

SIMPLY CLEVER



ŠkodaAuto SUSTAINABILITY REPORT 2005/2006



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Škoda Auto has a long-term program to minimize the environmental impact of its activities. Maintaining a balance of economic, environmental and social spheres – a prerequisite for sustainable development – is one of our priorities.



COMPANY PROFILE



FOREWORD FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

2005 was a particularly successful year for Škoda Auto. A total of 494,000 cars produced and more than 492,000 cars delivered marked a new record. These results are then evidenced by a 15% increase in revenues, thanks to which the company retains its position as the Czech leader in turnover. Within five years Škoda Auto intends to raise production to 800,000 cars annually, a quarter of these, however, will be produced outside the Czech Republic.

This year our company enters its second century of car production. On one hand, it is a reason to be proud, on the other, it is a commitment which requires all employees to set ambitious goals. We must not forget that the car industry is a very dynamic sector. At the same time, it has strong momentum, which makes it impossible to catch up to competitors within a month or year if you drop behind. Therefore, we must foresee and assess the desires of our customers sufficiently ahead of time and meet those desires. We must assume an active role and bring our company up to the level of the best companies in the class also with respect to criteria in which our performance is not sufficient.

We must also be active on individual markets. We want to maintain our very good position in Central Europe, including our dominant position in the Czech Republic. In Western Europe we will focus on increasing our brand's market share. Important attention will be paid to further increasing our production in existing foreign assembly plants as well as developing new ones, particularly in Russia and China. Currently, Škoda Auto operates in 90 markets worldwide.



*Detlef Wittig
Chairman, Board of Directors*

HISTORY

Two gentlemen were at the birth of the Škoda Auto car factory, Václav Klement and Václav Laurin. In 1895 they started manufacturing bicycles in Mladá Boleslav, and later motorcycles. In 1905 the company switched to the manufacture of cars and already by 1910 it was the largest car factory in the Austro-Hungarian Empire. In 1925 a merger took place for economic reasons with Škoda Pilsen, the largest machine works at the time. In 1991 the Czechoslovak government sold the company to the Volkswagen Group, of which Škoda Auto became a part. Today, the company's car factories belong among the world's most advanced. Škoda Auto produces three model lines, and in 2006 a fourth line was added to the range.

STRATEGY FOR SUSTAINABLE DEVELOPMENT

Škoda Auto has been an important player not just domestically; its projects contribute to the dynamics of overall industrial growth in many other countries throughout the world. Thanks to the strong economic results achieved, the company has been among the leaders of the prestigious "Top 100 Czech companies" list for several years already.

Škoda Auto places a strong emphasis on social responsibility towards its employees thus creating a working environment which fosters motivation, efficiency and high creativity. As a part of the VW Group, Škoda Auto maintains its sustainable development in line with the overall Group strategy.

The company minimizes the environmental impact of its activities, maintaining a balance between economic, environmental and social policies. The company adheres to all legislative requirements for environmental protection.

Environmental considerations have been taken into account already in the development phase, and the most stringent requirements for environmentally friendly production processes have been applied in each phase of the products' life-cycles.

Škoda Auto puts high requirements on its suppliers, including requirements for environmental protection. Within its sales network Škoda Auto focuses on the observance of waste management, air and water protection principles.

COMPANY OBJECTIVES

Economic performance

Existing activities will continue aiming at further improving

the effectiveness and quality of company processes with an emphasis on overall rationalization of all activities. Particular attention will continue to be paid to costs with an emphasis on material inputs.

Successful pursuit of strategic sales objectives is expected in 2006, particularly as a result of existing market development as well as opening new markets. Therefore, large investments will have to be made to provide for the modern infrastructure necessary for further development of car-assembly projects abroad.

Social and educational investments will continue as well as the construction of a modern college campus for both private and state colleges.

Environment

Objectives in activities and services

1. Abatement of air emissions
2. Abatement of wastes
3. Abatement of water, energy and material consumption
4. Reducing the generation of wastewater and improving its quality
5. Reducing the potential for water hazards
6. Improving the working environment
7. Improving environment through green planting
8. Prevention of soil contamination
9. Remediation of old environmental burdens

Product objectives

10. Continuous improvement of the environmentally friendly face of Škoda products

Social sphere

Motto: The road to satisfied customers is via satisfied employees.

The objective of Škoda Auto's social policy is to create a working environment which fosters motivation, efficiency and high creativity in employees.

ŠKODA AUTO POLICY

Legacy of Founders: "Only the best we are capable of is good enough for our customers."

(Laurin & Klement, 1914)

Škoda Auto develops, produces and offers quality cars that are environmentally safe and original parts and accessories whose properties not only fulfill but even exceed the desires of customers. In accordance with the VOLKSWAGEN EXCELLENCE corporate strategy, the objective of Škoda Auto is to arouse enthusiasm in customers, so that they remain loyal to the Škoda brand.

Adherence to the following principles by all employees is a guarantee of top results and a successful future for Škoda Auto:

- In design, manufacture, sales and provision of services, Škoda Auto has been guided by the desires of both its external and internal **customers**.
- Besides meeting all **legislative and regulatory requirements**, Škoda Auto has also undertaken to **continuously improve** its products and process so as to enhance its business success while continuing to reduce environmental impact.
- Škoda Auto creates **mutually beneficial and balanced relations** with its contractual partners as well as with the public.
- Škoda Auto is very particular about the prevention of **environmental pollution** and the economical exploitation of natural resources, using environmental friendly materials and technologies. And it requires the same from its contractors.
- **Each employee** of Škoda Auto is responsible for the quality and constant improvement of his or her work, environmental protection and protection of the company's property and information.
- The **management** of Škoda Auto **supports** its employees in their personal development, creating a favorable environment in accordance with the principles of occupational health and safety in order for them to be content and deliver competitive quality.

The management of Škoda Auto has undertaken to create conditions for achieving objectives and fulfilling mentioned principles. It expects its employees to be entirely committed to their fulfillment.



D. Wittig
Chairman of the Board
of Directors



M. Jahn
Member of the Board
of Directors
Human Resources



F. Kappler
Member of the Board
of Directors
Sales and Marketing



H. Kintscher
Member of the Board
of Directors
Commercial Affairs



Dr. H. Ludanek
Member of the Board
of Directors
Technical Development



H. Mühl
Member of the Board
of Directors
Production and Logistics



E. Mackowiak
Quality Management



Škoda Auto has a long-term program to minimize the environmental impact of its activities. Maintaining a balance of economic, environmental and social spheres – a prerequisite for sustainable development – is one of our priorities.

