

SIMPLY CLEVER



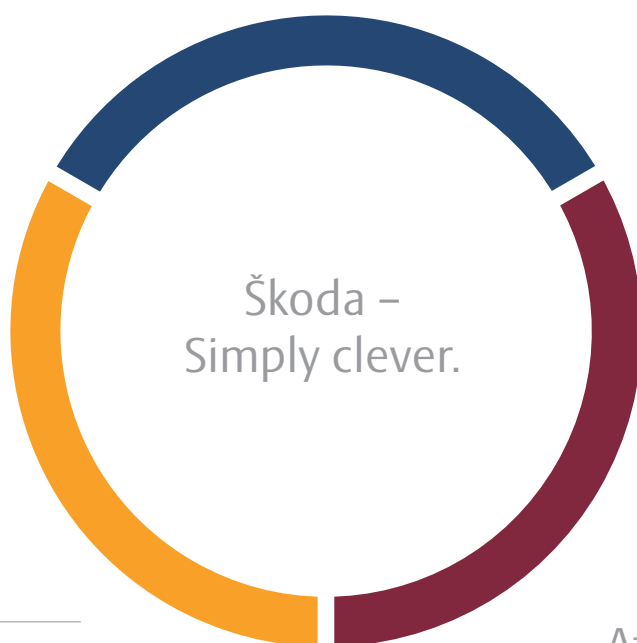
**Škoda**Auto  
ANNUAL REPORT 2003

# THE NEW BRAND GUIDELINES

Intelligence

Dedication

Attractiveness



## INTELLIGENCE

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Škoda cars are set apart by their user-orientated technology, functionality you can feel, variable use of space and technically perfected and clever features. Škoda, a spacious car with a remarkably flexible interior. An extra incentive is the excellent value for money.



clever solutions

perceptible functionality

variable space concepts

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## ATTRACTIVENESS

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Design, performance, driving characteristics and features are what make up an attractive car. And it is here that Škoda has so much to offer. It has a future-orientated yet classic, attractive and powerful design. Škoda automobiles are rounded off by original features and details, coupled with exceptional driving comfort.



impression by design

powerful



attractive

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## DEDICATION

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Dedication was the driving force behind Laurin & Klement as they built their first vehicles and founded Škoda. It is with this same dedication, that we now are pursuing one distinct objective: We want to amaze our customers. This is achieved through the individual care or "human touch", our customers experience and in the exceptional quality of our automobiles.

tradition

relationship

enthusiasm

perfection



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## Selected Figures

		1999	2000	2001	2002	2003
<b>Profit and Loss Account</b>						
Deliveries to customers	vehicles	385,330	435,403	460,252	445,525	449,758
Sales	vehicles	376,329	448,394	460,670	440,572	438,843
Production	vehicles	371,169	450,910	460,886	442,469	437,554
Employees (as at 31 December)	persons	22,030	25,833	24,129	23,470	22,798
of which: external	persons	1,708	3,245	2,735	2,179	2,308
Total revenues	CZK millions	110,409	136,283	153,271	145,694	145,197
of which: domestic	%	19	18	18	18	17
export	%	81	82	82	82	83
Operating profit	CZK millions	5,237	5,204	4,643	3,677	5,209
Operating profit-to-revenues ratio	%	4.7	3.8	3.0	2.5	3.6
Profit before taxation	CZK millions	3,814	4,175	2,674	2,489	2,517
Net operating margin before taxation	%	3.5	3.1	1.7	1.7	1.7
Profit after taxation	CZK millions	2,637	3,336	2,129	1,825	1,478
<b>Balance Sheet/Financing</b>						
Fixed assets	CZK millions	33,687	39,175	45,008	44,873	44,074
Current assets and other assets	CZK millions	21,923	27,486	21,603	21,945	22,077
Equity	CZK millions	22,700	26,032	28,157	29,817	31,758
Liabilities, including other liabilities	CZK millions	32,910	40,629	38,454	37,001	34,393
Gross cash flow	CZK millions	9,780	10,756	11,693	12,854	13,002
Capital expenditure	CZK millions	10,709	13,248	15,438	10,786	9,522
Investment ratio	%	9.7	9.7	10.1	7.4	6.6
Equity ratio	%	40.8	39.1	42.3	44.6	48.0
Equity-to-fixed assets ratio	%	67.4	66.5	62.6	66.4	72.1



## Key Milestones of 2003 and Scheduled Events for 2004

### 2003

#### January

- The Škoda Superb is named the Most Popular Car of 2003 in the Czech Republic. Its long list of international awards expanded to include Executive Car of the Year 2003 in Lithuania, among others

#### February

- Annual Škoda Auto Press Conference

#### March

- Unveiling, in Geneva, of the new Fabia WRC, which in the second half of the season replaces the Octavia WRC in the World Rally Championship racing series
- Another premiere at the Geneva Motor Show: the 1.2/47 kW 12V HTP three-cylinder engine from Škoda Auto
- At a gala event organised by Auto Europe, Europe's most influential motoring magazine group, the Superb triumphs in the engineering category

#### April

- Škoda Auto becomes a partner of the National Theatre in Prague
- HVB Bank and Škoda Auto team up to issue an embossed VISA Škoda Auto international credit card
- The 750,000th Fabia leaves the gate of the Mladá Boleslav plant
- Through the "Blue Patrols" project, Škoda Auto gets actively involved in the campaign leading up to the referendum on the Czech Republic's accession to the European Union

#### May

- Once again Škoda Auto is lead sponsor of the Ice Hockey World Championship, which takes place in Finland
- On the domestic arts scene, Škoda Auto continues in its partnership with the International Festival of Films for Children and Youth, held in Zlín
- In Mladá Boleslav, an international workshop for media representatives is held on the three-cylinder petrol engine. The press is invited to visit the engine plant for the first time
- Market launch of the Fabia RS

#### June

- Škoda Auto becomes first company in the Czech Republic to win the well-known international competition PTC Awards 2003, organised by Pro/ENGINEER (a CAD system producer), in the automobile industry category for the project entitled "The 1.2/40 kW HTP Engine"
- Škoda Auto's stand at the regular Brno Motor Show is visited by a Government delegation headed by the Prime Minister of the Czech Republic
- A new version of the digital map of the Czech Republic, initiated by Škoda Auto, is presented in professional circles
- European reporters travel to South Bohemia and Moravia to compare technical advances of Škoda cars over the past decades

#### July

- In the eighth year since its market launch, the number of Octavia cars manufactured passes 900,000



#### **August**

- The 2004 model line-up is unveiled to the press and to customers

#### **September**

- The concept car Škoda Roomster is presented at the autumn Frankfurt International Motor Show
- Škoda Auto celebrates the four-millionth car to leave the gates of the Mladá Boleslav plant since the Company was acquired by Volkswagen

#### **October**

- The Škoda Roomster concept car is showcased on the occasion of the Design Days event in front of the National Museum in Prague
- Škoda Auto receives more international recognition: at a conference held by Odette International Ltd in Paris, the Company accepts the award for long-term contribution to the use and expansion of EDI communication in international electronic data exchange, and is the first car manufacturer ever to receive the award

- For the first time, media representatives visit the Škoda Auto assembly plant in Solomonovo, Ukraine

#### **November**

- In Scotland, at Loch Ness, a press event is held to present the Octavia 4x4 car in extreme conditions
- RW TÜV ESSEN carries out a follow-up audit of the integrated management system at Škoda Auto according to ISO (ISO 9001:2000 for the quality management system and ISO 14001:1996 for the environmental management system)

#### **December**

- The President of the Czech Republic, Václav Klaus, becomes the first Head of State to begin using the Škoda Superb limousine

## **Scheduled Events for 2004**

#### **January**

- Presentation of the new Octavia to the Car of the Year (COTY) judges
- Release of the first photograph of the new Škoda Octavia

#### **February**

- Annual Škoda Auto Press Conference
- Manufacture of the 1,000,000th Octavia at the Mladá Boleslav plant



## Letter from the Chairman

Ladies and Gentlemen,

The past year was a difficult year for the entire automotive industry. The turning point is getting closer; the question is when it will arrive. The reports coming out of the world's strongest economies are not very optimistic, and so we can only state that the economic recovery has been postponed again. The slow economic growth was due in particular to a cooling-off of demand in EU countries and public finance reforms implemented in many countries.

Despite the unfavourable situation in demand for passenger cars, Škoda Auto managed to grow unit sales by 1% (4,233 vehicles) compared to the previous year, delivering 449,758 vehicles to customers all over the world. For Škoda Auto, the past year was significant thanks to a number of exceptional events. We produced our four-millionth car since joining the Volkswagen Group in 1991. The 500,000th MQ200 gearbox manufactured in the engine plant confirms that this investment – the biggest the Company has made in recent years – was justified.

Total revenues reached CZK 145.2 billion. Profit before taxation

totalled CZK 2.5 billion. Škoda Auto reacted to the continuing flat economic environment and the complicated market situation by expanding its product offerings and implementing special sales initiatives. The ongoing programmes to reduce overheads and raw materials costs, which were successfully realised in co-operation with suppliers, together with optimisations in the area of production and logistics, all contributed to the Company's increased competitiveness.

One of the key factors in ensuring we remain competitive is our flexible approach to market demands. In the area of services, the past year saw roll-outs of very attractive programmes to allow customers to finance the purchase of a new car. An expansion of the Škoda Auto Parts Center further improved our effectiveness in the area of providing original spare parts and accessories. Maximum customer satisfaction remains the number-one objective of Škoda Auto.

Škoda Auto's new products address the changing lifestyles of the 21st century. We were very pleased by the positive response given to our newest design study, the Škoda

Roomster, which is a hint at what can be expected from the Škoda brand in the future.

Because no major recovery in car markets can be expected in the short term, Škoda Auto's goal for 2004 remains to match the previous year's earnings. Next year, the automotive industry will be confronted by a number of unpredictable factors – such as price harmonisation, removal of the block exemption, the Czech Republic joining the EU, and others. I am confident that we will be able to leverage these new conditions and challenges and translate them into further successful development of our Company.

On behalf of the Board of Directors of ŠKODA AUTO a.s., I would like to thank all our customers for their trust and loyalty to our products and services. I would also like to thank all our partners and employees who played an outstanding role in the performance achieved by the Company in 2003.

**Ing. Vratislav Kulhánek**  
Chairman of the Board of Directors



## Report of the Supervisory Board

During the past year, the Supervisory Board was kept regularly and thoroughly informed by the Board of Directors on the financial position of the Company, its business development and strategy.

Transactions subject to the approval of the Supervisory Board, as required by law and statutory regulations, as well as those of special importance, were discussed in detail at the meetings of the Supervisory Board. The Supervisory Board continuously oversaw the activities of the Company's management on the basis of written and oral reports by the Board of Directors, thereby properly fulfilling its obligations as prescribed by law.

On 20 February 2003, VOLKSWAGEN AG, as shareholder of ŠKODA AUTO a.s., appointed

PricewaterhouseCoopers Audit, s.r.o., Prague, to conduct the audit for the 2003 fiscal year.

The auditors issued an unqualified opinion on the financial statements of ŠKODA AUTO a.s. for the year ended 31 December 2003. At its meeting held on 19 February 2004, the Supervisory Board discussed the financial results and accepted the proposal of the Board of Directors regarding the allocation of profit. On the recommendation of the Board of Directors, the Supervisory Board resolved to submit the 2003 annual financial statements to the shareholder, VOLKSWAGEN AG, for approval.

A handwritten signature in black ink, appearing to read 'D. Wittig'.

**Dipl. Kfm. Detlef Wittig**  
Chairman of the Supervisory Board



From left: Vratislav Kulhánek, Winfried Vahland, Karl-Günter Büsching, Fred Kappler, Helmuth Schuster

## Board of Directors and Supervisory Board

### Board of Directors

**Ing. Vratislav Kulhánek** (\*1943)

Chairman  
16. 4. 1997 <sup>1/</sup>

**Dipl. Ing. Winfried Vahland** (\*1957)

Vice Chairman <sup>3/</sup>  
Commercial Affairs  
1. 8. 2002 <sup>1/</sup>

**Dipl. Ing. Karl-Günter Büsching**

(\*1941)  
Production and Logistics  
1. 1. 1998 <sup>1/</sup>

**Dr. Helmuth Schuster** (\*1954)

Personnel  
1. 1. 2001 <sup>1/</sup>

**Dipl.-Ökonom Fred Kappler** (\*1958)

Sales and Marketing  
1. 1. 2004 <sup>1/</sup>

The following member  
resigned from the Board  
of Directors:

**Dr. h. c. Detlef Schmidt** (\*1944)

Sales and Marketing  
1. 7. 2000 – 30. 6. 2003 <sup>2/</sup>

### Supervisory Board

**Dipl. Kfm. Detlef Wittig** (\*1942)

Chairman, Member of the Board of  
Management, Volkswagen brand,  
Wolfsburg, 1. 7. 2000 <sup>1/</sup>

**Dr. jur. Jens Neumann** (\*1945)

Vice Chairman, Member of the Board  
of Directors, Volkswagen AG,  
Wolfsburg, 16. 4. 1993 <sup>1/</sup>

**Dr. rer. pol. Carl H. Hahn** (\*1926)

Honorable Chairman, Former  
Chairman of the Board of Directors,  
Volkswagen AG, Wolfsburg,  
16. 4. 1991 <sup>1/</sup>

**Dr. rer. pol. h. c. Bruno Adelt** (\*1939)

Member of the Board of Directors,  
Volkswagen AG, Wolfsburg, 9. 4. 2003 <sup>1/</sup>

**Dr. rer. pol. h. c. Peter Hartz** (\*1941)

Member of the Board of Directors,  
Volkswagen AG, Wolfsburg,  
19. 12. 1994 <sup>1/</sup>

**Ing. Václav Petříček** (\*1944)

Deputy Minister of Industry and  
Trade of the Czech Republic, Prague,  
1. 2. 1996 <sup>1/</sup>

**Dr.-Ing. h. c. mul. Folker**

**Weißgerber** (\*1941)  
Member of the Board of Directors,  
Volkswagen AG, Wolfsburg,  
1. 1. 2002 <sup>1/</sup>

**Ing. Jan Miller** (\*1948)

Secretary of the Labour Union  
branch, OS KOVO ŠKODA AUTO a.s.,  
Mladá Boleslav, 16. 4. 1993 <sup>1/</sup>

**Jaroslav Povšik** (\*1955)

Chairman of the Labour Union  
branch, OS KOVO ŠKODA AUTO a.s.,  
Mladá Boleslav, 16. 4. 1993 <sup>1/</sup>

**Ing. Jan Uhlíř** (\*1944)

Chairman of the Association of Labour  
Unions OS KOVO, Prague, 11. 7. 1994 <sup>1/</sup>

The following member resigned  
from the Supervisory Board:

**Dr. Robert Büchelhofer** (\*1942)

Member of the Board of Directors,  
Volkswagen AG, Wolfsburg (until  
8. 4. 2003), 1. 7. 1995 – 8. 4. 2003 <sup>2/</sup>

The Board of Directors, as the  
Company's managing body, works  
constantly to raise the Company's  
standards of corporate governance.  
The Supervisory Board has the same  
aim. The principal guiding document  
in this activity are the Articles of  
Association of ŠKODA AUTO a.s. The  
Company's mid-term plan is to accede  
to a Code of Corporate Governance  
based on OECD principles.

<sup>1/</sup> Date indicates beginning of membership  
in the relevant body.

<sup>2/</sup> Dates indicate beginning and end of  
membership in the relevant body.

<sup>3/</sup> 1. 2. 2003

# INTELLIGENCE

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## Corporate Profile

**Only very few car manufacturers can boast an uninterrupted tradition of over one hundred years. Škoda Auto is one of them. The road to today's prosperity began back in 1895, when mechanic, Václav Laurin, and bookseller, Václav Klement, began manufacturing Slavia-brand bicycles. Four years later the company Laurin & Klement began making motorcycles. The first car left the factory gates in 1905 and soon the firm's car manufacturing activities won it a stable position in the emerging international passenger car market. The path subsequently travelled by the car-maker to today's prosperity was winding and difficult, due to political and macroeconomic circumstances. All the greater, then, is the pride we feel as bearers of the heritage of all the Czech minds and hands that is a significant part of world automotive history.**

Not just the founders Laurin and Klement, but also a whole range of Czech engineers, technicians, designers, artists and laborers dedicated their skill, creative spirit, and craftsmanship to the "winged arrow" – the logo which has since become famous on five continents of the world.

In April 1991, Mladá Boleslav-based Škoda became one of the brands of the Volkswagen Group, and this marked the beginning of its transformation into a proud, dynamic and prosperous company with its own R&D and manufacturing programmes. At present, Škoda Auto manufactures cars in three model lines: Fabia, Octavia and Superb, all of which are strong competitors in their respective categories of the world passenger car market.

Škoda Auto has an exceptional position in the Czech economy and is

the largest exporter. Through its sales network, the Company also holds a leading position in the domestic market, where roughly half of all new cars sold are Škodas.

The typical modern car is made of approximately 7,500 parts. Škoda Auto collaborates with over 900 domestic and foreign suppliers, which produce and supply many of these parts in the required quantities. Certain suppliers are direct participants in the process called modular manufacturing. This strategy, which was applied successfully in the production of Octavia cars, is also used by Škoda Auto to make the Fabia and Superb models. The essence of the strategy is that key suppliers are involved in the entire process from the moment the system is developed all the way to final assembly, which they partially do themselves. Suppliers are an

important link in the overall chain: their quality and performance is of critical importance in winning recognition and success in the tough competitive battle raging in the automotive markets.

The dynamic growth of Škoda Auto offers domestic suppliers an opportunity for further growth and new business potential for Czech industry. However, this opportunity is conditional upon fulfillment of key criteria of quality, price and reliability. Thus, Škoda Auto indirectly creates thousands more employment opportunities in the Czech Republic and abroad.

Škoda Auto is aware of the responsibility it shares for social causes in the Czech Republic and it will continue to contribute to the development of society through active support for social, education, and cultural projects.

## Status Report

### Development of the Czech Economy

**The Czech economy succeeded in maintaining a solid rate of economic growth despite weak economic performance in the EU countries. In 2003 the Czech economy as a whole posted 2.8% growth. The most important factor driving the economy's growth was domestic demand, mainly household consumption. Other contributing factors were low inflation, higher utilisation of consumer loans and falling interest rates.**

The restructuring and modernisation of manufacturing continued, spurred on by foreign direct investments, while production in certain traditional sectors was curtailed. Overall, industrial output grew by 5.8% in 2003.

The rise in prices in the Czech economy stabilised at a very low level. At the beginning of the year, consumer price inflation was negative. In May, it rose out of the deflation zone, but even so throughout the entire year inflation remained far below the target band set by the Czech National Bank. The average inflation rate in December 2003 was 0.1%, its lowest level since the start of the Czech economic transformation. Prices of industrial manufacturers in 2003 fell by 0.3% compared with 2002. The atmosphere of heavy competition in

the domestic market put a damper on inflation growth across the board.

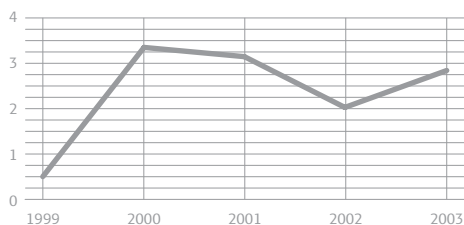
The key monetary policy rate (the rate for 14-day repo transactions) was cut eight times between December 2001 and August 2003, falling by a total of 2.75 percentage points to 2.0%. The nominal CZK-EUR (Czech Crown versus Euro) exchange rate fell in 2003 by an average of 3.3%, while the CZK gained 14% against the U.S. Dollar.

