Company was able to train many of its future employees in-house in 2011. A total of 766 apprentices were training for future careers at ŠKODA AUTO in 2011.

In this way, the Company not only assumes social responsibility at its sites, but also takes active steps to counter demographic trends in Europe.

Employer branding as a key factor

Employer branding surveys conducted in 2011 once again ranked ŠKODA AUTO among the most popular companies in the Czech Republic. The Company continues to lead the CZECH TOP 100 list and is therefore the most respected company in the country.

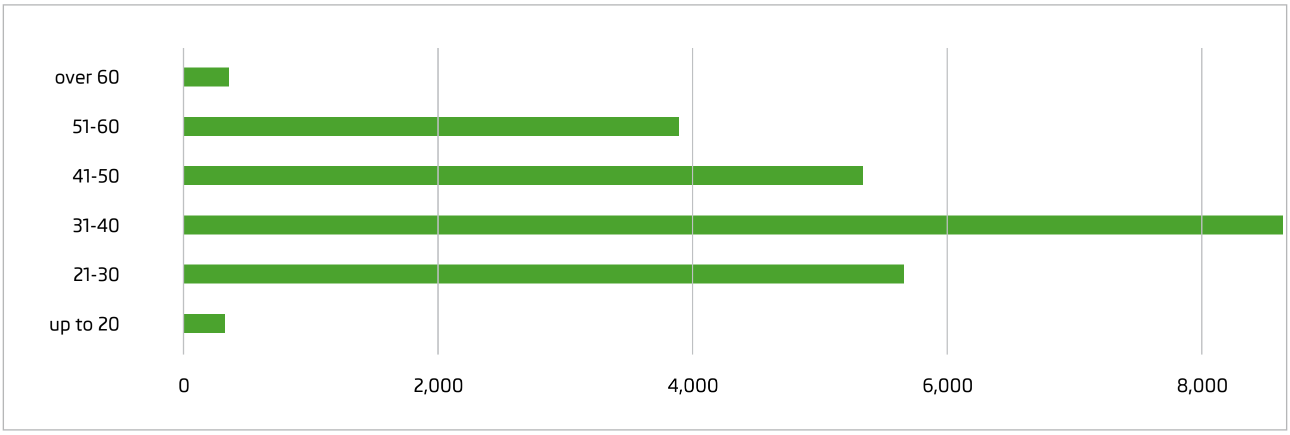
The results of the survey show how effective the actions taken so far have been and confirm the Company's overall employee orientation. The aim is to further enhance the Company's attractiveness as an employer in international competition, so it is in a position to recruit talent worldwide. With this in mind, the ŠKODA AUTO career website was completely redesigned and relaunched in 2011. A wide range of training placements abroad were established and an English-language management trainee programme introduced.

One measure of the success of these activities is the number of foreign placement students and degree candidates with the Company, which climbed to 680 in 2011 (+ 25%).

ŠKODA AUTO is one of a few companies in the Czech Republic with its own university – based at the Na Karmeli education centre in Mladá Boleslav. More than 950 students are currently training for their professional careers at the Na Karmeli education centre, while almost 80,000 people attend Company courses and classes there. The Technical University of Liberec, with which ŠKODA AUTO works closely on materials research, also conducts training at Na Karmeli, and uses the laboratories on its premises for this purpose. The Company also collaborates with other universities in the Czech Republic, as well as many in other countries – including Tongji University in Shanghai. In this way, ŠKODA AUTO is securing itself a competitive position in the global "war for talent" and therefore building the foundation for further international expansion.

ŠKODA AUTO supports its employees' activities and suggestions for improvements. This includes its Z.E.B.R.A. project, aimed at continuously improving production processes within the Company and putting various innovations into practice. No fewer than 4,350 employees submitted specific suggestions for improvements in 2011 – 11,241 of which are already registered in the system. The success rate for suggestions rose to 71.7% in 2011 (2010: 67.3%), and the benefits for the Company totalled CZK 305.4 million.

Age structure of the Company's core employees



Group workforce

	31. 12. 2011	31. 12. 2010	2011/2010
Company – permanent employees	**24,177**	**22,506**	**7.4%**
of which:			
- Mladá Boleslav plant	19,691	18,355	7.3%
- Vrchlabí plant	860	1,004	-14.3%
- Kvasiny plant	3,626	3,147	15.2%
Company – apprentices	759	802	-5.4%
Company – employees total*	**24,936**	**23,308**	**7.0%**
Subsidiaries – permanent employees	1,622	1,399	15.9%
Subsidiaries – apprentices	7	7	-
Subsidiaries – employees total*	**1,629**	**1,406**	**15.9%**
ŠKODA AUTO Group employees total*	**26,565**	**24,714**	**7.5%**

* excl. temporary employees, representing the number of employees as at 31 December.

Sustainability

Corporate sustainability is both an aspiration and an obligation for ŠKODA AUTO. Based on the firm belief that only those who act responsibly can be successful over the long term, the Company adheres to the principle of sustainability and gives economic, social and environmental aspects equal consideration.

The Company actively fulfils its responsibility towards its customers, employees, shareholders, business partners and the general public. Responsible conduct in all areas and towards all stakeholders is an integral part of ŠKODA AUTO´s corporate culture and also plays a key role in the Group's strategy.

Environmental responsibility

Focus on low emissions

Today's ŠKODA automobiles are already characterised by their efficiency and fuel economy, with 37 models with CO_2 emissions of less than 120 grams per kilometre.

Since 2010 there has been at least one GreenLine variant in each model lines, offering even higher standards of efficiency and environmental-compatibility – without compromising on comfort or performance. Technical and aerodynamic modifications make ŠKODA GreenLine versions the most environmentally-compatible and economical variants in their respective model range. The second generation of ŠKODA GreenLine models, released in 2011, was able to offer even greater efficiency and environmental-friendliness.

ŠKODA AUTO also pursues the goal of lower consumption and emissions with the Green tec package available throughout the entire model range. This technology package includes an automatic start/stop function, brake energy regeneration and tyres with optimised rolling resistance. It ensures environmental-conscious mobility at the same level of comfort and performance.

The new ŠKODA Citigo model also meets ŠKODA's high standards for the fuel and emissions efficiency of its vehicles. The Green tec version of this vehicle, with a 1.0 litre-engine and an output of 44kw, has an average fuel consumption of 4.1 litres/100 km and CO_2 emissions of only 96 grams/km.

ŠKODA AUTO takes its responsibility for pioneering developments in individual mobility very seriously and presented the fully-electric ŠKODA Octavia Green E Line concept car for that reason back in 2010. In 2011, ten of these cars were then launched as a test fleet. The aim was to learn practical lessons for the on-going development of everyday emission-free mobility. Safety issues are another important aspect of the field trial. With this project, ŠKODA AUTO is consistently working towards its goal of having zero-emission cars ready for series production as soon as possible.

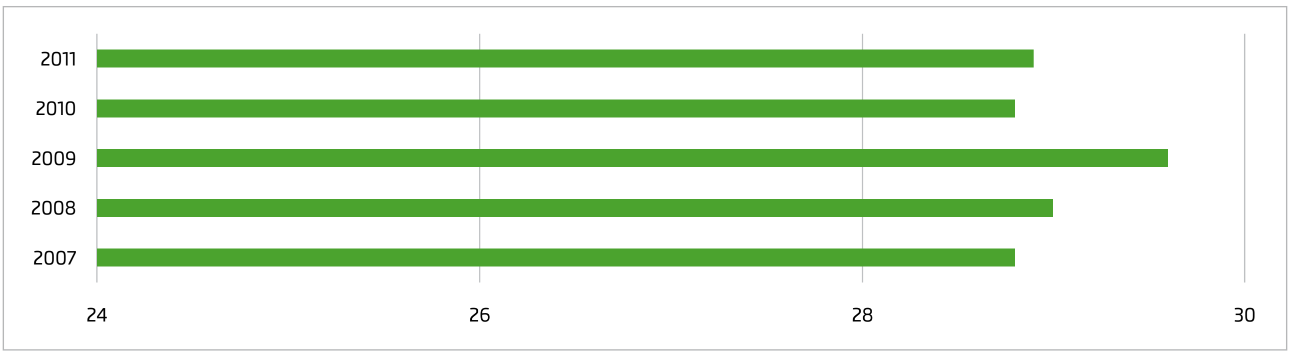
Environmental protection at ŠKODA AUTO

As a responsible company, ŠKODA AUTO is also under obligation to minimise the environmental impact of its vehicle production. In this respect, all legal requirements are met, and new, stricter standards are complied with as early as possible. Continuous improvements in environmental protection are firmly entrenched in the Company's policy and strategy. Successful implementation of these principles was confirmed in 2011, among others, by the ISO 14001:2004 control audit.

Environmental protection for new investments

The ŠKODA growth strategy also involves a large number of investments to increase capacity, particularly at its Czech

Volatile organic compound (VOC) emissions per 1 sq.m. of painted body area (g VOC/m²)



production facilities and in technical development. A key criterion in the early phases of such investment decisions is the effectiveness of technical environmental protection. In 2011, the best available technology was selected for all environmentally-relevant systems. This ensures that the Volkswagen Group's environmental standards – which go far beyond legal requirements – are also fulfilled.

The legally-required environmental impact assessment was successfully completed for the following expansion measures in 2011 and official authorisation obtained:

- Extension of production areas at the Mladá Boleslav plant to accommodate additional pressing, body shop and assembly equipment, as well as the necessary space for logistics and handling.
- Construction of a transmission manufacturing hall in Vrchlabí.

The existing authorisation for the Mladá Boleslav plant was extended in compliance with the law governing integrated pollution prevention (No. 76/2002 Sb.). The paint shops' integrated permit was also extended to the pressing plant, the welding shop and the assembly plant. At the same time, the facilities themselves were expanded and the paint shops retrofitted. The integrated permit for casting systems at the Mladá Boleslav plant was also modified to include a number of production processes used in engine and transmission manufacture.

During the reconstruction process in the welding shop halls and tool-making areas at the Mladá Boleslav plant, cleared areas were also reconditioned. The purpose was to remove all prior contamination and seal the hall floor against penetration from materials that could pose a hazard to groundwater.

Air-quality protection

All air emission sources operated by the Company in 2011 complied with statutory limits. The majority of the emissions (more than 92%) originated from paint shops (2010: 92%).

83% of the total pollutants released into the air are volatile organic compounds (VOCs) from the paint shops. These facilities mainly use water-soluble paints, and most of the VOCs produced are mixed with natural gas and burned. The heat released is used for heating purposes.

In recent years, optimisation of painting processes has kept VOC emissions well below the legal limits – regardless of the number of car bodies painted. As a result, less than 29 grams of VOC per square metre of painted area are released – the legal limit is currently 45 grams.

The use of modern energy sources and innovations in steel production (foundries for grey iron and aluminium as well as forging processes) have also contributed significantly to low emissions of sulphur dioxide, nitrogen oxide, carbon monoxide and solid particles.

Progress in reconditioning contaminated areas

ŠKODA AUTO ensures that none of its activities are detrimental to the environment. It has also been successful in mitigating the consequences of industrial production dating from before its acquisition by the Volkswagen Group.

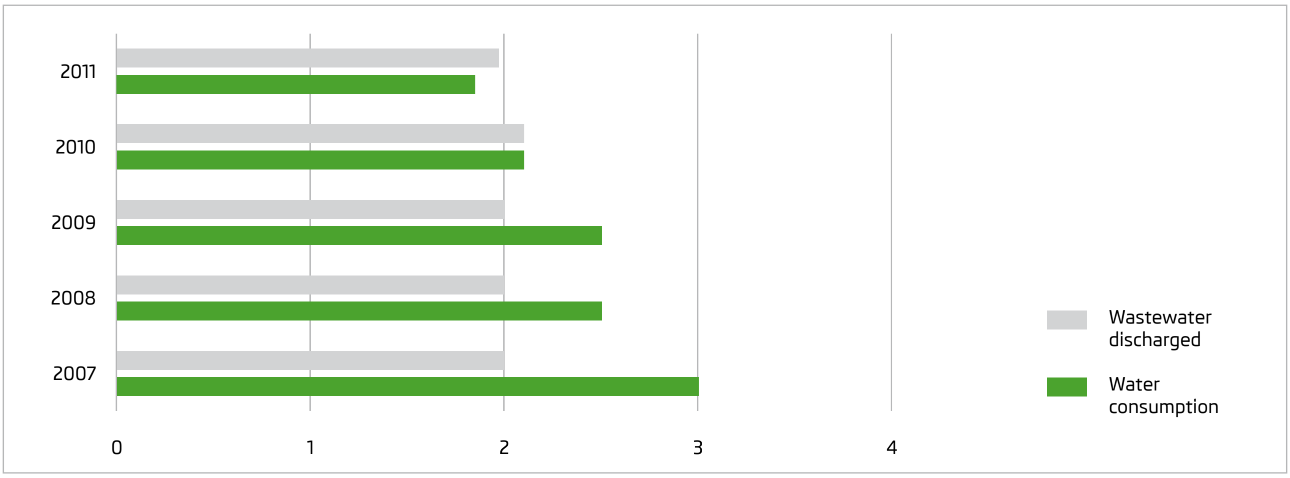
By the end of 2011, more than 81% of the contaminated sites had been reconditioned, at a total cost of CZK 610 million.

Water management, soil water and groundwater protection

Substances that pose a danger to groundwater are handled exclusively in rooms and systems fitted with the appropriate technical safeguards, that have emergency plans in place and that are protected against possible leakage through the corresponding equipment.

Two of the most important challenges for environmental management at ŠKODA AUTO are to limit water consumption to the lowest possible level and to discharge industrial water back into natural circulation with the minimum environmental

Water consumption and wastewater discharged per vehicle produced (m^3/vehicle)



impact. Trends in water consumption and wastewater volume per vehicle produced confirm the success of these efforts. Wastewater quality is also considerably higher than the prescribed limits.

Waste management

In waste management, ŠKODA AUTO subscribes to the principle of "prevention, then recovery, then disposal". Processes are designed to prevent waste and keep the volume of waste as low as possible. Reducing the volume of hazardous waste is a priority. Waste is disposed of in an environmentally-sound manner only when all recycling possibilities have been exhausted.
Implementation of this strategy has steadily reduced the volume of waste per vehicle produced in recent years (see chart). This progress becomes quite clear from a long-term perspective: Back in 1993, the production of a single car produced 132 kilograms of waste per vehicle, compared with only 33 kilograms in 2011.
Only 8.9% of the total waste volume was ultimately disposed of in landfills or incinerators in 2011. Most waste, including metals, was recycled. This applies in particular to glass, paper, waste oil, solvents, wire and electronic waste.

Investment in environmental protection

A total of CZK 134 million was invested in preventive environmental protection measures in 2011 as part of construction and modernisation projects. Total investment in environmental protection since 1991 amounts to CZK 10.2 billion.

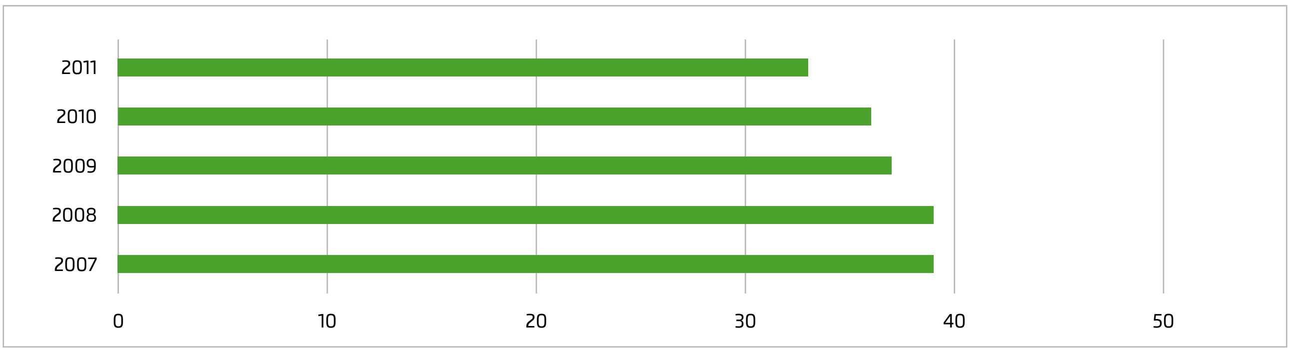
Social responsibility

Social responsibility has always played a key role at ŠKODA AUTO. As one of the Czech Republic's leading companies, ŠKODA AUTO believes it has a special responsibility for its employees and their families, and – as a good neighbour – for people in the communities where its plants are located.
The Company pays particular attention to the welfare of its employees, offering a broad range of social benefits, guaranteeing health and occupational safety standards, and providing a unique system of corporate training and professional development. Furthermore, the Company focuses on equal opportunities, issues arising from an aging population and employee diversity.
ŠKODA AUTO complies with all relevant recommendations of the Code of Corporate Governance, by which it declares its openness towards the public, transparency of its internal processes and relations with the sole shareholder. The Company maintains bilateral and mutually beneficial relationships with suppliers and follows the legacy of its founders, Laurin and Klement, stating that "...only the best we can do is good enough for our customers."
The Company pursues a long-term policy of dedicating maximum effort to limiting the negative impact of its operations on the environment. This pertains not only to the Company's own production and sales operations, but also to its selection of suppliers who meet the most stringent ISO 14000 environmental standards. Use of alternative energy sources and development of new products allows ŠKODA AUTO to reduce its output of CO_2 emissions.

Making road safety a priority

Aside from sporting, cultural and social activities pursued within the scope of ŠKODA AUTO's social responsibility, measures to improve road safety have become increasingly important. Projects include funding for children's traffic-themed playgrounds in the regions where the Company's production plants are located, and the development of a unique internet application "ŠKODA hrou" ("Playful ŠKODA") designed to make learning about road safety fun.
In cooperation with the City of Mladá Boleslav, the Company

Waste per vehicle produced (kg/vehicle)



has been implementing a project spanning several years entitled "A Safe Journey to School". In addition, technology boosting road safety for pedestrians was installed in the vicinity of ŠKODA AUTO factories in cooperation with local municipalities. Another project designed to improve safety features in cars is "Traffic Safety Research" under which the Company collaborates with fire fighters, police and hospitals at the site of traffic accidents. In 2011, ŠKODA AUTO was once again the general partner for a traffic contest "Cesty městy" ("Roads through Cities") organised by the Partnership Foundation. The contest promotes well-designed traffic solutions for reducing traffic density in Czech cities and municipalities.

Support of social activities

ŠKODA AUTO is involved in sponsorships at both local and regional levels, i.e. directly where its factories operate, and also on a nationwide and global scale. In cooperation with leading foundations and charitable organisations, the Company sponsors a variety of social, cultural and humanitarian projects. The Company ensures that it also supports sporting events involving persons with disabilities.

Culture and the arts

ŠKODA AUTO's traditional partners include the Czech Philharmonic, the National Theatre, the National Museum and the National Technical Museum. The Company also supports selected international events held outside Prague, such as Smetana's Litomyšl and the International Film Festival for Children and Youth in Zlín. In addition, ŠKODA AUTO has established partnerships with the Festival of German Language in Prague and the Municipal Theatre in Mladá Boleslav.

Social commitment

ŠKODA AUTO is a long-time supporter of the Paraple Centre, specifically as a supplier of vehicles with adjusted hand steering, which help patients become more self-sufficient. Other projects funded by the Company include the Forum 2000 Foundation, the Foundation for Cancer Research and the Paralympic Committee.

ŠKODA AUTO continues its long-term funding of the organisation "Zdravotní klaun" ("Clown Doctors"), which arranges for professional clowns to visit seriously-ill children across the Czech Republic under the motto "laughter is the best doctor". Another project named "One tree planted for each car sold in the Czech Republic" demonstrates ŠKODA AUTO's active approach to environmental protection: It allows employees and their families to volunteer for the Company's social responsibility activities. By the end of 2011, nearly 300,000 trees had been planted in more than 40 locations as part of the project.

Commitment rewarded

In 2011, ŠKODA AUTO was honoured for its exemplary employment policy for people with disabilities. As part of the Czech Republic's "Best full responsibility enterprises" prize, the Company took home the award in the "Socially worthwhile project of the year 2011" category. The extensive steps ŠKODA AUTO takes to employ people with disabilities are recognised. This year, the enterprise already received the "Employer without barriers" prize for this commitment.

ŠKODA AUTO supports the reintegration of people with disabilities into working life in many ways. One of the main elements consists of no fewer than six workshops employing 200 people with disabilities. In close cooperation with the labour union OS KOVO, the manufacturer creates new employment perspectives for disabled people at these facilities. The first facility of this kind was opened in 2006, the newest in Mladá Boleslav in October 2010.

ŠKODA AUTO provides further information on the subject of sustainability online at **http://go.skoda.eu/sus-dev-en**.
All of the Company's sustainability reports can be found here, as well as details of each area of activity and the latest news.

ŠKODA

Company Policy of ŠKODA Auto

„Only the very best we can do is good enough for our customers."

(The legacy of the founders, Laurin & Klement, 1914)

ŠKODA Auto develops, manufactures and sells high-quality and environmentally friendly vehicles, genuine parts and accessories. These do not simply meet the demands of our customers - they exceed them. ŠKODA Auto understands the needs of our customers and constantly puts these first. Our goals comply with the corporation's strategy of delighting customers so that they remain loyal to the ŠKODA brand. ŠKODA Auto builds on the principles of social responsibility in all areas in which the company is active.

The adherence of all employees to the "ŠKODA Auto code of conduct" and the following principles guarantees the implementation of the growth strategy, the achievement of ŠKODA Auto strategic goals and the successful future of our company:

- **To guarantee the top quality of our products as our customers expect.**
- **To fulfil all requirements which arise from laws, regulations and ethical principles.**
- **To measure and evaluate process performances and, if needed, determine measures to continually improve the company's products, processes and services.**
- **To improve environmental credibility by continually reducing pollution, use natural resources and energy in a responsible manner, apply environmentally friendly technologies and use as many re-usable materials as possible. We also motivate our contractual partners to do the same.**
- **To control and protect our data, assets and information.**
- **To construct balanced and fair relationships with our contractual partners and the public.**

ŠKODA Auto management commits itself to creating appropriate working conditions as well as supporting the personal development of all employees. In addition, the management promises to deliver a performance driven environment that will deliver the long term targets laid out. The management will engage in regular feedback and communication regarding the achievement of these targets and design measures, if needed, to bring the business back on track towards its long term goals. A culture of constant process improvements based on active cooperation between the employees is one of the basic requirements for safeguarding the activity and competitiveness of our company.

Prof. Dr. h.c. W. Vahland Chairman of the Board of Directors	Dr. E. Scholz Member of the Board of Directors Technical Development	M. Oeljeklaus Member of the Board of Directors Production and Logistics	J. Stackmann Member of the Board of Directors Sales and Marketing
W. Krause Member of the Board of Directors Commercial Affairs	B. Wojnar Member of the Board of Directors Human Resources Mgmt	K. Hell Member of the Board of Directors Purchasing	Dr. M. Bort Quality Management

Mladá Boleslav, August 2011

The green sign symbolises ŠKODA Auto's commitment to environmentally friendly conduct. It represents a responsible approach to environmental protection and permanent, sustainable development.

Risk management system

The global operations of ŠKODA AUTO Group in automotive markets pose numerous risks that may have a negative impact on its financial performance and business success. At the same time, economic and legislative changes may lead to a variety of opportunities that the Group strives to utilise to strengthen and further improve its position among competitors. Therefore, it is necessary to identify risks arising from operating activities in a timely fashion and significantly minimise or eliminate them by applying the proper control system.

Risk management organisation

The risk management structure in ŠKODA AUTO Group is based on the standardised risk management system within Volkswagen Group, which complies with the requirements of the German law on control and transparency in business (KonTraG). Risk management, as an operating component of the business process, must identify specific risks in detail, assess their scope, define measures to eliminate the risks and acquire evidence of the effectiveness of the measures. The overall risk management is centrally run by the Controlling Department in coordination with the Internal Audit Department and the Governance, Risk & Compliance Department. The joint implementation of the risk management system is described in and ensured by the "Risk Management" operational directive.

The risk monitoring system is based on decentralised accountability. On an annual basis, standardised inquiries concerning assessment of risk situations are forwarded to staff authorised to cover risks in specific operations units, including subsidiaries. Based on feedback, the complete picture of a potential risk situation is subsequently updated and each identified risk is assigned a qualitative probability of occurrence and a relative scope of damage. Pertinent measures are defined for each risk in the form of regulations and operational directives with the aim to minimise or eliminate the risk. Operational directives, rules and regulations and job descriptions in this field are strictly stipulated and mostly accessible online. Adherence to these measures is ensured by internal controls performed by the head of the relevant organisation unit, internal audit, the Quality Control Department, Controlling and the Governance, Risk & Compliance Department.

The provision of timely and relevant information to management is a basic prerequisite for effective risk management, aimed at the identification of potential risks and prevention of impending harm to the Company as a going concern by implementing pertinent countermeasures.

The management regularly receives a report containing a description of the most material risks to which individual units of the Group, including subsidiaries, are exposed. In accordance with the strategic objectives, measures leading to the elimination or mitigation of risks are proposed and subsequently implemented. The results of these measures are continuously monitored and assessed.

The risk management system is integrated into the planning, controlling and business processes system, and its effectiveness and sufficiency are regularly evaluated. The risk management process is optimised on an on-going basis. In this, both internal and external requirements, such as the German Accounting Law Modernisation Act (BilMoG), are of equal importance. The objective of the improvements made to the system is to ensure continuous monitoring of the relevant risk areas, including the organisational units responsible.

Risk description and management

The most significant risks facing the Group are financial and sector-specific risks, risks arising from changes in the overall economic and political conditions and changes in legislation, operating risks and other risks, such as those arising from changes in quality and risks in the area of human resources.

Economic, political and legislative risks

With regard to the Group's business activities, its financial position is significantly influenced by general economic conditions, such as the state of the economy and the related economic cycle, legislative changes, and also the political situation in the countries where the Group is active.

The ŠKODA brand operates in many countries worldwide not only as an exporter, but also as a local manufacturer, and is thus affected by general developments in both the global economy and relevant national economies.

After the economic recovery in 2010 and in the first half-year of 2011, problems with unfavourable economic development in Greece, Italy, Spain and Portugal started to emerge. This negative trend is accompanied with a persistent threat of risks related to a high level of public indebtedness, high rate of unemployment, and fluctuations in prices of precious metals, lead, rubber, copper, aluminium, steel, petrol and plastic. Other significant risks that could affect the Group's business

activity in global markets include a divergent pace of economic growth in specific countries or regions and a vulnerable banking system.
Exports to countries carrying potential territorial and political risks are identified well in advance and hedged using standard, approved products of the financial and insurance markets. In this field, the Group has partnered with Czech and international banking organisations, including EGAP.
Intensifying political crises, terrorist activities and possible pandemics can have a negative impact on the world's automotive markets and, subsequently, on the Group's financial position.
In addition, the Group's financial performance may be adversely affected by additional technical-development costs incurred due to changes to legal regulations, such as more stringent legislative requirements for vehicle safety, fuel consumption and reduction in harmful emissions, as well as changes to standard vehicle specifications. In terms of legislation pertaining to environmental protection, tightening of the European Union laws governing exhaust-gas emissions needs to be anticipated. Risks ensuing from legislation guaranteeing scrapping of old cars at no charge through collection points designated by carmakers and importers are sufficiently covered by creating provisions.

Demand risks

Growing and sharper competition in the automotive sector is manifest in increasing support for sales. This is further exacerbated by market risks related to change in customer demand, as the purchase behaviour of customers depends not just on actual conditions, such as real wages, but also on psychological factors. To mitigate these risks to a maximum extent, the Group continuously performs analyses of competition and customer behaviour.

Purchase risks

Very close and economically beneficial collaboration between carmakers and their suppliers poses procurement-related risks that might disrupt production, such as late deliveries, failure to deliver and quality defects. Other risks arise from the ever-stronger competition in the supplier industry. To mitigate these risks, the Group has teamed up with additional suppliers in sourcing parts for vehicle assembly. In addition, preventive measures are being adopted within the risk management system to address possible supplier insolvency. The market situation is being assessed on an on-going basis, which allows for a quick response to changed conditions. As a result of these measures, the Group can prevent purchase risks and problems that might arise due to delivery interruptions.

Financial risks

Financial risks and their management have been one of the most closely monitored segments of ŠKODA AUTO Group's Risk Management over the long term.
In terms of materiality, of primary importance is the risk stemming from changes in exchange rates, which affect generating cash flows in foreign currencies and their subsequent conversion into the local currency, the Czech crown (CZK). Fluctuations in exchange rates can therefore pose a key risk to the Group's business performance.
The effect of changes in exchange rates and their impact on performance are regularly monitored, assessed and managed with the use of standard instruments approved across the Group. The aim of hedging is to mitigate the currency risk of anticipated cash flows from operating activities.
The Group primarily uses forward foreign exchange transactions and foreign exchange swaps for hedging. All these transactions are executed to comply with the requirements of the international accounting standards for hedge accounting.
As prices of commodities have grown increasingly volatile in recent years, risks arising from hedging purchases of raw materials used for manufacture of products and services provided by the Group's companies have become more pressing, in particular risks related to procurement of aluminium, copper and lead. Future consumption of specific commodities is planned over the long turn and, in line with the Group's joint strategy, is hedged with standard derivative instruments.
Similar to its management of the foregoing foreign exchange and commodity price risks, the Company actively manages the potential impact of developments in interest rates.
The Group guards against credit risks by using hedging instruments, both preventive (e.g. retention of title, advance payment, documentary letter of credit, etc.) and subsequent (e.g. recognition of liability, payment calendars, bills of exchange).
The Group employs standard procedures and financial–market instruments to manage the liquidity risk that might arise from fluctuations in cash flows. The primary instruments are financial sources provided in the event of need by the parent and other Group companies in combination with credit lines negotiated with external banks.