OUR ACHIEVEMENTS



PRODUCTS AND SERVICES

The quality of Škoda Auto products has increased significantly over the past few years, which has resulted in the brand's greater popularity and prestige among customers both domestically and abroad. But dealer and customer expectations have increased as well. It is important for the company to know these expectations. For that reason their satisfaction is regularly monitored and assessed using a variety of marketing tools. These include, for instance, the European Customer Satisfaction Study (ECS), conducted every year in 15 major European car markets by an independent researcher. Owners of two-year-old cars are asked within this study to give an unbiased opinion about various aspects of their cars and to share their experience with service centers of the related brand. An Analysis of the dealer's image, another method

Dealer image analysis, Czech Republic 1999 - 2005



of establishing the satisfaction of customers, surveys customers about their satisfaction with the services and behavior of staff at Škoda sales points and service centers.

The graph shows the development of dealer image in the area of sales and service. The values show the overall image including customer satisfaction, loyalty and a number of other aspects.

The satisfaction of customers with products and services sold under the Škoda brand has been constantly increasing.



In order to establish the quality of service checks and repairs and overall service level, service shop tests have been conducted anonymously in service shops using customer vehicles. Their results have been used as a basis for enhancing customer service. All methods mentioned have been thoroughly assessed, and as a result new measures have been introduced with the aim of further increasing customer satisfaction. The lowest 20% of Škoda Auto service points – those repeatedly achieving the poorest results, both in terms of economic performance and customer satisfaction – have to participate in the Intensive Care – Bottom 20 project. It is a comprehensive consulting service intended to analyze drawbacks and subsequently introduce necessary measures. After the end of the program the entire service network is re-tested and the process is repeated with other service points. Škoda Auto offers consulting services to contracted dealers within the Czech Republic and foreign importers for the purpose of preparing them for certification and audits. The company also participates in preparing and conducting audits of Škoda Auto importers abroad, either on its own or in cooperation with other corporate brands.

ECONOMIC PERFORMANCE

Škoda Auto contributes considerably to the growth and development of the Czech economy, and through its worldwide activities and quality of offered products and services it directly or indirectly creates business opportunities for other Czech manufacturers abroad.

Economic and financial indicators

The main financial and economic indicators of Škoda Auto

(see the table of Key Indicators pursuant to IFRS) document the success of the adopted strategy in all key areas.

In 2005 “Customer Deliveries” grew by 9% against the previous year. The absolute value of this indicator of 492,111 cars delivered is the best result in the more than 100-year history of Škoda Auto.

A record-breaking amount for one key company performance indicator – some CZK 8 billion in profit after taxation – confirms this trend as well. That amount is a year-on-year increase of more than 134%. Those results have been achieved even in the face of unfavorable external factors – the growing price of production inputs on world markets (price of crude oil) and the strengthening of the Czech crown to euro, to name but a few.

The company’s property structure, expressed as a percentage of non-current and current assets, did not change substantially in 2005 as against the previous year. The favorable development of the profit-to-sales ratio indicates that, with respect to the activity carried out, this structure is satisfactory. Furthermore, the company’s capital structure is balanced and shows no signs of excessive indebtedness. Both the development of cash flow from operating activities and the favorable development of net liquidity represent convincing proof of current financial stability and solvency of the company for all existing as well as potential new business partners.

Investment equal to 5% of the company’s turnover is evidence of its growth potential and competitiveness in the given business sector. In 2005 investments were made especially into a new model line – the Roomster – and also into enlargement of production plants and infrastructure.

Key indicators according to the IFRS ***

		Škoda Auto Group****		Škoda Auto	
		2004	2005	2004	2005
Volume data					
Deliveries to customers	vehicles	451 675	492 111	451 675	492 111
Sales *	vehicles	444 458	498 467	441 820	493 119
Production*	vehicles	443 868	494 127	444 121	494 637
Number of employees (as of 31. 12.)	persons	25 225	26 742	24 561	26 014
of which: temporary staff	persons	3 664	3 460	3 664	3 460
Profit and loss account					
Sales	M CZK	163 665	187 382	155 396	177 822
Gross profit	M CZK	19 297	23 644	14 400	18 635
	% of sales	11.8	12.6	9.3	10.5
Operating profit	M CZK	5 895	10 860	5 289	10 004
	% of sales	3.6	5.8	3.4	5.6
Pre-tax profit	M CZK	4 843	10 073	4 424	9 440
Pre-tax profit-to-sales ratio	% of sales	3.0	5.4	2.8	5.3
Profit for the year**	M CZK	3 369	7 893	3 133	7 363
Profit for the year-to-sales ratio	% of sales	2.1	4.2	2.0	4.1
Balance sheet / Financing					
Fixed assets	M CZK	55 858	55 424	55 792	55 023
Current assets	M CZK	40 343	34 331	32 414	28 956
of which: lending	M CZK	8 600	11 200	8 600	11 200
Equity	M CZK	43 923	46 757	44 147	46 483
Non-current liabilities	M CZK	12 051	12 837	11 336	11 685
of which: nominal value of bonds	M CZK	5 000	5 000	5 000	5 000
Current liabilities	M CZK	40 227	30 161	32 723	25 811
of which: nominal value of bonds	M CZK	5 000	0	5 000	0
Total assets	M CZK	96 201	89 755	88 206	83 979
Gross cash flow	M CZK	17 052	20 365	16 623	19 850
Cash flow from operating activities	M CZK	26 794	23 550	23 164	21 421
Cash flow from investment activities	M CZK	9 752	11 566	9 957 11	299
Investment ratio	%	4.6	4.7	4.8	4.8
Gross liquidity	M CZK	15 073	12 376	13 134	11 958
Net liquidity	M CZK	-2 631	4 911	414	6 070
Equity ratio	%	45.7	52.1	50.0	55.4
Equity-to-fixed assets ratio	%	78.6	84.4	79.1	84.5

* In relation with the Škoda Auto expansion through the CKD (completely knocked-down) kit assembly projects and to ensure correct reporting of production and sales volumes, it was decided in the past to include these CKD kits in the vehicles segment for reporting purposes.

** The figure for the consolidated group is the net of minority shares.

*** IFRS - International Financial Reporting Standards.

**** The Škoda Auto Group is composed of the parent company and its fully consolidated subsidiaries including: Škoda Auto Deutschland GmbH, ŠKODA AUTO Slovensko, s.r.o., Škoda Auto Polska S.A., Škoda Auto India Private Ltd.

The Škoda brand offers cars which are outstanding for their spaciousness and utility by continually devising simple, creative and clever solutions. Škoda Auto products have been noted for their exceptional value/price ratio, which clearly distinguishes them from the competition.