Despite the economic slowdown in partner countries, the balance of foreign trade improved in year-on-year terms. Exports increased by 9.3% and imports were up 8.8%. The foreign trade deficit reached CZK 71.2 billion, down CZK 0.1 billion from the previous year. Export was buoyed up by the weakening CZK versus the Euro and

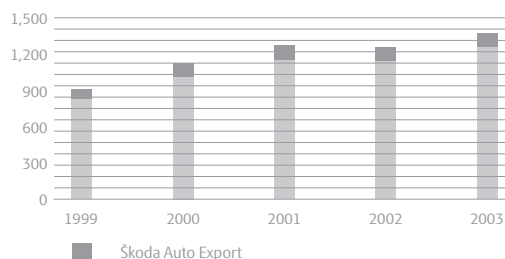
by favorable development of export to Germany and other countries of the Eurozone. Škoda Auto managed to maintain its position as the largest Czech exporter. The value exports in 2003 reached CZK 121.3 billion, or 9% of the Czech Republic's total exports.

The labour market situation was under the influence of the ongoing restructuring. The unemployment rate at the end of the year rose to 9.3%. The growing State budget deficit is one of the principal risks for the Czech Republic's future macroeconomic development. Therefore, the Government of the Czech Republic approved a public finance reform, the implementation of which began on 1 January 2004.

Czech Republic GDP growth, 1999 - 2003 (%)



Škoda Auto share in Czech Republic exports, 1999 - 2003 (CZK bil.)





## Financial Situation

**Škoda Auto's financial situation in the past year was influenced by the ongoing economic stagnation in Western Europe's key markets. The Company continued move forward with the cost optimisation process started in 2002.**

**Total assets decreased by CZK 0.7 billion to CZK 66.2 billion. Fixed assets were covered 72% by the Company's equity. Compared to 2002, net liquidity improved significantly, reaching CZK 2.5 billion.**

**Despite a negligible decline in sales, thanks to cost optimisation, there was a significant improvement in the Company's operating result in 2003, which reached CZK 5.2 billion, an increase of 41.7% on 2002. Profit before taxation in 2003 was slightly higher (CZK 28 million) than the previous year, amounting to CZK 2.5 billion.**

### Balance Sheet and Financing

The Company's total assets fell by CZK 0.7 billion year-on-year to CZK 66.2 billion (-1.0%). This year fixed assets reduced by 1.8% to CZK 44.1 billion due to lower investments. Total investments of CZK 10.2 billion can mainly be attributed to the new Octavia, IT and an expansion in MQ200 gearbox production. Optimising measures in areas ranging from the purchasing and production processes to sales to customers reduced the Company's inventory by 7.5% to CZK 7.1 billion.

The introduction of factoring with ŠkoFin (a subsidiary of Volkswagen Financial Services AG) for the domestic sales network helped to improve the receivables structure, resulting in a 9.3% reduction of receivables, which amounted to CZK 12.4 billion at year end.

2003's profit helped increase equity by 6.5% to CZK 31.8 billion. A systematic improvement of the Company's financing structure contributed to the fact that operating loans of CZK 5 billion were repaid during the course of 2003, this

significantly reducing overall liabilities.

The reduction of the credit burden, combined with lower capital expenditure, inventory optimisation and reduced receivables all had a positive effect on net liquidity, which improved significantly year-on-year to CZK 2.5 billion (2002: CZK -4.7 billion). Gross cash flow of CZK 13.0 billion represented 136.5% of total capital expenditure of CZK 9.5 billion.



## Sales Revenues

In 2003, sales revenues amounted to CZK 145.2 billion, 83% of which was generated abroad. This represents a slight decrease of 0.3% compared to the previous year. One of the crucial factors in this development was the lingering stagnation in the important markets of Western Europe, which was reflected in intensified competitive pressure and enhanced sales support. Another factor was a world-wide reduction in inventories held by importers and dealers due to a more efficient supply process that applied to more than 10,000 vehicles. Vehicles accounted for 90.2% of sales revenues, spare parts and accessories for 6.5%. Supplies of parts to Group companies contributed 2.8% of total sales revenues. Other goods and services made up 0.5%.

Sales revenues in Western Europe decreased by 3.2% to CZK 81.3 billion. Domestic sales also developed negatively. Sales revenues in the Czech Republic amounted to CZK 24.5 billion, down by CZK 1.25 billion (-4.9%) year-on-year.

In contrast, the Central and Eastern European markets enjoyed a major revival, which partially offset the revenue shortfall in Czech and Western European markets. At CZK 32.6 billion, the sales revenues from these markets were up CZK 4.0 billion (13.8%) compared to the prior year.

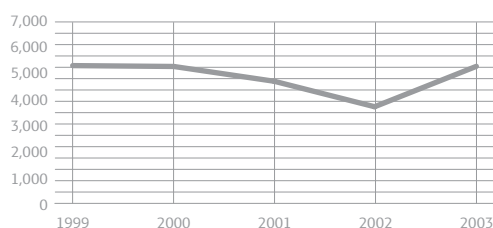
In Asia and other overseas markets, sales revenues dropped to CZK 6.8 billion (down by CZK 0.6 billion), due primarily to weakness in the U.S. Dollar and a slight decline in vehicle unit sales.

## Earnings

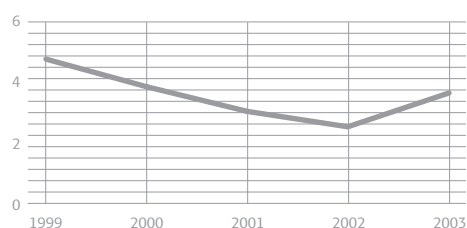
Product and process-orientated optimisation programmes, which were successfully implemented in co-operation with suppliers, together with optimisation of manufacturing, logistics and sales all made Škoda Auto more competitive. Thanks to this, during 2003 the Company's generation of added value rose to CZK 23.3 billion (+5.8% compared to 2002), or 16.1% of sales revenues (up 1.0 percentage point).

Despite a slight fall in revenues, the Company managed, thanks to the optimisation programmes, to significantly improve the year-end operating result, which amounted to CZK 5.2 billion, up 41.7% year-on-year.

Operating profit (in CZK mil.)



Operating profit-to-revenues ratio (%)





The Company's 2003 profit was negatively impacted by the financial result. Excluding non-recurring costs, however, Škoda Auto substantially improved earnings compared to last year's performance.

Depreciation of assets declined by CZK 0.5 billion to CZK 10.3 billion, due to less extensive capitalisation of assets in the current accounting period, as the investments made in connection with preparations for production of the new Octavia will be capitalised in next year.

The balance of other income and expenses decreased from CZK 281 million in the previous year to CZK 222 million in the current year, due primarily to an increase in the provision for guarantee repairs and

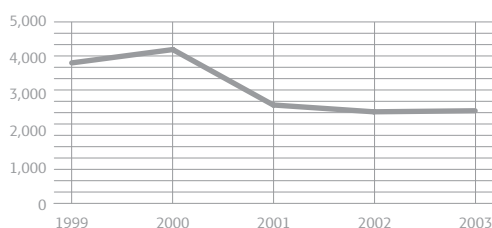
new provisioning for ecological disposal of old vehicles, made necessary by the Czech Republic's upcoming accession to the EU.

Much of the negative financial result of CZK -2.7 billion (down CZK 1.5 billion) can be attributed to non-recurring costs. The redemption of an Interest Rate Swap from 2000 and the negotiation of new Interest Rate Swaps at an interest rate in line with current market rates had a negative impact of CZK 397 million. The deterioration in the financial result was also compounded by premiums of CZK 278 million paid for currency options concluded in 2002. These were accounted for in 2003 when the options were due.

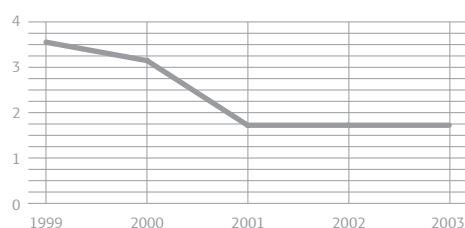
While the development of key currency exchange rates (EUR, etc.) had a positive impact on revenue and expense components of the profit and loss account, it also caused a negative result from concluded forward exchange transactions.

Profit before taxation at CZK 2.5 billion, was up slightly (CZK 28 million) from 2002's level. The tax liability amounted to CZK 1.0 billion. The effective tax rate of 41.2% is higher compared to 2002's 26.7% due to lower investment allowances resulting from less extensive capitalisation of long-term tangible assets in 2003 and other factors that arose in 2002. Profit after taxation in 2003 totalled CZK 1.5 billion (2002: CZK 1.8 billion).

Profit before taxation (in CZK mil.)



Net operating margin before taxation (%)





## Subsidiaries

Individual car markets exhibited differing trends, and these were reflected in the performance of the respective subsidiaries operating in these markets. The ownership structure and investments of Škoda Auto are set out on page 80.

### Škoda Auto Deutschland

In the German market, 2003 was a very successful year for the Škoda brand. With the overall market flat at 3.24 million vehicles, Škoda Auto Deutschland sold 70,055 vehicles to final customers (up by 2,399) for a market share of 2.2%. Sales revenues showed a similar development, reaching a total of CZK 29.7 billion (EUR 932.9 million), up 8.0% from the previous year.

Profit before taxation, at CZK 140.1 million (EUR 4.4 million), represents an improvement of CZK 264 million (EUR 8.4 million) over 2002.

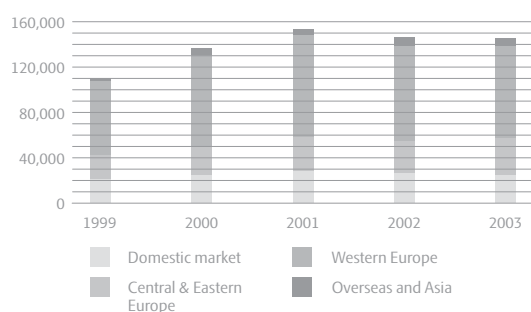
### Škoda Auto Polska

Following a deep slump in the overall Polish market during the past three years, the market rebounded in 2003. This year's 358,432 vehicles sold represent an increase by 50,274 vehicles (+16.3%) over the previous year. Škoda Auto Polska managed to improve its position in this growing market and its 42,927 vehicles sold gave it a market share of 12.0% (up by 0.9 percentage points), which translates into year-on-year sales growth of 8,626 vehicles. Currently, Škoda is the

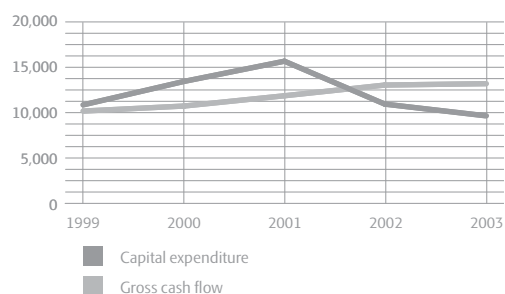
second best selling brand in Poland (after the domestic Fiat), and the Fabia became the best-selling model in the market.

Profit before taxation reached CZK 92.7 million (PLN 12.8 million), which represents a decrease of CZK 13.4 million over 2002. This decline was caused primarily by a non-recurring provision for recycling in conjunction with Poland's upcoming accession to the EU. Thanks to strict optimisation of inventories and the gradual introduction of factoring in accounts receivable for sold cars, Škoda Auto Polska saw its net liquidity improve significantly during 2003, reaching CZK 240.4 million (PLN 33.2 million) at year-end (up CZK 561.1 million).

Sales revenues by region (in CZK mil.)



Capital expenditure and gross cash flow (in CZK mil.)





### Škoda Auto Slovensko

Due to the overall state of the Slovak economy, the passenger car market as a whole contracted from 65,312 vehicles in 2002 to 57,519 in 2003 (down by 11.9%). Sales of the Škoda brand cars moved in line with the overall market, ending the year at 25,728 units, down 3,447 (-11.8%) year-on-year. However, the Škoda brand's market share was preserved at 44.2% and the Fabia and the Octavia continue to be the best-selling models in the market.

Profit before taxation reached CZK 16.0 million (SKK 20.9 million).

### Financial Risk Management

In its business operations, Škoda Auto is exposed to a number of risks, including in particular movements in exchange rates and interest rates in the financial markets. The Company's goal is to eliminate or minimise these risks. This goal is achieved through a flexible hedging strategy with the use of various instruments. All hedging transactions are co-ordinated and implemented in co-operation with our parent company, Volkswagen AG.

#### Hedging of Exchange Rate Risk

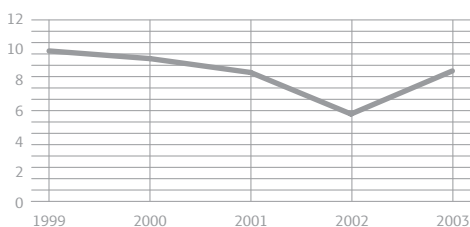
Risk exposure arises from the structure of income and expenses denominated in foreign currencies.

These foreign currency in- and out-flows (predicted using a regularly updated foreign currency plan) are hedged using the netting principle. Hedging instruments used include forward currency transactions, currency options and currency swaps, which are entered into for terms of up to 18 months. The most hedged currencies in 2003 were the Euro, the Pound Sterling and the Slovak Crown.

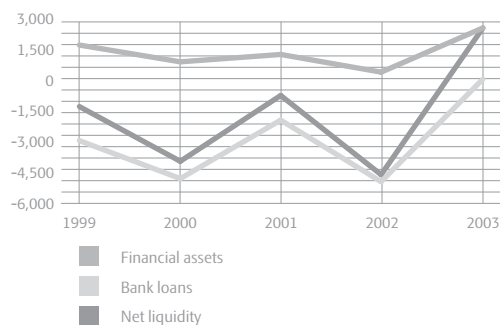
#### Hedging of Interest Rate Risk

Risk exposure due to movements of interest rates results from the medium- and long-term liabilities of Škoda Auto relating to the Company's needs to procure financing for its capital expenditures. Interest rate swaps are used to hedge risks in this area.

Return on equity after taxation (%)



Net liquidity (in CZK mil.)





#### Net liquidity (in CZK mil.)

	31 Dec. 2000	31 Dec. 2001	31 Dec. 2002	31 Dec. 2003	2003/2002
Financial assets	843	1,202	340	2,495	2,155
Bank loans	-4,850	-2,000	-5,000	0	5,000
Net liquidity	-4,007	-798	-4,660	2,495	7,155

#### Profit and loss account (in CZK mil.)

	2000	%	2001	%	2002	%	2003	%
Sales	136,283	100.0	153,271	100.0	145,694	100.0	145,197	100.0
Added value	18,977	13.9	22,296	14.6	22,056	15.1	23,343	16.1
Staff costs	7,465	5.4	7,583	5.0	7,834	5.4	8,060	5.6
Depreciation	7,768	5.7	9,646	6.3	10,826	7.4	10,296	7.0
Other income and expenses	1,460	1.1	-424	-0.3	281	0.2	222	0.2
<b>Operating result</b>	<b>5,204</b>	<b>3.8</b>	<b>4,643</b>	<b>3.0</b>	<b>3,677</b>	<b>2.5</b>	<b>5,209</b>	<b>3.6</b>
Financial result	-1,029	-0.8	-1,969	-1.3	-1,188	-0.8	-2,692	-1.9
<b>Profit before taxation</b>	<b>4,175</b>	<b>3.1</b>	<b>2,674</b>	<b>1.7</b>	<b>2,489</b>	<b>1.7</b>	<b>2,517</b>	<b>1.7</b>
Tax on profit	839	0.6	545	0.3	664	0.4	1,039	0.7
Profit after taxation	3,336	2.4	2,129	1.4	1,825	1.3	1,478	1.0
<b>Return on equity after taxation</b>	<b>9.3%</b>		<b>8.4%</b>		<b>5.7%</b>		<b>8.5%</b>	

#### Added value (in CZK mil.)

	2000	%	2001	%	2002	%	2003	%
Sales	136,283	100.0	153,271	100.0	145,694	100.0	145,197	100.0
Change in inventory	103	0.1	-661	-0.4	63	0.0	-686	-0.5
Capitalisation	2,370	1.7	1,774	1.2	1,776	1.2	2,215	1.5
<b>Sales of production</b>	<b>138,756</b>	<b>101.8</b>	<b>154,384</b>	<b>100.8</b>	<b>147,533</b>	<b>101.2</b>	<b>146,726</b>	<b>101.0</b>
Raw materials and consumables *	105,996	77.8	116,350	75.9	109,868	75.4	108,283	74.6
Services	13,783	10.1	15,738	10.3	15,609	10.7	15,100	10.4
<b>Added value</b>	<b>18,977</b>	<b>13.9</b>	<b>22,296</b>	<b>14.6</b>	<b>22,056</b>	<b>15.1</b>	<b>23,343</b>	<b>16.0</b>

\* Including merchandise acquisition costs.





### Balance sheet structure (in CZK mil.)

	31 Dec. 2000	%	31 Dec. 2001	%	31 Dec. 2002	%	31. Dec. 2003	%
<b>Assets</b>								
Fixed assets	39,175	58.8	45,008	67.6	44,873	67.1	44,074	66.6
Inventories	9,014	13.5	7,517	11.3	7,658	11.5	7,081	10.7
Receivables and other assets	17,629	26.4	12,884	19.3	13,947	20.9	12,501	18.9
Financial assets	843	1.3	1,202	1.8	340	0.5	2,495	3.8
<b>Total assets</b>	<b>66,661</b>	<b>100.0</b>	<b>66,611</b>	<b>100.0</b>	<b>66,818</b>	<b>100.0</b>	<b>66,151</b>	<b>100.0</b>
<b>Liabilities and equity</b>								
Equity	26,032	39.1	28,157	42.3	29,817	44.6	31,758	48.0
Liabilities, incl. other liabilities	40,629	60.9	38,454	57.7	37,001	55.4	34,393	52.0
<b>Total liabilities and equity</b>	<b>66,661</b>	<b>100.0</b>	<b>66,611</b>	<b>100.0</b>	<b>66,818</b>	<b>100.0</b>	<b>66,151</b>	<b>100.0</b>

### Change in net liquidity (in CZK mil.)

	2000	2001	2002	2003
Profit after taxation	+3,336	+2,129	+1,825	+1,478
Depreciation *	+8,051	+9,732	+11,102	+10,458
Change in medium- and long-term provisions	-631	-168	-73	+1,066
<b>+ Gross cash flow</b>	<b>+10,756</b>	<b>+11,693</b>	<b>+12,854</b>	<b>+13,002</b>
Change in inventories	-1,311	+1,497	-140	+577
Change in receivables and other assets	-5,361	+4,618	-591	+1,535
Change in short-term provisions	-33	-303	+582	-339
Change in shareholder's equity	-4	-4	0	0
Change in liabilities, incl. other liabilities (excl. change in loans)	+6,533	+1,146	-5,781	+1,901
<b>+ Other internal financing</b>	<b>-176</b>	<b>+6,954</b>	<b>-5,930</b>	<b>+3,675</b>
<b>= Net cash in-flow from ordinary activities</b>	<b>+10,580</b>	<b>+18,647</b>	<b>+6,924</b>	<b>+16,677</b>
Capital investments	-13,873	-16,235	-11,586	-10,248
Disposals of fixed assets	+625	+797	+800	+726
<b>- Investing activities</b>	<b>-13,248</b>	<b>-15,438</b>	<b>-10,786</b>	<b>-9,522</b>
<b>= Change in net liquidity</b>	<b>-2,668</b>	<b>+3,209</b>	<b>-3,862</b>	<b>+7,155</b>

\* Includes CZK 137 million amortisations of complex prepaid expenses (2002: CZK 182 million, 2001: CZK 127 million, 2000: CZK 291 million).

# ATTRACTIVENESS

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## Technical Development

Adhering to its over 100-year tradition of craftsmanship and technical skills, Škoda Auto Technical Development in Mladá Boleslav will, in future, continue to develop for customers attractive vehicles that meet high quality standards, feature impressive functions, are reliable and offer value for money. The main tasks of Škoda Auto Technical Development include developing new vehicles within all three (Fabia, Octavia and Superb) model series and producing studies for new vehicle segments. They also include constantly improving and managing the current product range, and its responsibility extends to Group engines built at Škoda Auto. Technical Development's key areas of expertise are individual design, interior and exterior engineering, prototype construction as well as testing of vehicles and components. In addition to this internal work, Škoda Auto Technical Development also works closely with other Volkswagen Group development centres, taking on and issuing contracts for other projects. This enhances the international character of our work, the skill level of our employees and therefore the overall technical level and competitiveness of Škoda Auto Technical Development.

