ŠKODA

ŠKODA

ANNUAL REPORT 2010

ŠKODA AUTO a.s.

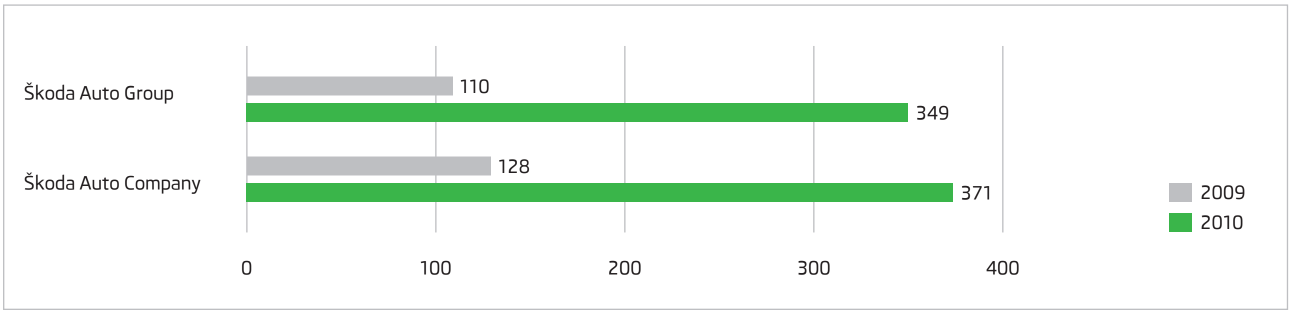
Clever engineering with a human touch

Key Figures and Financial Results according to IFRS (EUR million)*

		Škoda Auto Group		Škoda Auto Company	
		2010	2009	2010	2009
Income Statement					
Sales revenue	EUR million	8,692	7,100	8,065	6,468
Gross profit	EUR million	1,216	816	967	560
	% of revenues	14.0	11.5	12.0	8.7
Operating profit	EUR million	447	203	436	176
	% of revenues	5.1	2.9	5.4	2.7
Profit before income tax	EUR million	418	157	442	164
Profit before income tax-to-revenues ratio	%	4.8	2.2	5.5	2.5
Profit for the year	EUR million	349	110	371	128
Profit for the year-to-sales ratio	%	4.0	1.6	4.6	2.0
Other Key Figures					
Investment (without capitalised development expenses)	EUR million	403	389	398	386
R&D expenditure	EUR million	303	217	303	217
Net liquidity	EUR million	1,605	1,062	1,410	896

* Presentation currency of Škoda Auto Company/the Škoda Auto Group and functional currency of Škoda Auto Company is the Czech crown (CZK). The items reported in EUR which are part of the Income statement, the item Investment (without capitalised development expenses) and the item R&D expenditure were translated from CZK to EUR at average monthly exchange rates of ECB (European Central Bank). The item Net liquidity was translated from CZK to EUR at ECB exchange rates at the corresponding balance sheet dates.

Profit for the Year (EUR million)



Key Figures and Financial Results according to IFRS (CZK million)

		Škoda Auto Group		Škoda Auto Company	
		2010	2009	2010	2009
Income Statement					
Sales revenue	CZK million	220,005	187,858	203,819	170,666
Gross profit	CZK million	30,745	21,562	24,450	14,798
	% of revenues	14.0	11.5	12.0	8.7
Operating profit	CZK million	11,316	5,924	11,035	4,724
	% of revenues	5.1	3.2	5.4	2.8
Profit before income tax	CZK million	10,586	4,702	11,215	4,381
Profit before income tax-to-revenues ratio	%	4.8	2.5	5.5	2.6
Profit for the year	CZK million	8,839	3,462	9,404	3,439
Profit for the year-to-sales ratio	%	4.0	1.8	4.6	2.0
Other Key Figures					
Investment (without capitalised development expenses)	CZK million	10,130	10,226	10,007	10,158
R&D expenditure	CZK million	7,657	5,733	7,657	5,733
Net liquidity	CZK million	40,211	28,013	35,047	23,350

Volume Data

		Škoda Auto Group		Škoda Auto Company	
		2010	2009	2010	2009
Production, Sales and Technical Data					
Deliveries to customers	vehicles	762,600	684,226	762,600	684,226
Sales	vehicles	584,763	551,604	583,780	539,382
Sales of Škoda cars	vehicles	576,270	545,690	583,780	539,380
Production	vehicles	583,333	522,542	576,362	519,910
Production of Škoda cars	vehicles	575,742	519,645	576,362	519,910
Employees*	persons	24,714	24,948	23,308	23,655

* excluding temporary employees, apprentices included

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.

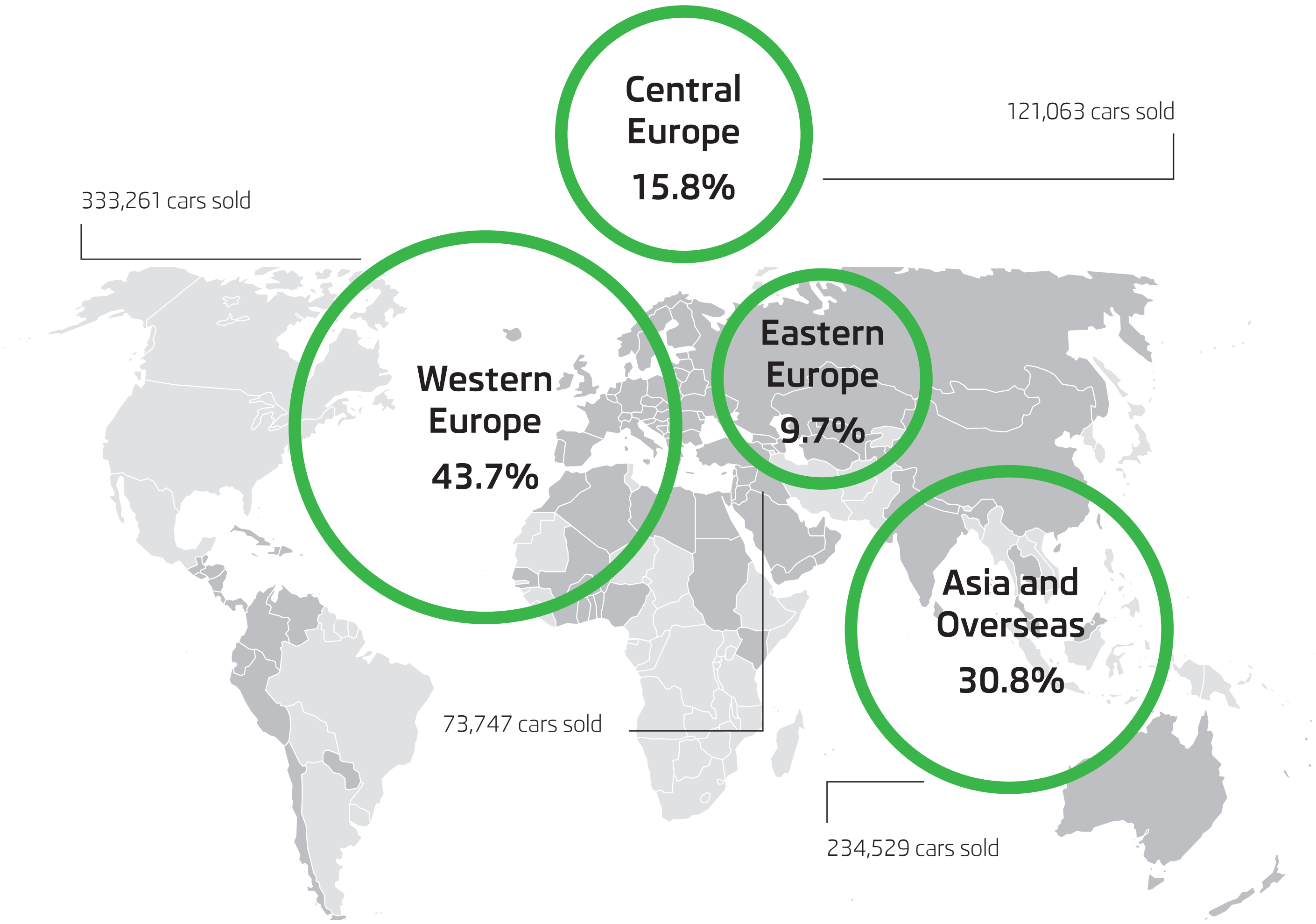
Škoda brand has been a Volkswagen Group brand for 20 years. During this time, the Company's sales have more than tripled and its product portfolio has expanded significantly. Today, Škoda Auto employs more than 24,700 people worldwide.

Škoda Auto has production facilities in the Czech Republic and India. Furthermore, Škoda cars are produced in China, Russia, the Slovak Republic, the Ukraine and Kazakhstan.

This international presence will form the basis for the Company'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.

762,600
cars sold in 2010

EUR 8.7 billion
2010 turnover



EUR 403 million
investments in fixed assets

24,700
employees worldwide

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Škoda Auto in 2010

Management Report

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 web page.

Financial Section

PROF. DR. H.C. WINFRIED VAHLAND
Chairman of the Board of Management

Ladies and Gentlemen,

2010 was a successful year for Škoda: We delivered more vehicles to our customers around the world this financial year than ever before in the history of our brand. Throughout the crisis our Company remained profitable and in 2010 our earnings recovered strongly. Once again, we showed just what our Company is capable of.

Škoda coped well with one of the most difficult situations the global economy – and the automobile industry in particular – has ever faced in the last decades. This is our reward for following a consistent course that never lost sight of profitability and cost management. Thanks to our work in the past, we now have a strong foundation for growth in the years ahead.

I took over the management of the Company from my predecessor, Reinhard Jung, on September 1. I am very happy to have found the Company in such good shape. For that, I would like to extend my sincere thanks to Reinhard Jung and his team: Their achievements are both an incentive and an obligation. September's management handover also ushered in a new era in Škoda's more than 110-year history – an era in which Škoda is set to grow to new dimensions. 2010 was also very much a year of change for Škoda. Because, regardless of how impressive Škoda's previous track record may be, we cannot afford to rest on our laurels.

Today, we are seeing a development in the growth markets that is stronger and more dynamic than anything we could have imagined just a short while ago. Globalisation has created new growth markets. The established markets of Western Europe are still important, but they offer only limited potential for growth. Even though our Company has its roots right here in the Czech Republic, and much of our success of the last 20 years has come from Europe, the future of the automobile industry – and therefore the future of Škoda – will primarily be decided in markets outside of Europe! The markets in China, Russia and India are expected to continue to grow at an impressive speed. And other markets such as Turkey and the Middle East are also becoming increasingly attractive. The race for market share in these regions has only just begun.

Škoda started this race in pole position – and has a good chance of running it on its own terms: We are strong and profitable. And over the past few months, we have developed a clear strategy to turn our excellent starting position to optimum advantage – with ambitious goals and a clear vision of where we want to be at the end of it all.

We have set ourselves the goal of at least doubling sales of Škoda cars by 2018. To achieve that kind of growth surge, we intend to strengthen our presence where there is the greatest market potential: in the future markets of India and China as well as in Eastern Europe – and, particularly, Russia. The conditions are good: We already have our own local production in all of these markets and have become established there in recent years.

How were we able to do that? By offering our customers products they love. And by building our cars to the same high Škoda standards the world over: Our customers everywhere value our quality. In fact, they demand it from us. Family-oriented, functional, practical – that is what Škoda is all about. Our brand message is "Simply clever". That means always focussing on what our customers want – because their satisfaction is our benchmark. That is why we deliberately chose "Clever engineering with a human touch" as the central theme of this annual report – because it describes how we intend to realise that in the future. Smart ideas implemented precisely; spacious vehicles at attractive prices; responsibility towards people and the environment in everything that we do – that is what customer orientation means to us.

We know our markets well and understand what our worldwide customers expect from us. We also have the capabilities and the know-how to supply the right products to meet these demands. We therefore plan to expand our portfolio in the relevant areas over the next few years and venture into new segments, as we did quite convincingly with the Škoda Yeti in 2009. Our success in a segment that was new to us has convinced me that we will be able to do the same in other segments. We already have definite plans for new concepts which we will be refining during the course of 2011. In 2012, we will then gradually start introducing these models onto the market and opening up additional growth potential for the Škoda brand.

Although these new models will be quite different, they all have one thing in common: a clear focus on environmentally-compatible individual mobility. In that way, they will be meeting a requirement that comes not least from our growth plans for the most densely populated regions of the world. After all, companies who want their products to participate in the motorisation of China and India, also have a significant responsibility for the environment. About a third of the world's population lives in China and India alone. Providing these people with access to individual, environmentally-compatible mobility is a challenge that we at Škoda embrace.

We are in a good position to do so, since the Volkswagen Group's innovative drive concepts occupy a leading position in the automobile industry. We also aspire to this at Škoda. Which is why, since 2010, all of our models have been available as GreenLine variants, with particularly eco-friendly consumption and CO_2 emissions. Our Škoda Octavia Green E Line concept, the first fully electric-powered Škoda, caused quite a stir at the Paris Motor Show last year. By the end of this year, we will have a test fleet on the roads, providing practical insights into e-mobility. Even though we still have quite a way to go, our ultimate goal of emission-free mobility is clearly defined. At Škoda, we believe that environmental friendliness and sustainability is not just about products. We make certain that the methods we use in all areas of the Company are eco-friendly and sustainable: from development through to the production of our vehicles.

In this way, we are creating the conditions necessary for continued profitable growth – with a clearly-defined strategy, ambitious goals and, above all, a highly motivated team. I would like to thank all of our staff and our Škoda employee representatives around the world for their hard work last year. They have once again demonstrated the strength of this brand.

The motivation and commitment of our employees is of the greatest importance to us. Because the knowledge and the know-how of the people who work for this brand are what Škoda is all about! "Clever engineering with a human touch" is also how we approach our markets. The basic idea behind this has always shaped our Company's actions and way of thinking. As Václav Laurin and Václav Klement wrote back in 1914: "Only the best we can do is good enough for our customers." Thanks to Czech automotive expertise and our tireless efforts to find even better solutions, Škoda cars are winning more and more customers around the world.

Škoda can look back on 115 years of tradition and history. I certainly believe that Škoda has an equally long and illustrious future ahead of it. Because we know what we want – and are determined to reach our goals. I can assure you that we at Škoda will give our very best to shape the future of this unique brand!

Yours
Prof. Dr. h.c. Winfried Vahland

Škoda Auto Board of Management

DIPL.-ING. KARLHEINZ HELL
Member of the Board of Management for Purchasing

DIPL.-BETRW. JÜRGEN STACKMANN
Member of the Board of Management for Sales and Marketing

ING. BOHDAN WOJNAR
Member of the Board of Management for Human Resources Management

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

Sign of the times

Ambitious goals, a strategy clearly geared towards growth and a determined team: As Škoda Auto embarks upon a new era in its history, a revamped corporate design provides the visual context.

Anyone who has been to the Czech city of Mladá Boleslav in recent months or spoken to employees at any of the other Škoda Auto locations, is certain to have noticed: Škoda Auto is definitely gearing up for new growth targets. These are as inspiring as they are ambitious, and are set to take the company to the next level within a very short space of time. One of the first steps along this road is to modernise the Company branding. Back in June 2010, experts started work on a new corporate design which was unveiled at the Geneva Auto Show in March 2011.

Jürgen Stackmann, the board member responsible for Sales and Marketing, explains the thinking behind the designers' work: "Not just our products, but the overall presentation of our company should highlight our new strength. This will send a clear message that Škoda may be rooted in tradition, but, at the same time, is open to new ideas and willing to tackle things in different ways. It is shown to be a self-assured, global company that focuses on what really matters. This will boost confidence in both the brand and the company – and this is capital we will be able to use outside of our traditional markets in the future."

The complete corporate design underwent a comprehensive overhaul to achieve this goal: This is a carefully-planned process that gradually produces visible and perceptible change. In the future, the company will project a fresher, friendlier, more modern image that is more easily recognisable and more distinctive than in the past. A clear and systematic methodology with well-defined standards avoids a proliferation of different approaches and also results in lower costs and greater efficiency.

The new look will be used in all company communications from March on – in all markets worldwide, from internal memos to advertisements and TV commercials – and, naturally, in this annual report. Dealerships will also implement the new design step by step, with a new architecture in the showrooms and a much more modern exterior. Jürgen Stackmann describes the new architecture as follows: "Ergonomic, accessible and spacious – perfectly geared towards meeting our customers' needs – and in keeping with our slogan "clever engineering with a human touch". The changes surrounding the Škoda brand will be seen and felt by our customers all over the world."

The most obvious change concerns the Škoda logo, referred to as the "winged arrow". This trademark – like the company's overall presentation – will become fresher and more modern, concentrated on what is important, without losing its traditional aspect. From 2012 on, all new Škoda automobiles will sport the revised logo. "Our main aim with the new logo is to communicate our brand values – precise, clear, simply clever – under the motto "room for life". Implementing this goal will reduce complexity and improve recognition of our brand and trademark," explains Stackmann.

A new corporate font, the "Škoda Pro", will also support this aim. Originally developed for Škoda automobiles' new HMI (Human-Machine Interface), design specialists enhanced the font to make different versions suitable for use in all kinds of media.

Even "Škoda Green", the Company's signature colour, has been completely revitalised. Designers were mindful of the Company's growing internationalisation and therefore selected a new shade of green that is available as a standard colour in all colour systems worldwide. The secondary colours have also been chosen so that they can be reproduced in the same high quality and precision all around the world. □

The complete corporate design underwent a comprehensive overhaul.

SLAVIA LOGO (1895–1905)
Bicycles and motorcycles were made at the Mladá Boleslav workshop under the Slavia brand.

L&K LOGO (1905–1925)
The design of the L&K logo was influenced by Art Nouveau, an artistic style at the beginning of the 20th century.

ŠKODA LOGO (1926–1933)
Although the brand's name changed completely, the form of the new product logo shows continuity with the previous stage. The Škoda logo has a new, oval shape, but the brand name is still the dominant element in the centre and is surrounded by laurels.

ŠKODA LOGO (1926–1990)
The logo with the famous "winged arrow" was first used in 1926. Its origin is shrouded in mystery, sometimes the author of the idea (the stylised head of an Indian wearing a headdress with five feathers) is said to be the commercial director of Škoda Plzeň, T. Maglič.

ŠKODA LOGO (1991–2010)
The black and green logo, which has been used with slight modifications since 1991, gives the Škoda brand a greater degree of originality – black symbolises the hundred-year tradition, green signalises environmental production.

On course for growth

No fewer than 762,600 customers bought a Škoda-brand car in 2010 – more than ever before in the Company's history. All the signs point to growth. And the Company is aiming for further gains, especially in the dynamic markets of Asia and Eastern Europe. The groundwork has already been laid – with a strong market presence and highly-efficient local production.

Expanding its position in the growth markets of Russia, India and China, without neglecting its established markets, Škoda is consistently pursuing an ambitious global growth strategy and targeting high double-digit growth.

"Škoda delivered excellent performance in 2010," Chairman of the Board of Management Prof. Dr. h.c. Winfried Vahland summed up as he announced the record figures. "We made substantial gains in nearly all our markets and were able to increase our market share. Once again, we saw double-digit growth of deliveries to customers – around 40 percent, in fact, in our most crucial growth markets." Škoda Auto's growth strategy calls for the Company to take it up yet another gear over the next few years: By 2018 global sales are set to at least double. To achieve this, the model range will be significantly expanded and activities on the international markets stepped up.

Škoda Auto is embarking on a new phase in the Company's history. In the past, the European markets formed the main focus of Škoda's business – but a shift to the east is currently taking place. The Company's strategists have their sights on China, India and Russia, in particular. Škoda Auto has had local operations in all three countries and also produces vehicles for the local market there.

Sights set on China: Škoda is poised to serve the Chinese auto market. 2010's high double-digit growth confirmed the brand's strength and the appeal of its products.

Focus on China: the world's biggest car market

China has been the world's most dynamic automobile market for years now – and, since 2009, its largest too, neck-and-neck with the United States. This happened exceptionally fast, with an end to the trend not yet in sight. However, as attractive as the growth prospects in this market may be, competition will also be fierce.

Škoda Auto's Chairman of the Board of Management Prof. Dr. h. c. Winfried Vahland expects competition to get much tougher in the years ahead. "But we know we are in a good position to take on the competition," asserts Vahland. "To be successful in China you have to have attractive, market-specific products, a strong brand and a dense network of dealerships. Not to mention a high level of localisation and close cooperation with local business partners and institutions. All of those are strengths we will exploit over the coming years to expand our market position." The signs look good: more than 180,000 Škoda cars were delivered to customers in China in 2010 - an increase of 47.3 percent.

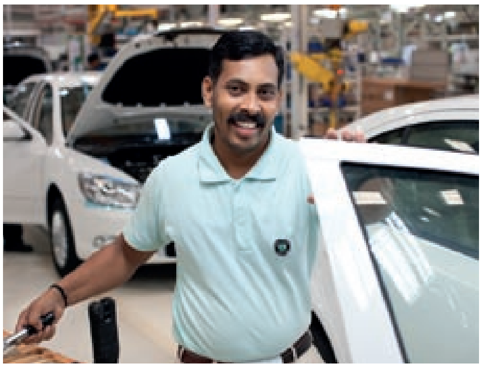
Škoda automobiles have been built in China since 2007, when production of the Škoda Octavia was launched at Shanghai Volkswagen. This was followed shortly after by the Škoda Fabia and the Škoda Superb. Recently, licensing agreements for the production of a fourth model, the Škoda Yeti, have been signed.

The goal from the very beginning was to manufacture as many production parts as possible directly in China to optimise cost-effectiveness. Over the coming years, Škoda will continue to expand its presence in China. Plans call for the dealer network of 100 dealerships just three years ago to expand to 400 over the coming years.

Extensive investments at Volkswagen Group level further underscore the Škoda Auto commitment to the country. Those investments are to be financed from the cash flow of the Chinese joint venture and will increase production capacities over the next years. This will also include the Škoda Yeti, which will be built at Shanghai Volkswagen from 2013 onwards. "Production of the Škoda Yeti at Shanghai Volkswagen will open up further growth prospects and underlines Škoda's long-term commitment to the Chinese market." says Michael Oeljeklaus, Member of the Board of Management responsible for Production and Logistics. ▷

+47.3%

180,500 Škoda cars were delivered to customers in China in 2010 – an increase of 47.3 percent.



India is one of the biggest future growth markets for Škoda. The brand and its models are already well established across the subcontinent and will continue to expand this position in the future.

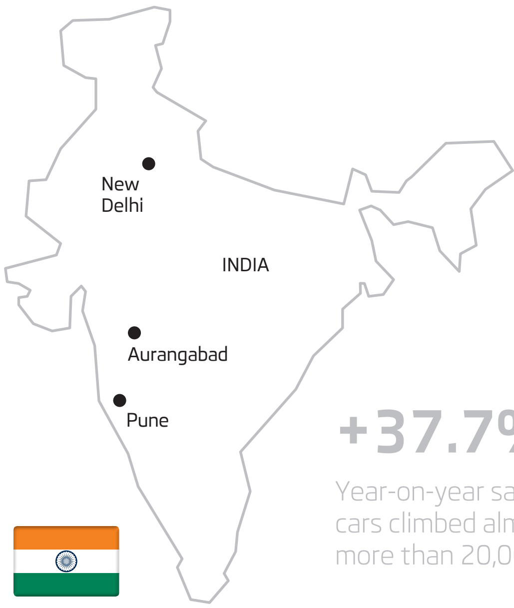
Focus on India: Sustained momentum across the subcontinent

Such a consensus is rare among experts: India is expected to be the fastest-growing automobile market worldwide, besides China, for the next few years. Even in the midst of the 2009 crisis, sales in India rose 16 percent. With an annual volume of around 1.4 million vehicles, the Indian market is still relatively small but forecasts estimate car sales to rise steeply over the coming years.

Škoda Auto has been operating through its subsidiary, Skoda Auto India, in Aurangabad, since 2001. The employees assemble Škoda cars for the local market here in this west-Indian city. The current production volume is around 18,800 vehicles per year, including several models for other VW Group brands. Besides Aurangabad, Škoda automobiles are also built in Chakan near Pune. In 2010, the 25,000th Škoda Fabia ever built in India rolled off the assembly line at the Volkswagen plant there.

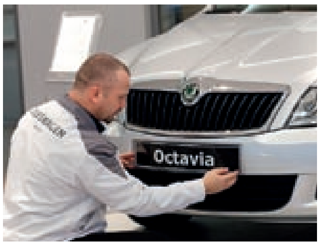
The introduction of the brand's first car in India, the Škoda Octavia in 2001, wrote the first chapter in the Company's Indian success story. The subsequent model, available in India under the name Škoda Laura, is currently building on that success. With the launch of the Škoda Yeti, Škoda recently expanded its offering in India to cover a further segment. This also met with a promising response.

Škoda has sold more than 100,000 vehicles in India since the outset. To ensure that this positive trend not only continues, but also gathers pace, Škoda is counting – in India, as in other key growth markets – on further regionalisation of production and the expansion of local dealer and automotive supplier networks.



+37.7%

Year-on-year sales of Škoda cars climbed almost 38% to more than 20,000 vehicles.



+38.1%

Sales of Škoda automobiles in the Russian Federation climbed more than 38.1 percent to about 45,600 vehicles.

Focus on Russia: Back on track for growth

Hit hard by the global economic and financial crisis in 2009, the Russian automobile market bounced back in 2010. After the number of new vehicles sold halved from 2008 to 2009, manufacturers reported strong growth again in 2010. Škoda Auto benefitted in particular from the market recovery and was able to increase sales in the largest Eastern European market by more than 38 percent.

The Škoda Octavia and Škoda Fabia models are especially popular with Russian customers, but the Škoda Superb and the Škoda Yeti also occupy a strong position in the market. The Škoda Octavia and Škoda Fabia vehicles are built in Kaluga, just under 200 kilometres southwest of Moscow, where Škoda Auto operates a joint plant with Volkswagen.

Even before the economic and financial crisis came to an end, Škoda Auto began complete production of the Škoda Octavia in Kaluga, signalling its confidence in the future development of the market. Not long after, in April 2010, Kaluga also began full-cycle production of the Škoda Fabia. Jürgen Stackmann, Member of the Board of Management responsible for Sales and Marketing explains: "The Russian market is one of Škoda's key markets. We are striving for future stable growth in this country." That optimism proved to be justified: In 2010, sales of Škoda automobiles in the Russian Federation climbed more than 38 percent to about 45,600 vehicles – much stronger than the total market which grew by 30% in 2010. □

"The surge in sales in the growth markets and the widening of our market presence will help secure long-term jobs, and that specifically refers to those back home in the Czech Republic. Because growth is what makes us strong – and our strength secures our future."

PROF. DR. H.C. WINFRIED VAHLAND
Chairman of the Board of Management of Škoda Auto

ON THE BRINK OF A GROWTH SURGE

These examples show how Škoda Auto is committed to growth – and is already where the greatest momentum is expected to be over the next few years. The success of this strategy was seen in 2010: High double-digit growth in China, India and Russia provided impressive proof of that.

However, this certainly does not mean that Škoda will be giving up its strong presence in the European markets and, particularly, its domestic market, the Czech Republic. The company also plans to expand its market position here over the coming years.

110 years of tool making in Mladá Boleslav in the Czech Republic: Only a handful of auto makers the world over get to celebrate such a proud anniversary. At the same time, it is also an obligation for the future. Because more than ever before, automobile construction today demands utmost precision. And that is where tool making plays a decisive role.

A passion for precision

Looking back on 110 years of tradition: Tool making enjoys a very special status at Škoda Auto, and also among its young recruits – most of whom are trained on site at the plant.

Anyone who wants to create something new and have it manufactured, needs – at least as far as automobile construction is concerned – not just the right concepts and technical expertise, but also the proper tools. Otherwise, ideas remain dreams and are destined never to become reality. This was also a challenge faced by mechanic Václav Laurin and bookdealer Václav Klement when they started out building bicycles in the late 19th century and when, just a few years later, they founded one of the world's first automobile companies.

The tool shop was an integral part of the new company from the very beginning. Its importance grew over the years, largely as a result of technological progress. In the twenties, once the company Laurin & Klement merged with the Škoda plants in Plzeň, the tool shop developed into a separate division of the new company. With greater volumes now being produced, it was time to switch from manual work to moulding technology. It was the same in the early fifties, when car bodies constructed primarily out of wood made way for full-metal bodies, and large-scale series production necessitated the appropriate tools for making cast and forged parts. The newest field of Škoda tool making is, after all, the production of manual welding workplaces and automated welding lines. Since 1994, when production of the Škoda Octavia developed jointly with Volkswagen Group got underway, this section has taken up much of Škoda Auto's tool making capacity. Today, all fixtures for doors, cowlings and rear opening hoods come from the Mladá Boleslav tool shop. The Company is especially proud of its folding system, the core of every production line, which is acknowledged to be one of the best in tool making today.

Already, back in 1900, when the division was founded, tool making established itself as a core automotive competence – and has remained so ever since. More than that even: Although in the early days it was mostly about providing the right equipment, today, tool making is definitely one of Škoda Auto's strategic success factors.

This is where expertise, creativity and technical skill come together, complement each other ▷

Tool making is Škoda Auto's pride and joy. It is one of the key factors responsible for the high quality of Škoda automobiles. More than 90% of the toolmakers are trained in-house.

and ultimately combine to create fascinating cars. It therefore plays a key role that requires just as much courage as it does responsibility. Because, at the end of the day, it is all about quality – and that is one of the things that matter most to customers.

Member of the Board of Management responsible for Production and Logistics, Michael Oeljeklaus, summarises: "Tool making forms a bridge between development on the one side and production on the other. It doesn't really matter how great the designer's idea is – if the tool makers can't build it, it will never become reality." So it is hardly surprising that tool-making experts are brought in the very early stages of developing an automobile. About three years before the first car leaves the production hall, designers, tool makers and production planners look for solutions that reconcile design with process reliability. Michael Oeljeklaus: "We demonstrate what is physically possible. That means we may often stretch the limits of what is possible, but we never go beyond that – because, if we did, the outcome wouldn't be good enough to meet our customers' demands."

Besides press tools and dies, Škoda Auto's tool shop also produces the equipment for welding lines. Dies for the foundry – for manufacturing engine blocks or transmission parts, for example – are also made in Mladá Boleslav. Although these areas may seem completely different, they all have one thing in common: They all depend on the highest precision.

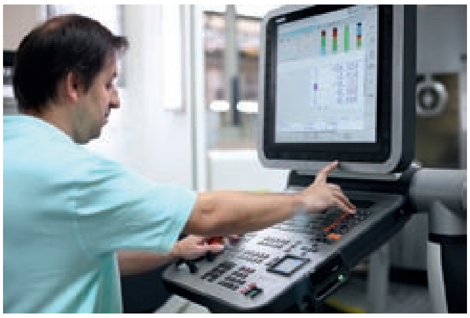
Take the example of body construction: It is essentially the body that creates the overall impression of a car. Clean lines, polished angles, smooth surfaces, perfectly-dimensioned spaces – almost everything, in fact, that we regard as "attractive" and "high-quality" in a vehicle today – has to do with total precision, and is therefore reliant upon the skill of the employees in the tool shop. Because before any modern press machine can churn out its thousands of metal parts a day under several tons of pressure, you need a die that will define the quality of all workpieces. And, finally this die is still made by real people: by specialists who programme high-speed milling machines or who literally give the die a final ultra-fine polish by hand.

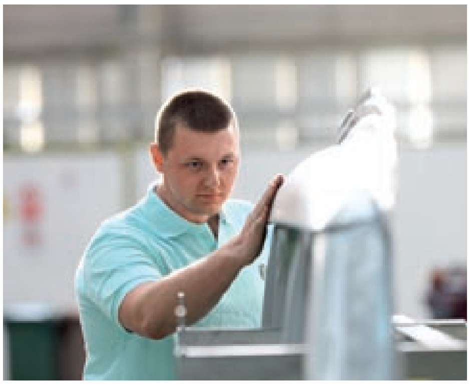
It is the same in other areas where tool making lays the groundwork for production: Errors in the robots' welding equipment result in untidy welds that require lengthy – and therefore expensive – reworking. An imperfect mould causes waste in the foundry. Anything cast wrongly, can, at best, be used as raw material for the next attempt.

That is what makes accurate and precise workmanship one of the basic requirements for tool making staff. Their expertise and skill – but also their passion and motivation – are decisive to the efficiency of the tool making process, the quality of the products, and therefore to the entire Company.

In recruiting employees for this demanding task, Škoda Auto chiefly relies on its own in-house training. More than 90% of the tool shop employees have been trained there, when they came from school or university. ▷

Tools for success: Utmost precision in the tool shop defines the standard of workmanship and therefore the quality of the cars. The tool shop also determines whether ideas from the vehicle development process can be implemented in production.





The majority of employees spend most of their careers in tool making. In fact, a love of detail would almost seem to be hereditary. Three generations of some families work in the Škoda Auto tool shop, even some fathers and sons working at the same workplace. Michael Oeljeklaus sees challenges mainly in the large number of ramp-ups the Volkswagen Group must manage over the next few years. The internationalisation in store for Škoda Auto in the years ahead does not seem to worry him, however. "Over the years, we've got used to working together with Škoda plants all around the world. And we've cooperated really well with the other brands within the Volkswagen Group for many years now," adds Michael Oeljeklaus.

Toolmakers also played a decisive part in the development of the Škoda Yeti. This car's special requirements – not least with regard to its body – required precision planning on many levels. High standards of workmanship and the sturdiness of the vehicle, needed for driving off-road, was a welcome test of Škoda Auto's toolmaking skill. The success of the Škoda Yeti is therefore also thanks, to a large degree, to the expertise of Škoda Auto's toolmakers. There surely is no better endorsement of its expertise. □

"Škoda Auto tool making has stood for technical perfection and the highest standard of engineering for 110 years. It will continue to be at the core of Škoda's self–concept and will play an important role in the Company's future growth strategy."

PROF. DR. H.C. WINFRIED VAHLAND
Chairman of the Board of Management of Škoda Auto

After the first full year of production, no one can dispute that Škoda's Yeti has conquered new territory: A milestone for the Company. A story about courage and expertise – and about having the confidence to take a new direction.

Making tracks with Yeti

With its Škoda Yeti off-roader, Škoda conquered a new market segment straight off the block – opening up potential that will be important to its global growth strategy in the future.

A new car named "Yeti" is clearly designed to make a mark. And after the Škoda Yeti's first full year of production, that mission has definitely been accomplished. The new compact SUV has certainly made an impression on the markets. Auto journalists are full of praise, and – most importantly – customers have welcomed the new 4x4.

The first signs of success were already apparent at its world premiere at the 2009 Geneva Motor Show. The feedback was tremendous, even at that early stage. The Škoda Yeti staked out its territory in the highly competitive market for compact SUVs right from the start – and now it is firmly established.

But, although its name may suggest otherwise, there is no mystery to the Škoda Yeti's success: It is the logical consequence of focusing Škoda Auto's many years of automotive expertise on a specific goal. With the Škoda Yeti, the Company has shown what it is capable of: from preliminary studies and strategic considerations, through development and production, to successful marketing. And that is not all: The Škoda Yeti has achieved what every automobile company strives to do: capture a new market segment. Its success proves that Škoda is well equipped to face future challenges, ▷

See the Škoda Yeti's test results on the official site of the European New Car Assessment Programme (Euro NCAP).

particularly in growth markets around the world. The Chairman of the Board of Management Prof. Dr. h.c. Winfried Vahland elaborates: "The Škoda Yeti is an excellent example of how we at Škoda Auto can develop and realise ideas quickly and precisely. This visionary creativity, combined with a pragmatic approach to implementation, will prove very useful in reaching our future strategic goals."

Aside from such strategic considerations, the Škoda Yeti has also captured the hearts of consumers – largely by virtue of its typical Škoda characteristics. The Škoda Yeti is a textbook example of how to implement "Clever engineering with a human touch".

FOUR-WHEEL-DRIVE MAPS NEW TERRAIN

Mladá Boleslav had no real tradition of building off-roaders to lean on – although Škoda had, in fact, built Type 952 and 956 all-terrain vehicles before the Second World War. Later, in 1942 and 1943, it produced the Škoda Superb 3000, a sedan with a 3.1 litre six-cylinder inline engine complete with four-wheel-drive. This was followed in the sixties by the Trekka, an off-road vehicle designed specifically for the New Zealand market. So, although special off-road vehicles and custom versions were built from time to time, long-term series production of all-terrain vehicles was never a consideration.

MORE THAN ANY OTHER VEHICLE

Perhaps more than any other vehicle, the Škoda Yeti is not just "a lot of car for the money" – it is, if you look closely, actually several different cars rolled into one, all for an exceptionally low price. Its main asset is its versatility: The Škoda Yeti combines off-road capabilities with the comfort and spaciousness of a mid-size sedan, making it perfect for long trips; and while its exceptionally compact dimensions guarantee easy manoeuvrability in city traffic and parking situations, its maximum luggage volume of 1,760 litres can easily accommodate the needs of the whole family. And for a little bit of convertible feeling, the Škoda Yeti also offers the option of a large panoramic sunroof. This unparalleled versatility is what gives the Škoda Yeti the "human touch" Škoda is renowned for.

Technical refinements, such as the four-wheel-drive with Haldex clutch and outstanding safety standards for the body, also make the Škoda Yeti a smart vehicle in the best sense of the word. This was confirmed by its top 5-star rating in the Euro NCAP crash tests. Another clever option is the GreenLine variant which has been available since autumn 2010 with eco-friendly CO_2 emissions of just 119 g/km and an ecologically and economically attractive low consumption of 4.6 litres per 100 kilometres.

The extraordinarily solid design of the SUV body and the robust doorsills and columns, special mounting for the engine and pedals and up to nine airbags, including a knee airbag for the driver and rear side airbags, reliably protect the space for the driver and passengers.

High expectations surrounded the Škoda Yeti production ramp-up at the Škoda plant in Kvasiny. Those expectations were more than fulfilled: Over 50,000 Škoda Yeti models have been sold in 2010.

The Škoda Yeti was geared towards utmost precision right from the start. Its exceptional quality is what makes it so popular.

That is why Škoda Auto so painstakingly prepared the launch of its fifth model series. The initial design idea was discussed and evaluated in depth in all the relevant committees. Everything was calculated down to the last detail; market analyses were conducted and capacities verified. It was ultimately determined that: Yes, the SUV market could accommodate a high-quality addition to the low-cost segment. And, yes, Škoda had the capacity, the know-how and the right brand image to realise the project successfully. But, most importantly: Yes, it had the confidence to take on such a project. The final decision was made by the VW Group's product steering committee, where all new models of the ten Group brands must prove their mettle. Only then was the way finally clear for the Yeti!

The Škoda Yeti had to meet all its buyers' needs right from the start – which demanded precision planning from the initial idea to market launch. The car not only had to fulfil the company's own high standards, but also gain a foothold in a new segment for Škoda – a challenge it successfully mastered.

Ahead of series production, extensive testing of prototypes in the advance development stage focussed on honing the core attribute deemed crucial to long-term sales success: The Škoda Yeti needed to fuse on-road agility with excellent off-road capabilities. To that end, the pre-production vehicles clocked thousands of test miles under extreme conditions before series production was given the green light.

All of those involved were fully aware that there would be no second chances in the highly-competitive SUV segment. "We had to hit the mark with the very first version of the Škoda Yeti. We all knew that. Otherwise, as newcomers to the SUV segment, we would be out of the game in a flash. But we also knew exactly what we needed to do: Implement our tried-and-tested Škoda qualities in a new type of vehicle. No one ever doubted we could do that," said Dr.-Ing. Eckhard Scholz, Member of the Board of Management responsible for Technical Development.

Škoda Auto is purposely exploring a new direction with the Škoda Yeti – without neglecting its presence in its original markets, of course. The courage it showed in developing a totally new vehicle for a market segment where it was previously not active has been rewarded. The Škoda Yeti marks a milestone in the history of Škoda Auto. And while scientists may still be in doubt, the automotive world knows for certain: The Škoda Yeti is alive!

A tradition of responsibility

Companies have been practising responsibility since long before buzzwords like sustainability or corporate responsibility began to dominate the public debate. Behaving responsibly as a company and playing an active part in society is an integral part of Škoda Auto's identity, not to mention its tradition.

Škoda Auto, with operations in more than 100 countries around the world, also has a responsibility towards society in all of those places. It is a responsibility made up of many different facets. When the issue is conserving resources and building automobiles that generate as little pollution as possible, it means responsibility for the environment. But it also comprises responsibility for the safety of passengers riding inside its vehicles, as well as for other road users. And it means responsibility for employees, their families and the local community.

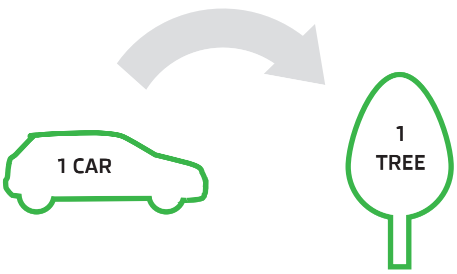
Or, to put it another way: People are the main focus for Škoda Auto, whether they are customers, employees, business partners or stakeholders with an interest in the company. And so, embracing corporate responsibility has been part of Škoda Auto's own tradition as an automobile manufacturer since long before issues such as corporate citizenship and sustainability entered the public domain. "Our company's responsibility towards its employees and their families, towards the environment and society has always been firmly entrenched in our values," explains Chairman of the Board Prof. Dr. h.c. Winfried Vahland. "Back in 2006 we began systematically managing our commitment with the goal of maximising the impact of our wide range of activities. Since then, we have adopted the "triple bottom line" principle: We organise our activities into three pillars: environment, economy and society." ▷

Focus on environmental impact

As part of the VW Group, Škoda Auto is a member of a global network committed to the highest standards of resource conservation. The company's extensive investments in green technologies have backed up its commitment for many years and have led to increase after increase in production efficiency – through avoiding waste, reducing energy and water consumption and lowering CO_2 emissions.

At the same time, Škoda automobiles have been among the lowest-emission cars in their class for years. The fact that all Škoda models are now available as consumption and emission-optimised GreenLine versions, impressively underscores Škoda's leading position. "With our GreenLine models, we want to signal our commitment to the environment – but still offer our customers attractive cars," explains Jürgen Stackmann, Member of the Board of Management responsible for Sales and Marketing at Škoda Auto. "The only way green technology can help protect the climate is if it actually makes it onto the roads and customers want to drive it."