ENVIRONMENTAL PROTECTION

Development

Škoda Auto designs new cars according to the customer's desires, with the aim of offering an attractive design, technical innovations and simple practical features, in compliance with the "Simply Clever" philosophy, while maintaining an outstanding value/price ratio. Škoda products have been continually improved in terms of their long-term quality, functionality, reliability, safety, environmental friendliness, and they maintain the highest standards at each stage of their life-cycle.

With respect to environmental protection, measures are taken in car development, mainly in the following areas: the use of

environmentally friendly materials, production processes which spare the environment and natural resources, recycling, reduced fuel consumption, abatement of soil and water contamination and abatement of emissions and noise.

Our customers appreciate materials of high quality that have excellent technical features and fulfill stringent environmental criteria. We prefer recyclable materials and, in cooperation with our suppliers, we support the introduction of recycled materials, with comparable parameters to those of new materials, into the production of many parts. We have developed processes that are in compliance with legal requirements concerning the prohibition and limited use of lead, cadmium, mercury, hexavalent chromium, etc. Vehicle parts have been consistently marked according to applicable norms and their material composition filed and stored in the International Material Data System (IMDS). In cooperation with our suppliers recycling concepts have been developed for given groups of parts, and future procedures for their environmentally safe disposal have been stipulated. Vehicle design has been optimized in compliance with state-of-the-art knowledge in the field of dismantling, recycling technologies and legal requirements (e.g. Directive 2000/53/EU). Compliance with legislative requirements and adaptation of vehicle construction from a recycling point of view has been tested within detailed disassembly studies.

New vehicles are developed using modern technologies and procedures, e.g. effectively applying virtual reality and data models. Special peripheries and software tools enable a whole range of sophisticated simulations and calculations. We can thus evaluate during the initial phase of the vehicle's development not only



Virtual aerodynamics of car

the design but also the functionality and suitability of technical solutions without having to make a physical model.

Our customers are offered petrol and diesel engines that fulfill stringent EU4 emission limits. Additionally, a diesel particle filter is available for diesel engines to eliminate emissions of fine particles into the air. Minimizing fuel consumption and emissions are among our priorities in optimizing the engine's construction, from the point of view of the engine, weight and aerodynamics. Škoda vehicle engines have been noted not only for their favorable engine performance/fuel consumption ratio, but also for their high, long-lasting quality.

A complex acoustics evaluation with respect to driving comfort and degree of burden to the environment is also an important factor which is monitored. Our innovative technical solutions enable the deployment of suitable production, servicing and processing technologies which reduce soil and water contamination in the production phase as well as in the vehicle-use phase. They also provide for environmentally safe disposal. The functionality and continual improvement of our car production processes have been verified within annual audits of the integrated management system (including the quality management system according to ISO 9001 and the environmental management system according to ISO 14001), which is conducted by an independent auditor company.

We offer our customers attractive, environmentally friendly products, thus contributing to the sustainable development of our company.



Recycling considerations have been taken into account in all phases of the product's life-cycle

Production

Škoda Auto offers top-quality cars whose production has always had minimum environmental impact. By fulfilling the more stringent legislation and commitments declared in the Škoda Auto policy, the company has successfully pursued the strategy of continual improvement of environmental protection and fulfilled all regulatory limits and legal obligations in this respect. The good results of the annual EMS audits conducted by TÜV NORD Systems, GmbH are a proof. In 2005 Škoda Auto certified already compliant with the recently revised global ISO 14001:2004 norm.



Modern biological wastewater treatment plant in Kvasiny with the car-body paint shop in the back ground



Construction of a holding tank for storm sewers in the Mladá Boleslav factory

Škoda Auto obtained an integrated permit for new, state-of-the-art paint shops in its Mladá Boleslav and Kvasiny plants and applied for an integrated permit for cast iron and aluminum foundries in Mladá Boleslav. In terms of environmental protection, these facilities incorporate the best-available technologies (BAT). In addition, the company was allocated CO₂ emissions allowances for its gas boiler facility in the Kvasiny car-body paint shop, the only Škoda Auto facility to fall within the act on greenhouse gas allowance trading, and – pursuant to the act on integrated pollution – the company filed its first report with the integrated pollution register for its Mladá Boleslav and Kvasiny plants.

In the same year, the company obtained the consent of state authorities to further develop its production plant in Kvasiny (Roomster project), based on the Environmental Impact Assessment (EIA) process. The company also submitted its waste management plan until 2010 to the respective regional authorities for approval.

Investments in environmental protection reached some CZK 700 million in the 2003 - 2005 period. These funds were devoted to, for example, a revamp of the steel-mill facilities in Mladá Boleslav, further robotization of the car-body paint shop in Mladá Boleslav and equipping new production capacities in the Kvasiny plant with the best available environmental protection technologies.

Among other environmental protection projects, we can also point to the construction of environmentally safe premises for harmful substance and hazardous waste handling, clean-up and reconstruction of the sewage network and construction of holding tanks for storm sewers in the Mladá Boleslav plant which can withstand heavy rainfall and prevent harmful waterborne

substances from leaking into the environment. Last but not least, we must mention the new sealed flooring, which prevents harmful-substance leakage into the soil in the premises of the oldest halls for machining, pressing and welding in Mladá Boleslav and the massive clean-up work to remove contaminated floors and soil in the oldest production halls at all plants.

Incorporating environmental protection measures in the project documents for new or reconstructed facilities and buildings are an important contribution to the enhancement of environmental protection. The use of an internal company environmental information system which collects, maintains, sorts and presents environmental data to be communicated to state authorities also plays an important role in this respect. However, the use of the environmental management system, which clearly defines responsibilities for all employees including the method for their education and training, is of decisive importance.

Despite further increases in production to almost 500,000 cars in 2005, the absolute environmental impact has not grown considerably and some indicators, such as water consumption, heat consumption for heating and hazardous waste, even recorded a drop (*for an Overview of essential environmental indicators for 2003 – 2005 see the chapter "Data, results and assessment," page 33*). Škoda Auto complies with all regulatory limits with a substantial safety margin; it has had no sanctions imposed on it for non-compliance with environmental protection duties, nor has any administrative procedure been initiated to eliminate shortcomings in this respect. No extraordinary event (such as a breakdown or accident) was observed in the period under review to which a legal duty to report applies. The company's management is aware that for



further improvement of environmental protection it is essential that apart from equipping all our plants with state-of-the-art and best available technologies, attention must be also paid to enhancing the awareness of responsibility among employees for the preservation of nature for future generations. Therefore, enhancing this awareness of responsibility shall be our continued objective.