In 2003, most of the Technical Development's capacity was dedicated to completing the development of the new Škoda Octavia. At the 2003 Geneva Motor Show, another new model in the Fabia series was presented – the Škoda Fabia RS, the first sports vehicle to feature an economical diesel engine. Regular model improvements for 2004 were prepared for all model series and more engine options were added for some models. As a result, we have found new technical solutions and measures that will allow further increases in the quality and reliability of Škoda cars.

**One demonstration of the skill and expertise of staff at Škoda Auto Technical Development was the successful presentation of the Škoda Roomster study at the Frankfurt International Motor Show.**

A total of CZK 5.2 billion (EUR 164.4 million), i.e. 3.6% of the total Company turnover, was invested in development in 2003. These funds went towards series production management, innovations for model improvement and increases in quality, development orders for the new

projects and the Roomster concept study. Technical Development employed 1,317 staff members, having been expanded by 17 employees since the previous year. CZK 184.7 million (EUR 5.8 million) was invested to enlarge the Technical Development site in Česana.

Over the next years, investments will be made to keep the development expertise and competitiveness of Škoda Auto Technical Development in line with swift technological progress. This should strengthen the existing expertise and advantages of the



Škoda site, like interior and exterior body development, production of data control models, building prototypes and optimising chassis and engines. As part of the electronics development strategy within the Volkswagen Group, Škoda Auto's capacity in this area will be expanded. New investments are planned to strengthen development and testing capability in this area.

The presentation of the new Škoda Roomster study at this year's Frankfurt International Motor Show was a success. This study represents a new direction for the design of future Škoda Auto models. The Škoda Roomster is a new kind of minivan that lends completely new qualities to the typical Škoda values of space, functionality and attractive design. Many functional ideas and intelligent technical solutions for effective use of space have been combined with the aim of satisfying the greater expectations of customers. They also reflect recent

trends in the area of "recreational and everyday vehicles". The reactions to the Škoda Roomster study presentation among the trade representatives and the public attending the Frankfurt International Motor Show were very positive and reaffirmed the concept of an MPV in the small car segment.

At the most important domestic motor show in Brno, Škoda displayed a new version of the Superb featuring exclusive equipment such as a DVD player with screens in the front head restraints, an Internet connection and a rear armrest with a folding table. Škoda Auto has already supplied a vehicle with these exclusive features to the President of the Czech Republic.

The equipment used in vehicles is of high quality and is based on tried and tested technology. We make the most of the Group strategy of common parts as well as the development facilities available at Group

development centres. All Škoda Auto models are characterised by timeless and unique design enhanced by clever solutions for functional details. Furthermore, customers receive high utility value and reliability at a reasonable price and with low running costs. In the future, we will continue to observe legal requirements, such as emissions and safety standards or requirements for electronics, when updating models and developing new products. These areas are already being worked on in collaboration with the Volkswagen Group.

Alongside development work on Škoda vehicles, 2003 saw Technical Development work on contracts together with other Group brands and provide exclusive services for them. These contracts not only allow utilisation of existing capacity, they also further the Company's expertise and experience, and thus guarantee continued successful future development.



## New Engine Options

This year the engine range was expanded for some models. Customers can now order the 1.9 TDI-PD 96 kW (130 hp) diesel engine with the six-speed manual gearbox for the Octavia series. Uniting high-performance and efficiency in the successful Octavia and Octavia Combi models has further increased their popularity with customers. The engine uses the latest high-pressure injector pump-nozzle technology and does, of course, meet the high demands placed on today's engines in terms of fuel economy, long-term quality and the Euro 3 emissions standard.

A diesel, three-cylinder 1.4 l TDI-PD delivering 55 kW (74 hp) has also been added to the range of engines available for the Fabia. The latest generation of Group engines featuring high-pressure injector pump-nozzle technology provides ample power and, thanks to the torque of 195 Nm from 2,200 rpm,

the Fabia drives smoothly and swiftly without frequent gear changes. The low fuel consumption of 4.5 l/100 km keeps running costs low. The engine does, of course, meet the Euro 3 emissions standard and already fulfils future Euro 4 requirements.

## Škoda Fabia RS

The Fabia RS revealed at the Geneva Motor Show is a valuable addition to Škoda's range of sports models (Octavia RS and Octavia Combi RS models).

The Fabia RS is powered by the 1.9 TDI-PD 96 kW (130 hp) diesel engine. This engine which has a maximum torque of 310 Nm, available at 1,900 rpm, gives this vehicle excellent dynamics (0 to 100 km/h in 9.5 sec) and makes it fun to drive. At the same time, fuel consumption is extremely low (combined 5.4 l/100 km). The sports chassis as well as the aerodynamic elements guarantee outstanding

stability and excellent driving characteristics even at the top speed of 206 km/h.

The Škoda Fabia RS is a real eye-catcher with its new bumpers, rear spoiler and sporty interior. The car length is over 4 metres, so the Fabia RS fulfils the FIA homologation conditions for the WRC category.



### Environmental Protection in Product Development

Reducing the use of natural resources and minimising environmental impacts are among the basic objectives of Technical Development, whether it is working on new models or current Škoda brand products. In many cases, future legal requirements for environmental protection have already been fulfilled. In the area of exhaust emissions in particular, Škoda vehicles comply with the Euro 4 standard for petrol engines and Euro 3 for diesel engines thanks to the use of top Volkswagen Group

technology. Even without a particle filter, the diesel engines featuring high-pressure injector pump-nozzle technology already comply with the Euro 4 exhaust emissions standard, which will not come into force until 2005.

Škoda Auto Technical Development is also fully committed to complying with future legal requirements for vehicle recycling and the ban on heavy metals in vehicle parts and fuels. Gradual introduction of the appropriate measures will guarantee that Škoda vehicles are one step ahead when these regulations arrive.

### Certification

On 14 October 2003, an RW TÜV follow-up audit was carried out according to ISO 9001 and ISO 14001. In Technical Development, the specialist areas of product management, project management, vehicle development, electronics development and design were audited and certified without qualification.



## Škoda Motorsport

**The Volkswagen Group brands have been reorganising their strategic motorsport involvement over the past year. The Škoda brand will continue its rally activities in line with its reputation, experience and long tradition. The participation of the Škoda Motorsport team in the WRC Elite category confirms the technical quality and skill of Škoda Auto as a manufacturer of valuable, reliable and robust vehicles. The experience and inspiration gained in the development of racing cars for extreme conditions are later applied on in the further development of series models.**

**The Škoda Fabia WRC, the latest fruit of the collaboration between the designers from Škoda Auto Technical Development and the specialists and engineers from the Škoda Motorsport team, was put on show at the Geneva Motor Show.**

Škoda Motorsport took part in all fourteen races staged in the 2003 season of the FIA World Rally Championship. The team nominated for this season was made up of the French pair Didier Auriol/Denis Giraudet and the Finnish duo Toni Gardemeister/Paavo Lukander. The teams completed the first half of the races in the Škoda Octavia. However, at the start of the year, they were also invaluable when collaborating on the development of the new Škoda Fabia WRC car.

In the Czech Championship, the Czech Škoda Matador team

featuring the driver Jan Kopecký and co-driver Filip Schovánek were provided with support from the factory and the latest version of the Octavia WRC model.

In the 2003 season the Škoda Motorsport team scored 23 points to place 5th in the manufacturers' world championship. The crew of Toni Gardemeister/Paavo Lukander made 12th place with 9 points in the drivers' championship. Didier Auriol together with co-driver Denis Giraudet finished in 13th place with 4 points. Jan Kopecký and Filip Schovánek came third in the final Czech Championship standings.

### Škoda Fabia WRC

The aim of the Škoda Fabia WRC project was to increase the competitiveness of this racing car. The Škoda Fabia WRC is based on the Fabia model. It incorporates all modifications permitted for WRC vehicles under the FIA rules. The Fabia WRC made its first start in the World Championship in the Rally of Germany.



## Procurement

**As in previous years, Czech Crown exchange rates influenced the competitiveness of domestic suppliers. Procurement of production materials totalled CZK 89.3 billion (2002: CZK 91.5 million). Of this total volume, domestic suppliers accounted for 63.7% (2002: 66%).**

This year, "self-billing", where the Company issues bills on its supplier's behalf, was commenced with a number of suppliers. In the B2B project, we got suppliers connected to the supplier platform and began calling off overhead materials electronically according to electronic catalogues. One of the most important applications in the supplier platform is on-line negotiating. During the past year, a total of 75 on-line negotiations

were held (2002: 80) with a total value of EUR 117.5 million (2002: EUR 235 million).

In August 2003, we began manufacturing Octavia vehicles in the Indian city of Aurangabad with a greater degree of vehicle disassembly. This was achieved thanks in part to Procurement, which sought out local suppliers and held specific technical and commercial negotiations with them. In the past

year, fact-finding meetings were held with new potential partners from Ukraine, India and Slovenia.

The most important tasks for Procurement in the past year were to secure parts for the new Octavia and to improve the materials cost situation in existing models. In 2004, we will focus our attention primarily on the roll-out of the new Octavia model.





## Production and Logistics

**The manufacturing process at Škoda Auto is based on the use of modern techniques and technologies, which are necessary to achieve high labour productivity and ensure high quality. With regard to improving manufacturing processes and increasing employee motivation, particularly strong emphasis is placed on maintaining a clean and ergonomic manufacturing environment.**

In 2003 Škoda Auto manufactured a total of 437,554 vehicles. Compared with the previous year, this represents a decline of 4,915 vehicles (-1.1%), which was caused by the overall lacklustre performance of world markets and the resulting reduction in demand for new cars. The average daily production in 2003 was 1,875 vehicles.

The Fabia model line accounted for 59.8% of the Company's overall production in 2003, with 261,787 vehicles produced. With its hatchback, combi and sedan variants, the Fabia represented the bulk of the manufacturing programme. In August, the Fabia model line-up was expanded with the addition of the Fabia RS sports car driven by a 130 horse-power diesel engine. The success of the Fabia was underlined on 4 April 2003, when the 750,000th Fabia rolled off the assembly line.

Production of the Octavia model reached 156,497 vehicles in 2003, representing 35.8% of the year's total manufacturing unit volume. Of this, 58.2% (91,047 vehicles) were

hatchbacks and 41.8% (65,450 vehicles) were combis. On average, 671 Octavias were produced per day, down 4.1% from 2002, the year when the production of this successful model reached its peak.

In 2003, production of the Superb was in line with market demand at 19,270 vehicles, or an average of 84 per day. As the most luxurious vehicle offered by Škoda Auto, the Superb gradually reinforced its position not just in the Czech Republic, but also in all export markets. In April 2003, production of this limousine, based on the SKD-0, commenced in the Ukrainian city of Solomonovo, in co-operation with our partner firm, Eurocar.

In 2003, Škoda Auto continued to establish itself as a significant manufacturer and supplier not just of engines and transmissions, but also components for the entire Volkswagen Group. Total manufacturing volume of three-cylinder engines (40 and 47 kW) exceeded 1,000 units per day, reaching a total of 257,600 units for the whole of 2003. Starting in

January 2003, serial assembly of the more powerful four-valve version of the three-cylinder 1.2/47 kW engine for the Fabia began and manufacturing volume was gradually increased to 400 units per day. In total, 48.1% of these engines were supplied to the Volkswagen Group.

Increased volume was also seen in MQ200 gearbox production, which rose from an average of 1,000 units per day in 2002 to 1,220 units per day in 2003, following an expansion of manufacturing, and this growth trend is being maintained into 2004 as well. In total, 26.8% of the MQ200s produced were for other Volkswagen Group brands.

The principal customers for our engines and components this year were VOLKSWAGEN SLOVAKIA a.s., and the Volkswagen Pamplona and Seat Martorell plants.

Production of the old generation 1.4 l four-cylinder engine ended on 28 March 2003. Serial production of this line began in 1964 and included 1.0 l and 1.4 l petrol engines



that were used in a number of vehicle models from the Škoda 100 to the Škoda Fabia. 6.4 million of these engines were produced.

Another important milestone was reached on 2 September 2003, the day when the 4,000,000th vehicle was produced since Auto Škoda joined the Volkswagen Group. The car was a Škoda Fabia 1.2/47 kW HTP produced for a Czech customer.

During 2003, emphasis was placed on international projects to facilitate the use of SKD and CKD vehicle assemblies.

Regarding the production in India, where the Octavia model was made on the basis of the SKD-0 assembly in Aurangabad, the Indian Government changed its customs

rates in March 2003, making it impossible to continue under the existing assembly arrangements. This led, in August 2003, to the commencement of CKD-3 assembly (disassembled down to the painted body level), with a capacity of 15 vehicles per day. In total, 4,708 vehicles were manufactured in India during the year, 1,972 of which were based on the CKD-3 assembly. In early 2004, production is planned to move to a new hall with a capacity of 40 vehicles per day. As of the year-end 2003, Škoda Auto India worked with 20 dealers and 14 satellites.

Globalisation and the comprehensive nature of international projects, combined with the ever-increasing necessity of finding ways to save on costs and time, are making it necessary to find more local suppliers

and put in place intelligent logistics concepts such as "Just-In-Time" and "Kanban". These concepts are focused on optimising inventory turnover and the amount of capital tied up in inventories by organising deliveries of production material right to the relevant assembly line "just in time", i.e. at the moment when they are needed in the course of the manufacturing process.

In addition to the above mentioned sharing of production within the Volkswagen Group, Škoda Auto was also actively involved in know-how transfer between Group plants, mainly in the area of tooling manufacture. In 2003, the Škoda Auto machine shop was an active participant in projects related to supplies of pressing equipment, e.g., for AUDI AG, BENTLEY MOTORS LIMITED and Volkswagen AG (Touran and Passat).

## Vehicle production

	1999	2000	2001	2002	2003	2003/2002
Felicia	151,895	71,954	19,647	-	-	-
Felicia Combi	45,527	26,081	5,467	-	-	-
Felicia Pickup	17,182	17,743	3,981	-	-	-
Felicia Fun	586	600	-	-	-	-
Felicia Vanplus	1,306	440	-	-	-	-
Volkswagen Caddy	4,204	4,522	-	-	-	-
Fabia	3,652	161,078	143,790	147,671	141,797	-4%
Fabia Combi	-	14,702	91,547	78,192	99,043	+26.7%
Fabia Praktik	-	-	-	1,161	1,275	+9.8%
Fabia Sedan	-	-	26,214	27,942	19,672	-29.6%
Octavia	90,136	92,411	99,998	100,058	91,047	-9.0%
Octavia Combi	56,681	61,379	69,661	63,140	65,450	+3.7%
Superb	-	-	581	24,305	19,270	-20.7%
<b>Total</b>	<b>371,169</b>	<b>450,910</b>	<b>460,886</b>	<b>442,469</b>	<b>437,554</b>	<b>-1.1%</b>



## Quality

**In the autumn of 2003, RW TÜV ESSEN conducted a follow-up audit of Škoda Auto's integrated management system. This audit confirmed our compliance with the international ISO standards (ISO 9001:2000 for the quality management system and ISO 14001:1996 for the environmental management system).**

The integrated management system ensures that each Škoda vehicle is manufactured due to approved type, and satisfies all safety and other regulations and statutes valid in the Czech Republic and foreign markets. Thereby, customers of Škoda Auto gain the highest degree of certainty that our products and services satisfy the wishes and requirements of end users and that the important area of environmental protection receives sufficient emphasis in the development and manufacturing processes.

Customer requirements concerning the quality of Škoda vehicles, their workmanship and trouble-free functioning, are already reflected in the tests and audits that are conducted during all phases of production.

The satisfaction of customers is documented by studies carried out by independent institutions. For example, in 2003 Škoda vehicles placed 4th in a competitive field made up of all the world automotive brands in one of the most respected studies – the J. D. Power study conducted for the British market.



## Sales

**In 2003, in an atmosphere of intensifying competition in 80 foreign markets and the Czech Republic, Škoda Auto delivered a total of 449,758 vehicles to customers, up 1.0% from 2002. This result was substantially influenced by two opposing trends in overall market development in the Škoda brand's most critical sales regions: year-on-year growth in Central Europe (+11.3%) and, on the other hand, flat demand in Western European markets (-1.5%).**

Globally, the best-selling model line was the Škoda Fabia with a total of 260,988 vehicles sold (down 1.4%). Even in the eight year since its market launch, the Škoda Octavia enjoyed significant popularity with 165,635 vehicles sold (up 1.0%). The comfortable Škoda Superb limousine, the winner of several comparative tests conducted by well-known magazines, attracted a total of 23,135 customers (up 37.2%).

### Czech Republic

Despite the competition's aggressive pricing policies, especially in the best-selling small car segment, and an overall lacklustre market, Škoda Auto managed to capture nearly half of the domestic car market (47.7%) with sales of 71,522 vehicles. This result is even more significant when one looks at other car brands

– for example, the market share of the second most successful car maker in the Czech Republic is less than 7% .

Successful innovations in sales support, such as the "Now You Can Afford It" financing campaign, offerings of attractive "action models" and a nearly 50% rise in customers for the Superb model all contributed to the Škoda brand's success as it occupied all the top five positions in the overall sales statistics rankings.

Thanks to the Superb, the Škoda brand returned to the Prague Castle after a 50-year break. In addition to several ministers of the Czech Government, as of December 2003 the Head of State, President Václav Klaus, is also taking advantage of the comfort of a Superb – in the form of a special presidential limousine.

### Western Europe

Despite the overall economic stagnation and related reduced demand in the automotive sector in many Western European markets, which constitute Škoda Auto's largest sales region in terms of volume (52.4%), we managed to keep our market share at 1.7% and supply a total of 235,861 vehicles to Western European customers (down 1.0%).

In 2003, Germany reinforced its position as our largest export market, with 70,055 vehicles sold through authorised dealers (up 3.5%). Thus, in one of the world's most demanding markets, Škoda Auto is continuously strengthening its position. In 2003, our share of the German market reached 2.2% (2002: 2.1%).



In contrast, general market declines influenced sales in Great Britain (37,103 vehicles, down 3.0%) and France (14,234 vehicles, down 14.3%).

Countries where Škoda Auto saw sales grow substantially included Finland (3,555 vehicles, up 76.5%), the Netherlands (10,911 vehicles, up 20.3%), and Austria (16,200 vehicles, up 4.2%).

## Central and Eastern Europe

Unlike Western Europe, Central Europe – with the exception of Slovakia – saw a rebound in overall demand for new cars. The Škoda brand managed to capture a significant portion of this growth. In the region of Central and Eastern Europe (not including the Czech Republic), we sold a total of 120,126 vehicles (up 9.4%).

Sales in Poland, our largest Central European market, played a considerable role in this result. Here, a total of 42,927 customers (up 25.1%) chose Škoda. Our Polish

market share is 12.0% and reinforces our position as the second-best selling brand in the Polish market.

The continual process of developing and improving the sales network helped us achieve sales growth in Hungary (15,462 vehicles, up 34.4%) and Romania (6,245 vehicles, up 33.1%).

Sales of Škoda cars in the largest Eastern European countries, Russia and Ukraine, were negatively impacted by the strong Euro (against the USD). Sales in the Russian Federation reached 6,678 vehicles (down 28.1%) and in Ukraine total sales were down 4.9% at 5,312 vehicles.

## Brand Guidelines

The Škoda brand is reacting to the dynamic changes ongoing in the automotive market by refocusing its marketing and communications strategy. The basis of the strategy is the new Brand Guidelines, which was unveiled in September at the Frankfurt International Motor Show.

Effective immediately, the new slogan “Škoda – Simply clever.” in our external and internal communications will determine the brand’s content, focus and spirit. At the same time, the new slogan constitutes the core of our new brand vision strategy, since it represents a distillation of the brand values: “Intelligence”, “Attractiveness” and “Dedication”. These basic values are reflected in communications, product strategies, corporate culture and day-to-day actions. Through this new strategy, the Škoda brand will be unified and clear at the global level and stand out among the competition.