The total volume of the secured resources is determined in order to allow for sufficient coverage of any shortfalls in liquidity over a necessary period stipulated by the Groups' internal rules.

Research and development risks

New products carry an inherent risk that customers might not accept them. Therefore the Group performs extensive analyses and customer surveys. Trends are identified early and their relevance for customers is tested. Another potential risk arises from the Group's possible failure to launch production start-ups within the scheduled timeline, in the required quality and with target expenditures. This risk is eliminated by carrying out on-going project checks and making comparisons with the desired specifications. This allows requisite measures to be adopted in the event of finding any aberrations.

Quality risks

Due to growing competition pressures, the increasing complexity of production technologies and the large number of suppliers, quality assurance is an important part of the manufacturing process. Despite maintaining an effective and systematic approach to quality assurance, product-liability risks cannot be entirely eliminated. In order to minimise quality risks from the very beginning, the Group endeavours to prevent these risks from occurring in all processes affecting product quality, specifically by implementing quality methods and controls and performing a variety of tests. These processes comprise conceptual and development stages, serial production and care for the car during customer use. For the purpose of timely identification of trends, it is important to share know-how and, in cooperation with suppliers, develop tools and possible controls for quality management to maintain product quality at a level that meets the requirements and expectations of the Group's customers.

Human resources risks

Human resources management to a great extent reflects current circumstances in ŠKODA AUTO Group's key markets. These circumstances typically comprise a highly competitive environment, stagnation of the developed automotive markets and fast growth of the emerging markets. As an employer with considerable social responsibility, ŠKODA AUTO Group makes an extraordinary effort to preserve jobs and retain key personnel. To facilitate this outcome, the employees are continuously trained and systematically prepared to face new challenges within the Group with the aim to achieve maximum flexibility and performance of the staff, while guaranteeing safe jobs and a high standard of remuneration for work done.

Information technology (IT) risks

In the area of information systems and technologies, the Group takes great care to protect itself against risks involving data availability, confidentiality and integrity. Increased attention is paid to unauthorised access to and misuse of data through various measures relating to employees, the organisation, applications, systems and data networks.
Employees are subject to the Company's directives on handling information and internal regulations governing the safe use of information systems. Technical measures include standard activities, such as using firewall and guarding access to individual Group systems and applications. Antivirus protection, managed application administration, as well as limited access rights and data back-ups constitute an additional level of protection against the misuse of sensitive information.
With regard to the fast technological development in the IT field and generally increasing activities of external entities attempting to gain unlawful access to corporate data, the Group cannot completely exclude the risk posed to information security. The foregoing organisational and technical safeguards implemented within the Information Security Management System (ISMS) aimed to minimise this risk and its impact on the Group's economic targets.

Legal risks

The Group conducts business activities in more than one hundred countries worldwide, which can involve risks pertaining to legal disputes against suppliers, dealers and customers, as well as risks of administrative proceedings related to particular areas of business activities of the Group.

Other operating risks

Aside from the aforementioned risks, there are factors of influence that cannot be predicted and that may affect the Group's future development. Such events comprise mainly natural disasters, epidemics and other threats.

Summary assessment of Group risk position

The overall risk position of ŠKODA AUTO Group ensues from the foregoing specific risks. The risk management system ensures that the specific risks minimised as far as possible.

Short-term and long-term outlook

Although the global economy lost some of its momentum in the second half of 2011, the forecast for 2012 is positive. Average growth of 3% is forecast for 2012. Economic developments in the euro zone will largely depend on the German and French economies. China will remain one of the world's fastest-growing economies in 2012, although the pace of growth will slow somewhat. India is also expected to see steady growth. However, the fight against inflation will play a crucial role here. In Russia, gross domestic product is forecast to grow at roughly the same high rate as in 2011. One of the main risks for the global economy is the high rate of unemployment in a number of euro zone countries and in the United States. The persistently high level of national debt in certain countries and the crisis-prone banking system could also jeopardise the growth forecast for the global economy.

Czech Republic

The forecast for 2012 assumes a slight upward trend in the Czech economy. The automobile industry is likely to be one of the driving forces behind the country's on-going economic development once again this year. The unemployment rate is expected to reach approximately 8.8%. The economic situation in Germany, the country's most important trading partner, will also have a decisive influence on the Czech economy.

Europe

Forecasts for the European economy for the coming year remain cautious and the euro zone economy is expected to contract by about 0.5%. Greece is already in deep recession, and Portugal and Spain will face a shrinking GDP in 2012. Experts also consider Italy to be at risk and a decrease in economic output of 1.5% is thought possible. In France, the possibility of zero economic growth or a slight decrease in economic output cannot be ruled out. Unemployment is expected to remain high in all of these countries. Countries with a positive economic forecast, healthy domestic demand and a stable labour market, such as Germany and Austria, are the exception.

Overseas/Asia

The strong growth in the Overseas/Asia economic area is expected to continue. Forecasts for China project inflation-adjusted growth of between 8% and 9%. India is predicted to grow at a rate of 8.5%. In both countries, the fight against high inflation may hinder further growth in GDP.

Interest rate trends

Interest rates are likely to remain low in the U.S., Europe and Asia, and especially Japan. However, interest rate increases cannot be ruled out in certain countries in response to inflationary pressure. In most cases, emerging markets with high inflation will maintain their high interest rates.

Trends in the raw materials market

Raw material prices may increase slightly in 2012 in line with the modest 3% growth forecast for the global economy. Strong fluctuations are considered unlikely.

Projected development on the automobile markets

Europe's economic problems may lead to a decline in sales in certain Southern European markets. Sales are expected to remain stable in other European countries, such as Germany, however. Due to strongly-positive economic developments in growth markets like China, India and Russia, global automobile sales are expected to rise overall in 2012 nonetheless.

Czech Republic

The overall market in the Czech Republic is expected to remain at roughly the same level as in 2011.

Europe

Demand is forecast to remain stable, particularly in Germany, the ŠKODA brand's most important market in Western Europe. The Northern European countries will stagnate or decline slightly in 2012. The markets of Central Europe, on the other hand, will see moderate growth. The Russian market, which expanded rapidly in the recent year 2011 is going to grow in 2012 as well, but with significantly lower dynamics.

Overseas/Asia

The highly positive trend in the automobile markets of China and India will continue in 2012. The reasons for this lie in the sustained growth of these economies and their steadily growing domestic demand. ŠKODA AUTO will also be particularly active in these markets as part of its international growth strategy.

Overview of planned activities and targets

Technical development

In line with the ŠKODA growth strategy, technical development will continue to forge ahead with new innovations for existing model lines and the development of new models for market segments it does not currently serve. A new model is scheduled for presentation to the public on average every six months over the coming years.
In spring 2012, the new ŠKODA Citigo will also be introduced as

a five-door version at the Geneva Motor Show. The new compact sedan will come onto the European market in the second half of the year. ŠKODA will also step up its activities in the field of electro-mobility. Initial findings from the trial fleet of ten ŠKODA Octavia Green E Line models that has been on the roads since autumn 2011 will become available in 2012 and will serve as the basis for the further development of e-mobility at ŠKODA.
In 2012, ŠKODA Motorsport will compete not only in the IRC, but also, for the first time, in the European Rally Championship (ERC). The Kopecký/Dresler team will also take part in the Czech championship – which will strengthen ŠKODA Motorsports' presence on Czech racetracks. It is ŠKODA's declared goal to make 2012 just as successful as its record 2011.

Production and logistics
2012 will be dominated by preparations for the successful implementation of the ŠKODA growth strategy. The expansion of production capacity and its rigorous and efficient use for the manufacture of current and future models will play a key role – particularly in Russia, China and India. Measures to boost productivity remain a priority. Activities will focus specifically on the production of the ŠKODA Citigo and the ŠKODA Rapid in India. This year, the Mladá Boleslav plant will also be preparing for the ramp-up of a new engine generation, and the Vrchlabí plant will be equipped for production of the new DQ200 automatic transmission for launch in late 2012.

Environmental protection
Green Future – This concept will bring together all of ŠKODA AUTO's environmental-protection activities. In 2012, all key aspects relating to environmental protection will be concentrated here – in particular through the expansion of capacity in production and technical development – and will become part of an integrated process. This will also include consideration of legal requirements as well as proactive environmental protection measures.

Markets, sales and marketing
ŠKODA AUTO will strive to increase both its market share and sales volumes in its key markets in 2012. To reach these goals, it will focus in particular on the strategic growth markets of Russia, China and India, alongside its traditional markets. The market launch of the new ŠKODA Rapid in India and the global release of the ŠKODA Citigo will play a crucial role in achieving this aim.
In order to strengthen the ŠKODA brand in all relevant markets, the global rollout of the new corporate design across the entire dealer network will get underway in 2012. The dealer network will be further expanded in the brand's growth markets. The second phase of the "Human Touch Initiative" will also begin – with further improvements in customer orientation throughout the ŠKODA sales and service network.

Employees
ŠKODA AUTO will increase the size of its workforce once again in 2012. The aim is to create the right staffing conditions for the implementation of the Company's global internationalisation and growth strategy. ŠKODA AUTO has its sights set mainly on highly-skilled applicants with foreign language proficiency for assignments at various ŠKODA AUTO production facilities around the world. In addition to the recruitment of well-qualified new staff members, a further priority is to provide on-the-job training for as many employees as possible through targeted expansion of training options and the opening of new training facilities. Collaboration with foreign universities and more aggressive personnel marketing activities in Russia, China and India are another focal point. Plans also call for more intensive cooperation with the cities and regions where ŠKODA facilities are located.

Finance
ŠKODA AUTO aims to maintain its financial performance and its profitability in 2012. Various measures are designed to ensure the Company achieves these goals: for instance, by strengthening its position on the markets and clear differentiation from competitors through clever and innovative solutions across all processes. Product cost optimisation and maintaining the productivity will also contribute to the earning power. The focus will be on targeted cost and liquidity management through strict monitoring of cost targets, optimised use of working capital and continuous tracking of all investment and initial capital outlay goals.

Financial Section

Financial Section

Auditor´s report on the annual report and the report on relations

Independent auditor's report to the shareholder of ŠKODA AUTO a.s.

We have audited the financial statements of ŠKODA AUTO a.s., identification number 00177041, with registered office at Tř. Václava Klementa 869, Mladá Boleslav ("the Company") for the year ended 31 December 2011 disclosed in the annual report on pages 170 to 229 and issued the opinion dated 17 February 2012 and disclosed on pages 168 and 169. We have also audited the consolidated financial statements of the Company for the year ended 31 December 2011 disclosed on pages 108 to 167 and issued the opinion dated 17 February 2012 and disclosed on pages 106 and 107 (hereinafter collectively referred to as "the financial statements").

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 2011 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 2011 is consistent, in all material respects, with the financial statements.

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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.

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 2011 (the "Report"), disclosed in the annual report on pages 230 to 234. The completeness and accuracy of the Report is the responsibility of the Board of Directors of the Company. Our responsibility is to express our opinion on the Report based on performed review.

Scope of Review

We conducted our review in accordance with Audit standard 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the Report is free of material factual 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.

8 March 2012

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar
Partner

Petr Kříž
Statutory Auditor, Licence No. 1140

Note:
Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

Auditor´s report on the consolidated financial statements

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., identification number 00177041, with registered office at Tř. Václava Klementa 869, Mladá Boleslav ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2011, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes, including a summary of significant accounting policies ("the consolidated financial statements").

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal controls as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

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PricewaterhouseCoopers Audit, s.r.o., se sídlem Kateřinská 40/466, 120 00 Praha 2, IČ: 40765521, zapsaná v obchodním rejstříku vedeném Městským soudem v Praze, oddíl C, vložka 3637 a v seznamu auditorských společností u Komory auditorů České republiky pod oprávněním číslo 021.

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 of the financial statements that give a true and fair view 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 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

17 February 2012

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar
Partner

Petr Kříž
Statutory Auditor, Licence No. 1140

Note:
Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

Consolidated financial statements for the year ended 31 December 2011

Consolidated income statement for the year ended 31 December 2011 (CZK million)

	Note	2011	2010
Sales	**17**	**252,562**	**219,454**
Cost of sales	26	215,956	190,234
Gross profit		**36,606**	**29,220**
Distribution expenses	26	17,549	14,509
Administrative expenses	26	6,123	5,256
Other operating income	18	10,040	7,856
Other operating expenses	19	4,717	5,995
Operating profit		**18,257**	**11,316**
Financial income		2,757	1,112
Financial expenses		1,966	1,494
Financial result	**20**	**791**	**(382)**
Share on profit (+) / loss (-) of associates		227	(348)
Profit before income tax		**19,275**	**10,586**
Income tax expense	22	3,200	1,747
Profit for the year		**16,075**	**8,839**
Attributable to:			
Owner of the Company		16,035	8,781
Non-controlling interests		40	58
		16,075	**8,839**

The notes on pages 113 to 167 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2011 (CZK million)

	Note	2011	2010
Profit for the year		**16,075**	**8,839**
Cash flow hedges:			
Change in fair value in the period	12	(4,540)	(813)
Total transfers of fair value to net profit - effective hedging	12	(1,546)	188
Total transfers of fair value to net profit - ineffective hedging	12	8	(61)
Deferred tax	12	1,155	141
Exchange differences		**54**	**(40)**
Other comprehensive loss		**(4,869)**	**(585)**
Total comprehensive income for the year		**11,206**	**8,254**
Total comprehensive income attributable to:			
Owner of the Company		11,179	8,197
Non-controlling interests		27	57

The notes on pages 113 to 167 are an integral part of these consolidated financial statements.

Consolidated balance sheet as at 31 December 2011 (CZK million)

	Note	31 December 2011	31 December 2010
Assets			
Intangible assets	5	13,654	12,969
Property, plant and equipment	6	46,265	42,359
Investments in associates	7	940	662
Other receivables and financial assets	8	1,159	1,547
Deferred tax asset	14	2,668	1,327
Non-current assets		**64,686**	**58,864**
Inventories	9	16,061	14,408
Trade receivables	8	13,423	11,028
Prepaid income tax		60	89
Other receivables and financial assets	8	28,076	15,361
Cash and Cash equivalents	10	31,251	35,986
Current assets		**88,871**	**76,872**
Total assets		**153,557**	**135,736**

	Note	31 December 2011	31 December 2010
Equity and liabilities			
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Reserves	12	62,784	56,307
Equity attributable to owner of the Company		**81,071**	**74,594**
Non-controlling interests		140	178
Equity		**81,211**	**74,772**
Non-current financial liabilities	13	3,000	3,000
Other non-current liabilities	13	7,317	3,380
Non-current provisions	15	11,030	9,100
Non-current liabilities		**21,347**	**15,480**
Current financial liabilities	13	141	228
Trade payables	13	30,105	27,897
Other current liabilities	13	6,258	4,766
Current income tax liabilities		1,217	1,405
Current provisions	15	13,278	11,188
Current liabilities		**50,999**	**45,484**
Total equity and liabilities		**153,557**	**135,736**

The notes on pages 113 to 167 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2011 (CZK million)

	Note	Share capital	Share premium	Retained earnings	Other reserves*	Equity attributable to owner of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2010		**16,709**	**1,578**	**45,993**	**3,751**	**68,031**	**149**	**68,180**
Profit for the year		-	-	8,781	-	8,781	58	8,839
Change in fair value in the period	12	-	-	-	(813)	(813)	-	(813)
Total transfers of fair value to net profit - effective hedging	12	-	-	-	188	188	-	188
Total transfers of fair value to net profit - ineffective hedging	12	-	-	-	(61)	(61)	-	(61)
Deferred tax income	14	-	-	-	141	141	-	141
Exchange differences		-	-	-	(39)	(39)	(1)	(40)
Other comprehensive loss		**-**	**-**	**-**	**(584)**	**(584)**	**(1)**	**(585)**
Total comprehensive income for the year		**-**	**-**	**8,781**	**(584)**	**8,197**	**57**	**8,254**
Dividends paid	11	-	-	(1,634)	-	(1,634)	(28)	(1,662)
Transfer to statutory reserve fund		-	-	(172)	172	-	-	-
Balance as at 31 December 2010		**16,709**	**1,578**	**52,968**	**3,339**	**74,594**	**178**	**74,772**
Balance as at 1 January 2011		**16,709**	**1,578**	**52,968**	**3,339**	**74,594**	**178**	**74,772**
Profit for the year		-	-	16,035	-	16,035	40	16,075
Change in fair value in the period	12	-	-	-	(4,540)	(4,540)	-	(4,540)
Total transfers of fair value to net profit - effective hedging	12	-	-	-	(1,546)	(1,546)	-	(1,546)
Total transfers of fair value to net profit - ineffective hedging	12	-	-	-	8	8	-	8
Deferred tax income	14	-	-	-	1,155	1,155	-	1,155
Exchange differences		-	-	-	67	67	(13)	54
Other comprehensive loss		**-**	**-**	**-**	**(4,856)**	**(4,856)**	**(13)**	**(4,869)**
Total comprehensive income for the year		**-**	**-**	**16,035**	**(4,856)**	**11,179**	**27**	**11,206**
Dividends paid	11	-	-	(4,702)	-	(4,702)	(65)	(4,767)
Balance as at 31 December 2011		**16,709**	**1,578**	**64,301**	**(1,517)**	**81,071**	**140**	**81,211**

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

The notes on pages 113 to 167 are an integral part of these consolidated financial statements.

Consolidated cash flow statement for the year ended 31 December 2011 (CZK million)

	Note	2011	2010
Cash and cash equivalents as at 1 January	**16**	**35,986**	**34,809**
Profit before income tax		19,275	10,586
Depreciation and impairment of non-current assets	5.6	12,746	14,820
Change in provisions	15	3,875	3,244
Gain on disposal of non-current assets		(11)	(1)
Net interest (income) / expense	20	53	40
Change in inventories	9	(1,937)	(2,847)
Change in receivables		(3,701)	(3,831)
Change in liabilities		2,355	7,947
Income tax paid from operating activities		(3,561)	(2,294)
Interest paid		(531)	(458)
Interest received		652	490
Share on profit (-) / loss (+) of associates		(227)	348
Dividends income	20	(125)	-
Other adjustments for non-cash transactions		(612)	124
Cash flows from operating activities		**28,251**	**28,168**
Purchases of non-current assets		(13,558)	(9,763)
Additions to capitalised development costs	5	(3,306)	(3,093)
Increase in financial investments	7	-	(530)
Increase in deposits* made	8	(11,500)	(10,016)
Proceeds from sale of non-current assets		14	18
Proceeds from dividends		125	71
Cash flows from investing activities		**(28,225)**	**(23,313)**
Net cash flows (operating and investing activities)		**26**	**4,855**
Dividends paid		(4,767)	(1,662)
Repayment of bonds		-	(2,000)
Loans received	13	33	121
Repayments of loans received		(120)	(99)
Cash flows from financing activities		**(4,854)**	**(3,640)**
Net change in cash and cash equivalents		**(4,828)**	**1,215**
Exchange gains / (losses) on cash and cash equivalents		**93**	**(38)**
Cash and cash equivalents as at 31 December	**16**	**31,251**	**35,986**

* Deposits which do not meet criteria of cash equivalents according to IAS 7.

The notes on pages 113 to 167 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements 2011

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.

The organisational structure of the company is divided into the following main areas:
- Central management department
- Technical development
- Production and logistics
- Sales and marketing
- Commercial affairs
- Human resource management
- Purchasing

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 of Volkswagen International Finance N.V. included in the consolidation group of its ultimate parent company and its ultimate controlling party, VOLKSWAGEN AG ("Volkswagen Group"), with its registered office in Wolfsburg, the Federal Republic of Germany (for details 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 Compliance statement

The consolidated financial statements of ŠKODA AUTO a.s. ("the Company"), its subsidiaries and associates (together "the Group") for the year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") as at 31 December 2011.
The Company as a controlled entity is obliged to be part of consolidated financial statements of the Volkswagen Group in accordance with the International Financial Reporting Standards as adopted by the European Union. As a result and based on the Company's sole shareholder's decision and under the paragraph 19 a) Article 8 of Act No. 563/1991 Coll. on Accounting, the Group prepares the consolidated financial statements in accordance with IFRS as adopted by the European Union.
Refer to the Company information in the preceding note "Company information".

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 periods beginning on 1 January 2011

New standards, amendments, interpretations and improvements to existing standards mandatory for accounting periods beginning on or after 1 January 2011, which are applied by the Group:

IFRS	Standard/Interpretation	Effective	Description	Effect
IAS 24	Related Party Disclosures	1 January 2011	The main objective of the amendment is to provide a partial exemption from the disclosure requirements for government-related entities, and to clarify the definition of a related party. The amendment also clarifies the entity's obligation to disclose information about all commitments, associated with a related party, to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised).	The Amendment to IAS 24 had impact on the extent of disclosure of transactions with related parties. The Group has disclosed the unrecognised executory contracts with related parties as compared with the information disclosed in the notes to financial statements as at 31 December 2010.
IAS 1 (Improvement to IFRS 2010)	Presentation of Financial Statements	1 January 2011	The improvement to IAS 1 clarifies the requirement for the presentation and content of the Statement of Changes in Equity.	The improvement to IAS 1 had impact on the extent of the disclosure of the information in the Statement of changes in equity. The Group has disclosed separately Profit for the year and Other comprehensive loss as compared with the information disclosed in the financial statements as at 31 December 2010.
IFRS 7 (Improvement to IFRS 2010)	Financial Instruments: Disclosures	1 January 2011	The improvement to IFRS 7 clarifies the disclosure in the area of financial instruments.	The improvement to IFRS 7 had an impact on the extent of the disclosures of the information in the area of collateral and other credit enhancements of financial instruments. The Group has disclosed value of a secured receivable or value of the security, if it was lower.

* The effective dates express the dates effective for the Group.

New standards, amendments, interpretations and improvements to existing standards mandatory for accounting periods beginning on or after 1 January 2011, which are not applied by the Group as they are not relevant to the Group's operations:
New standards, amendments and interpretations to existing standards mandatory for accounting periods beginning on or after 1 January 2011:

IFRS	Standard/Interpretation	Effective	Description
IAS 32	Classification of Rights Issues	1 January 2011	The amendment deals with presentation of rights issues denominated in a currency other than the issuing entity's functional currency. The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.
IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011	The amendment removes an unintended consequence of IFRIC 14 arising from the treatment of prepayments of future contributions in some circumstances when there is a minimum funding requirement.
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 January 2011	The interpretation addresses the accounting in cases where all or part of the financial liability is extinguished by the debtor by issuing equity instruments to the creditor.

Improvements to International Financial Reporting Standards 2010 mandatory for accounting periods beginning on or after 1 January 2011 (issued in May 2010):

IFRS	Standard/Interpretation	Effective	Description
IFRS 3	Business Combinations	1 July 2010	Measurement of non-controlling interests. Un-replaced and voluntarily replaced share-based payment awards. Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS 3.
IAS 27	Consolidated and Separate Financial Statements	1 July 2010	Transition requirements for subsequent amendments arising as a result of IAS 27.
IAS 34	Interim Financial Reporting	1 January 2011	Significant events and transactions.
IFRIC 13	Customer Loyalty Programmes	1 January 2011	Fair value of award credits.

1.2.2 New standards, amendments and interpretations to existing standards published not yet effective for accounting periods beginning on or after 1 January 2011

New standards, amendments and interpretations to existing standards, which will be relevant for the Group but have not been early adopted by the Group:

IFRS	Standard/Interpretation	Effective	Description	Effect
IFRS 9	Financial instruments	1 January 2015	IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets and changes also some disclosure requirements as set out by IFRS 7. Per IFRS 9, all financial assets, currently within scope of IAS 39, are required to be classified into two measurement categories – those to be measured subsequently at amortised cost, and those to be measured subsequently at fair value.	The Group expects that the new IFRS 9 will have impact on classification, measurement and disclosure of financial instruments in the notes to the financial statements. However, without a detailed analysis it is not possible to perform reliable estimate of such impact as at the date of the financial statements. The Group does not expect early adoption of the standard, while the transition to IFRS 9 will probably take place after 1 January 2015. The disclosure of information in the area of financial instruments will be ruled by IFRS 7 §44S-44W.
IFRS 13	Fair value measurement	1 January 2013	Aim of the new standard is to reduce complexity, improve consistency and clarify approach to disclosure of items in the financial statements carried at fair value. The standard clearly defines fair value and gives instruction for its application in case the fair value measurement is required or allowed by another IFRS. A definition of the fair value and a single source of fair value measurement and disclosure requirement for use across IFRSs.	The Group expects that the new standard IFRS 13 will not have significant impact on the measurement of items carried at fair value. However, without a detailed analysis it is not possible to confirm this estimated impact.
IAS 1	Presentation of Financial Statements	1 July 2012	The amendments deal with disclosure of items presented in other comprehensive income. The amendments newly require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. Information to the user will be provided what proportion of total comprehensive income will be never reclassified to profit of loss for the period.	The Group expects that the amendments to IAS 1 will have impact on the extent of the disclosure of information in the Statement of comprehensive income.
IAS 19	Employee benefits	1 January 2013	Amendment to IAS 19 makes to the recognition and measurement of defined benefit pension expense and termination benefits. The standard requires recognition of all changes in the defined benefit liability and assets of the plans when they occur, introduces extended disclosures for termination benefits and clarifies many issues including classification of employee benefits.	The Group expects that the amendment to IAS 19 will have impact mainly on presentation of benefits upon employment termination. However, without a detailed analysis it is not possible to perform reliable estimate of such impacts at the date of the financial statements.

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

IFRS	Standard/Interpretation	Effective	Description
IFRS 7	Financial Instruments: Disclosures Transfers of Financial Assets	1 July 2011	The amendment enhances the disclosure requirements related to transactions including a transfer of financial assets.
IFRS 7	Disclosure: Offsetting Financial Assets and Financial Liabilities	1 January 2013	The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.
IFRS 10	Consolidated Financial Statements	1 January 2013	IFRS 10 Consolidated Financial Statements replaces previous IAS 27 and SIC-12. The new standard follows up the current principles to determine control, focuses on clarification of the definition of control, while the rules for status of control are substantially extended.
IFRS 11	Joint Arrangements	1 January 2013	IFRS 11 fully replaces IAS 31 and SIC-13. Substantial change introduced by the new standard is elimination of jointly controlled assets and elimination of proportionate consolidation.
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013	IFRS 12 deals with all disclosure requirements in respect of interests held in other reporting entities and replaces the previous standard IAS 27. The scope of the standard includes interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities (formerly "special purpose entities").
IAS 12	Deferred tax: Recovery of Underlying Assets	1 January 2012	The amendment provides an exception to the general principle as per IAS 12 for deferred tax assets and deferred tax liabilities arising from investment property carried at fair value as per IAS 40 or property, plant and equipment or intangible assets measured using the revaluation model as per IAS 16 or IAS 38.
IAS 27	Separate Financial Statements	1 January 2013	This standard replaces previous standard IAS 27. Requirements for separate financial statements remained without changes. Other parts of IAS 27 were replaced by IFRS 10.
IAS 28	Investments in Associates and Joint Ventures	1 January 2013	The amendment of IAS 28 modified the standard so that changes resulting from issuance of standards IFRS 10, IFRS 11 and IFRS 12 are reflected.
IAS 32	Financial Instruments : Offsetting Financial Assets and Financial Liabilities	1 January 2014	The amendments to IAS 32 deals with offsetting financial assets and liabilities. If clarifies condition under which the offsetting may be applied.
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	The new interpretation IFRIC 20 deals with presentation of stripping costs in the Production Phase of a Surface Mine, the initial measurement and subsequent measurement of the stripping activity asset.

New standards, amendments and interpretations disclosed in Note 1.2.2 have not yet been adopted by the European Union, except for the amendment to IFRS 7 Financial Instrument: Disclosures – Transfers of Financial Assets.

1.3 Reclassification of presented items, changes in accounting policies and comparative amounts

1.3.1 Reclassification of cash equivalents in the balance sheet

Due to more accurate presentation of cash equivalents* in the balance sheet in relation to their reconciliation to the figures reported in the cash flow statement, effective from 1 January 2011 this accounting category has been transferred from balance sheet line Other receivables and financial assets to balance sheet line Cash and Cash equivalents.

The impact of the reclassification of cash equivalents on the reported data for the comparative period 2010 is shown in the following table:

CZK million	Data reported for comparative accounting period 2010 in balance sheet as at 31 December 2011	Data reported for current accounting period 2010 in balance sheet as at 31 December 2010	Difference
Other receivables and financial assets	15,361	41,023	(25,662)
Cash and Cash equivalents	35,986	10,324	25,662

As at 1 January 2010, after the reclassification of the cash equivalents, the value of balance sheet line Other receivables and financial assets would be CZK 3,747 million and the value of balance sheet line Cash and Cash equivalents would be CZK 34,809 million.

* Short-term deposits in Volkswagen Group companies with the original maturity not exceeding 3 months have been reported as cash equivalents by the Group in 2011 and in 2010.

1.3.2 Change of presentation of reversals of provisions and accruals

Effective from 1 January 2011, there has been a change in accounting policy for presentation of reversals of excess provisions and accruals, in order to increase transparency by disclosing the amounts reversed separately, instead of netting them against expenses relating to the additions to provisions and accruals. In the financial statements of the Group for the accounting period beginning on 1 January 2011, the reversals of excess provisions and accruals are recognised as part of other operating income. (In the consolidated financial statements of the Group for the accounting period beginning on 1 January 2010, the reversals of excess provisions and accruals were disclosed in the same accounting categories as their additions and utilisation).

As a result of the above-mentioned fact, the reported comparative figures have been changed with impact on the income statement and on the data stated in the notes to the separate financial statements 2011 (in Note 17 Sales, in Note 18 Other operating income and in Note 26 Expenses by nature).