Sales and service provision

Adherence to waste handling and air and water protection principles is an environmental priority of Škoda Auto within its sales and service network. Already in 1996 the Environmental Protection Counseling Service was established whose aim is to implement a quality environmental management system. Dealers who successfully pass the environmental audit or eliminate shortcomings will receive so called Green Seal – a certificate of an environmentally friendly approach. Its holders, currently 83, are then offered an annual premium discount by insurance companies.



Certificate of environmentally friendly practices for authorized dealers

Recycling

In February 2005 an amendment to the Waste Law entered into effect in the Czech Republic which obliges manufacturers to ensure the free disposal of end-of-life vehicles for their owners through a network of certified recycling facilities. Callparts System has been appointed to manage and coordinate the recycling network for end-of-life vehicles of selected VW brands, including Škoda Auto.

The obligation of free disposal applies to vehicles produced after 1 July 2002 and, from 1 January 2007, it will apply to all cars, age

notwithstanding. However, the vehicle must be complete, must not include any parts, accessories or wastes that are not an original part of it. Having handed over an end-of-life vehicle for disposal to a certified recycling facility, the owner will receive a certificate of disposal to be submitted to the car registration office which will then de-register the car.

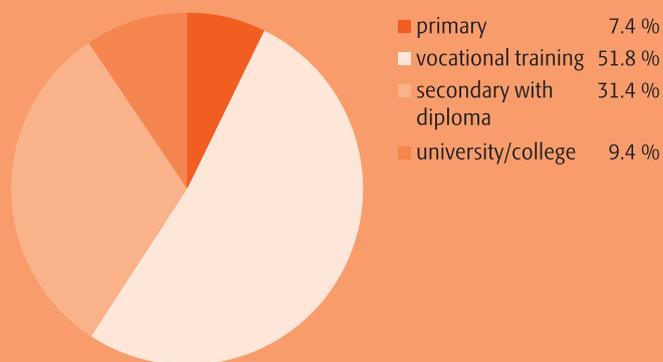
Take-back of selected products which Škoda Auto sells on the market is another duty pursuant to the Waste Law. These include in particular used car batteries, tires and oils which the owner can return at the sales point. Beyond that, in cooperation with windscreen manufacturers and suppliers the company offers a free take-back of waste glass from production facilities and Škoda service points for further recycling. In 2005 alone, some 390 tons of glass were recycled this way.

SOCIAL RESPONSIBILITY OF THE COMPANY

Professional training of employees

Škoda Auto knows that in order to succeed in today's competitive environment, the company must pay continual and systematic attention to training and the development of its employees' potential. Therefore significant attention is paid to extending and improving employees' qualifications. For this purpose the company operates its own secondary vocational school to prepare future technical employees. It also operates its own college with accreditation for a bachelor's degree in Economics and Management and, recently, also a program with accreditation for a master's degree (see *chapter Company Development, page 29*). In accordance with its strategy the company offers a wide selection

Attained education of employees (%)

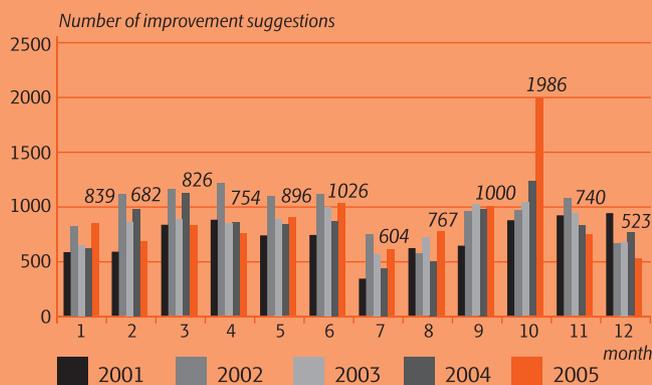


of educational programs for adults to support employees in their individual development. In addition to the standard program, tailor-made programs prepared based on the requirements of individual business unit leaders are the latest trend. In order to support education and increase its flexibility, the company has implemented e-learning education.

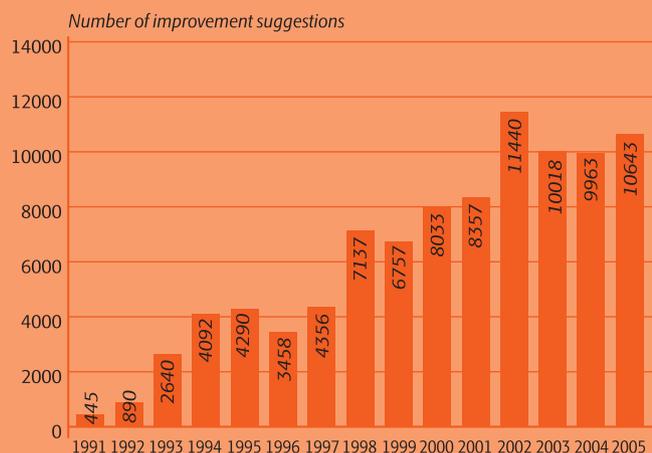
In 2005 more than 17,500 company employees attended a total of more than 2,300 training courses (*for the exact number of courses and trained employees in 2005 see chapter Data, results and assessment, page 35*). In 2006 the number of training programs are expected to grow due to the start of Roomster production, e-learning programs are going to be extended and more attention paid to the intercultural coaching of employees abroad as well as the training of foreign employees in Mladá Boleslav.

In compliance with the corporate strategy, the company trains and develops its future managers on a long-term basis, following a structural scheme which relies primarily on its own resources.

Improvement suggestions within the company by month in 2001 – 2005



Improvement suggestions within the company in 1991 – 2005



Škoda Auto managers have the possibility for further personal development, participating in various activities domestically as well as abroad. The company has been actively involved in a number

of international projects within the Volkswagen Group through its specialists and managers. Special attention has also been paid to development programs for lower and mid-management – team coordinators and foremen.

Personal development programs are also aimed at students and university graduates. They have the possibility to get acquainted with the company and its operations through the JUST-Pool and Trainee programs and to acquire initial practical experience and get prepared for possibly joining the company in the future. Thanks to its cooperation with universities, Škoda Auto can influence the students' specializations through organizing practical training programs or proposing subjects for these.

Škoda Auto also considerably supports activities contributing to the continual improvement and innovations which have a positive impact on the functioning of the company. The Z.E.B.R.A. motivation program is one such tool. Innovative activities are aimed particularly at material savings, increasing the efficiency of production, improving the working and living environment and improving the protection of employees as well as future users of Škoda products. In 2005, 4,504 employees participated in this program and provided 10,643 improvement suggestions. The financial gains of implemented suggestions amounted to CZK 182 million and 71.6% of suggestions have been successfully turned into practice.