One palpable demonstration of the new strategy was the “Roomster”, which was unveiled to the public at the Frankfurt International Motor Show. The Škoda Roomster, which is still in the concept stage, offers a glimpse of the direction that Škoda Auto would like to take in future, not just in terms of the overall concept of its models, but the design of their individual constituent elements as well.



## The Fabia RS

At the Geneva Motor Show, Škoda Auto unveiled the new sports version of the Fabia – the Škoda Fabia RS – a dynamic and original car designed to satisfy the appetites of demanding customers. As the number of 2,451 RS vehicles sold in 2003 clearly shows, this newcomer powered by a 130 hp diesel engine and distinguished within the Škoda family by the letters RS was able to establish itself among the competition within a short time and thereby built on the successes of the Octavia RS and Octavia Combi RS models.

## New Block Exemption Regulation – (BER) 1400/2002

On 1 October 2002, a new “block exemption regulation” (BER)

1400/2002 entered into force with a twelve-month grace period. This new European Commission regulation reforms relations between automotive manufacturers and their sales and service partners with the aim of liberalising the car market.

In co-ordination with other Volkswagen Group brands, Škoda Auto utilised the twelve-month grace period to adapt its sales policies to comply with the new BER regulation. All contractual agreements and qualitative standards binding upon sales and service partners at both the wholesale and retail levels were revised and reworked.

These contractual regulations form the basis for further qualitative growth in the Škoda Auto sales and service organisation and, together with the offering of products and

services, also for improving the brand image and increasing brand awareness.

## Expansion of Škoda Auto Parts Centre

Škoda Auto is reacting to the increasing demand of the original parts market by adding on 12,000 m<sup>2</sup> to its branded parts distribution centre. This will ensure sufficient capacity to continue supplying original parts to domestic and foreign customers in the future. The expansion will also bring further optimisation of the parts distribution process, reduced costs and shorter delivery times. Project execution began in October 2003. The expansion will increase warehouse space from the current 37,000 m<sup>2</sup> to 49,000 m<sup>2</sup>.

## Vehicle customer deliveries by region

	1999	2000	2001	2002	2003	2003/2002
Czech Republic	75,952	80,882	82,405	74,466	71,522	-4.0%
Central Europe, not incl. Czech Rep.	90,749	89,517	92,766	82,549	93,474	13.2%
Other Eastern Europe	10,238	13,116	24,167	27,224	26,652	-2.1%
Western Europe	192,156	229,109	244,099	238,323	235,861	-1.0%
Overseas and Asia	16,235	22,779	16,815	22,963	22,249	-3.1%
<b>Total</b>	<b>385,330</b>	<b>435,403</b>	<b>460,252</b>	<b>445,525</b>	<b>449,758</b>	<b>1.0%</b>

## Vehicle customer deliveries by model

	1999	2000	2001	2002	2003	2003/2002
Felicia total	241,256	148,028	44,963	-	-	-
Fabia total	823	128,872	250,978	264,641	260,988	-1.4%
of which: Fabia	823	124,064	152,601	150,319	140,305	-6.7%
Fabia Combi	-	4,808	81,641	81,996	97,157	18.5%
Fabia Sedan	-	-	16,732	31,185	22,406	-28.2%
Fabia Praktik	-	-	4	1,141	1,120	-1.8%
Octavia total	143,251	158,503	164,134	164,017	165,635	1.0%
of which: Octavia	90,733	96,253	97,679	98,766	97,198	-1.6%
Octavia Combi	52,518	62,250	66,455	65,251	68,437	4.9%
Superb	0	0	177	16,867	23,135	37.2%
<b>Total</b>	<b>385,330</b>	<b>435,403</b>	<b>460,252</b>	<b>445,525</b>	<b>449,758</b>	<b>1.0%</b>

## Vehicle customer deliveries by country

	1999	2000	2001	2002	2003	2003/2002
Czech Republic	75,952	80,882	82,405	74,466	71,522	-4.0%
Slovakia	31,451	32,095	37,523	29,175	25,728	-11.8%
Poland	44,457	39,326	37,354	34,301	42,927	25.1%
Hungary	6,807	7,707	8,354	11,507	15,462	34.4%
<b>Central Europe</b>	<b>166,701</b>	<b>170,399</b>	<b>175,171</b>	<b>157,015</b>	<b>164,996</b>	<b>5.1%</b>
Germany	56,270	65,219	66,937	67,656	70,055	3.5%
France	11,782	12,053	13,727	16,607	14,234	-14.3%
Great Britain	23,145	30,509	36,048	38,251	37,103	-3.0%
Italy	19,698	23,005	28,643	23,051	23,061	0.0%
Spain	13,137	14,834	17,118	15,549	13,322	-14.3%
Austria	15,972	19,466	18,880	15,552	16,200	4.2%
Denmark	6,632	5,921	6,083	7,068	7,207	2.0%
Sweden	17,248	18,827	8,853	9,008	8,614	-4.4%
<b>Western Europe</b>	<b>192,156</b>	<b>229,109</b>	<b>244,099</b>	<b>238,323</b>	<b>235,861</b>	<b>-1.0%</b>

## Market share (%)

	1999	2000	2001	2002	2003	2003/2002*
Czech Republic	49.6	52.6	52.6	50.0	47.7	-2.3
Slovakia	53.8	57.2	52.8	44.2	44.2	-
Poland	6.6	7.9	11.2	11.1	12.0	0.9
Hungary	4.6	5.3	5.5	6.6	7.3	0.7
<b>Central Europe</b>	<b>14.4</b>	<b>17.6</b>	<b>20.8</b>	<b>19.1</b>	<b>18.1</b>	<b>-1.0</b>
Germany	1.5	1.9	2.0	2.1	2.2	0.1
France	0.5	0.6	0.6	0.8	0.7	-0.1
Great Britain	1.0	1.3	1.5	1.5	1.4	-0.1
Italy	0.8	0.9	1.2	1.0	1.0	-
Spain	0.9	1.1	1.3	1.2	1.0	-0.2
Austria	4.8	6.1	6.4	5.5	5.4	-0.1
Denmark	4.6	5.3	6.3	6.3	7.4	1.1
Sweden	4.8	5.0	3.4	3.5	3.3	-0.2
<b>Western Europe</b>	<b>1.2</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>	<b>-</b>

\* in percentage points

# DEDICATION

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## Human Resources

**Traditionally, Škoda Auto has always been proud of the expertise of the employees who develop, manufacture and sell our cars. Škoda Auto is aware of the fact that the Company and its people win or lose together. As new requirements appear, new demands are placed on human potential and it is necessary to take active care to ensure sufficient human resources. The goal of Škoda Auto's human resources policy is to ensure the Company's competitiveness and growth and, in the long term, to create jobs.**

### Job Security

The ongoing flat performance of the automotive market has made it difficult to maintain the level of employment. The work force as at 31 December 2003 was reduced by 3.8% compared to 2002. At year-end 2003, Škoda Auto had a total workforce of 20,490 employees and 2,308 temporary workers. The average employee has been working for the Company for 12.3 years.

Human Resources began the year with a complicated collective bargaining process. For the first time, an intermediary was involved in the negotiations. The compromise which was achieved ensured increased wages for employees for the period

until 31 March 2004. The new framework collective agreement was signed on 10 April 2003 and will expire after two years. The agreement guarantees employees a suitable social standard at Škoda Auto and provides space for enhanced co-operation with the labour unions.

### Job Creation

During the year, Company management began to take steps in human resources policy areas that will decide the direction of future development. Škoda Auto intensified the discussion on the future of Czech manufacturing locations not only within, but also outside

the Company. A conference on the future, organized by Škoda Auto and attended by Czech and foreign specialists, evoked a very positive response.

As part of the Competencies Strategy, Škoda Auto began identifying future areas that will improve the profile and performance of the Škoda brand. The strategic areas in the Competencies Strategy – entitled Job Families – will be developed by Škoda Auto in the areas of development and education, in co-operation with universities, experts, science, research, suppliers, the Volkswagen Group, and municipal authorities. Tied to these competency areas will be additional work areas where new jobs will be created.



### Competency Development

Today, completing an apprenticeship in a profession no longer means just being qualified for a job. It also opens up new opportunities and gives access to other areas of education and competencies in the entire work process. Škoda Auto is seeking new means of presenting the Company as an attractive, promising employer and for recruiting high-potential graduates from secondary schools, technical institutes, and universities.

Škoda Auto is an employer that brings into play cutting-edge methods for continuing education and increasing employee qualifications. The Škoda Auto Institute of Higher Education, founded in 2000, commenced its fourth curricular year and in March 2004 the Institute will award its first Bachelor' Degrees. The vocational school, the Institute, Škoda Auto coaching and the IPFM Business School form the core of the future Education and Competencies Centre in the Mladá Boleslav region. Škoda Auto continues to offer a number of personal development programmes, including Volkswagen Group programmes.

### Competency and Culture Forum

In Spring 2003, Škoda Auto hosted a meeting of Group-wide senior management (GEF). The forum was attended by 202 top managers from 51 companies of the Volkswagen Group in 21 countries.

When Volkswagen AutoUni, with organisational support from Škoda Auto, organised a Group-wide Summer Academy as a pilot programme, specialists and managers gathered in Prague from all over the world to discuss the topic "Sustainability Mobility". Plans are afoot for Škoda Auto to be involved in organising the programme in future years as well.

On 13 - 20 September 2003 in Mladá Boleslav, the First Festival of European Film Smiles was held with Škoda Auto as General Sponsor. The international panel of judges chaired by Mr. Václav Vorlíček awarded a total of eight prizes. During the festival, 12 screenings were held, attended by a total of approximately 6,000 viewers.



### Great Benefits from Good Ideas

The Z.E.B.R.A. system creates conditions for and supports employee pro-activity in the areas of cost savings, streamlining of work processes, improving quality and the environment. During the year 4,158 employees (20% of the total) were involved in this system. The employees put forward a total of 10,018 suggestions for improvements, 69.2% of which were implemented, resulting in an overall benefit of CZK 167.1 million.

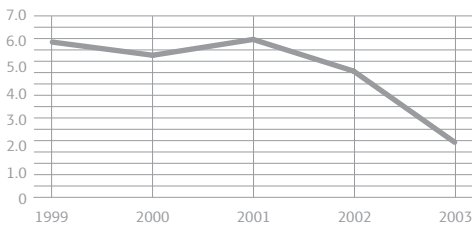
### Work Safety

At Škoda Auto, work safety and health protection are a systematic part of the Company's fundamental strategic priorities. The main component here is targeted preventive activity – evaluating health risks, increasing employee health awareness, providing systematic and targeted information to managers on the state and development of work-related injuries, primarily through the existing system of Work Safety Commissions at the Company,

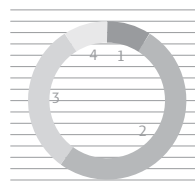
factory and unit levels and with the participation of managers, area representatives, specialised units and the labour unions.

One of the important means for achieving very good results in reducing the injury rate is an annual contest for manufacturing units focused on meeting the stipulated goals. Injury index value for the year 2003, 2.5 injuries per million man-hours worked, makes Škoda Auto a leader among European carmakers in this area.

Injury rate over time



Employee education structure (%)



1 Primary	8.6%
2 Vocational	51.8%
3 Completed vocational	30.7%
4 University	8.9%



## Organisation and Information Systems

**Škoda Auto takes a comprehensive approach to developing enterprise organisation work processes as well as to the implementation and operation of IT solutions. IT has developed into one of the Company's core competencies. Most of today's work processes would be unthinkable without computer system support. In addition, IT gives inspiration for new, customer-focused solutions. Modern technologies are used in a targeted fashion to optimise processes and contribute to creating value for the Company.**

**Close involvement in the Volkswagen Group's IT organisation and many successful joint projects have generated a number of synergies that Škoda Auto leverages with positive results.**

### Work Processes and Development of Organisation in Transformation

Škoda Auto takes a comprehensive approach to creating work processes and continual corporate organisation development. Numerous initiatives have been launched to strengthen entrepreneurial spirit and goal-orientated action. This objective is served by Business Units, which began to be formed in 2003 and which, once running will feature a stronger focus on the value creating process, enable more flexible negotiations and improve the identification of market opportunities.

Another measure is the creation of competency centres, in which specialists from various areas work together to develop processes. A Company-wide process model has been formulated, which clearly

defines relationships and accountability for all units in the organisation, laying the foundation for a smooth optimisation process.

### WEB Technologies Support Selling Processes

The focus of our efforts is to take a flexible approach to manufacturing systems. This is made possible by extensive use of web technologies, which also meet the required security standards. Through a portal, partners (dealers and importers) have unified, easy-to-use access to the latest information which is released in a systematic fashion, supported by workflows.

As a necessary basis for the new Customer Relationship Management solution, a central database was developed to serve as a tool to

facilitate communications between dealer and manufacturer systems.

In 2003, the Škoda Auto Internet Team implemented projects focused on further growth in the Company's international image and support for sales of Škoda cars both at home and abroad. These include, for example, the international web presentation "www.skoda-auto.com" created using a modern system for website administration and editing.

This same tool was also used to implement Centria, the new, comprehensive system for administering the internet presentations of Škoda authorised dealers in the Czech Republic, which is also utilised by importers of Škoda vehicles abroad. Centria also includes a dynamic application for selecting and ordering new vehicles from the database.

## Data Communication

Last year saw a further expansion of data communication based on EDI (Electronic Data Interchange) standards with Škoda Auto partners in the areas of product development and production. In production and logistics, the utilisation and functionality of "classic" EDI processes were improved and the webEDI standard was used for all information flows concerning material needs (preliminary calls, notices, JIT calls and soft calls).

The implementation of the system CAxEDI for the product development area facilitated practical data distribution between engineering locations and helped meet ever-more-demanding security standards for handling engineering data. This solution also supports expanding the use of standard accompanying documentation for exchange of CAx and PDM data between Škoda Auto and partners and brings substantially higher comfort, reliability and the ability to monitor ongoing data transmissions.

In October 2003 in Paris, Škoda Auto accepted the "Odette Award" for

long-term contribution to the utilisation and expansion of EDI-communication in the area of international data exchange.

## Systems Development Precedes Changes in Manufacturing

The past year saw a major increase in system support for production planning and production management with the roll-out of new Group-wide solutions developed with the active participation of Škoda Auto. The transparency and reliability of logistical processes was improved by the well-thought-out interconnection of standard system tools, Group-specific modules and systems developed in-house. As a result, we were able to commence production of Octavia cars in India with a minimum need for additional systems resources.

## Rigorous Use of Standard Software

Work processes in finance, controlling, human resources,

material procurement and the entire process of shipping original Škoda Auto parts is supported by a completely integrated ERP system. Here, Škoda Auto has for many years been favouring the standard software SAP, which in 2003 was brought to the highest possible development level. These applications, which run on a high-availability hardware platform in the data centre, are used by over 2,300 Škoda Auto employees.

With the roll-out of electronic workflow-based purchasing, yet another step was taken towards more effective and transparent enterprise processes.

## IT Security

Ensuring a high level of IT security is an ongoing priority, and 2003 was no exception. In close co-ordination with Group committees, more organisational and technical measures were taken to effectively protect the Company's IT systems against external attacks and abuse of data.





## Sponsorship

**Škoda Auto bases its approach in the sponsorship area on several fundamental principles. As the largest Czech exporter, we cannot afford to limit our brand image-building efforts to the domestic market alone. Through importers, we very actively support this process in our export markets as well. At the same time, however, we at Škoda Auto are aware of our role in Central Bohemia and other regions of the Czech Republic where our plants are located.**

The range of sponsorship activities covers all the main areas of society. The social area is represented in particular by a partnership with Centrum paraple (Paraplegic Center) and, for the second year now, collaboration with the Healthcare Clown project.

In the arts, we further reinforced and extended our collaboration with the National Theatre. In the spring, Škoda Auto became the official partner of all three of the National's theatres. Another tradition that continued during 2003 was the co-operation with the Czech

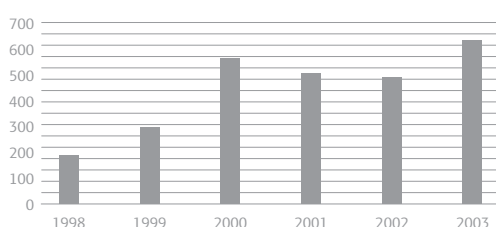
Philharmonic. The Škoda Superb was showcased at a number of major arts events and festivals, including the biggest film festival in the world for children and youth, which took place in the Moravian town of Zlín.

The most significant area of sponsorship activity is sport, which is where target groups of Škoda car customers appear most often. Our lead sponsorship with the World Ice Hockey Championship, which took place in Finland, is Škoda Auto's most significant sponsorship activity. For a long time now, ice hockey has been identified as the

most effective sport for the Fabia and Octavia model lines. Therefore, we also support the national team and the Czech Ice Hockey Supreme League.

For the Superb, golf has been found to be a very advantageous area for partnerships, as it is a sport that is seeing extraordinarily dynamic growth in the country the Škoda brand calls home. Škoda Auto is a partner of the Resort Paradise golf club in Benátky nad Jizerou and, together with other partners, it also sponsored a travelling golf tournament covering the country's major courses. A new partnership with the national extreme sports team experienced a crowning success in the form of the team's win at the Dolomiten Man games in Linz, Austria. Škoda Auto's sports sponsorship activities also include support for the local hockey and football teams in Mladá Boleslav and support is also provided to a number of other sports areas, including youth sports.

Cumulative viewing audience of World Ice Hockey Championship (millions of viewers)





## Society and Infrastructure Development

**Škoda Auto played a role in formulating the Mladá Boleslav Municipal Economic Development Strategic Plan, which was developed in accordance with European Union methodology.**

One part of the programme is to reinforce the city's position within the region. Škoda Auto is involved in this process through support for capital investment projects and, starting in 2003, through the Autovision Project as well.

The direct financial support and the active participation of Škoda Auto in a construction project to upgrade rail infrastructure in Mladá Boleslav resulted in a total outlay of CZK 84.4 million in the period 2001 – 2003.

## The Environment

**In 2003 Škoda Auto continued to implement a strategy of constant improvements in environmental protection in all areas of its operations. This was confirmed by the positive result of the follow-up audit of our ISO 14001 environmental management system. The measures we have taken to protect the environment go beyond what is required by the applicable laws and statutory regulations. They are a guarantee of the Company's future development and set an example for contractual suppliers and dealers to follow.**

The past year can be characterised as a year of implementing new environmental legislation that was passed for the purpose of harmonisation with the European Union. In this area, Škoda Auto:

- completed the process of bringing the Company's internal structure and rules into compliance with the new legislation, including putting the new rules into practice,



- obtained an integrated permit to operate modern paintshops in Mladá Boleslav and Kvasiny. At the same time, both facilities were confirmed to be the best possible technical solution in terms of environmental protection,
- began to utilise an environmental information system to gather, store, sort and present environmental data, both for in-house applications and for reporting to government agencies.

Although environmental protection is not an inexpensive matter; it is crucial for ensuring the future. In 2003 Škoda Auto invested CZK 182 million directly for environmental protection. These funds were spent mainly on equipping and upgrading existing

manufacturing facilities and on removing buildings and decommissioning obsolete facilities. For the purpose of implementing environmental programmes in 2004 and 2005, Company management has approved the additional necessary investments, mainly for revamping the drainage network.

On the other hand, Škoda Auto cancelled the largest planned capital investment project, the construction of the Technical Development testing area in Pozorovatelna – Mladá, for which it had obtained a permit from the Ministry of Environment in 2002. The reason for the cancellation was a prolonged delay that arose in the building permit process as a result of appeals filed by opponents of the testing area.

Škoda Auto places emphasis on air protection and the strict minimisation of waste generation. The Company also gives priority to: recycling and reuse, protection of water and soil, energy conservation and efficient energy consumption, and the operation of the environmental management system. In 2003 the co-operation among all parties involved in these initiatives taken by Škoda Auto again enabled the Company to comply with all environmental limits. In fact in many cases our results were far below these limits. This is a clear demonstration of how seriously Škoda Auto takes its responsibility for sustainable development and adopting a proactive attitude towards life and nature, the fundamental principles of environmental policy.