The following table specifies the impact of the change of the accounting policy for reversals of excess provisions and accruals on comparative figures in the income statement for the year ended 31 December 2011:

CZK million	Data reported for comparative accounting period 2010 in income statement for the year ended 31 December 2011	Data reported for current accounting period 2010 in income statement for the year ended 31 December 2010	Difference
Sales	**219,454**	**220,005**	**(551)**
Cost of sales	190,234	189,260	974
Gross profit	**29,220**	**30,745**	**(1,525)**
Distribution expenses	14,509	14,403	106
Administrative expenses	5,256	5,203	53
Other operating income	7,856	6,172	1,684

In the notes to the consolidated financial statements the comparative figures for 2010 have been changed, in Note 4 Information about region the item Sales - based on location of customers in the column Czech Republic has been decreased by CZK 124 million from value CZK 21,966 million to CZK 21,842 million and the item in column Germany has been decreased by CZK 427 million from value CZK 54,251 million to CZK 53,824 million. In Note 17 Sales, the line Cars has been decreased by CZK 464 million from value CZK 185,112 million to CZK 184,648 million and the line Spare parts and accessories has been decreased by CZK 87 million from value CZK 17,335 million to CZK 17,248 million. Due to the change in the presentation of the reversals of excess provisions and accruals, total sales have decreased by CZK 551 million.
In addition, comparative figures for 2010 have been changed in Note 18 Other operating income. The separate item Reversal of excess provisions and accruals has been added with the reported amount of CZK 1,684 million.
The impact of the change of the accounting policy for reversals of excess provisions and accruals on the comparative figures in Note 26. Expenses by nature is shown in the following table:

CZK million	Data reported for comparative accounting period 2010 in the notes to the consolidated financial statements for the year ended 31 December 2011	Data reported for current accounting period 2010 in the notes to the consolidated financial statements for the year ended 31 December 2010	Difference
Material costs - raw materials and other supplies, goods	**148,720**	**148,460**	**260**
Production related services	**12,387**	**11,721**	**666**
Personnel costs	**16,031**	**15,968**	**63**
Wages	12,128	12,065	63
Pension benefit costs (defined contribution plans)	2,226	2,226	-
Social insurance and other personnel costs	1,677	1,677	-
Depreciation, amortisation and impairment losses	**14,820**	**14,820**	**-**
Other services	**18,041**	**17,897**	**144**
Total cost of sales, distribution and administrative expenses	**209,999**	**208,866**	**1,133**

2. Basis of preparation of consolidated financial statements

These consolidated financial statements have been prepared under the historical cost convention, except for fair value measurement of available-for-sale financial assets, of financial assets and financial liabilities at fair value through profit or loss and of 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 their 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 associates.
See the "Company information" note on page 10 for the Company's details.

Subsidiaries are those companies and other entities (including special purpose entities) in which a parent company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits.
The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. These companies ("subsidiaries") are fully consolidated from the date on which the control is transferred to the Group and are deconsolidated from the date that control ceases.
The significant subsidiaries of the Company are as follows:
- ŠKODA AUTO 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 ŠKODA AUTO a.s. exercises significant influence in the associates (see Note 7):
- OOO VOLKSWAGEN Group Rus,
- ŠKO-ENERGO FIN, s.r.o.

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 transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values as at the acquisition date, irrespective of the extent of any non-controlling interest.
Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.
The Group measures non-controlling interest on a transaction-by-transaction basis, at the non-controlling interest's proportionate share of net assets of the acquiree.
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 associates are accounted for using the equity accounting and are initially recognised at cost. The Group's investment in associates 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 other comprehensive income is recognised in other comprehensive income. 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 of the Company and presentation currency of the Group

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 Czech crowns (CZK), which is the Company's functional and presentation currency.
Foreign currency transactions of the Company are translated into the functional currency using the exchange rates published by the Czech National Bank prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates published by the Czech National Bank are recognised in the income statement.

2.3.2 Foreign subsidiaries and associates

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´ other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognised in the income statement as part of the gain or loss on sale.
Foreign subsidiaries and associates 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 as 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;
- All resulting exchange differences are recognised as a separate component of other comprehensive income;
- 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.

	CZK/Currency	2011	2010
Balance sheet foreign exchange rate as at 31 December			
Poland	PLN	5.789	6.308
India	INR	0.376	0.419
Slovakia, Germany	EUR	25.800	25.060
Russia	RUB	0.618	0.613

2.4 Intangible assets

Purchased intangible assets are recorded at cost less cumulative amortisation and impairment losses. All research costs are recognised as expenses within the income statement 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 losses. 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. Tooling rights are capitalised as intangible assets. Capitalised costs include all direct costs as well as an appropriate portion of development-related overheads.
The cost of qualifying intangible assets also includes borrowing costs represented by interest and other costs that an entity incurs in connection with borrowing funds. A qualifying asset is an asset that necessarily takes at least one year to get ready for its intended use.
The Group ceases capitalising borrowing costs when the qualifying asset is ready for its intended use or sale.
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 aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date over the fair value of the net assets of the acquiree. 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.
Intangible assets are amortised applying the straight-line method over their estimated useful lives as follows:

- Capitalised development costs — 2 – 10 years according to the product life cycle
- Software — 3 years
- Tooling rights — 8 years
- Other intangible fixed assets — 3 – 5 years

Estimated useful lives and depreciation method are reviewed at the end of each accounting period, the effect of any changes in estimates are accounted for prospectively.
Intangible assets not yet available for use are tested annually for possible 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 cumulative depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.
All repairs and maintenance 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.
The cost of qualifying tangible assets also includes borrowing costs represented by interest and other costs

that an entity incurs in connection with borrowing of funds. A qualifying asset is an asset that necessarily takes at least one year to get ready for its intended use. The Group ceases capitalising of borrowing costs when the qualifying asset is ready for its intended use or sale.
Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives as follows:

– Buildings	9 – 50 years
– Technical equipment and machinery (incl. special tooling)	2 – 18 years
– Other equipment, operating and office equipment	3 – 25 years

Estimated useful lives and depreciation method are reviewed at the end of each accounting period, the effect of any changes in estimates are accounted for prospectively.

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 in 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 of the Group determines the classification of its financial assets at initial recognition.

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 of the Group. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains 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 periods 2011 and 2010, the Group only had financial derivatives within this category (Note 2.7.3).

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 income or expenses. In the accounting period 2011 (2010), the Group only had, within the category of available-for-sale financial assets 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 prices in an active market and their fair value cannot 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 creation 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 held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial liabilities 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 2011 (2010), the Group only had financial derivatives in this category (Note 2.7.3).

b) Financial liabilities measured at amortised cost

Financial 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 currency and price 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 highly probable future transactions caused by changes in foreign exchange spot rates and other price changes (arising especially from the combination of commodity and currency risk).

The changes in the spot component of currency financial derivatives that qualify as effective cash-flow hedging instruments are recognised in other comprehensive income. The changes in the forward points component of currency financial derivatives that qualify as effective cash-flow hedging instruments are recognised as a gain or loss in the income statement.

The changes in fair value of commodity swaps that qualify as effective cash-flow hedging instruments are recognised in other comprehensive income.

The cumulative balances recognised in other comprehensive income are recycled into the income statement as a gain or loss in the periods when the hedged item affects the income statement. If the timing of the hedged cash flow is deferred, in compliance with its hedging strategy the Group prolongs the maturity of the original hedging instrument. In such case the spot component of the original derivative contract is held in equity until the hedged item affects the income statement. At this moment, the balance of the spot component is recycled from other comprehensive income to the income statement and recognised as a gain 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 previously recognised in other comprehensive income from the effective part of the hedging instrument at that time remains in other comprehensive income and is reclassified to income statement 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 other comprehensive income is immediately transferred to 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 net present value of future cash flows. The fair value of currency forwards and swaps is determined as the present value of future cash flows based on forward exchange market rates as at the balance sheet date. The fair value of commodity swaps is calculated as the present value of future cash flows based on the rates of LME (London Metal Exchange).

2.8 Current and deferred income tax

The income tax expense consists of current income tax and deferred income tax. The tax expense is recognised in the income statement with the exception of cases when it relates to items recognised in other comprehensive income or directly in equity. In such cases the current income tax and deferred income tax are recognised in other comprehensive income or directly in equity.

2.8.1 Current income tax

Tax liabilities (receivables) due for the current period and preceding periods are recognised in the amount of expected payments to or claims from tax offices, using the tax rates (and tax laws) valid in respective period. Current income tax relating to the current accounting period and to preceding periods reduced by amount already paid is recognised as a liability. If the amount already paid in the current and in preceding periods exceeds current income tax related to these periods, the difference is recognised as an asset.

2.8.2 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 or 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 tax is 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 in other comprehensive income (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges) is recognised directly in other comprehensive income.
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, 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.

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;
- other long-service benefits.

The entitlement to these benefits is usually conditional on the employee remaining in service for a certain service period, or up to the moment of a certain work anniversary of the employee. The amount of provision corresponds with the present value of the long-term employee benefits, for past service at the balance sheet date, determined 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 arising from their settlement using interest rates equalling market yield of treasury bonds because there is no deep market of high-quality corporate bonds denominated in CZK. The term and currency of these corporate or treasury bonds are consistent with the currency and term 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. Discounting is based on current market interest rates.
Where there is a number of similar obligations, the likelihood that an outflow occurs upon the 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 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.
The revenues from one-off licences are recognised in compliance with relevant contractual provisions at time of transfer of intellectual rights alternatively at time of provision of technical documentation, or technical support . Revenues from per-piece licences are recognised based on the number of cars produced in the current accounting period. 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, depreciation and impairment charges for capitalised development costs and production equipment 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.
Other operating income includes also income from reversals of excess provisions and accruals.

2.13 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.

2.14 Investment incentives and subsidies

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 reduction in the value of tangible and intangible assets.

2.15 Related parties

A related party is a person that has control or joint control over the reporting entity; has significant influence over the reporting entity; or is member of the key management personnel of the reporting entity or of a parent of the reporting entity. A related party is also an entity which is a member of the same group as the reporting entity and other entities as defined by IAS 24 article 9 par. b.

2.16 Share capital

The substance of a financial instrument, rather than its legal form, governs its classification in the Group´s statement of financial position. Ordinary shares are classified as share capital. The Group typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties.
The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

Share premium is represented by the difference between the nominal value of shares issued on share capital increase and the market price of shares and is recognised within equity.

2.17 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.

Capitalisation of development costs

The Group continuously invests in research and development of new products, which are either developed internally within the Company's research and development centre or within the Volkswagen Group. In compliance with IAS 38, for each development project the Group performs an assessment whether the project meets the development costs recognition criteria, especially the probability that the asset will generate future economic benefits. The Group's assessment is based on assumptions and estimates for the next five and more years with respect to the products future sales, development of the individual markets and automotive industry itself. Although the Group's analyses are based on the best currently available information, the risk of future changes and uncertainty with respect to future development of the assumptions applied remain significant. Please refer to Note 5 for additional information including the respective amounts.

Impairment of non-current assets

In the course of the product life cycle and in exceptional situations also before its commencement, there may be circumstances which indicate that "cash generating units" (tangible and intangible assets employed for production of vehicles of a certain model) might have suffered impairment. To determine any possible impairment, the Group estimates value in use of the cash generating units which is calculated as discounted expected future cash flows associated with the employment of the cash generating units. For determination of the estimated future cash flows, the Group applies estimates and assumptions regarding future sales of a particular product, economic development of the individual markets and development of the automotive industry during the next five and more years. Although the Group estimates the value in use of the cash generating units based on the best information and data currently available to the Group, the risk of future changes and uncertainty with respect to the future development of the applied assumptions in the following years remains significant. More detailed information about impairment losses is included in Note 5 and Note 6 in the section Impairment reviews.

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 good-will repairs (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 costs from previous calendar years of the model production. The amount of the provision for good-will repairs is determined on the basis of a management estimate of existing good-will repair costs and defined strategy of the good-will repair 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.

Provision for litigation risks

Certain events relating to the economic activities of the Group might result in disputes resolved in court and out-of-court proceedings. The risk that future cash outflows will be required to settle the claim (damages, court fees etc.) is assessed by the Group once it becomes involved in any court or out-of-court proceedings. The risk is assessed based on Group's experience with similar legal actions, reflecting the latest developments in the proceedings. A provision is recognised if it is more likely than not that an outflow of economic benefits occurs in the future. The provision is measured based on the best estimate of the expected future cash outflows. Please refer to Note 15 for additional information.

Useful lives

The estimated useful lives of individual tangible and intangible assets or classes of assets are determined based on the Group's experience with similar assets and in accordance with the expected future economic benefits of the assets, taking into account also changes in production plan and expected utilisation of these assets.

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 minimise these risks through application of flexible hedging strategy with utilisation of various instruments. The structure of risk management in the Company is based on unified principle of risk management applied in the Volkswagen Group. The Volkswagen Group's risk management principles are in compliance with requirements of German Act on Control and Transparency in Enterprises (KonTraG).

In compliance with the Volkswagen Group policy all hedging operations are agreed and implemented in cooperation with the Treasury department of the Volkswagen Group.

Management of the Company is regularly informed of the current financial and other related risks (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.

3.1 Credit risk

Credit risk is a risk that one party to a financial instrument will cause a financial loss to 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 with the financial market transactions (money market, currency conversion, derivatives transactions, etc.). Credit risk arising from operations on the financial market is managed by the Group Treasury through determination of maximal limits for individual counterparties.

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. 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. Adhering to these limits is monitored and 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 and Volkswagen Group entities. Receivables are secured by

preventative and supplemental instruments.
Receivables are secured by preventative security instruments used mainly when the customer contracts are concluded. Interest on default payments is incorporated in the written contracts as an obligatory security instrument. Selected trade receivables are secured by an ownership title until full settlement of the purchase price.
Trade receivables from Volkswagen Group companies and from associates are considered to bear the least risk. Therefore the supplies of goods are performed with payment at maturity, or the supplies are covered by payment in advance, or the receivables are transferred to a factor through factoring.
Trade receivables from customers located abroad include receivables from general importers and other customers. The receivables from general importers are secured by the following instruments: payments in advance, letters of credit, documentary collection, bank guarantees, standby letters of credit and transfer of receivables to factoring. The immaterial part of receivables from other customers arises on supplies realised with settlement at maturity.
Receivables from domestic customers are divided into two groups: receivables from contractual partners bound by sales or service agreements, and from other domestic customers. The receivables arising from sales of new and used vehicles to contractual partners are transferred to factoring. Credit limits are set up for the supplies of new and used vehicles, original parts and accessories. The deliveries of goods are automatically blocked in case the customer fails to settle outstanding balances on maturity and upon the set limit is exceeded. The immaterial part of supplies to other domestic customers is realised with settlement at maturity.
Different combinations of the following instruments are used as an additional security of high-risk receivables: acknowledgements of debt, payment schedules, bills of exchange, pledges, or executory note.
Loans to employees are secured by other employee guarantees.
As at 31 December 2011 (as at 31 December 2010) the Group did not hold 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 2011			
	Non-impaired financial assets not yet due	**Non-impaired financial assets past due**	**Impaired financial assets**	**Total**
Loans to employees	542	-	-	542
Deposits in companies within Volkswagen Group	49,088	-	-	49,088
Positive fair value of financial derivatives	1,851	-	-	1,851
Others	457	-	-	457
Trade receivables	12,010	1,393	20	13,423
Cash	3,703	-	-	3,703
Total	**67,651**	**1,393**	**20**	**69,064**

	Carrying amount as at 31 December 2010			
	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Loans to employees	491	-	-	491
Deposits in companies within Volkswagen Group	35,678	-	-	35,678
Positive fair value of financial derivatives	2,576	-	-	2,576
Others	117	-	-	117
Trade receivables	9,548	1,368	112	11,028
Cash	10,324	-	-	10,324
Total	**58,734**	**1,368**	**112**	**60,214**

The Line Deposits in Volkswagen Group companies includes deposits with original maturity from three months to one year in total amount of CZK 21,540 million (as at 31 December 2010: CZK 10,016 million) included in balance sheet in the Line Other receivables and financial assets (see Note 8), and deposits with original maturity less than three months in total amount of CZK 27,548 million (as at 31 December 2010: CZK 25,662 million) included in balance sheet in the Line Cash and cash equivalents (see Note 10).
In the following table, the reported figures represent either book value of secured trade receivables, or the secured amount of the trade receivables if this amount is lower, determined individually for each instrument:

CZK million	2011	2010
Retention of legal ownership title to sold inventories	2,403	1,508
Bank guarantees	1,761	1,468
Letters of credit	1,230	1,154
Documentary collection	235	201
Accepted deposit	19	15
Total	**5,648**	**4,346**

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 2011 (2010), the Group did not identify a significant risk concentration on the basis of distribution region.
A significant portion of financial assets is of an intra-group nature. The Group deposited free cash through intra Group companies (as in 2010). The total volume of short-term deposits with intra-group companies amounted to CZK 49,811 million as at 31 December 2011 (as at 31 December 2010: CZK 40,473 million), out of which:

- deposits with original maturity from three months to one year included in balance sheet in the Line Other receivables and financial assets (see Note 8) in total amount of CZK 21,540 million (as at 31 December 2010: CZK 10,016 million),
- deposits with original maturity less than three months included in balance sheet in the Line Cash and cash equivalents (see Note 10) in total amount of CZK 27,548 million (as at 31 December 2010: CZK 25,662 million), and
- overnight deposits from cash pooling included in balance sheet in the Line Cash and cash equivalents (see Note 10) in total amount of CZK 723 million (as at 31 December 2010: CZK 4,795 million).

In 2011 (2010) the Group did not consider it probable that a default could occur in connection with the free cash deposited. Possible risk of unpaid receivables from third parties was individually not significant (spread between various debtors and regions).

3.1.3 Credit quality of financial assets neither past due nor impaired (CZK million)

The Group uses the following criteria when setting ratings of financial assets that are neither past due nor impaired. Solvency class 1 includes receivables, loans to related parties, secured receivables from third parties and receivables that will be subject to factoring without recourse. There is no objective evidence indicating impairment of these receivables. 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).

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2011			
Loans to employees	542	-	542
Deposits in companies within Volkswagen Group	49,088	-	49,088
Positive fair value of financial derivatives	1,851	-	1,851
Other receivables and financial assets	457	-	457
Trade receivables	10,743	1,267	12,010
Cash	3,703	-	3,703
Total	**66,384**	**1,267**	**67,651**

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2010			
Loans to employees	491	-	491
Deposits in Volkswagen Group companies	35,678	-	35,678
Positive fair value of financial derivatives	2,576	-	2,576
Other receivables and financial assets	117	-	117
Trade receivables	8,434	1,114	9,548
Cash	10,324	-	10,324
Total	**57,620**	**1,114**	**58,734**

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

	Months past due			
	Less than 1 month	1 – 3 months	More than 3 months	Total
Trade receivables				
Balance as at 31 December 2011	**935**	**158**	**300**	**1,393**
Balance as at 31 December 2010	776	470	122	1,368

Receivables more than 3 months past due are represented mainly by receivables from Volkswagen Group companies. The Group did not identify any need for impairment of these receivables. Out of the total amount of receivables from group companies which were past due as at 31 December 2010 (CZK 1,161 million), CZK 24 million were still not paid as at 31 December 2011.

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:

	2011	2010
Other receivables and financial assets		
Gross balance as at 31 December	152	156
Valuation allowance:		
Balance as at 1 January	(156)	(161)
Additions	-	-
Utilised	-	-
Released	4	5
Balance as at 31 December	**(152)**	**(156)**
Net balance as at 31 December	-	-
Trade receivables		
Gross balance as at 31 December	385	495
Valuation allowance:		
Balance as at 1 January	(383)	(471)
Additions	(57)	(100)
Utilised	27	55
Released	48	133
Balance as at 31 December	**(365)**	**(383)**
Net balance as at 31 December	20	112

During the accounting period 2011 (2010) the Group had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2011 (2010) the Group had valuation allowances only on financial assets included in the category of loans and receivables.

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 and its development 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.

Cash management

Since 2010, when the Company was integrated into the "Global Treasury Platform" of Volkswagen Group (GTP) which is operated by Volkswagen Group Services (VGS) located in Brussels, centralisation and optimalisation of processes is ensured within the Volkswagen Group in the areas of cash management, payments system and liquidity management.
The GTP implementation resulted in changes in the system of outgoing and incoming payments. The outgoing payments are processed on behalf of the Group by VGS, based on payment orders placed by the Company and are transferred from a bank account held by VGS. The incoming payments are credited to Group's bank accounts and subsequently at the end of each working day they are automatically transferred to VGS'

bank accounts (master account). Terms of such transactions are defined within the cash pooling concept agreed upon between the Company, the bank and VGS.
All incoming payments are translated into Czech crowns and credited to the Group's bank account at the "Inhouse Bank" (IHC) operated by VGS, where the differences between debit and credit balances on the collected financial resources are netted-off.
Major instruments of the Group used to maintain sufficient liquidity resources are represented by short-term and long-term financial plans, coordination of free liquidity management within the GTP, active cooperation with banks (credit lines) and monitoring of the situation at money market and capital market. Sufficient resources of liquidity are ensured mainly through resources from other Volkswagen Group companies integrated into the GTP and, to a limited extent, through credit lines arranged with external banks.
The total amount of credit lines from banks as at 31 December 2011 was CZK 9,583 million (as at 31 December 2010: CZK 11,853 million) out of which CZK 700 million was withdrawn in Czech crowns and CZK 8,883 million was withdrawn in foreign currency (INR 2,030 million, PLN 20 million and EUR 310 million). The Group has not utilised any agreed bank credit lines as at 31 December 2011 (as at 31 December 2010: CZK 0 million). The credit line from the Volkswagen Group in the total amount of CZK 3,000 million was drawn in the whole amount as at 31 December 2011 (as at 31 December 2010).

Contractual maturity analysis (undiscounted amounts in CZK million)

	Less than 3 months	3 – 12 months	1 – 5 years	Longer than 5 years	Total
Balance as at 31 December 2011					
Cash	3,703	-	-	-	3,703
Deposits in companies within Volkswagen Group	43,627	5,516	-	-	49,143
Other receivables and financial assets (except derivatives)	420	143	364	94	1,021
Trade receivables	12,111	1,312	-	-	13,423
Financial liabilities	(172)	-	(3,276)	-	(3,448)
Trade payables	(26,128)	(3,562)	(115)	-	(29,805)
Derivatives with positive fair value:					
Currency forwards and swaps					
Inflow of financial resources	4,305	20,500	13,913	-	38,718
Outflow of financial resources	(4,125)	(19,567)	(13,292)	-	(36,984)
Commodity swaps	5	10	92	-	107
Derivatives with negative fair value:					
Currency forwards and swaps					
Inflow of financial resources	11,642	26,496	65,514	-	103,652
Outflow of financial resources	(12,419)	(28,534)	(70,891)	-	(111,844)
Commodity swaps	(14)	(48)	(102)	-	(164)
Total	**32,955**	**2,266**	**(7,793)**	**94**	**27,522**

Contractual maturity analysis (undiscounted amounts in CZK million)

	Less than 3 months	3 – 12 months	1 – 5 years	Longer than 5 years	Total
Balance as at 31 December 2010					
Cash	10,324	-	-	-	10,324
Deposits in companies within Volkswagen Group	25,692	10,052	-	-	35,744
Other receivables and financial assets (except derivatives)	116	143	319	79	657
Trade receivables	8,660	2,368	-	-	11,028
Financial liabilities	(138)	(121)	(3,414)	-	(3,673)
Trade payables	(24,446)	(2,983)	-	-	(27,429)
Derivatives with positive fair value:					
Currency forwards and swaps					
Inflow of financial resources	8,439	24,678	33,894	-	67,011
Outflow of financial resources	(8,138)	(23,671)	(33,128)	-	(64,937)
Commodity swaps	25	71	269	-	365
Derivatives with negative fair value:					
Currency forwards and swaps					
Inflow of financial resources	5,227	13,730	30,446	-	49,403
Outflow of financial resources	(5,507)	(14,423)	(31,775)	-	(51,705)
Total	**20,254**	**9,844**	**(3,389)**	**79**	**26,788**

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 Group 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 and currency swaps are used as hedging instruments for elimination of currency risk. 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 financial products (derivatives). Contracts are concluded upon the Company's request and in its name by the Treasury Department of the Volkswagen Group. The risk resulting from changes in exchange rates against CZK is hedged for a total of 11 currencies. The most important trading currencies are USD, EUR, GBP, CHF, PLN and RUB. 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 instrument 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 cash deposits at Volkswagen Group companies.
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, especially commodity prices (apart from that which result from currency risk and interest risk).
Due to the continuous volatility in the prices of the raw material commodities 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.
In 2011 (2010), the Group was hedging against price risks in general (as a consequence of changes in particular commodity prices and foreign exchange rates) through commodity swaps (for copper and aluminium) and currency forwards. Those financial derivatives are subject to hedge accounting — hedging of future cash flows. The Group had in 2011 (2010) no significant trading derivatives.
The Group had in 2011 (2010) no significant trading derivatives.

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 2011		Balance as at 31 December 2010		Balance as at 31 December 2011		Balance as at 31 December 2010	
	With positive fair value	With negative fair value	With positive fair value	With negative fair value	Positive	Negative	Positive	Negative
Currency instruments								
Currency forwards - cash flow hedging	36,895	107,628	63,608	49,419	1,696	6,493	2,123	2,231
Currency swaps - cash flow hedging	1,632	4,193	1,709	2,076	50	277	94	113
Commodity instruments								
Commodity swaps - cash flow hedging	1,243	1,468	1,475	-	105	160	359	-
Total	**39,770**	**113,289**	**66,792**	**51,495**	**1,851**	**6,930**	**2,576**	**2,344**

The fair values of financial derivatives fulfil the criteria of level 2 in compliance with the IFRS 7 hierarchy (the fair values are derived from market quotations of forward exchange rates, commodity prices and yield curves, however the financial derivatives are not directly traded on active financial markets).

Volume of hedged cash flows (CZK million)

Balance as at 31 December 2011	Volume of hedged cash flows		
	Within 1 year	1 – 5 years	Total
Currency risk exposure			
Hedging of future cash flows - future receivables	49,167	70,354	119,521
Hedging of future cash flows - future liabilities	(15,289)	(10,596)	(25,885)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows - future liabilities	(609)	(1,921)	(2,530)
Total	**33,269**	**57,837**	**91,106**

Balance as at 31 December 2010	Volume of hedged cash flows		
	Within 1 year	1 – 5 years	Total
Currency risk exposure			
Hedging of future cash flows - future receivables	33,295	51,404	84,699
Hedging of future cash flows - future liabilities	(18,026)	(12,517)	(30,543)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows - future liabilities	(490)	(1,077)	(1,567)
Total	**14,779**	**37,810**	**52,589**

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), with countries using USD as transaction currency. 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 analysis of exposure arising from derivative financial assets and liabilities and 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 compared to those published by Czech National Bank. In 2011 the Group considers the movements of exchange rates EUR, USD, CHF and GBP against CZK in the following period +10% (appreciation of CZK) and -10% (depreciation of CZK) as possible. In 2010 the Group considered the movements of exchange rates of EUR, USD, CHF and GBP against CZK in the following period of +10% (appreciation of CZK) and -10% (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 tables present possible impact on profit and loss and on equity before tax of expected possible appreciation or depreciation of CZK to foreign currencies:

2011 (CZK million)	**CZK appreciation by 10%**					
	EUR	**USD**	**CHF**	**GBP**	**Other currencies**	**Total**
Income statement						
Non-derivative financial instruments	767	(84)	(10)	5	(400)	278
Derivative financial instruments	10	(41)	2	(68)	(83)	(180)
Equity						
Derivative financial instruments	(2,510)	2,307	2,436	3,323	3,739	9,295

2011 (CZK million)	**CZK depreciation by 10%**					
	EUR	**USD**	**CHF**	**GBP**	**Other currencies**	**Total**
Income statement						
Non-derivative financial instruments	(767)	84	10	(5)	400	(278)
Derivative financial instruments	(10)	41	(2)	68	83	180
Equity						
Derivative financial instruments	2,510	(2,307)	(2,436)	(3,323)	(3,739)	(9,295)

2010 (CZK million)	CZK appreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	995	(105)	-	-	(272)	618
Derivative financial instruments	45	(39)	(14)	(75)	(72)	(155)
Equity						
Derivative financial instruments	(2,608)	1,598	1,700	2,270	2,658	5,618

2010 (CZK million)	CZK depreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	(995)	105	-	-	272	(618)
Derivative financial instruments	(45)	39	14	75	72	155
Equity						
Derivative financial instruments	2,608	(1,598)	(1,700)	(2,270)	(2,658)	(5,618)

3.4.2 Sensitivity to interest rates

The Group is exposed to interest risk mainly in relation to short-term deposits provided to Volkswagen Group companies.

The analysis of sensitivity to changes in interest rates was based on exposure to derivative financial assets and liabilities as at balance sheet date in the same way as for the non-derivative financial assets.

In 2011 the Group assumes possible movements of the yield curve in the following period for loans, bank deposits and currency forwards and swaps by +100/ -25 basis points. In 2010, the Group assumed for bonds and interest rate swaps possible movements of the yield curve in the following period for loans and bank deposits by +100/- 25 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 non-derivative financial instruments the impact on profit and loss is determined on the basis of defined change in the interest rate, which would arise at the beginning of the next accounting period and based on the assumption that no other changes in the interest rate would occur during the entire accounting period.

The following tables present possible impact on profit and loss and on equity before tax of expected increase or decrease of interest rates:

2011 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Income statement		
Non-derivative financial instruments	454	(114)
Derivative financial instruments	91	(23)
Total	**545**	**(137)**
Equity		
Derivative financial instruments	-	-

2010 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Income statement		
Non-derivative financial instruments	348	(87)
Derivative financial instruments	-	-
Total	**348**	**(87)**
Equity		
Derivative financial instruments	(7)	2

3.4.3 Sensitivity to changes in other price risks

The Group is exposed to a combination of commodity and currency risks due to volatility in prices of particular commodities traded in foreign currencies. This risk of change in cash flows is hedged by a combination of commodity swaps and currency forwards. The sensitivity analysis to changes in commodity prices was determined based on the exposure to derivative financial assets and liabilities as at the balance sheet date. In 2011, the Group assumes potential movements in aluminium prices in the following period of +/-10%. In 2011, the Group assumes potential movements in copper prices in the following period of +/- 20%. The Group considers changes in the fair values of derivative financial instruments due to changes in spot commodity prices. Other non-derivative financial assets and liabilities are deemed to not be sensitive to changes in commodity prices since the prices are fixed at the time of recognition of the financial liability or asset.