Škoda Auto is striking another blow for the environment – together with its customers – with its "Škoda Tree" programme. For every car sold in the Czech Republic, the company plants a tree in its home market. That adds up to about 60,000 trees a year – and it's not about trying to make compensation. This project is meant to symbolise Škoda Auto's commitment to the environment and represents the Company's aim of protecting the environment and minimising the environmental impact of its vehicles. ▷



60,000 trees/year

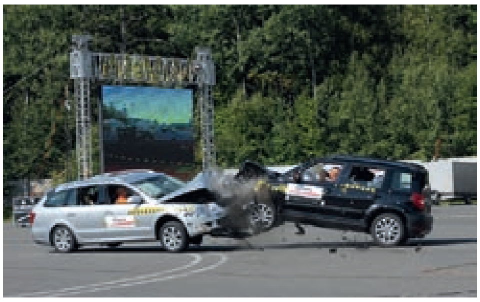
For every car sold in the Czech Republic, the company plants a tree in its home market. That adds up to about 60,000 trees a year.

GREENLINE RANGE NOW COMPLETE

Since 2008, consumption and emission-optimised GreenLine versions of more and more Škoda models have gradually become available. The GreenLine range was completed in 2010, and now extends from the Škoda Fabia to the Škoda Superb. At the same time, the second generation of GreenLine equipment was presented, including a large number of technical enhancements, such as longer gear ratios and modified engine control for lower fuel consumption – not to mention aerodynamic modifications to the body and under-body and the use of run-flat tyres. It was also possible to make the vehicles even more

environmentally-compatible using a standard-equipment gear change indicator integrated in the instrument panel, as well as an automatic Start/Stop system and recuperation (brake energy regeneration) measures. The result is quite impressive: The Škoda Fabia GreenLine, for example, equipped with a 55 kw 1.2 TDI CR engine, has a fuel consumption of only 3.4 litres (diesel) and makes a definite contribution to climate protection with low CO_2 emissions of 89 g/km. The same applies to the Škoda Yeti and Škoda Roomster models. The ecological optimisation of Škoda Auto's top models, the Škoda Superb and the Škoda Superb Combi, has been particularly effective. Both models have a combined fuel consumption of no more than 4.4 litres/100 kilometres and CO_2 emissions of 114 g/km – a top rating for the upper mid-sized class. For customers who appreciate comfort just as much they do environmental-friendliness, Škoda Auto now offers a Green Tec package for the Škoda Octavia. This version combines all of the regular comfort features with environmentally-friendly GreenLine technology without any major compromises.

No excuse to sit back and relax: Even the best crash test results are analysed and evaluated in detail. They lay the foundation for the development of future vehicle generations.



Keeping it real: The company adopts an uncompromising approach to crash tests to guarantee optimum passive and active safety for each of its models.

Leaders in active and passive safety

Škoda automobiles are also among the best-in-class when it comes to safety. The most recent example is the Škoda Yeti, which firmly established the company in the small SUV segment within a short space of time. In 2010, this car – together with the Škoda Superb – achieved top marks in the NCAP crash test. Its five-star rating confirms that the Škoda Yeti not only offers spaciousness and value for money, but also sets the standard for safety.

Results such as these come from years of hard work and research in the field of safety technology. "Safety is one of the main priorities of our development work. That is why we implement improvements even during ongoing production. Our goal is to offer safe and comfortable cars with an attractive design. To achieve that we are constantly raising the bar and advising our customers about the best way to drive on the roads," says Dr.-Ing. Eckhard Scholz, Member of the Board of Management responsible for Technical Development.

Not all of these activities are restricted to laboratories and crash testing facilities, however. Škoda Auto's Traffic Safety Research team has been analysing traffic accidents since 2008. And while their data provides valuable impetus for the company's development work, the emergency, fire and police services also benefit from these findings. The experts have so far evaluated numerous accidents, generating important data to supplement tests conducted in the labs and crash test facilities – because nothing is more realistic than reality.

Škoda Auto's experts provided an example of this in the autumn of 2010 with a high-speed crash test at the facility in Úhelnice in the Czech Republic. A real collision in which a Škoda Yeti drove head on into the side of a parked Škoda Superb Combi at a speed of around 90 km/h was simulated in front of journalists and technology specialists. The test documented that, in a real accident, none of the passengers would have sustained injuries. This very public crash test demonstrated that this was not just down to luck, but for the most part thanks to the high standard of safety in both vehicles.

High-speed cameras impressively captured how the safety technology protected the passengers. Safety belts, knee and front airbags were activated even before the dummies began to move. Within 45 thousandths of a second of the two cars making contact, the life-saving airbags were already deployed in conjunction with the restraint systems to provide effective protection of the passengers.

Two adult and two child dummies were strapped into both vehicles used in the test. Although the impact speed was about twice what is usual in these kinds of tests, the strict standards of the Euro NCAP tests were nevertheless applied. "The evaluation of the data proved that the passengers in both vehicles would have come out of the collision without any kind of serious injuries – and that was thankfully also the case in the accident that provided the basis for this scenario," summed up Dr.-Ing. Eckhard Scholz, Member of the Board of Management responsible for Technical Development. For Škoda Auto, product responsibility does not end at the gates to its plants or when the car is handed over to the customer. Because, above and beyond all the safety technology, it is ultimately how drivers behave on the roads that determines their safety.

That is why Škoda Auto and its import companies offer an extensive driver training programme – ranging from safety training for young drivers to tips on how to save fuel. To keep children in particular safe on the roads, Škoda Auto is also actively involved in the field of road safety education – directly on site at schools and pre-schools, or in cooperation with other institutions who have taken up the cause of protecting the youngest road users.

The company also recently started using the internet to reach out to children: In 2010, the company launched its multimedia web platform "Škoda hrou – Playful Škoda". Created in close cooperation with road safety experts and teachers, it is designed to familiarise the youngest road users with traffic safety rules in a fun way. ▷

ŠKODA SUPERB
front 98.25 pt
back 100.00 pt

ŠKODA YETI
front 99.94 pt
back 93.19 pt

HIGH-SPEED CRASH TEST SUCCESSFULLY EXECUTED

The results of the crash test showcased the high quality of Škoda's safety standards: Despite the damaging forces at work at 90 km/h during the crash test, none of the passengers would have been seriously injured.

Euro NCAP criteria formed the basis for the high-speed crash test in Úhelnice, although the vehicles' speed was considerably higher than in comparable Euro NCAP test. 0 to 100 possible points could be scored.

PLAYFUL ŠKODA MAKES STAYING SAFE FUN

This application targeting primary school pupils and teachers can be accessed for free from Škoda Auto's site (http://www.skodahrou.cz/) in English and Czech. In a fun way, the application helps kids deal with the most common traffic situations they face when walking along crossing streets or using public transport, riding on a bike or being a passenger in a car. Interactive animations of simple traffic scenarios allow the child to practise common traffic situations, such as how to cross a street or ride through a crossing.

Other stories explain how to be seen in the dark, how to use seatbelts or bicycle equipment – or what to do when an ambulance passes by or a road accident occurs. Besides the traffic stories, kids can also use the animated scenes to test their knowledge of traffic signs. Although the application is dedicated to road safety, it also offers plenty of attractive games for both younger and older children, such as paint books, jigsaw puzzles, a Euro Atlas, labyrinths or sudoku. The application also explains main terms and tools used in active and passive safety for car passengers.

The application is currently being enhanced with new content and its links to other preventive road safety programmes are being tested. Due to the strong interest of Škoda importers, the application is also being translated into more languages, with Russian among the first.

Škoda Auto embraces social responsibility at many levels. It is an integral part of the company's philosophy and concerns all divisions.

Social commitment

The company and its importers play an active part in the societies where Škoda products are available. The roots of this commitment go back a very long way. Škoda Auto has always been especially committed to the welfare of its employees and their families. And as one of the Czech Republic's most successful companies , it was only logical to extend this commitment to the people living in the regions where it was located.

Škoda Auto is particularly active in the field of education. The company has been operating the Czech Republic's first, and, so far, only, corporate university in Mladá Boleslav since 2000. More than 850 students are preparing for their future careers at the Škoda Auto University, working towards bachelor's and master's degrees in economics and management. "More than 100 of the students here are also Škoda Auto employees. They are taking advantage of the opportunity to combine studying for a degree with practical experience – that's a real win-win situation for the employees and the company," explains Bohdan Wojnar, Member of the Board of Management responsible for Human Resources.

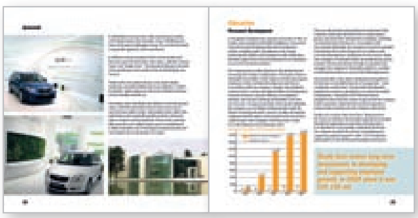
As in all of its business activities, Škoda Auto also seeks to exchange ideas and cooperate with other committed stakeholders in the field of education. The Škoda Auto University therefore works with different universities across the Czech Republic, as well as in Germany, Austria and Spain. Besides academic exchange, this kind of cooperation also includes joint workshops and conferences, as well as preparing and organising internationally recognised language tests for students.

Alongside its education activities, Škoda Auto is also actively involved in the cultural field as a sponsor, and supports many social and charitable institutions. The import companies and subsidiaries once again play an important role here: They know their market best – and therefore also the local communities' needs.

"We firmly believe there is a very strong link between the success of the company and being a responsible member of society," says Winfried Vahland, Chairman of the Board of Management of Škoda Auto. "A company whose products account for about 7% of the Czech Republic's exports also has a responsibility towards this country. And since most of Škoda Auto's 24,700 or so employees work in the Czech Republic, our social responsibility has so far focused on our home country – while our import companies and local subsidiaries practise social responsibility in their markets. The growing internationalisation of our company and its business operations means that our social commitment will also expand beyond its existing boundaries – and our tradition of responsibility will continue." □

COMMITMENT IN FULL VIEW

Škoda Auto has also reported on its commitment to sustainable development every two years. The current Sustainability Report is available for download in the internet. The website http://new.skoda-auto.com/company/com/sustainable_development also features the latest news and detailed facts and figures about Škoda Auto's commitment, as well as more information about the company's CSR strategy and an overview of its many projects and activities.



Link to Škoda Auto's latest Sustainability Report.

Škoda in 2010: The year in review

Škoda in 2010: The year in review

1

JANUARY 4, 2010

ŠKODA YETI GOES TO INDIA

NEW DELHI – The Indian capital's Auto Expo marks the start of the 2010 motor show season – and provides the setting for Škoda Auto to present the Škoda Yeti to the local public for the first time. Equipped with four-wheel drive and a choice of 1.8 or 2.0 litre engine, this newcomer will enable Škoda Auto to continue its growth trajectory in the Indian market. Alongside the new SUV, the company also showcases face-lifted models of the Škoda Fabia, Škoda Octavia (available in India under the name "Laura") and Škoda Superb in New Delhi.

2

FEBRUARY 23, 2010

REDESIGN AND NEW TECHNOLOGY FEATURES FOR ŠKODA FABIA AND ŠKODA ROOMSTER

Škoda takes the Škoda Fabia and the Škoda Roomster to the next level – offering the latest models with new design and technology features and a wider range of engines. A total of seven petrol and diesel engines are now available, all of which conform to the EU 5 standard and boast better performance combined with low fuel consumption and reduced CO_2 emissions. The impressive exterior design features a new grille and 3D headlamps that give both models a more powerful, dynamic look. Inside, the passenger compartment is enhanced by new materials and visual refinements. Attractive, breathable seat covers and upgraded Climatronic air conditioning controls give the new Škoda Fabia the feel of a car from a much higher class.

3

MARCH 2, 2010

WORLD PREMIERES IN GENEVA

GENEVA – Škoda Auto is represented at the 2010 Geneva Motorshow by five distinct models, available in numerous different versions. At the first major European motor show of 2010, Škoda Auto presents a fresh, youthful redesign of its range of compact cars. The face-lifted Škoda Fabia and Škoda Roomster as well as the new Škoda Fabia RS and the Škoda Fabia Scout celebrate their world premieres in Geneva. The RS is powered by a 1.4 litre four-cylinder engine, which combines an impressive 132 kW (180 hp) of power with excellent fuel consumption of 6.4 litres per 100 kilometres. This is the first time that a top-class sports engine and special equipment features will be offered in both a hatchback and an estate. The Škoda Fabia Scout is offered with the attractive design features typical of off-road vehicles – a very appealing opportunity to individualise the Škoda Fabia.

4

APRIL 23, 2010

ŠKODA SHINES IN CHINA

BEIJING – China's most important motor show this year sees the official launch of the face-lifted Škoda Octavia Ming Rui in the Chinese market. Its design has been refreshed by incorporating more chrome-plated elements; even the basic trim level offers a generous helping of chrome, and includes air-conditioning and lightweight alloy wheels in all models. The Škoda Octavia MingRui was the first product in Škoda's portfolio to be built at the Shanghai Volkswagen plant. The Škoda Octavia is Škoda's best-selling model in China, it accounts for roughly 60% of the companys' sales there. In Beijing, Škoda Auto also rolls out face-lifted derivatives of the Škoda Octavia – the Škoda Octavia RS with a two-litre turbo engine with double charging and an automatic DSG transmission, and the economical Škoda Octavia MingRui GreenLine with a 1.4 TSI unit, also in combination with DSG.

6

JUNE 21, 2010

MUCH IN DEMAND: ŠKODA TURNS OUT 100,000TH 1.2. TSI ENGINE

MLADÁ BOLESLAV – Within just a few months of its production ramp-up, Škoda builds the 100,000th 1.2. TSI engine at its plant in Mladá Boleslav. In response to strong demand, the company increases production to 1,250 units per day. This consumption-optimised 1.2 litre engine, available in 63 kW or 77 kW versions, impresses with its environmentally-friendly materials and low emission figures in the Škoda Fabia, the Škoda Roomster, the Škoda Octavia and the Škoda Yeti. This power train is also used in other Volkswagen Group models.

5

MAY 5, 2010

RECORD-BREAKING SPONSORSHIP

COLOGNE/MANNHEIM/GELSENKIRCHEN – For the 18th consecutive year, Škoda Auto serves as the main official sponsor of the Ice Hockey World Championships. In actual fact, Škoda holds the GUINNESS WORLD RECORD as the longest-standing main sponsor in the history of sporting world championships.
A different record was broken by the opening game of the 2010 IIHF World Championships held on May 7: No fewer than 76,000 fans watched the 1:2 match between the U.S. and Germany – the most spectators ever for an ice hockey game. As the official automobile partner of the Ice Hockey World Championships, Škoda provides the Organizing Committee with a total of 40 vehicles this year: Škoda's Superb, Škoda Octavia and Škoda Yeti models are all used as shuttles for VIPs and officials.

See the most spectacular moments of the Ice Hockey World Championship in Germany in 2010.

7

JULY 3, 2010

ŠKODA AUTO AGAIN DRIVES THE TOUR DE FRANCE

ROTTERDAM/PARIS – The 97th Tour de France gets underway in Rotterdam. At the end of 20 stages and 3,596 kilometres through the Netherlands, Belgium and France, the peloton, or main pack of cyclists, crosses the finish line on the Champs-Elysées in Paris on July 25, 2010. Škoda Auto has been one of the key partners of the Tour de France since 2004 and provides the official vehicles for the world's best-known cycling race. Škoda also sponsors the white jersey for the best young cyclist under 25. The Company's commitment to the most important event in the international cycling race series is a key element of its sponsoring strategy, and carries over to many other countries. The Italian importer supports cooperation with the Giro d´Italia, for instance, and Škoda is also a partner of Bike for Life in the Czech Republic and the Tour de Romandie in Switzerland; in Germany thousands of amateur sports enthusiasts turn out for the Škoda Velothon Berlin.

See the highlights of the best-known cycling race, the Tour de France.

8

AUGUST 25, 2010

ŠKODA AUTO AT MOSCOW MOTOR SHOW

MOSCOW – Škoda Auto stages national premieres for its flagship Škoda Superb Combi, the Škoda Fabia RS, the face-lifted Škoda Fabia and the Škoda Fabia S2000 rally car at this year's Moscow Motor Show in the Russian capital. Škoda Auto also shows off its complete portfolio of vehicles manufactured at the Kaluga plant in Russia. For its national premiere, the Škoda Superb Combi is displayed featuring the popular 2.0 TSI (147 kW) petrol engine and state-of-the-art six-speed automatic DSG transmission. As a logical continuation of the Škoda Superb line, this vehicle offers the ideal combination of versatility and elegance to take Škoda's long tradition of estate cars into the upper-class segment.

9

SEPTEMBER 29, 2010

PLUGGED IN: ŠKODA UNVEILS FIRST ELECTRIC CAR

PARIS – At the 2010 Paris Motor Show, Škoda Auto presents its Škoda Octavia Green E Line concept, the company's first ever fully electric-powered vehicle, and confirms its commitment to environmentally-compatible mobility. But this concept car is just the beginning: An initial test fleet is already scheduled for launch in 2011. The goal is clear: emission-free driving. The Green E Line concept is based on the Škoda Octavia Combi. With its modular chassis design, this series-production car can easily accommodate the battery, electronic control unit and electric engine. The electrical power for the Škoda Octavia Green E Line is supplied by a state-of-the-art lithium-ion battery, which, with a range of 140 kilometres, meets the needs of most European commuters. Since the battery pack is located under the middle and rear sections of the vehicle floor, extending only partly into the luggage compartment, it barely impacts the spaciousness of the interior or the volume of the luggage compartment.

OCTOBER 1, 2010

ŠKODA PUBLISHES 2009/2010 SUSTAINABILITY REPORT

MLADÁ BOLESLAV – Škoda Auto's commitment to the field of environmental protection and social responsibility is making an impact – as documented by the key figures published in the current sustainability report. For instance, water consumption and the volume of waste and harmful substances generated in the production process have been drastically reduced. The fuel consumption and CO_2 emissions of all vehicles in the Škoda product range have also been further lowered, bringing Škoda a step closer towards its goal of an emission-free future.

Download the Škoda Auto Sustainability Report 2009/2010.

10

11

NOVEMBER 3, 2010

ŠKODA AUTO ELECTRICIAN TAKES HOME "BEST APPRENTICE AWARD"

EMDEN – The 21-year-old vehicle electrician, Martin Hlaváček, wins the "Best Apprentice Award", a prize presented every year to the Volkswagen Group's best apprentices from around the world. This year, 22 apprentices from twelve countries are recognised for their outstanding performance during theoretical and practical training. The award is presented by Prof. Dr. Martin Winterkorn, Chairman of the Board of Volkswagen AG, Dr. Horst Neumann, Board Member for Human Resources, and Bernd Osterloh, President of the Global Works Council of the Volkswagen Group. From Škoda Auto's perspective, Hlaváček's award is confirmation of the high quality of its training and the skill of its training team.

DECEMBER 10, 2010

ŠKODA YETI TO BE BUILT AT SHANGHAI VOLKSWAGEN

SHANGHAI – Škoda China and Shanghai Volkswagen announce in Shanghai that Škoda's compact SUV, the Škoda Yeti, will be locally produced at Shanghai Volkswagen from 2013 onwards. The Chairman of the Board of Management of Škoda Auto, Prof. Dr. h.c. Winfried Vahland, Michael Oeljeklaus, Member of the Board of Management for Production and Logistics, who is also Škoda Auto's representative for China, and Shanghai Volkswagen General Manager Zhang Hailiang attend a ceremony to mark the signing of the licence production contract in Shanghai. The Škoda Yeti is the fourth model to be launched by Škoda in China. It will expand the brand's product portfolio and provide a better response to consumers' individual demands. As a strategic model for the Škoda brand, this compact SUV has been making deep inroads into the market since its debut in 2009 in Europe and has added strength and breadth to Škoda's model portfolio.

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CZECH REPUBLIC

CAR OF THE YEAR 2010 (KMN)
Škoda Yeti

CAR OF THE YEAR 2010 (SDA, SAP)
Škoda Yeti

MOST POPULAR 4X4 (4X4 AUTOMAGAZIN)
Škoda Yeti – Category A

FLEET CAR OF THE YEAR (FLEET)
Škoda Octavia Combi – 1st place – Company car
Škoda Superb Combi – 1st place – Manager car (internet survey)
Škoda Superb Combi – 2nd place – Manager car

SWEDEN

STORA BILPRISET 2010 (CAR OF THE YEAR)
Škoda Yeti

FINLAND

WINTER CAR OF THE YEAR 2010
Škoda Yeti 1.2 TSI

ECO CAR OF THE YEAR 2010
Škoda Octavia GreenLine 1.6 TDI CR DPF

BELGIUM

SUV OF THE YEAR 2010
Škoda Yeti

UK

BEST FAMILY CAR 2010 (AUTO EXPRESS)
Škoda Octavia

CAR OF THE YEAR AWARDS 2010 (DIESEL CAR MAGAZINE)
Škoda Superb – 'Large Car' category and 'Estate Car' category

BEST CAR MANUFACTURER 2010 (WHICH? AWARDS)
Škoda Auto

CAR OF THE YEAR 2010 (AUTO EXPRESS)
Škoda Yeti

PRIVATE HIRE CAR OF THE YEAR (PROFESSIONAL DRIVER MAGAZINE)
Škoda Superb

BEST MANUFACTURER (WHAT CAR)
Škoda Auto
Škoda Octavia – Small family (1st place), estate car (2nd place)
Škoda Roomster – MPV (4th place)
Škoda Yeti – SUV (5th place)

SLOVAK REPUBLIC

CAR OF THE YEAR 2010
Škoda Yeti – 2nd place

BEST CARS
Škoda Fabia
Škoda Superb
Škoda Yeti

GERMANY

AUTO BEST 2010 (AUTO MOTOR UND SPORT)
Škoda Octavia

ALL-WHEEL DRIVE CAR OF THE YEAR 2010
Škoda Yeti – Off-road Vehicles and SUVs under 25,000 euros

OUR CAR (UNSER AUTO) 2010
Škoda Yeti – SUV class

FLEET AWARDS 2010
Škoda Superb – Import (upper middle class)
Škoda Fabia – Import (small cars class)
Škoda Octavia – Middle class

COMPANY CAR OF THE YEAR 2010 (DEKRA)
Škoda Fabia Combi 1.6 TDI – Imported small car

PRACTICAL CARAVAN TOWCAR AWARDS 2010
Škoda Superb Estate 2.0 TDI CR 170 SE – Best Car in 1575–1724 kg Class
Škoda Octavia Estate 1.6 TDI CR GreenLine – Green Award

AUTO TEST WINNER 2010 (AUTO TEST)
Škoda Octavia

BEST IMPORT BRAND (AUTO ZEITUNG)
Škoda Auto

AUTO TROPHY (AUTO ZEITUNG)
Škoda Yeti – SUV
Škoda Roomster – Imported MPV
Škoda Superb – Best bargain car

GREECE

CAR OF THE YEAR 2010
Škoda Yeti

POLAND

INTERNET CAR OF THE YEAR (MOJEAUTO.PL)
Škoda Octavia

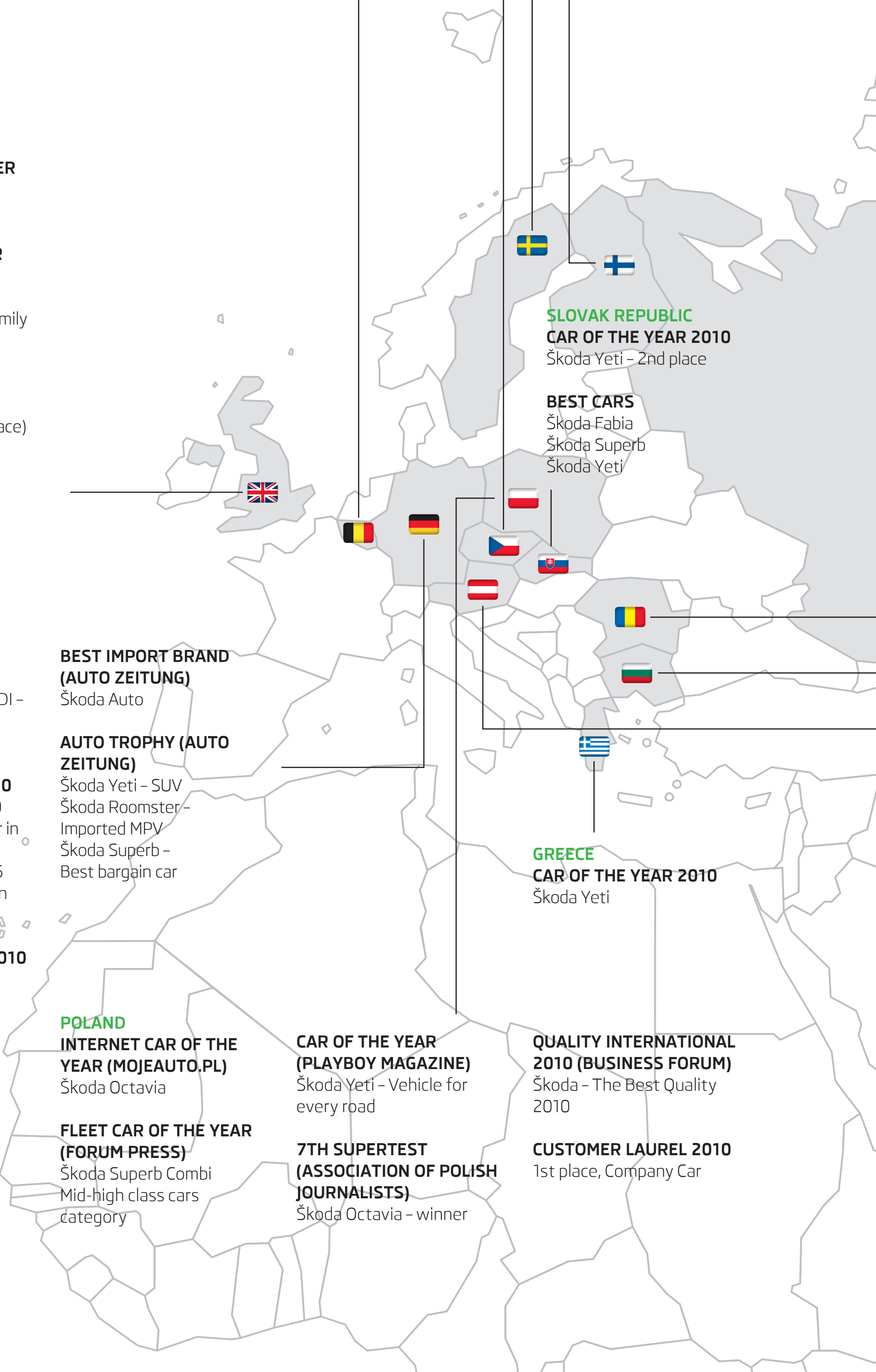
FLEET CAR OF THE YEAR (FORUM PRESS)
Škoda Superb Combi
Mid-high class cars category

CAR OF THE YEAR (PLAYBOY MAGAZINE)
Škoda Yeti – Vehicle for every road

7TH SUPERTEST (ASSOCIATION OF POLISH JOURNALISTS)
Škoda Octavia – winner

QUALITY INTERNATIONAL 2010 (BUSINESS FORUM)
Škoda – The Best Quality 2010

CUSTOMER LAUREL 2010
1st place, Company Car



Excellence rewarded

"Only the best we can do is good enough for our customers." The words of Václav Laurin and Václav Klement have shaped Škoda Auto's actions and way of thinking up to the present day and are a constant incentive to deliver outstanding performance. This produces vehicles that were once again applauded by the international press and earned a large number of accolades and awards in 2010. They are a clear endorsement of the company's achievements so far, but above all they represent an obligation for the future. In its continued efforts to produce the best-possible products and achieve maximum customer satisfaction, they provide Škoda Auto with both a benchmark and a source of motivation. The most important awards received in 2010 can be found here.

RUSSIA

GOLDEN KLAXON 2009 (KLAXON NEWSPAPER)
Škoda Yeti – Best Compact SUV of the Year

SPORTS CAR OF THE YEAR 2010 (AUTOMOBILI MAGAZINE)
Škoda Octavia RS

ROMANIA

AUTOBEST 2010
Škoda Yeti – 3rd place

BULGARIA

CAR OF THE YEAR 2010 4X4
Škoda Yeti

CAR OF THE YEAR 2010 (PRESS AUTO CLUB)
Škoda Yeti – 4x4 category

AUSTRIA

FLEET CAR OF THE YEAR 2010
Škoda Superb

CHINA

TRENDY MODEL (AUTO STYLE)
Škoda Superb Haorui

GOVERNMENT AND BUSINESS MODEL OF THE YEAR (WWW.SINA.COM)
Škoda Superb Haorui

MOST TRUST-WORTHY A-CLASS MODEL (AUTO.163.COM)
Škoda Octavia Mingrui

SPORTY AND FAMILY CAR OF THE YEAR (AUTO NEWS)
Škoda Octavia RS

SPORTY CAR OF THE YEAR (BEIJING NEWS)
Škoda Octavia RS

ENVIRONMENTAL PROTECTION CAR OF THE YEAR (NANFANG CITY NEWS)
Škoda Octavia GreenLine

MOST RELIABLE ECONOMIC CAR OF THE YEAR (NEWS EXPRESS DAILY)
Škoda Fabia Jingrui

2010 SMALL CAR WORTH RECOMMENDATION (AUTO WORLD)
Škoda Fabia Jingrui

BRAND WITH BEST SERVICE OF THE YEAR (GUANGZHOU DAILY)
SVW Škoda

2010 CHINA AUTO SERVICE GOLDEN WRENCH AWARD – BRAND WITH EXCELLENT SERVICE (AUTO DRIVING & SERVICE)
SVW Škoda

INDIA

GOLDEN STEERING WHEEL 2010 (AUTO BILD)
Škoda Laura – Best Variant of the Year
Škoda Superb – Best Sedan of the Year
Škoda Superb – Most fun to drive Car of the Year

OVERDRIVE – CNBC TV18 AWARDS 2010 (OVERDRIVE)
Škoda Laura – Midsize Car of the Year

ET NOW ZIGWHEELS
Škoda Superb – Executive Sedan of the Year

BLOOMBERG UTVI AUTOCAR AWARD
Škoda Laura – Best Variant of the Year

BUSINESS STANDARD MOTORING AWARDS
Škoda Superb – Executive Car of the Year

NDTV CAR INDIA AWARDS 2010
Škoda Superb – Entry Premium Car of the Year

Win after win after win

2010 was one of the most successful years in the history of the Škoda brand. In motorsports, too, teams representing the time-honoured Czech brand left the rest of the field standing.

2010 will go down in the annals of Škoda Motorsport as a high point in a history already rich in successes: The team brought home not only the drivers' championship but also the manufacturers' cup at the renowned and highly-demanding Intercontinental Rally Challenge (IRC), winning seven out of eleven races and placing on the podium numerous times – all in all, quite an impressive record. Škoda Motorsport also garnered six national rally titles in Germany, Austria, the Czech Republic, Spain, the Lebanon and the Slovak Republic.

Racing success has nothing to do with luck – it results from the perfect symbiosis between humans and machines. 2010 was Škoda Auto's most successful racing year yet – thanks to its excellent team spirit and an exceptional car, the Škoda Fabia Super 2000.

Škoda Motorsport certainly had more than one occasion to celebrate in 2010. The season culminated with the Škoda Champions Gala held on November 20 in Prague. In his thank you to the entire Škoda rally family, Chairman of the Board of Management Prof. Dr. h.c. Winfried Vahland said: "This year's rally season was truly fantastic for Škoda – one of the most successful in the nearly 110 years of our motorsports activities." A success everyone naturally hopes to build on next season. Prof. Dr. h.c. Winfried Vahland: "Škoda Auto is proud of this achievement. We are looking with clear expectations into the future."

In particular, Juho Hänninen and his teammate, Mikko Markkula, notched up one victory after another during 2010. The Finnish driver secured the IRC championship title early, with two races to go, thanks to a Škoda Superb second place in the Rally San Remo on September 25. Škoda Motorsport's second crew, with Jan Kopecký behind the wheel and co-driver Petr Starý beside him, also had a strong season. Their win in the Canary Islands also contributed to the overall success of the team. Congratulations were certainly in order at the Gala in Prague. There is, after all, one key factor behind the season's many successes: hard work. 29-year-old Hänninen summed up as follows: "This evening is a very emotional end to this great season. You have to be highly concentrated when the competition is in progress, but now I am completely relaxed and I'm enjoying every moment." ▷

This motorsport success would not have been possible without a high-performance car like the Škoda Fabia Super 2000. In 2009 Škoda Motorsport staged a successful rallying comeback with the fast and equally robust Škoda Fabia Super 2000 after a break of several years. Speaking for his colleagues, six-time German rally champion and Škoda Fabia Super 2000 driver Matthias Kahle remarked: "I can't think of anything to improve on in this car."

The car's technical data and, in particular, its handling characteristics, are what convince customers. As many as 30 Škoda Fabia Super 2000 cars have already been sold to racing enthusiasts and rally teams all over the world who want to race the vehicles themselves in motorsports events.

TEAMWORK SETS THE STANDARD – WORLDWIDE

But even the best drivers and the most outstanding cars cannot win races without an ambitious, well-oiled team behind them. Rally teamwork relies on clockwork precision. Each and every member of the team needs to have fast reactions and to stay cool under tremendous physical and psychological stress. Different circumstances at different locations around the world have to be evaluated, extreme weather conditions factored in, schedules coordinated, drivers briefed and cars prepped – often under relentless time pressure. That is why Dr.-Ing. Eckhard Scholz, Member of the Board of Management responsible for Technical Development, thanked all of the team members for their energetic and unconditional support as the IRC racing season came to an end on November 8, 2010 in Cyprus. He confirmed that the Škoda Fabia Super 2000 had successfully completed its mission for 2010 and that the hard work had paid off: "The Škoda Fabia Super 2000 project has been very well received and has contributed significantly to our joint efforts to increase awareness and enhance the image of the Škoda brand. It has definitely been a great promotion for Škoda!"

Škoda shows its colours not just at the IRC and major national races: Working with partners such as the national import companies, it often takes advantage of unusual opportunities to highlight the Škoda brand's racing capabilities. On the initiative of the French import company, for instance, Škoda recently caused quite a sensation: When the French Trophée Andros ice racing series opened on December 4th and 5th 2010, former Formula One world champion and Indy 500 winner, Jacques Villeneuve, joined the starting line-up in a four-wheel-drive 350 hp Škoda Fabia "Glace" (meaning "ice") – the first time for the 39-year-old Canadian. He drove alongside his former Formula One teammate, Olivier Panis, who placed third overall with the Škoda Fabia last year.

"Škoda Auto was extremely successful in IRC with the Škoda Fabia Super 2000 in 2010. Besides enhancing the brand's image, the latest insights from the world of motorsports also benefit regular series production and therefore all Škoda customers."

DR.-ING. ECKHARD SCHOLZ
Member of the Board of Management for Technical Development

Škoda also showcases its long history of motorsports expertise by competing regularly in old-timer rallies.

See the highlights of 2010 IRC season.

A SUCCESS BUILT ON TRADITION

For Škoda, motorsports has always been about more than just chasing records and victories or striving for technical excellence. The sporting successes of its models have provided the brand with a large part of its identity for almost 110 years. In motorsports, there was, and still is, a place for feelings like passion, a love of cars and nostalgia. These feelings find expression in the many old-timer rallies where Škoda proudly races its classic cars: Like last year, when two Škoda drivers, Matthias Kahle and Peter Göbel, won the so-called "hourglass class" at "Eifel Classic", a rally around the Nürburgring, in a Škoda 110 R built between 1970 and 1976. At these kinds of events, a passion for cars is closely interwoven with image promotion. A long car-building tradition feeds into current brand values – and it suddenly becomes clear that cars like the Škoda Fabia Super 2000 are not created by chance, but are the product of 115 years of evolution.

Will Škoda Motorsport be as successful in 2011 as it was in 2010? Given the Company's firm commitment to motorsports, its experienced teams and the outstanding car it has in the line-up, conditions seem right for another good performance this year. But quite apart from all the short-term targets and predictions, Škoda's development departments are already gearing up for the models that will take the Škoda Fabia Super 2000's place when the time is right. Because: Time doesn't stand still. And tradition obliges – especially in the case of Škoda Motorsport. □

A successful finish to a dramatic 2010 rally season for Škoda Motorsport: The cars and their drivers overcame tough challenges – so spirits ran high at the victory parties. Winning the IRC was the highlight of the racing year and just reward for the team's tireless and uncompromising dedication.

The Octavia Green E Line concept car marks a major step towards emission-free mobility for Škoda Auto.

Plugged in

Emission-free mobility will be the main challenge for the automotive industry over the coming decades. With the well-received world premiere of its electric-powered Škoda Octavia Green E Line concept car at the Paris Motor Show in October 2010, Škoda Auto offered a glimpse of things to come: "The Škoda Octavia Green E Line shows how seriously committed we are to the field of e-mobility. We want to have emission-free cars ready for series production as soon as possible – that is a priority for Škoda Auto," according to Dr.-Ing. Eckhard Scholz, Member of the Board of Management for Technical Development.

A trial fleet of Škoda Octavia Green E Line cars should be on the roads by the end of 2011. The focus will be on testing the vehicle's handling and general everyday drivability, but the trial will also consider the safety of other users sharing the road with virtually silent electric vehicles.

The Škoda Octavia Green E Line is based on the Škoda Octavia Combi estate car. One of the main priorities for designers was to arrange the batteries in such a way that they would take up as little of the available space as possible. As a result, passengers enjoy virtually the same space as in the regular series-produced Škoda Octavia Combi: The volume of the luggage compartment is only slightly smaller, and still offers extremely family-friendly 490 litres of room.

The Škoda Octavia Green E Line's electric motor has a constant power of 60 kW and a maximum power of 85 kW. It goes from 0 to 100 km/h in twelve seconds and boasts a top speed of 135 km/h. A maximum 270 Nm of torque is available.

The Škoda Octavia Green E Line's range of 140 kilometres per battery charge easily covers the average daily commute for most Europeans, with plenty of capacity left over for additional leisure activities. This is the achievement of intelligent recuperation technology – that is, recovering energy from braking, for instance, or driving downhill. Batteries can be charged overnight: With a 400-volt power current, charging takes about four hours or, with a standard household voltage of 230 volts, about eight hours.

Škoda Auto also wants the Škoda Octavia Green E Line to demonstrate that good looks and environmentally-friendly mobility are not a contradiction in terms – but that they can go hand in hand: With its pearl-white exterior and white interior decor, this concept car suggests purity, clarity and cleanliness. The large, glossy black panoramic roof with integrated photovoltaic panels, in particular, highlights the successful combination of contemporary design and technological progress.

The Škoda Octavia Green E Line's importance to Škoda Auto should not be underestimated. This vehicle signals the beginning of an exciting phase in vehicle development that will take Škoda Auto into a new age of automobile transportation. It is quite possible that, one day, the Škoda Octavia Green E Line will go down in the history of this company so rich in tradition as one of Škoda Auto's truly revolutionary concept cars. And, with a certain pride, it will be said that Škoda Auto would not be where it is today without the Škoda Octavia Green E Line. □

The Škoda Octavia Green E Line has a range of 140 kilometres. Charging takes about four hours with a 400-volt power current and eight hours with a standard household voltage of 230 volts.

Product portfolio

ŠKODA FABIA
The Škoda Fabia sets the standard for efficiency in the compact car segment. High-quality workmanship and state-of-the-art engines offering excellent fuel economy and low emissions go hand in hand with an attractive price/performance ratio. Its reliability and outstanding level of comfort for a vehicle of this class make the Škoda Fabia one of the most successful Škoda vehicles of recent years.

ŠKODA FABIA COMBI
The Škoda Fabia Combi offers a surprising amount of storage space for a vehicle that belongs to the compact car segment. This guarantees maximum flexibility and remarkable drivability, and explains why this car accounts for such a large share of total sales: Every third Škoda Fabia sold is a combi. As part of a recent facelift, the model was optimised for greater safety and comfort, and especially economical power units were added to the engine range.

ŠKODA ROOMSTER

Space and roominess are key in the Škoda Roomster. This car has plenty of room for passengers and luggage alike and, with its variable rear-seating system, can be adapted to meet the most unique and demanding transport needs. The road performance of its completely revised range of petrol and diesel engines is particularly impressive. Since its debut in 2006, the Škoda Roomster has become a permanent fixture in the small multi-purpose vehicle segment.

ŠKODA YETI

The highly-successful Škoda Yeti is Škoda Auto's answer to the growing demand for a smart alternative in the SUV segment. It combines sound economic sense and advanced technology with versatility. Its engines boast remarkable fuel economy and low emissions. And with four-wheel-drive, it masters difficult roads and tough terrain. At the same time, its modern design ensures it also looks good in the city.

ŠKODA OCTAVIA
The Škoda Octavia takes "sensible" to a whole new dimension, proving that quality workmanship can be enjoyed for a reasonable price. The generous amount of space available makes it one of the most versatile mid-range cars, while its wide range of engines caters to every demand. These features are what have made the Škoda Octavia the most successful model in the history of Škoda Auto: No fewer than three million Škoda Octavias have already rolled off the assembly line.

ŠKODA OCTAVIA COMBI
The Škoda Octavia Combi is an all-rounder with many virtues. It combines efficiency with durability, driving comfort with ample space and family-friendliness with driving fun. In the highly-competitive market for mid-range estate cars, the Škoda Octavia Combi has earned itself a permanent place, not least thanks to its outstanding everyday drivability.

ŠKODA SUPERB
The flagship of Škoda, the Škoda Superb takes an uncompromising approach to technology, driving performance, design and efficiency, and offers top quality at a fair price. Its spaciousness, extraordinary level of comfort, meticulous workmanship and top quality materials, combined with an extensive range of standard equipment, make the Škoda Superb a real alternative in the upper mid-range class.

ŠKODA SUPERB COMBI
The Škoda Superb Combi is an incredibly spacious upper mid-range car. Top materials, perfect handling and precise workmanship, combined with high-performance, environmentally-friendly engines up to 260 hp and a generous luggage space for even the most exacting requirements, make the Škoda Superb Combi a perfect vehicle for every occasion.