#### Škoda Auto capital investments in environmental protection, 1991 – 2003 (in CZK millions)

Wastewater treatment	758
Measures in paintshops and build-outs of new paintshops	1,562
Air protection, power generation	5,584
Building insulation	257
Soil and underground water protection	437
Work environment protection	194
<b>Total</b>	<b>8,792</b>





## Outlook for 2004

### Czech Republic Economic Outlook

Effective 1 May 2004, the Czech Republic and nine other countries will become full members of the European Union. This development is not expected to have any fundamental impact on macroeconomic indicators, beyond a broadening and acceleration of the trends that began in the period of preparations for EU accession. In 2004, due to the Euro's gains in respect of the U.S. Dollar, only modest recovery in economic growth is expected abroad. The growth of the Czech economy should be positively influenced by increased demand for capital goods and a real increase in international trade.

### Passenger Car Market in the Medium Term

In Western Europe, ongoing flat overall sales of new passenger cars is anticipated in 2004. In Central and Eastern European markets, we must

be prepared to face a slowing in the overall pace of markets growth. In the medium term, however, car sales are expected to recover again, especially in conjunction with the ongoing European Union enlargement process.

### Principal Strategic Goals

As one of the oldest car brands in the world, with a tradition going back over 100 years, Škoda Auto will continue to offer vehicles with a very favourable ratio between cost and utility value, in line with customer expectations. Based on set, approved priorities, the Škoda brand will continually work to reinforce its position in individual markets and regions through individually tailored sales strategies. Key Central and Western European markets will continue to be developed and, concurrently, there will be an acceleration of the process of establishing the brand in other promising markets in Eastern Europe and Asia. In the medium term, Škoda Auto will continue to offer vehicles in



the small, lower medium and medium segments. Together with these goals, the Company has also set challenging objectives in the area of profitability (e.g. ROI in the level of 9%).

### Manufacturing

2004 will be significantly influenced by the start of production of the new Octavia. Our plant in Vrchlabi will play a major role, as assembly of the new vehicle will take place here starting in early 2004. Further increases in production volume are planned starting in August 2004, when the Mladá Boleslav plant will terminate production of the existing Octavia model and begin assembly of the new Octavia. Afterwards, demand for the present Octavia will be met by the Vrchlabi plant.

Another important and ever developing part of Škoda Auto's manufacturing programme next year will be the production of engines, gearboxes and other modules both for our own as well as for other Volkswagen Group models.

### Capital Investment Strategy

In 2004, Škoda Auto will launch the new Octavia. To achieve this goal, the Company has invested CZK 10.8 billion in new technologies since the start of the project. In the medium term, the Company will continue to upgrade production technologies and processes related to new products such as the successor to the today's Fabia model.



## Financial Outlook

In 2004, the Company is not expecting any significant rise in sales volumes either at home or abroad. The negative impacts of cost outlays in previous years, relating to capital investment activity and the preparation of new projects (the new Octavia vehicle in particular) will be offset by other optimisation measures. For Škoda Auto this will mean optimising the dealer network and implementing all the terms of the Block Exemption Regulation (BER), as well as making changes to importer organisations – all of which must be done while simultaneously reflecting the conditions ensuing from price harmonisation. In subsequent years, we expect to see an improvement in our financial performance as automotive markets recover.

Despite the increased depreciation charge resulting from the launch of the new Octavia, Škoda aims to match the previous year's earnings result. In 2005, in accordance with statutory requirements, we expect a change in reporting standards to International Financial Reporting Standards (IFRS, previously IAS).

## Marketing Strategy

Škoda Auto's principal marketing objective for 2004 is to successfully launch the second generation of the popular Škoda Octavia, which will be premiered at the Geneva motor show in March 2004. Commencement of sales in individual markets will follow gradually starting from the summer of 2004.

Other equally important marketing objectives include implementing the Company strategy based on the new brand values, which will help emotionalise the brand and give it a sharper profile in international markets.

## Goals in Human Resources

Škoda Auto continues to maintain a high level of employment. In 2004, special emphasis will be placed on employee health and education. The goal is to reach a 97% health rate. As part of our capital investment programme, next year will see upgrades in all areas of Company education.

## FINANCIAL SECTION

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# Auditor's Report



**PricewaterhouseCoopers Audit, s.r.o.**

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

## Report of Independent Auditors to the Shareholder of ŠKODA AUTO a.s.

We have audited the accompanying balance sheet of ŠKODA AUTO a.s. as at 31 December 2003, the related income statement, cash flow statement and notes for the year then ended presented in the annual report of the Company on pages 54 – 77 ("the financial statements"). The financial statements and underlying accounting records are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the accompanying financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of ŠKODA AUTO a.s. as at 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

We have examined whether the supplementary financial information included in the annual report of the Company on pages 9 – 51 and 80, which does not form part of the financial statements for the year ended 31 December 2003, is consistent with the audited financial statements of the Company. In our opinion, all other supplementary information included in the annual report is consistent with the audited financial statements in all material respects.

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party VOLKSWAGEN AG and between the Company and the other parties controlled by VOLKSWAGEN AG on pages 78 – 79 ("the Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors. Our responsibility is to review the accuracy of information included in the Report. We conducted our review in accordance with the auditing standards of the Chamber of Auditors of the Czech Republic related to reviews of reports on relations between related parties. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. 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.

23 January 2004

PricewaterhouseCoopers Audit, s.r.o.  
represented by

Matthew Pottle  
Partner

Pavel Kulhavý  
Auditor, Licence No. 1538

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

# Balance Sheet - Unabridged Version as at December 31

(in thousand CZK)

ASSETS		2003			2002	2001
		Gross	Provision	Net	Net	Net
a	b	1	2	3	4	5
	<b>TOTAL ASSETS</b>	<b>128,785,817</b>	<b>(62,634,525)</b>	<b>66,151,292</b>	<b>66,818,348</b>	<b>66,610,615</b>
<b>B.</b>	<b>Fixed assets</b>	<b>105,408,472</b>	<b>(61,334,557)</b>	<b>44,073,915</b>	<b>44,873,430</b>	<b>45,008,183</b>
<b>B.I.</b>	<b>Intangible fixed assets</b>	<b>3,397,684</b>	<b>(1,750,015)</b>	<b>1,647,669</b>	<b>891,864</b>	<b>213,761</b>
B.I. 2.	Research & development	1,109,431	(1,099,941)	9,490	25,759	42,027
B.I. 3.	Software	718,978	(584,661)	134,317	184,232	121,787
B.I. 4.	Royalties	100,998	(56,930)	44,068	52,474	47,744
B.I. 6.	Other intangible fixed assets	38,055	(8,483)	29,572	18,711	2,203
B.I. 7.	Intangible assets in the course of construction	1,430,222		1,430,222		
B.I. 8.	Advances paid for intangible assets				610,688	
<b>B.II.</b>	<b>Tangible fixed assets</b>	<b>101,241,155</b>	<b>(59,495,448)</b>	<b>41,745,707</b>	<b>43,322,436</b>	<b>44,088,949</b>
B.II. 1.	Land	957,121		957,121	956,763	947,925
B.II. 2.	Constructions	19,659,384	(4,701,146)	14,958,238	14,676,024	12,480,584
B.II. 3.	Equipment	73,039,459	(54,794,302)	18,245,157	22,953,599	21,775,087
B.II. 6.	Other tangible fixed assets	25,338		25,338	36,624	32,178
B.II. 7.	Tangible assets in the course of construction	6,555,624		6,555,624	4,171,975	8,311,155
B.II. 8.	Advances paid for tangible fixed assets	1,004,229		1,004,229	527,451	542,020
<b>B.III.</b>	<b>Long-term investments</b>	<b>769,633</b>	<b>(89,094)</b>	<b>680,539</b>	<b>659,130</b>	<b>705,473</b>
B.III. 1.	Investments in controlled entities/subsidiaries	527,716	(49,094)	478,622	460,675	509,487
B.III. 2.	Investments in associates	3,498		3,498	3,498	3,498
B.III. 3.	Other long-term investments in securities	25,977		25,977	39,477	51,177
B.III. 5.	Other financial investments	212,442	(40,000)	172,442	155,480	141,311
<b>C.</b>	<b>Current assets</b>	<b>23,244,338</b>	<b>(1,299,968)</b>	<b>21,944,370</b>	<b>21,631,966</b>	<b>20,855,941</b>
<b>C.I.</b>	<b>Inventories</b>	<b>7,359,268</b>	<b>(278,502)</b>	<b>7,080,766</b>	<b>7,657,486</b>	<b>7,517,274</b>
C.I. 1.	Raw materials	3,092,926	(225,806)	2,867,120	2,889,234	2,864,105
C.I. 2.	Work in progress and semi-finished products	1,445,492	(862)	1,444,630	1,576,516	1,816,035
C.I. 3.	Finished goods	1,199,804	(28,035)	1,171,769	1,700,252	1,452,134
C.I. 5.	Goods for resale	1,621,046	(23,799)	1,597,247	1,491,484	1,385,000
<b>C.II.</b>	<b>Long-term receivables</b>	<b>1,045,902</b>		<b>1,045,902</b>	<b>977,863</b>	
C.II. 7.	Deferred tax asset	1,045,902		1,045,902	977,863	
<b>C.III.</b>	<b>Short-term receivables</b>	<b>12,344,489</b>	<b>(1,021,466)</b>	<b>11,323,023</b>	<b>12,656,505</b>	<b>12,137,162</b>
C.III. 1.	Trade receivables	7,170,969	(686,878)	6,484,091	8,786,446	7,750,161
C.III. 6.	Taxes and state subsidies receivable	4,129,531		4,129,531	3,512,138	4,002,224
C.III. 8.	Anticipated assets	27,618		27,618	42,019	147,867
C.III. 9.	Other receivables	1,016,371	(334,588)	681,783	315,902	236,910
<b>C.IV.</b>	<b>Financial assets</b>	<b>2,494,679</b>		<b>2,494,679</b>	<b>340,112</b>	<b>1,201,505</b>
C.IV. 1.	Cash in hand	3,545		3,545	3,296	1,953
C.IV. 2.	Cash at bank	2,491,134		2,491,134	336,816	1,199,552
<b>D.I.</b>	<b>Accruals and deferrals</b>	<b>133,007</b>		<b>133,007</b>	<b>312,952</b>	<b>746,491</b>
D.I. 1.	Prepaid expenses	32,673		32,673	135,894	431,833
D.I. 2.	Complex prepaid expenses	100,334		100,334	177,058	314,658

LIABILITIES AND EQUITY		2003	2002	2001
a	b	6	7	8
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>66,151,292</b>	<b>66,818,348</b>	<b>66,610,615</b>
<b>A.</b>	<b>Equity</b>	<b>31,757,930</b>	<b>29,816,971</b>	<b>28,157,444</b>
<b>A.I.</b>	<b>Share capital</b>	<b>16,708,850</b>	<b>16,708,850</b>	<b>16,708,850</b>
A.I. 1.	Share capital	16,708,850	16,708,850	16,708,850
<b>A.II.</b>	<b>Capital contributions</b>	<b>1,265,406</b>	<b>802,212</b>	<b>1,578,172</b>
A.II. 1.	Share premium	1,578,172	1,578,172	1,578,172
A.II. 3.	Assets and liabilities revaluation	(312,766)	(775,960)	
<b>A.III.</b>	<b>Reserve funds, non-distributable reserves and other reserves</b>	<b>674,895</b>	<b>583,638</b>	<b>477,191</b>
A.III. 1.	Statutory reserve fund, non-distributable reserves	674,895	583,638	477,191
<b>A.IV.</b>	<b>Retained earnings</b>	<b>11,631,014</b>	<b>9,897,130</b>	<b>7,264,294</b>
A.IV. 1.	Retained profits	11,631,014	9,897,130	7,264,294
<b>A.V.</b>	<b>Profit (loss) for the current period</b>	<b>1,477,765</b>	<b>1,825,141</b>	<b>2,128,937</b>
<b>B.</b>	<b>Liabilities</b>	<b>34,387,519</b>	<b>36,998,736</b>	<b>38,138,041</b>
<b>B.I.</b>	<b>Provisions</b>	<b>5,107,918</b>	<b>4,397,973</b>	<b>3,938,801</b>
B.I. 1.	Tax-deductible provisions	172,806	157,036	361,080
B.I. 3.	Income tax provisions	280,079	247,273	126,059
B.I. 4.	Other provisions	4,655,033	3,993,664	3,451,662
<b>B.II.</b>	<b>Long-term liabilities</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>10,000,000</b>
B.II. 6.	Debentures and bonds issued	10,000,000	10,000,000	10,000,000
<b>B.III.</b>	<b>Short-term liabilities</b>	<b>19,279,601</b>	<b>17,600,763</b>	<b>22,199,240</b>
B.III. 1.	Trade payables	12,935,972	11,387,920	15,286,306
B.III. 5.	Liabilities to employees	342,900	326,070	320,281
B.III. 6.	Liabilities for social security and health insurance	204,643	193,413	188,635
B.III. 7.	Taxes and state subsidies payable	61,743	55,872	54,383
B.III. 10.	Anticipated liabilities	5,025,171	4,676,127	6,085,193
B.III. 11.	Other payables	709,172	961,361	264,442
<b>B.IV.</b>	<b>Bank loans &amp; overdrafts</b>		<b>5,000,000</b>	<b>2,000,000</b>
B.IV. 2.	Short-term bank loans and overdrafts		5,000,000	2,000,000
<b>C.I.</b>	<b>Accruals and deferrals</b>	<b>5,843</b>	<b>2,641</b>	<b>315,130</b>
C.I. 2.	Deferred revenue	5,843	2,641	315,130

# Income Statement - Unabridged Version for the Period ended December 31

(in thousand CZK)

		2003	2002	2001
a	b	1	2	3
I.	Sales of goods	9,127,204	8,568,724	7,229,702
A.	Cost of goods sold	4,609,590	4,349,789	3,974,016
	<b>+ Gross profit</b>	<b>4,517,614</b>	<b>4,218,935</b>	<b>3,255,686</b>
II.	Sales of production	137,599,020	138,964,453	147,154,437
II. 1.	Sales of own products and services	136,069,931	137,124,802	146,041,078
II. 2.	Change in inventory of finished goods and work in progress	(686,295)	63,422	(660,603)
II. 3.	Own work capitalised	2,215,384	1,776,229	1,773,962
B.	Cost of sales	118,773,787	121,127,247	128,114,131
B. 1.	Raw materials and consumables	103,673,819	105,518,478	112,376,368
B. 2.	Services	15,099,968	15,608,769	15,737,763
	<b>+ Added value</b>	<b>23,342,847</b>	<b>22,056,141</b>	<b>22,295,992</b>
C.	Staff costs	8,059,673	7,833,945	7,582,947
C. 1.	Wages and salaries	5,883,163	5,761,417	5,511,453
C. 2.	Emoluments of board members	457	435	414
C. 3.	Social security costs	2,054,787	1,963,275	1,963,737
C. 4.	Other social costs	121,266	108,818	107,343
D.	Taxes and charges	32,446	33,344	44,646
E.	Depreciation of long-term assets	10,296,279	10,826,268	9,646,109
III.	Sale of long-term assets and raw materials	1,686,446	1,707,832	1,927,847
III. 1.	Sale of long-term assets	753,921	760,458	696,309
III. 2.	Sale of raw materials	932,525	947,374	1,231,538
F.	Net book amount of long-term assets and raw materials sold	1,174,338	1,379,677	1,594,633
F. 1.	Net book amount of long-term assets sold	621,830	683,483	649,559
F. 2.	Net book amount of raw materials sold	552,508	696,194	945,074
G.	Change in provisions for operating liabilities and charges and complex prepaid expenses	955,138	452,690	(205,021)
IV.	Other operating income	1,772,372	1,269,349	1,758,648
H.	Other operating charges	1,074,907	830,657	2,676,214
	<b>* Operating result</b>	<b>5,208,884</b>	<b>3,676,741</b>	<b>4,642,959</b>
VI.	Income from sales of securities and shares			43,295
J.	Securities and shares sold			7,000
VII.	Income from long-term investments	25,973	22,494	19,503
VII. 1.	Income from investments in controlled entities/subsidiaries and associates	25,973	22,494	16,763
VII. 2.	Income from investments in other participating interests			2,740
M.	Change in provisions for financial liabilities and charges		20,950	(58,470)
X.	Interest income	76,782	153,604	248,686
N.	Interest expense	1,007,617	1,193,986	1,231,559
XI.	Other financial income	1,634,969	3,562,613	1,988,947
O.	Other financial expense	3,422,600	3,711,743	3,088,999
	<b>* Financial result</b>	<b>(2,692,493)</b>	<b>(1,187,968)</b>	<b>(1,968,657)</b>
Q.	Tax on profit or loss on ordinary activities	1,038,626	663,632	545,365
Q. 1.	- current	1,209,158	801,259	545,365
Q. 2.	- deferred	(170,532)	(137,627)	
	<b>** Profit or loss on ordinary activities after taxation</b>	<b>1,477,765</b>	<b>1,825,141</b>	<b>2,128,937</b>
	<b>*** Net profit (loss) for the financial period</b>	<b>1,477,765</b>	<b>1,825,141</b>	<b>2,128,937</b>



# Cash Flow Statement

(in thousand CZK)

	2003	2002	2001
<b>Cash and cash equivalents at the beginning of the year</b>	<b>340,112</b>	<b>1,201,505</b>	<b>842,814</b>
<b>Profit on ordinary activities before tax</b>	<b>2,516,391</b>	<b>2,488,773</b>	<b>2,674,302</b>
<b>Adjustments for non-cash transactions</b>	<b>12,307,085</b>	<b>12,103,503</b>	<b>10,193,744</b>
Depreciation of fixed assets	10,296,279	10,826,268	9,651,654
Change in provisions	1,238,035	336,322	(338,235)
Profit from disposal of fixed assets	(132,091)	(76,975)	(83,045)
Dividend income	(25,973)	(22,494)	(19,503)
Net interest expense and income	930,835	1,040,382	982,873
<b>Net cash flow from operating activities before tax, changes of working capital and extraordinary items</b>	<b>14,823,476</b>	<b>14,592,276</b>	<b>12,868,046</b>
<b>Working capital changes</b>	<b>3,006,122</b>	<b>(3,409,865)</b>	<b>4,595,854</b>
Change in receivables and prepayments	1,446,247	(207,050)	4,247,285
Change in short-term payables and accruals	1,074,087	(3,044,933)	(1,089,052)
Change in inventories	485,788	(157,882)	1,437,621
<b>Net cash flow from operating activities before tax and extraordinary items</b>	<b>17,829,598</b>	<b>11,182,411</b>	<b>17,463,900</b>
Interest paid	(1,054,315)	(1,316,160)	(1,160,641)
Interest received	76,782	183,512	220,268
Corporate income tax on ordinary activities paid	(1,176,352)	(680,045)	33,478
Dividends received	25,973	22,494	19,503
<b>Net cash flow from operating activities</b>	<b>15,701,686</b>	<b>9,392,212</b>	<b>16,576,508</b>
Acquisition of fixed assets	(9,279,878)	(13,999,895)	(14,093,936)
Proceeds from the sale of fixed assets	753,921	760,458	739,604
Loans to related parties and employees	(21,162)	(14,168)	(9,367)
<b>Net cash flow from investing activities</b>	<b>(8,547,119)</b>	<b>(13,253,605)</b>	<b>(13,363,699)</b>
Change in bank credits	(5,000,000)	3,000,000	(2,850,000)
Changes in equity			(4,118)
<b>Net cash flow from financing activities</b>	<b>(5,000,000)</b>	<b>3,000,000</b>	<b>(2,854,118)</b>
<b>Net movement in cash and cash equivalents</b>	<b>2,154,567</b>	<b>(861,393)</b>	<b>358,691</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>2,494,679</b>	<b>340,112</b>	<b>1,201,505</b>

The Company has prepared a cash flow statement following the indirect method, acquisition of fixed assets the brutto method.

