



SUSTAINABLE DEVELOPMENT

Degree of Harmony with Recommendations of the Corporate Administration and Management Code

In connection with the best practice used in the Volkswagen group, the majority of internal corporate administration and management processes are set in accordance with the Code's relevant rules. With regard to the company's shareholder structure (one shareholder – Volkswagen International Finance N.V., registered office in Amsterdam), the group's organisational structure (see the annual report of VOLKSWAGEN AG) and the fact that the company's shares are not listed, some recommendations of the Code are not relevant, or, in the interests of efficiency and synergy, they are transferred to the group level, to the appropriate extent. There were several other changes in Škoda Auto in 2007 based on analyses that were performed focused on the development and improvement of administration and management standards. A specific example is the drafting and acceptance of the Code of Conduct, which sets out the principles of conduct of Škoda Auto employees, based on the application of the company's values and generally recognised ethical standards.

Company Organisation

The board of directors is the company's statutory body, manages its activities, and acts on its behalf. It is responsible for its long-term strategic direction, sets the sales policy and risk management policy and handles its commercial leadership and operative management. The remit of the board of directors is defined by the articles of association, the company's internal regulations and the legislation of the Czech Republic. According to the articles of association, the board of directors has six members, and all these members are executive members. The members of the board of directors are appointed by the sole shareholder. Their term of office is three years (and they can be re-elected). All members of the board of directors meet the necessary personal and professional requirements, such as practical experience, for the performance of their positions. They are responsible for the performance of their activities to the extent set out by Czech legislation. The board of directors meets once a week. With regard to the effective performance of its functions, the company's board of directors delegates the relevant powers and responsibilities to a lower level of management – managerial employees.

Due to their holding of key positions in the company's structure, managerial employees have powers and responsibilities for planning, management and control of the company's activities. A list of and professional curricula vitae for the various managerial employees, as well as a description of the relevant key positions that are held in the company are, due to the amount of information, published at the website (www.skoda-auto.cz). This concerned a total of 41 people in 2007. The supervisory board supervises the exercise of powers by the board of directors and the implementation of the company's business activities in accordance with legislation, the principles of corporate administration and management, the company's articles of association, the supervisory board's rules of procedure and the internal regulations of Volkswagen. This concerns the setting of the relevant systems to protect the company's interests and the entitlements of all legitimately interested parties, as well as the presentation of the appropriate financial information. In accordance with the law, the supervisory board of Škoda Auto reviews the financial statements and the report on relations, makes a statement on the selection of the auditor, supervises financial reporting and assesses all financial operations with serious consequences for Škoda Auto. The supervisory board comprises six members, of which four members are appointed by the sole shareholder and two members are elected by the company's employees, in accordance with the law. The term of office of members of the supervisory board is four years and members can be re-elected. Ordinary meetings of the supervisory board are held three times a year. The company is not fully in accordance with the recommendations of the Code contained in chapter VI-E-1 – in



SUSTAINABLE DEVELOPMENT

connection with section 5 of the Commentary, according to which the board of directors and/or supervisory board company should have a sufficient number of members that the company does not employ and that are not in a close relationship with the company or its management through significant economic, family or other relations. The independence of the Škoda Auto board of directors and the width of company's strategic development are, in this regard, ensured by the appropriate organisational structure of Volkswagen and the relevant number of independent members represented on the supervisory board of VOLKSWAGEN AG (see the annual report of VOLKSWAGEN AG).

Relations between Company and Shareholders

The company shall thoroughly ensure compliance with all the statutory provisions to an extent reasonable given the facts that the shares in the company are not listed and also that it has a specific share structure in the form of a single shareholder – Volkswagen International Finance N.V. Škoda Auto complies with the rules set by legislation for the performance of extraordinary transactions (i.e. for the performance of transactions whose objectives or values significantly exceed the framework of ordinary business activities). Rules apply inside the company governing mutual relations between company bodies during the preparation, approval and implementation of measures and tasks of an extraordinary or fundamental importance, such as financial and personnel planning, planning of production and sales, the company's participation, as a member or shareholder, in the business of third parties, acquisitions or alienations over and above the framework of ordinary business activities, the occupation of key positions in the company's management, etc.

Information Openness and Transparency

The company thoroughly performs and complies with all legislation of the Czech Republic, the principles of the Administration and Management Code specified in Chapter V, and progressively publishes all significant information about its business, financial and operational results, shareholder structure and other significant events. All the information is prepared and published in accordance with standards for accounting and the publication of financial and non-financial information. As a part of the strategy of openness, the company publishes information over and above the framework of the statutory requirements in many areas. The company regularly publishes annual and six-monthly reports. An annual report contains audited financial statements and gives a detailed picture of the company's business activities and financial situation. An annual report contains a report on relations between linked persons. With regard to restrictions on possible conflicts of interests, all members of the board of directors, supervisory board, and managerial employees are under a duty set out by internal rules: to notify in writing of all significant interests in transactions in favour of third parties and refrain from directly influencing decisions on such transactions. No facts that could have led to a conflict of interests in any of the relevant groups of employees were recorded in 2007.

Committees of the Company's Administrative Bodies

Committees of the Supervisory Board

The company is not fully in accordance with the recommendations of the Code in accordance with chapter VI-E-2 (in connection with section 18 of the Commentary), according to which the company should establish three various committees, responsible for audit, remuneration and appointments. With regard to the company's specific shareholder structure, activities related to committees have been transferred to the level of the group, to an extent that is effective and brings synergy. The activities of the committees for remuneration and appointment are performed



SUSTAINABLE DEVELOPMENT

by the committee of the board of directors of VOLKSWAGEN AG for personnel matters in co-operation with the relevant committees of the supervisory board of the VOLKSWAGEN AG group (see annual report of VOLKSWAGEN AG). Activities usually performed by the committee for audit are part of the job description of the internal review department at VOLKSWAGEN AG. Together with the audit committee of the supervisory board of VOLKSWAGEN AG, it supervises the internal audit department of Škoda Auto and the company's internal control system.

Committees of the Board of Directors

To support and ensure the internal management and responsibilities of the board of directors, the company has established the following committees and panels:

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

These committees are advisory bodies that the board of directors establishes by a decision. The purpose is to initiate, prepare and submit recommendations on specialist matters. The remit and composition of the committees is governed by established rules in accordance with set codes of procedure.

Company Policy to Stakeholders

Škoda Auto is one of the largest companies in the Czech Republic. It is interested in the long-term development of the society of which it is part and is also fully aware of its responsibility for the stability of its business environment. The keys are the efforts to develop a good name, trustworthiness and reliability for business partners, employees and members of other stakeholders. Škoda Auto openly declares its allegiance to the values of corporate social responsibility and, in accordance with these principles, adapts its activities to the needs of its environment.

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