Management Report


+11.5%
762600.
ŠkodaAuto
CA
ON
C·CE
GT
DEC SET
M+
RATE SET
RATE RECALL
M–
%
+/–
RM
CM

Škoda Auto Group profile

Škoda Auto is one of the most significant corporate groups in the Czech Republic. It comprises the parent company ŠKODA AUTO a.s., its fully consolidated subsidiaries ŠkodaAuto 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, manufacturing and sale of Škoda-brand automobiles, components and genuine parts and accessories and the provision of maintenance services. Since 18 July 2007, the sole shareholder of the parent company, ŠKODA AUTO a.s., has been Volkswagen International Finance N.V., seated in Amsterdam, Kingdom of the Netherlands. Volkswagen International Finance N.V. is an indirect 100% subsidiary of VOLKSWAGEN AG.

ŠkodaAuto Deutschland GmbH

ŠkodaAuto 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

This company merged on 12 January 2009 with the affiliated company OOO VOLKSWAGEN Rus, which was wound up after the merger. The company's principal business comprises the purchase, manufacture and sale of vehicles, genuine parts and accessories.

In addition to OOO VOLKSWAGEN Group Rus, the parent company 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

ŠkodaAuto 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%

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 distributed. 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, of whom four are appointed by the sole shareholder and two are elected by Company employees in accordance with the law. Members of the Supervisory Board serve four-year terms, whereas reappointment or re-election for additional terms is possible. The Supervisory Board meets regularly three times a year.

In this regard, independent decision-making of Škoda Auto's Supervisory Board and the extent of the Company's strategic development are 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)
Member of the Supervisory Board (since 1 January 2010)
Chairman of the Supervisory Board (since 29 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 Group Production, VOLKSWAGEN AG

Ing. Martin Jahn (*1970)
Member of the Supervisory Board (since 1 April 2009)
Head of 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

Changes to the Supervisory Board in 2010

APPOINTED TO THE SUPERVISORY BOARD

Prof. Dr. rer. nat. Martin Winterkorn – Member since 1 January 2010, Chairman since 29 January 2010
Christian Klingler – Member since 6 November 2010
Dr. h.c. Michael Macht – Member since 6 November 2010

STEPPED DOWN FROM THE SUPERVISORY BOARD

Detlef Wittig – Member from 1 November 2007 to 5 November 2010
Prof. Dr. Jochem Heizmann – Member from 1 September 2007 to 5 November 2010

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. 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 (see the Company's Organisation Structure).

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)

PREVIOUS JOB POSITION
- Member of the Board of Management for Commercial Affairs, Škoda Auto (2002–2005) and Vice-Chairman of the Board of Management for Commercial Affairs, Škoda Auto (since 2003)
- President and CEO, Volkswagen China Investment Company (2005–2010) and Global Vice President, VOLKSWAGEN AG (since 2006)

Dipl.-Kfm. Winfried Krause (*1962)
Member of the Board of Management for Commercial Affairs (since 1 April 2010)

PREVIOUS JOB POSITION
- Head of Group Controlling, VOLKSWAGEN AG (2006–2010)

Dipl.-Betrw. Jürgen Stackmann (*1961)
Member of the Board of Management for Sales and Marketing (since 1 September 2010)

PREVIOUS JOB POSITION
- Managing Director for Marketing and Sales, Ford Germany, Cologne
- Vice-Chairman, Ford Werke GmbH (2006–2010)
- VOLKSWAGEN AG (07/2010)

Dipl.-Ing. Michael Oeljeklaus (*1963)
Member of the Board of Management for Production and Logistics, China representative of the Board (since 1 August 2010)

PREVIOUS JOB POSITION
- Member of the Board of Management for Production and Technical Development, Shanghai Volkswagen (2005–2010)

Klaus Dierkes (*1957)
Member of the Board of Management for Human Resources Management (from 1 April 2008 to 31 December 2010)

PREVIOUS JOB POSITION
- Personnel Director, Volkswagen Deutschland (2006–2008)

Dr.-Ing. Eckhard Scholz (*1963)
Member of the Board of Management for Technical Development (since 1 April 2007)

PREVIOUS JOB POSITION
- Head of Large Vehicles and Convertibles Product Line, Passenger Car Development, VW (2005–2007)

Dipl.-Ing. Karlheinz Hell (*1963)
Member of the Board of Management for Purchase (since 1 January 2010)

PREVIOUS JOB POSITION
- Head of Purchase, Volkswagen South Africa (Pty.) Ltd. (2007–2010)

Ing. Bohdan Wojnar (*1960)
Member of the Board of Management for Human Resources Management (since 1 January 2011)

PREVIOUS JOB POSITION
- Member of the Board of Management for Human Resources, Volkswagen Slovakia, a.s. (2009–2010)

Changes to the Board of Management in 2010

APPOINTED TO THE BOARD OF MANAGEMENT

Prof. Dr. h. c. Winfried Vahland – Chairman since 1 September 2010
Karlheinz Hell – Member since 1 January 2010
Winfried Krause – Member since 1 April 2010
Michael Oeljeklaus – Member since 1 August 2010
Jürgen Stackmann – Member since 1 September 2010

STEPPED DOWN FROM THE BOARD OF MANAGEMENT

Reinhard Jung – Member from 1 October 2007 (Chairman from 5 October 2007 to 31 August 2010)
Holger Kintscher – Member from 1 September 2005 to 31 March 2010
Reinhard Fleger – Member from 1 June 2009 to 31 August 2010
Klaus Dierkes – Member from 1 April 2008 to 31 December 2010

APPOINTED TO THE BOARD OF MANAGEMENT, EFFECTIVE AS OF 1 JANUARY 2011

Bohdan Wojnar – Member since 1 January 2011

Audit Committee

The Audit Committee was established at the end of 2009 in line with the pertinent amendment to the Articles of Association on Auditors. The sole shareholder consequently appointed initial members of the Audit Committee, effective as at 1 January 2010.

The audit committee has three members, who elect their chairperson. The term of service is four years, whereas re-election for additional terms is allowed.

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 efficacy of the Company's internal controls, internal audit and risk management systems, and recommending an auditor. Selection of an auditor is provided by the General Meeting, as approved by the sole shareholder.

Audit Committee Members

Martin Mahlke (*1962)
Audit Committee Chairman (since 27 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 to the Audit Committee in 2010

APPOINTED TO THE AUDIT COMMITTEE

Winfried Krause – Member from 1 January 2010 (Chairman from 25 January 2010) to 31 March 2010
Dr. Ingrun-Ulla Bartölke – Member since 1 January 2010
Bernd Rumpel – Member since 1 January 2010
Martin Mahlke – Member since 1 April 2010 (Chairman since 27 April 2010)

STEPPED DOWN FROM THE AUDIT COMMITTEE

Winfried Krause – Member from 1 January 2010 to 31 March 2010

CVs of the Board of Management members are available at the Company's website:

http://new.skoda-auto.com/com/about/management/directors/Pages/directors.aspx

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 22 March 2010, 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 2010 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 2010, and the Report on Relations for 2010, issued an unqualified opinion. At its meeting on 3 March 2011, 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 2010 and assessed it favourably without reservations. The Supervisory Board authorised the Board of Management to submit the annual financial statements for 2010 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

Company organisation

Company organisational structure
The central management department is responsible for ensuring compliance with customer product-quality requirements, global growth and foreign business development. The department's other tasks include strategic product planning, active communication with the media and experts and organisation of meetings of senior management panels.

The Commercial Affairs department is responsible for financial 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 department 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 department is responsible for marketing manufactured vehicles, genuine parts and accessories.

The Human Resources Management department 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 department is responsible for the development of new products, design, construction, testing, care for vehicles in production and ongoing improvement of the entire range of Škoda products. It bears the same responsibility in relation to engines produced for otherVW Group brands.

The Purchasing department ensures purchases of production and overhead 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 in an 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 that govern 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 Corporate Governance Code set forth in 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 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 and semi-annual reports. The Annual Report contains audited annual financial statements and presents a detailed picture of the Company's business activities and financial position. The Report on Relations is a part of 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 2010 that could have led to a conflict of interest in any of the relevant groups of Company employees or board members.

Company policy toward stakeholders
Škoda Auto ranks among the largest companies in the Czech Republic and is engaged in 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. Škoda Auto openly proclaims its commitment to upholding the values of corporate social responsibility and, in accordance with these principles, modifies its operations to reflect the needs of the community.

Principles for remunerating members of the Supervisory Board, the Board of Management and Senior Executives

The principles for remunerating 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 by internal directives in accordance with Volkswagen Group procedures. In terms of form, the remuneration is based on four main pillars: fixed remuneration, variable remuneration, benefits, and other in-kind income provided by the Company. The specific conditions for remunerating individual members of the Board of 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 programmes, and insurance.

Audit Committee

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

Senior Executives

Similarly to 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.

Corporate Governance

Declaration of compliance with the recommendations of 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 other competition 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., with its registered office in Amsterdam), 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 of 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 transferred to the effective degree 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.

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.

The full text of the "Declaration of Compliance with the Recommendations of the Code of Corporate Governance based on the OECD principles (2004)" and "Degree of Compliance with the Recommendations of the Code of Corporate Governance" are posted on:

http://new.skoda-auto.com/company/CZE/Documents/Sustainability/Economy/Kodex_spravy_a%20_rizeni_spolecnosti.pdf

Risk management system

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 employing the proper control system.

Risk management organisation

The risk management structure in Škoda Auto Group is based on the uniform risk management principle 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. 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 inquires 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 and Controlling.

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 counter-measures. The management regularly receives a report containing a description of the most material risks and an up-to-date summary of the 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 efficacy and sufficiency are regularly evaluated. The risk management process is being optimised on an ongoing basis. In this event, of equal importance are both internal and external requirements – German Accounting Law Modernisation Act (BilMoG). The objective of the improvements made to the system is to ensure continuous monitoring of the relevant risk areas, including the organizational 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.

Škoda brand operates in many countries worldwide not as an exporter only, but also as a local manufacturer, and is thus affected by general developments of both the global economy and relevant national economies. After a significant slump and the recession in 2009, global economies began to grow again in 2010. This favourable trend in economic growth is accompanied, however, with a persistent threat of risks related to a high level of public indebtedness, high unemployment, and an increase in prices of precious metals and steel. Other material risks that could affect the Group's business activity in global markets include a different 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 free-of-charge scrapping of old cars 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 customer behaviour and analyses of competition's conduct.

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 ongoing 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 in 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 the hedging is to mitigate the currency risk of anticipated cash flows from operating activities.

The Group uses for hedging primarily forward foreign exchange transactions and foreign exchange swaps. 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 in the long run and, in line with the Group's joint strategy, is hedged with standard derivative instruments.

Similarly to managing the foregoing foreign exchange and commodity price risks, the Company actively manages the potential impact of developments in the interest rates. Until October 2010, the most significant risk item in this area had been liabilities arising from issued CZK bonds. Interest-rate swaps were used to hedge cash flow risks. Due to the repayment of the entire bond issue, the aforementioned derivatives were duly terminated and as at the end of 2010 the Group has had no hedging transactions pending in terms of interest-rate risks.

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 Group 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 in time 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 ongoing project checks and making comparisons with the desired specifications. This allows for adopting requisite measures 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 mitigate quality risks to a minimum 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 high-standard remuneration for work done.

INFORMATION TECHNOLOGIES (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 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. Anti-virus 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 rule out the risk posed to information security. The foregoing organisational and technical safeguards implemented within the Information Security Management System (ISMS) are 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 and administrative proceedings, in particular in relation to suppliers, dealers and customers.

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 others.

Summary assessment of Group risk position

The overall risk position of Škoda Auto Group ensues from the foregoing specific risks. The risk management system guarantees maximum minimisation of these risks.

Economic and market development

Following a significant slump in 2009, the global economy saw some recovery in 2010. Most countries resumed GDP growth which became most conspicuous in the second quarter of 2010. However, the pace of growth was still volatile and tended to slow down in the second quarter. The economic recovery and rising demand led to an increase in prices of precious metals and steel. The downside of the global economy has been continued high indebtedness of public budgets and rapidly growing debts of governments.

Economic development

Czech Republic

After the negative GDP growth rate in 2009 (-4.0%), Czech economy recovered in 2010, increasing by 2.3%. The key factor of this development was foreign trade. Domestic consumption hindered the growth more or less due to the efforts to decrease the budget deficit. After a multiple reduction in the main interest rate in 2009, in May 2010 the Czech National Bank (ČNB) again cut the interest rate to an all-time low of 0.75%. Inflation reached 2.3% by the end of the year, staying in the vicinity of ČNB's inflation target. Unemployment amounted to 9.6% at the end of the year. In the period from January to December, the exchange rate of the Czech crown against the euro strengthened significantly (by 5%).

Europe

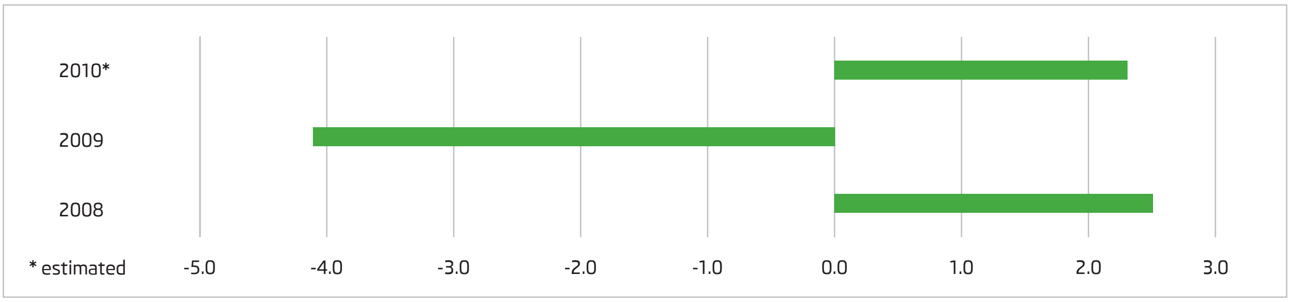
The eurozone economy steadily gained strength throughout 2010. However, the pace of economic growth differed significantly from country to country, which posed a risk. Germany recorded one of the highest GDP growths of 3.6%, driven mainly by exports. Greece saw an opposite trend with a 1.5% contraction in GDP. The latest data indicated a considerable slowdown in the European Union's economic growth. Year-on-year inflation in the eurozone rose to 1.9%. The central bank's main interest rate remains at 1%. Russian Economy grew by 3.5%, with the rate of growth gradually slowing down. Inflation amounted to 7.7% in 2010.

Overseas/Asia

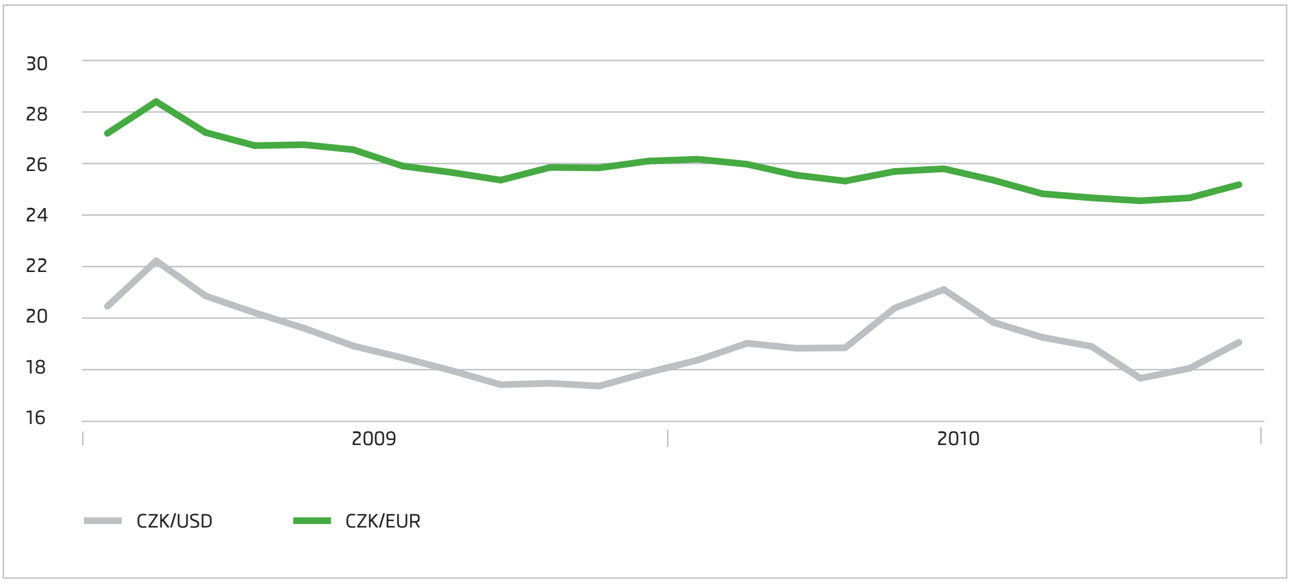
The US economy emerged from the recession in the second half of 2009. GDP in 2010 grew by 2.9%. Unemployment in the United States remained very high at just below 10%. Latin American countries retained a solid growth rate, Brazil in particular (around 5%).

Asian economies showed very high GDP growth. Once again, China and India reported the fastest GDP growth (estimated 10.3% and 8.0%, respectively), however, growth in China was dampened by the deposit interest rate which rose to 3.0% after being increased already three times since October 2010. China's rising inflation rate to 4.6% was also worrisome as it exceeded the central bank's target level. In India, inflation reached 7.5% in 2010.

GDP GROWTH IN THE CZECH REPUBLIC (%)



CZK/EUR AND CZK/USD EXCHANGE RATES



Trends in automotive markets

The development in global automotive markets in 2010 was strongly impacted by the winding down of the car scrapping scheme aimed to restart economies and mitigate the financial crisis in 2009. Global sales of passenger cars rose by 11.4% year-on-year to a total of 58.7 million vehicles. Car sales climbed significantly especially in the Central European regions and in Asia's markets.

In the reporting period, global production of automobiles grew by 29.6% to a total of 77.8 million vehicles, of which 63.6 million were passenger cars (2009: 60.0 million/49.4 million vehicles).

Czech Republic

In 2010, following the previous year's decline, the passenger car market recorded growth again. In total, the number of registrations of new passenger cars went up by 4.7% year-on-year, resulting in overall sales of 169.2 thousand vehicles. Demand for light utility vehicles in 2010 was again affected by used car imports, totalling 127 thousand newly registered vehicles (12.1% year-on-year). Used vehicles accounted for 42.9% of total registrations.

Europe

The winding down of the car scrapping scheme had the greatest impact on the European market. Western Europe saw a slump of 5.1% year-on-year; Germany's market tumbled the most (-23.4%). The increase in the Western European region without Germany accounted of almost 2.0%. Despite the favourable development in the domestic market, Central Europe saw a 3.5% drop year-on-year, with Hungary reporting the sharpest decline (-33,9%). Due to state subsidies, some Eastern European markets jumpstarted. Russia alone recorded year-on-year market growth of 29.7%. Overall, European markets decreased by 2.3% year-on-year.

Overseas/Asia

In 2010, the Overseas/Asia region sustained robust growth of 2009 and the market expanded by 32.9%. Sales in China, the world's largest market, shot up by 47.3% with total registrations of 11.5 million passenger cars (+35.1% year-on-year). India's market also grew significantly in 2010 with the total number of car registrations up by 29.8% year-on-year.

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 Slovakia, Skoda Auto India, and a share in financial performance of the affiliated companies.

Škoda Auto Group

Increased sales, a favourable model mix and cost optimisation contributed to the Group's good results of operations in 2010. Sales revenues of the Group rose by 17.1% year-on-year to CZK 220 billion. In comparison with the previous year, operating profit climbed significantly by 91% to CZK 11 billion. The Group strengthened its position in all key financial indicators. A detailed analysis of this development is described in the following chapters: Financial Performance, Cash Flows, and Asset and Capital Structure.

Results of operations of the Group

In 2010, Škoda Auto Group sold 584,763 vehicles and recorded year-on-year sales growth of 6%. The Group's sales revenues of CZK 220 billion reflected the positive trend in sales by the Škoda brand, representing a 17.1% hike year-on-year. Car sales accounted for 84.1% of total revenues; the best-selling models in terms of year-on-year revenue growth were the Škoda Superb and the Škoda Yeti lines. Sales of genuine parts and accessories were also on the upswing, accounting for 7.9% of total revenues. Income from supplying parts to Volkswagen Group companies and other revenues accounted for the remaining 8.0% of total revenues.

Cost of sales grew by 13.8% year-on-year to CZK 189.3 billion, whereas the increase stems from growth in the production volume. Material costs (costs of raw materials, production material and purchased goods) represented the largest part at 78%. Gross profit grew by CZK 9.2 billion year-on-year (+42.6%) to CZK 30.7 billion. Gross profit margin (gross profit/revenue ratio) accounted for 14.0%. In comparison with the previous year, distribution expenses climbed by CZK 1.3 billion (+9.5% year-on-year). Administrative expenses slightly grew by CZK 377 million (+7.8%) to CZK 5.2 billion.

Other operating profit dropped by 92.4% year-on-year to CZK 177 billion. This development resulted primarily from a decline in exchange rate gains from currency hedging transactions.

In the reporting period, operating profit rose by 91.0% to CZK 11.3 billion. Financial result also developed favourably; total financial loss fell by 42.7% year-on-year. This positive figure is mainly due to lower foreign exchange losses from cash.

Consolidate profit before tax totaled CZK 10.6 billion (+125.1% year-on-year). After the income tax deduction, profit after tax amounted to CZK 8.8 billion, representing an increase of 155.3% year-on-year.

Group cash flows

Cash flows from operating activities grew by 6.2% to CZK 28.2 billion, reflecting the increase in operating profit. As a result of depositing the free cash balances in the form of provided loans with maturities reaching beyond 3 months, net cash flows (cash flows from operating and investing activities) declined to CZK 4.9 billion (-68.9%). Net liquidity rose sharply by 43.5%, amounting to CZK 40.2 billion as at 31 December 2010.

Group asset and capital structure

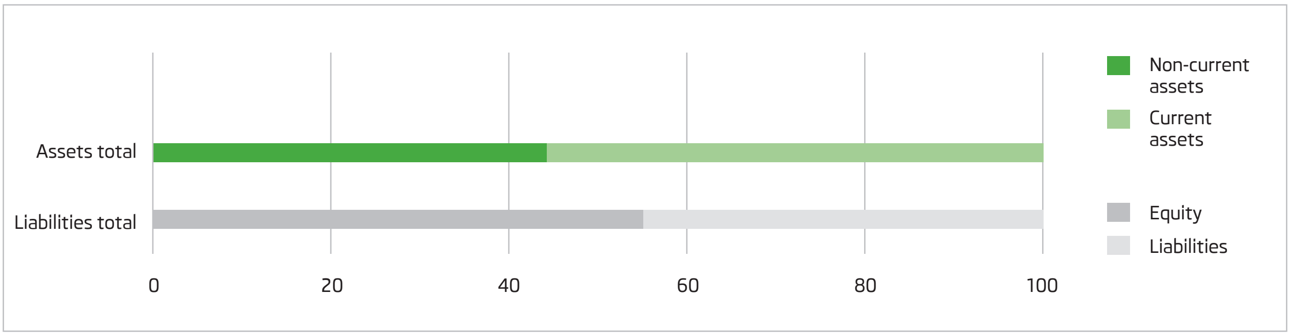
Compared to the figure recorded as at 31 December 2009, the balance sheet sum grew by CZK 17.3 billion to CZK 135.7 billion. This growth stemmed primarily from an increase in current assets.

Non-current assets of Škoda Auto Group stabilised at CZK 58.9 billion. Current assets rose by CZK 17.6 billion, mainly as a result of increases in the categories Other Receivables and Financial Assets by CZK 23.7 billion (+137%), and Trade Receivables by CZK 2.5 billion (+30%). The reason behind the growth in other receivables and financial assets was mainly an increase in short-term loans provided to Volkswagen Group companies. Inventories rose by CZK 2.7 billion, which accounts for a 23.4% hike year-on-year. Just like the increase in trade receivables, the growth in inventories is closely related to the higher sales volumes.

The Group's capital structure, as defined by the relative amounts of equity and liabilities, did not change significantly over the course of the year. In 2010, Group equity, less minority interests, rose by CZK 6.6 billion to CZK 74.8 billion. Profit for the year upped the equity by CZK 8.8 billion, while dividends worth CZK 1.6 billion were settled with the sole shareholder in 2010. Non-current liabilities increased slightly by 14.4% against the previous year. Growth in current liabilities by CZK 8.8 billion to CZK 45.5 billion stemmed primarily from an increase in trade liabilities, worth CZK 6.7 billion and linked to the growth in production volumes. A decline in the Non-Current Financial Liabilities category was due to the repayment of the third tranche of the bond issue in the nominal value of CZK 2.0 billion.

In 2010, the total of tangible and intangible investments (less development costs) grew by CZK 10.1 billion. The bulk of spending went into product investments (CZK 6.7 billion), notably into the Škoda Octavia product line and expansion of production capacities for transmission systems and engines. Another CZK 3.4 billion was spent on reconstruction of the production facilities and new infrastructure.

CONSOLIDATED BALANCE SHEET STRUCTURE (%)



CONSOLIDATED BALANCE SHEET (CZK MILLION)

	31. 12. 2010	31. 12. 2009	2010/2009
Non-current assets	58,864	59,083	–0.4%
Current assets	76,872	59,293	29.6%
Of which: lendings and deposits*	35,678	13,562	>100%
Total assets	**135,736**	**118,376**	**14.7%**
Equity**	74,772	68,180	9.7%
Non-current liabilities	15,480	13,535	14.4%
Current liabilities	45,484	36,661	24.1%
Of which: nominal value of bonds	–	2,000	–
Total liabilities	**135,736**	**118,376**	**14.7%**

* interest included
** non-controlling interests included

CONSOLIDATED PROFIT AND LOSS ACCOUNT (CZK MILLION)

	2010	2009	2010/2009
Sales revenue	**220,005**	**187,858**	**17.1%**
Cost of sales	189,260	166,296	13.8%
Gross profit	**30,745**	**21,562**	**42.6%**
Distribution expenses	14,403	13,153	9.5%
Administrative expenses	5,203	4,826	7.8%
Other operating income	6,172	7,942	–22.3%
Other operating expenses	5,995	5,601	7.0%
Operating profit	**11,316**	**5,924**	**91.0%**
Financial result	–382	–667	–42.7%
Profit before income tax	**10,586**	**4,702**	**>100%**
Income tax expense/income	1,747	1,240	40.9%
Profit after income tax	**8,839**	**3,462**	**>100%**

DEVELOPMENT OF GROUP FINANCING (CZK MILLION)

	2010	2009	2010/2009
Cash and cash equivalents at 1. 1.	**34,809**	**28,806**	**20.8%**
Cash flows from operating activities	**28,168**	**26,529**	**6.2%**
Cash flows from investing activities	**-23,313**	**-10,942**	**>100%**
Cash flows from financing activities	**-3,640**	**-9,608**	**-62.1%**
Gross liquidity*	**46,002**	**34,809**	**32.2%**
Balance of financial liabilities**	–5,791	–6,796	–14.8%
Net liquidity	**40,211**	**28,013**	**43.5%**

* Gross liquidity consists of closing balance of cash and cash equivalents in the amount of CZK 35,986 million (2009: CZK 34,809 million) and closing balance of other short-term loans in the amount of CZK 10,016 million (2009: CZK 0 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 2,563 million (2009: CZK 1,582 million).

Škoda Auto Company

Since parent company Škoda Auto plays the most significant role in the economic grouping's financial results, the development of the Company's financial position corresponds with the development of the Group's financial position.

Company results of operations

In the reporting period, the Company's sales revenues amounted to CZK 203.8 billion, representing a year-on-year increase of 19.4%. The revenue growth resulted primarily from a greater volume of sold vehicles and an increased volume of component deliveries to Volkswagen Group companies. The increased volume of sold cars had major effect on total cost of sales, which rose by 15.1% year-on-year to CZK 179.4 billion. Gross profit climbed to CZK 24.5 billion, accounting for a hike of almost 65% year-on-year. Positive model mix effects counted among the factors which contributed to better gross profit margin.

In the reporting period, distribution expenses rose by CZK 1.7 billion (+21.5% year-on-year), due to both the increased total variable distribution expenses, as a result of higher sales, and to an increase in marketing and advertising expenses. Administrative expenses rose by 6.9%, in particular due to expenses connected with processes and systems optimization. Other operating profit declined by CZK 1.4 billion year-on-year to CZK 560 million. Consequently, the Company's operating profit for 2010 rose to CZK 11.0 billion, which represents a year-on-year increase of CZK 6.3 billion (+133.6%).

The Company also recorded positive development of the financial result, as it rose to CZK 180 million in the reporting period. Apart from the factors already mentioned in the Group section, dividend incomes also contributed to the higher financial result of the Company.

Profit before tax totalled CZK 11.2 billion (+156% year-on-year). An increase in profit before tax resulted in higher profit to sales ratio, which rose from 2.6% to 5.5%. After the income tax deduction, profit after tax amounted to CZK 9.4 billion, which represents a hike of CZK 6.0 billion, compared to the previous year.

Company cash flows

The amount of cash flows from operating activities rose by CZK 3.9 billion (+17.6% year-on-year) to CZK 26.3 billion, in particular due to the higher profit before tax figure. Cash flows from investing activities fell by 97.2% year-on-year to CZK -22.6 billion. Cash flows from financing activities rose by CZK 5.0 billion (+58.0%). The development of cash flows had a positive impact on net liquidity, which amounted to CZK 35.0 billion (+50.1% year-on-year).

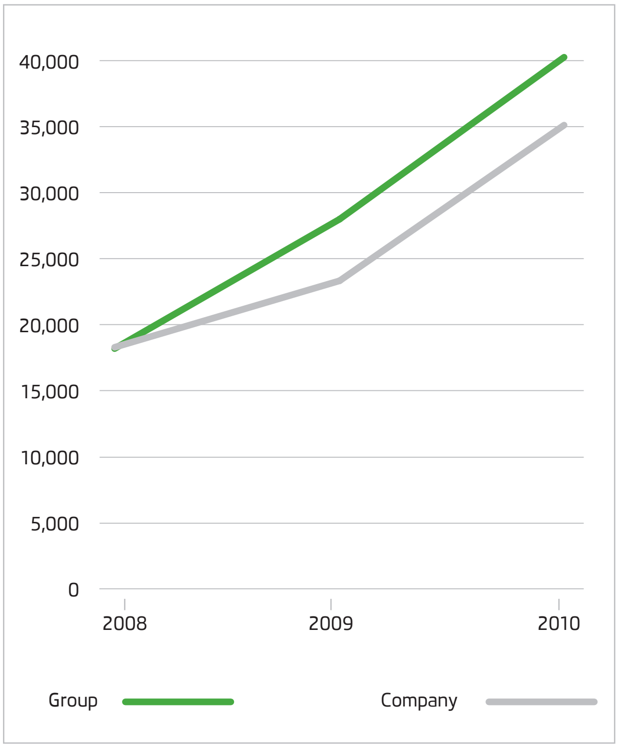
Company asset and capital structure

In comparison with the figure recorded as at 31 December 2009, the balance sheet sum rose by CZK 14.2 billion to a total of CZK 122.3 billion. Current assets increased by nearly CZK 14.2 billion to CZK 62.3 billion. Within the current assets categories, significant change was recorded in Other Receivables and Financial Assets, which rose by CZK 22.0 billion.

In 2010, equity increased by CZK 7.2 billion (+10.5%). Liabilities rose by 17.9% to CZK 46.6 billion, primarily due to an increase of CZK 6.5 billion in total current liabilities, in contrast to only a slight growth in non-current liabilities (CZK 604 million).

Investments into tangible and intangible assets (excl. development costs) totalled CZK 10.0 billion in 2010 (-1.5% year-on-year decrease).

DEVELOPMENT OF NET LIQUIDITY (CZK MILLION)



Subsidiaries and affiliated companies

ŠKODA AUTO DEUTSCHLAND
For the Škoda brand, 2010 was another successful year in the German market. Although the market contracted against the previous year, when it was boosted by the government stimulus in the form of car scrapping scheme, Škoda Auto Deutschland retained the position of leading importer in the German market with a 4.5% share of newly registered cars. In comparison with 2009, Škoda car sales dropped to 113,323 vehicles, which accounts for a 30% decline year-on-year. The Škoda Fabia and the Škoda Octavia model lines saw the most robust sales. In addition, the Škoda Fabia became the best-selling imported car in Germany.

In 2009, the Škoda brand successfully launched the Škoda Yeti, which in the course of 2010 established a solid market position among competition cars. In early 2010, the company unveiled the Škoda Superb combi variant, which scored success in the market and sparked favourable customer demand.

Škoda Auto Deutschland's revenues amounted to CZK 45.0 billion (EUR 1.8 billion) in 2010. Profit before tax was lower by 45.4% at 443.8 million (EUR 18.1 million).

SKODA AUTO POLSKA
Skoda Auto Polska retained the position of market leader throughout 2010. The market share of the Škoda brand was over 11%, whereas the other brands' shares stayed below 9%. One of the contributing factors to boosting the Polish passenger car market and rising sales were changes to the indirect tax system. Skoda Auto Polska succeeded in taking advantage of these changes and offered customers cars, for which they where entitled a tax deduction. These cars accounted for about 36% of the total volume of sold cars, compared to an average of around 25% in the Polish market. Overall sales amounted to 37,918 vehicles (only 387 less than in 2009) and the brand's market share accounted for 11.3% (11.9% in 2009).

The Škoda Octavia and the Škoda Fabia contributed the most to this success as the two models again made the best-selling cars in Poland. The Škoda Superb also fared well; 2,836 cars were sold in total. The Škoda Yeti model recorded very good sales of 1,811 vehicles in the first year since its market launch. Sales of the Škoda Roomster and the Škoda Octavia Tour product lines turned out favourable as well.

The company's revenues increased by more than 7% in comparison with 2009, amounting to CZK 12.2 billion (PLN 1.9 billion).

Profit before tax rose to CZK 152.8 million (PLN 24.1 million), which represents an increase of CZK 25.2 million year-on-year. This result was achieved primarily due to an improved model mix, a reduction of sales expenses and stable marketing expenses.

ŠKODA AUTO SLOVAKIA
The contraction of the market of new passenger motor vehicles in Slovakia in 2010 was much less pronounced against previous estimates. In total, 64,033 vehicles were sold, a decline of more than 14% year-on-year. However, sales in 2009 were considerably impacted by the introduction of the car scrapping scheme.

The Škoda brand maintained the position of market leader with 13,650 sold cars. In comparison with 2009, this figure represented a decline of 963 vehicles, but the brand's market share rose by 1.6% to 21.2%.

For the first time in the company's history, the Škoda Octavia became the top best-selling model in the Slovak passenger-car market with 6,262 sold cars. The Škoda Fabia sold 5,047 cars, thus placing second and becoming the best-selling model in its category. The Škoda Superb model also fared well with sales amounting to 732 vehicles. The Škoda Yeti secured the second place in the SUV segment with 742 customers.

The company's sales revenues in 2010 totalled CZK 5.3 billion (EUR 209.6 million). Profit before tax amounted to CZK 53.1 million (EUR 2.3 million).

SKODA AUTO INDIA

In 2010, Skoda Auto India sold a total of 20,019 Škoda brand vehicles, an increase of 38% in comparison with the previous year (2009: 14,535 vehicles). A significant growth in sales of Škoda Superb models with 4,366 cars sold accounted primarily for this result.

In addition, sales of a new, face-lifted variant of the Škoda Fabia soared by 55% to 8,266 cars.

The company's market share rose from 0.82% to 0.88%. The company expanded its network of dealerships to 80 points of sale (2009: 65).

The Aurangabad plant manufactured a total of 18,793 vehicles, including 7,591 vehicles of the Group models (Passat, Jetta, Audi). Compared to the previous year, this represents a 59% rise, resulting primarily from increased sales of the Group's vehicles and rising sales of the Škoda Superb model.

The company's 2010 revenues totalled CZK 12.5 billion (INR 29.9 billion), a 68% increase year-on-year. Sales of Škoda vehicles accounted for the largest part of this growth.

The company posted a profit before tax of CZK 39.1 million (INR 136.9 million) for 2010 (2009: CZK -253 million, INR -636 million). This favourable trend reflects among others higher volumes of sales, increased revenues from the sale of spare parts and a positive development of the exchange rate.

VOLKSWAGEN GROUP RUS

Russia's automotive market grew by 29.7% in 2010, in contrast to a contraction of 50% in 2009 as a result of the financial crisis. An introduction of the car scrapping scheme by the Russian government had a major impact on this trend in 2010.

Volkswagen Group's overall market share in Russia rose from 6.5% to 7.1% year-on-year. The market share of the Škoda brand climbed from 2.4% in 2009 to 2.6% year-on-year. Of a total of 130,357 sold vehicles in 2010 (of which 45,631 were Škoda cars), the bulk of the vehicles were manufactured in the local Kaluga plant.

The Škoda Octavia and the Škoda Fabia were the best-selling Škoda models in the Russian market in 2010, followed by another successful model – the Škoda Yeti.

In 2010, production of a new model, the Škoda Fabia, was launched at the Kaluga plant, which made it the second Škoda car model manufactured in Russia.

Total 2010 revenues of OOO VOLKSWAGEN Group Rus amounted to CZK 73.2 billion (RUB 116.3 billion).

Loss before tax for 2010 amounted to CZK -1.8 billion (RUB -2.9 billion), an improvement of CZK 1.0 billion stemming primarily from higher revenues and lower financial expenses.

Value-oriented management

The resources entrusted to us are used with the awareness of our responsibility for the Company's growth. The objective is to continuously increase the value of Škoda Auto Group in the long run and thus ensure its future development.

Long-term sustainable economic development

Every company is faced with numerous and often conflicting demands from the markets in which it operates, investors and owners, as well as from other interest groups. Customers expect great products, shareholders expect dividends and returns on their investments, employees expect job security, and suppliers expect consideration for products delivered and services provided.

Meeting the expectations of various interest groups is possible only if the Company builds upon a sound economic foundation. In the long-term perspective, this requires the Company to unceasingly generate sufficient resources beyond the capital costs to make investments in products, quality and technology in order to maintain its competitiveness. Therefore the Group pays extraordinary attention to the effective use of resources as a tool for achieving long-term sustainable economic growth.

Financial management system

The basis of the internal financial management system is the focus on achieving continuous growth in the Group's value. This goal is closely related to the effective use of all available resources.

In order to optimise the asset and capital structure and, furthermore, to measure the effectiveness of invested resources, the return on capital employed (ROCE) indicator is also used. The ROCE indicator allows for measuring the success of the Company as a whole and is also used as a criterion for comparing, assessing and subsequently deciding on investment proposals, specific projects and products, and for evaluating individual areas. The Group uses the ROCE indicator for decision-making at the operational level with the aim of achieving planned short-term performance, as well as for achieving strategic objectives.

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 national tax liability is based on 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 2010, the Group's ROCE was 13.2% (2009: 6.5%).

GROUP RETURN ON INVESTED CAPITAL (CZK MILLION)

	2010	2009
Operating profit before tax	11,316	5,924
Notional income tax*	3,395	1,777
Operating profit after notional tax	**7,921**	**4,147**
Capital employed	**60,084**	**64,009**
Return on capital employed (%)	**13.2**	**6.5**

* Long-term effective tax rate of the Volkswagen Group (2009 and 2010: 30%).

Technical development

Strengthening the Škoda Auto brand's competence in the field of research and development continued throughout 2010. New technologies and equipment were put into operation at a unique Technology Centre, which is part of the Technical Development compound, among them is a state-of-the-art acoustic centre allowing for performing complex acoustic measuring and testing of vehicles with four-wheel drive. The ongoing development is evidenced by an extraordinary success of the Škoda Motorsport team, which won this year's IRC (Intercontinental Rallye Challenge) with a special racing car, the Škoda Fabia Super 2000, in both the brand and overall driver standings.

A total of 1,584 employees worked on the development of new models and upgrading of the existing ones in 2010. Close cooperation with other development centres within Volkswagen Group contributed to professional growth of employees and, consequently, Škoda Auto's technical development in general. In comparison with the previous year, the volume of orders for other Volkswagen Group brands significantly increased by CZK 136 million to a total of CZK 451 million.

Expenditures of the Technical Centre in 2010 totalled CZK 7.7 billion, which accounts for 3.8% of the Company's total turnover (2009: CZK 5.7 billion, 3.3%).

Technology and the environment

Reduction in emission levels and fuel consumption of Škoda cars and use of alternative energy sources has been one of the long-term priority tasks of Technical Development.

Across the entire product line, new models of the GreenLine second generation, developed specifically for maximum energy-saving and environmentally-friendly operation, were unveiled at the Paris International Auto Motor Show. An introduction of the Start-Stop system, recuperation of braking energy, installation of a gear recommendation system, reduction in the air resistance coefficient and use of special tires with low rolling resistance and higher prescribed pressure helped further reduce fuel consumption and harmful CO_2 emissions. Škoda cars are fitted with the Start-Stop system for the first time ever. Its key benefit stands out in busy city traffic. The system operates automatically, directly after the engine starts. If, after some time, the driver stops the vehicle, engages neutral and releases the clutch pedal, the engine switches off automatically. As soon as the driver presses the clutch, the engine starts again immediately. Stop-start makes it possible to save 0.2 to 0.4 l/100 km (combined) or 0.3 to 0.9 litres/100 km in city traffic.

The Škoda Octavia, the Škoda Superb and the Škoda Yeti models, newly added to the GreenLine series, are powered by a 1.6 TDI CR/77 kW engine. As a result, the Škoda Octavia achieves fuel consumption of 3.8 l/100 km and CO_2 emissions of 99 g/km. The Škoda Superb achieves fuel consumption of 4.4 l/100 km and CO_2 emissions of just 114 g/km. The average fuel consumption of the Škoda Yeti is 4.6 l/100 km and its CO_2 emissions reach merely 119 g/km.

The new models are fitted with a new three-cylinder engine 1.2 TDI CR DPF/55 kW with the common rail (high-pressure direct injection) system, which achieves fuel consumption of 3.4 l/100 km and CO_2 emissions of just 89g/km for the Škoda Fabia, and 4.2 l/100 km and CO_2 emissions of 109 g/km for the Škoda Roomster.

The absolute top of environment-friendly models – Škoda Octavia Green-E-Line – was unveiled at the Paris Motor Show where it met with a wide positive response. It represents the first car concept with electricity-powered engine in the history of Škoda.