The following tables represent a possible impact on equity before tax of expected increase or decrease of copper and aluminium prices:

2011 (CZK million)	Increase of copper prices +20%	Decrease of copper prices (20)%	Increase of aluminium prices +10%	Decrease of aluminium prices (10)%
Equity				
Derivative financial instruments	270	(270)	120	(120)

2010 (CZK million)	Increase of copper prices +20%	Decrease of copper prices (20)%	Increase of aluminium prices +10%	Decrease of aluminium prices (10)%
Equity				
Derivative financial instruments	130	(130)	110	(110)

The possible impact on consolidated income statement was assessed by the Group as immaterial.

3.5 Capital risk management

The optimal capitalisation of the Group is the result of a compromise between two interests: return on capital and the Group's capacity to meet all of its liabilities due for payment.
It is the objective of the capital management function to maintain an adequate owned to borrowed capital ratio to guarantee due payments of all financial liabilities while promoting a continued growth of the Group's value for the shareholders.
The ratios of equity and of borrowed capital on total capital are shown in the following table:

CZK million	2011	2010
Equity	**81,211**	**74,772**
Equity ratio	52.9%	55.1%
Non-current financial liabilities	3,000	3,000
Current financial liabilities	141	228
Total financial liabilities	**3,141**	**3,228**
Ratio of financial liabilities to total liabilities	2.0%	2.4%
Total equity and liabilities	**153,557**	**135,736**

4. Geographical information

The Group's head office and main production facilities are situated in the Czech Republic.
The Group's sales are generated from five basic geographical regions: the Czech Republic; Germany, Western Europe-Other; Central and Eastern Europe; and Overseas/Asia/Africa/Australia. Overseas/Asia/Africa/Australia region is due to its immateriality reported as Unallocated. In regions Western Europe-Other, Central and Eastern Europe and in category Unallocated there is no individual country which has more than a 10% share of total sales.

2011 (CZK million)	**Czech Republic**	**Germany**	**Western Europe - Other**	**Central and Eastern Europe**	**Unallocated**	**Total**
Sales - based on location of customers	22,084	64,184	83,877	47,661	34,756	252,562
Non-current assets*	59,871	187	-	38	763	60,859

2010 (CZK million)	**Czech Republic**	**Germany**	**Western Europe - Other**	**Central and Eastern Europe**	**Unallocated**	**Total**
Sales - based on location of customers	21,842	53,824	75,446	40,377	27,965	219,454
Non-current assets*	54,893	172	-	117	808	55,990

*Non-current assets other than financial instruments and deferred tax assets.

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 2011	**75**	**24,577**	**2,143**	**6,879**	**33,674**
Additions	-	22	3,284	1,896	5,202
Disposals	-	(2,931)	-	(288)	(3,219)
Transfers	-	42	(42)	2	2
Foreign exchange differences	2	-	-	4	6
Balance as at 31 December 2011	**77**	**21,710**	**5,385**	**8,493**	**35,665**
Cumulative amortisation and impairment losses					
Balance as at 1 January 2011	**-**	**(16,228)**	**-**	**(4,477)**	**(20,705)**
Amortisation	-	(2,314)	-	(450)	(2,764)
Impairment losses	-	(758)	-	(998)	(1,756)
Disposals and transfers	-	2,931	-	288	3,219
Foreign exchange differences	-	-	-	(5)	(5)
Balance as at 31 December 2011	**-**	**(16,369)**	**-**	**(5,642)**	**(22,011)**
Carrying amount as at 31 December 2011	**77**	**5,341**	**5,385**	**2,851**	**13,654**

	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 2010	**79**	**22,489**	**1,138**	**5,197**	**28,903**
Additions	-	950	2,143	1,737	4,830
Disposals	-	-	-	(46)	(46)
Transfers	-	1,138	(1,138)	4	4
Foreign exchange differences	(4)	-	-	(13)	(17)
Balance as at 31 December 2010	**75**	**24,577**	**2,143**	**6,879**	**33,674**
Cumulative amortisation and impairment losses					
Balance as at 1 January 2010	**-**	**(12,570)**	**-**	**(3,252)**	**(15,822)**
Amortisation	-	(2,932)	-	(609)	(3,541)
Impairment losses	-	(726)	-	(672)	(1,398)
Disposals and transfers	-	-	-	45	45
Foreign exchange differences	-	-	-	11	11
Balance as at 31 December 2010	**-**	**(16,228)**	**-**	**(4,477)**	**(20,705)**
Carrying amount as at 31 December 2010	**75**	**8,349**	**2,143**	**2,402**	**12,969**

Other intangible assets include mainly tooling rights, software and software licences.
Amortisation and impairment losses of intangible assets of CZK 4,731 million (2010: CZK 4,780 million) are included in the cost of sales, CZK 14 million (2010: CZK 21 million) in distribution expenses, and CZK 135 million (2010: CZK 138 million) in administrative expenses.

Impairment reviews

Goodwill is allocated to ŠKODA AUTO 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 2011 was 1% (2010: 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 2011, the discount rate of 6% (2010: 5.5%) was used.
The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Group's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and their potential impact on the carrying amount of the Group's non-current intangible assets. Due to substantial changes in the market environment, the Group has experienced in 2011 a significant decrease in the planned cash inflows relating to three cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed. The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans, approved by the Group's management. For discounting cash flows, the discount rate of 6.8% has been applied in 2011 (2010: 6.4%), reflecting the specific risks associated with the sector in which the Group operates. For two cash-generating units the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to intangible assets in the amount of CZK 1,756 million (2010: CZK 1,398 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2011 (31 December 2010).

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2011, the Group applied the capitalisation rate of 4.5% (2010: 3.8%). No borrowing costs have been capitalised in the cost of intangible assets in 2011 or 2010 as they were not significant.

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

	2011	2010
Research and non-capitalised development costs	6,061	4,564
Amortisation and impairment losses of development costs	3,072	3,658
Research and development costs recognised in the income statement	**9,133**	**8,222**

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 2011	**30,243**	**59,338**	**46,188**	**7,468**	**143,237**
Additions	969	1,539	986	8,760	12,254
Disposals	(64)	(1,932)	(1,360)	(2)	(3,358)
Transfers	456	2,793	623	(3,874)	(2)
Foreign exchange differences	(57)	(93)	(26)	(1)	(177)
Balance as at 31 December 2011	**31,547**	**61,645**	**46,411**	**12,351**	**151,954**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2011	**(12,063)**	**(50,363)**	**(38,452)**	**-**	**(100,878)**
Amortisation	(1,119)	(3,135)	(3,479)	-	(7,733)
Impairment losses	(7)	(18)	(468)	-	(493)
Disposals and transfers	25	1,933	1,355	-	3,313
Foreign exchange differences	13	80	9	-	102
Balance as at 31 December 2011	**(13,151)**	**(51,503)**	**(41,035)**	**-**	**(105,689)**
Carrying amount as at 31 December 2011	**18,396**	**10,142**	**5,376**	**12,351**	**46,265**

	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 2010	**29,836**	**61,186**	**45,633**	**3,546**	**140,201**
Additions	190	876	1,456	5,871	8,393
Disposals	(45)	(3,685)	(1,710)	-	(5,440)
Transfers	229	907	809	(1,949)	(4)
Foreign exchange differences	33	54	-	-	87
Balance as at 31 December 2010	**30,243**	**59,338**	**46,188**	**7,468**	**143,237**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2010	**(10,627)**	**(50,027)**	**(35,676)**	**-**	**(96,330)**
Amortisation	(1,096)	(3,418)	(3,916)	-	(8,430)
Impairment losses	(358)	(544)	(549)	-	(1,451)
Disposals and transfers	21	3,661	1,683	-	5,365
Foreign exchange differences	(3)	(35)	6	-	(32)
Balance as at 31 December 2010	**(12,063)**	**(50,363)**	**(38,452)**	**-**	**(100,878)**
Carrying amount as at 31 December 2010	**18,180**	**8,975**	**7,736**	**7,468**	**42,359**

Depreciation and impairment losses of the buildings and equipment of CZK 7,518 million (2010: CZK 9,275 million) are included in the cost of sales, CZK 180 million (2010: CZK 155 million) in distribution expenses, and CZK 528 million (2010: CZK 451 million) in administrative expenses.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Group's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and its potential impact on the carrying amount of the Group's non-current tangible assets. Due to substantial changes in the market environment, the Group has experienced in 2011 a significant decrease in the planned cash inflows relating to three cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed. The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash–generating units reflecting financial plans, approved by the Group's management.
For discounting cash flows, the discount rate of 6.8% or 7.3% in 2011 (2010: 6.4% or 7.1%) has been applied depending on characteristics of individual cash-generating units. The discount rates reflect the specific risks associated with the sector in which the Group operates. For one cash-generating unit, the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to tangible assets in the total amount of CZK 493 million (2010: CZK 1,451 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2011 (31 December 2010).

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2011, the Group applied the capitalisation rate of 4.5% (2010: 3.8%). No borrowing costs have been capitalised in the cost of property, plant and equipment in 2011 or in 2010 as they were not significant.

7. Investments in associates (CZK million)

	2011	2010
Total Assets	52,911	45,480
Total Liabilities	49,623	43,728
Total Revenue	121,296	74,165
Profit (+)/ Loss (-) (aggregated)	1,600	(1,743)

The table above summarises financial data of the associates OOO VOLKSWAGEN Group Rus and ŠKO-ENERGO FIN, s.r.o.
The Company's share in the registered capital of the company OOO VOLKSWAGEN Group Rus as at 31 December 2011 was 16.8% (31 December 2010: 16.8%).The Company's share of profits or losses of this associate as at 31 December 2011 was 17.91% (31 December 2010: 17.91%). The Company exercises significant influence in the company OOO VOLKSWAGEN Group Rus based on the following factors: the Company has its representatives in the governing body; the Company is participating in policy-making processes, including participation in decisions about distribution of profit; material transactions are conducted between both companies; an interchange of managerial personnel takes places between both companies and the Company is providing essential technical information to the company OOO VOLKSWAGEN Group Rus.
As at 1 October 2010, the Company acquired additional share in the registered capital of ŠKO-ENERGO FIN, s.r.o. from 10% to 31.25% and as a result ŠKO-ENERGO FIN s.r.o. became the Company's associate. The value of the Company's share totalled CZK 529 million as at 31 December 2011 (as at 31 December 2010: CZK 529 million).
ŠKO-ENERGO FIN paid dividends to the Company in the amount of CZK 104 million (2010: CZK 71 million).

Impairment reviews

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Group's management in relation to the development of the automotive industry and planned volumes of sold cars and the potential impacts on the carrying amount of the Group's financial investments in associates. Based on performed analyses, no factors have been identified which would indicate a need to recognise impairment losses with an exception of future economic benefits arising from investment in OOO VOLKSWAGEN Group Rus, associate accounted for using the equity accounting. The Group's management has therefore performed an impairment review of this cash-generating unit. Carrying value of the financial investment in the associate has been compared with the relevant recoverable amount. The recoverable amount has been determined based on the calculation of the value in use applying cash flow projections over the following five years, reflecting financial plans approved by the Group's management. Cash flows beyond the five years period have been extrapolated with estimated growth rate which is not higher than expected long-term average growth rate in the automotive industry. The applied discount rate is post-tax and reflects specific risks associated with the sector and the region in which the reviewed company operates. In 2011, discount rate of 9.5% (2010: 9.3%) has been applied. The comparison of the carrying amounts with the relevant recoverable amount has not given rise to any impairment loss as at 31 December 2011 or 31 December 2010.

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

Balance as at 31 December 2011	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	-	542	-	-	-	542
Deposits in companies within Volkswagen Group	-	21,540	-	-	-	21,540
Positive fair value of financial derivatives	(242)	-	-	2,093	-	1,851
Available for sale financial assets	-	-	4	-	-	4
Tax receivables (excl. income tax)	-	-	-	-	4,405	4,405
Others	-	457	-	-	436	893
Total	**(242)**	**22,539**	**4**	**2,093**	**4,841**	**29,235**
Trade receivables						
Third parties	-	4,733	-	-	-	4,733
Related parties	-	8,690	-	-	-	8,690
Total	**-**	**13,423**	**-**	**-**	**-**	**13,423**

* The category Other does not meet a definition of financial instruments in terms of IAS 32.
** Financial assets held-for-trading.

Note:
The line Positive fair value of financial derivatives in the portfolio Financial assets designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial assets at fair value through profit and loss it is represented by the forward component of financial derivatives (see also Note 2.7.3). As the spot component exceeded the fair value as at 31 December 2011, the forward component was negative.

Balance as at 31 December 2010	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	-	491	-	-	-	491
Deposits in companies within Volkswagen Group	-	10,016	-	-	-	10,016
Positive fair value of financial derivatives	(191)	-	-	2,767	-	2,576
Available for sale financial assets	-	-	4	-	-	4
Tax receivables (excl. income tax)	-	-	-	-	3,395	3,395
Others	-	117	-	-	309	426
Total	**(191)**	**10,624**	**4**	**2,767**	**3,704**	**16,908**
Trade receivables						
Third parties	-	3,863	-	-	-	3,863
Related parties	-	7,165	-	-	-	7,165
Total	**-**	**11,028**	**-**	**-**	**-**	**11,028**

* The category Other does not meet a definition of financial instruments in terms of IAS 32.
** Financial assets held-for-trading.

Note:
The line Positive fair value of financial derivatives in the portfolio Financial assets designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial assets at fair value through profit and loss it is represented by the forward component of financial derivatives (see also Note 2.7.3). As the spot component exceeded the fair value as at 31 December 2011, the forward component was negative.

The carrying amount of loans to employees approximates their fair value.
The carrying amount net of impairment for each class of financial assets which are not carried at fair value approximates their fair value due to the short-term nature of these items.
The item Deposits in companies within Volkswagen Group comprises deposits in the amount of CZK 21,540 million with original maturity from three months to one year (as at 31 December 2010: CZK 10,016 million) The weighted average effective interest rate based on the carrying amount of deposits provided to Volkswagen Group companies as at 31 December 2011 was 0.88% (31 December 2010: 1.03%). All deposits provided to Volkswagen Group companies with original maturity from three months to one year are denominated in CZK as at 31 December 2011 (as at 31 December 2010).
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 365 million (2010: CZK 383 million) has been deducted from presented carrying 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)

	Carrying value as at 31 December 2011	Carrying value as at 31 December 2010
Structure of the inventories		
Raw materials, consumables and supplies	4,818	4,285
Work in progress	2,368	1,738
Finished products and goods	8,875	8,385
Total	**16,061**	**14,408**

The amount of inventories recognised as an expense during 2011 was CZK 208,208 million (2010: CZK 184,858 million).

10. Cash and cash equivalents (CZK million)

	2011	2010
Cash in hand	4	3
Cash pooling	723	4,795
Bank accounts	2,976	5,526
Cash equivalents	27,548	25,662
Total	**31,251**	**35,986**

The line Cash pooling includes also overnight deposits from the use of cash pooling (Note 3.2). The line cash equivalents includes deposits in Volkswagen Group companies with original maturity less than three months. These deposits are included in the portfolio Loans and receivables in terms of IAS 39.
The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2011 was 1.91% (as at 31 December 2010: 0.20%). The weighted average effective interest rate based on the carrying amount of deposits in Volkswagen Group companies with original maturity less than three months as at 31 December 2011 was 0.93% (as at 31 December 2010: 1.31%). Out of the total amount of deposits provided to Volkswagen Group companies with original maturity less than three months of CZK 27,548 million (as at 31 December 2010: CZK 25,662 million) there were deposits denominated in CZK in the amount of CZK 23,309 million (as at 31 December 2010: CZK 24,362 million), in EUR in the amount of CZK 3,484 million (as at 31 December 2010: CZK 0 million) and deposits denominated in INR in the amount of CZK 775 million (as at 31 December 2010: CZK 1,300 million).

11. Share capital

The issued share capital consists of 1,670,885 ordinary shares at a par value of CZK 10,000 per share. The Company's sole shareholder Volkswagen International Finance N.V., Amsterdam, The Kingdom of the Netherlands, holds 100% of the shares in the Company. 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 2011 (2010).
The Company paid a dividend of CZK 4,702 million in 2011 (2010: CZK 1,634 million). The dividend per share was CZK 2,814 in 2011 (2010:CZK 978).

12. Reserves (CZK million)

	2011	2010
Currency translation reserve	(347)	(414)
Reserves for cash flow hedges*	(4,546)	377
Retained earnings	64,301	52,968
Statutory reserve fund	3,366	3,366
Funds contributed by owner	10	10
Total	**62,784**	**56,307**

* Net of deferred tax from financial derivatives.

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 2011 (determined in accordance with IFRS) is going to be appropriated based on the decision of the Company's annual general meeting.
Movement in reserve for cash flow hedges:

Balance as at 1 January 2011 (CZK million)	**377**
Total change in fair value in the period	(4,540)
Deferred tax on change in fair value	875
Total transfers to net profit in the period - effective hedging	(1,546)
Total transfers to net profit in the period - ineffective hedging	8
Deferred tax on transfers to net profit	280
Balance as at 31 December 2011	**(4,546)**

Balance as at 1 January 2010 (CZK million)	**922**
Total change in fair value in the period	(813)
Deferred tax on change in fair value	130
Total transfers to net profit in the period - effective hedging	188
Total transfers to net profit in the period - ineffective hedging	(61)
Deferred tax on transfers to net profit	11
Balance as at 31 December 2010	**377**

The transfer from reserves for cash flow hedges to profit and loss arising from effective hedging is in 2011 presented in the line Other operating expense in amount of CZK 1,076 million (2010: CZK 1,283 million, in 2010 this amount included also effective hedging loss of CZK 59 million disclosed in financial result) and in the line Other operating income in amount of CZK 2,623 million (2010: CZK 1,095 million).

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

Balance as at 31 December 2011	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans	-	3,141	-	-	3,141
Total	**-**	**3,141**	**-**	**-**	**3,141**
Other liabilities					
Negative fair value of financial derivatives	(742)	-	7,672	-	6,930
Other tax liabilities (excl. income tax)	-	2,079	-	1,786	3,865
Liabilities to employees	-	-	-	1,731	1,731
Social security	-	-	-	433	433
Others	-	-	-	616	616
Total	**(742)**	**2,079**	**7,672**	**4,566**	**13,575**
Trade liabilities to					
Third parties	-	19,010	-	247	19,257
Related parties	-	10,795	-	53	10,848
Total	**-**	**29,805**	**-**	**300**	**30,105**

* The category Other includes items that are not financial liabilities in terms of IAS 32.
** Financial liabilities held for trading.

Note:
The line Negative fair value of financial derivatives in the portfolio Financial liabilities designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial liabilities at fair value through profit or loss it is represented by the forward component of financial derivatives (see also Note 2.7.3). As the spot component exceeded the fair value as at 31 December 2011, the forward component is negative.

Balance as at 31 December 2010	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans	-	3,228	-	-	3,228
Total	**-**	**3,228**	**-**	**-**	**3,228**
Other liabilities					
Negative fair value of financial derivatives	26	-	2,318	-	2,344
Other tax liabilities (excl. income tax)	-	1,319	-	1,571	2,890
Liabilities to employees	-	-	-	2,224	2,224
Social security	-	-	-	393	393
Others	-	-	-	295	295
Total	**26**	**1,319**	**2,318**	**4,483**	**8,146**
Trade liabilities to					
Third parties	-	18,218	-	409	18,627
Related parties	-	9,211	-	59	9,270
Total	**-**	**27,429**	**-**	**468**	**27,897**

* The category Other includes items that are not financial liabilities in terms of IAS 32.
** Financial liabilities held for trading.

Note:
The line Negative fair value of financial derivatives in the portfolio Financial liabilities designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial liabilities at fair value through profit and loss it is represented by the forward component of financial derivatives (see also Note 2.7.3).

The line Trade liabilities to related parties includes liabilities to a factoring company within the Volkswagen Group of CZK 2,302 million as at 31 December 2011 (2010: 2,563 million). These liabilities arose in the ordinary course of business and do not represent financing of the Group.
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 financial liabilities (other liabilities, trade payables and loans) approximates the fair value in all material respects.
None of the financial liabilities are secured by a lien.

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

Carrying amount as at 31 December 2011

Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity < 1 year	Maturity 1-5 years	Maturity > 5 years	Total
CZK	fixed	1-5 years	4.53%	3,000	107	3,000	-	3,107
INR	fixed	< 1 year	10.50%	34	34	-	-	34
Total financial liabilities				**3,034**	**141**	**3,000**	**-**	**3,141**

Carrying amount as at 31 December 2010

Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity < 1 year	Maturity 1-5 years	Maturity > 5 years	Total
CZK	fixed	1-5 years	4.53%	3,000	107	3,000	-	3,107
EUR	floating	< 1 year	-	121	121	-	-	121
Total financial liabilities				**3,121**	**228**	**3,000**	**-**	**3 ,228**

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.
As at 31 December 2011 the Group recognised on the balance sheet deferred tax asset of CZK 2,668 million (as at 31 December 2010: CZK 1,327 million).
The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting, are as follows:

	Depreciation	Financial derivatives*	Provisions	Consolidation differences	Other	Total
Deferred tax liabilities						
Balance as at 1 January 2010	**(3,174)**	**(227)**	**-**	**-**	**-**	**(3,401)**
Credited/(debited) to the income statement	593	-	-	-	-	593
Charged to other comprehensive income	-	141	-	-	-	141
Exchange differences	(1)	-	-	-	-	(1)
Balance as at 31 December 2010	**(2,582)**	**(86)**	**-**	**-**	**-**	**(2,668)**
Credited/(debited) to the income statement	86	-	-	-	-	86
Charged to other comprehensive income	-	86	-	-	-	86
Exchange differences	(1)	-	-	-	-	(1)
Balance as at 31 December 2011	**(2,497)**	**-**	**-**	**-**	**-**	**(2,497)**

	Depreciation	Financial derivatives*	Provisions	Consolidation differences	Other	Total
Deferred tax assets						
Balance as at 1 January 2010	**-**	**-**	**2,498**	**46**	**503**	**3,047**
Credited/(debited) to the income statement	-	-	728	108	135	971
Exchange differences	-	-	(29)		6	(23)
Balance as at 31 December 2010	**-**	**-**	**3,197**	**154**	**644**	**3,995**
Credited/(debited) to the income statement	-	-	237	(122)	1	116
Charged to other comprehensive income	-	1,069	-	-	-	1,069
Exchange differences	-	-	57	-	(72)	(15)
Balance as at 31 December 2011	**-**	**1,069**	**3,491**	**32**	**573**	**5,165**

*Further information on financial derivatives is disclosed in Note 2.7.3.

Further the Group did not recognised deferred tax asset (from tax losses) in the amount of CZK 329 million, because its utilisation is not expected.
As at 31 December 2010, the unrecognised deferred tax asset was CZK 87 million.

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	Provisions for litigation risks	Provisions for purchase risks	Other provisions	Total
Balance as at 1 January 2010	**10,284**	**3,092**	**1,306**	**756**	**1,183**	**284**	**107**	**17,012**
Utilised	(3,369)	(2,435)	(467)	-	(1)	(159)	(84)	(6,515)
Additions	4,599	3,099	804	323	413	760	1,267	11,265
Interest expense (+)/ income (-)	75	-	-	(42)	-	-	-	33
Reversals	(542)	(518)	(22)	(94)	(2)	(101)	(2)	(1,281)
Foreign exchange differences	(97)	(110)	(3)	(33)	-	-	17	(226)
Balance as at 1 January 2011	**10,950**	**3,128**	**1,618**	**910**	**1,593**	**784**	**1,305**	**20,288**
Utilised	(3,546)	(2,469)	(438)	-	(1)	(161)	(570)	(7,185)
Additions	5,071	3,792	1,746	81	76	719	1,314	12,799
Interest expense (+)/ income (-)	83	(19)	-	80	-	-	-	144
Reversals	(149)	(336)	(191)	(272)	(176)	(611)	(148)	(1,883)
Foreign exchange differences	53	101	-	24	-	-	(33)	145
Balance as at 31 December 2011	**12,462**	**4,197**	**2,735**	**823**	**1,492**	**731**	**1,868**	**24,308**

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

	< 1 year	1-5 years	> 5 years	Total
Balance as at 31 December 2011				
Provisions for warranty claims	3,830	7,667	965	12,462
Provisions for other obligations arising from sales	3,816	381	-	4,197
Provisions for personnel costs	1,723	328	684	2,735
Provisions for the disposal of end-of-life vehicles	-	-	823	823
Provisions for litigation risks	1,492	-	-	1,492
Provisions for purchase risks	731	-	-	731
Other provisions	1,686	182	-	1,868
Total	**13,278**	**8,558**	**2,472**	**24,308**

	< 1 year	1-5 years	> 5 years	Total
Balance as at 31 December 2010				
Provisions for warranty claims	3,797	6,451	702	10,950
Provisions for other obligations arising from sales	3,128	-	-	3,128
Provisions for personnel costs	696	314	608	1,618
Provisions for the disposal of end-of-life vehicles	9	-	901	910
Provisions for litigation risks	1,593	-	-	1,593
Provisions for purchase risks	784	-	-	784
Other provisions	1,181	124	-	1,305
Total	**11,188**	**6,889**	**2,211**	**20,288**

The provision for warranty repairs includes provision for basic guarantees (2 years), provision for corrosion guarantees (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic warranty (two years) especially good-will repairs (the 3rd and 4th year). The Group recognises the provision 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.
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 other long-term employee benefits, severance payments and provision for management personnel remuneration.
Provisions for disposal of end-of-life vehicles relate to costs of liquidation of end-of-life vehicles according to EU directive no. 2000/53/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 scrapping and legal requirements valid in individual countries.
Provisions for litigation risks relate mainly to provision for risks legal fees, penalty interest and other risks arising from legal proceedings. The Group provides for the probable cash outflows for existing legal and arbitration proceedings by means of a relevant provision.
The Group is not involved in any legal cases or arbitration proceedings for which no provision has been created and which could have a significant impact on the financial position and the financial results (financial statements) of the Group and there are no such proceedings expected in the near future.
Provisions for purchase risks include mainly provision for risks of retrospective changes in prices of raw materials and parts.
Other provisions include mainly provision for tax and customs risks in countries where the Group operates.

16. Cash flow statement

The cash and cash equivalents contained in the cash flow statement also comprise, in addition to cash and short-term deposits, short-term deposits in Volkswagen Group companies with original maturity of less than three months. The detailed information relating to the cash and cash equivalents can be found under Note 10.
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.

17. Sales (CZK million)

	2011	2010
Cars	212,787	184,648
Spare parts and accessories	17,930	17,248
Supplies of components within Volkswagen Group	15,363	13,659
Revenues from license fees	1,223	702
Services related to sales	180	150
Other	5,079	3,047
Total	**252,562**	**219,454**

Other sales relate mainly to sales of results of technical development, scrap, tooling and used cars.

18. Other operating income (CZK million)

	2011	2010
Foreign exchange gains	2,627	2,753
Income from derivative transactions	2,219	1,171
Gains on non-current assets disposal	10	1
Reversal of provisions and accruals	2,868	1,684
Reversal of provision for receivables	53	138
Services - others	339	497
Other	1,924	1,612
Total	**10,040**	**7,856**

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 as at the balance sheet date of these receivables and payables. Foreign exchange losses from these items are included in other operating expenses.
Reversal of provisions and accruals resulted from changes in estimates driven mainly by the changed external conditions and circumstances on which the Group based the estimates.

19. Other operating expenses (CZK million)

	2011	2010
Foreign exchange losses	2,728	1,998
Losses from derivative transactions	1,078	1336
Receivables write-offs	12	7
Other	899	2654
Total	**4,717**	**5,995**

20. Financial result (CZK million)

	2011	2010
Interest income	708	537
Foreign exchange gains from cash	45	82
Foreign exchange gains from spot operations	337	208
Dividends received	125	72
Other financial income, thereof:	1,542	213
Total transfers to net profit in the period - ineffective hedging	-	61
Forward component of derivatives fair value	1,542	131
Financial income total	**2,757**	**1,112**
Interest expenses, thereof:	761	577
Total transfers to net profit in the period - effective hedging	-	59
Foreign exchange losses from cash	49	293
Foreign exchange losses from spot operations	378	158
Other financial expenses, thereof:	778	466
Forward component of derivatives fair value	760	442
Financial expenses total	**1,966**	**1,494**
Net financial result	**791**	**(382)**

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

	2011	2010
Financial instruments at fair value through profit and loss	783	(262)
Loans and receivables	760	185
Available for sale financial assets	21	-
Financial liabilities carried at amortised costs	(792)	554
Financial instruments designated as hedging instruments	1,546	(188)
Net gains total	**2,318**	**289**

The line Financial instruments at fair value through profit and loss represents a forward component of currency forwards and ineffective part of commodity swaps.
Other items contain mainly unrealised and realised foreign exchange gains and losses on trade receivables and liabilities, from hedging instruments, interest income from deposits provided, net interest loss from derivative hedging instruments, foreign exchange gains/losses from bank deposits and impairment losses on financial assets.

22. Income tax (CZK million)

	2011	2010
Current tax expense - domestic	3,127	2,792
Current tax expense - foreign	275	519
Current tax expense - total	**3,402**	**3,311**
Deferred tax income - domestic	(139)	(1,089)
Deferred tax income - foreign	(63)	(475)
Deferred tax income - total	**(202)**	**(1,564)**
Income tax total	**3,200**	**1,747**

Statutory income tax rate in the Czech Republic for the 2011 assessment period was 19% (2010: 19%).
As at 31 December 2011 and 31 December 2010, deferred income taxes attributable to the Czech tax jurisdiction were measured at a tax rate of 19% that corresponds with the 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 32.45%.