Protection of employees' health

Protecting and enhancing employee health is an important pillar and priority of the company's social policy. Eliminating effects of strenuous work in the car industry is another important task. On 1 January 1994 the company opened a private medical care

Number of employees vaccinated against influenza in 1997–2005



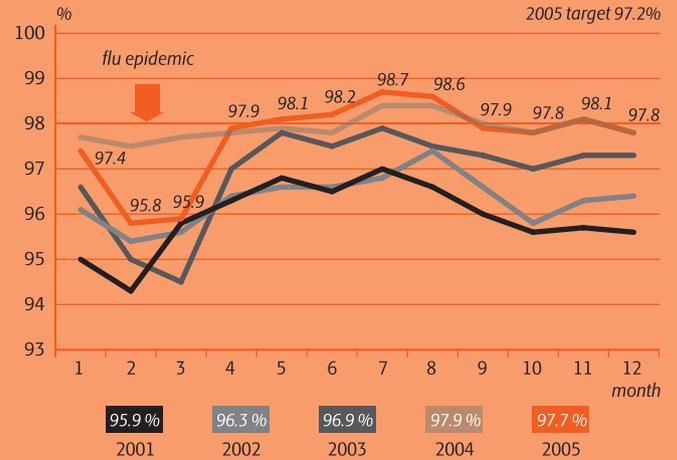
facility, Poliklinika Škoda, in the premises of the Mladá Boleslav factory. The purpose of company medical care – occupational medical care – is to provide quality medical care to all employees, either preventative care or targeted to those who already suffer from health problems.

Duties associated with occupational health care also include regular inspections of workplaces where working conditions have been assessed in terms of hygiene risks and possible health impairment which might occur as a result of the workload. Particular emphasis is placed on ensuring a quality system of first aid for injuries and sudden deteriorations in health conditions. A first aid station is available in the premises 24 hours a day which also serves employees who want to weigh themselves and have their blood pressure checked as part of preventive care. The company strives to provide the same scope of medical care also to employees in its other production plants.





Employee Attendance in 2001 - 2005



A wide range of preventive programs are available to employees focused on primary prevention of so-called „civilization diseases“, of which the most serious are cardiovascular and oncological diseases. All employees can also choose from special rehabilitation programs targeted particularly at spinal and locomotor diseases and prevention of locomotor problems due to one-sided stress. Yearly vaccination of employees against influenza, regular distribution of Vitamin C to all employees before the winter period, a curative drinking regimen and reconditioning programs have proved to be very efficient components of preventive care. The vaccination of employees traveling to countries with an increased epidemiologic hazard is important too. Employees can participate in so-called „health coaching“, a special program where the doctor prepares an individual plan of health routines based on an examination of the employee: Adherence to this can help improve the employee's health condition. A health protection advisory and consulting

service for specialized units and employees are an important part of occupational health care. Škoda Auto publishes corporate periodicals, Škoda Mobil magazine and Škodováký odborář, to inform its employees about health issues and all current events aimed at enhancing and protecting health. The Medical Committee is the highest body to define the company's health care policy. It deals with all issues related to protecting and enhancing the health of employees, including above-standard care, such as health recovery programs in spas, rehabilitation and health programs etc.

Occupational safety

Great attention has been paid on a long-term basis to occupational health and safety, which is reflected in a very low occupational injury rate. Škoda Auto has long been among car companies with the lowest injury rate. The current value of the injury rate index, i.e. number of injuries per one million man-hours worked, is 2.2. The fact that the proportion of job-related injuries dropped from 7.6% to 1.9% in 2005 as against the previous year is a very favorable accompanying factor. Besides excellent results in abating the injury rate, it is important to also add that the number of minor injuries, not resulting in work incapacity has dropped by more than 50%. Increased attention has also been paid to noise abatement measures in production plants.

Employees and social benefits

Great emphasis is placed on communication with employees in Škoda Auto. Two trade union organizations exist in the company – the dominant ZO OS KOVO union and the smaller Autonomous Trade Unions. Social Dialogue is fostered throughout all areas of activities. The eight-member Supervisory Board of the company involves three employee representatives. The cooperation also



takes place at the common board level, such as, for example, the Business Committee, Company Committee for Occupational Health and Safety, HR Planning Committee, Health Committee and others. Cooperation with employee representatives within the VW Group is ensured through the interconnection of trade union structures and their integration into the VW European Works Council and Global Works Council.

The collective agreement concluded for the period from 1 April 2005 to 31 March 2008 stipulates wage and other labor law entitlements within the precepts of the labor law. The wage



agreement, which is part of the Collective Agreement, has been concluded for the period 1 April 2005 – 31 March 2007.

A wide range of social benefits are available. Employees enjoy benefits beyond what is required by law, and these benefits are guaranteed to them under the collective agreements. These include, for instance, supplementary pension insurance covered by the company. Currently, the basic employer's contribution to the employee supplementary pension insurance is CZK 300. More than three-quarters of employees utilize this benefit (see the graph "Supplementary Pension Insurance of Employees in chapter Data, Results and Assessment, page 34). The company also helps employees with their housing needs by offering them interest-free loans. More than 500 employees utilize this benefit every year. Currently the loan amounts are CZK 225,000 for purchasing a family house or flat and CZK 100,000 for the refurbishment of a privately owned family house or flat (see the graph "Housing Loans" in chapter Data, Results and Assessment, page 34).

Hotel-type guesthouses are available to select employees who cannot commute daily from their place of residence. The possibility to take meals in company canteens contributes to improving the working conditions as well. About 12,000 hot meals are served every day. Catering facility premises are non-smoking of course. The company devotes considerable resources to promoting its social policy towards employees and in many cases also towards their dependents. A social fund has been established for these purposes.

In regions where the company operates, it strives contribute to increasing the number of quality leisure-time options not just for its employees and their families but also for other citizens. In particular, the company fosters cultural, social and sports projects

in these regions. Among examples of long-term cooperation, the company supports the Municipal Theatre in Mladá Boleslav and has sponsored the city's Festival of European Film Smiles for the past three years.

In its support of charity and socially beneficial activities Škoda Auto has focused on the public health service and non-profit sector in particular, such as, for example, support to disabled fellow citizens. For example in 2005 the company donated its five-millionth car produced since its merger with the VW Group to the Mladá Boleslav Domiciliary Services.