FUEL CONSUMPTION AND EMISSION LEVELS OF GREENLINE VEHICLES

Model	Consumption (l/100 km)	CO_2 emissions (g/km)
Škoda Octavia	3.8	99
Škoda Superb	4.4	114
Škoda Yeti	4.6	119
Škoda Fabia	3.4	89
Škoda Roomster	4.2	109

Downsizing, new engines

In 2010, Škoda Auto put on the market a series of small-capacity, super-charged petrol engines with direct fuel injection. These advanced engines, featuring low cylinder capacity and TSI technology, provide excellent dynamic and drive properties in combination with low fuel consumption. The Škoda Fabia and the Škoda Roomster models are equipped with a 1.2 TSI engine in two performance variants – 63 kW and 77 kW. This engine with an output of 77 kW is newly added to the range of Škoda Octavia engines, along with a six-speed manual transmission or a seven-speed automatic DSG transmission. Engine variants for the Škoda Yeti have been expanded with a low-capacity 1.4 TSI 90 kW engine.

The Škoda Superb model with front-wheel drive is newly fitted with an advanced 2.0 TSI engine with an output of 147 kW and a DSG automatic transmission system. Further expansion of offerings for this highest-class, Škoda-brand cars includes a combination of a 2.0 CR TDI diesel engine with an automatic DSG transmission in a four-wheel drive variant.

Across all model lines, diesel engines with an advanced CR (Common-Rail) system have been introduced. While maintaining all performance parameters, this system can significantly reduce the noise level of diesel engines and exhaust emissions, compared to the PD (Pumpe-Düse) injection principle. Naturally, these cars meet the most stringent EU5 emission standard.

Škoda Fabia RS

With the Škoda Fabia model line, Škoda Auto picked up the successful tradition of small, sporty cars in 2010. The new Škoda Fabia RS is fitted with a dual supercharged four-cylinder engine with the capacity of 1.4 l and an output of 132 kW. Due to the car's redesigned aerodynamics and altered chassis, this model accelerates from 0 to 100 km in 7.3 seconds and can reach a maximum speed of 224 km/hour. The thrill of a race drive is enhanced by a 7-speed automatic DSG transmission system with an option to shift gears through controls placed under a multi-functional leather steering wheel. This model perfectly balances top-notch technology and unique, confident design, manifest in an aerodynamically optimised front bumper with a large vent for an inflow of cooling air and a honeycomb-shaped grille, a fifth-door spoiler, a rear bumper diffuser, or an exhaust pipe emitting sporty sound with an inttegrated double fishtail made from premium polished steel. 17" alloy wheels were developed solely for the RS model with a Gigaro design in four colour variants allowing for a better heat absorption from highly efficient disc brakes.

New Škoda Octavia Tour

A reliable, comfortable family car with timeless design and at a favourable price, equipped with modern technologies – these are the second-generation Škoda Octavia Tour and Škoda Octavia Combi Tour models. A representative of the most successful model range in Škoda Auto's modern history is arriving on the market in a version optimised for customers, based on the current base version of the Škoda Octavia and the Škoda Octavia Combi Classic. The car's external design is different from the innovated Octavia Classic version primarily due to components such as the radiator grille, bumpers, halogen headlights, rear group lights and the black wing mirrors and door handles.

Recycling and certifications

Vehicles of the Škoda brand are equipped with recyclable and environmentally-friendly materials. For an easy and unmistakable identification of parts and material composition, everything is meticulously stamped to allow for quick sorting of materials into categories and their recycling after the end of the vehicle's useful life. Škoda Auto has been awarded the "Preliminary assessment of the manufacturer certificate pursuant to Directive 2005/64/EC", which is a necessary prerequisite for receiving type–approval pursuant to Directive 2005/64/EC – Recycling. This type–approval has been granted for all model lines. In practice, this means that the vehicles are recyclable to a minimum of 85% by mass and reusable and/or recoverable to a minimum of 95% by mass.

In 2010, Škoda Auto Technical Development successfully underwent ISO 9001, ISO 14001, VDA 6.1 and VDA 6.4 certification audits.

Purchasing

Intense work on future projects, solid support for start-ups of car manufacture in foreign production plants, meeting the needs in Europe, and increased prices of raw materials were the key factors determining the operation of the Purchasing Department in 2010. In the course of the year, production start-ups of the face-lifted Škoda Fabia were successfully ensured not only in Europe, but also in Russia and India. The key objective was to attain a high level of localisation during the production start-up. Stepping up localisation targets, particularly for key models in these markets, is a crucial task for the coming years. In addition, the Purchasing Department secured requisite components for new model variants, such as the Škoda GreenLine models.

Increased supplies were secured in particular for domestic production plants. Part of the Purchasing Department's operations was cooperation with the Group's purchase department to ensure sufficient supplies for production of the 1.2 l TSI engine.

Prices of raw materials in global markets kept rising for the entire 2010; a significant increase in prices of steel was notable particularly in the fourth quarter. Due to adopting necessary measures and strategic planning in accordance with the Group's strategy, it was possible to minimise the impact on the purchase price of this raw material. Other 2010 highlights included the pro-active prevention of suppliers' insolvency and the reactive settlement of completed bankruptcy proceedings. Due to close collaboration with the Group's purchase department, there was no major impact on production operations. With regard to key suppliers, workshops were held, aimed at seeking potential for innovations and material costs optimisation. First positive results were recorded in close cooperation with the Group's Purchasing Department.

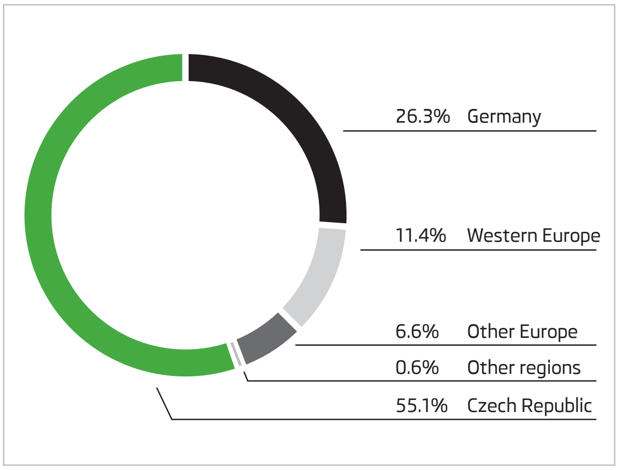
General purchasing

In the second quarter of 2010, the Central General Purchasing unit took over procurement operations for the areas of development services, prototype tools and prototype parts, with the aim to foster purchasing principles and strategies in the field of technical development and utilise synergies of the Group's procurement. Within the scope of preparations for production start-ups of new models, and in tandem with the Group's purchasing department, tenders were launched for a new MQB platform for both investment units and supplies of specific components. EU-funded projects were initiated for construction of a new training centre in Kosmonosy and a cogeneration unit in Kvasiny. The total number of general purchase suppliers was 5,749 (2009: 5,306), whereas the total general purchase volume amounted to CZK 20.7 billion (2009: CZK 13.6 billion).

Production purchasing

The Company's total production purchase volume for 2010 was CZK 110.4 billion, an increase of CZK 13.6 billion in comparison with the previous year (2009: CZK 96.8 billion). Local suppliers were of strategic importance for the Company, which is evidenced by their long-term high volume share (55%). With a nearly one-quarter share of the production purchase volume, German companies represented another important supplier. A total of 1,317 suppliers (2009: 1,301) participated in production-related supplies. Of these, 275 were Czech companies, 26 of which are located in the vicinity of Mladá Boleslav. With 890 partners, Western Europe was the strongest supplier region as measured by the number of corporate registered offices.

REGIONAL DISTRIBUTION OF PRODUCTION PURCHASING VOLUME IN 2010 (%)



Production and logistics

A successful launch of serial production of the face-lifted Škoda Fabia and the Škoda Roomster models, a launch of manufacture of the Škoda Fabia RS including, for the first time, the combi variant, a successful start-up of production of efficient 1.2 l TSI engines, and further expansion of production capacities for foreign projects – all these factors led to increase of volumes of Škoda-brand vehicles, amounting to 576 thousand. Coupled with 197 thousand cars manufactured in China and 10 thousand cars from the Bratislava plant, global production of Škoda vehicles totalled a record volume of 783 thousand cars made in 2010.

At its manufacturing plants, the parent company Škoda Auto mainly produces finished vehicles and vehicle kits in various stages of disassembly. The kits are shipped to Group plants as well as to other foreign partner facilities, where they are assembled. A significant part of the Company's production programme consists of manufacture of drivetrains (engines and transmissions) and components thereof, as well as genuine parts and accessories.

Parent company Škoda Auto's traditional manufacturing plants are located in Mladá Boleslav, Vrchlabí and Kvasiny (Czech Republic), while the Group also runs assembly plants in Aurangabad, India, and Kaluga, Russia.

In addition to its own manufacturing and assembly plants, Škoda-brand vehicles are also produced in Volkswagen Group production facilities in Pune (India) and in Shanghai (China). Production capacities of the paint shop and the assembly line at the Volkswagen plant in Bratislava (Slovakia) were also used on a temporary basis. The Group furthermore collaborates with partner facilities in Solomonovo (Ukraine) and Ust-Kamenogorsk (Kazakhstan)

In line with utilising synergies within Volkswagen Group, Škoda Auto Group's product portfolio also includes Volkswagen and Audi-branded cars, which are assembled in Aurangabad, India, in addition to Škoda vehicles.

Group vehicle production

In 2010, a total of 583,333 vehicles rolled off the Group's assembly lines. Overall market growth in the second half of 2010 contributed to an increase in the total volume of vehicles manufactured by the Group, specifically by 11.6% year-on-year (2009: 522,542 vehicles).

ŠKODA FABIA

After meeting high customer demand related to an introduction of car scrapping bonuses in the German market, the stabilisation of production of the Škoda Fabia cars at the Mladá Boleslav plant at 800 vehicles per day made it possible to manufacture 193,675 cars of this model line in 2010 (2009: 230,349 vehicles).

ŠKODA ROOMSTER

Production of the Škoda Roomster and the Škoda Praktik reached a daily volume of 128 units. A total of 30,473 Škoda Roomster and Škoda Praktik vehicles were produced at the Kvasiny plant in 2010. (2009: 42,315 vehicles).

ŠKODA OCTAVIA

High demand for the Škoda Octavia reinforced this model's strong position in the Group's product range by making up the largest share of the production volume. Similarly to 2009, the model accounted for more than 30% of the Company's total production. In total, the Group manufactured 207,150 vehicles of this model line in 2010 (2009: 159,874 vehicles).

ŠKODA OCTAVIA TOUR

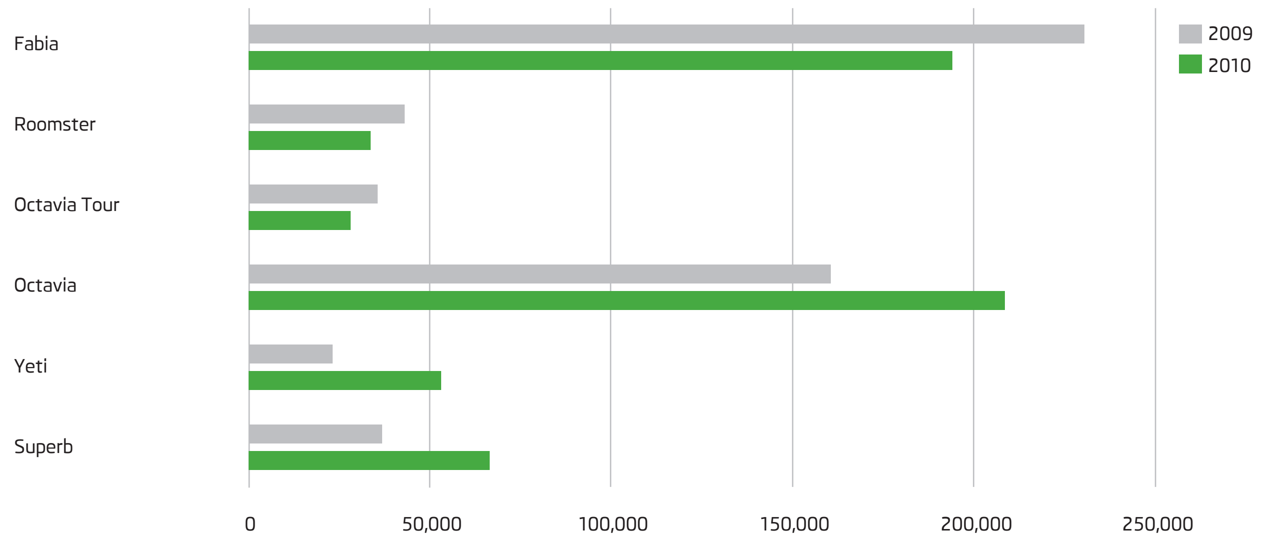
In 2010, the Škoda Octavia Tour was replaced with a new variant based on the Škoda Octavia. From January to October 2010, when production of this very popular model was discontinued, the total production volume of the Škoda Octavia Tour amounted to 25,955 vehicles. (2009: 32,567 vehicles).

GROUP VEHICLES PRODUCTION (UNITS)

	2010	2009	2010/2009
Fabia*	125,596	151,733	–17.2%
Fabia Combi	68,079	78,616	–13.4%
Fabia total	**193,675**	**230,349**	**–15.9%**
Roomster	27,728	39,665	–30.1%
Roomster Praktik	2,745	2,650	3.6%
Roomster total	**30,473**	**42,315**	**–28.0%**
Octavia Tour	17,317	22,396	–22.7%
Octavia Tour Combi	8,638	10,171	–15.1%
Octavia Tour total	**25,955**	**32,567**	**–20.3%**
Octavia	102,567	67,177	52.7%
Octavia Combi	104,583	92,697	12.8%
Octavia total	**207,150**	**159,874**	**29.6%**
Yeti	**52,550**	**19,672**	**>100%**
Superb II	24,970	32,925	–24.2%
Superb II Combi	40,969	1,943	>500%
Superb total	**65,939**	**34,868**	**89.1%**
Total Škoda brand	**575,742**	**519,645**	**10.8%**
VW Passat	786	394	99.5%
VW Jetta	4,339	1,770	>100%
Audi A6	810	311	>100%
Audi A4	1,224	422	>100%
Audi Q5	432	–	–
Total other VW Group brands	**7,591**	**2,897**	**>100%**
Total production	**583,333**	**522,542**	**11.6%**

* including disassembled-vehicle kits distributed to foreign production plants

GROUP PRODUCTION OF ŠKODA BRAND (UNITS)



ŠKODA YETI

Growing demand for a new model line launched successfully in 2009, the Škoda Yeti, required an additional increase in production capacity. As a result, the Škoda Yeti assumed a firm place in the brand portfolio with 52,550 vehicles manufactured in 2010 (2009: 19,672 vehicles).

ŠKODA SUPERB

The Škoda Superb, available in limousine and combi variants, is also in high demand. This is evidenced by another year-on-year production growth in this model line. In 2010, a record number of 65,939 vehicles in both variants were made, accounting for a 89.1% rise (2009: 34,868 vehicles).

VW GROUP MODELS

The assembly of Group brands VW and Audi in Aurangabad, India, was expanded in 2010 with the addition of another model line, the Audi Q5. Total production rose multiple-fold in 2010, resulting in assembling 7,591 Volkswagen and Audi cars.

GROUP FOREIGN PROJECTS

Further expansion of the Group's foreign projects continued in 2010. The main activity focused not only on introducing new models into the production lines of foreign plants, but also on full-scale production expansion.

Within a joint project of Škoda Auto Group and Volkswagen Group, the assembly plant in Kaluga, Russia, was expanded in 2009 by adding a welding shop and a paint shop. Aside from the Škoda Octavia, manufacture of the Škoda Fabia was commenced in May 2010. The stand-alone assembly of Škoda cars from disassembled–vehicle kits manufactured by the parent companies was discontinued in August 2010. In total, 21,071 vehicles were assembled and 18,053 Škoda Fabia and Škoda Octavia cars were manufactured in Russia in 2010 (kits distributed to plants are included in the Group's result).

Assembling the Škoda Octavia and the Škoda Superb models continued in Aurangabad, India; in September 2010, assembly of the Škoda Yeti was launched. By the end of the year, a total of 11,202 (2009: 8,986) cars of the Škoda model lines and 7,591 (2009: 2,897) other Group-brand cars rolled off the assembly lines.

As in Kaluga, Russia, a brand new Volkswagen concern plant housing a welding shop, a paint shop and an assembly line was opened in Pune, India in 2009. Aside from other Volkswagen Group models, 8,483 Škoda Fabia cars were produced at the plant (kits distributed to plants are included in the Group's result). (2009: 4,000).

Vehicle production at partner factories

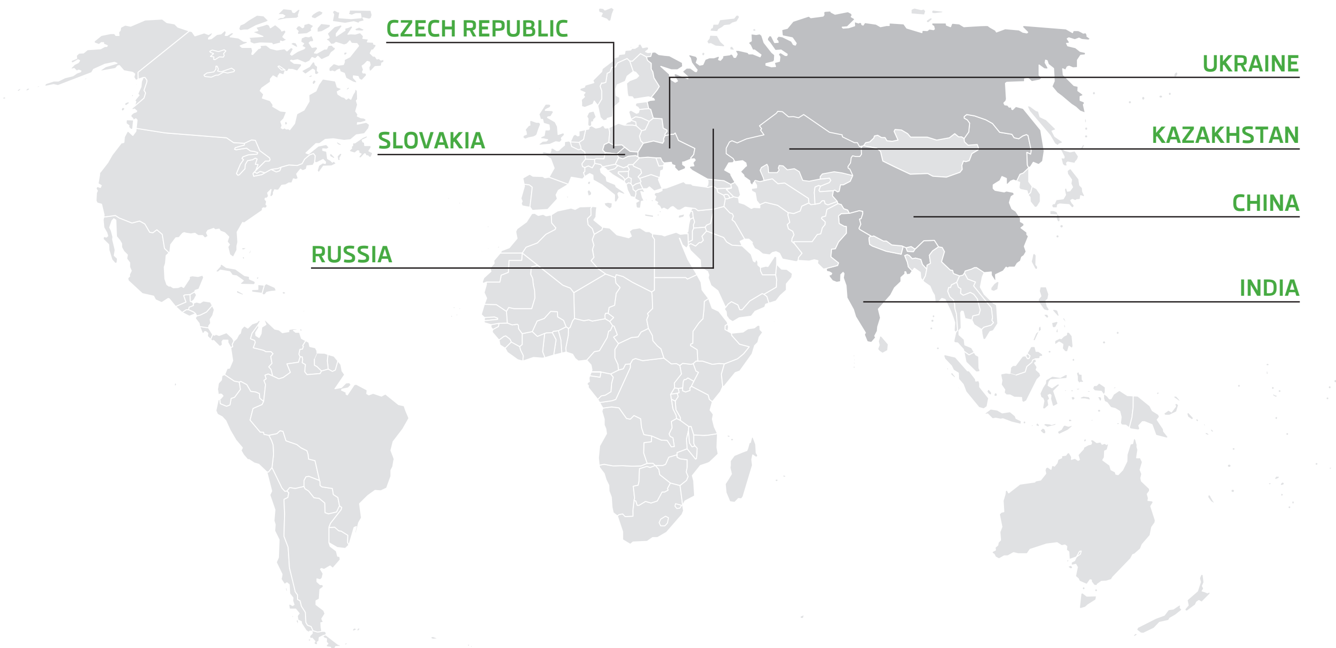
Car production in Shanghai, China, plays an important part. A total of 197,077 Škoda Octavia, Škoda Fabia and Škoda Superb cars were manufactured there in the past year, which represents significant year-on-year growth of nearly 50% (2009: 131,779).

In Ukraine, a total of 7,484 vehicles were assembled from the supplied disassembled-vehicle kits, and 469 in Kazakhstan. The production capacity of Volkswagen Group's Bratislava plant (Slovakia) was utilised through May 2010 with an output of 10,000 painted and assembled cars (2009: 18,666).

PORTFOLIO OF MODELS MANUFACTURED OR ASSEMBLED IN GROUP PLANTS (AS AT 31 DECEMBER 2010)

	Fabia	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)		●		●	●					
Aurangabad (India)			●	●	●	●	●	●	●	●
Kaluga (Russia)	●		●							

PRODUCTION OF ŠKODA VEHICLES WORLDWIDE



783 thousand cars made in 2010

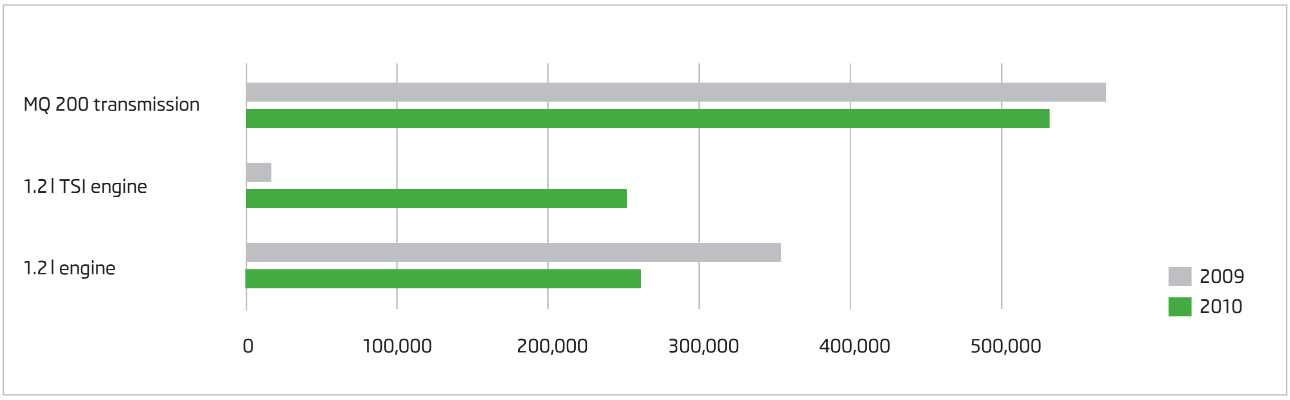
Powertrain production

In 2010 Škoda Auto reaffirmed its established position as a renowned supplier of engines, gear boxes and their components.

Fast-growing demand for low-capacity, high-performance engines in both Škoda and Group-brand cars resulted in an increase in production of 1.2 l TSI engines to 251,794 units in 2010. Combined with manufacture of the well-tested three-cylinder 1.2 l engine, a total of 518,221 engines were produced in Mladá Boleslav in 2010, of which 266,427 were 1.2 l units.

High demand for MQ 200 transmissions resulted in production of 534,033 units in 2010; a 6.5% year-on-year decline was caused mainly by the car scrapping bonus in the German market in 2009.

PRODUCTION OF ENGINES AND TRANSMISSIONS (UNITS)



Sales and marketing

Škoda Auto Group recorded ongoing sales growth in 2010. Robust sales in China and in other important markets globally contributed to strengthening the Škoda-brand position. In total, the Group sold 762,600 vehicles, which represents year-on-year growth of 11,5% and, at the same time, breaks the previous year's sales record. With the exclusion of China, sales rose by 3.6% year-on-year, and without Germany, total sales grew even faster by 17.4% (global sales excluding China and Germany).

Car sales by region

CZECH REPUBLIC

In 2010, Škoda Auto's market share again solidified the Group's leading position in the domestic market with a total of 58,033 sold cars, accounting for a 2.7% year-on-year increase (2009: 56,504 vehicles).

CENTRAL EUROPE

In spite of ongoing difficulties in Central European markets, including Czech Republic, Škoda Auto increased both sales and market share. In 2010, a total of 121,063 cars were sold (+1.0% year-on-year). Aside from the favourable results achieved in the domestic market, sales rose also in Hungary (+9.4%), Slovenia (+15.9%) and Croatia (+2.5%). Due to the winding down of the car scrapping scheme in Slovakia, sales there fell by 6.6% year-on-year, as did in Poland by 1.0%.

EASTERN EUROPE

The introduction of car scrapping incentives helped improve the critical situation in Eastern Europe especially in Russia. Car sales in this region rose by 22.0%. Russia, the largest market of the region, reported outstanding results; due to state subsidies, car sales shot up by 38.1% to 45,577 compared to 2009. Ukraine also saw a significant increase in car sales (+17.1%). Conversely, a decline in car sales was recorded in Romania (-10.3%), Bosnia (-14.5%) and Bulgaria (-8.0%).

WESTERN EUROPE

With regard to the winding down of a number of car scrapping incentives, car sales in this region dipped by 3.5% to a total of 333,261 vehicles. This development surpassed the market trend and led to a year-on-year increase in market share from 2.5% to 2.6%. With the exclusion of Germany, which recorded excellent car sales in 2009 due to car scrapping bonuses, sales in Western Europe grew by 20.3%, representing 219,938 vehicles delivered to customers.

OVERSEAS/ASIA

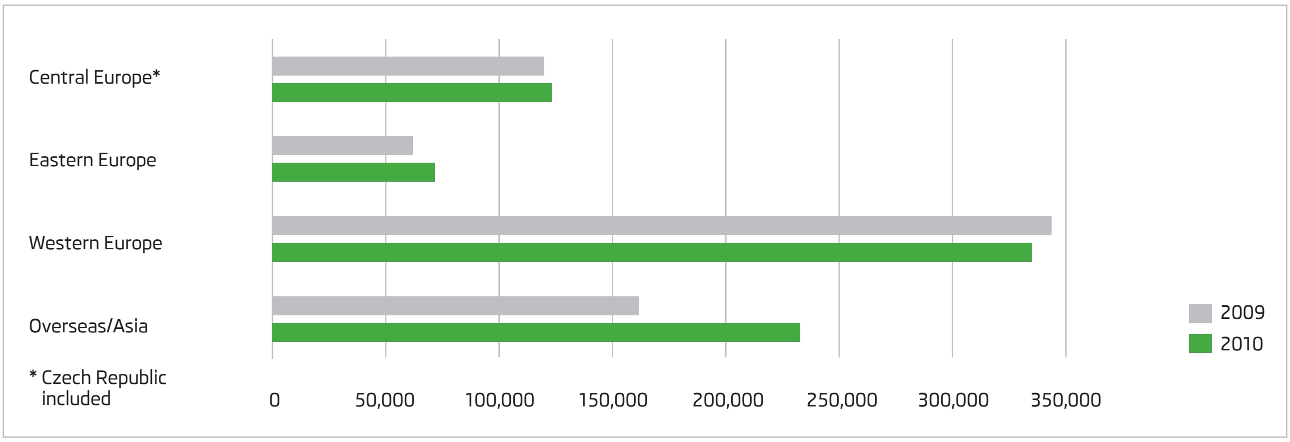
Car sales in the Overseas/Asia region jumped up by 47.8% to 234,529 vehicles. Growth was recorded in all markets of the region. China, as the largest market, upped the volume of sold cars by 47.3% to a total of 180,515. Other markets in Overseas/Asia increased sales by 49.6% to 54,014 cars

DELIVERIES TO CUSTOMERS BY REGION

	Deliveries to customers (vehicles)		Change in %	% share in passenger car market**	
	2010	2009	2010/2009	2010	2009
Central Europe*	121,063	119,923	1.0%	17.0%	16.1%
Eastern Europe	73,747	60,464	22.0%	3.3%	3.1%
Western Europe	333,261	345,185	-3.5%	2.6%	2.5%
Overseas/Asia	234,529	158,654	47.8%	1.4%	1.3%
Total Škoda brand	**762,600**	**684,226**	**11.5%**	**2.4%**	**2.4%**

* Czech Republic included
** Škoda's relevant markets

DELIVERIES TO CUSTOMERS BY REGION (UNITS)



(total overseas sales without China). India, the second largest market in the region, recorded 37.7% growth in sales to 20,019 vehicles.

Car sales by model line

All model lines are available also in the GreenLine environmentally-friendly variant. As with all of our products, maximum emphasis is placed on quality and safety, intelligent functional details and a balanced price/performance ratio.

ŠKODA FABIA

This model line has long been the backbone of the Brand's product range. Due to boosting sales in the form of car scrapping bonuses in a number of European countries in 2009 (in particular in Germany), demand for this model range soared. Winding down the subsidy programmes led to a slump in sales in comparison with 2009, specifically by 13.3% to 229,045 sold vehicles.

ŠKODA ROOMSTER

The development in the A0-MPV segment had an adverse affect on sales of this model line in 2010. Overall sales decreased by 31.4%. Of the total number of 32,332 sold vehicles, 2,818 were delivered in the Škoda Roomster Praktik variant.

ŠKODA OCTAVIA TOUR

Production of the Škoda Octavia Tour was discontinued in 2010 after 15 years. Total sales amounted to 30,069 vehicles. This model will be replaced by the Tour version of the Škoda Octavia A5 in selected markets.

ŠKODA OCTAVIA

The Škoda Octavia reinforced its position as the Group's best-selling model in 2010 with sales totalling 319,677 vehicles, including 104,897 in the combi version. The Škoda Octavia line thus recorded year-on-year sales growth of 16.8% (including Škoda Octavia A5 Tour model).

ŠKODA YETI

After its unveiling in 2009, the Škoda Yeti received a very favourable reception from customers. In total, 52,604 vehicles were sold in 2010. The Škoda Yeti is also available in the four-wheel drive version.

ŠKODA SUPERB

In 2010 a total of 98,873 cars of the Škoda Superb were sold. This model is extremely popular in China where sales amounted to 37,361 cars. Sales of the combi variant surpassed expectations, totalling 35,722 cars in 2010.

DELIVERIES TO CUSTOMERS BY MODEL

	2010	2009	2010/2009
Fabia Sedan	–	47	–
Fabia	161,358	181,590	-11.1%
Fabia Combi	67,687	82,536	-18.0%
Fabia total	**229,045**	**264,173**	**-13.3%**
Roomster	29,514	43,701	-32.5%
Roomster Praktik	2,818	3,451	-18.3%
Roomster total	**32,332**	**47,152**	**-31.4%**
Octavia Tour	20,955	32,825	-36.2%
Octavia Combi Tour	9,114	10,920	-16.5%
Octavia Tour total	**30,069**	**43,745**	**-31.3%**
Octavia	214,780	176,499	21.7%
Octavia Combi	104,897	97,091	8.0%
Octavia total	**319,677**	**273,590**	**16.8%**
Yeti	**52,604**	**11,018**	**>300%**
Superb	5	624	-99.2%
Superb II	63,146	43,189	46.2%
Superb Combi	35,722	735	>500.0%
Superb total	**98,873**	**44,548**	**>100%**
Škoda brand total	**762,600**	**684,226**	**11.5%**

DELIVERIES TO CUSTOMERS – BIGGEST MARKETS

	Deliveries to customers (vehicles)		change in %	% share in passenger car market*	
	2010	2009	2010/2009	2010	2009
Total Škoda brand	**762,600**	**684,226**	**11.5%**	**2.4%**	**2.4%**
China	180,515	122,556	47.3%	1.6%	1.4%
Germany	113,323	162,328	-30.2%	3.9%	4.2%
Czech Republic	58,033	56,504	2.7%	34.4%	33.4%
Russia	45,577	33,002	38.1%	2.6%	2.4%
United Kingdom	41,632	36,012	15.6%	2.0%	1.8%
Poland	37,918	38,305	-1.0%	11.6%	11.9%
France	20,394	20,313	0.4%	0.9%	0.9%
India	20,019	14,535	37.7%	0.9%	0.9%
Spain**	19,871	17,598	12.9%	2.0%	1.8%
Austria	18,803	17,500	7.4%	5.6%	5.4%
Italy	18,276	18,215	0.3%	0.9%	0.8%
Belgium	15,756	12,358	27.5%	2.9%	2.6%
Netherlands	15,408	8,695	77.2%	3.2%	2.2%
Switzerland	14,320	11,548	24.0%	4.9%	4.3%
Slovakia	13,650	14,613	-6.6%	21.2%	19.5%

* Škoda's relevant markets
** Canary Islands included

Sales of genuine parts and accessories

Sales of genuine parts and accessories were an important part of the Group's business policy in 2010. The sales philosophy is based on offering top-quality products, a broad selection, availability and timely delivery. As our portfolio of models and variants expands, the range of parts and accessories supplied to markets around the world by way of highly advanced logistical routes and with the use of top IT technology is also growing.

Revenues from sales of genuine parts amounted to CZK 15.2 billion in 2010, representing an increase of 13% year-on-year (2009: CZK 13.5 billion).

With its range of genuine accessories, the Group responds to the ever-growing segment of customers who require a higher degree of individuality, and it also expands its range of products designed for leisure time while meeting strict quality requirements.

Revenues from sales of genuine Škoda accessories totalled CZK 2.1 billion, up 22% year-on-year (2009: CZK 1.7 billion).

Sales and service network

The high-quality sales and service network is an integral part of implementing Škoda Auto Group's sales and growth strategy.

In 2010, the Group focused on an ongoing improvement of sales and service partners' competencies with the aim to achieve maximum customer satisfaction. A necessary prerequisite is optimisation of sales and service processes commenced in 2010 that will continue in 2011.

Another key goal in 2010 was to sustain the stability of the dealership network, its adaptation to new conditions in the automotive sector, and preparation for an anticipated growth phase. This preparation comprised mapping out relevant distribution routes and their planning and implementation in specific markets. In addition to quantitative expansion of the sales and service network, support for a qualitative improvement of partners' services was provided in line with the "Human Touch" programme. The programme's main pillars comprise customer-friendly approach of the personnel, personal care for customers and individual concept of customer service. Surveys conducted in this field show Škoda's unique position among automakers due to the implementation of these principles.

In 2010, the Škoda brand was represented in more than 100 world markets. In parallel with customer service in the existing markets, massive expansion of dealership networks continued mainly in China and Russia. A total of 5,243 sales and service partners were registered globally at the end of 2010. This trend testifies to the attractiveness of the Škoda brand for business partners and the success of the implemented sales and service strategy.

Car sales to fleet customers

A total of 188,900 vehicles were sold to fleet customers in 2010, representing a year-on-year increase of 42.6% (2009: 132,500). This result shows the increasing importance of excellent products at low total ownership cost in the fleet market.

In total, 127,200 vehicles were sold in Western Europe (2009: 87,500), and 50,900 in Central Europe (2009: 38,200). More than 10,700 vehicles were sold to the largest markets of Eastern Europe, notably Russia and Ukraine.

Germany remained the Brand's major market in this segment in 2010, accounting for 28% of annual fleet sales, followed by the Czech Republic, Poland, the United Kingdom and Spain.

Sales to large-volume buyers recorded an all-time high in 2010 and continued to grow in comparison with 2009. This favourable trend stemmed primarily from an improved economic situation in the respective countries and the corporate sector's readiness to spend on renewing their car fleets.

Employees

Among key businesses in the Czech Republic, Škoda Auto regularly places on top in public opinion polls and competitions (such as Employer of the Year). The Company is an attractive employer not just in the region, but nationwide. The Human Resources Management department, aimed at stabilising and training the existing skilled employees and seeking new hires, plays an important part in achieving corporate success. One of the methods of hiring skilled professionals is collaboration with universities in the Czech Republic and abroad.

Development of employment

At the end of 2010, Škoda Auto's workforce totalled 24,714 permanent employees globally, including trainees.

The parent company in the Czech Republic provided jobs for 22,506 permanent employees. Subsidiaries in Slovakia, Germany, Poland and India employed a total of 1,399 permanent staff at the end of 2010. In 2010, the Group contributed to training of 809 apprentices and employed 2,774 temporary workers.

Human resources concept in 2010

The role of HR Business Partners as in-house consultants and advisors in personnel matters of employees and management was further strengthened in 2010. This concept entails a customer-oriented approach combined with well-organised internal communication.

The key focus in 2010 was on the ongoing "HR Process Transformation and Electronisation" (e-attendance, regular performance assessment, electronic application for training events, electronic catalogue of training events, online management, etc.), which aims to carry out Škoda Auto's HR vision, "The right number of people in the right place at the right time with the right skills and motivation". The objective is to implement an active transformation/change of human resources work at the centre of which is desired growth of Company employees.

A high degree of attention was also paid to the ongoing internationalisation of the Company, resulting in the integration of employees of various nationalities and optimisation of programmes for sending Czech employees abroad and for their subsequent reintegration into the home Company. Cooperation with foreign universities was established to support global activities.

Internal communications

In 2010, the number of regularly held meetings, between the members of the Board of Management and upper and middle management, was increased. These include managers' conferences comprising presentation of strategy and goals, their fulfilment, workshops and debates. Individual members of the Board of Management also communicate with employees in the form of chats three times a year.

Measures necessary for improvement were defined and implemented within the scope of the "Škoda jsme MY" ("Škoda – That's Us") project, launched with the aim of regular monitoring of employee opinions and satisfaction. Preparations commenced for a third round of the project. Data collection is scheduled for the spring 2011. Employee participation is voluntary and anonymous. Of key importance are the stages following data collection when the results are discussed with the employees and optimum solutions are being sought.

Škoda Auto makes use of a broad range of information channels and tools. The Employee Portal (corporate intranet) had undergone substantial expansion and in 2010 became one of the key tools of in-house electronic communication. Step-by-step, it is gaining importance as the leading communication channel. In addition to common functionalities, it serves as an interface for additional information, ordering and administrative applications and for managers' communication. Other effective internal– communication tools include distributing information directly to personal e-mail inboxes

GROUP WORK FORCE

	31. 12. 2010	31. 12. 2009	2010/2009
Company – permanent employees	**22,506**	**22,831**	**-1.4%**
of which:			
– Mladá Boleslav plant	18,355	18,886	–2.8%
– Vrchlabí plant	1,004	1,050	–4.4%
– Kvasiny plant	3,147	2,895	8.7%
Company – apprentices	802	824	–2.7%
Company – employees total*	**23,308**	**23,655**	**-1.5%**
Subsidiaries – permanent employees	1,399	1,287	8.7%
Subsidiaries – apprentices	7	6	16.7%
Subsidiaries - employees total*	**1,406**	**1,293**	**8.7%**
Škoda Auto Group employees total*	**24,714**	**24,948**	**-0.9%**

* excluding temporary employees

of various employee target groups according to the type of information, and the "Škoda Auto Týdeník" ("Škoda Auto Weekly") issued in electronic and printed form and containing solely internal information. "PC Information Islands" were set up for employees who do not have their own computers. The Company's monthly newsletter, "Škoda Mobil", is an important component of both internal and external communication.

Employee development

In 2010, Škoda Auto focused on projects enhancing performance and a positive attitude to change. A new addition are products supporting work life balance aimed at improving the balance of the work and non-work sides of the employees' lives.

In line with advanced trends in expanding managers' powers, the Company prepared new programmes for management, such as training facilitating superiors' interviews with employees as one of the tools for boosting motivation and personal job performance.

The Assessment Centre for junior managers was innovated to conform to Group standards. New programmes are being developed for other key target groups of the Company, e.g. employees on maternity leave and know-how experts reaching pre-retirement and retirement age.

Training via e-learning courses is increasingly popular as all employees can currently choose from 61 courses, in which they can enrol both at their workplaces and at home. In 2010, 22,884 participants took part in e-learning courses.

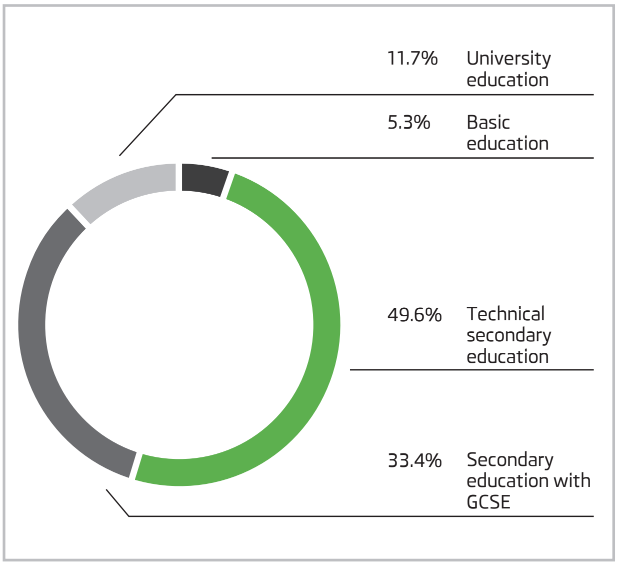
In 2010, the Company spent CZK 165 million on employee development and support for growth. In all, 48,551 employees participated in training and development programmes.

Training

In 2010, a total of 802 future employees were enrolled in the Company's apprentice school focused primarily on mechanical and electrical engineering. Of these, 287 students successfully completed their training. A total of 315 students were enrolled in the first year of study, both full-time and extramural. A new field of secondary graduation study, "Industrial Logistics", was opened. The students were also actively involved in the Enersol project, a nationwide competition of secondary schools in the area of ecological projects, and succeeded in a number of contests at a national level.

A total of 895 students enrolled in bachelor's and master's programmes at Škoda Auto University in 2010. Of these, more than 100 Škoda Auto employees were engaged in a combined form of study. In the same period, 37 students graduated with a master's degree and 103 with a bachelor's degree. In addition, a master's programme in English was launched in 2010, designed for applicants from around the world. As in previous years, the university organised numerous specialised seminars for the business and academic spheres. Both Škoda Auto and Škoda Auto University expanded cooperation with universities in the Czech Republic and abroad, for example, in Germany, Austria and Spain.

QUALIFICATION STRUCTURE OF THE COMPANY'S CORE EMPLOYEES (%)



More than 680 educational and social events took place at the Na Karmeli training centre, such as working meetings, Group meetings, conferences, workshops, training sessions and discussion forums. In addition, the venue was used for concerts, exhibitions, balls, fashion shows and weddings. On 20 September 2010, the Na Karmeli training centre marked the third anniversary of its existence. In relation to this anniversary, an open house was held on 21 May 2010 for more than 3,000 visitors.

Social aspects

One of the fundamental pillars in the social area is stabilisation of the workforce in the regions where manufacturing plants are located. Within the scope of this project, the Company continued in 2010 to provide interest-free loans of up to CZK 350,000 for home purchase and construction and up to CZK 125,000 for home improvement. 703 employees received this form of subsidies totalling CZK 159 million in 2010.

The Company demonstrates its commitment to social responsibility by contributing to the employees' supplementary pension insurance, thus helping motivate the employees to see to their financial security at the retirement age. In 2010, the Company earmarked CZK 109 million for the employees' supplementary pension insurance policies. The full range of benefits and social programmes implemented in the long run also includes a meal-voucher system, bonuses awarded on the occasion of employees' job-related anniversaries, support for families with newborn babies, and contributions to children's day care and employee vacation.

The second important pillar is facilitation of employee mobility, which allows the employees a discount when purchasing new vehicles, gives them priority in clearance sales of used vehicles and enables them to use employee leasing.