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

	2011	2010
Profit before income tax	19,275	10,586
Expected income tax expense	**3,662**	**2,011**
Effect of different tax rates outside the Czech Republic	93	204
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(133)	(189)
Expenses not deductible for tax purposes	214	193
Tax allowances and other tax credits	(659)	(318)
Prior-period current tax expense	(114)	(151)
Investment tax credits	110	(50)
Other taxation effects	27	47
Effective income tax expense	**3,200**	**1,747**
Effective income tax rate	17%	17%

Line Tax allowances and other tax credits represents mainly tax credits from double deduction of research and development costs.

23. Subsidies and investment incentives

Subsidies

In 2011, the Group received a grant for support of the project performed by the Development and Technology Centre of CZK 19 million (2010: CZK 42 million) and a grant for support of private schools of CZK 45 million (2010: CZK 50 million).

In 2010, the Group was provided with a promise of the grant from the European Regional Development Fund by the Ministry of Industry and Trade in the Czech Republic for the following projects: "Combined Production of Heat and Electricity in the Kvasiny Plant", in the amount of CZK 27 million and "Service Training Center" in the amount of CZK 67 million. Both projects are in the execution phase. The grant only for the project "Service Training Center" was partially paid out in 2011 in amount of CZK 2 million (2010: CZK 0 million). The remaining part of grant for the project "Service Training Center" and the project "Combined Production of Heat and Electricity in the Kvasiny Plant" will be paid out retrospectively on completion of individual execution phases. In addition, the Group was provided with a promise of the grant from the European Regional Development Fund by the Ministry of Industry and Trade in the Czech Republic in 2011 for the following projects: "Extension of Development Capacities ŠKODA AUTO a.s." in the amount of CZK 88 million. The project is in the execution phase, however, the grant was not paid out in 2011. (The grant will be paid out retrospectively on completion of individual execution phases).

Investment incentives

To be granted the investment incentives, the Group has to meet the General conditions of § 2 art. 2 of the Act No. 72/2000 Coll., on Investment Incentives, as amended and Special conditions § 35 b of the Act No. 586/1992 Coll., on Income Tax as amended.

EA211

In accordance with the Act No. 72/2000 Coll., on Investment Incentives as amended based on resolution dated on 2 August 2011 the Group was provided with a promise of the investment incentive IP No. 49/2011 for its project related to production of parts of engine EA211 and assembly of the engine in the plant in Mladá Boleslav in form of tax credit. The total amount of the subsidy is limited to the amount of CZK 800 million which corresponds to 40% of the total eligible invested costs related to the investment project. In 2011, the project was realised, however, as at 31 December 2011 utilisation of investment incentive was regarded as uncertain by the Group and therefore no related deferred tax asset was recognised.

MQ 100

In accordance with the Act No. 72/2000 Coll., on Investment Incentives as amended based on resolution dated on 2 August 2011 the Group was provided with a promise of the investment incentive IP No. 50/2011 for its project related to production expansion of transmissions in the plant in Mladá Boleslav in form of tax credit. The total amount of the subsidy is limited to the amount of CZK 496 million which corresponds to 40% of the total eligible invested costs related to the investment project. In 2011, the project was realised and the Group expects utilisation of investment incentive and recognised deferred tax asset of CZK 335 million based on eligible costs invested.

A-SUV

In accordance with the Act No. 72/2000 Coll., on Investment Incentives as amended based on resolution dated on 4 August 2008 the Group was granted an investment incentive for production of 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 561 million which corresponds to 40% of the total eligible invested costs related to the investment project. The project was completed in 2010, however as at 31 December 2011 utilisation of investment incentive was regarded as uncertain by the Group and therefore no related deferred tax asset was recognised.
In 2011, the Group was also granted an incentive in the form of deferred sales tax payment. The discounted balance of the liability disclosed in Note 13 amounted to CZK 2,074 million (2010: CZK 1,319 million).

24. Contingent liabilities

The tax authorities may at any time inspect the accounting books and records within ten 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 the tax audits carried out at present or potentially in the future, except for the tax risks for which provision for tax risks has been created (please refer to Note 15).

25. Contractual obligations and other future commitments

Future commitments as at balance sheet date are as follows:

CZK million	Payable until year 2012	Payable 2013 – 2016	31 December 2011
Investment commitments - property, plant and equipment	10,926	1,328	12,254
Investment commitments - intangible assets	5,941	3,099	9,040
Operating leasing instalments	184	584	768
Other future commitments	-	-	-

CZK million	Payable until year 2011	Payable 2012 – 2015	31 December 2010
Investment commitments - property, plant and equipment	1,729	1,236	2,965
Investment commitments - intangible assets	4,360	4,576	8,936
Operating leasing instalments	170	43	213
Other future commitments	100	75	175

On the basis of non-cancellable operating lease agreements, the Group is allowed to rent different machine and office equipment and buildings. In the case of termination of these agreements all outstanding lease payments up to the original expiration date of the contract must be paid.
Category Other future commitments comprises future commitments which are unusual to the Group, either because of their nature or their size or duration and is represented mainly by significant advertising and sponsoring contracts concluded for a period longer than one year.
In order to increase accuracy of presentation of contractual obligations, figures for comparative period 2010 have been changed in line Investment commitments – intangible assets, amount in column Payable until year 2011 of CZK 2,510 million have been increased by CZK 1,850 million to CZK 4,360 million and amount in column Payable 2012 – 2015 of CZK 2,174 million have been increased by CZK 2,402 million to CZK 4,576 million. Disclosed amount of contractual obligations 2010 in the line Investment commitments – intangible assets have been increased in total by CZK 4,252 million.

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

	2011	2010
Material costs - raw materials and other supplies, goods	**169,932**	**148,720**
Production related services	14,843	12,387
Personnel costs	**18,044**	**16,031**
Wages	13,781	12,128
Pension benefit costs (defined contribution plans)	2,507	2,226
Social insurance and other personnel costs	1,756	1,677
Depreciation, amortisation and impairment losses	**12,746**	**14,820**
Other services	**24,063**	**18,041**
Total cost of sales, distribution and administrative expenses	**239,628**	**209,999**
Number of employees		
Number of employees*	27,936	26,529

* Average number of employees (including temporary employees).

27. Related party transactions

The company VOLKSWAGEN AG has been the ultimate parent company and the ultimate controlling party of the Company for the entire current accounting period.
Items in category Other related parties do not meet the definition of an entity controlled by the same controlling entity pursuant to § 66a of the Act No. 513/1991 Coll., Commercial Code, as amended.
In 2011, category Other related parties includes mainly transactions with Shanghai Volkswagen Automotive Company Ltd. and with the companies of the Porsche Holding GmbH Group, which are not fully consolidated by the ultimate parent VOLKSWAGEN AG, and transactions with companies of the Porsche Automobil Holding SE Group. They are disclosed within other related parties based on the fact that these companies are only joint ventures of VOLKSWAGEN AG. Transactions with the companies of the Porsche Holding GmbH Group, which are fully consolidated since 1 March 2011 by VOLKSWAGEN AG, are included in the category Companies controlled by ultimate parent company in 2011, inclusive the transactions (revenues of CZK 2,494 million, purchases of CZK 28 million) for period 1 January - 28 February 2011, when the definition of an entity controlled by the same controlling entity pursuant to the Commercial Code was not met.

In 2010, category Other related parties includes mainly transactions with Shanghai Volkswagen Automotive Company Ltd. and with all companies of the Porsche Holding GmbH and Porsche Automobil Holding SE groups.

The Group participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2011	2010
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	5,352	5,612
Associates		
OOO VOLKSWAGEN Group Rus	16,462	10,828
Companies controlled by ultimate parent company	76,919	55,064
Other related parties	2,387	17,827
Total	**101,120**	**89,331**

The above table Sales to related parties comprises only revenues from sales of vehicles, spare parts and supplies of vehicle components.
In addition to revenues specified in the table Sales to related parties, in 2011 (2010) the Group also realised revenues from royalties:

	2011	2010
Revenues from license fees		
Ultimate parent company	112	-
Associates	72	33
Companies controlled by ultimate parent company	-	-
Other related parties	1,039	515
Total	**1,223**	**548**

In addition to revenues specified in the table Sales to related parties, in 2011 (2010) the Group also realised revenues with related parties relating to interest from intercompany deposits:

	2011	2010
Interest income from deposits		
Ultimate parent company	8	11
Associates	-	-
Companies controlled by ultimate parent company	416	243
Other related parties	-	-
Total	**424**	**254**

Dividends received from associates are disclosed in Note 7.

Purchases from related parties (CZK million)

	2011	2010
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	35,029	28,914
Associates		
OOO VOLKSWAGEN Group Rus	203	203
Companies controlled by ultimate parent company	38,348	33,314
Other related parties	76	410
Total	**73,656**	**62,841**

The table Purchases from related parties comprises only purchases relating to trade activities. The amount of dividends paid to the parent company is disclosed in Note 11.

Receivables from related parties (CZK million)

	31 December 2011	31 December 2010
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	325	352
Associates		
OOO VOLKSWAGEN Group Rus	3,508	2,667
Companies controlled by ultimate parent company	3,710	3,420
Other related parties	1,147	726
Total	**8,690**	**7,165**

The above table comprises trade receivables and receivables from royalties. Receivables from royalties are specified below.

	2011	2010
Receivables from royalties		
Ultimate parent company	-	-
Associates	84	59
Companies controlled by ultimate parent company	-	-
Other related parties	519	465
Total	**603**	**524**

In addition to trade receivables and receivables from royalties, the Group also had deposits in companies controlled by ultimate parent company in total amount of CZK 49,037 million (31 December 2010: CZK 35,564 million). Receivables from interest from the deposits as at 31 December 2011 amounted to CZK 51 million (31 December 2010: CZK 78 million). Average interest rate relating to these deposits is disclosed in Note 8 and Note 10.

Receivables from related parties are considered by the Group to be of the least risk. The products delivered to the related parties are supplied with the payment on a due date, secured by an advance payment or they are transferred to factoring companies.

No impairment loss was identified for any of the receivables from related parties.

Cash pooling balance with Volkswagen Group Services S.A. is disclosed in Note 10.

Investments in associates are disclosed in Note 7.

Liabilities to related parties (CZK million)

	31 December 2011	31 December 2010
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	1,886	1,086
Associates		
OOO VOLKSWAGEN Group Rus	18	6
Companies controlled by ultimate parent company	8,884	8,106
Other related parties	60	72
Total	**10,848**	**9,270**

Liabilities to related parties represent only trade liabilities for all the categories stated above.

In addition to the trade liabilities stated in the table above, the Group had a liability from a loan from VOLKSWAGEN AG of total amount of CZK 3,000 million as at 31 December 2011 (31 December 2010: CZK 3,000 million). Interest payable relating to this loan amounts to CZK 107 million as at 31 December 2011 (31 December 2010: CZK 107 million). Interest rate on this loan in 2011 and 2010 is 4.53%.

Also, as at 31 December 2010, the Group had a loan connected with factoring with recourse from Volkswagen Bank GmbH in amount of CZK 121 million as at 31 December 2011 the Group disclosed nil balance.

	31 December 2011	31 December 2010
Contractual obligations and other future commitments		
Ultimate parent company	8,284	8,659
Associates	-	-
Companies controlled by ultimate parent company	736	247
Other related parties	-	-
Total	**9,020**	**8,906**

Contractual obligations to related parties include commitments in respect of research and development costs and tooling rights.

Information on key management personnel remuneration (CZK million)

	2011	2010
Salaries and other short-term employee benefits*	355	273
Other long-term employee benefits	14	15
Total	**369**	**288**

* Salaries and other short-term employee benefits include besides wages, 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 remuneration paid, payable or provided by the Group in the form of salaries, bonuses and non-monetary remuneration.
Key management personnel include members of the Board of Directors, Supervisory Board and managers of the Group having authority and responsibility for planning, directing and controlling the activities of the Group. In 2011, other key management personnel of the Group included 42 persons (2010: 41 persons). CZK 130 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2011 (31 December 2010: CZK 98 million).

28. Other information (CZK million)

The compensation paid to the Group´s auditors for the accounting period was CZK 36 million (2010: CZK 31 million) and covered the following services:

	2011	2010
Audit and other assurance services	20	19
Tax and related services	6	6
Other advisory services	10	6
Total	**36**	**31**

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 2011.
Effective on 1 January 2012, the Company sold its 51% share in the subsidiary Skoda Auto Polska S.A. (see Note 2.1) to parent Volkswagen International Finance N.V. (see Note 11). As a result, the Company has lost the entire interest in the subsidiary Skoda Auto Polska S.A. With respect to the amount of the investment, proceeds from the sale and amounts of assets, liabilities and activities of the subsidiary Skoda Auto Polska S.A., the event does not have significant impact on the classification of assets and results of operations for the year ended 31 December 2011.

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, Bentley, Bugatti, Scania, MAN and Lamborghini.
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 (ŠKODA AUTO Deutschland GmbH, Skoda Auto Polska S.A., ŠKODA AUTO Slovensko, s.r.o. and Skoda Auto India Private Ltd.) and associate OOO VOLKSWAGEN Group 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 its internet site (website: www.volkswagenag.com).

Mladá Boleslav, on 17 February 2012

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Eckhard Scholz

Jürgen Stackmann

Karlheinz Emil Hell

Michael Oeljeklaus

Persons responsible for accouting:

Dana Němečková

Jana Fernández Zambrano

Auditor´s report on the separate financial statements

Independent auditor's report to the shareholder of ŠKODA AUTO a.s.

We have audited the accompanying separate financial statements of ŠKODA AUTO a.s., identification number 00177041, with registered office at Tř. Václava Klementa 869, Mladá Boleslav ("the Company"), which comprise the statement of financial position as at 31 December 2011, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes, including a summary of significant accounting policies ("the separate financial statements").

Board of Directors' Responsibility for the Separate Financial Statements

The Board of Directors is responsible for the preparation of the separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal controls as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these separate 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.

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T: +420 251 151 111, F:+420 251 156 111, www.pwc.com/cz

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.

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 preparation of the financial statements that give a true and fair view 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 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 separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

17 February 2012

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar
Partner

Petr Kříž
Statutory Auditor, Licence No. 1140

Note:
Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

Separate financial statements for the year ended 31 December 2011

Income statement for the year ended 31 December 2011 (CZK million)

	Note	2011	2010
Sales	**18**	**231,742**	**203,695**
Cost of sales	27	201,765	180,343
Gross profit		**29,977**	**23,352**
Distribution expenses	27	11,613	9,449
Administrative expenses	27	5,504	4,666
Other operating income	19	8,347	6,134
Other operating expenses	20	3,983	4,336
Operating profit		**17,224**	**11,035**
Financial income		2,790	1,580
Financial expenses		2,859	1,400
Financial result	**21**	**(69)**	**180**
Profit before income tax		**17,155**	**11,215**
Income tax expense	23	2,867	1,811
Profit for the year		**14,288**	**9,404**

Statement of comprehensive income for the year ended 31 December 2011 (CZK million)

	Note	2011	2010
Profit for the year		**14,288**	**9,404**
Cash flow hedges:			
Change in fair value in the period	13	(4,543)	(692)
Total transfers of fair value to net profit - effective hedging	13	(1,481)	5
Total transfers of fair value to net profit - ineffective hedging	13	8	(61)
Deferred tax	13	1,155	141
Other comprehensive loss		**(4,861)**	**(607)**
Total comprehensive income for the year		**9,427**	**8,797**

The notes on pages 174 to 229 are an integral part of these financial statements.

Balance sheet as at 31 December 2011 (CZK million)

	Note	31 December 2011	31 December 2010
Assets			
Intangible assets	5	13,531	12,852
Property, plant and equipment	6	45,397	41,512
Investments in subsidiaries	7	247	1,388
Investments in associates	8	2,352	2,352
Other receivables and financial assets	9	1,152	1,538
Deferred tax asset	15	1,762	347
Non-current assets		**64,441**	**59,989**
Inventories	10	8,437	8,660
Trade receivables	9	11,695	9,724
Other receivables and financial assets	9	26,893	14,638
Cash and Cash equivalents	11	24,105	29,256
Current assets		**71,130**	**62,278**
Total assets		**135,571**	**122,267**

	Note	31 December 2011	31 December 2010
Equity and liabilities			
Share capital	12	16,709	16,709
Share premium		1,578	1,578
Reserves	13	62,120	57,395
Equity		**80,407**	**75,682**
Non-current financial liabilities	14	3,000	3,000
Other non-current liabilities	14	4,965	1,448
Non-current provisions	16	7,361	6,304
Non-current liabilities		**15,326**	**10,752**
Current financial liabilities	14	107	107
Trade payables	14	24,466	22,829
Other current liabilities	14	4,676	3,731
Current income tax liabilities		1,184	1,138
Current provisions	16	9,405	8,028
Current liabilities		**39,838**	**35,833**
Total equity and liabilities		**135,571**	**122,267**

The notes on pages 174 to 229 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2011 (CZK million)

	Note	Share capital	Share premium	Retained earnings	Other reserves*	Total equity
Balance as at 1 January 2010		**16,709**	**1,578**	**46,106**	**4,126**	**68,519**
Profit for the year		-	-	9,404	-	9,404
Change in fair value in the period	13	-	-	-	(692)	(692)
Total transfers of fair value to net profit - effective hedging	13	-	-	-	5	5
Total transfers of fair value to net profit - ineffective hedging	13	-	-	-	(61)	(61)
Deferred tax	13	-	-	-	141	141
Other comprehensive loss		**-**	**-**	**-**	**(607)**	**(607)**
Total comprehensive income for the year		**-**	**-**	**9,404**	**(607)**	**8,797**
Dividends paid		-	-	(1,634)	-	(1,634)
Transfer to statutory reserve fund		-	-	(172)	172	-
Balance as at 31 December 2010		**16,709**	**1,578**	**53,704**	**3,691**	**75,682**
Balance as at 1 January 2011		**16,709**	**1,578**	**53,704**	**3,691**	**75,682**
Profit for the year		-	-	14,288	-	14,288
Change in fair value in the period	13	-	-	-	(4,543)	(4,543)
Total transfers of fair value to net profit - effective hedging	13	-	-	-	(1,481)	(1,481)
Total transfers of fair value to net profit - ineffective hedging	13	-	-	-	8	8
Deferred tax	13	-	-	-	1,155	1,155
Other comprehensive loss		**-**	**-**	**-**	**(4,861)**	**(4,861)**
Total comprehensive income for the year		**-**	**-**	**14,288**	**(4,861)**	**9,427**
Dividends paid		-	-	(4,702)	-	(4,702)
Balance as at 31 December 2011		**16,709**	**1,578**	**63,290**	**(1,170)**	**80,407**

* Explanatory notes on Other reserves are presented in Note 13.

The notes on pages 174 to 229 are an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2011 (CZK million)

	Note	2011	2010
Cash and cash equivalents as at 1 January	**17**	**29,256**	**29,224**
Profit before income tax		17,155	11,215
Depreciation and impairment of non-current assets	5, 6	12,601	14,167
Change in provisions	16	2,287	2,756
Gain on disposal of non-current assets		(11)	(1)
Net interest (income) / expense	21	53	62
Change in inventories	10	117	(846)
Change in receivables		(2,783)	(3,138)
Change in liabilities		901	4,465
Income tax paid from operating activities		(3,081)	(1,862)
Interest paid		(384)	(397)
Interest received		456	412
Dividends income	21	(388)	(669)
Impairment losses of investments in subsidiaries	7.21	1,141	-
Other adjustments for non-cash transactions		(797)	93
Cash flows from operating activities		**27,267**	**26,257**
Purchases of non-current assets		(13,312)	(9,640)
Additions to capitalised development costs	5	(3,306)	(3,093)
Increase in financial investments	8	-	(530)
Increase in deposits* made	9	(11,500)	(10,016)
Proceeds from sale of non-current assets		14	19
Proceeds from dividends		388	669
Cash flows from investing activities		**(27,716)**	**(22,591)**
Net cash flows (operating and investing activities)		**(449)**	**3,666**
Dividends paid	12	(4,702)	(1,634)
Repayment of bonds		-	(2,000)
Cash flows from financing activities		**(4,702)**	**(3,634)**
Net change in cash and cash equivalents		**(5,151)**	**32**
Cash and cash equivalents as at 31 December	**17**	**24,105**	**29,256**

* Deposits which do not meet criteria of cash equivalents according to IAS 7.

The notes on pages 174 to 229 are an integral part of these financial statements.

Notes to the separate financial statements 2011

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.

The organisational structure of the company is divided into the following main areas:

- Central management department
- Technical development
- Production and logistics
- Sales and marketing
- Commercial affairs
- Human resource management
- Purchasing

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 of Volkswagen International Finance N.V. included in the consolidation group of its ultimate parent company and its ultimate controlling party, VOLKSWAGEN AG ("Volkswagen Group"), with its registered office in Wolfsburg, the Federal Republic of Germany (for details 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 Compliance statement

These financial statements are separate financial statements of ŠKODA AUTO a.s. ("the Company") for the year ended 31 December 2011 and relate to the consolidated financial statements of ŠKODA AUTO a.s. and its subsidiaries and associates for the year ended 31 December 2011. Users of these separate financial statements should read them together with the consolidated financial statements for the year ended 31 December 2011 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 Company as a controlled entity is obliged to be part of consolidated financial statements of the Volkswagen Group in accordance with the International Financial Reporting Standards as adopted by the European Union. As a result and based on the Company's sole shareholder's decision and under the paragraph 19 a) Article 7 of Act No. 563/1991 Coll. on Accounting, the Company prepares the separate financial statements in accordance with IFRS as adopted by the European Union.

Refer to the Company information in the preceding Note "Company information".

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 periods beginning on 1 January 2011

New standards, amendments, interpretations and improvements to existing standards mandatory for accounting periods beginning on or after 1 January 2011, which are applied by the Company:

IFRS	Standard/Interpretation	Effective	Description	Effect
IAS 24	Related Party Disclosures	1 January 2011	The main objective of the amendment is to provide a partial exemption from the disclosure requirements for government-related entities, and to clarify the definition of a related party. The amendment also clarifies the entity's obligation to disclose information about all commitments, associated with a related party, to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised).	The Amendment to IAS 24 had impact on the extent of disclosure of transactions with related parties. The Company has disclosed the unrecognised executory contracts with related parties as compared with the information disclosed in the notes to financial statements as at 31 December 2010.
IAS 1 (Improvement to IFRS 2010)	Presentation of Financial Statements	1 January 2011	The improvement to IAS 1 clarifies the requirement for the presentation and content of the Statement of Changes in Equity.	The improvement to IAS 1 had impact on the extent of the disclosure of the information in the Statement of changes in equity. The Company has disclosed separately Profit for the year and Other comprehensive loss as compared with the information disclosed in the financial statements as at 31 December 2010.
IFRS 7 (Improvement to IFRS 2010)	Financial Instruments: Disclosures	1 January 2011	The improvement to IFRS 7 clarifies the disclosure in the area of financial instruments.	The improvement to IFRS 7 had an impact on the extent of the disclosures of the information in the area of collateral and other credit enhancements of financial instruments. The Company has disclosed value of a secured receivable or value of the security, if it was lower.

* The effective dates express the dates effective for the Company.

New standards, amendments, interpretations and improvements to existing standards mandatory for accounting periods beginning on or after 1 January 2011, which are not applied by the Company as they are not relevant to the Company's operations:
New standards, amendments and interpretations to existing standards mandatory for accounting periods beginning on or after 1 January 2011:

IFRS	Standard/Interpretation	Effective	Description
IAS 32	Classification of Rights Issues	1 January 2011	The amendment deals with presentation of rights issues denominated in a currency other than the issuing entity's functional currency. The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.
IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011	The amendment removes an unintended consequence of IFRIC 14 arising from the treatment of prepayments of future contributions in some circumstances when there is a minimum funding requirement.
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 January 2011	The interpretation addresses the accounting in cases where all or part of the financial liability is extinguished by the debtor by issuing equity instruments to the creditor.

Improvements to International Financial Reporting Standards 2010 mandatory for accounting periods beginning on or after 1 January 2011 (issued in May 2010):

IFRS	Standard/Interpretation	Effective	Description
IFRS 3	Business Combinations	1 July 2010	Measurement of non-controlling interests. Un-replaced and voluntarily replaced share-based payment awards. Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS 3.
IAS 27	Consolidated and Separate Financial Statements	1 July 2010	Transition requirements for subsequent amendments arising as a result of IAS 27.
IAS 34	Interim Financial Reporting	1 January 2011	Significant events and transactions.
IFRIC 13	Customer Loyalty Programmes	1 January 2011	Fair value of award credits.

1.2.2 New standards, amendments and interpretations to existing standards published not yet effective for accounting periods beginning on or after 1 January 2011

New standards, amendments and interpretations to existing standards, which will be relevant for the Company but have not been early adopted by the Company:

IFRS	Standard/Interpretation	Effective	Description	Effect
IFRS 9	Financial instruments	1 January 2015	IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets and changes also some disclosure requirements as set out by IFRS 7. Per IFRS 9, all financial assets, currently within scope of IAS 39, are required to be classified into two measurement categories – those to be measured subsequently at amortised cost, and those to be measured subsequently at fair value.	The Company expects that the new IFRS 9 will have impact on classification, measurement and disclosure of financial instruments in the notes to the financial statements. However, without a detailed analysis it is not possible to perform reliable estimate of such impact as at the date of the financial statements. The Company does not expect early adoption of the standard, while the transition to IFRS 9 will probably take place after 1 January 2015. The disclosure of information in the area of financial instruments will be ruled by IFRS 7 §44S-44W.
IFRS 13	Fair value measurement	1 January 2013	Aim of the new standard is to reduce complexity, improve consistency and clarify approach to disclosure of items in the financial statements carried at fair value. The standard clearly defines fair value and gives instruction for its application in case the fair value measurement is required or allowed by another IFRS. A definition of the fair value and a single source of fair value measurement and disclosure requirement for use across IFRSs.	The Company expects that the new standard IFRS 13 will not have significant impact on the measurement of items carried at fair value. However, without a detailed analysis it is not possible to confirm this estimated impact.
IAS 1	Presentation of Financial Statements	1 July 2012	The amendments deal with disclosure of items presented in other comprehensive income. The amendments newly require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. Information to the user will be provided what proportion of total comprehensive income will be never reclassified to profit of loss for the period.	The Company expects that the amendments to IAS 1 will have impact on the extent of the disclosure of information in the Statement of comprehensive income.
IAS 19	Employee benefits	1 January 2013	Amendment to IAS 19 makes to the recognition and measurement of defined benefit pension expense and termination benefits. The standard requires recognition of all changes in the defined benefit liability and assets of the plans when they occur, introduces extended disclosures for termination benefits and clarifies many issues including classification of employee benefits.	The Company expects that the amendment to IAS 19 will have impact mainly on presentation of benefits upon employment termination. However, without a detailed analysis it is not possible to perform reliable estimate of such impacts at the date of the financial statements.

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

IFRS	Standard/Interpretation	Effective	Description
IFRS 7	Financial Instruments: Disclosures Transfers of Financial Assets	1 July 2011	The amendment enhances the disclosure requirements related to transactions including a transfer of financial assets.
IFRS 7	Disclosure: Offsetting Financial Assets and Financial Liabilities	1 January 2013	The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.
IFRS 10	Consolidated Financial Statements	1 January 2013	IFRS 10 Consolidated Financial Statements replaces previous IAS 27 and SIC-12. The new standard follows up the current principles to determine control, focuses on clarification of the definition of control, while the rules for status of control are substantially extended.
IFRS 11	Joint Arrangements	1 January 2013	IFRS 11 fully replaces IAS 31 and SIC-13. Substantial change introduced by the new standard is elimination of jointly controlled assets and elimination of proportionate consolidation.
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013	IFRS 12 deals with all disclosure requirements in respect of interests held in other reporting entities and replaces the previous standard IAS 27. The scope of the standard includes interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities (formerly "special purpose entities").
IAS 12	Deferred tax: Recovery of Underlying Assets	1 January 2012	The amendment provides an exception to the general principle as per IAS 12 for deferred tax assets and deferred tax liabilities arising from investment property carried at fair value as per IAS 40 or property, plant and equipment or intangible assets measured using the revaluation model as per IAS 16 or IAS 38.
IAS 27	Separate Financial Statements	1 January 2013	This standard replaces previous standard IAS 27. Requirements for separate financial statements remained without changes. Other parts of IAS 27 were replaced by IFRS 10.
IAS 28	Investments in Associates and Joint Ventures	1 January 2013	The amendment of IAS 28 modified the standard so that changes resulting from issuance of standards IFRS 10, IFRS 11 and IFRS 12 are reflected.
IAS 32	Financial Instruments : Offsetting Financial Assets and Financial Liabilities	1 January 2014	The amendments to IAS 32 deals with offsetting financial assets and liabilities. If clarifies condition under which the offsetting may be applied.
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	The new interpretation IFRIC 20 deals with presentation of stripping costs in the Production Phase of a Surface Mine, the initial measurement and subsequent measurement of the stripping activity asset.

New standards, amendments and interpretations disclosed in Note 1.2.2 have not yet been adopted by the European Union, except for the amendment to IFRS 7 Financial Instrument: Disclosures – Transfers of Financial Assets.

1.3 Reclassification of presented items, changes in accounting policies and comparative amounts

1.3.1 Reclassification of cash equivalents in the balance sheet

Due to more accurate presentation of cash equivalents* in the balance sheet in relation to their reconciliation to the figures reported in the cash flow statement, effective from 1 January 2011 this accounting category has been transferred from balance sheet line Other receivables and financial assets to balance sheet line Cash and Cash equivalents.