# Notes to Financial Statements 2003

## 1. Information about the accounting policies used, general accounting principles, and the methods of valuation and depreciation

### a) Basic accounting principles

The annual financial statements of ŠKODA AUTO a.s., a joint-stock company, as at 31 December 2003 (hereinafter referred to either as "the Company" or "Škoda Auto") have been prepared in accordance with the provisions of Act No. 563/1991 Coll., on book-keeping and accounting principles ("the Accounting Act"). The Company maintained its records and complied with book-keeping principles and methods in accordance with the Accounting Act and relevant legal regulations of the Czech Republic.

Unless stated otherwise, amounts disclosed in the financial statements and in the Notes are given in thousands of Czech crowns.

### b) Intangible fixed assets

Intangible assets purchased are recorded at acquisition costs minus accumulated depreciation. All research costs are expensed as incurred. The right to use Volkswagen Group tooling for new platform development is capitalised as part of intangible assets. All other development costs are expensed as incurred.

The Company applies straight-line amortisation over the estimated useful lives of the intangible fixed assets:

Development expenditures	5 years
Software	3 years
Valuable rights (royalties)	8 years
Other intangible fixed assets	5 years

Intangible assets with acquisition costs that are less than CZK 60 thousand are charged directly to the profit and loss account as an expense upon consumption.

If the net book value of an asset exceeds its estimated recoverable amount, a provision is created against the asset.

### c) Tangible fixed assets

Tangible fixed assets are valued at acquisition costs or own manufacturing costs. Own manufacturing costs of tangible fixed assets include direct material, direct wages and production overheads, as well as proportionate administration costs if the asset is of a long-term nature (useful life exceeds 1 year).

Tangible fixed assets are depreciated on a straight-line basis by the Company, the depreciation rates are based on the estimated useful economic lives of the assets. The useful lives are as follows:

Buildings and structures	16 - 50 years
Plant, machinery and equipment (incl. special tools)	2 - 14 years
Office and other production equipment, furniture and fittings	5 - 8 years

Tangible assets with acquisition that cost less than CZK 20 thousand are charged directly to the profit and loss account as an expense upon consumption.

If the net book value of an asset exceeds its estimated recoverable amount, a provision is created against the asset.

In accordance with the Accounting Act and the relevant legislation, low value fixed assets with values between CZK 20 thousand and 40 thousand were reclassified in the appropriate categories within fixed assets as at 1 January 2002.

#### **d) Investments in controlled entities and subsidiaries and in associates**

A company with controlling influence (a subsidiary) is an enterprise or business entity controlled by Škoda Auto whose financial and operating decisions may be determined by Škoda Auto in order to obtain benefits from its activities.

A company with significant influence (an associated company) is an enterprise or business entity in which Škoda Auto may participate in financial and operating decision making, however it may not control the company.

Investments in subsidiaries and associated companies are recorded at cost less a provision for diminution in value.

The consolidation of subsidiaries and associates has not been performed since the share of the subsidiaries in the consolidation according to the relevant criteria (balance sheet, shareholders' equity, turnover, profit before tax) is not material. In 2003, Decree No. 500/2002 Coll. amended the obligation to publish consolidated financial statements pursuant to Section 80a (6) of the Securities Act. Issuers of securities no longer had this obligation, with the exception of issuers of publicly negotiable securities, which does not apply to Škoda Auto. In 2002 the Company was granted an exception from the obligation by the Securities Commission and permitted to publish unconsolidated financial statements. The Company is consolidated by its parent company VOLKSWAGEN AG.

#### **e) Other equity investments and long-term financial assets - investments**

Commencing 1 January 2002 the Company classified securities and investments, other than investments in subsidiaries and associated companies, into the following categories: trading securities, realisable securities, debentures and bonds available for sale and held-to-maturity. Prior to 1 January 2002 securities and equity investments were not classified as noted above but instead were recorded at acquisition cost less a provision for diminution in value.

#### **f) Inventories**

Purchased inventories, including raw materials, consumables, supplies and materials used in production, and goods, are valued at acquisition costs or at net realisable value if this amount is lower. Acquisition costs also include customs duty, packaging and freight charges. A weighted average calculation is used to account for consumption of material inventories and for all sales.

Inventories generated from own production, including work in progress and finished goods, are valued at their production costs, which include direct materials, direct wages and production overhead. Administrative overhead expenses are not included in the valuation of work in progress and finished goods.

The value of inventories is reduced by provisions to recognise all known risks relating to obsolete raw materials and consumables, excessive spare part inventories and temporary reductions in the realisable value of goods.

#### **g) Receivables**

Receivables are carried at nominal value less a provision for doubtful receivables and bad debts. In addition to tax-deductible provisions set out pursuant to Sections 8 and 8a of Act No. 593/1992 Coll., as amended, the value of receivables is reduced by provisions created for specific and general risks and losses in compliance with Section 24 and 25 of the Accounting Act No. 563/1991 Coll., as amended.

#### **h) Financial assets**

The balance of cash held in banks primarily consists of short-term time deposits.

#### **i) Provisions**

Provisions are created when the Company has an existing obligation, it is probable that an outflow of resources will be required to settle such obligation and that a reliable estimate of the amount can be made.

Provisions are created for significant future repairs of fixed assets in compliance with Section 7 of Act No. 593/1992 Coll., on provisions.

#### **j) Liabilities**

Liabilities and bonds issued are stated at their nominal values. Issue discount and other costs connected with the issue of securities are stated as accruals according to the maturity of the bonds issued.

**k) Foreign currency translations**

Individual transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling at the date of transaction.

All monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank at the date of the financial statements. From 1 January 2002 all exchange gains and losses on translations of monetary assets and liabilities are recorded in the profit and loss account.

Prior to 1 January 2002 unrealised exchange gains and losses and the related provision for exchange losses were recorded as other assets, other liabilities and/or provisions.

Investments in controlled entities and subsidiaries and associates along with other investments and securities, which are denominated in a foreign currency, are translated at the exchange rate published by the Czech National Bank at the date of the balance sheet. Any material translation difference is recognised in equity.

**l) Derivative financial instruments**

Derivative financial instruments, comprising currency and interest rate swaps and forwards and currency options, are initially recognised on the balance sheet at acquisition costs and subsequently are re-valued to their fair value.

Derivative financial instruments are used only to hedge interest rate and currency exposures and are classified for accounting purposes either as trading derivatives or hedging derivatives. Changes in the fair value of derivative financial instruments are recognised in equity. The Company treats derivatives relating to cash flows as hedging derivatives, provided that the qualifying criteria for hedge accounting relating to the required documentation and hedging effectiveness are met. An amount from the equity is transferred to expenditures or revenues upon settlement of the derivative instrument.

The fair value of forwards and swaps is calculated based on the actual value of estimated future cash flows. Option pricing models are used to determine the fair value of options.

**m) Complex prepaid expenses**

Costs related to production planning, preparation and expansion of production plant ("preparation and start-up of production") are classified as complex prepaid expenses. These expenses are amortised to the profit and loss account over two years from the launch of the first pre-production series (or commencement of series production) of a new car model or from the start of production (from commencement of production process) in newly built manufacturing capacities.

**n) Deferred tax**

Deferred corporate tax is recognised on all temporary differences between the residual book value (carrying amount) of an asset or liability in the balance sheet and its tax base. A deferred tax asset is recognised if it is probable that sufficient future taxable profits will be available against which such an asset can be utilised.

**o) Leasing**

Financial lease and operating lease instalments are fully expensed in the current accounting period, allocated evenly over the life of the lease. In accordance with valid accounting policies, leased assets are not recorded in fixed assets.

**p) Revenue**

Sales are accounted for on the date of the shipment of products or goods net of value added tax.

#### q) Related parties

The Company's related parties are classified as follows:

- Companies forming a group of companies with Škoda Auto;
- Shareholders who directly or indirectly might exert a significant or controlling influence over Škoda Auto and other companies over which such shareholders have significant controlling influence;
- Members of statutory, supervisory and management bodies and individuals related to such persons, including companies over which these members and persons have a significant or controlling influence; and
- Companies with joint members of management with the Company.

#### r) Extraordinary items and changes in accounting policies

Extraordinary revenues and expenses include one-off effects of events not related to the business activity of the Company and the effects of changes in accounting policies.

In accordance with the accounting law, the Company has not adopted any changes to the accounting procedures in 2003. Changes in the classification and designation of items on the balance sheet and the profit and loss account were made in accordance with Decree No. 500/2002 Coll.

The changes resulting from the adoption of the requirements of the Act on Accounting effective 1 January 2002 affect equity and the profit and loss account as follows:

	<b>2002 (in thousand CZK)</b>
<b>Shareholder's Equity reported at 31 Dec. 2001</b>	<b>28,157,444</b>
Impact of change in accounting principles:	
I. Valuation differences from revaluation of derivatives	(148,783)
II. Release of provision for loss from foreign currency translations in the profit and loss account	27,862
III. Release of provision for loss from options and forward contracts in the profit and loss account	53,370
IV. Deferred Tax	610,346
<b>Restated shareholder's equity at 1 Jan. 2002 (reflecting mentioned changes)</b>	<b>28,700,239</b>

Based on requirements of the Act on Accounting, the following changes in the accounting procedures have been made effective as at 1 January 2002:

- Low value fixed assets previously classified under "Other tangible fixed assets" and "Other intangible fixed assets" were reclassified to the appropriate categories within fixed assets.
- From 1 January 2002 a deferred tax asset is recognised if it is probable that sufficient future taxable profit will be available against which the asset can be utilised. Until 31 December 2001 a deferred tax asset was only recognised if there were no doubts as to its realisation in future accounting periods.
- The expected liability for the corporate tax for the year ended 31 December 2002 and 2003 is classified in the balance sheet under "Provisions" and the tax charge is recorded as current period tax on ordinary or extraordinary activity in the profit and loss account (the "Current tax on profit or loss on ordinary activities" or "Current tax on extraordinary profit or loss" rows, respectively). This classification applies also to the comparatives.
- Commencing 1 January 2002 all foreign exchange gains and losses on monetary assets and liabilities were recorded in the profit and loss account. Prior to 1 January 2002 unrealised exchange gains and losses and the related provisions were deferred in the balance sheet within "Other receivables", "Other payables" and "Provisions", respectively.
- Certain revenues and expenses (e.g. shortages and damages to inventories, claimed reimbursements from insurance companies, etc.) which were recognised as "Extraordinary expenses" in the 2001 financial statements are classified as the "Other operating costs" or "Other operating revenues" in 2002 and 2003. This classification applies also to the comparatives.

## 2. Fixed assets (in thousand CZK)

The fixed assets development may be analysed as follows in 2001 - 2003:

	Intangible fixed assets	Tangible fixed assets	Long-term investments	Total
Balance at 1 Jan. 2001	223,302	38,229,431	722,008	39,174,741
Additions	169,322	16,028,662	36,847	16,234,831
Disposals	0	(701,898)	(53,382)	(755,280)
Depreciation/Amortisation	178,863	9,467,246	0	9,646,109
<b>Balance at 31 Dec. 2001</b>	<b>213,761</b>	<b>44,088,949</b>	<b>705,473</b>	<b>45,008,183</b>
Additions	821,133	10,721,438	43,589	11,586,160
Disposals	0	(702,349)	(40,838)	(743,187)
Depreciation/Amortisation	143,030	10,785,602	49,094	10,977,726
<b>Balance at 31 Dec. 2002</b>	<b>891,864</b>	<b>43,322,436</b>	<b>659,130</b>	<b>44,873,430</b>
Additions	917,600	9,257,972	71,980	10,247,552
Disposals	0	(674,938)	(50,571)	(725,509)
Depreciation/Amortisation	161,795	10,159,763	0	10,321,558
<b>Balance at 31 Dec. 2003</b>	<b>1,647,669</b>	<b>41,745,707</b>	<b>680,539</b>	<b>44,073,915</b>

Assets with a cost between CZK 20 thousand and CZK 40 thousand, previously included as low value tangible fixed assets, have been recorded in the appropriate categories within fixed assets since 2002.

Intangible and tangible assets expensed on consumption were as follows:

	Acquired in 2003	Acquired in 2002	Acquired in 2001
Intangible assets up to CZK 60 thousand	63,648	39,026	32,846
Tangible assets up to CZK 20 thousand	216,151	232,853	323,803
<b>Total</b>	<b>279,799</b>	<b>271,879</b>	<b>356,649</b>

### 3. Intangible fixed assets (in thousand CZK)

	Software	Development costs	Royalties	Intangible fixed assets in progress and other	Total
<b>Acquisition cost</b>					
Balance at 1 Jan. 2001	328,633	1,109,431	69,263	0	1,507,327
Additions	149,116	0	17,453	2,753	169,322
Disposals	0	0	0	0	0
Balance at 31 Dec. 2001	477,749	1,109,431	86,716	2,753	1,676,649
<b>Accumulated depreciation</b>					
Balance at 1 Jan. 2001	275,854	977,857	30,314	0	1,284,025
Additions	80,108	89,547	8,658	550	178,863
Disposals	0	0	0	0	0
Balance at 31 Dec. 2001	355,962	1,067,404	38,972	550	1,462,888
<b>Net book value 2001</b>	<b>121,787</b>	<b>42,027</b>	<b>47,744</b>	<b>2,203</b>	<b>213,761</b>
<b>Acquisition cost</b>					
Balance at 1 Jan. 2002	477,749	1,109,431	86,716	2,753	1,676,649
Additions	176,971	0	14,282	629,880	821,133
Disposals	(2,702)	0	0	0	(2,702)
Balance at 31 Dec. 2002	652,018	1,109,431	100,998	632,633	2,495,080
<b>Accumulated depreciation</b>					
Balance at 1 Jan. 2002	355,962	1,067,404	38,972	550	1,462,888
Additions	114,526	16,268	9,552	2,684	143,030
Disposals	(2,702)	0	0	0	(2,702)
Balance at 31 Dec. 2002	467,786	1,083,672	48,524	3,234	1,603,216
<b>Net book value 2002</b>	<b>184,232</b>	<b>25,759</b>	<b>52,474</b>	<b>629,399</b>	<b>891,864</b>
<b>Acquisition cost</b>					
Balance at 1 Jan. 2003	652,018	1,109,431	100,998	632,633	2,495,080
Additions	81,956	0	0	835,644	917,600
Disposals	(14,996)	0	0	0	(14,996)
Balance at 31 Dec. 2003	718,978	1,109,431	100,998	1,468,277	3,397,684
<b>Accumulated depreciation</b>					
Balance at 1 Jan. 2003	467,786	1,083,672	48,524	3,234	1,603,216
Additions	131,871	16,269	8,406	5,249	161,795
Disposals	(14,996)	0	0	0	(14,996)
Balance at 31 Dec. 2003	584,661	1,099,941	56,930	8,483	1,750,015
<b>Net book value 2003</b>	<b>134,317</b>	<b>9,490</b>	<b>44,068</b>	<b>1,459,794</b>	<b>1,647,669</b>

The increase of the acquisition costs of fixed and other intangible assets in progress in 2003 includes an amount of CZK 663,000 thousand (in 2002: CZK 610,688 thousand), representing the purchase of the right to use Volkswagen Group tooling for the development of a new platform.

#### 4. Tangible fixed assets (in thousand CZK)

	Land and buildings	Technical equipment and machinery	Other equipment	Construction in progress and advance payments	Total
<b>Acquisition cost</b>					
Balance at 1 Jan. 2001	15,223,555	32,276,647	18,810,381	7,589,712	73,900,295
Additions	673,528	5,588,338	2,825,939	6,958,162	16,045,967
Transfers	970,937	3,204,677	1,500,857	(5,693,776)	(17,305)
Disposals	(48,518)	(639,987)	(1,081,086)	(923)	(1,770,514)
Balance at 31 Dec. 2001	16,819,502	40,429,675	22,056,091	8,853,175	88,158,443
<b>Accumulated depreciation</b>					
Balance at 1 Jan. 2001	2,859,146	21,001,375	11,810,343	0	35,670,864
Additions	544,910	5,545,394	3,376,942	0	9,467,246
Transfers	0	0	0	0	0
Disposals	(13,063)	(646,069)	(409,484)	0	(1,068,616)
Balance at 31 Dec. 2001	3,390,993	25,900,700	14,777,801	0	44,069,494
<b>Net book value 2001</b>	<b>13,428,509</b>	<b>14,528,975</b>	<b>7,278,290</b>	<b>8,853,175</b>	<b>44,088,949</b>
<b>Acquisition cost</b>					
Balance at 1 Jan. 2002	16,819,502	40,429,675	22,056,091	8,853,175	88,158,443
Additions	1,336,579	4,325,626	3,154,144	1,940,479	10,756,828
Transfers	1,568,717	2,872,557	1,617,564	(6,094,228)	(35,390)
Disposals	(11,543)	(3,047,850)	(1,529,776)	0	(4,589,169)
Balance at 31 Dec. 2002	19,713,255	44,580,008	25,298,023	4,699,426	94,290,712
<b>Accumulated depreciation</b>					
Balance at 1 Jan. 2002	3,390,993	25,900,700	14,777,801	0	44,069,494
Additions	626,689	6,219,263	3,837,286	0	10,683,238
Transfers	26	8,507	(8,533)	0	0
Disposals	(7,248)	(3,061,421)	(818,151)	0	(3,886,820)
Balance at 31 Dec. 2002	4,010,460	29,067,049	17,788,403	0	50,865,912
<b>Provision</b>	<b>70,008</b>	<b>32,356</b>	<b>0</b>	<b>0</b>	<b>102,364</b>
<b>Net book value 2002</b>	<b>15,632,787</b>	<b>15,480,603</b>	<b>7,509,620</b>	<b>4,699,426</b>	<b>43,322,436</b>
<b>Acquisition cost</b>					
Balance at 1 Jan. 2003	19,713,255	44,580,008	25,298,023	4,699,426	94,290,712
Additions	373,022	827,704	2,101,158	5,967,621	9,269,505
Transfers	571,464	1,576,945	947,251	(3,107,194)	(11,534)
Disposals	(41,236)	(1,003,107)	(1,263,185)	0	(2,307,528)
Balance at 31 Dec. 2003	20,616,505	45,981,550	27,083,247	7,559,853	101,241,155
<b>Accumulated depreciation</b>					
Balance at 1 Jan. 2003	4,010,460	29,067,049	17,788,403	0	50,865,912
Additions	656,920	5,644,884	3,798,214	0	10,100,018
Transfers	0	(3)	3	0	0
Disposals	(36,242)	(970,883)	(608,138)	0	(1,615,263)
Balance at 31 Dec. 2003	4,631,138	33,741,047	20,978,482	0	59,350,667
<b>Provision</b>	<b>70,008</b>	<b>44,946</b>	<b>29,827</b>	<b>0</b>	<b>144,781</b>
<b>Net book value 2003</b>	<b>15,915,359</b>	<b>12,195,557</b>	<b>6,074,938</b>	<b>7,559,853</b>	<b>41,745,707</b>

In 2003 a provision was made against fixed assets for technical equipment and machinery and special tools to be disposed of. In 2002 a provision was posted to tangible fixed assets to reflect the estimated recoverable value of buildings (places of business).



Financial leasing (in thousand CZK) – fixed assets acquired under financial leases:

Fixed assets	Lease instalments due	Instalments paid 31 Dec. 2001
Fork-lift trucks	237,692	237,692
Computer hardware	49,120	49,120
Vehicles	5,376	5,376
Mobile phones	7,930	7,930
Other	20,771	20,771
<b>Total</b>	<b>320,889</b>	<b>320,889</b>

Instalments are stated including VAT.

All financial leases were repaid as at 31 December 2001.

No assets were acquired by the Company under financial leases in 2003 or 2002.