Health management

A key objective in employee care is health protection. Corporate health care provides not just the statutory job-related medical care including first aid, but also organises health prevention programmes, provides physical therapy and medical care and cooperates in creating healthy working conditions.

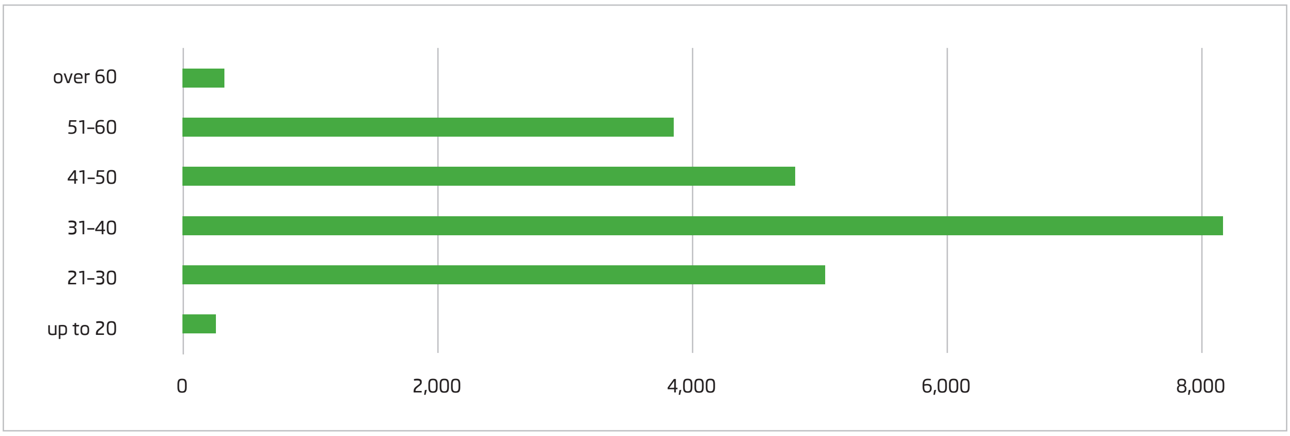
The key activities are integrated into the Škoda Check-up programme aimed at ongoing medical supervision and also active participation of the employees in taking care of their health in the form of a personal health plan.

A unique preventive measure in terms of the number of participants is annual flu immunisation. In cooperation with trade unions, reconditioning spa treatments are organised for selected employee groups with the aim to improve their health.

Creation of healthy working conditions plays a crucial role in prevention, with an emphasis placed on the role or work ergonomics and physiology as key tools.

The foregoing activities bring positive results evidenced by the long-term low sickness rate in the Company; average employee attendance rate in the past year did not fall below 97.4%.

AGE STRUCTURE OF THE COMPANY'S CORE EMPLOYEES



Good ideas are not always enough

In 2010, workshops were organised by the human resources department with the aim to eliminate wastefulness and ineffective conduct at workplaces.

Collaboration with the Industrial Engineering division continued in organising workshops aimed at ongoing production process improvement. Within the scope of collaboration, the outcome of these workshops is rewarded through the Z.E.B.R.A. motivation system as optimisation proposals. Since the implementation of the process in September 2006, a total of 1,697 workshops were organised through the end of 2010, resulting in total cost savings of CZK 399.5 million.

In the Z.E.B.R.A. system alone, innovation of reward rules was carried out in 2010 aimed to increase the proportion of employees submitting innovation proposals and to raise the amount of cost savings. For the first time in a quarterly cycle, winners of passenger cars were drawn who were recruited from the ranks of successful innovators. The Z.E.B.R.A. system will continue in 2011, to be boosted by a new logo and communication campaign. A total of 11,620 innovation proposals were registered in 2010; 4,556 employees were involved in these proposals. The success rate of the proposals was 67.3% and, in financial terms, cost savings for this period exceeded CZK 300 million.

Electronic timecard, access system

In 2010, the development of the electronic timecard system was completed. Step-by-step, the system was implemented across the Company and, as of September 2010, attendance of all permanent employees has been registered through this advanced method which brings increased transparency of related processes and new functionalities allowing for keeping management informed in a timely fashion.

Social responsibility

Škoda Auto is fully aware of its responsibilities to its customers, employees, shareholders and business partners and also to the broadest society. As such, the Company deems responsible behaviour toward the aforementioned groups to be an inseparable part of its corporate strategy and culture. Škoda Auto's social responsibility is built upon three pillars – economic, social and environmental.

Škoda Auto social responsibility

Within the scope of the economic pillar, Škoda Auto complies with all relevant recommendations of the Code of Corporate Governance, by which it declares its openness toward the environment and transparency of its internal processes and relations with the sole shareholder. The Company maintains bilateral and mutually beneficial relations with suppliers and follows the legacy of its founders, Messrs. Laurin and Klement, stating that "...only the best we can do is good enough for our customers."

Within the scope of the social pillar, the Company pays extraordinary attention to its employees, in terms of a broad range of social benefits, health and occupational safety standards, and a unique system of corporate training and development of professional skills. Furthermore, the Company's activity focuses on support for equal opportunities, issues arising from population aging and employee internationalisation.

The Company has had a long-term policy of dedicating maximum effort to limiting the negative impact of its operations on the environment. This pertains to not only the Company's own production and sales operations, but also to preferring collaboration with the 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 the output of CO_2 emissions.

Support for traffic safety

Aside from sporting, cultural and social activities pursued within the scope of Škoda Auto's social responsibility, the importance of measures adopted to improve traffic safety has been increasing. Projects for the little ones include funding for children's traffic-themed playgrounds in the regions where the Company's production plants are located, cooperation with the BESIP Foundation, which ensures traffic education for primary school pupils, and the development of a unique internet application "Škoda hrou" ("Playful Škoda") designed to facilitate traffic safety learning in an entertaining form.

In cooperation with the City of Mladá Boleslav, the Company has been implementing a project spanning several years titled "A Safe Journey to School". In addition, technology boosting traffic safety for pedestrians was installed in the vicinity of the Škoda Auto factories in cooperation with respective municipalities. Another project designed to improve the safety features of cars is "Traffic Safety Research" under which the Company collaborates with fire fighters, police and hospitals at sites of traffic accidents. In 2010, Škoda Auto once again became 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.

Sponsorship and social activities

Škoda Auto pursues sponsorship activity at both local and regional levels, i.e. directly where its factories operate, and also on the nationwide and global scale. In cooperation with leading foundations and charitable organisations, the Company sponsors a variety of social, cultural and humanitarian projects. In supporting sporting events, the Company makes sure to involve persons with disabilities as well.

Sports

Since 1992 without interruption, Škoda Auto has sponsored the International Ice Hockey Federation World Championships and has been officially acknowledged by Guinness World Records as the longest main sponsor of a world championships. In 2004, Škoda Auto became the main partner of Tour de France and in 2010 this sponsorship was extended through 2013. In addition, Škoda Auto is the general partner of the Czech Olympic and Paralympic Committee and supports, among others, the Czech national cyclo-cross team and the Czech Ice Hockey Association. The Company has been a long-time sponsor of first-league hockey and football teams in Mladá Boleslav.

The arts and culture

Škoda Auto's traditional partners include the Czech Philharmonic, the National Theatre, the National Museum, and the National Technical Museum. The Company also sponsors 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 F.X. Šalda Theatre in Liberec and the Municipal Theatre in Mladá Boleslav.

Social commitment

Škoda Auto has been a long-time sponsor of the Paraple Centre, specifically as a supplier of vehicles with adjusted hand steering, which help to partially restore the patients' self-sufficiency. Other projects funded by the Company include the Forum 2000 Foundation, the Foundation of the Baroque Theatre in Český Krumlov, the ADRA Foundation, the Foundation for Cancer Research, the Paralympic Committee and the Oncology Care Centre. In 2010, the Company organised an employee fundraising with the foundation "Člověk v tísni" ("People in Need") to aid people stricken by floods in Northern Bohemia.

Škoda Auto continued its long-term project for funding a non-profit organisation "Zdravotní klaun" ("Clown Doctors") which organises visits of professional clowns to 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 whereas it provides the employees and their family members with an opportunity to volunteer for the Company's social responsibility activities. Through the end of 2010, nearly 250,000 trees were planted in more than 30 locations within the project.

Environmental protection

Škoda Auto makes top-quality cars and this production ensures a minimum impact on the environment. Meeting increasingly stringent legislative requirements and obligations declared in the Corporate Policy in a timely and consistent fashion helps the Company implement the strategy of bettering environmental protection and meet all statutory limits in this field. In this way the Company contributes to upholding the principles of sustainable development and demonstrates its "green" approach to life and nature. This was reaffirmed by the recertification of the ISO 14001:2004 international environmental standard for another three years in a follow-up audit carried out in late 2010.

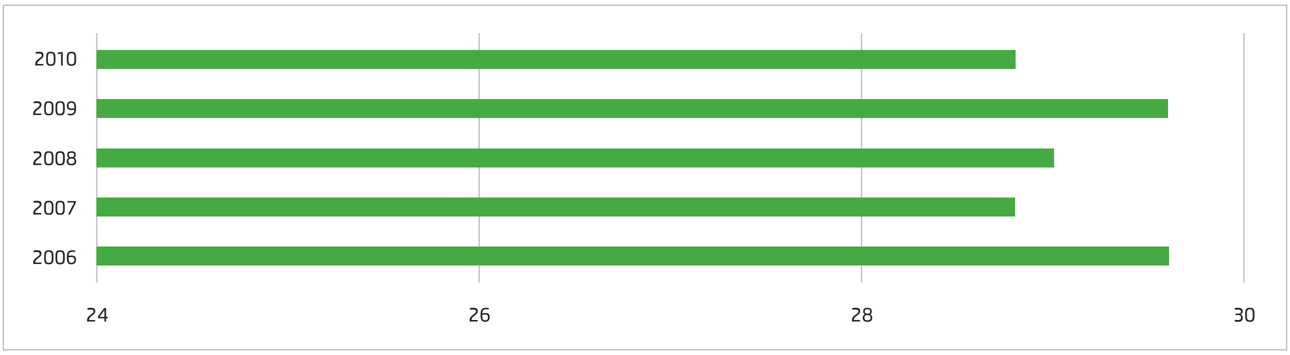
Environmental protection related to new investments

Škoda Auto is dealing with the effect of the economic downturn by streamlining all of its operations and expanding the product offer. This would not be possible without modernisation of the production basis and support facilities for services provided. Thus the efficiency of environmental protection in terms of technology used is already being decided during the investment preparatory phase. All facilities affecting the environment are equipped with the best available technology and adhere to VW Group's principles of environmental protection that extend beyond the statutory framework and are applied on a global scale. As a result, pursuant to Act on Environmental Impact Assessment, in 2010 Škoda Auto was awarded approval by relevant authorities for construction of a data processing centre in Mladá Boleslav, construction of a new service technology centre in Kosmonosy, and construction of a reservoir for alternate supply of industrial water for the Kvasiny plant.

The Company was granted an amendment to integrated approval for foundry facilities in the Mladá Boleslav plant in connection with broadening the product range and volume of aluminium castings for manufacture of new types of engines and gear boxes.

Decontamination work continued at the Mladá Boleslav plant in connection with the clearing of production areas for renovation in the old machining and foundry facilities, the final phase of which is building floors secured against leakage of harmful substances into the ground.

VOLATILE ORGANIC COMPOUNDS (VOC) EMISSIONS PER 1 SQ.M. OF THE PAINTED AREA OF THE BODY (G VOC/M²)



Air quality protection

All sources of air pollution operated by the Company in 2010 were in compliance with statutory emission limits. The main sources of emissions are the industrial body- painting facilities and energy sources, which produce more than 95% of all emissions.

Volatile organic compounds (VOC) are critical air pollutants generated in the operation of body-painting facilities, accounting for more than 80% of the Company's total emissions. These modern paintshops use mostly water-soluble paints. A substantial portion of VOC emissions is eliminated by mixing the compounds with natural gas and burning them, with the generated heat being used for heating. In recent years, the Company has managed to optimise paint processes (in particular by reduction in the quantity of used paints due to robotisation of paint spraying), thereby keeping the level of VOC emissions per square metre of painted area at below 30 g/m^2, i.e. far below the statutory limit of 45 g/m^2, even when painting a smaller number of bodies.

The use of advanced energy sources and innovations in the foundry facilities contribute significantly to reducing emissions of sulphur dioxide, nitrogen dioxide, solid pollutants and carbon dioxide.

The adoption of measures aimed to streamline production helps keep total energy consumption at roughly the same level over several years, thereby not polluting the environment with additional emissions, including emissions of greenhouse gases.

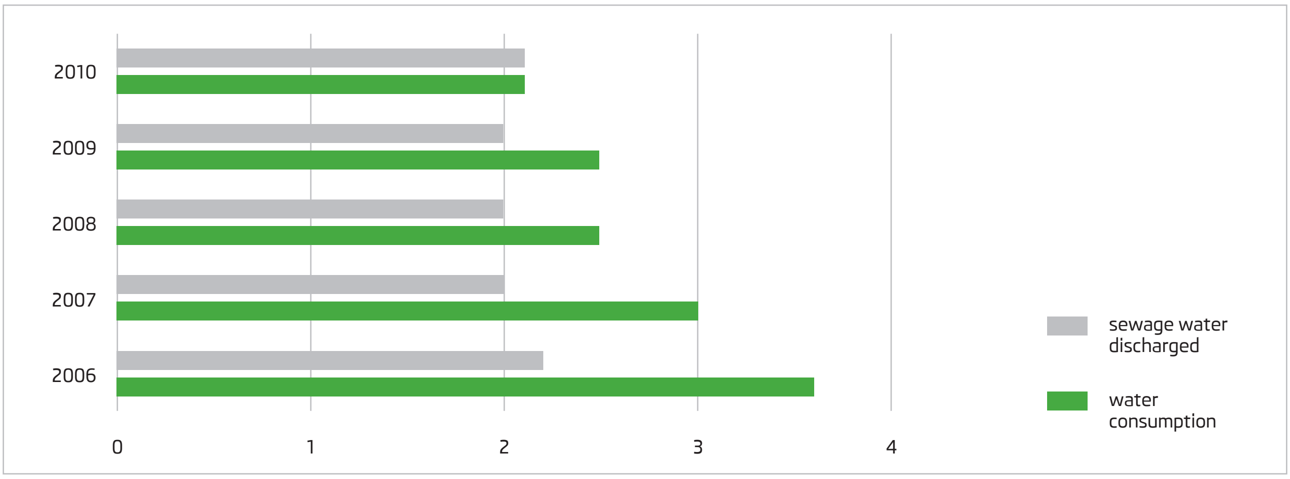
Soil and groundwater protection and water management

Škoda Auto has fully secured its operations against any environmental damage and has successfully rectified the consequences of insensitive industrial manufacturing practices that had occurred prior to the union with Volkswagen Group.

Harmful substances that could jeopardise water quality are handled rigorously in sufficiently secured areas and facilities for which emergency plans have been put in place and which are equipped to contain possible leaks.

One of Škoda Auto's fundamental tasks consists of reducing water consumption to the minimum necessary for the Company's operations and returning water to the natural cycle with a minimum impact on the environment. The success of the measures implemented to accomplish this task is evident in the development of water consumption and wastewater discharged per vehicle produced, as well as in the fact that due to newly introduced technologies, the purity of discharged wastewater is substantially higher than that called for by the prescribed limits.

WATER CONSUMPTION AND WASTEWATER DISCHARGED PER VEHICLE PRODUCED (M^3/VEHICLE)



Waste management

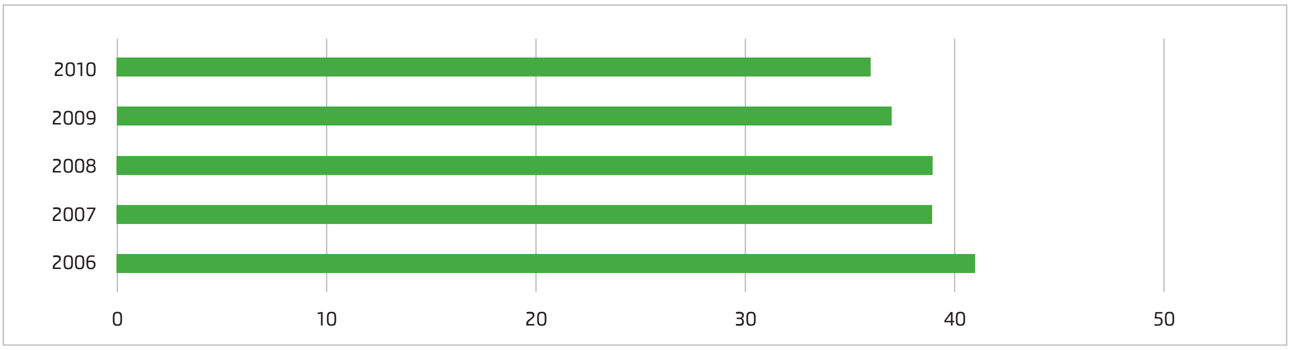
In the area of waste management, Škoda Auto has long applied a strategy focused primarily on preventing generation of waste and on reducing the volume and hazardous properties of waste. Priority is given to reusing waste materials and, in the event it is not possible, to disposing of such materials in the most environmentally-friendly manner.

The effectiveness of the strategy is manifested in the development of the amounts of waste generated (without metals) per vehicle produced. Whereas in 1997 this figure was 84 kg/vehicle, in 2010 it dropped to a mere 36 kg/vehicle. Only 9.4% of the total amount of waste produced in 2010 ended up in landfills and incinerators. Most of the waste, including metals, was recycled, such as glass, paper, waste oils, solvents, cables, electronic waste, foundry sand, plastics and plastic foils.

Investments

In 2010, a total of CZK 128 million was spent on preventive environmental measures pertaining to construction and modernisation. In total, investments into environmental protection have amounted to CZK 10.1 billion since 1991.

WASTE PER VEHICLE PRODUCED (KG/VEHICLE)



Short-term and medium-term outlook

The growth rate of the global economy slowed down slightly in the second half of 2010, but GDP growth is expected to pick up in 2011 and surpass. However, this positive trend will be volatile as the risk of a growth slowdown persists (USA, China, eurozone countries). The major perils of sustainable economic growth on a global scale comprise high unemployment, high public indebtedness, uneven development in different countries or regions, and a vulnerable banking system.

Projected economic development

CZECH REPUBLIC

The Czech economy is expected to grow at a maximum pace of 2% in 2011. A key factor for the domestic economy dependent to a large extent on external stimuli will be the future trend in the eurozone. Inflation growth is likely to be moderate as weak consumer demand will hinder price increases. The unemployment rate is expected to further decline to about 8%. The trade balance surplus is to begin to rise in relation to foreign demand. The exchange rate of the koruna against the euro should hover around CZK 24.50/EUR.

EUROPE

Economic recovery in Europe in 2011 will progress at a slow pace and the outlook is hazy. Although inflation is under control for the time being, there is a risk it might begin to rise.

Overall economic growth in Europe will not be very strong at over 1% and the economic development will vary significantly in different regions. While the countries of the northern part of the EU (notably Germany) will see a faster pace of recovery, GDP in the Central European region will grow at a more moderate pace in the range of 1%–3% (with Poland on top of the scale). The Russian economy is expected to grow at 4%, i.e. at roughly the same rate as in 2010, while inflation will oscillate around 7%.

OVERSEAS/ASIA

China is expected to remain the fastest growing economy in Asia in the coming year with 9% GDP growth, followed by India (8%). However, inflation poses a certain risk for China's economic growth. China's central bank will probably need to tighten its monetary policy to curb inflation due to excess liquidity in the market. The US economy should grow at a 2% rate with a slow pace of recovery hampered by weak household consumption and a very slowly improving job market. Inflation is likely to remain low at around 1.5%. As a result, the extremely low main interest rate at 0.25% is unlikely to rise.

TREND IN INTEREST RATES

In 2011, base interest rates are expected to stay low in the US and the EU, in Asia and in particular in Japan. There is a possibility of their rising in the medium-term outlook based on inflation predictions. Most emerging economies with higher inflation rates will retain higher interest rates (China, Russia).

TREND IN THE RAW MATERIALS MARKET

In the short-term outlook, price volatility is expected without any clearly defined trend. Prices of raw materials are likely to increase in 2011, in particular of aluminium, copper and nickel.

Projected development in the automotive market

As a result of ongoing economic recovery, overall car sales in world markets, particularly in the Asian countries, are expected to rise in 2011. The repercussions of the global financial and economic crisis, however, will continue to have an adverse impact on the automotive market, particularly in Western Europe. In addition, growing prices of raw materials in the world markets are likely to dampen demand for cars as well.

CZECH REPUBLIC
Overall sales of new cars are expected to grow in 2011 due to economic recovery.

EUROPE
Following a slump in sales in 2010 caused by the termination of the car scrapping bonuses, demand for new cars in Germany is expected to rise. Despite this positive trend, Western Europe's automotive market is likely to contract due to the ceased effects of the car scrapping schemes in France, the United Kingdom and Italy, and as a result of ongoing economic problems of the South European markets.

A slight boost to demand is expected in Central Europe. East European auto markets are expected to grow faster, notably in Russia and Ukraine.

OVERSEAS/ASIA
In 2011, a highly positive trend is expected to continue in markets of strategic importance in China and India.

In 2011, Škoda Auto Group will focus on strengthening its position in all relevant market segments with the aim to make maximum use of growth potential in this region.

Overview of planned activities and targets

TECHNICAL DEVELOPMENT
In 2011 in accordance with the growth strategy Škoda's technical development department will work on new products in not yet occupied segments and also on followers of existing products, while placing a great emphasis on internationalisation. Beside the Škoda Octavia Green-E-Line concept model, other purely electric concept cars will be built for testing in actual traffic. The acquired knowledge will serve for further development of Škoda electric cars.

PRODUCTION AND LOGISTICS
To ensure long-term planned growth in car production volumes both abroad and in the Czech Republic, in 2011 we will continue to work forcefully on securing production capacities and using them effectively for the Škoda-brand current and future models. We expect an increase in production figures for 2011 especially in China, India and Russia, but also for our plants in the Czech Republic. In the Czech Republic, we are planning to further increase the production capacity for the Škoda Yeti made at the Kvasiny plant.

In the power train segment, we are preparing production of new small manual transmissions at the Mladá Boleslav plant, scheduled to commence in the second half of 2011.

MARKETS, SALES AND MARKETING
In 2011, the Group will focus its key activities on increasing both market shares and volumes of sales in European markets. In addition, the Group will continue to expand its sales and service networks in all key markets.

In view of the ever-growing demand, sales volumes are expected to grow the most particularly in the Asian markets, such as China and India. Škoda Auto Group anticipates a favourable market trend in Russia as well.

The key objective remains a personalised approach to customer needs and meeting Škoda Auto standards in the entire sales and service network.

EMPLOYEES
In line with its growth strategy, Škoda Auto plans to increase the number of skilled employees in 2011, specifically through hiring well qualified, mobile, foreign language-proficient employees, whose performance will enhance Škoda Auto's successful internationalisation.

Also related to the growth strategy is broader collaboration with foreign universities and enhancement of selected activities of personnel marketing with international outreach – focused mainly on the fast expanding markets of China, India and Russia.

With the aim of boosting Company employee motivation, another round of the project "Škoda jsme MY" ("Škoda – That's US") will be organised in 2011. The project serves as a tool for monitoring employee opinions and motivation. Based on the results, measures will be adopted aimed at improving work conditions for the employees across the Company.

FINANCE
In terms of financial management, the Group expects to maintain its financial stability and to attain reasonable profit growth. The development of the Group's financial indicators will, to some extent, be impacted by external factors, of which the key ones undoubtedly comprise the development of the exchange rate of the euro and other European currencies and the price trend in commodity markets relevant for the Group's inputs. The current debt crisis in the eurozone is likely to contribute to the heightened volatility of exchange rates. In 2011, while the ensuing uncertainty could hinder the anticipated recovery of the automotive markets in Westen Europe.

To ensure meeting the sales targets, in the medium-term outlook the Group will spend available funds primarily on product investments related to the development and manufacture of new models. In addition, investments will be made for introduction of new engines and transmissions.

In accordance with the long-term strategy, the foregoing investments will be funded from internal sources.

ENVIRONMENTAL PROTECTION
In 2011, activities pertaining to all stages of Škoda-brand cars' life cycle will focus on rational use of energies and natural resources, reduction in air-borne emissions, climate protection, water sources and soil protection, and minimisation of waste production coupled with more efficient waste recycling and utilisation. The Company will place a key emphasis on the development of environmentally-friendly models and enhancement of production capacities through acquisition of modern technologies compliant with the most stringent criteria in terms of environmental protection.

Where we are headed

For almost 20 years, Škoda Auto Group has constituted an important pillar of Volkswagen Group with an excellent track record. With the objective to continue the success story, while striving to achieve the "Strategy 2018" targets, the Škoda Auto Board has devised an ambitious growth strategy.

Within the next decade, Škoda Auto aims to double total car sales. Most importantly, it will expand the focus of its business activity to participate in the highly dynamic development of emerging markets in Eastern Europe, particularly Russia, and also in the markets of China and India.

Part of this new growth strategy is a transformation of the current business model toward a clear price/value focus of the Škoda-brand products. There are four key fields of activity envisioned for the upcoming years:

We will strengthen the Škoda brand positioning to accentuate roominess and family orientation.

We will optimise our global product portfolio by introducing new models into additional market segments, including entry products with high value/price ratio, while applying the "Human Touch" philosophy highlighting a customer-friendly approach of the staff, personal care for customers and an individual concept of customer service.

We will centre our growth strategy on long-term profitability by improving efficiency, reducing complexity and optimising investment.

We will ensure the sustainability of the growth strategy by forming a global team of top talents and mobilising our employees.

Over the course of the previous year, we have laid the cornerstones of the new growth strategy. As a result, Škoda Auto Group is poised to strengthen its position in all relevant markets. At present, we are in the process of implementing a number of initiatives aimed at preparing the Škoda brand for success in the future.

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 2010 disclosed in the annual report on pages 170 to 230 and issued the opinion dated 17 February 2011 and disclosed on pages 168 to 169. We have also audited the consolidated financial statements of the Company for the year ended 31 December 2010 disclosed on pages 105 to 167 and issued the opinion dated 17 February 2011 and disclosed on pages 103 to 104 (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 2010 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 2010 is consistent, in all material respects, with the financial statements.

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

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 2010 (the "Report"), disclosed in the annual report on pages 231 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.

3 March 2011

PricewaterhouseCoopers Audit, s.r.o.
represented by

Ing. Jiří Zouhar
Partner

Ing. 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 2010, 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.

PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40/466, 120 00 Prague 2, Czech Republic
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Auditor’s Responsibility (continued)

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 2010, 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 2011

PricewaterhouseCoopers Audit, s.r.o.
represented by

Ing. Jiří Zouhar
Partner

Ing. 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 2010

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010 (CZK MILLION)

	Note	2010	2009
Sales	**17**	**220,005**	**187,858**
Cost of sales	26	189,260	166,296
Gross profit		**30,745**	**21,562**
Distribution expenses	26	14,403	13,153
Administrative expenses	26	5,203	4,826
Other operating income	18	6,172	7,942
Other operating expenses	19	5,995	5,601
Operating profit		**11,316**	**5,924**
Financial income		1,112	1,342
Financial expenses		1,494	2,009
Financial result	**20**	**(382)**	**(667)**
Share on profit (+) / loss (–) of associates		(348)	(555)
Profit before income tax		**10,586**	**4,702**
Income tax expense	22	1,747	1,240
Profit for the year		**8,839**	**3,462**
Attributable to:			
Owner of the Company		8,781	3,409
Non-controlling interests		58	53
		8,839	3,462

The notes on pages 110 to 167 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010 (CZK MILLION)

	Note	2010	2009
Profit for the year		**8,839**	**3,462**
Cash flow hedges:			
Change in fair value in the period	12	(813)	599
Total transfers of fair value to net profit – effective hedging	12	188	(2,304)
Total transfers of fair value to net profit – ineffective hedging	12	(61)	(72)
Deferred tax	12	141	305
Exchange differences		**(40)**	**(48)**
Other comprehensive loss		**(585)**	**(1,520)**
Total comprehensive income for the year		**8,254**	**1,942**
Total comprehensive income attributable to:			
Owner of the Company		**8,197**	1,898
Non-controlling interests		57	44

The notes on pages 110 to 167 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2010
(CZK MILLION)

	Note	31. 12. 2010	31. 12. 2009
ASSETS			
Intangible assets	5	12,969	13,081
Property, plant and equipment	6	42,359	43,871
Investments in associates	7	666	502
Other receivables and financial assets	8	1,543	1,208
Deferred tax assets	14	1,327	421
Non-current assets		**58,864**	**59,083**
Inventories	9	14,408	11,675
Trade receivables	8	11,028	8,485
Prepaid income tax		89	577
Other receivables and financial assets	8	41,023	17,309
Cash	10	10,324	21,247
Current assets		**76,872**	59,293
TOTAL ASSETS		**135,736**	**118,376**

	Note	31. 12. 2010	31. 12. 2009
EQUITY AND LIABILITIES			
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Reserves	12	56,307	49,744
Equity attributable to owner of the Company		**74,594**	**68,031**
Non-controlling interests		178	149
Equity		**74,772**	**68,180**
Non-current financial liabilities	13	3,000	3,000
Other non-current liabilities	13	3,380	1,403
Deferred tax liabilities	14	–	775
Non-current provisions	15	9,100	8,357
Non-current liabilities		**15,480**	**13,535**
Current financial liabilities	13	228	2,214
Trade payables	13	27,897	21,219
Other current liabilities	13	4,766	3,697
Other current tax liabilities		1,405	876
Current provisions	15	11,188	8,655
Current liabilities		**45,484**	**36,661**
TOTAL EQUITY AND LIABILITIES		**135,736**	**118,376**

The notes on pages 110 to 167 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 (CZK MILLION)

	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 2009	**16,709**	**1,578**	**48,499**	**4,699**	**71,485**	**123**	**71,608**
Total comprehensive income for the year	**-**	**-**	**3,409**	**(1,511)**	**1,898**	**44**	**1,942**
Dividends paid	–	–	(5,352)	–	**(5,352)**	(18)	(5,370)
Transfer to statutory reserve fund	–	–	(563)	563	**-**	–	–
Balance as at 31 December 2009	**16,709**	**1,578**	**45,993**	**3,751**	**68,031**	**149**	**68,180**
Balance as at 1 January 2010	**16,709**	**1,578**	**45,993**	**3,751**	**68,031**	**149**	**68,180**
Total comprehensive income for the year	**-**	**-**	**8,781**	**(584)**	**8,197**	**57**	**8,254**
Dividends paid	–	–	(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**

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

The notes on pages 110 to 167 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010 (CZK MILLION)

	Note	2010	2009
Cash and cash equivalents as at 1 January	**16**	**34,809**	**28,806**
Profit before income tax		10,586	4,702
Depreciation and impairment of non-current assets	5, 6	14,820	12,166
Change in provisions	15	3,244	4,306
Gain on disposal of non-current assets		(1)	(7)
Net interest (income) / expense		40	(51)
Change in inventories		(2,847)	3,461
Change in receivables		(3,831)	1,792
Change in liabilities		7,947	1,759
Income tax paid from operating activities		(2,294)	(1,680)
Interest paid		(458)	(489)
Interest received		490	633
Share on loss of associates		348	555
Other adjustments for non-cash transactions		124	(618)
Cash flows from operating activities		**28,168**	**26,529**
Purchases of non-current assets	5, 6	(9,763)	(11,196)
Additions to capitalised development costs	5	(3,093)	(1,493)
Increase in financial investments		(530)	–
Increase in loans provided		(10,016)	–
Decrease in loans provided		–	1,677
Proceeds from sale of non-current assets		18	51
Proceeds from other investing activities	7	71	19
Cash flows from investing activities		**(23,313)**	**(10,942)**
Net cash flows (operating and investing activities)		4,855	15,587
Dividends paid		(1,662)	(5,352)
Repayment of bonds	13	(2,000)	–
Loans received	13	121	3,099
Repayments of loans received		(99)	(7,355)
Cash flows from financing activities		**(3,640)**	**(9,608)**
Net change in cash and cash equivalents		**1,215**	**5,979**
Exchange gains/(losses) on cash and cash equivalents		**(38)**	**24**
Cash and cash equivalents as at 31 December	**16**	**35,986**	**34,809**

The notes on pages 110 to 167 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2010

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 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 associate (together "the Group") for the year ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") as at 31 December 2010.

All International Financial Reporting Standards issued by the IASB and effective for the accounting periods beginning on or after 1 January 2010 have been adopted by the European Union through the endorsement procedure established by the European Commission.

The bonds issued by the Company in the past were listed until 26 October 2010 and therefore under paragraph 19 (9) of Act No. 563/1991 Coll. on Accounting the Company has prepared its financial statements in accordance with IFRS as adopted by the European Union for the accounting period ending 31 December 2010. In compliance with the Amendment of the Act No. 563 Coll. on Accounting the Company will voluntarily continue preparing the financial statements in accordance with IFRS as adopted by the European Union.

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

1.2.1 New standards, amendments and interpretations to existing standards mandatory for accounting period 2010

The following standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2010 are not relevant to the Group's operations:

IFRS	Standard/Interpretation	Effective	Description
IAS 27	Consolidated and Separate Financial Statements	1 January 2010	Requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.
IFRS 3	Business Combinations	1 January 2010	Allows entities to choose to measure non-controlling interests using the existing IFRS 3 method or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.
IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 January 2010	The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.
IAS 39	Financial Instruments: Recognition and measurement – Re-assessment of Embedded Derivatives	1 January 2010	The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.
IFRS 1	First-time Adoption of International Financial Reporting Standards	1 January 2010	The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes.
IFRS 1	First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters	1 January 2010	The amendments exempt entities using the full cost method from retrospective application of IFRS for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4.
IFRIC 17	Distribution of Non-Cash Assets to Owners	1 January 2010	The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised.
IFRIC 18	Transfer of Assets from Customers	1 January 2010	The interpretation clarifies the accounting for transfers of assets from customers.

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

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS 2009 (ISSUED IN APRIL 2009)

IFRS	Standard/Interpretation	Effective	Description
IAS 7	Statement of Cash Flows	1 January 2010	Classification of expenditures on unrecognised assets.
IAS 17	Leases	1 January 2010	Classification of leases of lands and buildings.
IAS 18	Revenue	Amendment	Determining whether an entity is acting as a principal or as an agent.
IAS 38	Intangible Assets	1 January 2010	Measuring the fair value of an intangible asset acquired in a business combination.
IAS 39	Financial Instruments: Recognition and Measurement	1 January 2010	The penalty for early repayment of a loan considered to be closely related to the loan. An exemption on the business combination contracts. Treatment of cash flow hedging.
IFRS 2	Share-based Payment – Group Cash-settled Share-based Payment	1 January 2010	The amendment provides a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn.
IAS 1	Presentation of Financial Statements: Classification of Convertible Financial Instruments to Current and Non-current	1 January 2010	The amendment clarifies that the potential settlement of a liability by the issue of shares is not relevant to its classification as current or non-current.
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2010	The amendment specifies the disclosures required in respect of non-current assets classified as held for sale or discontinued operations.
IFRS 8	Operating Segments: Disclosure of Segment Assets	1 January 2010	The amendment clarifies that the entity is required to report a measure of segment assets only if such measure is regularly provided to the chief operating decision maker.
IFRIC 9	Reassessment of Embedded Derivatives	1 July 2009	The purpose of the amendment is to confirm that besides the business as defined by IFRS 3, derivatives acquired in the formation of a joint venture and in common control transactions are outside the scope of IFRIC 9.
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 July 2009	The amendment states that a qualifying hedging instrument may be held by any entity or entities within the group, including the foreign operation itself being subject to the hedging transaction.
IAS 36	Impairment of Assets: Allocating Goodwill to Cash-Generating Units	1 January 2010	The purpose of the amendment is to clarify that the operating segment level as defined in paragraph 5 of IFRS 8 Operating segments represents the largest cash generating unit (or group of cash generating units) permitted for impairment testing of goodwill.

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

The following standards, amendments and interpretations will be relevant for the Group but have not been early adopted 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 Group expects that the Amendment to IAS 24 will have impact on the extent of the disclosure of transactions with related parties. The Group is currently assessing all possible impacts of the amendment.
IFRS 9	Financial instruments	1 January 2013	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 following standards, amendments and interpretations will not be relevant for the Group:

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.
IAS 32	Financial Instruments – Presentation: 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.
IFRS 1	First-time Adoption of International Financial Reporting Standards – Limited exemption from comparative IFRS 7 disclosures for first-time adopters	1 January 2011	The amendment to IFRS 1 provides first-time adopters with the same transition provisions (and thereby the same relief) as included in the amendment to IFRS 7 for other companies.
IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011	It 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 addressess the accounting in cases where all or part of the financial liability is extinquished by the debtor by issuing equity instruments to the creditor.
IFRS 1	Severe hyperinflation	1 July 2011	The amendment proposes guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs due to severe hyperinflation.
IAS 12	Deffered tax: Recovery of Underlying Assets	1 January 2012	The amendment provides an exception to the general principle as per IAS 12 for deffered tax assets and deffered 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.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS 2010 (ISSUED IN MAY 2010)

IFRS	Standard/Interpretation	Effective	Description
IFRS 1	First-time Adoption of International Financial Reporting Standards	1 January 2011	Accounting policy changes in the first year of IFRS adoption. Revaluation basis as deemed cost. Use of deemed cost for operations subject to rate regulation.
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.
IFRS 7	Financial Instruments: Disclosures	1 January 2011	Clarification of disclosures.
IAS 1	Presentation of Financial Statements	1 January 2011	Statement of changes in equity.
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.

2. Basis of preparation of consolidated financial statements

The 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 110 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 control is transferred to the Group and are deconsolidated from the date that control ceases.

The significant subsidiaries of the Company are as follows:

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

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

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

The Group's share of its associate´s post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in 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 and presentation currency

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

2.3.2 Foreign subsidiaries and associate

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders´ 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 associate are subject to legal and accounting regulations in their respective country. The respective local currency is their functional currency. The exchange rates published by the Czech National Bank were used when incorporating their financial statements into the consolidated financial statements of the Group:

- Assets and liabilities for each balance sheet presented are translated at the closing rate 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	2010	2009
Balance sheet foreign exchange rate as at 31 December			
Poland	PLN	6,308	6,448
India	INR	0,419	0,396
Slovakia, Germany	EUR	25,060	26,465
Russia	RUB	0,613	0,612

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 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:

– Development costs	2–9 years according to the product life cycle
– Software	3 years
– Tooling rights	8 years
– Other intangible fixed assets	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 determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and 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 and loss are recognised under financial income or expenses or other comprehensive income in the period in which they arise. During the accounting period 2010 (2009), 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 2010 (2009), 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 and 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 and loss are recognised under financial income or expenses or other comprehensive income in the period in which they arise. During the accounting period 2010 (2009), 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.

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as 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 also 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 and for all sales.

2.10 Provisions for long-term employee benefits

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

- service jubilee;
- 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 using interest rates of high-quality corporate bonds at the balance sheet date. If a market of such bonds does not exist, the Group uses the market yield of treasury bonds. 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 Share based payments

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

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

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

2.13 Revenue and expense recognition

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

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

The revenues from one-off licences are recognised in compliance with relevant contractual provisions. 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.

2.14 Leases

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

2.15 Investment incentives and subsidies

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

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

2.16 Related parties

Related parties are parties that the Group has the ability to control or to exercise significant influence over them, parties under common control, or parties that have the ability to control or exercise significant influence over the Group and other parties as defined by paragraph 9 of IAS 24.

2.17 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. Share premium is recognised within equity.

2.18 Critical accounting estimates and assumptions

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

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 is 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 and 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.

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 process 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 minimize these risks through application of flexible hedging strategy with utilisation of various instruments. In compliance with the Volkswagen Group policy all hedging operations are reconciled and implemented in cooperation with the Treasury department of Volkswagen Group.

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

In 2010, the global economy slowly began to recover from the global financial crisis that had dominated in 2009. This fact was also reflected in the Group's sales and financial results that showed substantial growth compared to 2009.

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 to the financial markets (money market, currency conversion, derivatives transactions, etc.).

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

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

Active administration and management of receivables is incorporated into the credit risk management process. In respect of the trade receivables security strategy, trade receivables are divided into receivables from domestic customers, foreign customers 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 incorportated in the written contracts as an obligatory security instrument. Trade receivables other than receivables from companies within the Volkswagen Group 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, 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-risky receivables: acknowledgements of debt, payment schedules, bills of exchange, pledges, or executory note.

Loans to employees are secured by other employee guarantee.

During the accounting period 2010 (2009) the Group did not accept any pledges to secure loans.

3.1.1 Maximum exposure to credit risk (CZK million)

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

	Carrying amount as at 31 December 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 Volkswagen Group companies	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**

	Carrying amount as at 31 December 2009			
	Non-impaired financial assets not yet due	**Non-impaired financial assets past due**	**Impaired financial assets**	**Total**
Loans to employees	365	–	–	365
Loans to and deposits in Volkswagen Group companies	13,562	–	–	13,562
Positive fair value of financial derivatives	2,105	–	–	2,105
Others	78	–	1	79
Trade receivables	5,962	2,253	270	8,485
Cash	21,247	–	–	21,247
Total	**43,319**	**2,253**	**271**	**45,843**

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 2010 (2009), 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 also deposited free cash through the ultimate parent of the Volkswagen Group and upon transition to the common Global Treasury Platform (GTP) free cash was deposited through Volkswagen Group Services (VGS) in external banks or other entities within the Volkswagen Group. The total volume of short-term deposits with intra-group companies amounted to CZK 40,473 million as at 31 December 2010, out of which over night deposits arising from cash-pooling accounted for CZK 4,795 million (as at 31 December 2009 short-term deposits amounted to CZK 10,016 million and short-term loans CZK 3,546 million).

In 2010 (2009) the Group did not consider it probable that a default could occur in connection to the loans provided and free cash deposited. Possible risk of unpaid receivables from third parties was individually not significant (spread between various debtors and regions).

3.1.3 Solvency of financial assets 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 from 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 and receivables from dealers with a schedule of payments).