RELATIONS WITH EXTERNAL ENTITIES

Municipality

100 years of co-existence have formed a tight bond between the town and factory. Škoda Auto and the town of Mladá Boleslav closely cooperate in various areas, particularly in construction, culture, sports, education and health services. Škoda Auto plays a vital role in the economic prosperity of the region and town of Mladá Boleslav; the factory covers about one-third of the town's size. The factory's employees account for some 30% of the economically active population of the region and at the same time more than 75% of the economically active town citizens.

The factory provides its employees interest-free loans for their own housing, sponsors sports and cultural events in the town and region and supports health care institutions and hospitals in regions where its operations are located. Škoda Auto operates its own college, secondary Vocational School of Technical Engineering and Secondary Vocational School.

Suppliers

In relation with the Czech Republic's accession to the EU, ever higher demands have been placed on the company and therefore also on its suppliers.

The quality of the final product is determined, among other things, by the quality of its individual parts. Škoda Auto pays close attention to the quality of suppliers and the components and materials delivered by them. The company demands a higher degree of supplier responsibility for quality and, in particular, consistent quality of deliveries pursuant to ISO 9000 norms and implementation of total quality management procedures. Therefore, the objective is to use contractors who meet company's requirements for quality and environmental protection.

Integration of suppliers is a current trend pursued not only by Škoda Auto but throughout the entire VW Group. This means the suppliers rent an area within the factory's premises from where they provide their sub-deliveries. Despite increasing competitive pressure, the company has succeeded in strengthening the position of domestic





supplier companies which supply not only Škoda Auto, but also other companies of the VW Group with top-quality parts, thus contributing considerably to the Czech Republic's overall exports. The latest information and communication technologies have been used in the supplier selection process.

State authorities

The company seeks to maintain good relations with representatives of state and local governments at the regional level, as well as with the government of the Czech Republic at the national level. This development has been influenced exclusively via a mutual exchange of information with political representatives.

SPONSORING

Long-term partnerships and relations with the best performers from all sponsored areas is one of the main criteria of the company's sponsoring strategy. Škoda Auto is an important sponsor of sports, culture and other social events. It cooperates with importers in this respect from all over the world. Sponsoring helps the company enhance brand awareness of its products. Škoda Auto demonstrates its social responsibility by supporting projects also in this area.

Sports sponsoring

Czech Olympic Committee

Since 1992 Škoda Auto has supported teams nominated by the Czech Olympic Committee to the Olympic Games; such teams are always composed of the best Czech athletes in their sports.

Hockey

Škoda Auto has been long connected with ice hockey. Since 1992 it has been active internationally as an official sponsor of the World

Ice Hockey Championship, and it is the general partner of the Czech and Slovak Hockey Teams. Nationally, the company supports the Czech Hockey Extraliga as the general partner. It also supports the first-division Mladá Boleslav hockey team.

Football

The company is an important sponsor of the first-division Mladá Boleslav football team, which placed second in 2005 – 2006 season.

Cycling

Since 2004 Škoda Auto has been one of the main partners of the Tour de France, the world's oldest and most famous cycling race.

Cultural sponsoring

International Film Festival for Children and Youth – in Zlín

Since 2001 the company has been a sponsor of one of the oldest film festivals for children and young people.

National Theatre

The long-term partnership with the National Theatre dates from 2003 (prior to this the company supported the Opera of the National Theatre from 1999)

Czech Philharmonic Orchestra

The partnership started in 1993; the popularity of the orchestra abroad and its connection with Škoda Auto helps increase brand awareness internationally.

Charity sponsoring

Centrum Paraple (paraplegic center)

Since 1998 the company has been involved in aiding the disabled in their effort to lead a fulfilling life.

Health Clown

Since 2002 the company supports activities aimed at lifting the spirits of child patients in hospitals.



COMPANY DEVELOPMENT

Roomster

TDI



NA KARMELI EDUCATION CENTER

After the zoning decision and construction permit were issued, the "Na Karmeli" Education Center project entered the realization phase. A tender for the general contractor was launched and the final concept for the center's utilization was approved. Our objective is to open the education center in the spring 2007 and start the 2007 - 2008 school year in the new premises.

The company intends to use the Na Karmeli center in addition to the Škoda Auto College and Coaching program for closer cooperation with technical universities preparing new study programs and projects aimed at Škoda Auto. The St. Bonaventura Church is also located in the premises of the Na Karmeli center and has all the prerequisites to become a perfect place for graduation ceremonies, matriculations and various corporate, cultural and social events. These can successfully enrich the cultural life of both the local community and the Mladá Boleslav region.

ČESANA TECHNICAL DEVELOPMENT

Engineering development employs modern technologies and equipment which are environmentally friendly, comply with environmental protection legislation and permit us to develop products reflecting the expectations and desires of our customers. Škoda Auto, like other responsible and successful companies, must meet these requirements. In 2005 the company invested a total of CZK 5.413 billion into the research and development of new cars (in 2004 it was CZK 4.852 billion), which is equal to 3% of the company's total annual turnover. CZK 326 million were devoted

in the same year to a revamp and upgrade of testing devices. A total of 1,420 people were employed in the technology development at the end of 2005. Currently, Škoda Auto is constructing a new technology center for the research, development and testing of cars. Investments into the construction of the new center will reach EUR 38 million (about CZK 1.1 billion) and 370 new positions will be created for highly qualified employees, particularly mechanical and electrical engineers. The second phase of construction will take



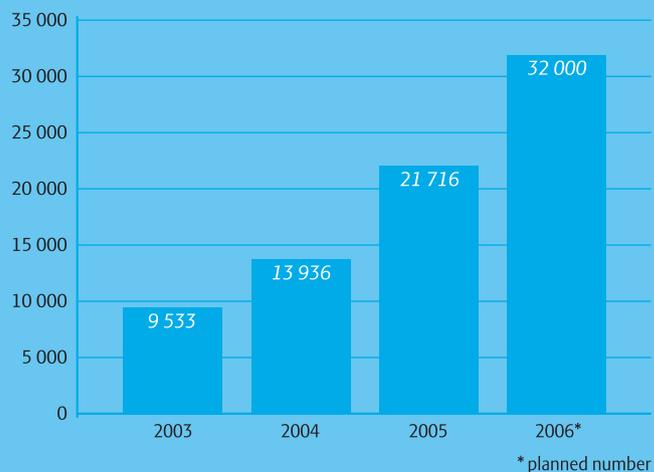
place in 2006 - 2009, during which new offices will be completed for designers in the premises of the existing development facility; infrastructure will be provided and prototype safety secured for the existing testing circuit in Úhelnice.