## 5. Long-term financial assets - investments (in thousand CZK)

	31 Dec. 2003	31 Dec. 2002	31 Dec. 2001
Shareholdings	557,191	552,744	564,162
Securities	0	0	0
Other financial assets	212,442	195,480	181,311
<b>Gross total</b>	<b>769,633</b>	<b>748,224</b>	<b>745,473</b>
Provisions for diminution in value of shareholdings	(49,094)	(49,094)	0
Provisions for diminution in value of other loans	(40,000)	(40,000)	(40,000)
<b>Total net</b>	<b>680,539</b>	<b>659,130</b>	<b>705,473</b>

A provision of CZK 49,094 thousand was created during 2002 to reflect a diminution in the realisable value of the investment in ŠKODA IMMO s.r.o.

## 6. Investments in controlled entities and subsidiaries and in associates

Škoda Auto has investments in the following subsidiaries and associated companies – companies with significant and controlling influence:

	Book value (acquisition value)			Shareholding	Shareholders' Equity	Profit/loss	Currency
	31 Dec. 2003 in CZK thousand	31 Dec. 2002 in CZK thousand	%	31 Dec. 2002* in CZK thousand	31 Dec. 2002* in thousand	2002 in thousand	
ŠkodaAuto Deutschland GmbH	197,739	197,739	100.0	(139,546)	(4,416)	(4,031)	EUR
ŠKODA AUTO Slovensko s.r.o.	48,917	48,917	100.0	186,912	248,622	12,499	SKK
ŠKODA IMMO s.r.o.	212,906	212,906	100.0	221,731	221,731	(49,531)	CZK
ŠKODA AUTO BH d.o.o.	175	175	100.0	162	10	281	DEM
ZAO ŠKODA AUTO Udmurtija	100	100	75.1	71	100	0	RUR
SKODA AUTO POLSKA S.A.	838	838	51.0	100,018	24,935	9,102	PLN
Skoda Auto India Private Ltd.**	17,947	0	99.99	(13,883)	(22,424)	(26,757)	INR
e4t electronics for transportation s.r.o.	98	98	49.0	749	1,528	1,115	CZK
ŠKO-ENERGO, s.r.o.	3,400	3,400	34.0	6,342	18,653	2,265	CZK
ŠKO-ENERGO FIN, s.r.o.	25,977	39,477	10.0	40,478	404,776	116,625	CZK
<b>Total</b>	<b>508,097</b>	<b>503,650</b>					

\* As at 31 December 2002 as audited financial statements for 2003 were not available at the date of preparation of the notes to the financial statements of Škoda Auto.

\*\* As at 31 March 2003.

The financial situation of ŠkodaAuto Deutschland in 2002 was considerably influenced by the recession on the world market. Given that the situation improved during 2003 and the Company expects a further improvement in the situation in the future, no provision was made against the investment.

Enterprises and companies in which Škoda Auto holds investments have paid dividends in an amount of CZK 25,973 thousand in 2003 (2002: CZK 22,494 thousand, 2001: CZK 16,763 thousand).

During 2003 the registered capital in Skoda Auto India Private Ltd. was increased. This transaction has increased the shareholding of the Company in Skoda Auto India Private Ltd. from 50% to 99.99%.

The registered offices of companies in which Škoda Auto has a shareholding of over 20%:

ŠkodaAuto Deutschland GmbH	Weiterstadt, Federal Republic of Germany
ŠKODA AUTO Slovensko, s.r.o.	Bratislava, Slovakia
ŠKODA IMMO s.r.o.	Mladá Boleslav, Czech Republic
SKODA AUTO POLSKA, S.A.	Poznan, Poland
e4t electronics for transportation s.r.o.	Prague, Czech Republic
ŠKO-ENERGO, s.r.o.	Mladá Boleslav, Czech Republic
SKODA AUTO BH d.o.o.	Sarajevo-Vogošča, Bosnia - Herzegovina
ZAO ŠKODA AUTO Udmurtija	Iževsk, Russian Federation
Skoda Auto India Private Ltd.	Aurangabad, India

## 7. Securities

Škoda Auto owned shares of Československá obchodní banka, a.s. with a total nominal value of CZK 7,000 thousand as at 1 January 2001. These were represented by 7,000 shares with a nominal value of CZK 1 thousand.

Dividends received in 2001 amounted to CZK 2,740 thousand. The shares of Československá obchodní banka, a.s. were sold in 2001.

## 8. Inventories (in thousand CZK)

	31 Dec. 2003	31 Dec. 2002	31 Dec. 2001
Raw materials	3,092,926	3,005,192	3,016,905
Work in progress	1,445,492	1,579,365	1,817,635
Finished goods	1,199,804	1,752,226	1,452,134
Goods for resale	1,621,046	1,508,273	1,400,500
<b>Gross total</b>	<b>7,359,268</b>	<b>7,845,056</b>	<b>7,687,174</b>
Provision for diminution in value	(278,502)	(187,570)	(169,900)
<b>Total net</b>	<b>7,080,766</b>	<b>7,657,486</b>	<b>7,517,274</b>

## 9. Receivables (in thousand CZK)

	31 Dec. 2003	31 Dec. 2002	31 Dec. 2001
<b>Trade receivables:</b>			
Domestic	2,886,143	4,063,436	4,453,905
Foreign	4,284,826	5,225,303	3,922,929
of which: > 180 days overdue	(776,564)	(730,324)	(693,327)
<b>Gross trade receivables:</b>	<b>7,170,969</b>	<b>9,288,739</b>	<b>8,376,834</b>
Provisions	(686,878)	(502,293)	(626,673)
<b>Net trade receivables:</b>	<b>6,484,091</b>	<b>8,786,446</b>	<b>7,750,161</b>
<b>Other receivables:</b>			
Taxes	4,129,531	3,512,138	4,002,224
Other	1,755,303	1,335,784	384,777
of which: long-term	(1,045,902)	(977,863)	(0)
<b>Total receivables</b>	<b>12,368,925</b>	<b>13,634,368</b>	<b>12,137,162</b>

## 10. Liabilities (in thousand CZK)

	31 Dec. 2003	31 Dec. 2002	31 Dec. 2001
<b>Trade liabilities:</b>			
Domestic	6,376,762	4,522,952	5,392,024
Foreign	6,559,210	6,864,968	9,894,282
of which: > 180 days overdue *	(346,386)	(105,687)	(100,255)
<b>Total trade liabilities</b>	<b>12,935,972</b>	<b>11,387,920</b>	<b>15,286,306</b>
<b>Other liabilities:</b>			
Taxes	61,743	55,872	54,383
Social security	204,643	193,413	188,635
Personnel expenses	342,900	326,070	320,281
Other	15,734,343	15,637,488	16,349,635
of which: long-term **	(10,000,000)	(10,000,000)	(10,000,000)
<b>Total liabilities</b>	<b>29,279,601</b>	<b>27,600,763</b>	<b>32,199,240</b>

\* Liabilities for claims (liabilities not acknowledged by the Company).

\*\* Long-term liabilities represent issued bonds.

The liability relating to corporate tax to the Tax Authority is, in accordance with changes in the Act on Accounting effective as at 1 January 2002, recorded as a provision for corporate tax. Comparatives as at 31 December 2001 have been reclassified.

## 11. Bonds issued (in thousand CZK)

The Company issued bonds, with a total value of CZK 10 billion on 26 October 2000, each with a nominal value of CZK 100 thousand. The bonds are publicly traded without restriction of transferability on the secondary market of the Prague Stock Exchange and the RM-System. The bonds were issued pursuant to Czech legislation and are governed by Czech law. Commerzbank Capital Markets (Eastern Europe) a.s. is the lead manager, and Československá obchodní banka, a.s. is the administrator of the issue. The issue was realised by registration at the Securities Centre in Prague under an agreement entered into prior to the date of issuance.

	ISIN	Amount in CZK thousand	Nominal value in CZK thousand	Bonds pieces	Issue rate
1. tranche	CZ0003501207	5,000,000	100	50,000	99.9%
2. tranche	CZ0003501181	3,000,000	100	30,000	100.0%
3. tranche	CZ0003501199	2,000,000	100	20,000	100.0%
<b>Total</b>		<b>10,000,000</b>		<b>100,000</b>	

Both the interest and the nominal value of bonds are paid solely in CZK through the administrator: Československá obchodní banka, a.s., Na Příkopě 14, 115 20 Praha 1.

	ISIN	Nominal value repayments	Maturity of interests	Bond yield
1. tranche	CZ0003501207	26 Oct. 2005	annually on 26 Oct.	7.25%
2. tranche	CZ0003501181	26 Oct. 2007	semi-annually on 26 Apr. and on 26 Oct.	6M Pribor + 0.14%
3. tranche	CZ0003501199	26 Oct. 2010	semi-annually on 26 Apr. and on 26 Oct.	6M Pribor + 0.22%

## 12. Other assets – temporary asset accounts (in thousand CZK)

	31 Dec. 2003	31 Dec. 2002	31 Dec. 2001
Costs of planning, preparation and expansion of production plant ("production planning and launch costs")			
Total	2,579,280	2,519,151	2,475,233
Amortised	(2,478,946)	(2 342 093)	(2,160,575)
Closing balance	100,334	177,058	314,658
Other prepaid expenses	32,673	135,894	431,833
<b>Total</b>	<b>133,007</b>	<b>312,952</b>	<b>746,491</b>

Unrealised foreign exchange losses amounting to CZK 140,846 thousand as at 31 December 2001 were reclassified in the financial statements as at 31 December 2002 and 2003, respectively, to "Prepaid expenses". Anticipated assets amounting to CZK 42,019 thousand as at 31 December 2002 and CZK 147,867 thousand as at 31 December 2001 have been reclassified to short-term receivables in the financial statements as at 31 December 2003.

## 13. Equity (in thousand CZK)

The development of equity in 2001 – 2003 may be analysed as follows:

	Registered capital	Capital contributions	Statutory reserve fund	Retained earnings and profit for the current period	Total
Balance at 1 Jan. 2001	16,708,850	1,578,172	310,376	7,435,227	26,032,625
Transfer to statutory reserve fund	0	0	166,815	(166,815)	0
Payment of bonuses	0	0	0	(4,118)	(4,118)
Profit for current period	0	0	0	2,128,937	2,128,937
<b>Balance at 31 Dec. 2001</b>	<b>16,708,850</b>	<b>1,578,172</b>	<b>477,191</b>	<b>9,393,231</b>	<b>28,157,444</b>
Transfer to statutory reserve fund	0	0	106,447	(106,447)	0
Valuation differences from revaluation of financial derivatives	0	(1,005,849)	0	0	(1,005,849)
Deferred Tax	0	229,889	0	610,346	840,235
Payment of bonuses	0	0	0	0	0
Profit for current period	0	0	0	1,825,141	1,825,141
<b>Balance at 31 Dec. 2002</b>	<b>16,708,850</b>	<b>802,212</b>	<b>583,638</b>	<b>11,722,271</b>	<b>29,816,971</b>
Transfer to statutory reserve fund	0	0	91,257	(91,257)	0
Valuation differences from revaluation of financial derivatives	0	565,687	0	0	565,687
Deferred Tax	0	(102,493)	0	0	(102,493)
Payment of bonuses	0	0	0	0	0
Profit for current period	0	0	0	1,477,765	1,477,765
<b>Balance at 31 Dec. 2003</b>	<b>16,708,850</b>	<b>1,265,406</b>	<b>674,895</b>	<b>13,108,779</b>	<b>31,757,930</b>

The statutory reserve fund may only be used to cover losses. In accordance with the relevant provisions of the Commercial Code, Škoda Auto creates a statutory reserve fund in an amount of 5% of the net profit annually until this reserve reaches 20% of the share capital.

## 14. Share capital

The share capital subscribed consists of 1,670,885 registered shares, each with a nominal value of CZK 10 thousand. VOLKSWAGEN AG, Wolfsburg is the sole shareholder of the Company.

## 15. Retained earnings and profit for the current period (in thousand CZK)

According to the resolution of the sole shareholder on 20 February 2003, the profit for 2002 of CZK 1,825,141 thousand was distributed as follows:

	2002	2001	2000
Allocation to statutory reserve fund	91,257	106,447	166,815
Payment of bonuses	0	0	4,118
Profit allocated to retained profit	1,733,884	2,022,490	3,165,380
<b>Profit after tax</b>	<b>1,825,141</b>	<b>2,128,937</b>	<b>3,336,313</b>

The Annual General Meeting of the Company in 2004 will decide upon the distribution of the profit for 2003.

## 16. Bank loans

The Company has no bank loans as at 31 December 2003 (2002: CZK 5,000 million, 2001: CZK 2,000 million).

## 17. Provisions (in thousand CZK)

Provisions development in 2001 – 2003 may be analysed as follows:

	Balance at 1 Jan. 2001	Creation	Release/use	Balance at 31 Dec. 2001
<b>Tax deductible provisions</b>				
Fixed asset repairs	396,624	220,517	256,061	361,080
<b>Other provisions</b>				
Warranty repairs	3,606,598	1,437,121	1,846,616	3,197,103
Financial derivatives	7,348	53,370	7,348	53,370
Legal and other risks	187,298	8,300	22,271	173,327
Provisions for exchange losses	86,332	27,862	86,332	27,862
<b>Provision for income tax</b>	0	954,000	827,941	126,059
<b>Provisions total</b>	<b>4,284,200</b>	<b>2,701,170</b>	<b>3,046,569</b>	<b>3,938,801</b>

	Balance at 1 Jan. 2002	Creation	Release/use	Balance at 31 Dec. 2002
<b>Tax deductible provisions</b>				
Fixed asset repairs	361,080	24,641	228,685	157,036
<b>Other provisions</b>				
Warranty repairs	3,197,103	2,413,018	1,927,784	3,682,337
Financial derivatives	53,370	0	53,370	0
Legal and other risks	173,327	141,100	3,100	311,327
Provisions for exchange losses	27,862	0	27,862	0
<b>Provision for income tax</b>	126,059	924,759	803,545	247,273
<b>Provisions total</b>	<b>3,938,801</b>	<b>3,503,518</b>	<b>3,044,346</b>	<b>4,397,973</b>

	Balance at 1 Jan. 2003	Creation	Release/use	Balance at 31 Dec. 2003
<b>Tax deductible provisions</b>				
Fixed asset repairs	157,036	118,912	103,142	172,806
<b>Other provisions</b>				
Warranty repairs	3,682,337	2,944,029	2,281,065	4,345,301
Provision for scrap	0	100,705	0	100,705
Legal and other risks	311,327	91,900	194,200	209,027
<b>Provision for income tax</b>	247,273	1,196,499	1,163,693	280,079
<b>Provisions total</b>	<b>4,397,973</b>	<b>4,452,045</b>	<b>3,742,100</b>	<b>5,107,918</b>

In compliance with EU directive 2000/53/EG concerning the obligation of producers to take back scrap cars and in accordance with the entry of Czech Republic into the EU a provision amounting to CZK 100,705 thousand was made for scrapping of old cars produced by the Company.

In accordance with the changes in the accounting regulations valid from 1 January 2002 the corporate tax liability is disclosed as a provision for corporate taxation. The comparative as at 31 December 2001 has been reclassified. The provision for corporate taxation is created as a tax expense in the profit and loss account.

Calculation of corporate tax and deferred tax is set out in Note 25 – corporate tax.

## 18. Other liability accounts – accruals and deferred items

The exchange rate differences – gains recorded in an amount of CZK 314,583 thousand as at 31 December 2001 have been reclassified to row “Deferred revenues” in the financial statements as at 31 December 2002 and 2003.

Estimated liabilities recorded in an amount of CZK 6,085,193 thousand as at 31 December 2001 and CZK 4,676,127 thousand as at 31 December 2002 have been reclassified to short-term liabilities in the financial statements as at 31 December 2003.

## 19. Sales (in thousand CZK)

Sales from ordinary activities in 2001 - 2003 are as follows:

	2003	%	2002	%	2001	%
Goods	9,127,204	6.3	8,568,724	5.9	7,229,702	4.7
Own products	136,069,931	93.7	137,124,802	94.1	146,041,078	95.3
<b>Total</b>	<b>145,197,135</b>	<b>100.0</b>	<b>145,693,526</b>	<b>100.0</b>	<b>153,270,780</b>	<b>100.0</b>
Cars	130,901,438	90.2	131,756,405	90.4	143,295,310	93.5
Spare parts	9,471,716	6.5	8,742,241	6.0	7,760,711	5.1
Other	4,823,981	3.3	5,194,880	3.6	2,214,759	1.4
<b>Total</b>	<b>145,197,135</b>	<b>100.0</b>	<b>145,693,526</b>	<b>100.0</b>	<b>153,270,780</b>	<b>100.0</b>
Domestic	24,453,502	16.8	25,707,722	17.7	27,453,763	17.9
Foreign	120,743,633	83.2	119,985,804	82.3	125,817,017	82.1
<b>Total</b>	<b>145,197,135</b>	<b>100.0</b>	<b>145,693,526</b>	<b>100.0</b>	<b>153,270,780</b>	<b>100.0</b>

## 20. Staff costs structure (in thousand CZK)

The average number of employees and the executives and corresponding personnel costs are as follows:

		Number	Wages and salaries	Social security expenditures	Other social expenses
Personnel	2003 *	20,871	5,473,554	1,921,221	117,133
	2002	21,089	5,407,611	1,852,957	104,717
	2001	21,459	5,195,222	1,861,118	104,576
Management	2003	385	409,609	133,566	4,133
	2002	363	353,806	110,318	4,101
	2001	351	316,231	102,619	2,767
<b>Total</b>	<b>2003 *</b>	<b>21,256</b>	<b>5,883,163</b>	<b>2,054,787</b>	<b>121,266</b>
	<b>2002</b>	<b>21,452</b>	<b>5,761,417</b>	<b>1,963,275</b>	<b>108,818</b>
	<b>2001</b>	<b>21,810</b>	<b>5,511,453</b>	<b>1,963,737</b>	<b>107,343</b>

\* In 2003 the number of employees also includes trainees and employees who are retraining in requalification programs (2002: 21,393 employees, 2001: 21,605 employees). The number of management did not change following this reclassification.

The management of the Company includes 4 members of the Board of Directors (which from 1 January 2004 increased to 5 members) and the senior management who report to them. The Supervisory Board of the Company consists of 10 members.

## 21. Remunerations to members of the Board of Directors, Supervisory Board, and senior management

The members of the Board of Directors did not receive any remuneration for 2003, 7 company cars were made available to the Board members (7 cars in 2002, 6 cars in 2001). Their salaries are included in the table in Note 20.

Members of the Supervisory Board received remuneration in the amount of CZK 457 thousand in 2003 (CZK 435 thousand in 2002; CZK 414 thousand in 2001). Of this remuneration amount CZK 153 thousand (CZK 145 thousand in 2002, CZK 138 thousand in 2001) was paid to members of the Supervisory Board who are not employed by Škoda Auto. 3 company cars (2002: 3 cars, 2001: 3 cars) were made available to the members of the Supervisory Board.

The salaries of senior management are set out in the table in Note 20. Company cars are made available to senior management. The Company did not provide any loans to the members of the Board of Directors or the Supervisory Board.



## 22. Research and development costs (in thousand CZK)

Research and development related to new models of passenger cars amounted to CZK 4,851 million in 2003 (2002: CZK 4,304 million; 2001: CZK 4,361 million). In 2003 Škoda Auto recorded expenses amounting to CZK 639 million (2002: CZK 485 million; 2001: CZK 900 million) for the production of prototypes and test vehicles. Additionally, development costs have been amortised by CZK 16 million (2002: CZK 16 million; 2001: CZK 90 million) in 2003.

## 23. Financial income and expense (in thousand CZK)

	2003		2002		2001	
	Income	Expense	Income	Expense	Income	Expense
Interest	76,782	1,007,617	153,604	1,193,986	248,686	1,231,559
Foreign exch. rate differences	1,634,969	2,388,252	3,562,613	2,268,078	1,988,947	1,739,451
Factoring fees and other financial expenses	0	1,034,349	0	1,443,665	0	1,349,548
Other income from financial investments	25,974	0	22,494	48,812	62,798	7,000
Release of provision for exchange rate losses	0	0	27,862	0	86,332	27,862
<b>Total</b>	<b>1,737,725</b>	<b>4,430,218</b>	<b>3,766,573</b>	<b>4,954,541</b>	<b>2,386,763</b>	<b>4,355,420</b>

## 24. Derivative financial instruments (in thousand CZK)

The fair value of the Company's derivative financial instruments is recognised under "Other receivables" if the balance is positive and in "Other liabilities" if it is negative.