CREDIT QUALITY OF FINANCIAL ASSETS NEITHER PAST DUE NOR IMPAIRED (CZK MILLION)

	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**

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2009			
Loans to employees	365	–	365
Loans to and deposits in Volkswagen Group companies	13,562	–	13,562
Positive fair value of financial derivatives	2,105	–	2,105
Other receivables and financial assets	78	–	78
Trade receivables	4,974	988	5,962
Cash	21,247	–	21,247
Total	**42,331**	**988**	**43,319**

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 2010	**776**	**470**	**122**	**1,368**
Balance as at 31 December 2009	1,023	465	765	2,253

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 2009 (CZK 1,647 milion), only CZK 22 million were still not paid as at 31 December 2010.

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:

	2010	2009
Other receivables and financial assets		
Gross balance as at 31 December	156	162
Valuation allowance		
Balance as at 1 January	(161)	(291)
Additions	–	(21)
Utilised	–	125
Released	5	26
Balance as at 31 December	**(156)**	**(161)**
Net balance as at 31 December	–	1
Trade receivables		
Gross balance as at 31 December	495	741
Valuation allowance		
Balance as at 1 January	(471)	(362)
Additions	(100)	(183)
Utilised	55	58
Released	133	16
Balance as at 31 December	**(383)**	**(471)**
Net balance as at 31 December	112	270

During the accounting period 2010 (2009) the Group had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2010 (2009) the Group had valuation allowances only on financial assets included in 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

As at 11 October 2010, the Group was integrated into the "Global Treasury Platform" of Volkswagen Group (GTP) that is operated by Volkswagen Group Services (VGS) located in Brussels. The GTP objective is to ensure centralisation and optimalisation of processes 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 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 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 2010 was CZK 11,853 million (as at 31 December 2009: CZK 19,517 million) out of which CZK 10,618 million was withdrawn in Czech crowns and CZK 1,235 million was withdrawn in foreign currency (INR 2,030 million, PLN 20 million and EUR 10 million). The Group has not utilised any agreed bank credit lines as at 31 December 2010 (as at 31 December 2009: CZK 0 million).

During the year 2009 a credit line has been obtained from the Volkswagen Group in the total amount of CZK 3,000 million. As at 31 December 2010 the whole amount of the credit line was drawn.

CONTRACTUAL MATURITY ANALYSIS (UNDISCOUNTED AMOUNTS IN CZK MILLION)

	Less than 3 months	3–12 months	1–5 years	Longer than 5 years	Unspecified*	Total
Balance as at 31 December 2010						
Cash	10,324	–	–	–	–	10,324
Other receivables and financial assets (except derivatives)	25,808	10,195	319	79	–	36,401
Trade receivables	7,179	2,368	–	–	1,481	11,028
Financial liabilities	(138)	(121)	(3,414)	–	–	(3,673)
Trade payables	(21,492)	(2,983)	–	–	(2,954)	(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	**21,727**	**9,844**	**(3,389)**	**79**	**(1,473)**	**26,788**

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

	Less than 3 months	3-12 months	1-5 years	Longer than 5 years	Unspecified*	Total
Balance as at 31 December 2009						
Cash	21,262	–	–	–	–	21,262
Other receivables and financial assets (except derivatives)	13,666	85	280	68	2	14,101
Trade receivables	4,215	1,747	–	–	2,523	8,485
Financial liabilities	(138)	(2,046)	(3,552)	–	–	(5,736)
Trade payables	(15,670)	(2,763)	–	–	(2,240)	(20,673)
Derivatives with positive fair value						
Currency forwards and swaps						
Inflow of financial resources	4,645	14,134	11,126	–	–	29,905
Outflow of financial resources	(4,355)	(13,227)	(10,381)	–	–	(27,963)
Commodity swaps	14	40	155	–	–	209
Derivatives with negative fair value						
Currency forwards and swaps						
Inflow of financial resources	2,924	8,220	6,152	–	–	17,296
Outflow of financial resources	(3,112)	(8,648)	(6,373)	–	–	(18,133)
Interest swaps	–	(36)	–	–	–	(36)
Total	**23,451**	**(2,494)**	**(2,593)**	**68**	**285**	**18,717**

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

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. The basic parameters of the hedging policy are defined by the hedging directive valid for the entire Volkswagen Group, which includes also the list of permitted hedging instruments. Hedging contracts are concluded in the name of the individual Group companies by the Treasury Department of the Volkswagen Group. The most important trading currencies are USD, EUR, GBP and CHF. In addition to these currencies, currencies of the other European and non-European markets are hedged.The Group applies hedge accounting for currency risk.

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

3.3.2 Interest rate risk

Interest rate risk is a risk that the fair value of future cash flows of a financial 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 short-term loans provided to Volkswagen Group companies and 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 2010 (2009), 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 2010 (2009) 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 2010		Balance as at 31 December 2009		Balance as at 31 December 2010		Balance as at 31 December 2009	
	With positive fair value	With negative fair value	With positive fair value	With negative fair value	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps – cash flow hedging	–	–	–	2,000	–	–	–	38
Currency instruments								
Currency forwards and swaps – cash flow hedging	63,608	49,419	29,289	17,338	2,123	2,231	1,908	822
Currency swaps – cash flow hedging	1,709	2,076	–	–	94	113	–	–
Commodity swaps – cash flow hedging	1,475	–	771	–	359	–	197	–
Total	**66,792**	**51,495**	**30,060**	**19,338**	**2,576**	**2,344**	**2,105**	**860**

The fixed interest rates for interest rate swaps fluctuated between 4.06% and 4.10% as at 31 December 2009.

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 traded on financial markets directly).

VOLUME OF HEDGED CASH FLOWS (CZK MILLION)

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**

Balance as at 31 December 2009	Volume of hedged cash flows Within 1 year	1–5 years	Total
Interest risk exposure			
Hedging of future cash flows – liabilities	(46)	–	(46)
Currency risk exposure			
Hedging of future cash flows – future receivables	21,053	15,388	36,441
Hedging of future cash flows – future liabilities	(8,720)	(841)	(9,561)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows – future liabilities	(129)	(558)	(687)
Total	**12,158**	**13,989**	**26,147**

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 2010 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 2009 the Group considered the movements of exchange rates of selected currencies (mainly USD and CHF) against CZK in the following period +20% (appreciation of CZK) and -20% (depreciation of CZK) as possible. In 2009 the Group considered the movements of exchange rates of other currencies 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 table presents possible impact on profit and loss and on equity before tax of expected possible appreciation or depreciation of CZK to foreign currencies:

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)

2009 (CZK million)	CZK appreciation by 20%			CZK appreciation by 10%			
	USD	CHF	Other currencies	EUR	GBP	Other currencies	Total
Income statement							
Non-derivative financial instruments	(183)	(8)	19	778	9	(210)	405
Derivative financial instruments	(20)	(7)	(21)	7	(13)	(22)	(76)
Equity							
Derivative financial instruments	2,115	865	888	(909)	872	718	4,549

2009 (CZK million)	CZK depreciation by 20%			CZK depreciation by 10%			
	USD	CHF	Other currencies	EUR	GBP	Other currencies	Total
Income statement							
Non-derivative financial instruments	183	8	(19)	(778)	(9)	210	(405)
Derivative financial instruments	20	7	21	(7)	13	22	76
Equity							
Derivative financial instruments	(2,115)	(865)	(888)	909	(872)	(718)	(4,549)

3.4.2 Sensitivity to interest rates

The Group is exposed to interest risk mainly in relation to short-term loans provided to Volkswagen Group companies and short term deposits. In 2009, the Group was also exposed to interest risk due to the existence of financial liabilities arising from issued bonds with floating interest rate. Cash flow interest rate risk on the issued bonds was mitigated by interest rate swaps. (As at 26 October 2010, all financial liabilities arising from issued bonds were settled).

The analysis of sensitivity to changes in interest rates was based on exposure to derivative financial assets and liabilities as at the balance sheet date, as well as to non-derivative financial assets and liabilities. In 2010 the Group assumes possible movements of the yield curve in the following period for loans and bank deposits by +100/-25 of basis points. In 2009, the Group assumed for bonds and interest rate swaps possible movements of the yield curve in the following period by +/-100 of basis points.The Group is most sensitive to movements of the CZK yield curve. In the case of derivative financial instruments, the Group measures the impact on the change in fair value of these derivatives that results from the change in the yield curve. For 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 table presents possible impact on profit and loss and on equity before tax of expected increase (+100 basis points) or decrease (-25 basis points) of interest rates:

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)
Equity		
Derivative financial instruments	(7)	2

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

2009 (CZK million)	Interest rate increased by 100 basis points*	Interest rate decreased by 100/15 basis points*
Income statement		
Non-derivative financial instruments	278	(27)
Derivative financial instruments	16	(16)
Total	**294**	**(43)**
Equity		
Derivative financial instruments	10	10

* Due to low interest rates from loans and banks deposits their sensitivity was calculated using the increase of interest rates by 100 basis points and decrease by 15 basis points instead of 100 basis points used for other financial instruments.

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 2010, the Group assumes potential movements in aluminium prices in the following period of +/-10%. In 2010, 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 table represents a possible impact on equity before tax of expected increase or decrease of copper prices and aluminium prices in 2010:

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)
Total	**130**	**(130)**	**110**	**(110)**

The following table represents a possible impact on equity before tax of expected increase or decrease of aluminium prices in 2009:

2009 (CZK million)	Increase of aluminium prices +10%	Decrease of aluminium prices (10)%
Equity		
Derivative financial instruments	80	(80)
Total	**80**	**(80)**

The possible impact on profit and loss was assessed by the Group as immaterial.

3.5 Capital risk management

The optimal capitalization 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	2010	2009
Equity	**74,772**	**68,180**
Equity ratio	55.1%	57.6%
Non-current financial liabilities	3,000	3,000
Current financial liabilities	228	2,214
Total financial liabilities	**3,228**	**5,214**
Ratio of financial liabilities to total liabilities	2.4%	4.4%
Total equity and liabilities	**135,736**	**118,376**

4. Geographical information

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

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 and Central and Eastern Europe there is no individual country which would have more than 10% share on total sales.

	Czech Republic	Germany	Western Europe – other	Central and Eastern Europe	Unallocated	Total
2010 (CZK million)						
Sales – based on location of customers	21,966	54,251	75,446	40,377	27,965	220,005
Non-current assets*	54,894	172	–	117	811	55,994

	Czech Republic	Germany	Western Europe – other	Central and Eastern Europe	Unallocated	Total
2009 (CZK million)						
Sales – based on location of customers	21,359	63,504	54,909	32,424	15,662	187,858
Non-current assets*	55,508	201	–	533	1,212	57,454

* 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 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 and impairment losses*	–	(3,658)	–	(1,281)	(4,939)
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**

	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 2009	**80**	**18,686**	**3,448**	**4,106**	**26,320**
Additions	–	682	811	1,141	2,634
Disposals	–	–	–	(48)	(48)
Transfers	–	3,121	(3,121)	–	–
Foreign exchange differences	(1)	–	–	(2)	(3)
Balance as at 31 December 2009	**79**	**22,489**	**1,138**	**5,197**	**28,903**
Cumulative amortisation and impairment losses					
Balance as at 1 January 2009	**–**	**(9,671)**	**–**	**(2,737)**	**(12,408)**
Amortisation and impairment losses*	–	(2,899)	–	(561)	(3,460)
Disposals and transfers	–	–	–	42	42
Foreign exchange differences	–	–	–	4	4
Balance as at 31 December 2009	**–**	**(12,570)**	**–**	**(3,252)**	**(15,822)**
Carrying amount as at 31 December 2009	**79**	**9,919**	**1,138**	**1,945**	**13,081**

* Amount of impairment losses is disclosed in the section Impairment reviews below.

Other intangible assets include mainly tooling rights, software and software licences.

Amortisation and impairment losses of intangible assets of CZK 4,780 million (2009: CZK 3,306 million) are included in the cost of sales, CZK 21 million (CZK 2009:14 million) in distribution expenses, and CZK 138 million (2009: CZK 140 million) in administrative expenses.

Impairment reviews

Goodwill is allocated to ŠkodaAuto Deutschland GmbH as the cash-generating unit for the purpose of impairment testing. The recoverable amount of a cash-generating unit is calculated based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management and covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate that does not exceed the long-term average growth rate for automotive industry. The expected growth rate for the impairment test in 2010 was 1% (2009: 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 2010, the discount rate of 9.8 % (2009: 9.8 %) 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 Skoda 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 2010 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 6.4% has been applied in 2010 (2009: 9.1%), reflecting the specific risks associated with the sector in which the Group operates. 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 1,398 million (2009: CZK 421 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2010 (31 December 2009). In Note 5 Intangible assets, the amount of CZK 726 million (2009: CZK 421 million) is included in the category Capitalised developement costs for products and the amount of CZK 672 million (2009: CZK 0 million) is included in the category Other intangible assets both in the line Amortisation and impairment losses.

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2010, the Group applied the capitalisation rate of 3.8% (2009: 4.6%). No borrowing costs have been capitalised in the cost of intangible assets in 2010 (2009) as not material.

THE FOLLOWING AMOUNTS WERE RECOGNISED IN THE INCOME STATEMENT AS RESEARCH AND DEVELOPMENT EXPENSES (CZK MILLION)

	2010	2009
Research and non-capitalised development costs	4,564	4,240
Amortisation and impairment losses of development costs	3,658	2,899
Research and development costs recognised in the income statement	**8,222**	**7,139**

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 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)**
Depreciation and impairment losses*	(1,454)	(3,962)	(4,465)	–	(9,881)
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**

	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 2009	**28,149**	**57,121**	**41,385**	**6,371**	**133,026**
Additions	431	2,506	3,164	2,984	9,085
Disposals	–	(542)	(1,350)	(6)	(1,898)
Transfers	1,260	2,103	2,446	(5,809)	–
Foreign exchange differences	(4)	(2)	(12)	6	(12)
Balance as at 31 December 2009	**29,836**	**61,186**	**45,633**	**3,546**	**140,201**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2009	**(9,530)**	**(47,153)**	**(32,795)**	**–**	**(89,478)**
Depreciation and impairment losses*	(1,097)	(3,414)	(4,195)	–	(8,706)
Disposals and transfers	–	542	1,308	–	1,850
Foreign exchange differences	–	(2)	6	–	4
Balance as at 31 December 2009	**(10,627)**	**(50,027)**	**(35,676)**	**–**	**(96,330)**
Carrying amount as at 31 December 2009	**19,209**	**11,159**	**9,957**	**3,546**	**43,871**

* Amount of impairment losses is disclosed in the section Impairment reviews below.

Depreciation and impairment losses of the buildings and equipment of CZK 9,275 million (2009: CZK 8,094 million) are included in the cost of sales, CZK 155 million (2009: CZK 198 million) in distribution expenses, and CZK 451 million (2009: CZK 414 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 Skoda 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 2010 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 6.4% or 7.1% in 2010 (2009: 9.1%) depending on characteristics of individual cash-generating units. The discount rates reflect the specific risks associated with the sector in which the Group operates. 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 1,451 million (2009: CZK 308 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2010 (31 December 2010). In Note 6 Property, plant and equipment the amount of CZK 358 million (2009: CZK 0 million) is included in the category Land and buildings, CZK 544 million (CZK 0 million) in the category Technical equipment and machinery, and CZK 549 million (2009: CZK 308 million) in the category Tooling, office and other equipment, all in the line Depreciation and impairment losses.

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2010, the Group applied the capitalisation rate of 3.8% (2009: 4.6%). No borrowing costs have been capitalised in the cost of property, plant and equipment in 2010 and in 2009 as not material.

7. Investment in associates (CZK million)

	2010	2009
Total Assets	45,480	36,295
Total Liabilities	43,728	33,493
Total Revenue	74,165	45,752
Loss (aggregated)	1,743	2,776

The table above summarises financial data of the associates OOO VOLKSWAGEN Group Rus and ŠKO-ENERGO FIN, s.r.o. in 2010, figures for 2009 include financial data of OOO VOLKSWAGEN Group Rus only.

The Company's share in the registered capital of the company OOO VOLKSWAGEN Group Rus as at 31 December 2010 was 16.8% (31 December 2009: 16.8%).The Company's share of profits or losses of this associate as at 31 December 2010 was 17.91% (31 December 2009: 17.91%). The Company excercises 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 result ŠKO-ENERGO FIN s.r.o. became the Company's associate. The value of the Company's share increased by CZK 526 million and as at 31 December 2010 totalled CZK 529 million (as at 31 December 2009: CZK 3 million). ŠKO-ENERGO FIN paid dividends to the Company in the amount of CZK 71 million (2009: CZK 18 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 global economic crisis and development of the automotive industry and its 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. For determination of the value in use of the financial investment in 2010 (2009), estimated growth rate of 1% has been applied. 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 2010, discount rate of 9.3% (2009: 11%) 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 2010 (31 December 2009).

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

Balance as at 31 December 2010	Financial assets at fair value through profit and 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	–	35,678	–	–	–	35,678
Positive fair value of financial derivatives	(191)	–	–	2,767	–	2,576
Tax receivables (excl. income tax)	–	–	–	–	3,395	3,395
Others	–	117	–	–	309	426
Total	**(191)**	**36,286**	**–**	**2,767**	**3,704**	**42,566**
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.

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 2010, the forward component was negative.

Balance as at 31 December 2009	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	–	365	–	–	–	365
Deposits in companies within Volkswagen Group excl. associates	–	13,022	–	–	–	13,022
Loans to associates	–	540	–	–	–	540
Positive fair value of financial derivatives	88	–	–	2,017	–	2,105
Available for sale financial assets	–	–	6	–	–	6
Tax receivables (excl. income tax)	–	–	–	–	2,245	2,245
Others	–	79	–	–	155	234
Total	**88**	**14,006**	**6**	**2,017**	**2,400**	**18,517**
Trade receivables						
Third parties	–	3,512	–	–	–	3,512
Related parties	–	4,973	–	–	–	4,973
Total	**–**	**8,485**	**–**	**–**	**–**	**8,485**

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

The carrying amount of loans to employees approximates fair value.

The carrying amount net of impairment for each class of financial assets which are not carried at fair value approximates fair value.

The item Deposits in companies within Volkswagen Group comprises deposits in the amount of CZK 25 662 million with original maturity less than three months, that are included in cash equivalents (Note 16). The items Deposits in companies within Volkswagen Group excl. associates and Loans to associates were included within cash equivalents as at 31 December 2009.

The weighted average effective interest rate based on the carrying amount of deposits and loans provided to Volkswagen Group companies as of 31 December 2010 was 1.23% (31 December 2009: 1.48%). Out of the total amount of deposits and loans provided to Volkswagen Group companies of CZK 35,678 million there were loans denominated in CZK in the amount of CZK 34,378 million (31 December 2009: CZK 13,562 million) and loans denominated in INR in the amount of CZK 1,300 million (31 December 2009: CZK 0 million).

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 383 million (2009: CZK 471 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 2010	Carrying value as at 31 December 2009
Structure of the inventories		
Raw materials, consumables and supplies	4,285	3,539
Work in progress	1,738	1,959
Finished products and goods	8,385	6,177
Total	**14,408**	**11,675**

The amount of inventories recognised as an expense during 2010 was CZK 184,858 million (2009: CZK 161,092 million).

10. Cash (CZK million)

	2010	2009
Cash in hand	3	5
Cash pooling	4,795	0
Bank accounts	5,526	21,242
Total	**10,324**	**21,247**

The weighted average effective interest rate based on the carrying amount of bank accounts and short-term deposits as at 31 December 2010 was 0.20% (as at 31 December 2009: 1.04%).

11. 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 Group's share capital during the accounting period 2010 (2009: no movement).

In 2010 the Company paid a dividend of CZK 1,634 million (2009: CZK 5,352 million). In 2010 the dividend per share was CZK 978 (2009: CZK 3,203).

12. Reserves (CZK million)

	2010	2009
Currency translation reserve	(414)	(375)
Reserves for cash flow hedges*	377	922
Retained earnings	52,968	45,993
Subtotal reserves representing capital maintenance	**52,931**	**46,540**
Statutory reserve fund	3,366	3,194
Funds contributed by owner	10	10
Total	**56,307**	**49,744**

* Net of deferred tax from financial derivatives.

Movement in reserve for cash flow hedges:

Balance as at 1 January 2010	**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**

Balance as at 1 January 2009	**2,394**
Total change in fair value in the period	599
Deferred tax on change in fair value	(130)
Total transfers to net profit in the period – effective hedging	(2,304)
Total transfers to net profit in the period – ineffective hedging	(72)
Deferred tax on transfers to net profit	435
Balance as at 31 December 2009	**922**

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

In compliance with the relevant regulations of the commercial code, the unconsolidated profit of the Company for the year 2010 (determined in accordance with IFRS) is going to be appropriated based on the decision of the Company's annual general meeting.

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

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

Balance as at 31 December 2010	Financial liabilities at fair value through profit and 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.

Balance as at 31 December 2009	Financial liabilities at fair value through profit and loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Bonds	–	2,008	–	–	2,008
Loans	–	3,206	–	–	3,206
Total	**–**	**5,214**	**–**	**–**	**5,214**
Other liabilities					
Negative fair value of financial derivatives	(17)	–	877	–	860
Other tax liabilities (excl. income tax)	–	335	–	1,913	2,248
Liabilities to employees	–	–	–	1,520	1,520
Social security	–	–	–	325	325
Others	–	–	–	147	147
Total	**(17)**	**335**	**877**	**3,905**	**5,100**
Trade liabilities to					
Third parties	–	13,372	–	437	13,809
Related parties	–	7,301	–	109	7,410
Total	**–**	**20,673**	**–**	**546**	**21,219**

* 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). As the spot component exceeded the fair value as at 31 December 2009, the forward component is negative.

The line "Trade liabilities to related parties" includes liabilities to a factoring company within the Volkswagen Group of CZK 2,563 million as at 31 December 2010 (2009: 1,582 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.

As at 26 October 2010, the last third tranche of the bonds was settled at nominal value of CZK 2,000 million.

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

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

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

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

Carrying amount as at 31 December 2010

					Maturity			
Currency	**Interest terms**	**Interest commitment ending**	**Weighted average effective interest rate based on nominal amount**	**Nominal amount**	**< 1 year**	**1–5 years**	**> 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**

Carrying amount as at 31 December 2009

					Maturity			
Currency	**Interest terms**	**Interest commitment ending**	**Weighted average effective interest rate based on nominal amount**	**Nominal amount**	**< 1 year**	**1–5 years**	**> 5 years**	**Total**
CZK	floating	< 1 year	2.35%	2,000	2,008	–	–	2,008
CZK	fixed	1–5 years	4.53%	3,000	107	3,000	–	3,107
EUR	floating	< 1 year	–	99	99	–	–	99
Total financial liabilities				**5,099**	**2,214**	**3,000**	**–**	**5,214**

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 2010 the Group recognised on the balance sheet deferred tax asset of CZK 1,327 million (as at 31 December 2009: CZK 421 million) and deferred tax liability CZK 0 million (as at 31 December 2009: CZK 775 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 2009	**(3,422)**	**(532)**	**-**	**-**	**-**	**(3,954)**
Credited/(debited) to the income statement	248	–	–	–	–	248
Charged to other comprehensive income	–	305	–	–	–	305
Balance as at 31 December 2009	**(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)**

	Depreciation	Financial derivatives	Provisions	Consolidation differences	Other	Total
Deferred tax assets						
Balance as at 1 January 2009	**-**	**-**	**1,991**	**103**	**539**	**2,633**
Credited/(debited) to the income statement	–	–	488	(57)	(19)	412
Exchange differences	–	–	19	–	(17)	2
Balance as at 31 December 2009	**-**	**-**	**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**

Further the Group did not recognised deferred tax asset (from tax losses) in the amount of CZK 87 million. As at 31 December 2009, the unrecognised deferred tax asset was CZK 504 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 process risks	Other provisions	Total
Balance as at 1 January 2009	**9,464**	**1,195**	**1,038**	**356**	**354**	**299**	**12,706**
Utilised	(3,107)	(975)	(257)	–	(5)	(229)	(4,573)
Additions	4,368	3,004	526	324	842	391	9,455
Interest expense (+)/ income (-)	(37)	–	–	78	–	–	41
Reversals	(378)	(99)	(1)	–	(8)	(72)	(558)
Foreign exchange differences	(26)	(33)	–	(2)	–	2	(59)
Balance as at 1 January 2010	**10,284**	**3,092**	**1,306**	**756**	**1,183**	**391**	**17,012**
Utilised	(3,369)	(2,435)	(467)	–	(1)	(243)	(6,515)
Additions	4,599	3,099	804	323	413	2,027	11,265
Interest expense (+)/ income (-)	75	–	–	(42)	–	–	33
Reversals	(542)	(518)	(22)	(94)	(2)	(103)	(1,281)
Foreign exchange differences	(97)	(110)	(3)	(33)	–	17	(226)
Balance as at 31 December 2010	**10,950**	**3,128**	**1,618**	**910**	**1,593**	**2,089**	**20,288**

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

	< 1 year	> 1 year	Total
Balance as at 31 December 2010			
Provisions for warranty claims	3,797	7,153	10,950
Provisions for other obligations arising from sales	3,128	–	3,128
Provisions for personnel costs	696	922	1,618
Provisions for the disposal of end-of-life vehicles	9	901	910
Provisions for process risks	1,593	–	1,593
Other provisions	1,965	124	2,089
Total	**11,188**	**9,100**	**20,288**

	< 1 year	> 1 year	Total
Balance as at 31 December 2009			
Provisions for warranty claims	3,452	6,832	10,284
Provisions for other obligations arising from sales	3,092	–	3,092
Provisions for personnel costs	563	743	1,306
Provisions for the disposal of end-of-life vehicles	–	756	756
Provisions for process risks	1,183	–	1,183
Other provisions	365	26	391
Total	**8,655**	**8,357**	**17,012**

The provision for warranty repairs includes provision for basic guarantee (2 years), provision for corrosion guarantee (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 and severance payments.

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 process 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.

Other provisions include mainly provision for retrospective changes in purchase prices, provision for onerous contracts and provision for tax risks.

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 reported in the balance sheet, short-term loans to and deposits in Volkswagen Group companies (Note 8) with original maturity of less than three months. Cash flows are presented in the cash flow statement and are classified into cash flows from operating activities, investing activities and financing activities.

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

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

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

CASH AND CASH EQUIVALENTS (CZK MILION)

	31. 12. 2010	31. 12. 2009
Cash	10,324	21,247
Cash equivalents	25,662	13,562
Total	**35,986**	**34,809**

The line Cash includes also overnight deposits from the use of cash-pooling (Note 3.2). As at 31 December 2010, the value of these deposits amounted to CZK 4,795 million (as at 31 December 2009: CZK 0 million).

17. Sales (CZK million)

	2010	2009
Cars	185,112	160,852
Spare parts and accessories	17,335	15,201
Supplies of components within Volkswagen Group	13,659	8,627
Revenue from license fees	702	861
Services	150	45
Other	3,047	2,272
Total	**220,005**	**187,858**

18. Other operating income (CZK million)

	2010	2009
Foreign exchange gains	2,753	2,782
Income from derivative transactions, from which:	1,171	3,464
Total transfer to Income Statement for the period – effective hedging	1,095	3,290
Gains on non-current assets disposal and release of impairment losses	1	56
Reversal of receivables' impairment losses	138	42
Services	497	273
Other	1,612	1,325
Total	**6,172**	**7,942**

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 the monetary receivables and payables. Foreign exchange losses from these items are included in the other operating expenses.

Line Other includes also income from information systems and technology services. In 2010, this income amounted to CZK 160 million (2009: CZK 108 milion).

19. Other operating expenses (CZK million)

	2010	2009
Foreign exchange losses	1,998	2,821
Losses from derivative transactions, from which:	1,336	1,058
Total transfer to Income Statement for the period - effective hedging	1,224	939
Receivables write-offs	7	13
Other	2,654	1,709
Total	**5,995**	**5,601**

Line Other includes among others also expenses for additions to some of the other provisions in total amount of CZK 1,251 million (2009: CZK 816 million). The other provisions are described in Note 15.

20. Financial result (CZK million)

	2010	2009
Interest income	537	613
Foreign exchange gains from cash	82	304
Foreign exchange gains from spot operations	208	166
Other financial income, thereof:	285	259
Total transfers to net profit in the period - ineffective hedging	61	183
Forward component of derivatives fair value	131	99
Financial income total	**1,112**	**1,342**
Interest expenses, thereof:	577	562
Total transfers to net profit in the period - effective hedging	59	47
Foreign exchange losses from cash	293	677
Foreign exchange losses from spot operations	158	255
Other financial expenses, thereof:	466	515
Total transfers to net profit in the period - ineffective hedging	–	111
Forward component of derivatives fair value	442	6
Financial expenses total	**1,494**	**2,009**
Net financial result	**(382)**	**(667)**

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

	2010	2009
Financial instruments at fair value through profit or loss – held for trading	(262)	(101)
Loans and receivables	185	(212)
Available for sale financial assets	–	19
Financial liabilities carried at amortised costs	554	(192)
Financial instruments designated as hedging instruments	(188)	2,304
Net gains total	**289**	**1,818**

The line Financial instruments at fair value through profit and loss represents net gain on financial derivatives on which hedge accounting could not be applied and a forward component of forward contracts.

Other items contain mainly unrealised and realised foreign exchange gains and losses on trade receivables and liabilities, from hedging instruments, interest expense incurred on issued bonds, interest income from loans 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)

	2010	2009
Current tax expense – domestic	2,792	1,487
Current tax expense – foreign	519	413
Current tax expense – total	**3,311**	**1,900**
Deferred tax income – domestic	(1,089)	(488)
Deferred tax income – foreign	(475)	(172)
Deferred tax income – total	**(1,564)**	**(660)**
Income tax total	**1,747**	**1,240**

Statutory income tax rate in the Czech Republic for the 2010 assessment period was 19% (2009: 20%). The movement in the statutory income tax rate is attributable to tax changes in the Czech Republic.

As at 31 December 2010 and 31 December 2009, 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 33.22%.

RECONCILIATION OF EXPECTED TO EFFECTIVE INCOME TAX EXPENSES (CZK MILLION)

	2010	2009
Profit before income tax	10,586	4,702
Expected income tax expense	**2,011**	**941**
Effect of different tax rates outside the Czech Republic	204	182
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(189)	(60)
Expenses not deductible for tax purposes	193	336
Other permanent differences	–	–
Tax allowances and other tax credits	(318)	(391)
Prior-period current tax expense	(151)	86
Effect of tax rate changes	–	6
Investment tax credits	(50)	62
Other taxation effects	47	78
Effective income tax expense	**1,747**	**1,240**
Effective income tax rate	17%	26%

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

23. Investment incentives

In 2010 the Company received a grant for the support of the projects performed by the Development and Technology Centre of CZK 42 million (2009: CZK 28 million) and a grant for the support of private schools of CZK 50 million (2009: CZK 50 million).

In 2009, the Company was provided a promise of the grant from the European Regional Development Fund by the Ministry of Industry and Trade of 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 Centre" in the amount of CZK 67 million. Both projects are in the execution phase. However, the grant was not paid out in 2010 (The grant will be paid out retrospectively on completion of the individual execution phases).

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 the 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. In 2010 (2009) the project was realised and the Company expects utilisation of the tax credit of CZK 447 million in future periods.

In accordance with the Act No. 72/2000 Coll., on Investment Incentives as amended based on resolution dated on 31 December 2007 the Company was granted an investment incentive for its project of engine 1.2 TSI production in the plant in Mladá Boleslav in form of tax credit. In 2010 the resolution for the 1.2 TSI engine production incentive was cancelled and no incentive was utilised. 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. The Company expects to comply with all provisions necessary to receive the investment incentives.

In 2010, 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 1,319 million (2009: CZK 335 million).

24. Contingent liabilities

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

The 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 (CZK million)

Future commitments as at the balance sheet date are as follows:

	Payable until year 2011	Payable 2012–2015	31. 12. 2010
Investment commitments – property, plant and equipment	1,729	1,236	2,965
Investment commitments – intangible assets	2,510	2,174	4,684
Operating leasing instalments	170	43	213
Other future commitments	100	75	175

	Payable until year 2010	Payable 2011–2014	31. 12. 2009
Investment commitments – property, plant and equipment	1,339	147	1,486
Investment commitments – intangible assets	16	–	16
Operating leasing instalments	154	45	199
Other future commitments	229	243	472

On the basis of non-cancellable operating lease agreements, the Group is allowed to rent different machine equipment. In the case of termination of these agreements 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.

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

	2010	2009
Material costs – raw materials and other supplies, goods	**148,460**	**129,929**
Production related services	11,721	9,871
Personnel costs	**15,968**	**14,457**
Wages	12,065	11,056
Pension benefit costs (defined contribution plans)	2,226	2,064
Social insurance and other personnel costs	1,677	1,337
Depreciation, amortisation and impairment losses	**14,820**	**12,166**
Other services	**17,897**	**17,852**
Total cost of sales, distribution and administrative expenses	**208,866**	**184,275**
Number of employees		
Number of employees*	26,529	26,836

* 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.

The Group participated in the following transactions with related parties:

SALES TO RELATED PARTIES (CZK MILLION)

	2010	2009
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	5,612	5,269
Associates		
OOO VOLKSWAGEN Group Rus	10,828	6,357
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	1,381	606
VOLKSWAGEN Group United Kingdom Ltd.	11,993	7,944
Groupe VOLKSWAGEN France s.a.	6,221	5,544
VOLKSWAGEN SLOVAKIA, a.s.	613	1,215
Volkswagen Navarra, S.A.	2,805	1,749
Volkswagen Group Sverige AB	4,803	2,324
Import VOLKSWAGEN Group s.r.o.	963	893
Volkswagen do Brasil Ltda.	1,172	1,253
AUDI AG	330	153
SEAT, S.A.	1,166	769
ŠkoFIN s.r.o.	141	173
Volkswagen India Private Ltd.	1,767	206
VOLKSWAGEN Group Italia S.p.A	5,584	4,168
Volkswagen-Audi España S.A.	4,534	4,152
AUDI BRUSSELS S.A.	390	793
Volkswagen Poznan Sp. Zo.o.	158	–
Volkswagen Group Australia Pty. Ltd.	642	411
Raffay GmbH & Co. KG	323	406
Volkswagen de México, S.A. de C.V.,	307	58
Volkswagen of South Africa (Pty.) Ltd.,	1,639	49
Volkswagen Autoeuropa Lda.	162	54
Volkswagen Original Teile Logistik GmbH & Co.	1,231	151
Volkswagen Group Sales India P.L.	4,248	2,139
Volkswagen Group Ireland Ltd.	1,568	314
Volkswagen Automobile Berlin-Tegel GmbH & Co. KG	384	533
Bentley Motors TK	10	27
Volkswagen Automobile Frankfurt GmbH	146	–
Held & Ströhle GmbH & Co. KG	137	–
Other	246	176

SALES TO RELATED PARTIES (CZK MILLION) – CONTINUATION

	2010	2009
Other related parties*		
Intercar Austria GmbH	6,144	5,702
P.Z. Auto d.o.o., Zagreb	785	669
Porsche Hungaria Handels Kft.	1,664	1,249
Porsche Inter Auto CZ spol. s r.o.	1,648	1,362
Porsche InterAuto Slovak. spol	780	821
Porsche Konstruktion GmbH&CoKG	249	242
PORSCHE MACEDONIA DOOEL Skopje	156	167
Porsche Romania s.r.l.	2,141	1,805
Porsche Slovakia spol. s.r.o.	282	303
Porsche Slovenija d.o.o.	792	543
Auto & Service PIA GmbH	1,495	1,334
Shanghai Volkswagen Automotive Co. Ltd.	1,604	672
Other related parties	87	59
Total	**89,331**	**62,815**

* 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. Category Other related parties includes mainly transactions with the companies of the Porsche Automobil Holding SE and Porsche Holding GmbH groups. These transactions are disclosed within related party disclosures based on the fact that some members of Porsche´s and Piëch's families (controlling parties of Porsche Automobil Holding SE and Porsche Holding GmbH) are members of key management of ultimate parent VOLKSWAGEN AG.

The above table Sales to related parties comprises only revenues from sales of vehicles, spare parts and supplies of vehicle components, except for revenues from the following companies which comprise also revenues from royalties:

– Shanghai Volkswagen Automotive Co. Ltd. – 2010: CZK 515 million (2009: CZK 655 million),
– OOO VOLKSWAGEN Group Rus – 2010: CZK 33 million (2009: CZK 6 million).

In addition to revenues specified in the table Sales to related parties, in 2010 (2009) the Group also realised revenues relating to interest from intercompany loans and deposits granted to the following companies within Volkswagen Group:

– VW International Payment Services N.V – 2010: CZK 166 million (2009: CZK 20 million),
– Volkswagen Group Services – 2010: CZK 39 million (2009: CZK 0 million),
– ŠkoFIN s.r.o. – 2010: CZK 35 million (2009: CZK 86 million),
– VOLKSWAGEN AG – 2010: CZK 11 million (2009: CZK 120 million), and
– ŠKO-ENERGO s.r.o. – 2010: CZK 3 million (2009: CZK 9 million).

Dividends received from associates are disclosed in Note 7.

PURCHASES FROM RELATED PARTIES (CZK MILLION)

	2010	2009
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	28,914	21,711
Associates		
OOO VOLKSWAGEN Group Rus	203	104
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	2,898	2,327
Volkswagen Versicherungsvermittlung GmbH	115	146
Volkswagen Versicherungsdienst GmbH	11	43
VOLKSWAGEN Group United Kingdom Ltd.	315	224
Groupe VOLKSWAGEN France s.a.	420	279
VOLKSWAGEN SLOVAKIA, a.s.	2,176	4,395
AUDI AG	2,404	365
Volkswagen Bank GmbH	292	–
Volkswagen Original Teile Logistik GmbH & Co. KG	3,155	2,625
AUDI HUNGARIA MOTOR Kft.	5,127	4,030
Import VOLKSWAGEN Group s.r.o.	104	126
ŠkoFIN s.r.o.	173	178
Volkswagen Group Sverige AB	51	73
SEAT, S.A.	1,144	1,514
VOLKSWAGEN Group Italia S.p.A	662	486
Gearbox del Prat, S.A.	558	344
Volkswagen-Audi Espaňa S.A.	291	466
Volkswagen Poznan PkW (Komponente)	565	289
Volkswagen Zubehör GmbH	131	104
Volkswagen Leasing GmbH	476	287
Volkswagen de México S.A. de C.V.	776	513
Volkswagen (China) Investment Company Ltd.	66	–
ŠKO-ENERGO, s.r.o.	1,908	2,059
Volkswagen Group Services S.A.	4	–
Volkswagen Motor Polska Sp.z o.o.	3,640	3,240
VOLKSWAGEN SARAJEVO, d.o.o.	49	51
Volkswagen Logistics GmbH & Co OHG	1,911	1,405
Volkswagen Argentina S.A.	324	102
Volkswagen India Private Ltd.	2,969	215
Volkswagen Autoeuropa Lda.	20	26
INIS International Insurance Service s.r.o.	40	47
Volkswagen Financial Services AG	35	79
Volkswagen Bank Polska S.A.	–	30
Volkswagen Leasing Polska Sp.z o.o.	–	22

PURCHASES FROM RELATED PARTIES (CZK MILLION) – CONTINUATION

	2010	2009
Volkswagen Group Sales India P.L.	54	2,201
Volkswagen Group Ireland Ltd.	13	51
Volkswagen Group Australia Pty. Ltd.	112	173
VW Procurement Services GmbH	130	22
Italdesign Giugiaro S.p.A.	76	–
Volkswagen Automobile Berlin GmbH	10	–
Other	109	114
Other related parties*		
Intercar Austria GmbH	111	111
P.Z. Auto d.o.o.	16	22
Porsche Hungaria Handels Kft.	36	25
Porsche Inter Auto CZ spol. s r.o.	18	15
Porsche Romania s.r.l.	21	23
Porsche Slovenija d.o.o.	24	12
Auto & Service PIA GmbH	50	24
e4t electronics for transportation s.r.o.	95	78
SAIC-Volkswagen Sales Company Ltd.	12	178
Other related parties	27	9
Total	**62,841**	**50,975**

* 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. Category Other related parties includes mainly transactions with the companies of the Porsche Automobil Holding SE and Porsche Holding GmbH groups. These transactions are disclosed within related party disclosures based on the fact that some members of Porsche´s and Piëch's families (controlling parties of Porsche Automobil Holding SE and Porsche Holding GmbH) are members of key management of ultimate parent VOLKSWAGEN AG.

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. 12. 2010	31. 12. 2009
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	352	216
Associates		
OOO VOLKSWAGEN Group Rus	2,667	2,057
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	90	33
VOLKSWAGEN Group United Kingdom Ltd.	20	73
Groupe VOLKSWAGEN France s.a.	22	31
VOLKSWAGEN SLOVAKIA, a.s.	8	142

RECEIVABLES FROM RELATED PARTIES (CZK MILLION) – CONTINUATION

	31. 12. 2010	31. 12. 2009
Volkswagen Navarra, S.A.	176	126
Volkswagen Group Sverige AB	63	4
Volkswagen do Brasil Ltda.	173	295
Import VOLKSWAGEN Group s.r.o.	77	77
Volkswagen Group Ireland Ltd.	4	11
Volkswagen-Audi Espaňa S.A.	32	4
ŠkoFIN s.r.o.	123	129
AUDI AG	24	78
AUDI HUNGARIA MOTOR Kft.	11	6
SEAT, S.A.	183	83
VOLKSWAGEN Group Italia S.p.A	42	23
SKO-ENERGO s.r.o.	14	15
Volkswagen Original Teile Logistik GmbH & Co. KG	137	69
Volkswagen Group Australia Pty. Ltd.	126	65
Volkswagen Leasing GmbH	133	42
AUDI BRUSSELS S.A.	96	4
Volkswagen Poznan Sp.z.o.o.	33	–
Volkswagen India Private Ltd.	576	521
Volkswagen de México, S.A. de C.V.,	60	59
Volkswagen of South Africa (Pty.) Ltd.,	188	50
Volkswagen Autoeuropa Lda.	23	55
Volkswagen Group Sales India P.L.	938	200
Other	48	42
Other related parties*		
Porsche Hungaria Handels Kft.	4	11
Porsche InterAuto Slovak. spol	8	12
Intercar Austria GmbH	–	64
Shanghai Volkswagen Automotive Co. Ltd.	691	351
Other related parties	23	25
Total	**7,165**	**4,973**

* 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. Category Other related parties includes mainly transactions with the companies of the Porsche Automobil Holding SE and Porsche Holding GmbH groups. These transactions are disclosed within related party disclosures based on the fact that some members of Porsche's and Piëch's families (controlling parties of Porsche Automobil Holding SE and Porsche Holding GmbH) are members of key management of ultimate parent VOLKSWAGEN AG.