The impact of the reclassification of cash equivalents on the reported data for the comparative period 2010 is shown in the following table:

CZK million	Data reported for comparative accounting period 2010 in balance sheet as at 31 December 2011	Data reported for current accounting period 2010 in balance sheet as at 31 December 2010	Difference
Other receivables and financial assets	14,638	39,000	(24,362)
Cash and Cash equivalents	29,256	4,894	24,362

As at 1 January 2010, after the reclassification of the cash equivalents, the value of balance sheet line Other receivables and financial assets would be CZK 3,391 million and the value of balance sheet line Cash and Cash equivalents would be CZK 29,223 million.

* Short-term deposits in Volkswagen Group companies with the original maturity not exceeding 3 months have been reported as cash equivalents by the Company in 2011 and 2010.

1.3.2 Change of presentation of reversals of provisions and accruals

Effective from 1 January 2011, there has been a change in accounting policy for presentation of reversals of excess provisions and accruals, in order to increase transparency by disclosing the amounts reversed separately, instead of netting them against expenses relating to the additions to provisions and accruals. In the financial statements of the Company for the accounting period beginning on 1 January 2011, the reversals of excess provisions and accruals are recognised as part of other operating income. (In the financial statements of the Company for the accounting period beginning on 1 January 2010, the reversals of excess provisions and accruals were disclosed in the same accounting categories as their additions and utilisation). As a result of the above-mentioned fact, the reported comparative figures have been changed with impact on the income statement and on the data stated in the notes to the separate financial statements 2011 (in Note 18 Sales, in Note 19 Other operating income and in Note 27 Expenses by nature).

The following table specifies the impact of the change of the accounting policy for reversals of excess provisions and accruals on comparative figures in the income statement for the year ended 31 December 2011:

CZK million	Data reported for comparative accounting period 2010 in income statement for the year ended 31 December 2011	Data reported for current accounting period 2010 in income statement for the year ended 31 December 2010	Difference
Sales	**203,695**	**203,819**	**(124)**
Cost of sales	180,343	179,369	974
Gross profit	**23,352**	**24,450**	**(1,098)**
Distribution expenses	9,449	9,359	90
Administrative expenses	4,666	4,616	50
Other operating income	6,134	4,896	1,238

In the notes to the separate financial statements the comparative figures for 2010 have been changed, in Note 4 Information about region the item Sales - based on location of customers in the column Czech Republic has been decreased by CZK 124 million from value CZK 21,966 million to CZK 21,842 million. In Note 18 Sales, the line Cars has been decreased by CZK 101 million from value CZK 174,535 million to CZK 174,434 million and the line Spare parts and accessories has been decreased by CZK 23 million from value CZK 12,333 million to CZK 12,310 million. Due to the change in the presentation of the reversals of excess provisions and accruals, total sales have decreased by CZK 124 million.
In addition, comparative figures for 2010 have been changed in Note 19 Other operating income. The separate item Reversal of provisions and accruals has been added with the reported amount of CZK 1,238 million.
The impact of the change of the accounting policy for reversals of excess provisions and accruals on the comparative figures in Note 27 Expenses by nature is shown in the following table:

CZK million	Data reported for comparative accounting period 2010 in notes to the financial statements for the year ended 31 December 2011	Data reported for current accounting period 2010 in the notes to the financial statements for the year ended 31 December 2010	Difference
Material costs - raw materials and other supplies, goods	**138,487**	**138,227**	**260**
Production related services	**11,006**	**10,340**	**666**
Personnel costs	**15,162**	**15,101**	**61**
Wages	11,392	11,331	61
Pension benefit costs (defined contribution plans)	2,226	2,226	-
Social insurance and other personnel costs	1,544	1,544	-
Depreciation, amortisation and impairment losses	**14,167**	**14,167**	**-**
Other services	**15,636**	**15,509**	**127**
Total cost of sales, distribution and administrative expenses	**194,458**	**193,344**	**1,114**

2. Basis of preparation of financial statements

These separate financial statements have been prepared under the historical cost convention, except for fair value measurement of available-for-sale financial assets, of financial assets and financial liabilities at fair value through profit or loss, and of 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 their 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 Czech crowns (CZK), which is the Company's functional and presentation currency.
Foreign currency transactions are translated into the functional currency using the exchange rates published by the Czech National Bank prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates published by the Czech National Bank are recognised in the income statement.

2.2 Intangible assets

Purchased intangible assets are recorded at cost less cumulative amortisation and impairment losses. All research costs are recognised as expenses within the income statement 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 losses. 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. Tooling rights are capitalised as intangible assets. Capitalised costs include all direct costs as well as an appropriate portion of development-related overheads.
The cost of qualifying intangible assets also includes borrowing costs represented by interest and other costs that an entity incurs in connection with borrowing funds. A qualifying asset is an asset that necessarily takes at least one year to get ready for its intended use.
The Company ceases capitalising borrowing costs when the qualifying asset is ready for its intended use or sale.
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.
Intangible assets are amortised applying the straight-line method over their estimated useful lives as follows:

– Capitalised development costs	2 – 10 years according to the product life cycle
– Software	3 years
– Tooling rights	8 years
– Other intangible fixed assets	3 – 5 years

Estimated useful lives and depreciation method are reviewed at the end of each accounting period, the effect of any changes in estimates are accounted for prospectively.
Intangible assets not yet available for use are tested annually for possible 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 cumulative depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.
All repairs and maintenance 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.
The cost of qualifying tangible assets also includes borrowing costs represented by interest and other costs that an entity incurs in connection with borrowing of funds. A qualifying asset is an asset that necessarily takes at least one year to get ready for its intended use. The Company ceases capitalising of borrowing costs when the qualifying asset is ready for its intended use or sale.
Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives as follows:

– Buildings	9 – 50 years
– Technical equipment and machinery (incl. special tooling)	2 – 18 years
– Other equipment, operating and office equipment	3 – 25 years

Estimated useful lives and depreciation method are reviewed at the end of each accounting period, the effect of any changes in estimates are accounted for prospectively.

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 in 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, available-for-sale financial assets and investments in subsidiaries and associates. The classification depends on the purpose for which the financial assets were acquired. Management of the Company determines the classification of its financial assets at initial recognition.

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. Realised and unrealised gains 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 periods 2011 and 2010, the Company only had financial derivatives within this category (Note 2.5.3).

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 income or expenses.

In the accounting periods 2011 (2010), the Company only had, within the category of available-for-sale financial assets, investments to equity instruments that did not have quoted price in an active market.

d) Investments in subsidiaries and associates

Investments in subsidiaries and associates are carried in the separate financial statements at cost less any impairment loss.

Dividends received from such assets are presented in financial income. In case investments in subsidiaries and associates are impaired, the impairment loss is presented in the line financial expenses in income statement.

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 prices in an active market and their fair value cannot 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 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 creation 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.

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 held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial liabilities 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 2011 (2010) the Company only had financial derivatives in this category (Note 2.5.3).

b) Financial liabilities measured at amortised cost

Financial 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 currency and price 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 requirements of 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 highly probable future transactions caused by changes in foreign exchange spot rates and other price changes (arising especially from the combination of commodity and currency risk).

The changes in the spot component of currency financial derivatives that qualify as effective cash-flow hedging instruments are recognised in other comprehensive income. The changes in the forward points component of currency financial derivatives that qualify as effective cash-flow hedging instruments are recognised as a gain or loss in the income statement.

The changes in fair value of commodity swaps that qualify as effective cash-flow hedging instruments are recognised in other comprehensive income.

The cumulative balances recognised in other comprehensive income are recycled into the income statement as a gain or loss in the periods when the hedged item affects the income statement. If the timing of the hedged cash flow is deferred, in compliance with its hedging strategy the Company prolongs the maturity of the original hedging instrument. In such case the spot component of the original derivative contract is held in equity until the hedged item affects the income statement. At this moment, the balance of the spot component is recycled from other comprehensive income to the income statement and recognised as a gain 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 previously recognised in other comprehensive income from the effective part of the hedging instrument at that time remains in other comprehensive income and is reclassified to income statement 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 other comprehensive income is immediately transferred to 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 the net present value of future cash flows. The fair value of currency forwards and swaps is determined as the present value of future cash flows based on forward exchange market rates as at the balance sheet date. The fair value of commodity swaps is calculated as the present value of future cash flows based on the rates of LME (London Metal Exchange).

2.6 Current and deferred income tax

The income tax expense consists of current income tax and deferred income tax. The tax expense is recognised in the income statement with the exception of cases when it relates to items recognised in other comprehensive income or directly in equity. In such cases the current income tax and deferred income tax are recognised in other comprehensive income or directly in equity.

2.6.1 Current income tax

Tax liabilities (receivables) due for the current period and preceding periods are recognised in the amount of expected payments to or claims from tax offices, using the tax rates (and tax laws) valid in respective period. Current income tax relating to the current accounting period and to preceding periods reduced by amount already paid is recognised as a liability. If the amount already paid in the current and in preceding periods exceeds current income tax related to these periods, the difference is recognised as an asset.

2.6.2 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 or 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 in other comprehensive income (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 in other comprehensive income.

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 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.

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;
- other long-service benefits.

The entitlement to these benefits is usually conditional on the employee remaining in service for a certain service period or up to the moment of a certain work anniversary of the employee. The amount of provision corresponds with the present value of the long-term employee benefits for past service at the balance sheet date determined 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 arising from their settlement using interest rates equalling market yield of treasury bonds because there is no deep market of high-quality corporate bonds denominated in CZK. The term and currency of these corporate or treasury bonds are consistent with the currency and term 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. Discounting is based on current market interest rates.
Where there is a number of similar obligations, the likelihood that an outflow occurs upon the 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 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 whenthe products are provided to dealers outside the Company or to the delivery date in the case of direct sales to consumers.
The revenues from one-off licences are recognised in compliance with relevant contractual provisions at time of transfer of intellectual rights alternatively at time of provision of technical documentation, or technical support. Revenues from per-piece licences are recognised based on the number of cars produced in the current accounting period. 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, depreciation and impairment charges for capitalised development costs and production equipment 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.
Other operating income includes also income from reversals of excess provisions and accruals.

2.11 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.

2.12 Investment incentives and subsidies

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 reduction in the value of tangible and intangible assets.

2.13 Related parties

A related party is a person that has control or joint control over the reporting entity; has significant influence over the reporting entity; or is member of the key management personnel of the reporting entity or of a parent of the reporting entity. A related party is also an entity which is a member of the same group as the reporting entity and other entities as defined by IAS 24 article 9 par. b.

2.14 Share capital

The substance of a financial instrument, rather than its legal form, governs its classification in the Company's statement of financial position. Ordinary shares are classified as share capital. The Company typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties.
The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.
Share premium is represented by the difference between the nominal value of shares issued on share capital increase and the market price of shares and is recognised within equity.

2.15 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.

Capitalisation of development costs

The Company continuously invests in research and development of new products, which are either developed internally within the Company's research and development centre or within the Volkswagen Group. In compliance with IAS 38, for each development project the Company performs an assessment whether the project meets the development costs recognition criteria, especially the probability that the asset will generate future economic benefits. The Company's assessment is based on assumptions and estimates for the next five and more years with respect to the products future sales, development of the individual markets and automotive industry itself. Although the Company's analyses are based on the best currently available information, the risk of future changes and uncertainty with respect to future development of the assumptions applied remain significant. Please refer to Note 5 for additional information including the respective amounts.

Impairment of non-current assets

In the course of the product life cycle and in exceptional situations also before its commencement, there may be circumstances which indicate that "cash generating units" (tangible and intangible assets employed for production of vehicles of a certain model) might have suffered impairment. To determine any possible impairment, the Company estimates value in use of the cash generating units which is calculated as discounted expected future cash flows associated with the employment of the cash generating units. For determination of the estimated future cash flows, the Company applies estimates and assumptions regarding future sales of a particular product, economic development of the individual markets and development of the automotive industry during the next five and more years. Although the Company estimates the value in use of the cash generating units based on the best information and data currently available to the Company, the risk of future changes and uncertainty with respect to the future development of the applied assumptions in the following years remains significant. More detailed information about impairment losses is included in Note 5 and Note 6 in the section Impairment reviews.

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 good-will repairs (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 costs from previous calendar years of the model production. The amount of the provision for good-will repairs is determined on the basis of a management estimate of existing good-will repair costs and defined strategy of the good-will repair 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.

Provision for litigation risks

Certain events relating to the economic activities of the Company might result in disputes resolved in court and out-of-court proceedings. The risk that future cash outflows will be required to settle the claim (damages, court fees etc.) is assessed by the Company once it becomes involved in any court or out-of-court proceedings. The risk is assessed based on Company's experience with similar legal actions, reflecting the latest developments in the proceedings. A provision is recognised if it is more likely than not that an outflow of economic benefits occurs in the future. The provision is measured based on the best estimate of the expected future cash outflows. Please refer to Note 16 for additional information.

Useful lives

The estimated useful lives of individual tangible and intangible assets or classes of assets are determined based on the Company's experience with similar assets and in accordance with the expected future economic benefits of the assets, taking into account also changes in production plan and expected utilisation of these assets.

3. Financial risk management

The Company 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 Company is to minimise these risks through application of flexible hedging strategy with utilisation of various instruments. The structure of risk management in the Company is based on unified principle of risk management applied in the Volkswagen Group. The Volkswagen Group's risk management principles are in compliance with requirements of German Act on Control and Transparency in Enterprises (KonTraG).
In compliance with the Volkswagen Group policy all hedging operations are agreed and implemented in cooperation with the Treasury department of the Volkswagen Group.
Management of the Company is regularly informed of the current financial and other related risks (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.

3.1 Credit risk

Credit risk is a risk that one party to a financial instrument will cause a financial loss to 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 with financial market transactions (money market, currency conversion, derivatives transactions, etc.). Credit risk arising from operations on the financial market is managed by the Company Treasury through determination of maximal limits for individual counterparties.
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. 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. Adhering to these limits is monitored and 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. Receivables are secured by preventative and supplemental instruments.
Receivables are secured by preventative security instruments used mainly when the customer contracts are concluded. Interest on default payments is incorporated in the written contracts as an obligatory security instrument. Selected trade receivables are secured by an ownership title until full settlement of the purchase price.
Trade receivables from Volkswagen Group companies and from associates are considered to bear the least risk. Therefore the supplies of goods are performed with payment at maturity, or the supplies are covered by payment in advance, or the receivables are transferred to a factor through factoring.
Trade receivables from customers located abroad include receivables from general importers and other customers. The receivables from general importers are secured by the following instruments: payments in advance, letters of credit, documentary collection, bank guarantees, standby letters of credit and transfer of receivables to factoring. The immaterial part of receivables from other customers arises on supplies realised with settlement at maturity.
Receivables from domestic customers are divided into two groups: receivables from contractual partners bound by sales or service agreements, and from other domestic customers. The receivables arising from sales of new and used vehicles to contractual partners are transferred to factoring. Credit limits are set up for the supplies of new and used vehicles, original parts and accessories. The deliveries of goods are auto-

matically blocked in case the customer fails to settle outstanding balances on maturity and upon the set limit is exceeded. The immaterial part of supplies to other domestic customers is realised with settlement at maturity.
Different combinations of the following instruments are used as an additional security of high-risk receivables: acknowledgements of debt, payment schedules, bills of exchange, pledges, or executory note.
Loans to employees are secured by other employee guarantees.
As at 31 December 2011 (as at 31 December 2010) the Company did not hold 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 2011			
	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Loans to employees	542	-	-	542
Deposits in companies within Volkswagen Group	44,848	-	-	44,848
Positive fair value of financial derivatives	1,851	-	-	1,851
Others	238	-	-	238
Trade receivables	11,025	670	-	11,695
Cash	796	-	-	796
Total	**59,300**	**670**	**-**	**59,970**

	Carrying amount as at 31 December 2010			
	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Loans to employees	491	-	-	491
Deposits in companies within Volkswagen Group	34,378	-	-	34,378
Positive fair value of financial derivatives	2,498	-	-	2,498
Others	98	-	-	98
Trade receivables	8,593	1,131	-	9,724
Cash	4,894	-	-	4,894
Total	**50,952**	**1,131**	**-**	**52,083**

The Line Deposits in Volkswagen Group companies includes deposits with original maturity from three months to one year in total amount of CZK 21,539 million (as at 31 December 2010: CZK 10,016 million) included in balance sheet in the Line Other receivables and financial assets (see Note 9), and deposits with original maturity less than three months in total amount of CZK 23,309 million (as at 31 December 2010: CZK 24,362 million) included in balance sheet in the Line Cash and cash equivalents (see Note 11).

In the following table, the reported figures represent either book value of secured trade receivables, or the secured amount of the trade receivables if this amount is lower, determined individually for each instrument:

CZK million	2011	2010
Retention of legal ownership title to sold inventories	2,336	1,439
Bank guarantees	837	972
Letters of credit	1,230	1,154
Documentary collection	235	201
Payment in advance	-	170
Accepted deposit	19	15
Total	**4,657**	**3,951**

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 3.4.1. During the accounting period 2011 (2010) the Company did not identify any significant risk concentration on the basis of distribution region.

A significant portion of financial assets is of an intra-group nature. The Company deposited free cash through intra Group companies (as in 2010). The total volume of short-term deposits with intra-group companies amounted to CZK 45,571 million as at 31 December 2011 (as at 31 December 2010: CZK 39,173 million), out of which:

- deposits with original maturity from three months to one year included in balance sheet in the Line Other receivables and financial assets (see Note 9) in total amount of CZK 21,539 million (as at 31 December 2010: CZK 10,016 million),
- deposits with original maturity less than three months included in balance sheet in the Line Cash and cash equivalents (see Note 11) in total amount of CZK 23,309 million (as at 31 December 2010: CZK 24,362 million), and
- overnight deposits from cash pooling included in balance sheet in the Line Cash and cash equivalents (see Note 11) in total amount of CZK 723 million (as at 31 December 2010: CZK 4,795 million).

In 2011 (2010) the Company did not consider it probable that a default could occur in connection with the free cash deposited. Possible risk of unpaid receivables from third parties was individually not significant (spread between various debtors and regions).

3.1.3 Credit quality of financial assets neither past due nor impaired (CZK million)

The Company uses the following criteria when setting ratings of financial assets that are neither past due nor impaired. Solvency class 1 includes receivables, loans to related parties, secured receivables from third parties and receivables that will be subject to factoring without recourse. There is no objective evidence indicating impairment of these receivables. 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).

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2011			
Loans to employees	542	-	542
Deposits in companies within Volkswagen Group	44,848	-	44,848
Positive fair value of financial derivatives	1,851	-	1,851
Other receivables and financial assets	238	-	238
Trade receivables	10,600	425	11,025
Cash	796	-	796
Total	**58,875**	**425**	**59,300**

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2010			
Loans to employees	491	-	491
Deposits in companies within Volkswagen Group	34,378	-	34,378
Positive fair value of financial derivatives	2,498	-	2,498
Other receivables and financial assets	98	-	98
Trade receivables	8,292	301	8,593
Cash	4,894	-	4,894
Total	**50,651**	**301**	**50,952**

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

	Months past due			
	Less than 1 month	1 – 3 months	More than 3 months	Total
Trade receivables				
Balance as at 31 December 2011	**303**	**91**	**276**	**670**
Balance as at 31 December 2010	645	399	87	1,131

Receivables more than 3 months past due are represented mainly by receivables from Volkswagen group companies. The Company did not identify any need for impairment of these receivables. Out of the total amount of receivables from group companies which were past due as at 31 December 2010 (CZK 1,120 million), CZK 24 million were still not paid as at 31 December 2011.

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:

	2011	2010
Other receivables and financial assets		
Gross balance as at 31 December	152	155
Valuation allowance:		
Balance as at 1 January	(155)	(158)
Additions	-	-
Utilised	-	-
Released	3	3
Balance as at 31 December	**(152)**	**(155)**
Net balance as at 31 December	-	-
Trade receivables		
Gross balance as at 31 December	211	223
Valuation allowance:		
Balance as at 1 January	(223)	(285)
Additions	(15)	(14)
Utilised	13	19
Released	14	57
Balance as at 31 December	**(211)**	**(223)**
Net balance as at 31 December	-	-

During the accounting period 2011 (2010) the Company had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2011 (2010) the Company had valuation allowances only on financial assets included in the category of loans and receivables.

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 and its development 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.

Cash management

Since 2010, when the Company was integrated into the "Global Treasury Platform" of Volkswagen Group (GTP) which is operated by Volkswagen Group Services (VGS) located in Brussels, centralisation and optimalisation of processes is ensured within the Volkswagen Group in the areas of cash management, payments system and liquidity management.

The GTP implementation resulted in changes in the system of outgoing and incoming payments. The outgoing payments are processed on behalf of the Company by VGS, based on payment orders placed by the Company and are transferred from a bank account held by VGS.

The incoming payments are credited to Company's bank accounts and subsequently at the end of each working day they are automatically transferred to VGS' bank accounts (master account). Terms of such transactions are defined within the cash pooling concept agreed upon between the Company, the bank and VGS. All incoming payments are translated into Czech crowns and credited to the Company's bank account at the "Inhouse Bank" (IHC) operated by VGS, where the differences between debit and credit balances on the collected financial resources are netted-off.

Major instruments used to maintain sufficient liquidity resources are represented by short-term and long-term financial plans, coordination of free liquidity management within the GTP, active cooperation with banks (credit lines) and monitoring of the situation at money market and capital market. Sufficient resources of liquidity are ensured mainly through resources from other Volkswagen Group companies integrated into the GTP and, to a limited extent, through credit lines arranged with external banks.

The total amount of credit lines from banks as at 31 December 2011 was CZK 8,440 million (as at 31 December 2010: CZK 10,618 million). All credit lines are contracted in Czech crowns. The Company has not utilised any agreed bank credit lines as at 31 December 2011 (as at 31 December 2010: CZK 0).

The credit line from the Volkswagen Group in the total amount of CZK 3,000 million was drawn in the whole amount as at 31 December 2011 (as at 31 December 2010).

Contractual maturity analysis (undiscounted amounts in CZK million)

	Less than 3 months	3 – 12 months	1 – 5 years	Longer than 5 years	Total
Balance as at 31 December 2011					
Cash	796	-	-	-	796
Deposits in companies within Volkswagen Group	39,382	5,516	-	-	44,898
Other receivables and financial assets (except derivatives)	210	134	364	94	802
Trade receivables	11,301	394	-	-	11,695
Financial liabilities	(138)	-	(3,276)	-	(3,414)
Trade payables	(23,074)	(569)	(115)	-	(23,758)
Derivatives with positive fair value:					
Currency forwards and swaps					
Inflow of financial resources	4,305	20,500	13,912	-	38,717
Outflow of financial resources	(4,125)	(19,567)	(13,292)	-	(36,984)
Commodity swaps	5	10	92	-	107
Derivatives with negative fair value:					
Currency forwards and swaps					
Inflow of financial resources	11,642	26,496	65,514	-	103,652
Outflow of financial resources	(12,419)	(28,534)	(70,891)	-	(111,844)
Commodity swaps	(14)	(48)	(102)	-	(164)
Total	**27,871**	**4,332**	**(7,794)**	**94**	**24,503**

Contractual maturity analysis (undiscounted amounts in CZK million)

	Less than 3 months	3 – 12 months	1 – 5 years	Longer than 5 years	Total
Balance as at 31 December 2010					
Cash	4,894	-	-	-	4,894
Deposits in companies within Volkswagen Group	24,388	10,052	-	-	34,440
Other receivables and financial assets (except derivatives)	50	143	319	79	591
Trade receivables	9,300	424	-	-	9,724
Financial liabilities	(138)	-	(3,414)	-	(3,552)
Trade payables	(19,405)	(2,580)	-	-	(21,985)
Derivatives with positive fair value:					
Currency forwards and swaps					
Inflow of financial resources	7,878	21,987	33,893	-	63,758
Outflow of financial resources	(7,577)	(21,063)	(33,128)	-	(61,768)
Commodity swaps	25	71	269	-	365
Derivatives with negative fair value:					
Currency forwards and swaps					
Inflow of financial resources	4,663	13,730	30,446	-	48,839
Outflow of financial resources	(4,932)	(14,423)	(31,775)	-	(51,130)
Total	**19,146**	**8,341**	**(3,390)**	**79**	**24,176**

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 and currency swaps are used as hedging instruments for elimination of currency risk. 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 financial products (derivatives). Contracts are concluded upon the Company's request and in its name by the Treasury Department of the Volkswagen Group. The risk resulting from changes in exchange rates against CZK is hedged for a total of 11 currencies. The most important trading currencies are USD, EUR, GBP, CHF, PLN and RUB. 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 instrument 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 cash deposits at Volkswagen Group companies.

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, especially commodity prices (apart from that which result from currency and interest risk).

Due to the continuous volatility in the prices of the raw material commodities 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.

In 2011 (2010), the Company was hedging against price risks in general (as a consequence of changes in particular commodity prices and foreign exchange rates) through commodity swaps (for copper and aluminium) and currency forwards. Those financial derivatives are subject to hedge accounting — hedging of future cash flows.

The Company had in 2011 (2010) no significant trading derivatives.

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 2011		Balance as at 31 December 2010		Balance as at 31 December 2011		Balance as at 31 December 2010	
	With positive fair value	With negative fair value	With positive fair value	With negative fair value	Positive	Negative	Positive	Negative
Currency instruments								
Currency forwards - cash flow hedging	36,895	107,628	60,303	48,837	1,696	6,493	2,045	2,231
Currency swaps - cash flow hedging	1,632	4,193	1,709	2,076	50	277	94	113
Commodity instruments								
Commodity swaps - cash flow hedging	1,243	1,468	1,475	-	105	160	359	-
Total	**39,770**	**113,289**	**63,487**	**50,913**	**1,851**	**6,930**	**2,498**	**2,344**

The fair values of financial derivatives fulfil the criteria of level 2 in compliance with the IFRS 7 hierarchy (the fair values are derived from market quotations of forward exchange rates, commodity prices and yield curves, however the financial derivatives are not directly traded on active financial markets).

Volume of hedged cash flows (CZK million)

Balance as at 31 December 2011	Volume of hedged cash flows		
	Within 1 year	1 - 5 years	Total
Currency risk exposure			
Hedging of future cash flows - future receivables	49,167	70,354	119,521
Hedging of future cash flows - future liabilities	(15,289)	(10,596)	(25,885)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows - future liabilities	(609)	(1,921)	(2,530)
Total	**33,269**	**57,837**	**91,106**

Balance as at 31 December 2010	Volume of hedged cash flows		
	Within 1 year	1 - 5 years	Total
Currency risk exposure			
Hedging of future cash flows - future receivables	33,295	51,404	84,699
Hedging of future cash flows - future liabilities	(14,209)	(12,517)	(26,726)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows - future liabilities	(490)	(1,077)	(1,567)
Total	**18,596**	**37,810**	**56,406**

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 the EU countries (EUR), with countries using USD as transaction currency, and with the subsidiary Skoda Auto India Private Ltd. located in India (invoicing performed in 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 analysis of exposure arising from derivative financial assets and liabilities and 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 compared to those published by Czech National Bank. In 2011 the Company considers the movements of exchange rates EUR, USD, CHF and GBP against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK) as possible. In 2010 the Company considered the movements of exchange rates of EUR, USD, CHF and GBP against CZK in the following period of +10% (appreciation of CZK) and -10% (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 tables present possible impact on profit and loss and on equity before tax of expected possible appreciation or depreciation of CZK to foreign currencies:

2011 (CZK million)	CZK appreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	767	(84)	(10)	5	(400)	278
Derivative financial instruments	10	(41)	2	(68)	(83)	(180)
Equity						
Derivative financial instruments	(2,510)	2,307	2,436	3,323	3,739	9,295

2011 (CZK million)	CZK depreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	(767)	84	10	(5)	400	(278)
Derivative financial instruments	(10)	41	(2)	68	83	180
Equity						
Derivative financial instruments	2,510	(2,307)	(2,436)	(3,323)	(3,739)	(9,295)

2010 (CZK million)	CZK appreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	995	(105)	-	-	(272)	618
Derivative financial instruments	45	(39)	(14)	(75)	(72)	(155)
Equity						
Derivative financial instruments	(2,608)	1,598	1,700	2,270	2,658	5,618

2010 (CZK million)	CZK depreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	(995)	105	-	-	272	(618)
Derivative financial instruments	(45)	39	14	75	72	155
Equity						
Derivative financial instruments	2,608	(1,598)	(1,700)	(2,270)	(2,658)	(5,618)

3.4.2 Sensitivity to interest rates

The Company is exposed to interest risk mainly in relation to short-term deposits provided to Volkswagen Company companies.

The analysis of sensitivity to changes in interest rates was based on exposure to derivative financial assets and liabilities as at balance sheet date in the same way as for the non-derivative financial assets.

In 2011 the Company assumes possible movements of the yield curve in the following period for loans, bank deposits and currency forwards and swaps by +100/-25 basis points. (In 2010, the Company assumed for bonds and interest rate swaps possible movements of the yield curve in the following period for loans and bank deposits by +100/-25 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 non-derivative financial instruments, the impact on profit and loss is determined on the basis of defined change in the interest rate, which would arise at the beginning of the next accounting period and based on the assumption that no other changes in the interest rate would occur during the entire accounting period.

The following tables present possible impact on profit and loss and on equity before tax of expected increase or decrease of interest rates:

2011 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Income statement		
Non-derivative financial instruments	454	(114)
Derivative financial instruments	91	(23)
Total	**545**	**(137)**
Equity		
Derivative financial instruments	-	-

2010 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Income statement		
Non-derivative financial instruments	348	(87)
Derivative financial instruments	-	-
Total	**348**	**(87)**
Equity		
Derivative financial instruments	(7)	2

3.4.3 Sensitivity to changes in other price risks

The Company is exposed to a combination of commodity and currency risks due to volatility in prices of particular commodities traded in foreign currencies. This risk of change in cash flows is hedged by a combination of commodity swaps and currency forwards. The sensitivity analysis to changes in commodity prices was determined based on the exposure to derivative financial assets and liabilities as at the balance sheet date. In 2011 (2010) the Company assumes potential movements in aluminium prices in the following period of +/-10%. In 2011, the Company assumes potential movements in copper prices in the following period of +/-20%. The Company considers changes in the fair values of derivative financial instruments due to changes in spot commodity prices. Other non-derivative financial assets and liabilities are deemed to not be sensitive to changes in commodity prices since the prices are fixed at the time of recognition of the financial liability or asset.