	31 Dec. 2002			Nominal value
	Fair value		Negative	
	Positive	Negative		
<b>Hedging derivatives</b>				
Currency forwards	40,088	438,132		23,624,019
Currency swaps	15,917	808		597,350
Interest rate swaps	0	380,515		2,000,000
<b>Trading derivatives</b>				
Currency options	21,872	0		9,461,525
<b>Total derivatives</b>	<b>77,877</b>	<b>819,455</b>		<b>35,682,894</b>

	31 Dec. 2003			Nominal value
	Fair value		Negative	
	Positive	Negative		
<b>Hedging derivatives</b>				
Currency forwards	114,975	614,135		39,391,935
Currency swaps	16,439	0		1,257,017
Interest rate swaps	31,239	0		5,000,000
<b>Total derivatives</b>	<b>162,653</b>	<b>614,135</b>		<b>45,648,952</b>

Škoda Auto uses interest rate swaps for the hedging of floating interest rate bonds cash flow. Currency instruments are utilised for foreign exchange rate exposure hedging resulting from anticipated and contracted foreign exchange sales revenues as well as operational and investment payments.

Škoda Auto has accounted for the fair value of financial derivatives since 1 January 2002. Before this date any such instruments were recorded only as off-balance sheet items.

Škoda Auto has not concluded any new currency options in 2003. During this period, only currency options concluded in June and July of 2002 have been realised.

## 25. Corporate tax (in thousand CZK)

The tax expense includes following amounts:

<b>Corporate income tax</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Current tax	1,184,659	924,759	954,000
Deferred tax	(170,532)	(137,627)	-
Difference between preliminary and final tax calculation for previous periods	24,499	(123,500)	(408,635)
<b>Total</b>	<b>1,038,626</b>	<b>663,632</b>	<b>545,365</b>

The Company has recognised a deferred tax receivable in an amount of CZK 1,046 million (2002: CZK 977 million), since it is considered probable that sufficient future taxable profits will be available against which the asset can be utilised.

In previous periods the Company did not recognise a deferred tax asset as there was doubt as to its recoverability.

In connection with the change of accounting policy from 1 January 2002 a deferred tax receivable amounting to CZK 610 million was calculated as at 31 December 2001 and recognised as at 1 January 2002 as part of equity.

The deferred tax receivable relating to derivative financial instruments, the fair value of which is recognised in equity as at 31 December 2003 has also been recognised as part of equity in an amount of CZK 127 million (2002: CZK 230 million).

For the deferred tax calculation at 31 December 2003 the corporate tax rates were used that are expected to apply in the period when the deferred tax assets and liabilities will be realised (2004: 28%, 2005: 26%, 2006 and after: 24%). In 2002 and 2001 the rate of 31% was used (tax rate for 2003 and 2002). The impact of the change in the tax rate on the tax expense in 2003 represents CZK 69 million.

The deferred tax receivable in 2001 – 2003 can be analysed as follows:

	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Deferred tax liability due to:</b>			
Difference between accounting and tax net book value of fixed assets	495,950	552,713	482,895
Financial derivatives	44,561	24,142	0
Other temporary differences	95,402	127,987	159,983
<b>Total</b>	<b>635,913</b>	<b>704,842</b>	<b>642,878</b>
<b>Deferred tax receivable due to:</b>			
Provisions	1,509,857	1,423,901	1,253,224
Financial derivatives	171,958	254,031	0
Other temporary differences	0	4,773	0
<b>Total</b>	<b>1,681,815</b>	<b>1,682,705</b>	<b>1,253,224</b>
<b>Net deferred tax receivable</b>	<b>1,045,902</b>	<b>977,863</b>	<b>610,346</b>

## 26. Other financial liabilities not stated in the Balance Sheet

As at 31 December 2003 Škoda Auto had entered into contracts for the purchase of fixed assets amounting to approximately CZK 3.1 billion (2002: CZK 2.5 billion; 2001: CZK 7.2 billion).

The Company has no liabilities secured by pledge or security.

## 27. Contingent liabilities

At 31 December 2003 Škoda Auto has contingent liabilities arising from guarantees granted in an amount of CZK 26 million (2002: CZK 27 million; 2001: CZK 28 million), which are not recorded in the balance sheet and for which no provision has been created. The value of the potential liabilities corresponds to the amounts for which the Company has granted guarantees.

## 28. Related party transactions (in thousand CZK)

Škoda Auto concluded the following related party transactions:

		2003	2002	2001
Sales of	vehicles	70,545,140	70,885,161	74,067,911
	spare parts	11,734,410	9,413,328	6,942,704
	others*	21,453,426	24,988,157	22,116,170
<b>Total</b>		<b>103,732,976</b>	<b>105,286,646</b>	<b>103,126,785</b>
Purchases of	production materials	24,908,644	23,114,133	25,124,139
	overhead material and services	8,823,044	7,598,326	8,301,607
	spare parts	1,245,459	1,087,258	1,054,939
	fixed assets	1,483,092	468,010	717,092
<b>Total</b>		<b>36,460,239</b>	<b>32,267,727</b>	<b>35,197,777</b>

\* Sale of engines, gear boxes, SKD cars, services, development costs.

These transactions were concluded on arm's length terms and conditions and are recorded inclusive of VAT.

### Receivables from related parties (in thousand CZK)

	31 Dec. 2003	31 Dec. 2002	31 Dec. 2001
VOLKSWAGEN AG	136,307	260,232	275,262
Volkswagen Sachsen GmbH	26,131	14,252	70,229
VOLKSWAGEN Group United Kingdom Ltd.	72,035	21,026	91,043
Groupe VOLKSWAGEN France s.a.	22,812	70,138	79,259
Volkswagen-Audi España, S.A.	70,082	52,272	88,267
VOLKSWAGEN SLOVAKIA, a.s.	90,401	111,911	89,907
AUDI AG	13,491	66,054	12,437
ROLLS-ROYCE & BENTLEY MOTOR CARS Limited	51,018	131,626	194,976
ŠkodaAuto Deutschland GmbH	0	85,561	143,884
SKODA AUTO POLSKA, S.A.	71,153	12,118	160,547
Import Volkswagen Group s.r.o.	49,121	37,990	49,976
Skoda Auto India Private Limited	555,839	1,270,489	19,092
ŠKODA AUTO BH d.o.o.	167,535	250,234	172,414
ŠkoFIN s.r.o.	213,856	25,855	11,450
ŠKO-ENERGO s.r.o.	9,602	8,835	59,862
Volkswagen Navarra, S.A.	61,095	82,941	2,292
Svenska Volkswagen AB	0	21,625	11,890
SEAT, S.A.	104,569	4,042	86,877
Autogerma S.p.A.	58,489	8,141	138,237
Other companies	20,803	26,817	36,197
<b>Total</b>	<b>1,794,339</b>	<b>2,562,159</b>	<b>1,794,098</b>

### Liabilities to related parties (in thousand CZK)

	31 Dec. 2003	31 Dec. 2002	31 Dec. 2001
VOLKSWAGEN AG	1,317,783	1,463,674	1,952,086
Volkswagen Sachsen GmbH	164,628	190,259	173,417
Volkswagen Poznan Sp. z o.o.	15,570	43,390	648,084
VOLKSWAGEN Group United Kingdom Ltd.	158,719	148,755	261,970
Groupe VOLKSWAGEN France s.a.	309,785	478,383	152,854
VOLKSWAGEN OF AMERICA, INC.	13,481	23,661	29,336
Volkswagen de México, S.A. de C.V.	53,079	87,962	42,966
Volkswagen Transport GmbH	202,276	188,211	182,687
Coordination Center Volkswagen S.A.	496,254	287,269	2,389,215
AUDI AG	31,436	127,626	293,307
AUDI HUNGARIA MOTOR Kft.	419,397	347,131	255,168
AUTOGERMA S.p.A.	67,368	335,424	61,728
ŠkodaAuto Deutschland GmbH	363,041	38,699	125,117
ŠKODA AUTO Slovensko s.r.o.	26,277	12,697	21,117
ŠKO-ENERGO s.r.o.	70,297	0	0
gedas ČR s.r.o.	54,342	51,813	33,403
Volkswagen-Audi España, S.A.	38,076	11,328	0
Gearbox del Prat, S.A.	21,568	3,093	3,786
VW Versicherungsvermittlungs-GmbH	34,116	0	0
IAV GmbH Ingenieurungesellschaft	13,550	0	0
Svenska Volkswagen AB	10,867	100	0
Other companies	46,668	22,462	27,899
<b>Total</b>	<b>3,928,578</b>	<b>3,861,937</b>	<b>6,654,140</b>

The receivables from, and liabilities to, related parties were realised on arm's length terms common to trade transactions and are recorded including VAT.

## 29. Significant post-balance sheet events

No events have occurred subsequent to the date of the financial statements that would have any material impact on the financial statements for 2003.

### 30. Information about the Volkswagen Group

Škoda Auto is a subsidiary included in the consolidation of its parent, VOLKSWAGEN AG, with a registered office in Wolfsburg, Federal Republic of Germany. The Volkswagen Group consists of the following Brand Groups:

- Volkswagen with product lines: Volkswagen passenger cars, Škoda, Bentley, Bugatti
- Audi with product lines: Audi, Seat and Lamborghini
- Commercial vehicles
- Financial services and Europcar
- Other companies

The principal activity of Volkswagen Group is the development, production and sale of both passenger and commercial vehicles, engines, spare parts and accessories. Financial services are provided by Volkswagen Financial Services AG, a subsidiary.

Škoda Auto and its subsidiaries (ŠkodaAuto Deutschland GmbH, SKODA AUTO POLSKA S.A., ŠKODA AUTO Slovensko s.r.o.) are included in the consolidation of Volkswagen Group's financial statements.

These consolidated financial statements, and other information relating to the Volkswagen Group, are available in the annual report of VOLKSWAGEN AG and on the internet site of VOLKSWAGEN AG (website: [www.volkswagen-ir.de](http://www.volkswagen-ir.de)).

### 31. Information about the Company

#### **Foundation and main activity of the Company**

Škoda Auto was established as a legal entity on 20 November 1990. The Company's principal business activities are the development, production and sale of vehicles and related accessories.

#### **Registered Office:**

ŠKODA AUTO a.s.  
Tř. Václava Klementa 869  
293 60 Mladá Boleslav  
Czech Republic  
ID No.: 00177041  
www address: [www.skoda-auto.cz](http://www.skoda-auto.cz)

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

#### **The organizational structure of the Company is divided to following main areas:**

- Technical development
- Production and Logistics
- Quality
- Sales and Marketing
- Economic issues
- HR Management

Apart from the main production site in Mladá Boleslav, the Company has two other production plants in Vrchlabí and Kvasiny.

# 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 2003 – 31 December 2003

The report on relations between VOLKSWAGEN AG, having its registered office in Wolfsburg, Federal Republic of Germany, (hereinafter referred to as the "Controlling Entity" or "Volkswagen") and ŠKODA AUTO a.s., having its registered offices in Mladá Boleslav, Tr. Václava Klementa 869, Post code: 29360, ID No.: 00177041 (hereinafter referred to as the "Controlled Entity" or "the Company" or "Škoda Auto"), and between Škoda Auto and other entities controlled by Volkswagen in the accounting period 1 January 2003 to 31 December 2003 (hereinafter referred to as the "accounting period") was prepared pursuant to provision § 66a paragraph 9 of the Act No. 513/1991 Coll., Commercial Code, as amended.

Volkswagen was the sole shareholder of Škoda Auto throughout the accounting period and held 100% of the voting rights.

## Contracts concluded

Škoda Auto and Volkswagen, and Škoda Auto and the companies controlled by Volkswagen concluded contracts in the following areas during the accounting period:

### 1. Sale of own products, goods and services

#### a) vehicles

Škoda Auto did not conclude any vehicle sale contracts in the accounting period.

#### b) spare parts

Škoda Auto did not conclude any spare part sale contracts in the accounting period.

#### c) other

Škoda Auto entered into service and other products sale contracts (aggregate, metallurgical products etc.) with the following companies:

VOLKSWAGEN SLOVAKIA, a.s.

ROLLS-ROYCE & BENTLEY MOTOR CARS LIMITED

Volkswagen Navarra, S.A.

Volkswagen do Brasil Ltda.

Volkswagen Sachsen GmbH

Volkswagen de México, S.A. de C.V.

AUDI AG

VOLKSWAGEN Group Japan K.K.

SEAT, S.A.

Volkswagen of South Africa (Pty.)Ltd.

VOLKSWAGEN AG

VOLKSWAGEN OF AMERICA, INC

### 2. Purchase of goods and services

#### a) production material

Škoda Auto concluded production material purchase contracts with the following companies:

AUDI AG

Volkswagen Navarra, S.A.

AUDI HUNGARIA MOTOR Kft.

Volkswagen Poznan Sp. z o.o.

VOLKSWAGEN AG

Volkswagen Sachsen GmbH

AUTO 5000 GmbH

VOLKSWAGEN SLOVAKIA, a.s.

Volkswagen Argentina S.A.

Gearbox del Prat, S.A.

Volkswagen Bruxelles SA

VOLKSWAGEN Motor Polska Sp.z o.o.

Volkswagen de México, S.A. de C.V.

e4t electronics for transportation s.r.o.

Volkswagen do Brasil Ltda.

Volkswagen Bordnetze GmbH

b) indirect material and services

Škoda Auto entered into the following indirect material and service purchase contracts (indirect material and services purchase, research and development cooperation, IT services, licences, software and hardware supplies, customer services consultancy, logistic systems support, logistic systems consultancy, standardisation cooperation, rent of properties, rent of testing areas) with the following companies:

VOLKSWAGEN Transport GmbH

Volkswagen Coaching GmbH

VOLKSWAGEN AG

VOLKSWAGEN Group Japan K.K

gedas ČR s.r.o.

IAV Ingenieurgesellschaft GmbH

Volkswagen Sachsen GmbH

e4t electronics for transportation s.r.o.

AUDI AG

ŠkodaAuto Deutschland GmbH

Volkswagen Immobilien Service GmbH

Volkswagen Navarra, S.A.

Volkswagen of South Africa (Pty.)Ltd.

Volkswagen-Audi Vertriebszentrum,S.A.

VOLKSWAGEN OF AMERICA, INC

Volkswagen-Bildungsinstitut GmbH

c) spare parts

Škoda Auto did not conclude any spare part purchase contracts in the accounting period.

d) investment

Škoda Auto entered into investment purchase contracts with the following companies:

gedas ČR s.r.o.

Import Volkswagen Group s.r.o.

Volkswagen Poznan Sp.z o.o.

Volkswagen-Bildungsinstitut GmbH

VOLKSWAGEN AG

### 3. Other contractual relationships

Škoda Auto also established contractual relationships (marketing services, training, support, financial services) with the following companies:

ŠKODA AUTO Slovensko s.r.o.

Import Volkswagen Group s.r.o.

Volkswagen Coaching GmbH

ŠkodaAuto Deutschland GmbH

VOLKSWAGEN SLOVAKIA, a.s.

ŠKO-ENERGO, s.r.o

AUDI AG

ŠkoFIN s.r.o.

VOLKSWAGEN AG

#### 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 and sole shareholder of Škoda Auto.

#### Other measures, their advantages and disadvantages

In the accounting period no other measures in favour or at the initiative of Volkswagen, and entities controlled by Volkswagen, which exceeded the scope of standard measures taken by Škoda Auto regarding Volkswagen, as the sole shareholder of Škoda Auto, were taken or implemented by 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 sole shareholder of Škoda Auto, were taken or implemented by Škoda Auto.

The total value of all transactions with related parties during the accounting period is disclosed in note 28 of the notes to financial statements.

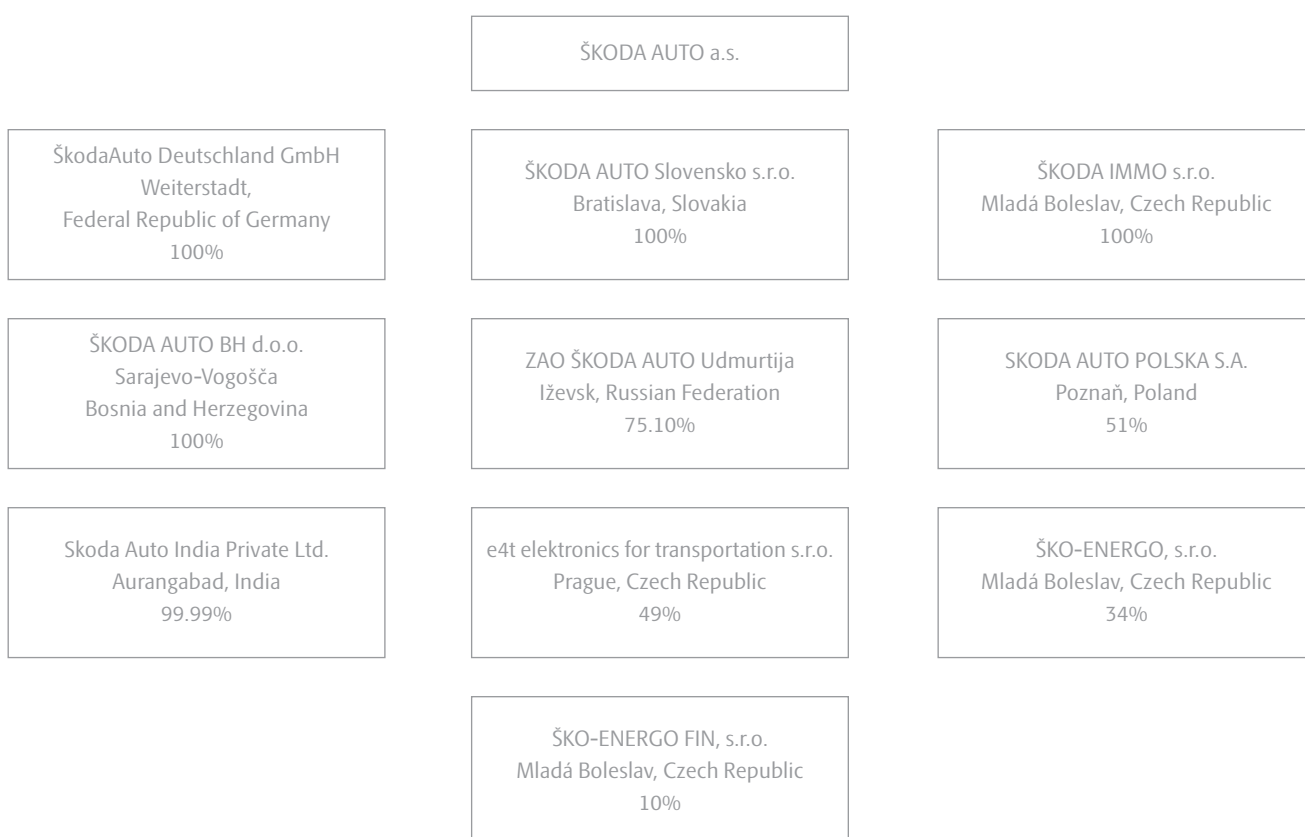
The Board of Directors of the Controlled Entity declares that Škoda Auto did not suffer from any damage or detriment as a result of the conclusion of the above mentioned contracts, the other aforesaid legal acts, other measures, performance provided or accepted counter-performance.

# Ownership Structure and Investments

## Ownership Structure as of 31 December 2003

As of 31 December 2003, ŠKODA AUTO a.s. was part of the Volkswagen AG multinational group based in Wolfsburg, Germany. Volkswagen AG owns 100% of Škoda Auto's shares.

## Capital participations and subsidiaries as of 31 December 2003







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Recorded in the Commercial Register  
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