The above table Receivables from related parties comprises only trade receivables except for receivables from the companies specified below, which comprise also the receivables from royalties as at 31 December 2010 (31 December 2009):
– Shanghai Volkswagen Automotive Co. Ltd.: CZK 465 million (CZK 298 million),
– OOO VOLKSWAGEN Group Rus: CZK 59 million (CZK 18 million).

In addition to trade receivables and receivables from royalties, as at 31 December 2010 (31 December 2009) the Group had also receivables from deposits and loans to the following companies:
– Volkswagen Group Services: CZK 19,300 million (CZK 0 million),
– VW International Payment Services N.V: CZK 15,000 million (CZK 10,000 million),

– ŠkoFIN s.r.o.: CZK 0 million (CZK 3,000 million),
– ŠKO-ENERGO, s.r.o.: CZK 0 million (CZK 540 million), and
– Volkswagen India Private Ltd.: CZK 1,264 million (CZK 0 million).

Interest from the above-mentioned deposits and loans outstanding as at 31 December 2010 amounted to CZK 78 million (31 December 2009: CZK 22 million). Average interest rate relating to these loans is disclosed in Note 8.

Receivables from related parties are considered by the to be of the Group 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 16.

Investments in associates are disclosed in Note 7.

LIABILITIES TO RELATED PARTIES (CZK MILLION)

	31. 12. 2010	31. 12. 2009
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	1,086	917
Associates		
OOO VOLKSWAGEN Group Rus	6	38
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	230	142
Volkswagen Poznan PkW (Komponente)	45	24
VOLKSWAGEN Group United Kingdom Ltd.	198	170
Groupe VOLKSWAGEN France s.a.	394	137
Volkswagen de México S.A. de C.V.	378	216
VOLKSWAGEN SLOVAKIA a.s.	12	590
Volkswagen-Audi España S.A.	344	486
AUDI AG	934	557
AUDI HUNGARIA MOTOR Kft.	489	684
VOLKSWAGEN Group Italia S.p.A	454	386
Import VOLKSWAGEN Group s.r.o.	12	3
Volkswagen Bank GmbH	19	21
Volkswagen Original Teile Logistik GmbH & Co. KG	102	81
Italdesign Giugiaro S.p.A.	76	–
Volkswagen Leasing GmbH	58	9
Volkswagen (China) Investment Company Ltd.,	66	–
Volkswagen Group Sales India P.L.	671	130
Volkswagen Group Services S.A.	2,563	1,582
Volkswagen Motor Polska Sp.z o.o.	237	16
Volkswagen Argentina S.A.	69	28
Gearbox del Prat, S.A.	–	41

LIABILITIES TO RELATED PARTIES (CZK MILLION) – CONTINUATION

	31. 12. 2010	31. 12. 2009
Volkswagen Group Australia Pty. Ltd.	103	98
Volkswagen Logistics GmbH & Co OHG	342	570
Volkswagen Group Ireland Ltd.	69	79
SKO-ENERGO s.r.o.	165	157
Volkswagen Procurement Service GmbH	35	13
Other	41	70
Other related parties*		
Porsche Romania s.r.l.	9	55
e4t electronics for transportation s.r.o	36	20
SAIC-Volkswagen Sales Company Ltd.	2	80
Other related parties	25	8
Total	**9,270**	**7,410**

* 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. Category Other related parties includes mainly transactions with the companies of the Porsche Automobil Holding SE and Porsche Holding GmbH groups. These transactions are disclosed within related party disclosures based on the fact that some members of Porsche´s and Piëch's families (controlling parties of Porsche Automobil Holding SE and Porsche Holding GmbH) are members of key management of ultimate parent VOLKSWAGEN AG.

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 2010 (31 December 2009: CZK 3,000 million). Interest payable relating to this loan amounts to CZK 107 million as at 31 December 2010 (31 December 2009: CZK 107 million). Interest rate on this loan 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 (2009: CZK 99 million).

INFORMATION ON KEY MANAGEMENT PERSONNEL REMUNERATION (CZK MILLION)

	2010	2009
Salaries and other short-term employee benefits*	273	265
Other long-term employee benefits	15	9
Total	**288**	**274**

* 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 besides the remuneration paid, payable or provided by the Group in the form of salaries, bonuses and non-monetary remuneration also remuneration from other Volkswagen Group companies in exchange for services rendered to the Group.

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 2010, the key management personnel included 41 persons (2009: 47 persons). CZK 98 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2010 (31 December 2009: CZK 92 million).

28. Other information (CZK million)

The compensation paid to the Group´s auditors for the accounting period was CZK 31 million (2009: CZK 40 million) and covered the following services:

	2010	2009
Audit and other assurance services	19	26
Tax and related services	6	3
Other advisory services	6	11
Total	**31**	**40**

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 2010.

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 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 (ŠkodaAuto 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 2011

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Eckhard Scholz

Jürgen Stackmann

Karlheinz Emil Hell

Michael Oeljeklaus

Persons responsible for accounting:

Jana Šrámová

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 balance sheet as at 31 December 2010, the statements of 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.

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

Auditor's Responsibility (continued)

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 Company's 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 Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2010, 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 2011

PricewaterhouseCoopers Audit, s.r.o.
represented by

Ing. Jiří Zouhar
Partner

Ing. 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 2010

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010 (CZK MILLION)

	Note	2010	2009
Sales	**18**	**203,819**	**170,666**
Cost of sales	27	179,369	155,868
Gross profit		**24,450**	**14,798**
Distribution expenses	27	9,359	7,702
Administrative expenses	27	4,616	4,320
Other operating income	19	4,896	6,881
Other operating expenses	20	4,336	4,933
Operating profit		**11,035**	**4,724**
Financial income		1,580	1,392
Financial expenses		1,400	1,735
Financial result	**21**	**180**	**(343)**
Profit before income tax		**11,215**	**4,381**
Income tax expense	23	1,811	942
Profit for the year		**9,404**	**3,439**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010 (CZK MILLION)

	Note	2010	2009
Profit for the year		**9,404**	**3,439**
Cash flow hedges			
Change in fair value in the period	13	(692)	713
Total transfers of fair value to net profit – effective hedging	13	5	(2,235)
Total transfers of fair value to net profit – ineffective hedging	13	(61)	(72)
Deferred tax (income)/expense	13	141	305
Other comprehensive loss		**(607)**	**(1,289)**
Total comprehensive income for the year		**8,797**	**2,150**

The notes on pages 174 to 230 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2010 (CZK MILLION)

	Note	31. 12. 2010	31. 12. 2009
ASSETS			
Intangible assets	5	12,852	12,967
Property, plant and equipment	6	41,512	42,541
Investments in subsidiaries	7	1,388	1,388
Investment in associate	8	2,352	1,822
Other receivables and financial assets	9	1,538	1,208
Deferred tax receivable	15	347	–
Non-current assets		**59,989**	**59,926**
Inventories	10	8,660	7,850
Trade receivables	9	9,724	7,635
Other receivables and financial assets	9	39,000	16,952
Cash	11	4,894	15,662
Current assets		**62,278**	**48,099**
TOTAL ASSETS		**122,267**	**108,025**

	Note	31. 12. 2010	31. 12. 2009
EQUITY AND LIABILITIES			
Share capital	12	16,709	16,709
Share premium		1,578	1,578
Reserves	13	57,395	50,232
Equity		**75,682**	**68,519**
Non-current financial liabilities	14	3,000	3,000
Deferred tax liabilities	15	–	775
Non-current provisions	16	6,304	6,136
Other non-current liabilities	14	1,448	237
Non-current liabilities		**10,752**	**10,148**
Current financial liabilities	14	107	2,115
Trade payables	14	22,829	19,118
Other current liabilities	14	3,731	2,548
Current income tax liabilities		1,138	208
Current provisions	16	8,028	5,369
Current liabilities		**35,833**	**29,358**
TOTAL EQUITY AND LIABILITIES		**122,267**	**108,025**

The notes on pages 174 to 230 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 (CZK MILLION)

	Share capital	Share premium	Retained earnings	Other reserves*	Total equity
Balance as at 1 January 2009	**16,709**	**1,578**	**48,582**	**4,852**	**71,721**
Comprehensive income for the year	**-**	**-**	**3,439**	**(1,289)**	**2,150**
Dividends paid	–	–	(5,352)	–	(5,352)
Transfer to statutory reserve fund	–	–	(563)	563	–
Balance as at 31 December 2009	**16,709**	**1,578**	**46,106**	**4,126**	**68,519**
Balance as at 1 January 2010	**16,709**	**1,578**	**46,106**	**4,126**	**68,519**
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**

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

The notes on pages 174 to 230 are an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010 (CZK MILLION)

	Note	2010	2009
Cash and cash equivalents as at 1 January	**17**	**29,224**	**27,009**
Profit before income tax		11,215	4,381
Depreciation and impairment of non-current assets	5, 6	14,167	11,878
Change in provisions	16	2,756	2,333
Gain on disposal of non-current assets		(1)	(7)
Net interest (income)/expense	21	62	(86)
Change in inventories	10	(846)	767
Change in receivables		(3,138)	1,645
Change in liabilities		4,465	3,276
Income tax paid from operating activities		(1,862)	(1,327)
Interest paid		(397)	(375)
Interest received		412	603
Dividends income and other income from investing activities	7.8	(669)	(116)
Other adjustments for non-cash transactions		93	(651)
Cash flows from operating activities		**26,257**	**22,321**
Purchases of non-current assets	5, 6	(9,640)	(11,128)
Additions to capitalised development costs	5	(3,093)	(1,493)
Increase in financial investments		(530)	–
Increase in loans provided		(10,016)	–
Decrease in loans provided		–	1,000
Proceeds from sale of non-current assets		19	51
Proceeds from dividends and other investing activities		669	116
Cash flows from investing activities		**(22,591)**	**(11,454)**
Net cash flows (operating and investing activities)		3,666	10,867
Dividends paid		(1,634)	(5,352)
Repayment of bonds	14	(2,000)	–
Loans received	14	–	3,000
Repayments of loans received		–	(6,300)
Cash flows from financing activities		**(3,634)**	**(8,652)**
Net change in cash and cash equivalents		**32**	**2,215**
Cash and cash equivalents as at 31 December	**17**	**29,256**	**29,224**

The notes on pages 174 to 230 are an integral part of these financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS 2010

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 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 2010 and relate to the consolidated financial statements of ŠKODA AUTO a.s. and its subsidiaries and associates for the year ended 31 December 2010. Users of these separate financial statements should read them together with the consolidated financial statements for the year ended 31 December 2010 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

The separate financial statements of the Company for the year ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

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

All International Financial Reporting Standards issued by the IASB and effective for the accounting periods beggining on or after 1 January 2010 have been adopted by the European Union through the endorsement procedure established by the European Commission.

The bonds issued by the Company in the past were listed until 26 October 2010 and therefore under paragraph 19 (9) of Act No. 563/1991 Coll. on Accounting the Company has prepared its financial statements in accordance with IFRS as adopted by the European Union for the accounting period ending 31 December 2010. In compliance with the Amendment of the Act No. 563 Coll. on Accounting the Company will voluntarily continue preparing the financial statements in accordance with IFRS as adopted by the European Union.

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

1.2.1 New standards, amendments and interpretations to existing standards mandatory for accounting period 2010

The following standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2010 are not relevant to the Company's operations:

IFRS	Standard/Interpretation	Effective	Description
IAS 27	Consolidated and Separate Financial Statements	1 January 2010	Requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance. The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary.
IFRS 3	Business Combinations	1 January 2010	Allows entities to choose to measure non-controlling interests using the existing IFRS 3 method or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.
IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 January 2010	The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.
IAS 39	Financial Instruments: Recognition and measurement – Re-assessment of Embedded Derivatives	1 January 2010	The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.
IFRS 1	First-time Adoption of International Financial Reporting Standards	1 January 2010	The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes.
IFRS 1	First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters	1 January 2010	The amendments exempt entities using the full cost method from retrospective application of IFRS for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4.
IFRIC 17	Distribution of Non-Cash Assets to Owners	1 January 2010	The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised.
IFRIC 18	Transfer of Assets from Customers	1 January 2010	The interpretation clarifies the accounting for transfers of assets from customers.

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

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS 2009 (ISSUED IN APRIL 2009)

IFRS	Standard/Interpretation	Effective	Description
IAS 7	Statement of Cash Flows	1 January 2010	Classification of expenditures on unrecognised assets.
IAS 17	Leases	1 January 2010	Classification of leases of lands and buildings.
IAS 18	Revenue		Determining whether an entity is acting as a principal or as an agent.
IAS 38	Intangible Assets	1 January 2010	Measuring the fair value of an intangible asset acquired in a business combination.
IAS 39	Financial Instruments: Recognition and Measurement	1 January 2010	The penalty for early repayment of a loan considered to be closely related to the loan. An exemption on the business combination contracts. Treatment of cash flow hedging.
IFRS 2	Share-based Payment – Group Cash-settled Share-based Payment	1 January 2010	The amendment provides a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn.
IAS 1	Presentation of Financial Statements: Classification of Convertible Financial Instruments to Current and Non-current	1 January 2010	The amendment clarifies that the potential settlement of a liability by the issue of shares is not relevant to its classification as current or non-current.
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2010	The amendment specifies the disclosures required in respect of non-current assets classified as held for sale or discontinued operations.
IFRS 8	Operating Segments: Disclosure of Segment Assets	1 January 2010	The amendment clarifies that the entity is required to report a measure of segment assets only if such measure is regularly provided to the chief operating decision maker.
IFRIC 9	Reassessment of Embedded Derivatives	1 July 2009	The purpose of the amendment is to confirm that besides the business as defined by IFRS 3, derivatives acquired in the formation of a joint venture and in common control transactions are outside the scope of IFRIC 9.
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 July 2009	The amendment states that a qualifying hedging instrument may be held by any entity or entities within the group, including the foreign operation itself being subject to the hedging transaction.
IAS 36	Impairment of Assets: Allocating Goodwill to Cash-Generating Units	1 January 2010	The purpose of the amendment is to clarify that the operating segment level as defined in paragraph 5 of IFRS 8 Operating segments represents the largest cash generating unit (or group of cash generating units) permitted for impairment testing of goodwill.

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

The following standards, amendments and interpretations will be relevant for the Company but have not been early adopted 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 Company expects that the Amendment to IAS 24 will have impact on the extent of the disclosure of transactions with related parties. The Company is currently assessing all possible impacts of the amendment.
IFRS 9	Financial instruments	1 January 2013	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 following standards, amendments and interpretations will not be relevant for the Company:

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.
IAS 32	Financial Instruments – Presentation: 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.
IFRS 1	First-time Adoption of International Financial Reporting Standards – Limited exemption from comparative IFRS 7 disclosures for first-time adopters	1 January 2011	The amendment to IFRS 1 provides first-time adopters with the same transition provisions (and thereby the same relief) as included in the amendment to IFRS 7 for other companies.
IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011	It 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 addressess the accounting in cases where all or part of the financial liability is extinquished by the debtor by issuing equity instruments to the creditor.
IFRS 1	Severe hyperinflation	1 July 2011	The amendment proposes guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs due to severe hyperinflation.
IAS 12	Deffered tax: Recovery of Underlying Assets	1 January 2012	The amendment provides an exception to the general principle as per IAS 12 for deffered tax assets and deffered 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.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS 2010 (ISSUED IN MAY 2010)

IFRS	Standard/Interpretation	Effective	Description
IFRS 1	First-time Adoption of International Financial Reporting Standards	1 January 2011	Accounting policy changes in the first year of IFRS adoption. Revaluation basis as deemed cost. Use of deemed cost for operations subject to rate regulation.
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.
IFRS 7	Financial Instruments: Disclosures	1 January 2011	Clarification of disclosures.
IAS 1	Presentation of Financial Statements	1 January 2011	Statement of changes in equity.
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.

2. Basis of preparation of financial statements

The 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 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:

– Development costs	2–9 years according to the product life cycle
– Software	3 years
– Tooling rights	8 years
– Other intangible fixed assets	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 determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and 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 and loss are recognised under financial income or expenses or other comprehensive income in the period in which they arise. During the accounting period 2010 (2009), 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 2010 (2009), 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.

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 and 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 and loss are recognised under financial income or expenses or other comprehensive income in the period in which they arise. During the accounting period 2010 (2009) 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.

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as 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 also 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 and for all sales.

2.8 Provisions for long-term employee benefits

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

- service jubilee;
- 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 using interest rates of high-quality corporate bonds at the balance sheet date. If a market of such bonds does not exist, the Company uses the market yield of treasury bonds. 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 Share based payments

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

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

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

2.11 Revenue and expense recognition

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

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

The revenues from one-off licences are recognised in compliance with relevant contractual provisions. 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.

2.12 Leases

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

2.13 Investment incentives and subsidies

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

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

2.14 Related parties

Related parties are parties that the Company has the ability to control or to exercise significant influence over them, parties under common control, or parties that have the ability to control or exercise significant influence over the Company and other parties as defined by paragraph 9 of IAS 24.

2.15 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. Share premium is recognised within equity.

2.16 Critical accounting estimates and assumptions

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

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 and 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.

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

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

In 2010, the global economy slowly began to recover from the global financial crisis that had dominated in 2009. This fact was also reflected in the Company's sales and financial results that showed substantial growth compared to 2009.

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.).

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.

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 incorportated in the written contracts as an obligatory security instrument. Trade receivables other than receivables from companies within the Volkswagen Group 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, 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-risky receivables: acknowledgements of debt, payment schedules, bills of exchange, pledges, or executory note.

Loans to employess are secured by other employee guarantees.

During the accounting period 2010 (2009), the Company did not accept any pledges to secure loans.

3.1.1 Maximum exposure to credit risk (CZK million)

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

	Carrying amount as at 31 December 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**

	Carrying amount as at 31 December 2009			
	Non-impaired financial assets not yet due	Non-impaired financial assets past due	Impaired financial assets	Total
Loans to employees	365	–	–	365
Loans to and deposits in Volkswagen Group companies	13,562	–	–	13,562
Positive fair value of financial derivatives	2,105	–	–	2,105
Others	88	–	–	88
Trade receivables	5,697	1,938	–	7,635
Cash	15,662	–	–	15,662
Total	**37,479**	**1,938**	**-**	**39,417**

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 2010 (2009) 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 also deposited free cash through the ultimate parent of the Volkswagen Group and upon transition to the common Global Treasury Platform (GTP) free cash was deposited through Volkswagen Group Services (VGS) in external banks or other entities within the Volkswagen Group. The total volume of short-term deposits with intra-group companies amounted to CZK 39,173 million as at 31 December 2010, out of which over night deposits arising from cash-pooling accounted for CZK 4,795 million (as at 31 December 2009 short-term deposits amounted to CZK 10,016 million and short-term loans CZK 3,546 million).

In 2010 (2009) the Company did not consider it probable that a default could occur in connection to the loans provided and free cash deposited. Possible risk of unpaid receivables from third parties was individually not significant (spread between various debtors and regions).

3.1.3 Solvency of financial assets 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 from 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).

CREDIT QUALITY OF FINANCIAL ASSETS NEITHER PAST DUE NOR IMPAIRED (CZK MILLION)

	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**

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2009			
Loans to employees	365	–	365
Loans to and deposits in Volkswagen Group companies	13,562	–	13,562
Positive fair value of financial derivatives	2,105	–	2,105
Other receivables and financial assets	88	–	88
Trade receivables	5,407	290	5,697
Cash	15,662	–	15,662
Total	**37,189**	**290**	**37,479**

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 2010	**645**	**399**	**87**	**1,131**
Balance as at 31 December 2009	872	329	737	1,938

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 2009 (CZK 1,749 milion), only CZK 21 million were still not paid as at 31 December 2010.

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:

	2010	2009
Other receivables and financial assets		
Gross balance as at 31 December	155	158
Valuation allowance		
Balance as at 1 January	(158)	(286)
Additions	–	(11)
Utilised	–	125
Released	3	14
Balance as at 31 December	**(155)**	**(158)**
Net balance as at 31 December	–	–
Trade receivables		
Gross balance as at 31 December	223	285
Valuation allowance		
Balance as at 1 January	(285)	(268)
Additions	(14)	(71)
Utilised	19	52
Released	57	2
Balance as at 31 December	**(223)**	**(285)**
Net balance as at 31 December	–	–

During the accounting period 2010 (2009) the Company had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2010 (2009) the Company had valuation allowances only on financial assets included in 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

As at 11 October 2010, the Company was integrated into the "Global Treasury Platform" of Volkswagen Group (GTP) that is operated by Volkswagen Group Services (VGS) located in Brussels. The GTP objective is to ensure centralisation and optimalisation of processes 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 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 2010 was CZK 10,618 million (as at 31 December 2009: CZK 9,600 million). All credit lines are contracted in Czech crowns. The Company has not utilised any agreed bank credit lines as at 31 December 2010 (as at 31 December 2009: CZK 0).

During the year 2009 a credit line has been obtained from the Volkswagen Group in the total amount of CZK 3,000 million. As at 31 December 2010 the whole amount of the credit line was drawn.

CONTRACTUAL MATURITY ANALYSIS (UNDISCOUNTED AMOUNTS IN CZK MILLION)

	Less than 3 months	3–12 months	1–5 years	Longer than 5 years	Unspecified*	Total
Balance as at 31 December 2010						
Cash	4,894	–	–	–	–	4,894
Other receivables and financial assets (except derivatives)	24,438	10,195	319	79	–	35,031
Trade receivables	8,169	424	–	–	1,131	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	**18,015**	**10,921**	**(3,390)**	**79**	**(1,449)**	**24,176**

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

CONTRACTUAL MATURITY ANALYSIS (UNDISCOUNTED AMOUNTS IN CZK MILLION)

	Less than 3 months	3–12 months	1–5 years	Longer than 5 years	Unspecified*	Total
Balance as at 31 December 2009						
Cash	15,676	–	–	–	–	15,676
Other receivables and financial assets (except derivatives)	13,662	85	280	68	1	14,096
Trade receivables	5,376	321	–	–	1,938	7,635
Financial liabilities	(138)	(2,046)	(3,552)	–	–	(5,736)
Trade payables	(16,358)	(147)	–	–	(1,631)	(18,136)
Derivatives with positive fair value						
Currency forwards and swaps						
Inflow of financial resources	4,446	14,134	11,126	–	–	29,706
Outflow of financial resources	(4,157)	(13,227)	(10,381)	–	–	(27,765)
Commodity swaps	14	40	155	–	–	209
Derivatives with negative fair value						
Currency forwards and swaps						
Inflow of financial resources	2,924	8,220	6,152	–	–	17,296
Outflow of financial resources	(3,112)	(8,648)	(6,373)	–	–	(18,133)
Interest swaps	–	(36)	–	–	–	(36)
Total	**18,333**	**(1,304)**	**(2,593)**	**68**	**308**	**14,812**

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

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. The basic parameters of the hedging policy are defined by the hedging directive valid for the entire Volkswagen Group, which includes also the list of permitted hedging instruments. Hedging contracts are concluded in the name of the Company by the Treasury Department of the Volkswagen Group. The most important trading currencies are USD, EUR, GBP and CHF. In addition to these currencies, currencies of the other European and non-European markets are hedged. The Company applies hedge accounting for currency risk.

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

3.3.2 Interest rate risk

Interest rate risk is a risk that the fair value of future cash flows of a financial 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 short-term loans provided to Volkswagen Group companies and 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 2010 (2009), 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 2010 (2009) 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 2010		Balance as at 31 December 2009		Balance as at 31 December 2010		Balance as at 31 December 2009	
	With positive fair value	With negative fair value	With positive fair value	With negative fair value	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps – cash flow hedging	–	–	–	2,000	–	–	–	38
Currency instruments								
Currency forwards – cash flow hedging	60,303	48,837	29,090	16,301	2,045	2,231	1,908	773
Currency swaps – cash flow hedging	1,709	2,076	–	1,037	94	113	–	49
Commodity instruments								
Commodity swaps – cash flow hedging	1,475	–	771	–	359	–	197	–
Total	**63,487**	**50,913**	**29,861**	**19,338**	**2,498**	**2,344**	**2,105**	**860**

The fixed interest rates for interest rate swaps fluctuated between 4.06% and 4.10% as at 31 December 2009.

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 traded on financial markets directly).

VOLUME OF HEDGED CASH FLOWS (CZK MILLION)

	Volume of hedged cash flows		
Balance as at 31 December 2010	**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**

Balance as at 31 December 2009	Volume of hedged cash flows Within 1 year	1–5 years	Total
Interest risk exposure			
Hedging of future cash flows – liabilities	(46)	–	(46)
Currency risk exposure			
Hedging of future cash flows – future receivables	21,053	15,388	36,441
Hedging of future cash flows – future liabilities	(8,521)	(841)	(9,362)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows – future liabilities	(129)	(558)	(687)
Total	**12,357**	**13,989**	**26,346**

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 2010 the Company 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) possible. In 2009 the Company considered the movements of exchange rates of selected currencies (mainly USD and CHF) against CZK in the following period +20% (appreciation of CZK) and -20% (depreciation of CZK) possible. In 2009 the Company considered the movements of exchange rates of other currencies 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 table presents possible impact on profit and loss and on equity before tax of expected possible appreciation or depreciation of CZK to foreign currencies:

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)

2009 (CZK million)	CZK appreciation by 20%			CZK appreciation by 10%			
	USD	CHF	Other currencies	EUR	GBP	Other currencies	Total
Income statement							
Non-derivative financial instruments	(183)	(8)	19	778	9	(210)	405
Derivative financial instruments	(20)	(7)	(21)	7	(13)	(22)	(76)
Equity							
Derivative financial instruments	2,115	865	888	(909)	872	718	4,549

2009 (CZK million)	CZK depreciation by 20%			CZK depreciation by 10%			
	USD	CHF	Other currencies	EUR	GBP	Other currencies	Total
Income statement							
Non-derivative financial instruments	183	8	(19)	(778)	(9)	210	(405)
Derivative financial instruments	20	7	21	(7)	13	22	76
Equity							
Derivative financial instruments	(2,115)	(865)	(888)	909	(872)	(718)	(4,549)

3.4.2 Sensitivity to interest rates

The Company is exposed to interest risk mainly in relation to short-term loans provided to Volkswagen Company companies and short term deposits. In 2009, the Company was also exposed to interest risk due to the existence of financial liabilities arising from issued bonds with floating interest rate. Cash flow interest rate risk on the issued bonds was mitigated by interest rate swaps. (As at 26 October 2010, all financial liabilities arising from issued bonds were settled.)

The analysis of sensitivity to changes in interest rates was based on exposure to derivative financial assets and liabilities as at balance sheet date, as well as to non-derivative financial assets and liabilities. In 2010 the Company assumes possible movements of the yield curve in the following period for loans and bank deposits by +100/-25 of basis points. In 2009, the Company assumed for bonds and interest rate swaps possible movements of the yield curve in the following period by +/-100 of basis points. The Company is most sensitive to movements of the CZK yield curve. In the case of derivative financial instruments, the Company measures the impact on the change in fair value of these derivatives that results from the change in the yield curve. For 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 table presents possible impact on profit and loss and on equity before tax of expected increase (+100 basis points) or decrease (-25 basis points) of interest rates:

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)
Equity		
Derivative financial instruments	(7)	2

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

2009 (CZK million)	Interest rate increased by 100 basis points*	Interest rate decreased by 100/15 basis points*
Income statement		
Non-derivative financial instruments	278	(27)
Derivative financial instruments	16	(16)
Total	**294**	**(43)**
Equity		
Derivative financial instruments	10	(10)

* Due to low interest rates from loans and banks deposits, their sensitivity was calculated using the increase of interest rates by 100 basis points and decrease by 15 basis points instead of 100 basis points used for other financial instruments.

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 2010 (2009) the Company assumes potential movements in aluminium prices in the following period of +/-10%. In 2010, 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 table represents a possible impact on equity before tax of expected increase or decrease of copper and aluminium prices in 2010:

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)
Total	**130**	**(130)**	**110**	**(110)**

The following table represents a possible impact on equity before tax of expected increase or decrease of aluminium prices in 2009:

2009 (CZK million)	Increase of aluminium prices +10%	Decrease of aluminium prices (10)%
Equity		
Derivative financial instruments	80	(80)
Total	**80**	**(80)**

The possible impact on profit and loss was assessed by the Company as immaterial.

3.5 Capital risk management

The optimal capitalization 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	2010	2009
Equity	**75,682**	**68,519**
Equity ratio	61.9%	63.4%
Non-current financial liabilities	3,000	3,000
Current financial liabilities	107	2,115
Total financial liabilities	**3,107**	**5,115**
Ratio of financial liabilities to total liabilities	2.5%	4.7%
Total equity and liabilities	**122,267**	**108,025**

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 and Central and Eastern Europe, there is no individual country which would have more than 10% share on total sales.

	Czech Republic	Germany	Western Europe-Other	Central and Eastern Europe	Unallocated	Total
2010 (CZK million)						
Sales – based on location of customers	21,966	47,675	75,449	38,066	20,663	203,819
Non- current assets*	54,894	198	–	1,872	1,140	58,104

	Czech Republic	Germany	Western Europe-Other	Central and Eastern Europe	Unallocated	Total
2009 (CZK million)						
Sales – based on location of customers	21,359	52,921	54,908	29,075	12,403	170,666
Non- current assets*	55,508	198	–	1,872	1,140	58,718

* 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 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 and impairment losses*	(3,658)	–	(1,262)	(4,920)
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**

* Amount of impairment losses is disclosed in the section Impairment reviews below.

	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 2009	**18,686**	**3,448**	**3,848**	**25,982**
Additions	682	811	1,130	2,623
Disposals	–	–	(45)	(45)
Transfers	3,121	(3,121)	–	–
Balance as at 31 December 2009	**22,489**	**1,138**	**4,933**	**28,560**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2009	**(9,671)**	**–**	**(2,532)**	**(12,203)**
Amortisation and impairment losses*	(2,899)	–	(532)	(3,431)
Disposals and transfers	–	–	41	41
Balance as at 31 December 2009	**(12,570)**	**–**	**(3,023)**	**(15,593)**
Carrying amount as at 31 December 2009	**9,919**	**1,138**	**1,910**	**12,967**

* Amount of impairment losses is disclosed in the section Impairment reviews below.

Other intangible assets include mainly tooling rights, software and software licences.

Amortisation and impairment losses of intangible assets of CZK 4,777 million (2009: CZK 3,278 million) are included in the cost of sales, CZK 13 million (CZK 2009: 14 million) in distribution expenses, and CZK 130 million (2009: CZK 139 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 Skoda 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 2010 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 6.4% has been applied in 2010 (2009: 9.1%), reflecting the specific risks associated with the sector in which the Company operates. 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 1,398 million (2009: CZK 421 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2010 (31 December 2009). In Note 5 Intangible assets, the amount of CZK 726 million (2009: CZK 421 million) is included in the category Capitalised development costs for products and the amount of CZK 672 million (2009: CZK 0 million) is included in the category Other intangible assets both in the line Amortisation and impairment losses.

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2010, the Company applied the capitalisation rate of 3.8% (2009: 4.6%). No borrowing costs have been capitalised in the cost of intangible assets in 2010 (2009) as not material.

THE FOLLOWING AMOUNTS WERE RECOGNISED IN THE INCOME STATEMENT AS RESEARCH AND DEVELOPMENT EXPENSES (CZK MILLION)

	2010	2009
Research and non-capitalised development costs	4,564	4,240
Amortisation and impairment losses of development costs	3,658	2,899
Research and development costs recognised in the income statement	**8,222**	**7,139**

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 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)**
Depreciation and impairment losses*	(1,431)	(3,474)	(4,342)	–	(9,247)
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**

* Amount of impairment losses is disclosed in the section Impairment reviews below.

	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 2009	**27,630**	**56,282**	**40,720**	**6,325**	**130,957**
Additions	429	2,501	3,121	2,977	9,028
Disposals	–	(541)	(1,335)	–	(1,876)
Transfers	1,240	2,090	2,433	(5,763)	–
Balance as at 31 December 2009	**29,299**	**60,332**	**44,939**	**3,539**	**138,109**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2009	**(9,447)**	**(47,054)**	**(32,457)**	**–**	**(88,958)**
Depreciation and impairment losses*	(1,074)	(3,260)	(4,113)	–	(8,447)
Disposals and transfers	–	541	1,296	–	1,837
Balance as at 31 December 2009	**(10,521)**	**(49,773)**	**(35,274)**	**–**	**(95,568)**
Carrying amount as at 31 December 2009	**18,778**	**10,559**	**9,665**	**3,539**	**42,541**

* Amount of impairment losses is disclosed in the section Impairment reviews below.

Depreciation and impairment losses of the buildings and equipment of CZK 8,725 million (2009: CZK 7,919 million) are included in the cost of sales, CZK 100 million (2009: CZK 162 million) in distribution expenses, and CZK 422 million (2009: CZK 366 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 Skoda 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 2010 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 6.4% has been applied in 2010 (2009: 9.1%), reflecting the specific risks associated with the sector in which the Company operates. 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 1,084 million (2009: CZK 308 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2010 (31 December 2009). In Note 6 Property, plant and equipment the amount of CZK 358 million (2009: CZK 0 million) is included in the category Land and buildings, CZK 177 million (CZK 0 million) in the category Technical equipment and machinery, and CZK 549 million (2009: CZK 308 million) in the category Tooling, office and other equipment, all in the line Depreciation and impairment losses.

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2010, the Group applied the capitalisation rate of 3.8% (2009: 4.6%). No borrowing costs have been capitalised in the cost of property, plant and equipment in 2010 and in 2009 as not material.

7. Investments in subsidiaries (CZK million)

	Country of incorporation	Book value 31. 12. 2010	Book value 31. 12. 2009	Shareholding %
Subsidiaries				
ŠkodaAuto Deutschland GmbH	Germany	198	198	100
ŠKODA AUTO Slovensko, s.r.o.	Slovakia	49	49	100
Skoda Auto Polska S.A.	Poland	1	1	51
Skoda Auto India Private Ltd.	India	1,140	1,140	100
Total		**1,388**	**1,388**	

The results of the subsidiaries are included in the consolidated results of the Company.

The subsidiaries in which the Company has a financial investment paid dividends to the Company in the amount of CZK 598 million (2009: CZK 97 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 global economic crisis and development of the automotive industry and its potential impacts on the carrying amount of the Company's financial investments in subsidiaries. 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 SAIPL subsidiary. The Company's management has therefore performed an impairment review of this cash-generating unit. 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 2010 (2009), 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 2010, discount rate of 7.1% (2009: 10.9%) 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 2010 (31 December 2009).

8. Investments in associates (CZK million)

	2010	2009
Total Assets	45,480	36,295
Total Liabilities	43,728	33,493
Total Revenue	74,165	45,752
Loss (aggregated)	1,743	2,776

The table above summarises financial data of the associates OOO VOLKSWAGEN Group Rus a ŠKO-ENERGO FIN, s.r.o. in 2010, figures for 2009 include financial data of OOO VOLKSWAGEN Group Rus only.

The Company’s share in the registered capital of the company OOO VOLKSWAGEN Group Rus as at 31 December 2010 was 16.8% (31 December 2009: 16.8%).The Company’s share of profits or losses of this associate as at 31 December 2010 was 17.91% (31 December 2009: 17.91%). The Company excercises 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 result ŠKO-ENERGO FIN s.r.o. became the Company’s associate. The value of the Company’s share increased by CZK 526 million and as at 31 December 2010 totalled CZK 529 million (as at 31 December 2009: CZK 3 million). ŠKO-ENERGO FIN paid dividends to the Company in the amount of CZK 71 million (2009: CZK 18 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 global economic crisis and development of the automotive industry and its potential impacts on the carrying amount of the Company'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 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. For determination of the value in use of the financial investment in 2010 (2009), estimated growth rate of 1% has been applied. 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 2010, discount rate of 9.3% (2009: 11%) 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 2010 (31 December 2009).

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

Balance as at 31 December 2010	Financial assets at fair value through profit and 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	–	34,378	–	–	–	34,378
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)**	**34,967**	**4**	**2,689**	**3,069**	**40,538**
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.

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 2010, the forward component was negative.

Balance as at 31 December 2009	Financial assets at fair value through profit and 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	–	365	–	–	–	365
Deposits in companies within Volkswagen Group excl. associates	–	13,022	–	–	–	13,022
Loans to associates	–	540	–	–	–	540
Positive fair value of financial derivatives	88	–	–	2,017	–	2,105
Available for sale financial assets	–	–	6	–	–	6
Tax receivables (excl. income tax)	–	–	–	–	1,938	1,938
Others	–	88	–	–	96	184
Total	**88**	**14,015**	**6**	**2,017**	**2,034**	**18,160**
Trade receivables						
Third parties	–	2,023	–	–	–	2,023
Subsidiaries	–	985	–	–	–	985
Other related parties	–	4,627	–	–	–	4,627
Total	**–**	**7,635**	**–**	**–**	**–**	**7,635**

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

The carrying amount of loans to employees approximates fair value.

The carrying amount net of impairment for each class of financial assets which are not carried at fair value approximates fair value.

The item Deposits in companies within Volkswagen Group comprises deposits in the amount of CZK 24,362 million with original maturity less than three months, that are included in cash equivalents (Note 17). The items Deposits in companies within Volkswagen Group excl. associates and Loans to associates were included within cash equivalents as at 31 December 2009.

The weighted average effective interest rate based on the carrying amount of deposits and loans provided to Volkswagen Group companies as at 31 December 2010 was 0.97% (31 December 2009: 1.48%). All deposits and loans provided to Volkswagen Group companies are denominated in CZK.

Line Others in other receivables and financial assets include mainly other receivables from employees and advances paid. There are no significant restrictions regarding the rights of use imposed on the other receivables and financial assets. Cumulative impairment losses reflect the incurred risks of the debtors' delays or defaults. The allowance for the impairment of trade receivables of CZK 223 million (2009: CZK 285 million) has been deducted from the presented carrying values of trade receivables. The carrying amount of trade receivables approximates the fair value at at the balance sheet date after the valuation allowance is taken into account.

10. Inventories (CZK million)

	Carrying value as at 31 December 2010	Carrying value as at 31 December 2009
Structure of the inventories		
Raw materials, consumables and supplies	2,904	2,393
Work in progress	1,517	1,824
Finished products and goods	4,239	3,633
Total	**8,660**	**7,850**

The amount of inventories recognised as an expense during 2010 was CZK 176,544 million (2009: CZK 152,664 million).

11. Cash (CZK million)

	2010	2009
Cash in hand	3	4
Cash pooling	4,795	–
Bank accounts	96	15,658
Total	**4,894**	**15,662**

The weighted average effective interest rate based on the carrying amount of bank accounts and short-term deposits as at 31 December 2010 was 0.20% (31 December 2009: 1.04%).

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 2010 (2009: no movement).

In 2010, the Company paid a dividend of CZK 1,634 million (2009: CZK 5,352 million). In 2010, the dividend per share was CZK 978 (2009: CZK 3,203).

13. Reserves (CZK million)

	2010	2009
Reserves for cash flow hedges*	315	922
Statutory reserve fund	3,366	3,194
Funds contributed by owner	10	10
Retained earnings	53,704	46,106
Total	**57,395**	**50,232**

* Net of deferred tax from financial derivatives.

Movement in reserve for cash flow hedges:

Balance as at 1 January 2010	**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**

Balance as at 1 January 2009	**2,211**
Total change in fair value in the period	713
Deferred tax on change in fair value	(130)
Total transfers to net profit in the period – effective hedging	(2,235)
Total transfers to net profit in the period – ineffective hedging	(72)
Deferred tax on transfers to net profit	435
Balance as at 31 December 2009	**922**

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 2010 (determined in accordance with IFRS) is going to be appropriated based on the decision of the Company's annual general meeting.

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

Balance as at 31 December 2010	Financial liabilities at fair value through profit and 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.

Balance as at 31 December 2009	Financial liabilities at fair value through profit and loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Bonds	–	2,008	–	–	2,008
Loans	–	3,107	–	–	3,107
Total	**–**	**5,115**	**–**	**–**	**5,115**
Other liabilities					
Negative fair value of financial derivatives	(17)	–	877	–	860
Liabilities to employees	–	–	–	1,470	1,470
Social security	–	–	–	321	321
Others	–	–	–	134	134
Total	**(17)**	**–**	**877**	**1,925**	**2,785**
Trade liabilities					
Third parties	–	11,441	–	323	11,764
Subsidiaries	–	1,147	–	550	1,697
Other related parties	–	5,548	–	109	5,657
Total	**–**	**18,136**	**–**	**982**	**19,118**

* 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 instruments designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial instruments 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 2009, the forward component is negative.

The line "Trade liabilities to other related parties" includes liabilities to a factoring company within the Volkswagen Group of CZK 1,118 million as at 31 December 2010 (2009: CZK 759 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.

As at 26 October 2010, the last third tranche of the bonds was settled at nominal value of CZK 2,000 million.