The following tables represent a possible impact on equity before tax of expected increase or decrease of copper and aluminium prices:

2011 (CZK million)	Increase of copper prices +20%	Decrease of copper prices (20)%	Increase of aluminium prices +10%	Decrease of aluminium prices (10)%
Equity				
Derivative financial instruments	270	(270)	120	(120)

2010 (CZK million)	Increase of copper prices +20%	Decrease of copper prices (20)%	Increase of aluminium prices +10%	Decrease of aluminium prices (10)%
Equity				
Derivative financial instruments	130	(130)	110	(110)

The possible impact on income statement was assessed by the Company as immaterial.

3.5 Capital risk management

The optimal capitalisation of the Company is the result of a compromise between two interests: return on capital and the Company's capacity to meet all of its liabilities due for payment.
It is the objective of the capital management function to maintain an adequate owned to borrowed capital ratio to guarantee due payments of all financial liabilities while promoting a continued growth of the Company's value for the shareholders.
The ratios of equity and of borrowed capital on total capital are shown in the following table:

CZK million	2011	2010
Equity	**80,407**	**75,682**
Equity ratio	59.3%	61.9%
Non-current financial liabilities	3,000	3,000
Current financial liabilities	107	107
Total financial liabilities	**3,107**	**3,107**
Ratio of financial liabilities to total liabilities	2.3%	2.5%
Total equity and liabilities	**135,571**	**122,267**

4. Geographical information

The Company's head office and main production facilities are situated in the Czech Republic.
The Company's sales are generated from five basic geographical regions: the Czech Republic; Germany; Western Europe-Other; Central and Eastern Europe; and Overseas/Asia/Africa/Australia. Overseas/Asia/Africa/Australia region is due to its immateriality reported as Unallocated. In regions Western Europe-Other, Central and Eastern Europe and in category Unallocated, there is no individual country has more than a 10% share of total sales.

2011 (CZK million)	Czech Republic	Germany	Western Europe - Other	Central and Eastern Europe	Unallocated	Total
Sales - based on location of customers	22,084	55,579	83,877	45,274	24,928	231,742
Non-current assets*	59,457	198	-	1,872	-	61,527

2010 (CZK million)	Czech Republic	Germany	Western Europe - Other	Central and Eastern Europe	Unallocated	Total
Sales - based on location of customers	21,842	47,675	75,449	38,066	20,663	203,695
Non-current assets*	54,893	198	-	1,872	1,141	58,104

* Non-current assets other than financial instruments and deferred tax assets.

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 2011	**24,577**	**2,143**	**6,600**	**33,320**
Additions	22	3,284	1,877	5,183
Disposals	(2,931)	-	(288)	(3,219)
Transfers	42	(42)	-	-
Balance as at 31 December 2011	**21,710**	**5,385**	**8,189**	**35,284**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2011	**(16,228)**	**-**	**(4,240)**	**(20,468)**
Amortisation	(2,314)	-	(434)	(2,748)
Impairment losses	(758)	-	(998)	(1,756)
Disposals and transfers	2,931	-	288	3,219
Balance as at 31 December 2011	**(16,369)**	**-**	**(5,384)**	**(21,753)**
Carrying amount as at 31 December 2011	**5,341**	**5,385**	**2,805**	**13,531**

	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 2010	**22,489**	**1,138**	**4,933**	**28,560**
Additions	950	2,143	1,713	4,806
Disposals	-	-	(46)	(46)
Transfers	1,138	(1,138)	-	-
Balance as at 31 December 2010	**24,577**	**2,143**	**6,600**	**33,320**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2010	**(12,570)**	**-**	**(3,023)**	**(15,593)**
Amortisation	(2,932)	-	(590)	(3,522)
Impairment losses	(726)	-	(672)	(1,398)
Disposals and transfers	-	-	45	45
Balance as at 31 December 2010	**(16,228)**	**-**	**(4,240)**	**(20,468)**
Carrying amount as at 31 December 2010	**8,349**	**2,143**	**2,360**	**12,852**

Other intangible assets include mainly tooling rights, software and software licences.
Amortisation and impairment losses of intangible assets of CZK 4,365 million (2010: CZK 4,777 million) are included in the cost of sales, CZK 13 million (CZK 2010: 13 million) in distribution expenses, and CZK 126 million (2010: CZK 130 million) in administrative expenses.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Company's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and their potential impact on the carrying amount of the Company's non-current intangible assets. Due to substantial changes in the market environment, the Company has experienced in 2011 a significant decrease in the planned cash inflows relating to three cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed. The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans, approved by the Company's management.
For discounting cash flows, the discount rate of 6.8% has been applied in 2011 (2010: 6.4%), reflecting the specific risks associated with the sector in which the Company operates. For two cash-generating units, the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to intangible assets in the amount of CZK 1,756 million (2010: CZK 1,398 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2011 (31 December 2010).

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2011, the Company applied the capitalisation rate of 4.5% (2010: 3.8%). No borrowing costs have been capitalised in the cost of intangible assets in 2011 or 2010 as they were not significant.

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

	2011	2010
Research and non-capitalised development costs	6,061	4,564
Amortisation and impairment losses of development costs	3,072	3,658
Research and development costs recognised in the income statement	**9,133**	**8,222**

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 2011	**29,680**	**58,432**	**45,427**	**7,433**	**140,972**
Additions	941	1,468	917	8,697	12,023
Disposals	(64)	(1,913)	(1,337)	(1)	(3,315)
Transfers	454	2,784	603	(3,841)	-
Balance as at 31 December 2011	**31,011**	**60,771**	**45,610**	**12,288**	**149,680**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2011	**(11,931)**	**(49,591)**	**(37,938)**	**-**	**(99,460)**
Amortisation	(1,098)	(3,106)	(3,400)	-	(7,604)
Impairment losses	(7)	(18)	(468)	-	(493)
Disposals and transfers	26	1,915	1,333	-	3,274
Balance as at 31 December 2011	**(13,010)**	**(50,800)**	**(40,473)**	**-**	**(104,283)**
Carrying amount as at 31 December 2011	**18,001**	**9,971**	**5,137**	**12,288**	**45,397**

	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 2010	**29,299**	**60,332**	**44,939**	**3,539**	**138,109**
Additions	197	873	1,385	5,839	8,294
Disposals	(45)	(3,680)	(1,706)	-	(5,431)
Transfers	229	907	809	(1,945)	-
Balance as at 31 December 2010	**29,680**	**58,432**	**45,427**	**7,433**	**140,972**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2010	**(10,521)**	**(49,773)**	**(35,274)**	**-**	**(95,568)**
Amortisation	(1,073)	(3,297)	(3,793)	-	(8,163)
Impairment losses	(358)	(177)	(549)	-	(1,084)
Disposals and transfers	21	3,656	1,678	-	5,355
Balance as at 31 December 2010	**(11,931)**	**(49,591)**	**(37,938)**	**-**	**(99,460)**
Carrying amount as at 31 December 2010	**17,749**	**8,841**	**7,489**	**7,433**	**41,512**

Depreciation and impairment losses of the buildings and equipment of CZK 7,444 million (2010: CZK 8,725 million) are included in the cost of sales, CZK 160 million (2010: CZK 100 million) in distribution expenses, and CZK 493 million (2010: CZK 422 million) in administrative expenses.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Company's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and its potential impact on the carrying amount of the Company's non-current tangible assets. Due to substantial changes in the market environment, the Company has experienced in 2011 a significant decrease in the planned cash inflows relating to two cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed.
The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans, approved by the Company's management.
For discounting cash flows, the discount rate of 6.8% has been applied in 2011 (2010: 6.4%), reflecting the specific risks associated with the sector in which the Company operates. For one cash-generating unit, the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to tangible assets in the amount of CZK 493 million (2010: CZK 1,084 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2011 (31 December 2010).

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2011, the Company applied the capitalisation rate of 4.5% (2010: 3.8%). No borrowing costs have been capitalised in the cost of property, plant and equipment in 2011 or in 2010 as they were not significant.

7. Investments in subsidiaries

	Country of incorporation	Shareholding %
Subsidiaries:		
ŠKODA AUTO Deutschland GmbH	Germany	100
ŠKODA AUTO Slovensko, s.r.o.	Slovakia	100
Skoda Auto Polska S.A.	Poland	51
Skoda Auto India Private Ltd.	India	100

The subsidiaries in which the Company has a financial investment paid dividends to the Company in the amount of CZK 263 million (2010: CZK 598 million).

Impairment reviews

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Company's management in relation to the development of the automotive industry and planned volumes of sold cars and the potential impacts on the carrying amount of the Company's financial investments in subsidiaries. The Company's management has performed an impairment review of the cash-generating unit, for which the development of the automotive industry and planned volumes of sold cars indicated a possible impairment loss. Carrying value of the financial investment in the subsidiary has been compared with the relevant recoverable amount. The recoverable amount has been determined based on the calculation of the value in use applying cash flow projections over the following five years, reflecting financial plans approved by the Company's management.

Cash flows beyond the five years period have been extrapolated with estimated growth rate which is not higher than expected long-term average growth rate in the automotive industry. For determination of the value in use of the financial investment in 2011 (2010), estimated growth rate of 1% has been applied. The applied discount rate is pre-tax and reflects specific risks associated with the sector and the region in which the reviewed company operates. In 2011, discount rate of 7.3% (2010: 7.1%) has been applied. For one cash-generating unit, the comparison of the carrying amount with the relevant recoverable amount resulted in an impairment loss in the amount of CZK 1,141 million (2010: CZK 0 million), which has been posted to the income statement (within line Financial expense for the year ended 31 December 2011).

8. Investments in associates (CZK million)

	2011	2010
Total Assets	52,911	45,480
Total Liabilities	49,623	43,728
Total Revenue	121,296	74,165
Profit (+)/ Loss (-) (aggregated)	1,600	(1,743)

The table above summarises financial data of the associates OOO VOLKSWAGEN Group Rus and ŠKO-ENERGO FIN, s.r.o.

The Company's share in the registered capital of the company OOO VOLKSWAGEN Group Rus as at 31 December 2011 was 16.8% (31 December 2010: 16.8%). The Company's share of profits or losses of this associate as at 31 December 2011 was 17.91% (31 December 2010: 17.91%). The Company exercises significant

influence in the company OOO VOLKSWAGEN Group Rus based on the following factors: the Company has its representatives in the governing body; the Company is participating in policy-making processes, including participation in decisions about distribution of profit; material transactions are conducted between both companies; an interchange of managerial personnel takes places between both companies and the Company is providing essential technical information to the company OOO VOLKSWAGEN Group Rus.
As at 1 October 2010, the Company acquired additional share in the registered capital of ŠKO-ENERGO FIN, s.r.o. from 10% to 31.25% and as a result ŠKO-ENERGO FIN s.r.o. became the Company's associate. The value of the Company's share totalled CZK 529 million as at 31 December 2011 (as at 31 December 2010: CZK 529 million).
ŠKO-ENERGO FIN paid dividends to the Company in the amount of CZK 104 million (2010: CZK 71 million).

Impairment reviews

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Company's management in relation to the development of the automotive industry and planned volumes of sold cars and the potential impacts on the carrying amount of the Company's financial investments in associates. Based on analyses performed, no factors have been identified which would indicate a need to recognise impairment losses with an exception of future economic benefits arising from investment in OOO VOLKSWAGEN Group Rus, associate accounted for using the equity accounting. The Company's management has therefore performed an impairment review of this cash-generating unit. Carrying value of the financial investment in the associate has been compared with the relevant recoverable amount. The recoverable amount has been determined based on the calculation of the value in use applying cash flow projections over the following five years, reflecting financial plans approved by the Company's management. Cash flows beyond the five years period have been extrapolated with estimated growth rate which is not higher than expected long-term average growth rate in the automotive industry. The applied discount rate is post-tax and reflects specific risks associated with the sector and the region in which the reviewed company operates. In 2011, discount rate of 9.5% (2010: 9.3%) has been applied. The comparison of the carrying amounts with the relevant recoverable amount has not given rise to any impairment loss as at 31 December 2011 or 31 December 2010.

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

Balance as at 31 December 2011	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	-	542	-	-	-	542
Deposits in companies within Volkswagen Group	-	21,539	-	-	-	21,539
Positive fair value of financial derivatives	(242)	-	-	2,093	-	1,851
Available for sale financial assets	-	-	4	-	-	4
Tax receivables (excl. income tax)	-	-	-	-	3,574	3,574
Others	-	238	-	-	297	535
Total	**(242)**	**22,319**	**4**	**2,093**	**3,871**	**28,045**
Trade receivables						
Third parties	-	2,773	-	-	-	2,773
Subsidiaries	-	955	-	-	-	955
Other related parties	-	7,967	-	-	-	7,967
Total	**-**	**11,695**	**-**	**-**	**-**	**11,695**

* The category Other does not meet a definition of financial instruments in terms of IAS 32.
** Financial assets held for trading.

Note:
The line Positive fair value of financial derivatives in the portfolio Financial assets designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial assets at fair value through profit and loss it is represented by the forward component of financial derivatives (see also Note 2.5.3). As the spot component exceeded the fair value as at 31 December 2011, the forward component was negative.

Balance as at 31 December 2010	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	-	491	-	-	-	491
Deposits in companies within Volkswagen Group	-	10,016	-	-	-	10,016
Positive fair value of financial derivatives	(191)	-	-	2,689	-	2,498
Available for sale financial assets	-	-	4	-	-	4
Tax receivables (excl. income tax)	-	-	-	-	2,834	2,834
Others	-	98	-	-	235	333
Total	**(191)**	**10,605**	**4**	**2,689**	**3,069**	**16,176**
Trade receivables						
Third parties	-	2,442	-	-	-	2,442
Subsidiaries	-	1,446	-	-	-	1,446
Other related parties	-	5,836	-	-	-	5,836
Total	**-**	**9,724**	**-**	**-**	**-**	**9,724**

* The category Other does not meet a definition of financial instruments in terms of IAS 32.
** Financial assets held for trading.

Note:
The line Positive fair value of financial derivatives in the portfolio Financial assets designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial assets at fair value through profit and loss it is represented by the forward component of financial derivatives (see also Note 2.5.3). As the spot component exceeded the fair value as at 31 December 2011, the forward component was negative.

The carrying amount of loans to employees approximates their fair value. The carrying amount net of impairment for each class of financial assets which are not carried at fair value approximates their fair value due to the short-term nature of these items.
The item Deposits in companies within Volkswagen Group comprises deposits in the amount of CZK 21,539 million (as at 31 December 2010: CZK 10,016 million) with original maturity from three months to one year. The weighted average effective interest rate based on the carrying amount of deposits provided to Volkswagen Group companies as at 31 December 2011 was 0.88% (31 December 2010: 1.03%). All deposits provided to Volkswagen Group companies with original maturity from three months to one year are denominated in CZK as at 31 December 2011 (as at 31 December 2010).
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 211 million (2010: CZK 223 million) has been deducted from the presented carrying values of trade receivables. Due to their short term nature the carrying amount of trade receivables approximates the fair value as at the balance sheet date after the valuation allowance is taken into account.

10. Inventories (CZK million)

	Carrying value as at 31 December 2011	Carrying value as at 31 December 2010
Structure of the inventories		
Raw materials, consumables and supplies	2,745	2,904
Work in progress	2,171	1,517
Finished products and goods	3,521	4,239
Total	**8,437**	**8,660**

The amount of inventories recognised as an expense during 2011 was CZK 196,167 million (2010: CZK 176,544 million).

11. Cash and cash equivalents (CZK million)

	2011	2010
Cash in hand	4	3
Cash pooling	723	4,795
Bank accounts	69	96
Cash equivalents	23,309	24,362
Total	**24,105**	**29,256**

The line Cash pooling includes also overnight deposits from the use of cash pooling (Note 3.2). The line cash equivalents includes deposits in Volkswagen Group companies with original maturity less than three months. These deposits are included in the portfolio Loans and receivables in terms of IAS 39.
The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2011 was 0.002% (as at 31 December 2010: 0.20%). The weighted average effective interest rate based on the carrying amount of deposits in Volkswagen Group companies with original maturity less than three months as at 31 December 2011 was 0.64% (as at 31 December 2010: 0.95%). All deposits provided to Volkswagen Group companies with original maturity less than three months are denominated in CZK.

12. Share capital

The issued share capital consists of 1,670,885 ordinary shares at par value of CZK 10,000 per share. The Company's sole shareholder Volkswagen International Finance N.V., Amsterdam, The Kingdom of the Netherlands, holds 100% of the shares in the Company. 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 2011 (2010).
The Company paid a dividend of CZK 4,702 million in 2011 (2010: CZK 1,634 million). The dividend per share was CZK 2,814 in 2011 (2010: CZK 978).

13. Reserves (CZK million)

	2011	2010
Reserves for cash flow hedges*	(4,546)	315
Statutory reserve fund	3,366	3,366
Funds contributed by owner	10	10
Retained earnings	63,290	53,704
Total	**62,120**	**57,395**

* Net of deferred tax from financial derivatives.

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 2011 (determined in accordance with IFRS) is going to be appropriated based on the decision of the Company's annual general meeting.
Movement in reserve for cash flow hedges:

Balance as at 1 January 2011 (CZK million)	**315**
Total change in fair value in the period	(4,543)
Deferred tax on change in fair value	875
Total transfers to net profit in the period - effective hedging	(1,481)
Total transfers to net profit in the period - ineffective hedging	8
Deferred tax on transfers to net profit	280
Balance as at 31 December 2011	**(4,546)**

Balance as at 1 January 2010 (CZK million)	**922**
Total change in fair value in the period	(692)
Deferred tax on change in fair value	130
Total transfers to net profit in the period - effective hedging	5
Total transfers to net profit in the period - ineffective hedging	(61)
Deferred tax on transfers to net profit	11
Balance as at 31 December 2010	**315**

The transfer from reserves for cash flow hedges to profit and loss arising from effective hedging is in 2011 presented in the line Other operating expense in amount of CZK 1,074 million (2010: CZK 1,100 million, in 2010 this amount included also effective hedging loss of CZK 59 million disclosed in financial result) and in the line Other operating income in amount of CZK 2,555 million (2010: CZK 1,095 million).

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

Balance as at 31 December 2011	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans	-	3,107	-	-	3,107
Total	**-**	**3,107**	**-**	**-**	**3,107**
Other liabilities					
Negative fair value of financial derivatives	(742)	-	7,672	-	6,930
Liabilities to employees	-	-	-	1,679	1,679
Social security	-	-	-	429	429
Others	-	-	-	603	603
Total	**(742)**	**-**	**7,672**	**2,711**	**9,641**
Trade liabilities					
Third parties	-	15,905	-	222	16,127
Subsidiaries	-	825	-	433	1,258
Other related parties	-	7,028	-	53	7,081
Total	**-**	**23,758**	**-**	**708**	**24,466**

* The category Other includes items that are not financial liabilities in terms of IAS 32.
** Financial liabilities held for trading.

Note:
The line Negative fair value of financial derivatives in the portfolio Financial liabilities designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial liabilities at fair value through profit or loss it is represented by the forward component of financial derivatives (see also Note 2.5.3). As the spot component exceeded the fair value as at 31 December 2011, the forward component is negative.

Balance as at 31 December 2010	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans	-	3,107	-	-	3,107
Total	**-**	**3,107**	**-**	**-**	**3,107**
Other liabilities					
Negative fair value of financial derivatives	26	-	2,318	-	2,344
Liabilities to employees	-	-	-	2,167	2,167
Social security	-	-	-	389	389
Others	-	-	-	279	279
Total	**26**	**-**	**2,318**	**2,835**	**5,179**
Trade liabilities					
Third parties	-	15,405	-	330	15,735
Subsidiaries	-	1,237	-	455	1,692
Other related parties	-	5,344	-	58	5,402
Total	**-**	**21,986**	**-**	**843**	**22,829**

* The category Other includes items that are not financial liabilities in terms of IAS 32.
** Financial liabilities held for trading.

Note:
The line Negative fair value of financial derivatives in the portfolio Financial liabilities designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial liabilities at fair value through profit and loss it is represented by the forward component of financial derivatives (see also Note 2.5.3)

The line "Trade liabilities to other related parties" includes liabilities to a factoring company within the Volkswagen Group of CZK 1,138 million as at 31 December 2011 (2010: CZK 1,118 million). These liabilities arose in the ordinary course of business and do not represent financing of the Company.
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 financial liabilities (trade payables and loans) approximates the fair value in all material respects.
None of the financial liabilities are secured by a lien.

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

Carrying amount as at 31 December 2011

Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity < 1 year	Maturity 1-5 years	Maturity > 5 years	Total
CZK	fixed	1-5 years	4.53%	3,000	107	3,000	-	3,107
Total financial liabilities				**3,000**	**107**	**3,000**	**-**	**3,107**

Carrying amount as at 31 December 2010

Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity < 1 year	Maturity 1-5 years	Maturity > 5 years	Total
CZK	fixed	1-5 years	4.53%	3,000	107	3,000	-	3,107
Total financial liabilities				**3,000**	**107**	**3,000**	**-**	**3,107**

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.
As at 31 December 2011 the Company recognised on the balance sheet deferred tax asset of CZK 1,762 million (2010: deferred tax liability CZK 347 million).
The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting, are as follows:

	Depreciation	Financial derivatives*	Provisions, Valuation allowances	Other	Total
Deferred tax liabilities					
Balance as at 1 January 2010	**(3,187)**	**(227)**	**-**	**-**	**(3,414)**
Credited/(debited) to the income statement	405	-	-	-	405
Charged to other comprehensive income	-	141	-	-	141
Balance as at 31 December 2010	**(2,782)**	**(86)**	**-**	**-**	**(2,868)**
Credited/(debited) to the income statement	102	-	-	-	102
Charged to other comprehensive income	-	86	-	-	86
Balance as at 31 December 2011	**(2,680)**	**-**	**-**	**-**	**(2,680)**

* Further information on financial derivatives is disclosed in Note 2.5.3.

	Depreciation	Financial derivatives*	Provisions, Valuation allowances	Other	Total
Deferred tax assets					
Balance as at 1 January 2010	**-**	**-**	**2,167**	**472**	**2,639**
Credited/(debited) to the income statement	-	-	487	89	576
Charged to other comprehensive income	-	-	-	-	-
Balance as at 31 December 2010	**-**	**-**	**2,654**	**561**	**3,215**
Credited/(debited) to the income statement	-	-	282	(124)	158
Charged to other comprehensive income	-	1,069	-	-	1,069
Balance as at 31 December 2011	**-**	**1,069**	**2,936**	**437**	**4,442**

* Further information on financial derivatives is disclosed in Note 2.5.3.

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	Provisions for litigation risks	Provisions for purchase risks	Other provisions	Total
Balance as at 1 January 2010	**7,807**	**921**	**1,202**	**317**	**958**	**284**	**16**	**11,505**
Utilised	(2,119)	(861)	(434)	-	-	(159)	(16)	(3,589)
Additions	3,160	1,037	756	-	391	760	1,059	7,163
Interest expense (+)/ income (-)	74	-	-	(4)	-	-	-	70
Reversals	(542)	(60)	(20)	(94)	-	(101)	-	(817)
Balance as at 1 January 2011	**8,380**	**1,037**	**1,504**	**219**	**1,349**	**784**	**1,059**	**14,332**
Utilised	(2,393)	(991)	(391)	-	(1)	(161)	(478)	(4,415)
Additions	3,344	1,346	1,655	-	61	719	1,082	8,207
Interest expense (+)/ income (-)	147	-	-	-	-	-	-	147
Reversals	(142)	(46)	(190)	(195)	(176)	(611)	(145)	(1,505)
Balance as at 31 December 2011	**9,336**	**1,346**	**2,578**	**24**	**1,233**	**731**	**1,518**	**16,766**

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

	< 1 year	1-5 years	> 5 years	Total
Balance as at 31 December 2011				
Provisions for warranty claims	2,974	5,369	993	9,336
Provisions for other obligations arising from sales	1,346	-	-	1,346
Provisions for personnel costs	1,603	291	684	2,578
Provisions for the disposal of end-of-life vehicles	-	-	24	24
Provisions for litigation risks	1,233	-	-	1,233
Provisions for purchase risks	731	-	-	731
Other provisions	1,518	-	-	1,518
Total	**9,405**	**5,660**	**1,701**	**16,766**

	< 1 year	1-5 years	> 5 years	Total
Balance as at 31 December 2010				
Provisions for warranty claims	3,194	4,496	690	8,380
Provisions for other obligations arising from sales	1,037	-	-	1,037
Provisions for personnel costs	605	292	607	1,504
Provisions for the disposal of end-of-life vehicles	-	-	219	219
Provisions for litigation risks	1,349	-	-	1,349
Provisions for purchase risks	784	-	-	784
Other provisions	1,059	-	-	1,059
Total	**8,028**	**4,788**	**1,516**	**14,332**

The provision for warranty repairs includes provisions for basic guarantees (2 years), provisions for corrosion guarantees (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic warranty (two years) especially good-will repairs (the 3rd and 4th year). The Company recognises the provision 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.

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 other long-term employee benefits, severance payments and provision for management personnel remuneration.

Provisions for disposal of end-of-life vehicles relate to costs of liquidation of end-of-life vehicles according to EU directive no. 2000/53/EC and are determined mainly on the basis of registered cars, official statistics and expected costs of the cars ecological scrapping.

Provisions for litigation risks relate mainly to provision for risks legal fees, penalty interest and other risks arising from legal proceedings. The Company provides for the probable cash outflows for existing legal and arbitration proceedings by means of a relevant provision.

The Company is not involved in any legal cases or arbitration proceedings for which no provision has been created and which could have a significant impact on the financial position and the financial results (financial statements) of the Company and there are no such proceedings expected in the near future.
Provisions for purchase risks include mainly provision for risks of retrospective changes in prices of raw materials and parts.
Other provisions include mainly provision for tax and customs risks in countries where the Company operates.

17. Cash flow statement

The cash and cash equivalents contained in the cash flow statement also comprise, in addition to cash and short-term deposits, short-term deposits in Volkswagen Group companies with original maturity of less than three months. The detailed information relating to the cash and cash equivalents can be found under Note 11.
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)

	2011	**2010**
Cars	197,746	174,434
Spare parts and accessories	13,071	12,310
Supplies of components within Volkswagen Group	15,366	14,071
Revenues from license fees	1,265	702
Services related to sales	180	150
Other	4,114	2,028
Total	**231,742**	**203,695**

Other sales relate mainly to sales of results of technical development, scrap and tooling.

19. Other operating income (CZK million)

	2011	2010
Foreign exchange gains	2,553	2,426
Income from derivative transactions	2,219	1,171
Gains on non-current assets disposal	10	1
Reversal of provisions and accruals	2,490	1,238
Reversal of provision for receivables	17	60
Services - others	339	497
Other	719	741
Total	**8,347**	**6,134**

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 as at the balance sheet date of these receivables and payables. Foreign exchange losses from these items are included in other operating expenses.
Reversal of provisions and accruals resulted from changes in estimates driven mainly by the changed external conditions and circumstances on which the Company based the estimates.

20. Other operating expenses (CZK million)

	2011	2010
Foreign exchange losses	2,643	1,928
Losses from derivative transactions	1,078	1,153
Receivables write-offs	24	4
Other	238	1,251
Total	**3,983**	**4,336**

21. Financial result (CZK million)

	2011	2010
Interest income	478	421
Foreign exchange gains from cash	45	82
Foreign exchange gains from spot operations	337	216
Dividends received	388	669
Other financial income, thereof:	1,542	192
Total transfers to net profit in the period - ineffective hedging	-	61
Forward component of derivatives fair value	1,542	131
Financial income total	**2,790**	**1,580**
Interest expenses, thereof:	531	483
Total transfers to net profit in the period - effective hedging	-	59
Foreign exchange losses from cash	49	293
Foreign exchange losses from spot operations	378	158
Impairment losses of investments in subsidiaries	1,141	-
Other financial expenses, thereof:	760	466
Forward component of derivatives fair value	760	442
Financial expenses total	**2,859**	**1,400**
Net financial result	**(69)**	**180**

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

	2011	2010
Financial instruments at fair value through profit and loss	781	(262)
Loans and receivables	725	38
Available for sale financial assets	21	-
Financial liabilities carried at amortised costs	(751)	432
Financial instruments designated as hedging instruments	1,481	(5)
Net gains total	**2,257**	**203**

The line Financial instruments at fair value through profit and loss represents a forward component of currency forwards and ineffective part of commodity swaps.

Other items contain mainly unrealised and realised foreign exchange gains and losses on trade receivables and liabilities, from hedging instruments, interest income from deposits in companies within Volkswagen Group, net interest loss from derivative hedging instruments, foreign exchange gains/losses from bank deposits and impairment losses on financial assets.

23. Income tax (CZK million)

	2011	2010
Current tax expense	**3,127**	**2,792**
of which: adjustment in respect of prior years	(114)	64
Deferred tax	(260)	(981)
Income tax total	**2,867**	**1,811**

Statutory income tax rate in the Czech Republic for the 2011 assessment period was 19% (2010: 19%). As at 31 December 2011 and 31 December 2010, deferred income taxes attributable to the Czech tax jurisdiction were measured at a tax rate of 19% that corresponds with the 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)

	2011	2010
Profit before income tax	17,155	11,215
Expected income tax expense	**3,259**	**2,131**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(133)	(189)
Expenses not deductible for tax purposes	404	173
Tax allowances and other tax credits	(659)	(318)
Prior-period current tax expense	(114)	64
Investment tax credits	110	(50)
Effective income tax expense	**2,867**	**1,811**
Effective income tax rate	17%	16%

Line Tax allowances and other tax credits represents mainly tax credits from double deduction of research and development costs.