CKD CENTER

Sharp growth in the capacity of foreign assembly plants for Škoda vehicles has necessitated considerable enlargement of the CKD center. In 2005 alone the number of its employees doubled to 250 people. While in 2003 the CKD (Completely- Knocked-Down) Center dispatched barely 10,000 CKD car assembly kits, already in 2005 it dispatched close to 22,000 kits. In 2006 the company plans to produce more than 32,000 CKD car assembly kits. They will thus account for about 7% of the company's total production.

Currently, Škoda Auto exports car assembly kits to India, Bosnia, Ukraine and Kazakhstan. Another project has been running in Brazil, where engines are exported. In 2005, some 2,200 cars were assembled in Bosnia, 9,000 in India and 10,000 in Ukraine. In the future, further model lines are planned to be added to the existing foreign assembly projects, so the volume of car assembly kit will thus continue growing. New projects under way in Russia and China will play an important role in the next years to come. For example the assembly plant in Shanghai will start by producing the first 40,000 Škoda cars in 2007. The CKD center has already started working on this project and the first car parts were already dispatched to China in 2005.

Production volume in number of vehicles



KVASINY

The Kvasiny production plant underwent a fundamental revamp in 2001, and currently it is considered as one of the best plants in terms of quality, not just within Škoda Auto, but throughout the entire VW Group. Presently, the most prestigious car, the Škoda Superb, is being produced there. In addition the new Roomster model line is being manufactured in this plant. The former plant was enlarged to provide space for the new production program and 2,000 new positions were created. Overall investments reached CZK 3 billion. Škoda Auto was granted investment incentives of CZK 427 million by the Ministry of Industry and Trade to enhance the infrastructure and reduce environmental impact. The investment project included the construction of a new logistics center, parking site for produced cars, parking for employees, bus station and new freight entrance gate.

VRCHLABÍ

The Complete Octavia Tour model line is currently produced in this plant, including some versions of the Octavia model. The plant's production capacity will be fully utilized in the near future, that is to say at least by 2007. The plant has succeeded in reducing car production costs in the area of waste and water management and complies with all emission limits. A number of remediation measures have been taken aimed at abating old environmental burdens. In 2005, the plant shafts were revised and reconstructed and 1,500 square meters of walkways were built.

COLLEGE

The Škoda Auto College was established in 2000 as the first and still the only company-operated college in the Czech Republic.

The first students started their studies in 2000 - 2001. It is a private college of non-university type, and its operation has been closely linked to the company's needs. It means that courses are flexibly adjusted to account for ever-emerging demands and trends arising from positive changes in the corporate reality. Studies include a practical training lasting one semester, i.e. 5 months. The college offers a bachelor's degree in Business Economics and Commercial Management, and Business Economics and Operations Management on a full-time or distance basis.

In October 2005 Škoda Auto College obtained accreditation for a follow-up master's program in Global Business and Financial Management, Global Business and Marketing and Business Economics and Operations Management. The courses will start in the 2007 - 2007 academic year. The medium-term objective of the college is to also obtain accreditation for this study program in



foreign languages. This would open the way for greater involvement of teachers as well as students in international student exchange programs, such as Sokrates-Erasmus, or in cooperation within VW Auto-UNI and other similar activities.

Currently Škoda Auto College collaborates with a number of domestic and foreign institutions, universities and technical colleges and is involved in different educational projects, student exchanges, seminars and courses, conferences and in the preparation and organization of internationally recognized language examinations. The involvement of the college into the EU education programs is another objective to be pursued.

In the past three academic years the college registered more than twice as many applications as could be accommodated. Therefore the school management of the school decided to increase the number of available places in the 2005 - 2006 academic year to 240 students in the first year. Courses are available in full-time or distance form study, while the latter is suitable particularly for increasing the qualification in already employed people. In total, 420 students currently study in all levels of Škoda Auto College.

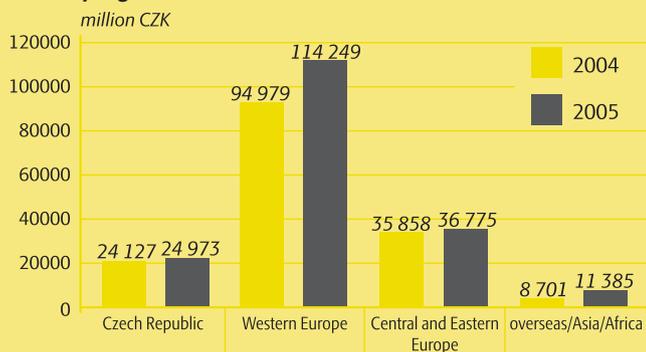
DATA, RESULTS AND
ASSESSMENT



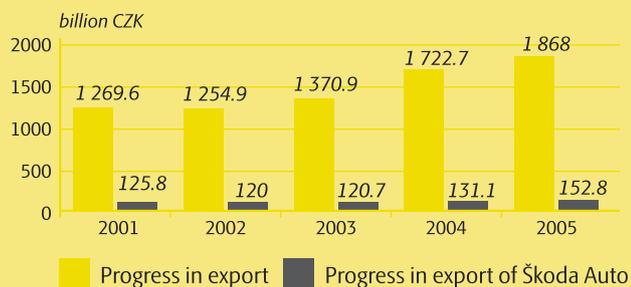
ECONOMY

In 2005 Škoda Auto reached a new record in the number of vehicles delivered to customers. Thanks to its ability to respond adequately and timely to changes in demand on major markets, the company delivered 492,111 cars to customers. The Czech Republic, Germany and other countries of Central and Western Europe continue to be company's major markets. Škoda Auto is the largest exporter in the Czech Republic. Its exports reached CZK 152.8 billion in 2005 and accounted for 8.2% of the Czech Republic's overall exports.

Sales by regions



Škoda Auto exports and its share in overall Czech exports in 2001 - 2005



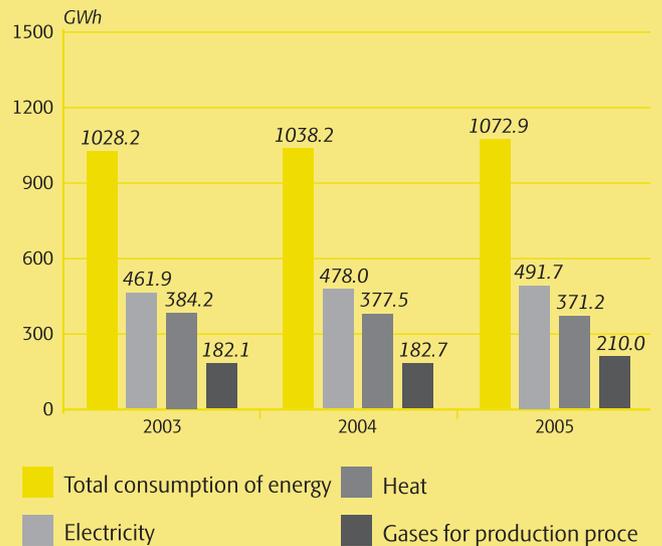


ENVIRONMENT

Environmental protection investments reached about CZK 700 million in 2003 - 2005. Škoda Auto easily meets all regulatory limits and duties in environmental protection and offers world-quality cars produced with minimum environmental impacts. Despite an increase in the number of produced cars to almost 500,000 in 2005, the environmental impact remained at the same level, and in some indicators even registered a decrease.