	ISIN	Total nominal value in million CZK	Nominal value per bond in thousand CZK	No. of bonds in pcs	Issue rate
3rd tranche	CZ0003501199	2,000	100	20,000	100.00%
Total		**2,000**		**20,000**	

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

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

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

Carrying amount as at 31 December 2010

					Maturity			
Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	< 1 year	1–5 years	> 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 2009

					Maturity			
Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	< 1 year	1–5 years	> 5 years	Total
CZK	floating	< 1 year	2.35%	2,000	2,008	–	–	2,008
CZK	fixed	1–5 years	4.53%	3,000	107	3,000	–	3,107
Total financial liabilities				**5,000**	**2,115**	**3,000**	**-**	**5,115**

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 2010 the Company recognised on the balance sheet deferred tax asset of CZK 347 million (2009: deferred tax liability CZK 775 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 2009	**(3,416)**	**(532)**	**-**	**-**	**(3,948)**
Credited/(debited) to the income statement	229	–	–	–	229
Charged to other comprehensive income	–	305	–	–	305
Balance as at 31 December 2009	**(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)**

	Depreciation	Financial derivatives	Provisions, Valuation allowances	Other	Total
Deferred tax assets					
Balance as at 1 January 2009	**-**	**-**	**1,843**	**480**	**2,323**
Credited/(debited) to the income statement	–	–	324	(8)	316
Balance as at 31 December 2009	**-**	**-**	**2,167**	**472**	**2,639**
Credited/(debited) to the income statement	–	–	487	89	576
Balance as at 31 December 2010	**-**	**-**	**2,654**	**561**	**3,215**

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 process risks	Other provisions	Total
Balance as at 1 January 2009	**7,534**	**127**	**979**	**91**	**142**	**298**	**9,171**
Utilised	(2,107)	(127)	(228)	–	–	(227)	(2,689)
Additions	2,783	921	451	239	823	301	5,518
Interest expense (+)/income (–)	(25)	–	–	(13)	–	–	(38)
Reversals	(378)	–	–	–	(7)	(72)	(457)
Balance as at 1 January 2010	**7,807**	**921**	**1,202**	**317**	**958**	**300**	**11,505**
Utilised	(2,119)	(861)	(434)	–	–	(175)	(3,589)
Additions	3,160	1,037	756	–	391	1,819	7,163
Interest expense (+)/income (–)	74	–	–	(4)	–	–	70
Reversals	(542)	(60)	(20)	(94)	–	(101)	(817)
Balance as at 31 December 2010	**8,380**	**1,037**	**1,504**	**219**	**1,349**	**1,843**	**14,332**

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

	< 1 year	> 1 year	Total
Balance as at 31 December 2010			
Provisions for warranty claims	3,194	5,186	8,380
Provisions for other obligations arising from sales	1,037	–	1,037
Provisions for personnel costs	605	899	1,504
Provisions for the disposal of end- of- life vehicles	–	219	219
Provisions for process risks	1,349	–	1,349
Other provisions	1,843	–	1,843
Total	**8,028**	**6,304**	**14,332**

	< 1 year	> 1 year	Total
Balance as at 31 December 2009			
Provisions for warranty claims	2,721	5,086	7,807
Provisions for other obligations arising from sales	921	–	921
Provisions for personnel costs	469	733	1,202
Provisions for the disposal of end- of- life vehicles	–	317	317
Provisions for process risks	958	–	958
Other provisions	300	–	300
Total	**5,369**	**6,136**	**11,505**

The provision for warranty repairs includes provision for basic guarantee (2 years), provision for corrosion guarantee (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 and severance payments.

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 process 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 nd the financial results (financial statements) of the Company and there are no such proceedings expected in the near future.

Other provisions include mainly provision for retrospective changes in purchase prices, provision for onerous contracts and provision for tax risks.

17. Cash flow statement

The cash and cash equivalents contained in the cash a flow statement also comprise, in addition to cash and short term deposits reported in the balance sheet, short-term loans to and deposits in Volkswagen Group companies (Note 9) with original maturity less than three months. 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.

CASH AND CASH EQUIVALENTS (CZK MILION)

	31. 12. 2010	31. 12. 2009
Cash	4,894	15,662
Cash equivalents	24,362	13,562
Total	**29,256**	**29,224**

The line Cash includes also overnight deposits from the use of cash-pooling (Note 3.2). As at 31 December 2010, the value of these deposits amounted to CZK 4,795 million (as at 31 December 2009: CZK 0 million).

18. Sales (CZK million)

	2010	2009
Cars	174,535	148,417
Spare parts and accessories	12,333	11,047
Supplies of components within Volkswagen Group	14,071	8,644
Revenues from license fees	702	861
Services	150	45
Other	2,028	1,652
Total	**203,819**	**170,666**

19. Other operating income (CZK million)

	2010	2009
Foreign exchange gains	2,426	2,631
Income from derivative transactions, from which:	1,171	3,391
Total transfer to Income Statement for the period – effective hedging	1,095	3,217
Gains on non- current assets disposal	1	56
Reversal of receivables' impairment losses	60	16
Services	497	307
Other	741	480
Total	**4,896**	**6,881**

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 monetary receivables and payables. Foreign exchange losses from these items are included in other operating expenses.

Line Other includes also income from information systems and technology services. In 2010, this income amounted to CZK 160 million (2009: CZK 108 milion).

20. Other operating expenses (CZK million)

	2010	2009
Foreign exchange losses	1,928	2,801
Losses from derivative transactions, from which:	1,153	1,054
Total transfer to Income Statement for the period – effective hedging	1,041	935
Receivables write- offs	4	9
Other	1,251	1,069
Total	**4,336**	**4,933**

Line Other includes among others also expenses for additions to some of the other provisions in total amount of CZK 1,043 million (2009: CZK 816 million). The other provisions are described in Note 16.

21. Financial result (CZK million)

	2010	2009
Interest income	421	566
Foreign exchange gains from cash	82	305
Foreign exchange gains from spot operations	208	166
Other financial income, thereof:	869	355
Total transfers to net profit in the period – ineffective hedging	61	183
Dividends received	669	116
Forward component of derivatives fair value	131	56
Financial income total	**1,580**	**1,392**
Interest expenses, thereof:	483	480
Total transfers to net profit in the period – effective hedging	59	47
Foreign exchange losses from cash	293	677
Foreign exchange losses from spot operations	158	255
Other financial expenses, thereof:	466	323
Total transfers to net profit in the period – ineffective hedging	–	111
Forward component of derivatives fair value	442	6
Financial expenses total	**1,400**	**1,735**
Net financial result	**180**	**(343)**

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

	2010	2009
Financial instruments at fair value through profit and loss – held for trading	(262)	(101)
Loans and receivables	38	(260)
Available for sale financial assets	–	18
Financial liabilities carried at amortised costs	432	(237)
Financial instruments designated as hedging instruments	(5)	2,235
Net gains total	**203**	**1,655**

The line Financial instruments at fair value through profit and loss represents net gain on financial derivatives on which hedge accounting could not be applied and a forward component of forward contracts.

Other items contain mainly unrealised and realised foreign exchange gains and losses on trade receivables and liabilities, from hedging instruments, interest expense incurred on issued bonds, interest income from loans provided, 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)

	2010	2009
Current tax expense	**2,792**	**1,487**
of which: adjustment in respect of prior years	64	124
Deferred tax (income)/expense	**(981)**	**(545)**
Income tax total	**1,811**	**942**

Statutory income tax rate in the Czech Republic for the 2010 assessment period was 19% (2009: 20%). The movement in the statutory income tax rate is attributable to tax changes in the Czech Republic.

As at 31 December 2010 and 31 December 2009, 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)

	2010	2009
Profit before income tax	11,215	4,381
Expected income tax expense	**2,131**	**876**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(189)	(56)
Expenses not deductible for tax purposes	173	327
Tax allowances and other tax credits	(318)	(391)
Prior-period current tax expense	64	124
Investment tax credits	(50)	62
Effective income tax expense	**1,811**	**942**
Effective income tax rate	16%	22%

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

24. Investment incentives

In 2010 the Company received a grant for the support of the projects performed by the Development and Technology Centre of CZK 42 million (2009: CZK 28 million) and a grant for the support of private schools of CZK 50 million (2009: CZK 50 million). In 2009, the Company was provided a promise of the grant from the European Regional Development Fund by the Ministry of Industry and Trade of 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 Centre" in the amount of CZK 67 million. Both projects are in the execution phase. However, the grant was not paid out in 2010 (The grant will be paid out retrospectively on completion of the individual execution phases).

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. In 2010 (2009) the project was realised and the Company expects utilisation of the tax credit of CZK 447 million in future periods.
In accordance with the Act No. 72/2000 Coll., on Investment Incentives as amended based on resolution dated on 31 December 2007 the Company was granted an investment incentive for its project of engine 1.2 TSI production in the plant in Mladá Boleslav in form of tax credit. In 2010 the resolution for the 1.2 TSI engine production incentive was cancelled and no incentive was utilised.

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. The Company expects to comply with all provisions necessary to receive the investment incentives.

25. Contingent liabilities

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

The Company's management is not aware of any circumstances that could result in material liabilities arising from the tax audits 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 2011	Payable 2012–2015	31. 12. 2010
Investment commitments – property, plant and equipment	1,694	1,236	2,930
Investment commitments – intangible assets	2,510	2,174	4,684
Operating leasing instalments	166	42	208
Other future commitments	75	75	150

	Payable until year 2010	Payable 2011–2014	31. 12. 2009
Investment commitments – property, plant and equipment	1,338	147	1,485
Investment commitments – intangible assets	16	–	16
Operating leasing instalments	151	43	194
Other future commitments	198	243	441

On the basis of non-cancellable operating lease agreements, the Company is allowed to rent different machine equipment. In the case of termination of these agreements, 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.

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

	2010	2009
Material costs – raw materials and other supplies, goods	**138,227**	**121,916**
Production related services	**10,340**	**8,138**
Personnel costs	**15,101**	**13,569**
Wages	11,331	10,230
Pension benefit costs (defined contribution plans)	2,226	2,064
Social insurance and other personnel costs	1,544	1,275
Depreciation, amortisation and impairment losses	**14,167**	**11,878**
Other services	**15,509**	**12,389**
Total cost of sales, distribution and administrative expenses	**193,344**	**167,890**
Number of employees		
Number of employees*	25,077	25,500

*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.

The Company participated in the following transactions with related parties:

SALES TO RELATED PARTIES (CZK MILLION)

	2010	2009
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	5,612	5,269
Subsidiaries		
Skoda Auto India Private Ltd.	4,049	3,364
ŠkodaAuto Deutschland GmbH	38,881	46,718
ŠKODA AUTO Slovensko, s.r.o.	4,266	3,754
Skoda Auto Polska S.A.	10,786	9,648
Associates		
OOO VOLKSWAGEN Group Rus	10,828	6,357
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	1,381	606
VOLKSWAGEN Group United Kingdom Ltd.	11,993	7,944
Groupe VOLKSWAGEN France s.a.	6,221	5,544
VOLKSWAGEN SLOVAKIA, a.s.	613	1,215
Volkswagen Navarra, S.A.	2,805	1,749
Volkswagen Group Sverige AB	4,803	2,324
Import VOLKSWAGEN Group s.r.o.	963	893
Volkswagen do Brasil Ltda.	1,172	1,253
AUDI HUNGARIA MOTOR Kft.	141	47
AUDI AG	330	153
SEAT, S.A.	1,166	769
VOLKSWAGEN Group Italia S.p.A	5,584	4,168
Volkswagen-Audi España S.A.	4,534	4,152
AUDI BRUSSELS S.A.	390	793
Volkswagen of South Africa (Pty.) Ltd.	1,639	49
Volkswagen India Private Ltd.	1,144	830
Volkswagen Original Teile Logistik GmbH & Co. KG	1,223	151
Volkswagen de México S.A. de C.V.	307	58
ŠkoFIN s.r.o.	141	173
Volkswagen Poznan Sp.zo.o.	147	–
Volkswagen Group Australia Pty. Ltd.	642	411
Volkswagen Group Ireland Ltd.	1,568	314

SALES TO RELATED PARTIES (CZK MILLION) – CONTINUATION

	2010	2009
Volkswagen Autoeuropa Lda.	162	54
Bentley Motors TK	10	27
Other	83	119
Other related parties*		
Intercar Austria GmbH	6,143	5,700
P.Z. Auto d.o.o.	785	669
Porsche Hungaria Handels Kft.	1,664	1,249
Porsche Inter Auto CZ spol. s r.o.	1,648	1,362
Porsche Konstruktion GmbH&CoKG	249	242
PORSCHE MAKEDONIJA DOOEL Skopje	156	167
Porsche Romania s.r.l.	2,141	1,805
Porsche Slovakia spol. s.r.o.	282	289
Porsche Slovenija d.o.o.	792	543
Shanghai Volkswagen Automotive Co. Ltd.	1,604	672
Other related parties	90	71
Total	**139,138**	**121,674**

* 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. Category Other related parties includes mainly transactions with the companies of the Porsche Automobil Holding SE and Porsche Holding GmbH groups. These transactions are disclosed within related party disclosures based on the fact that some members of Porsche´s and Piëch's families (controlling parties of Porsche Automobil Holding SE and Porsche Holding GmbH) are members of key management of ultimate parent VOLKSWAGEN AG.

The above table Sales to related parties comprises only revenues from sales of vehicles, spare parts and supplies of vehicle components, except for revenues from the following companies which comprise also revenues from royalties:

– Shanghai Volkswagen Automotive Co. Ltd. – 2010: CZK 515 million (2009: CZK 655 million),
– Skoda Auto India Private Ltd. – 2010: CZK 42 million (2009: CZK 27 million), and
– OOO VOLKSWAGEN Group Rus – 2010: CZK 33 million (2009: CZK 6 million).

In addition to revenues specified in the table Sales to related parties, in 2010 (2009) the Company also realised revenues relating to interest from intercompany loans and deposits granted to the following companies within Volkswagen Group:

– VW International Payment Services N.V – 2010: CZK 166 million (2009: CZK 20 million),
– Volkswagen Group Services – 2010: CZK 39 million (2009: CZK 0 million),
– ŠkoFIN s.r.o. – 2010: CZK 35 million (2009: CZK 86 million),
– VOLKSWAGEN AG – 2010: CZK 11 million (2009: CZK 120 million), and
– ŠKO-ENERGO s.r.o. – 2010: CZK 3 million (2009: CZK 9 million).

Dividends received from subsidiaries are disclosed in Note 7. Dividends received from associates are disclosed in Note 8.

PURCHASES FROM RELATED PARTIES (CZK MILLION)

	2010	2009
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	28,062	21,325
Subsidiaries		
Skoda Auto India Private Ltd.	718	10
ŠkodaAuto Deutschland GmbH	389	324
ŠKODA AUTO Slovensko, s.r.o.	67	81
Skoda Auto Polska S.A.	109	125
Associates		
OOO VOLKSWAGEN Group Rus	203	104
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	2,893	2,324
Volkswagen Versicherungsvermittlung GmbH	115	146
VOLKSWAGEN Group United Kingdom Ltd.	315	224
Groupe VOLKSWAGEN France s.a.	420	279
VOLKSWAGEN SLOVAKIA, a.s.	2,176	4,395
AUDI AG	192	365
VOLKSWAGEN SARAJEVO d.o.o.	49	51
AUDI HUNGARIA MOTOR Kft.	5,127	4,030
Import VOLKSWAGEN Group s.r.o.	104	126
ŠkoFIN s.r.o.	173	178
Volkswagen Group Sverige AB	51	73
SEAT, S.A.	568	896
VOLKSWAGEN Group Italia S.p.A	662	486
Gearbox del Prat, S.A.	558	344
Volkswagen-Audi España S.A.	291	466
Volkswagen Poznan PkW (Komponente)	565	285
Volkswagen Motor Polska Sp.z o.o.	3,640	3,240
Volkswagen Zubehör GmbH	26	23
Volkswagen de México S.A. de C.V.	35	58
Volkswagen Group of America Inc.	15	21
Volkswagen Group Ireland Ltd.	13	51
Volkswagen Group Australia Pty. Ltd.	112	173
ŠKO-ENERGO, s.r.o.	1,908	2,059
Volkswagen Argentina S.A.	324	102
Volkswagen Autoeuropa Lda.	20	26
Volkswagen (China) Investment Company Ltd.	66	–
INIS International Insurance Service s.r.o.	40	47
Volkswagen Logistics GmbH & Co OHG	1,604	1,405
VW Procurement Services GmbH	129	22
Italdesign Giugiaro S.p.A.	76	–

PURCHASES FROM RELATED PARTIES (CZK MILLION) – CONTINUATION

	2010	2009
Other	89	70
Other related parties*		
Intercar Austria GmbH	111	111
P.Z. Auto d.o.o.	16	22
Porsche Hungaria Handels Kft.	36	25
Porsche Inter Auto CZ spol. s r.o.	18	15
Porsche Romania s.r.l.	21	23
Porsche Slovenija d.o.o.	24	12
SAIC - Volkswagen Sales Company Ltd.	12	178
e4t electronics for transportation s.r.o.	95	78
Other related parties	13	4
Total	**52,250**	**44,404**

* 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. Category Other related parties includes mainly transactions with the companies of the Porsche Automobil Holding SE and Porsche Holding GmbH groups. These transactions are disclosed within related party disclosures based on the fact that some members of Porsche´s and Piëch's families (controlling parties of Porsche Automobil Holding SE and Porsche Holding GmbH) are members of key management of ultimate parent VOLKSWAGEN AG.

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. 12. 2010	31. 12. 2009
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	352	216
Subsidiaries		
Skoda Auto India Private Ltd.	1,367	864
Skoda Auto Polska S.A.	43	68
ŠKODA AUTO Slovensko, s.r.o.	17	52
ŠkodaAuto Deutschland GmbH	19	1
Associates		
OOO VOLKSWAGEN Group Rus	2,667	2,057
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	90	33
VOLKSWAGEN Group United Kingdom Ltd.	20	73
Groupe VOLKSWAGEN France s.a.	22	31
VOLKSWAGEN SLOVAKIA, a.s.	8	142
Volkswagen Navarra, S.A.	176	126
Volkswagen Group Sverige AB	63	4
Volkswagen do Brasil Ltda.	173	295
Import VOLKSWAGEN Group s.r.o.	77	77
Volkswagen de México, S.A. de C.V.	60	59
Volkswagen of South Africa (Pty.) Ltd.	188	50
Volkswagen-Audi España S.A.	32	4
ŠkoFIN s.r.o.	123	129
AUDI AG	24	38
Volkswagen India Private Ltd.	400	496
SEAT, S.A.	157	46
VOLKSWAGEN Group Italia S.p.A	42	23
AUDI BRUSSELS S.A.	96	4
Volkswagen Group Australia Pty. Ltd.	126	65
SKO-ENERGO, s.r.o.	14	15
Volkswagen Autoeuropa Lda.	23	55
Volkswagen Original Teile Logistik GmbH & Co. KG	125	69
Volkswagen Poznan Sp.z.o.o.	32	–
Other	38	82

RECEIVABLES FROM RELATED PARTIES (CZK MILLION) – CONTINUATION

	31. 12. 2010	31. 12. 2009
Other related parties*		
Shanghai Volskwagen Automotive Co. Ltd	691	351
Intercar Austria GmbH	–	64
P.Z. Auto d.o.o.	6	6
Porsche Hungaria Handels Kft.	4	11
Porsche Slovenija d.o.o.	6	–
Other related parties	1	6
Total	**7,282**	**5,612**

* 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. Category Other related parties includes mainly transactions with the companies of the Porsche Automobil Holding SE and Porsche Holding GmbH groups. These transactions are disclosed within related party disclosures based on the fact that some members of Porsche´s and Piëch's families (controlling parties of Porsche Automobil Holding SE and Porsche Holding GmbH) are members of key management of ultimate parent VOLKSWAGEN AG.

The above table Receivables from related parties comprises only trade receivables except for receivables from the companies specified below, which comprise also the receivables from royalties as at 31 December 2010 (31 December 2009):

– Shanghai Volkswagen Automotive Co. Ltd: CZK 465 million (CZK 298 million),
– OOO VOLKSWAGEN Group Rus: CZK 59 million (CZK 18 million), and
– Skoda Auto India Private Ltd: CZK 36 million (CZK 27 million).

In addition to trade receivables and receivables from royalties, as at 31 December 2010 (31 December 2009) the Company had also receivables from deposits and loans to the following companies:

– Volkswagen Group Services: CZK 19,300 million (CZK 0 million),
– VW International Payment Services N.V: CZK 15,000 million (CZK 10,000 million),
– ŠkoFIN s.r.o.: CZK 0 million (CZK 3,000 million), and
– ŠKO-ENERGO, s.r.o.: CZK 0 million (CZK 540 million).

Interest from the above-mentioned deposits and loans outstanding as at 31 December 2010 amounted to CZK 78 million (31 December 2009: CZK 22 million). Average interest rate relating to these loans is disclosed in Note 9.

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 17.

Investments in subsidiaries are disclosed in Note 7 and investments in associates are disclosed in Note 8.

LIABILITIES TO RELATED PARTIES (CZK MILLION)

	31. 12. 2010	31. 12. 2009
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	832	762
Subsidiaries		
Skoda Auto India Private Ltd.	669	4
Skoda Auto Polska S.A.	61	35
ŠkodaAuto Deutschland GmbH	882	1,627
ŠKODA AUTO Slovensko, s.r.o.	80	30
Associates		
OOO VOLKSWAGEN Group Rus	6	38
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	230	142
Volkswagen Poznan PkW (Komponente)	45	24
Volkswagen Motor Polska Sp.z o.o.	237	16
VOLKSWAGEN Group United Kingdom Ltd.	198	170
Groupe VOLKSWAGEN France s.a.	394	137
VOLKSWAGEN SLOVAKIA, a.s.	12	590
Volkswagen Group Ireland Ltd.	69	79
SKO-ENERGO, s.r.o.	165	157
Volkswagen Argentina S.A.	69	28
Gearbox del Prat S.A.	–	41
Volkswagen Group Australia Pty. Ltd.	103	98
Volkswagen-Audi España S.A.	344	486
AUDI AG	53	236
AUDI HUNGARIA MOTOR Kft.	489	684
VOLKSWAGEN Group Italia S.p.A	454	386
Volkswagen Group Services S.A.	1,118	759
Volkswagen Logistics GmbH & Co OHG	275	570
VW Procurement Services GmbH	35	13
Volkswagen India Private Ltd.	12	–
Italdesign Giugiaro S.p.A.	76	–
Volkswagen (China) Investment Company Ltd.	66	–
Other	48	79
Other related parties*		
Porsche Romania s.r.l.	9	55
e4t electronics for transportation s.r.o.	36	20
SAIC - Volkswagen Sales Company Ltd.	2	80
Other related parties	25	8
Total	**7,094**	**7,354**

* 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. Category Other related parties includes mainly transactions with the companies of the Porsche Automobil Holding SE and Porsche Holding GmbH groups. These transactions are disclosed within related party disclosures based on the fact that some members of Porsche´s and Piëch's families (controlling parties of Porsche Automobil Holding SE and Porsche Holding GmbH) are members of key management of ultimate parent VOLKSWAGEN AG.

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 2010 (31 December 2009: CZK 3,000 million). Interest payable relating to this loan amounts to CZK 107 million as at 31 December 2010 (31 December 2009: CZK 107 million).

Interest rate on this loan is 4.53%.

INFORMATION ON KEY MANAGEMENT PERSONNEL REMUNERATION (CZK MILLION)

	2010	2009
Salaries and other short-term employee benefits*	273	265
Other long-term employee benefits	15	9
Total	**288**	**274**

* 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 in addition to the remuneration paid, payable or provided by the Company in the form of salaries, bonuses and non-monetary remuneration also remuneration from other Volkswagen Group companies in exchange for services rendered to the Company.

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 2010, the key management personnel included 41 persons (2009: 47 persons). CZK 98 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2010 (31 December 2009 CZK 92 million).

29. Other information (CZK million)

The compensation paid to the Company's auditors for the accounting period was CZK 25 million (2009: CZK 32 million) and covered the following services:

	2010	2009
Audit and other assurance services	16	20
Tax and related services	4	3
Other advisory services	5	9
Total	**25**	**32**

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 2010.

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 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 (ŠkodaAuto 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 2011

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Eckhard Scholz

Jűrgen Stackmann

Karlheinz Emil Hell

Michael Oeljeklaus

Persons responsible for accounting:

Jana Šrámová

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 2010–31 DECEMBER 2010

The report on relations between VOLKSWAGEN AG, having its registered office in Wolfsburg, Federal Republic of Germany, (hereinafter referred to as the "Controlling Entity" or "Volkswagen") and ŠKODA AUTO a.s., having its registered offices in Mladá Boleslav, 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 2010 to 31 December 2010 (hereinafter referred to as the "accounting period") was prepared pursuant to provision § 66a paragraph 9 of the Act No. 513/1991 Sb., 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 offices in Amsterdam, The Kingdom of the Netherlands, became a new sole shareholder of Škoda Auto due to structural changes within the Volkswagen Group. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of Volkswagen AG.

Contracts concluded

Škoda Auto and Volkswagen, and Škoda Auto and the companies controlled by Volkswagen concluded contracts in the following areas during the accounting period:

1. Sale of own products, goods and services

a) vehicles
Škoda Auto did not conclude any new vehicle sale contracts in the accounting period.

b) genuine parts
Škoda Auto did not conclude any new genuine part sale contracts in the accounting period.

c) other
Škoda Auto entered into new service, licence and other products sale contracts with the following companies:

AUDI AG
VOLKSWAGEN AG
AUDI HUNGARIA MOTOR Kft.
OOO VOLKSWAGEN Group Rus
Gearbox del Prat, S.A.
Volkswagen Autoeuropa Lda.
VOLKSWAGEN SLOVAKIA, a.s.
Bentley Motors Ltd.
SEAT, S.A.
Volkswagen Zubehör GmbH

2. Purchase of goods and services

a) production material
Škoda Auto concluded new production material purchase contracts with the following companies:

VOLKSWAGEN AG
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Navarra, S.A.

b) indirect material and services
Škoda Auto entered into the following new indirect material and service purchase contracts (indirect material and services purchase, research and development cooperation, IT services, software and hardware supplies, customer services consultancy) with the following companies:

VOLKSWAGEN AG
ŠKODA AUTO Slovensko, s.r.o.
VOLKSWAGEN SLOVAKIA, a.s.
OOO VOLKSWAGEN Group Rus
Volkswagen India Private Ltd.
Groupe VOLKSWAGEN France s.a.
Audi Akademie GmbH
AUDI AG
Volkswagen Procurement Services GmbH
AUDI HUNGARIA MOTOR Kft.
Carmeq GmbH
Gearbox del Prat, S.A.
Import VOLKSWAGEN Group s.r.o.
INIS International Insurance Service s.r.o.,
Porsche Consulting GmbH
ŠkodaAuto Deutschland GmbH
Skoda Auto Polska S.A.
Skoda Auto India Private Ltd.
ŠkoFIN s.r.o.
Volkswagen Argentina S.A.
Volkswagen- Audi Espaňa S.A.
Volkswagen Coaching GmbH
Volkswagen Gewerbegrund GmbH
Volkswagen Group Australia Pty Ltd.
VOLKSWAGEN Group United Kingdom Ltd.
Volkswagen Group Ireland Ltd.
VOLKSWAGEN Group Italia S.p.A.
VOLKSWAGEN Group Japan K.K.
Volkswagen Group Sverige AB
Volkswagen Logistics GmbH
Volkswagen Navarra, S.A.
Volkswagen Group of America, Inc.
Volkswagen Transmission (Shanghai) Company
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Sachsen GmbH
AUDI BRUSSELS S.A.
AUTO 5000 GmbH
Automobilmanufaktur Dresden GmbH
Italdesign Giugiaro S.p.A.
Porsche Engineering Group GmbH
SALLIG – S.R.L.
SEAT Sport S.A.
SITECH Sitztechnik GmbH
Sitech Sp. z o.o.
Volkswagen de México S.A. de C.V.
Volkswagen Poznan Sp. z o.o.
Volkswagen Motorsport Verwaltungs GmbH

c) genuine parts
As part of genuine parts purchasing, Škoda Auto entered into new contracts with the following companies:

VOLKSWAGEN AG
Volkswagen de México S.A. de C.V.
Volkswagen of South Afrika (Pty.) Ltd.

d) investments
Škoda Auto entered into investment purchase new contracts with the following companies:

VOLKSWAGEN AG
Import VOLKSWAGEN Group s.r.o.
Volkswagen Procurement Services GmbH

3. Other contractual relationships

Škoda Auto also established new contractual relationships (marketing services, training, sales support, financial services, consultancy, production of cars, system support and other support) with the following companies:

VOLKSWAGEN AG
Volkswagen (China)Investment Company Ltd.
ŠkodaAuto Deutschland GmbH
Skoda Auto India Private Ltd.
Import VOLKSWAGEN Group s.r.o.
Volkswagen Group Services S.A.
ŠKO-ENERGO s.r.o.
ŠKODA AUTO Slovensko, s.r.o.
OOO VOLKSWAGEN Group Rus
Volkswagen India Private Ltd.
ŠkoFIN s.r.o.
Groupe VOLKSWAGEN France s.a.
Volkswagen Audi-Espaňa S.A.
VOLKSWAGEN Group Italia S.p.A.
Volkswagen Group Sverige AB
Volkswagen Group Ireland Ltd.
VOLKSWAGEN Group United Kingdom Ltd.
Volkswagen Group Australia Pty Ltd.
Skoda Auto Polska S.A.
VOLKSWAGEN SLOVAKIA, a.s.
Porsche Consulting GmbH

Other legal acts

In the accounting period no legal acts were reported which were carried out in favour of Volkswagen and entities controlled by Volkswagen, which went beyond the scope of standard legal acts carried out by Volkswagen while exercising its rights as the Controlling Entity of Škoda Auto.

Škoda Auto paid a dividend of CZK 1,633,668 thousand to Volkswagen International Finance N.V., as the sole shareholder, on 1 April 2010 based on the Decision of the sole shareholder Volkswagen International Finance N.V. from 22 March 2010.

In 2010 dividends and share in profit of CZK 598,125 thousand were paid out to the Company by the subsidiaries. In 2010 dividends and share in profit of CZK 71,875 thousand were paid out to the Company by the associates.

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 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 2011

The Board of Management

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 Boleslava, also includes all significant subsidiaries and associates

Deliveries to customers – number of Škoda-brand vehicles delivered to end customers that were produced in Škoda Auto Group and/or partner plants

e-learning – a training method based on electronic training programs running on personal computers

Gross liquidity – financial 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

Platforma 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 by the Company 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 ŠAS; VW and AUDI vehicles sold by SAIPL). For accuracy, vehicle assembly kits are reported by the Company in the vehicles segment.

SAD – ŠkodaAuto 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.

On 1 October 2010, ŠKODA AUTO's stake in the registered capital of ŠKO-ENERGO was increased from 34.0% to 44.5%.

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 the securities issuer have been knowingly omitted or distorted.

Mladá Boleslav, on 17 February 2011

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Eckhard Scholz

Jürgen Stackmann

Karlheinz Emil Hell

Michael Oeljeklaus

Persons responsible for accounting:

Jana Šrámová

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 result 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:							
Lendings	CZK millions	–	–	–	–	–	8600
Equity	**CZK millions**	**22,700**	**26,032**	**28,157**	**29,817**	**31,758**	**32,844**
Liabilities and other liabilities	**CZK millions**	**32,910**	**40,629**	**38,454**	**37,001**	**34,393**	**38,993**
of which:							
Bonds	CZK millions	–	10,000	10,000	10,000	10,000	10,000
Provisions under special regulations	CZK millions	4,949	4,284	3,939	4,398	5,108	6,522
Bank loans	CZK millions	3,000	4,850	2,000	5,000	–	–
Assets	**CZK millions**	**55,610**	**66,661**	**66,611**	**66,818**	**66,151**	**71,837**
Net liquidity	**CZK millions**	**(1,339)**	**(4,007)**	**(798)**	**(4,660)**	**2,495**	**4,534**
Investments	**CZK millions**	**11,313**	**13,873**	**16,235**	**11,586**	**10,248**	**8,430**
Investment ratio	%	10.2	10.2	10.6	8.0	7.1	5.5
Equity ratio	%	40.8	39.1	42.3	44.6	48.0	45.7
Equity-to-fixed assets ratio	%	67.4	66.5	62.6	66.4	72.1	79.8

KEY FIGURES AND FINANCIAL RESULTS ACCORDING TO IFRS

PRODUCTION, SALES AND TECHNICAL DATA

		Škoda Auto Group			Škoda Auto Company		
		2005	2006	2007	2005	2006	2007
Deliveries to customers	**vehicles**	**492,111**	**549,667**	**630,032**	**492,111**	**549,667**	**630,032**
Sales	**vehicles**	**498,467**	**562,251**	**619,635**	**493,119**	**555,202**	**623,085**
Sales of Škoda cars	vehicles	496,387	559,821	617,269	493,119	555,202	623,085
Production	**vehicles**	**494,127**	**556,347**	**623,291**	**494,637**	**556,433**	**623,529**
Production of Škoda cars	vehicles	494,127	556,347	622,811	494,637	556,433	623,529
Employees	persons	26,742	27,680	29,141	26,014	26,738	27,753

		Škoda Auto Group			Škoda Auto Company		
		2008	2009	2010	2008	2009	2010
Deliveries to customers	**vehicles**	**674,530**	**684,226**	**762,600**	**674,530**	**684,226**	**762,600**
Sales	**vehicles**	**625,819**	**551,604**	**584,763**	**622,090**	**539,382**	**583,780**
Sales of Škoda cars	vehicles	621,683	545,690	576,270	622,083	539,380	583,780
Production	**vehicles**	**606,614**	**522,542**	**583,333**	**603,247**	**519,910**	**576,362**
Production of Škoda cars	vehicles	603,981	519,645	575,742	603,247	519,910	576,362
Employees*	persons	26,695	26,153	24,714	25,331	24,817	23,308

* In 2010, the method of reporting the employees headcount was altered. The number of employees is reported excluding temporary employees and including apprentices.

PROFIT AND LOSS ACCOUNT

		Škoda Auto Group			Škoda Auto Company		
		2005	2006	2007	2005	2006	2007
Sales revenue	**CZK millions**	**187,382**	**203,659**	**221,967**	**177,822**	**189,816**	**211,026**
of which:							
Domestic	%	13.3	12.6	11.8	14.0	13.5	12.4
Export	%	86.7	87.4	88.2	86.0	86.5	87.6
Cost of sales	**CZK millions**	**163,738**	**175,636**	**185,474**	**159,187**	**167,709**	**180,865**
	% of revenues	87.4	86.2	83.6	89.5	88.4	85.7
Gross profit	**CZK millions**	**23,644**	**28,023**	**36,493**	**18,635**	**22,107**	**30,161**
	% of revenues	12.6	13.8	16.4	10.5	11.6	14.3
Distribution expenses	CZK millions	10,611	11,903	13,201	6,558	6,905	7,964
Administrative expenses	CZK millions	3,676	3,587	4,207	3,329	3,161	3,701
Balance of other operating revenues/costs	CZK millions	1,503	2,069	699	1,256	1,735	525
Operating profit	**CZK millions**	**10,860**	**14,602**	**19,784**	**10,004**	**13,776**	**19,021**
	% of revenues	5.8	7.2	8.9	5.6	7.3	9.0
Financial result	CZK millions	(787)	(404)	171	(564)	(216)	425
Profit before income tax	**CZK millions**	**10,073**	**14,198**	**19,860**	**9,440**	**13,560**	**19,446**
Profit before income tax-to-revenues ratio	%	5.4	7.0	8.9	5.3	7.1	9.2
Income tax expense	CZK millions	2,180	3,136	3,878	2,077	2,678	3,554
Profit for the year*	**CZK millions**	**7,893**	**11,062**	**15,982**	**7,363**	**10,882**	**15,892**
Profit for the year-to-sales ratio	%	4.2	5.4	7.2	4.1	5.7	7.5

* Consolidated figures are given net of non-controlling interests.

PROFIT AND LOSS ACCOUNT

		Škoda Auto Group			Škoda Auto Company		
		2008	2009	2010	2008	2009	2010
Sales revenue	**CZK millions**	**200,182**	**187,858**	**220,005**	**188,572**	**170,666**	**203,819**
of which:							
Domestic	%	11.9	11.5	14.0	12.7	12.5	12.0
Export	%	88.1	88.5	86.0	87.3	87.5	88.0
Cost of sales	**CZK millions**	**171,523**	**166,296**	**189,260**	**165,600**	**155,868**	**179,369**
	% of revenues	85.7	88.5	86.0	87.8	91.3	88.0
Gross profit	**CZK millions**	**28,659**	**21,562**	30,745	**22,972**	**14,798**	24,450
	% of revenues	14.3	11.5	14.0	12.2	8.7	12.0
Distribution expenses	CZK millions	12,804	13,153	14,403	7,590	7,702	9,359
Administrative expenses	CZK millions	4,712	4,826	5,203	4,223	4,320	4,616
Balance of other operating revenues/costs	CZK millions	2,477	2,341	177	1,477	1,948	560
Operating profit	**CZK millions**	**13,620**	**5,924**	**11,316**	**12,636**	**4,724**	**11,035**
	% of revenues	6.8	3.2	5.1	6.7	2.8	5.4
Financial result	CZK millions	262	(667)	(382)	651	(343)	180
Profit before income tax	**CZK millions**	**13,376**	**4,702**	**10,586**	**13,287**	**4,381**	**11,215**
Profit before income tax-to-revenues ratio	%	6.7	2.5	4.8	7.0	2.6	5.5
Income tax expense	CZK millions	2,558	1,240	1,747	2,020	942	1,811
Profit for the year*	**CZK millions**	**10,818**	**3,462**	8,839	**11,267**	**3,439**	9,404
Profit for the year-to-sales ratio	%	5.4	1.8	4.0	6.0	2.0	4.6

* Consolidated figures are given net of non-controlling interests.

BALANCE SHEET/FINANCING

		Škoda Auto Group			Škoda Auto Company		
		2005	2006	2007	2005	2006	2007
Non-current assets	**CZK millions**	**55,424**	**54,292**	**56,767**	**55,023**	**53,936**	**56,903**
Current assets	**CZK millions**	**34,331**	**50,920**	**59,014**	**28,956**	**43,499**	**48,658**
of which:							
Lendings	CZK millions	11,200	23,950	25,554	11,200	23,950	25,554
Equity*	**CZK millions**	**46,757**	**58,321**	**67,034**	**46,483**	**58,007**	**66,532**
Non-current and current liabilities	**CZK millions**	**42,998**	**46,891**	**48,747**	**37,496**	**39,428**	**39,029**
of which							
Nominal value of bonds	CZK millions	5,000	5,000	2,000	5,000	5,000	2,000
Assets	**CZK millions**	**89,755**	**105,212**	**115,781**	**83,979**	**97,435**	**105,561**
Net liquidity	**CZK millions**	**4,911**	**21,157**	**29,736**	**6,070**	**19,352**	**26,283**
Cash flows from operating activities	**CZK millions**	**23,550**	**27,420**	**30,787**	**21,421**	**24,203**	**29,275**
Cash flows from investing activities	**CZK millions**	**(11,566)**	**(11,090)**	**(13,785)**	**(11,299)**	**(10,910)**	**(13,913)**
Investment ratio	%	4.7	4.1	4.9	4.8	4.3	4.9
Equity ratio	%	52.1	55.4	57.9	55.4	59.5	63.0
Equity-to-fixed assets ratio	%	84.4	107.4	118.1	84.5	107.5	116.9

* Consolidated figures are given net of non-controlling interests.

		Škoda Auto Group			Škoda Auto Company		
		2008	2009	2010	2008	2009	2010
Non-current assets	**CZK millions**	**60,017**	**59,083**	**58,864**	**60,119**	**59,926**	**59,989**
Current assets	**CZK millions**	**62,439**	**59,293**	**76,872**	**51,276**	**48,099**	**62,278**
of which:							
Lendings	CZK millions	25,721	13,562	35,678	25,238	13,562	34,378
Equity*	**CZK millions**	**71,608**	**68,180**	**74,772**	**71,721**	**68,519**	**75,682**
Non-current and current liabilities	**CZK millions**	**50,848**	**50,196**	**60,964**	**39,674**	**39,506**	**46,585**
of which							
Nominal value of bonds	CZK millions	2,000	2,000	–	2,000	2,000	–
Assets	**CZK millions**	**122,456**	**118,376**	**135,736**	**111,395**	**108,025**	**122,267**
Net liquidity	**CZK millions**	**18,272**	**28,013**	**40,211**	**18,353**	**23,350**	**35,047**
Cash flows from operating activities	**CZK millions**	**13,014**	**26,529**	**28,168**	**13,978**	**22,321**	**26,256**
Cash flows from investing activities	**CZK millions**	**(16,147)**	**(10,942)**	**(23,313)**	**(14,445)**	**(11,454)**	**(22,590)**
Investment ratio	%	5.6	5.4	4.6	5.4	6.0	4.9
Equity ratio	%	58.5	57.6	55.1	64.4	63.4	61.9
Equity-to-fixed assets ratio	%	119.3	115.4	127.0	119.3	114.3	126.2

* Consolidated figures are given net of non-controlling interests.

ORGANISATIONAL STRUCTURE OF ŠKODA AUTO AS AT 1 JANUARY 2011

G Chairman of the Board of Management

- **GG*** Board Main Secretariat and Strategic Planning
  - **GGR*** Relations with Public Institutions
- **GP*** Corporate Communication
- **GQ*** Quality Management
- **GM*** Product Management
  - **GMS*** Brand Products Planning
- **GZ*** International Business Management
- **GA** Internal Audit
- **GKP** Production Costs Optimization
- **GR** International Development
- **GB** Brand Image

E Commercial Affairs

- **EC*** Controlling
  - **ECP*** Controlling of Subsidiaries and Sales
  - **ECV*** Controlling of Production and Logistics
- **EP*** Legal Affairs
- **EO*** Information Systems and Organisation
- **EK** Group Management of IS and proc. in the India Region
- **ET** Treasury
- **EU*** Accounting

P Sales and Marketing

- **PO*** Sales Management
- **PM*** Marketing
- **P1*** Sales Central and Eastern Europe
- **P2*** Sales International
- **P3*** Sales – Projects Abroad
- **PF** Fleet Business
- **PS*** Customer Services
- **PD*** Sales Original Parts/ Accessories

V Production and Logistics

- **V1*** A0 Project Management – Production
- **V2*** A Project Management – Production
- **V3*** B / SUV Project Management – Production
- **VS*** Brand Management
  - **VSN*** Tool Shop
- **VP*** Brand Planning
- **VL*** Brand Logistics
- **VA*** Power Unit Production
- **VG** Global Strategy – Production and Placement–P
- **VF*** Car Production
  - **VFK*** Car Production – Kvasiny
  - **VFR*** Car Production – Vrchlabí

T Technical Development

TC Special Electric Strategic and Development Projects

TD* Design

TE Planning and Coordination

TF* Frontloading

TK* Car Body Development

TM* Electric/Electronic Development and Servicing

TO Materials Cost Optimization Management

TP* Chassis and Power Train Development

TR* Project Technical Management

TS Škoda Motorsport

TZ* Total Car Development

Z Human Resources Management

ZP* Human Resources Planning

ZB* Human Resources Support

ZG Health Protection

ZC Human Resources Development

ZO Brand Security and Protection

N Purchasing

NP* Purchasing Project Management

NF Forward a Global Sourcing

NA Power Train Purchasing

NM Metals Purchasing

NI Interior Chemicals Purchasing

NX Exterior Chemicals Purchasing

NE Electric Purchasing

NR Purchased Parts Management

NV General Purchasing

* key positions

NOTES

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www.skoda-auto.com

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