24. Subsidies and investment incentives

Subsidies

In 2011, the Company received a grant for support of the project performed by the Development and Technology Centre of CZK 19 million (2010: CZK 42 million) and a grant for support of private schools of CZK 45 million (2010: CZK 50 million).

In 2010, the Company was provided with a promise of the grant from the European Regional Development Fund by the Ministry of Industry and Trade in the Czech Republic for the following projects: "Combined Production of Heat and Electricity in the Kvasiny Plant", in the amount of CZK 27 million and "Service Training Center" in the amount of CZK 67 million. Both projects are in the execution phase. The grant only for the project "Service Training Center" was partially paid out in 2011 in amount of CZK 2 million (2010: CZK 0 million). The remaining part of grant for the project "Service Training Center" and the project "Combined Production of Heat and Electricity in the Kvasiny Plant" will be paid out retrospectively on completion of individual execution phases.

In addition, the Company was provided with a promise of the grant from the European Regional Development Fund by the Ministry of Industry and Trade in the Czech Republic in 2011 for the following projects: "Extension of Development Capacities ŠKODA AUTO a.s." in the amount of CZK 88 million. The project is in the execution phase, however, the grant was not paid out in 2011. (The grant will be paid out retrospectively on completion of individual execution phases).

Investment incentives

To be granted the investment incentives, the Company has to meet the General conditions of § 2 art. 2 of the Act No. 72/2000 Coll., on Investment Incentives, as amended and Special conditions § 35 b of the Act No. 586/1992 Coll., on Income Tax as amended.

EA211

In accordance with the Act No. 72/2000 Coll., on Investment Incentives as amended based on resolution dated on 2 August 2011 the Company was provided with a promise of the investment incentive IP No. 49/2011 for its project related to production of parts of engine EA211 and assembly of the engine in the plant in Mladá Boleslav in form of tax credit. The total amount of the subsidy is limited to the amount of CZK 800 million which corresponds to 40% of the total eligible invested costs related to the investment project. In 2011, the project was realised, however as at 31 December 2011 utilisation of investment incentive was regarded as uncertain by the Company and therefore no related deferred tax asset was recognised.

MQ 100

In accordance with the Act No. 72/2000 Coll., on Investment Incentives as amended based on resolution dated on 2 August 2011 the Company was provided with a promise of the investment incentive IP No. 50/2011 for its project related to production expansion of transmissions in the plant in Mladá Boleslav in form of tax credit. The total amount of the subsidy is limited to the amount of CZK 496 million which corresponds to 40% of the total eligible invested costs related to the investment project. In 2011, the project was realised and the Company expects utilisation of investment incentive and recognised deferred tax asset of CZK 335 million based on eligible costs invested.

A-SUV

In accordance with the Act No. 72/2000 Coll., on Investment Incentives as amended based on resolution dated on 4 August 2008 the Company was granted an investment incentive for production of 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 561 million which corresponds to 40% of the total eligible invested costs related to the investment project. The project was completed in 2010, however as at 31 December 2011 utilisation of investment incentive was regarded as uncertain by the Company and therefore no related deferred tax asset was recognised.

25. Contingent liabilities

The tax authorities may at any time inspect the accounting books and records within ten 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 carried out at present or potentially in the future, except for the tax risks for which provision for tax risks has been created (please refer to Note 16).

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

Future commitments as at balance sheet date are as follows:

	Payable until year 2012	Payable 2013 – 2016	31 December 2011
Investment commitments - property, plant and equipment	10,894	1,328	12,222
Investment commitments - intangible assets	5,941	3,099	9,040
Operating leasing instalments	178	248	426
Other future commitments	-	-	-

	Payable until year 2011	Payable 2012 – 2015	31 December 2010
Investment commitments - property, plant and equipment	1,694	1,236	2,930
Investment commitments - intangible assets	4,360	4,576	8,936
Operating leasing instalments	166	42	208
Other future commitments	75	75	150

On the basis of non-cancellable operating lease agreements, the Company is allowed to rent different machine and office equipment and buildings. In the case of termination of these agreements, all outstanding lease payments up to the original expiration date of the contract must be paid.

Category Other future commitments comprises future commitments which are unusual to the Company, either because of their nature or their size or duration and is represented mainly by significant advertising and sponsoring contracts concluded for a period longer than one year.

In order to increase accuracy of presentation of contractual obligations, figures for comparative period 2010 have been changed in line Investment commitments – intangible assets, amount in column Payable until year 2011 of CZK 2,510 million have been increased by CZK 1,850 million to CZK 4,360 million and amount in column Payable 2012 – 2015 of CZK 2,174 million have been increased by CZK 2,402 million to CZK 4,576 million. Disclosed amount of contractual obligations 2010 in the line Investment commitments – intangible assets have been increased in total by CZK 4,252 million.

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

	2011	2010
Material costs - raw materials and other supplies, goods	**158,044**	**138,487**
Production related services	**12,955**	**11,006**
Personnel costs	**17,099**	**15,162**
Wages	12,979	11,392
Pension benefit costs (defined contribution plans)	2,507	2,226
Social insurance and other personnel costs	1,613	1,544
Depreciation, amortisation and impairment losses	**12,601**	**14,167**
Other services	**18,183**	**15,636**
Total cost of sales, distribution and administrative expenses	**218,882**	**194,458**
Number of employees		
Number of employees*	26,265	25,077

* Average number of employees (including temporary employees).

28. Related party transactions

The company VOLKSWAGEN AG has been the ultimate parent company and the ultimate controlling party of the Company for the entire current accounting period.
Items in category Other related parties do not meet the definition of an entity controlled by the same controlling entity pursuant to § 66a of the Act No. 513/1991 Coll., Commercial Code, as amended.
In 2011, category Other related parties includes mainly transactions with Shanghai Volkswagen Automotive Company Ltd. and with the companies of the Porsche Holding GmbH Group, which are not fully consolidated by the ultimate parent VOLKSWAGEN AG, and transactions with companies of the Porsche Automobil Holding SE Group. They are disclosed within other related parties based on the fact that these companies are only joint ventures of VOLKSWAGEN AG. Transactions with the companies of the Porsche Holding GmbH Group, which are fully consolidated since 1 March 2011 by VOLKSWAGEN AG, are included in the category Companies controlled by ultimate parent company in 2011, inclusive the transactions (revenues of CZK 2,494 million, purchases of CZK 28 million) for period 1 January - 28 February 2011, when the definition of an entity controlled by the same controlling entity pursuant to the Commercial Code was not met.
In 2010, category Other related parties includes mainly transactions with Shanghai Volkswagen Automotive Company Ltd. and with all companies of the Porsche Holding GmbH and Porsche Automobil Holding SE groups.

The Company participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2011	2010
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	5,335	5,612
Subsidiaries		
Skoda Auto India Private Ltd.	4,443	4,049
ŠKODA AUTO Deutschland GmbH	46,687	38,881
ŠKODA AUTO Slovensko, s.r.o.	4,670	4,266
Skoda Auto Polska S.A.	10,336	10,786
Associates		
OOO VOLKSWAGEN Group Rus	16,462	10,828
Companies controlled by ultimate parent company	68,405	49,162
Other related parties	2,387	15,554
Total	**158,725**	**139,138**

The above table Sales to related parties comprises only revenues from sales of vehicles, spare parts and supplies of vehicle components.
In addition to revenues specified in the table Sales to related parties, in 2011 (2010) the Company also realised revenues from royalties:

	2011	2010
Revenues from license fees		
Ultimate parent company	112	-
Subsidiaries	42	42
Associates	72	33
Companies controlled by ultimate parent company	-	-
Other related parties	1,039	515
Total	**1,265**	**590**

In addition to revenues specified in the table Sales to related parties, in 2011 (2010) the Company also realised revenues with related parties relating to interest from intercompany deposits:

	2011	2010
Interest income from deposits		
Ultimate parent company	8	11
Subsidiaries	-	-
Associates	-	-
Companies controlled by ultimate parent company	416	243
Other related parties	-	-
Total	**424**	**254**

Dividends received from subsidiaries are disclosed in Note 7. Dividends received from associates are disclosed in Note 8.

Purchases from related parties (CZK million)

	2011	2010
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	33,829	28,062
Subsidiaries		
Skoda Auto India Private Ltd.	94	718
ŠKODA AUTO Deutschland GmbH	553	389
ŠKODA AUTO Slovensko, s.r.o.	67	67
Skoda Auto Polska S.A.	196	109
Associates		
OOO VOLKSWAGEN Group Rus	203	203
Companies controlled by ultimate parent company	23,173	22,356
Other related parties	76	346
Total	**58,191**	**52,250**

The table Purchases from related parties comprises only purchases relating to trade activities.
The amount of dividends paid to the parent company is disclosed in Note 12.

Receivables from related parties (CZK million)

	31 December 2011	31 December 2010
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	321	352
Subsidiaries		
Skoda Auto India Private Ltd.	786	1,367
ŠKODA AUTO Deutschland GmbH	22	43
ŠKODA AUTO Slovensko, s.r.o.	60	17
Skoda Auto Polska S.A.	87	19
Associates		
OOO VOLKSWAGEN Group Rus	3,508	2,667
Companies controlled by ultimate parent company	2,991	2,109
Other related parties	1,147	708
Total	**8,922**	**7,282**

The above table comprises trade receivables and receivables from royalties. Receivables from royalties are specified below.

	31 December 2011	31 December 2010
Receivables from royalties		
Ultimate parent company	-	-
Subsidiaries	17	36
Associates	84	59
Companies controlled by ultimate parent company	-	-
Other related parties	519	465
Total	**620**	**560**

In addition to trade receivables and receivables from royalties, the Company also had deposits in companies controlled by ultimate parent company in total amount of CZK 44,800 million (31 December 2010: CZK 34,300 million). Receivables from interest from the deposits as at 31 December 2011 amounted to CZK 49 million (31 December 2010: CZK 78 million). Average interest rate relating to these deposits is disclosed in Note 9 and Note 11.
Receivables from related parties are considered by the Company to be of the least risk. The products delivered to the related parties are supplied with the payment on a due date, secured by an advance payment or they are transferred to factoring companies.
No impairment loss was identified for any of the receivables from related parties.
Cash pooling balance with Volkswagen Group Services S.A. is disclosed in Note 11.
Investments in subsidiaries are disclosed in Note 7 and investments in associates are disclosed in Note 8.

Liabilities to related parties (CZK million)

	31 December 2011	31 December 2010
Parent company		
Volkswagen International Finance N.V.	-	-
Ultimate parent company		
VOLKSWAGEN AG	1,428	832
Subsidiaries		
Skoda Auto India Private Ltd.	1	669
Skoda Auto Polska S.A.	92	61
ŠKODA AUTO Deutschland GmbH	1,127	882
ŠKODA AUTO Slovensko, s.r.o.	37	80
Associates		
OOO VOLKSWAGEN Group Rus	18	6
Companies controlled by ultimate parent company	5,576	4,492
Other related parties	60	72
Total	**8,339**	**7,094**

Liabilities to related parties represent only trade liabilities for all the categories stated above.
In addition to the trade liabilities stated in the table above, the Company had a liability from a loan from VOLKSWAGEN AG of total amount of CZK 3,000 million as at 31 December 2011 (31 December 2010: CZK 3,000 million). Interest payable relating to this loan amounts to CZK 107 million as at 31 December 2011 (31 December 2010: CZK 107 million). Interest rate on this loan in 2011 and 2010 is 4.53%.

	31 December 2011	31 December 2010
Contractual obligations and other future commitments		
Ultimate parent company	8,284	8,659
Subsidiaries	-	-
Associates	-	-
Companies controlled by ultimate parent company	736	247
Other related parties	-	-
Total	**9,020**	**8,906**

Contractual obligations to related parties include commitments in respect of research and development costs and tooling rights.

Information on key management personnel remuneration (CZK million)

	2011	2010
Salaries and other short-term employee benefits*	355	273
Other long-term employee benefits	14	15
Total	**369**	**288**

* Salaries and other short-term employee benefits include besides wages, 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 the remuneration paid, payable or provided by the Company in the form of salaries, bonuses and non-monetary remuneration.
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 2011, other key management personnel of the Company included 42 persons (2010: 41 persons). CZK 130 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2011 (31 December 2010: CZK 98 million).

29. Other information (CZK million)

The compensation paid to the Company's auditors for the accounting period was CZK 29 million (2010: CZK 25 million) and covered the following services:

	2011	2010
Audit and other assurance services	16	16
Tax and related services	4	4
Other advisory services	9	5
Total	**29**	**25**

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 separate financial statements of the Company for the year ended 31 December 2011.
Effective on 1 January 2012, the Company sold its 51% share in the subsidiary Skoda Auto Polska S.A. (see Note 7) to parent Volkswagen International Finance N.V. (see Note 12). As a result, the Company has lost the entire interest in the subsidiary Skoda Auto Polska S.A. With respect to the amount of the investment and proceeds from the sale, the event does not have significant impact on the classification of assets and results of operations for the year ended 31 December 2011.

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, Bentley, Bugatti, Scania, MAN and Lamborghini.
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 (ŠKODA AUTO Deutschland GmbH, Skoda Auto Polska S.A., ŠKODA AUTO Slovensko, s.r.o. and Skoda Auto India Private Ltd.) and associate OOO VOLKSWAGEN Group 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 its internet site (website: www.volkswagenag.com).

Mladá Boleslav, 17 February 2012

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Eckhard Scholz

Jürgen Stackmann

Karlheinz Emil Hell

Michael Oeljeklaus

Persons responsible for accouting:

Dana Němečková

Jana Fernández Zambrano

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 2011 - 31 December 2011

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 office in Mladá Boleslav, Tř. Václava Klementa 869, Post code: 293 60, 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 2011 to 31 December 2011 (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. At the date Volkswagen International Finance N.V., having its registered office 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.
In accordance with the Commercial Code and internal policies, the Controlling Entity considers more detailed information regarding contracts, which are listed in the section "Contracts concluded" of this Report, as a matter of trade secret, which cannot be publicly disclosed. All transactions regarding the Controlling Entity arising from these contracts were carried out in adequate amounts and reflected contractual conditions in respect of price and quality of services that would be otherwise provided by third parties at the same time and on the same or similar market. For the above stated reasons, this report does not contain any information about prices, quantities or values.

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 new contracts regarding sale of vehicles in the accounting period.

b) genuine parts

ŠKODA AUTO did not conclude any new contracts regarding sale of genuine parts in the accounting period.

c) other

ŠKODA AUTO entered into new contracts regarding sale of services, licenses, aggregates, bodyworks and other products with the following companies:

AUDI AG
Groupe VOLKSWAGEN France s.a.
OOO VOLKSWAGEN Group Rus
SEAT, S.A.
VOLKSWAGEN AG
Volkswagen Argentina S.A.
Volkswagen Autoeuropa, Lda.
Volkswagen Group Ireland Ltd.
VOLKSWAGEN Group United Kingdom Ltd.
Volkswagen Motorsport GmbH
VOLKSWAGEN SLOVAKIA, a.s.
VOLKSWAGEN Transmission (Shanghai) Company Ltd

2. Purchase of goods and services

a) production material and goods

ŠKODA AUTO concluded new contracts regarding purchases of production material with the following companies:

Gearbox del Prat, S.A.
SITECH Sp.z o.o.
VOLKSWAGEN AG
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Osnabrück GmbH
Volkswagen Sachsen GmbH
VOLKSWAGEN SLOVAKIA, a.s.

b) indirect material and services

ŠKODA AUTO entered into new contracts regarding purchases of indirect material and services (purchases of indirect material and services, research and development cooperation, IT services, software and hardware supplies, customer services consultancy) with the following companies:

AUDI AG
Audi Akademie GmbH
AUDI BRUSSELS S.A.
AUDI Elektronics Venture GmbH
AUDI HUNGARIA MOTOR Kft.
Audi Vertriebsbetreuungsgesellschaft mbH
Automobilmanufaktur Dresden GmbH
Autostadt GmbH
AutoVision GmbH
Carmeq GmbH
e4t electronics for transportation s.r.o.
Gearbox del Prat, S.A.
Groupe VOLKSWAGEN France s.a.
Import VOLKSWAGEN Group s.r.o.
INIS International Insurance Service s.r.o.,ve zkratce INIS s.r.o.
Intercar Austria GmbH
Italdesign Giugiaro S.p.A.
OOO VOLKSWAGEN Group Rus
Porsche Albania Sh.p.k.
Porsche Inter Auto CZ spol. s.r.o.
Porsche Inter Auto Hungaria Kft.
PORSCHE ROMANIA SRL
SALLIG - S.R.L.
SEAT, S.A.
Scania Czech Republic s.r.o.
SITECH Sp. z o.o.
Skoda Auto India Private Ltd.
Skoda Auto Polska S.A.
ŠKODA AUTO Deutschland GmbH
ŠKODA AUTO Slovensko, s.r.o.
ŠkoFIN s.r.o.
VOLKSWAGEN AG
Volkswagen (China) Investment Company Ltd.
Volkswagen Argentina S.A.
Volkswagen Autoeuropa, Lda.
Volkswagen Coaching GmbH
Volkswagen Design Center Potsdam GmbH
Volkswagen do Brasil Indústria de Veículos Automotores Ltda.
Volkswagen Group Australia Pty Ltd.

Volkswagen Group Ireland Ltd.
VOLKSWAGEN Group Italia S.p.A.
VOLKSWAGEN Group Japan K.K.
Volkswagen Group of America, Inc.
VOLKSWAGEN Group United Kingdom Ltd.
Volkswagen India Private Ltd.
Volkswagen Logistics GmbH & Co. OHG
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Navarra, S.A.
Volkswagen Poznan Sp. z o.o.
Volkswagen Procurement Services GmbH
Volkswagen Sachsen GmbH
VOLKSWAGEN SARAJEVO, d.o.o
VOLKSWAGEN SLOVAKIA, a.s.
VOLKSWAGEN Transmission (Shanghai) Company Ltd.
Volkswagen Versicherungsvermittlung GmbH
Volkswagen-Audi España S.A.

c) genuine parts

ŠKODA AUTO entered into new contracts regarding purchases of genuine parts with the following companies:
AUDI HUNGARIA MOTOR Kft.
Gearbox del Prat, S.A.
SITECH Sp. z o.o.
VOLKSWAGEN AG
Volkswagen Sachsen GmbH
VOLKSWAGEN SLOVAKIA, a.s.

d) investments

ŠKODA AUTO entered into new contracts regarding purchases of investments with the following companies:
VOLKSWAGEN AG
Volkswagen Procurement Services GmbH
SITECH Sp. z o.o.
MAHAG GmbH
e4t electronics for transportation s.r.o.

3. Other contractual relationships

ŠKODA AUTO also established new contractual relationships (particularly marketing services, training, sales support, financial services, system support, consultancy, and production of cars) with the following companies:
AUDI AG
Groupe VOLKSWAGEN France s.a.
Intercar Austria GmbH
OOO VOLKSWAGEN Group Rus
Porsche Albania Sh.p.k.
Porsche Austria GmbH & Co. OG
Porsche Hungaria Handels Kft.
Porsche Inter Auto CZ spol. s r.o.
Porsche Makedonija dooel
Porsche Romania s.r.l,
Porsche SLOVENIJA d.o.o
Skoda Auto India Private Ltd.
Skoda Auto Polska S.A.
ŠKODA AUTO Deutschland GmbH
ŠKODA AUTO Slovensko, s.r.o.
ŠkoFIN s.r.o.

VOLKSWAGEN AG
Volkswagen Group Australia Pty Ltd.
Volkswagen Group Ireland Ltd.
VOLKSWAGEN Group Italia S.p.A.
Volkswagen Group Sverige AB
VOLKSWAGEN Group United Kingdom Ltd.
Volkswagen India Private Ltd.
Volkswagen-Audi España S.A.

Transactions relating to contracts concluded in previous years

Besides companies disclosed in points 1, 2 and 3, the Controlled Entity carried out transactions with the following companies, controlled by the same controlling entity, based on contracts concluded in previous years:
Bentley Motors Ltd.
Centro Técnico De SEAT, S.A.
MMI Marketing Management Institut GmbH
SITECH Sitztechnik GmbH
SEAT Sport S.A.
ŠKO-ENERGO FIN, s.r.o.
ŠKO-ENERGO, s.r.o.
Volkswagen de México S.A. de C.V.
VOLKSWAGEN FINANCIAL SERVICES AG
Volkswagen Group Services S.A.
Volkswagen of South Africa (Pty.) Ltd.
Volkswagen Original Teile Logistik GmbH & Co. KG
Volkswagen Qualifizierungsgesellschaft mbH
Volkswagen Zubehör GmbH
Volkswagen-Bildungsinstitut GmbH

Other legal acts

Based on the contract from December 2011 and effective on 1 January 2012, the Company sold its 51% share in the subsidiary Skoda Auto Polska S.A. to parent Volkswagen International Finance N.V. As a result, the Company has lost the entire interest on the subsidiary Skoda Auto Polska S.A.
In the accounting period no further 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 4,701,770 thousand to Volkswagen International Finance N.V., as the sole shareholder, on 1 April 2011 based on the Decision of the sole shareholder Volkswagen International Finance N.V. from 30 March 2011.
In 2011 dividends and share in profit of CZK 263,377 thousand were paid out to the Company by the subsidiaries. In 2011 dividends and share in profit of CZK 124,555 thousand were paid out to the Company by the associate.

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.

Total values of transactions with related parties among which belong also the related entity during the accounting period are disclosed in the notes 7, 8, 9, 12, 14 and 28 of the notes to the 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.

In Mladá Boleslav, 17 February 2012

Members of Board of Directors:

Winfried Vahland

Winfried Krause

Jürgen Stackmann

Michael Oeljeklaus

Eckhard Scholz

Bohdan Wojnar

Karlheinz Emil Hell

Glossary of terms and abbreviation

A-SUV — Sport utility vehicle in the mid-range category of cars

Assembled car — a car that went through a specified output control on the assembly line. In the Group´s assembly plants cars are assembled from kits supplied by the parent company

BilMoG — das Bilanzrechtsmodernisierungsgesetz – German Accounting Act

CAS — Czech accounting standards for businesses and other accounting regulations valid in the Czech Republic, particularly Act No. 563/1991 Coll. on Accounting and Decree No. 500/2002 Coll., implementing selected provisions of the Accounting Act, as subsequently amended

Company — in the Annual Report, the term "the Company" is used as a synonym for the company ŠKODA AUTO

Consolidated group — in addition to ŠKODA AUTO a.s. with registered office in Mladá Boleslav, 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, short-term deposits and 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 as adopted by the European Union

Investment ratio — ratio of capital expenditures (less capitalised development expenses) to total sales revenues

KonTraG — das Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – German Information Disclosure and Transparency Act

Manufactured car — a car that went through a specified output control in the framework of the manufacturing process, after all mandatory tests were carried out and before it is handed over to the dealer

Net liquidity — gross liquidity less financial obligations and liabilities to a factoring company within the Volkswagen Group

Platform MQB — Modularer Querbaukasten – modular platform

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

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 SAS; VW and AUDI vehicles sold by SAIPL). For accuracy, vehicle assembly kits are reported in the vehicles segment

SAD — ŠKODA AUTO Deutschland GmbH, a subsidiary of ŠKODA AUTO a.s.

SAIPL — Skoda Auto India Private Ltd., a subsidiary of ŠKODA AUTO a.s.

SAP — Skoda Auto Polska S.A., a subsidiary of ŠKODA AUTO a.s.

SAS — ŠKODA AUTO Slovensko, s.r.o., a subsidiary of ŠKODA AUTO a.s.

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.

ŠKO-ENERGO, s.r.o

Mladá Boleslav, Czech Republic
ŠKODA AUTO stake: 44.5%

Principal business:
generation and distribution of heat,
electricity generation and trading,
gas distribution,
production of drinking and service water
water mains and sewer systems operation

e4t electronics for transportation s.r.o

Prague, Czech Republic
ŠKODA AUTO stake: 49.0%

Principal business:
Research and development in the field of natural,
technical and social sciences,
training and consulting services.

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.

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 ŠKODA AUTO Group and the Company have been knowingly omitted or distorted.

Mladá Boleslav, on 8 March 2012

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Eckhard Scholz

Jürgen Stackmann

Karlheinz Emil Hell

Michael Oeljeklaus

Persons responsible for accouting:

Dana Něměčková

Jana Fernández Zambrano

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

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

* The financial results reported according to CAS are not comparable with the financial results reported according to IFRS.

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:							
Loans to and deposits	CZK millions	-	-	-	-	-	8,600
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

		ŠKODA AUTO Group			ŠKODA AUTO Company		
		2009	**2010**	**2011**	**2009**	**2010**	**2011**
Deliveries to customers	**vehicles**	**684,226**	**762,600**	**879,184**	**684,226**	**762,600**	**879,184**
Sales	**vehicles**	**551,604**	**584,763**	**690,350**	**539,382**	**583,780**	**676,787**
Sales of ŠKODA cars		545,690	576,270	679,112	539,380	583,780	676,785
Production	**vehicles**	**522,542**	**583,333**	**681,880**	**519,910**	**576,362**	**673,127**
Production of ŠKODA cars		519,645	575,742	674,010	519,910	576,362	673,127
Employees*	persons	26,153	24,714	26,565	24,817	23,308	24,936

* In 2010 the method of reporting the employee's headcount was altered. The number of employees is reported excluding temporary employees and including apprentices and represents actual number of employees as at 31 December.

Profit and loss account

		ŠKODA AUTO Group				ŠKODA AUTO Company			
		2005	**2006**	**2007**	**2008**	**2005**	**2006**	**2007**	**2008**
Sales revenue	**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

* Consolidated figures are given net of non-controlling interests.

Profit and loss account

		ŠKODA AUTO Group**			ŠKODA AUTO Company**		
		2009	2010	2011	2009	2010	2011
Sales revenue	**CZK millions**	**187,858**	**219,454**	**252,562**	**170,666**	**203,695**	**231,742**
of which:							
Domestic	%	11.5	10.0	8.7	12.5	10.7	9.5
Export	%	88.5	90.0	91.3	87.5	89.3	90.5
Cost of sales	**CZK millions**	**166,296**	**190,234**	**215,956**	**155,868**	**180,343**	**201,765**
	% of revenues	88.5	86.7	85.5	91.3	88.5	87.1
Gross profit	**CZK millions**	**21,562**	**29,220**	**36,606**	**14,798**	**23,352**	**29,977**
	% of revenues	11.5	13.3	14.5	8.7	11.5	12.9
Distribution expenses	CZK millions	13,153	14,509	17,549	7,702	9,449	11,613
Administrative expenses	CZK millions	4,826	5,256	6,123	4,320	4,666	5,504
Balance of other operating revenues/costs	CZK millions	2,341	1,861	5,323	1,948	1,798	4,364
Operating profit	**CZK millions**	**5,924**	**11,316**	**18,257**	**4,724**	**11,035**	**17,224**
	% of revenues	3.2	5.2	7.2	2.8	5.4	7.4
Financial result	CZK millions	(667)	(382)	791	(343)	180	(69)
Profit before income tax	**CZK millions**	**4,702**	**10,586**	**19,275**	**4,381**	**11,215**	**17,155**
Profit before income tax-to-revenues ratio	%	2.5	4.8	7.6	2.6	5.5	7.4
Income tax expense	CZK millions	1,240	1,747	3,200	942	1,811	2,867
Profit for the year*	**CZK millions**	**3,462**	**8,839**	**16,075**	**3,439**	**9,404**	**14,288**
Profit for the year-to-sales ratio	%	1.8	4.0	6.4	2.0	4.6	6.2

* Consolidated figures are given net of non-controlling interests.
** As a result of a change in accounting policy for presentation of reversals of excess provisions and accruals in 2011 the comparative figures of the Group and of the Company for 2010. For more information please refer to note 1.3.2. in consolidated financial statements for the Group and to note 1.3.2. in separate financial statements for the Company.

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:									
Loans and deposits	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**	**29,736**	**18,272**	**6,070**	**19,352**	**26,283**	**18,353**
Cash flows from operating activities	**CZK millions**	**23,550**	**27,420**	**30,787**	**13,014**	**21,421**	**24,203**	**29,275**	**13,978**
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

* Consolidated figures are given net of non-controlling interests.

Balance sheet / financing

		ŠKODA AUTO Group			ŠKODA AUTO Company		
		2009	2010	2011	2009	2010	2011
Non-current assets	**CZK millions**	**59,083**	**58,864**	**64,686**	**59,926**	**59,989**	**64,441**
Current assets	**CZK millions**	**59,293**	**76,872**	**88,871**	**48,099**	**62,278**	**71,130**
of which:							
Loans and deposits	CZK millions	13,562	35,678	49,088	13,562	34,378	44,848
Equity*	**CZK millions**	**68,180**	**74,772**	**81,211**	**68,519**	**75,682**	**80,407**
Non-current and current liabilities	**CZK millions**	**50,196**	**60,964**	**72,346**	**39,506**	**46,585**	**55,164**
of which:							
Nominal value of bonds	CZK millions	2,000	-	-	2,000	-	-
Assets	**CZK millions**	**118,376**	**135,736**	**153,557**	**108,025**	**122,267**	**135,571**
Net liquidity	**CZK millions**	**28,013**	**40,211**	**47,348**	**23,350**	**35,047**	**41,399**
Cash flows from operating activities	**CZK millions**	**26,529**	**28,168**	**28,251**	**22,321**	**26,256**	**27,267**
Cash flows from investing activities	**CZK millions**	**(10,942)**	**(23,313)**	**(28,225)**	**(11,454)**	**(22,590)**	**(27,716)**
Investment ratio	%	5.4	4.6	5.6	6.0	4.9	6.0
Equity ratio	%	57.6	55.1	52.9	63.4	61.9	59.3
Equity-to-fixed assets ratio	%	115.4	127.0	125.5	114.3	126.2	124.8

* Consolidated figures are given net of non-controlling interests.

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