Selected important environmental indicators

Consumption of energy



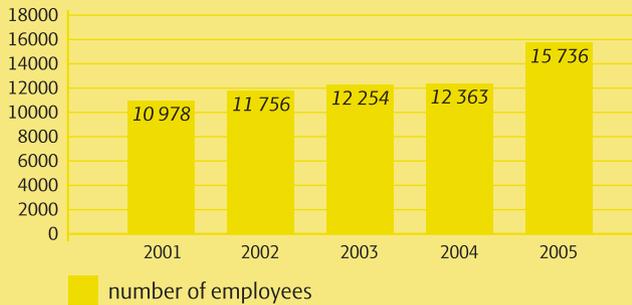
Important environmental indicators for Škoda Auto

indicator	unit	2003	2004	2005
total consumption of energy	GWh	1 028.2	1 038.2	1 072.9
of which: electricity	GWh	461.9	478.0	491.7
heat	GWh	384.2	377.5	371.2
gases for production processes	GWh	182.1	182.7	210.0
total consumption of water	thousand m³	1 972.3	1 822.5	1 820.6
total emissions into the air	t	1 590.4	1 766.6	1 780.9
of which: volatile organic compounds	t	1 304.9	1 408.0	1 462.2
NO _x	t	106.4	114.1	102.8
SO ₂	t	4.2	0.1	0.2
CO	t	148.1	212.2	190.4
solid pollutants	t	26.8	29.0	22.2
CO₂ from own generation of energy	t	39 767	38 738	47 675
total waste	thousand t	132.7	132.2	147.5
of which: metal waste	thousand t	109.1	108.1	124.3
hazardous waste	thousand t	10.3	10.0	7.4
other waste (excluding metals)	thousand t	13.3	14.1	15.8
proportion of waste for re-use/recycling	%	86.7	86.2	86.3
discharged wastewater	thousand m³	1 594.7	1 329.2	1 315.2
harmful substances discharged in wastewater				
chemical oxygen demand	t	433.8	343.9	418.9
biochemical oxygen demand	t	172.4	145.1	72.3
solids	t	54.2	42.3	51.2
inorganic salts	t	961.7	1 658.9	1 517.0
non-polar extractable substances	t	1.4	0.8	0.7
environmental protection investment capital costs	million CZK	182.0	169.1	349.6

SOCIAL SPHERE

Employees enjoy benefits beyond what is required by law, and these benefits are guaranteed under the collective agreements. These include, for instance, supplementary pension insurance covered by the company.

Supplementary pension insurance of employees



The company helps employees with their housing needs by providing them interest-free loans. More than 500 employees utilize this benefit every year.

Housing loans



For some time now Škoda Auto has ranked among carmakers with the lowest injury rates. The current value of the injury rate index (number of injuries per one million man-hours worked) is 2.2 injuries.

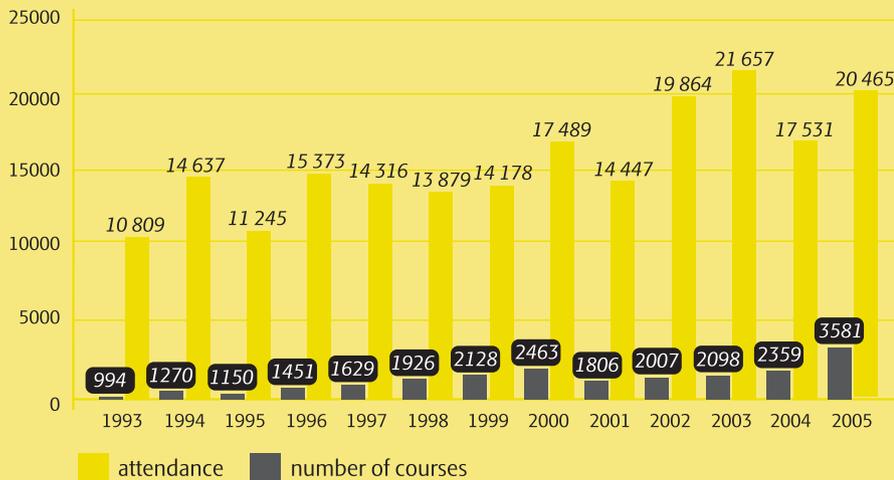
Development of injury rate in Škoda Auto 1993 - 2005



Total number of completed courses and trained employees in 2005



Number of completed courses and trained employees in 1993 - 2005



EMS (ENVIRONMENTAL MANAGEMENT SYSTEM) AND QMS (QUALITY MANAGEMENT SYSTEM) CERTIFICATES



› RELATED LINKS

- › For more about the sustainable development of Škoda Auto see: <http://www.skoda-auto.com/cze/company/environment/home/>

› RELATED LINKS

- › For more about the sustainable development of the Volkswagen Group see: <http://www.volkswagen-sustainability.com>
- › For more about the sustainable development of VW suppliers see: <http://www.vwgroupsupply.com>

AWARDS

- Škoda Auto was named winner of the Employer of the Year award for 2005 and 2006.
- The company also placed first in the CZECH TOP 100 list of companies as the most admired company in the Czech Republic for 2005 and 2006.
- The corporate magazine Škoda Mobile has repeatedly won the “Zlatý středník” award for being the best company magazine.
- The new Škoda Octavia placed second, just behind the winner Audi A6, in the prestigious Auto 1 poll organized by magazines of the Auto Bild group, the most popular motoring magazines in Europe.
- The new Škoda Octavia won the National Prize for product design.
- The Škoda Octavia Combi was named the most beautiful car in the Czech Republic based on a poll among spectators at the Gala Evening transmitted by TV Prima on the eve of the official opening of the Brno Autosalon (motor show).
- The Škoda Octavia was named the best foreign car in Germany. The new Škoda Octavia has become the winner of the “Auto Trophy 2005” poll in the “best import” category for the most demanding car market in Europe.



› RELATED LINKS

- › College - www.savs.cz
- › GRI - www.globalreporting.org

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