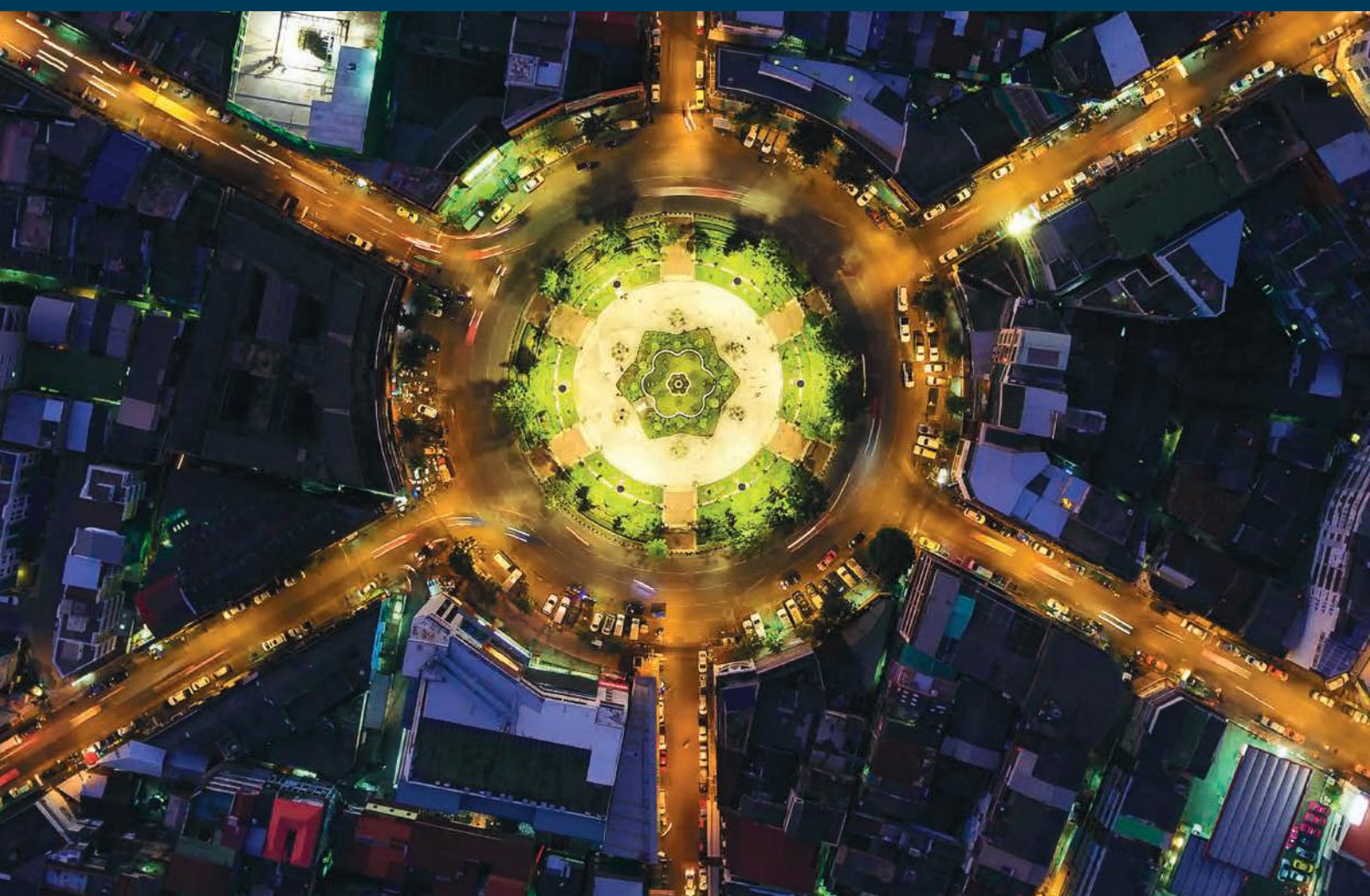


VOLKSWAGEN FINANCIAL SERVICES

ÚVĚR. LEASING. POJIŠTĚNÍ. MOBILITA.

ANNUAL REPORT 2016



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INTRODUCTION BY THE BOARD OF MANAGEMENT

Dear ladies and gentlemen

In 2016, ŠkoFIN s.r.o. (Volkswagen Financial Services), continued its positive business development and launched more car mobility services for its customers.

Volkswagen Financial Services reached an historic milestone – the signing of the one-millionth financing contract. This means more than just a number in our sales results. In fact, every unit within this sum represents a specific person or entity which has chosen our financial service product to become mobile with a new or used vehicle.

We therefore would like most of all to thank our clients for their trustful cooperation in the past 24 years. In addition, we would like to express our gratitude to the Volkswagen Dealer group network, our sales partners, for the goodwill and co-operation they have shown us through the years. Together, we are motivated to continue providing automotive financial services and developing innovative new ideas for mobility.

Volkswagen Financial Services product innovations have enabled us to maintain our market position in the Czech Republic as the strongest automotive financial services provider. Data from the Czech Leasing and Financing Association states our market share to be 21.8%. We are pleased to be the first choice for so many companies, entrepreneurs and private customers.

In the past year, Volkswagen Financial Services successfully concluded more than 49,000 contracts. Every third vehicle sold from Volkswagen Group is provided with a service from our company. The sales volume increased year on year by 16.7% to just under CZK 14 billion. Volkswagen Financial Services is also the largest player on the market providing new operational leasing, with CZK 7.3 billion in new financed volume representing a 19.4% market share. Especially considering the launch last year

of the online product Operational Leasing IN (OLIN), we see further potential for development in this product segment together with our Volkswagen Group dealer network.

Nevertheless, credit-related financing solutions, including the balloon credit, represent the largest share of the financial products in our portfolio. Financial leasing, so popular in the past, now comprises a mere 1% of our sales.

Volkswagen Financial Services has achieved these results through close cooperation with our automotive brands, the Volkswagen Group dealer network, and dedicated ŠkoFIN s.r.o. employees. We have invested into new products, high education standards, and our Volkswagen Group company values.

Volkswagen Financial Services has focused on product innovations and extension of financial automotive mobility services. At the beginning of the year, therefore, we introduced to the market Volkswagen, Audi and SEAT Insurance, which will provide our clients unique insurance protection. We have also innovated the branded ŠKODA Insurance. Moreover, on 1 August 2016, we launched branded insurance products for selling vehicles without financing.

This journey will continue in 2017. As the Board of Management, we once again want to thank our partners and customers for their confidence in our business co-operation. We are looking forward to celebrating our 25th anniversary in the Czech market.



Reinhard Mathieu
Dipl. Wirtsch.-Ing.



Joachim Lutz Ewald
Dipl. Kauf.



COMPANY PROFILE



Volkswagen Financial Services is a leading financial services company operating on the Czech market since 1992. This year will therefore mark its 25th year in vehicle financing.

Since its entry onto the market, the Company has remained at the top of the field for passenger and utility vehicle financing. In 2016, it also ranked first in providing operational leasing.

The company is part of the Volkswagen Financial Services Group that is represented in 50 countries. Its portfolio includes more than 12.4 million contracts, and it has nearly 13,000 employees all over the world.

With its financial services, the Company specialises in supporting sales of the Volkswagen, Audi, SEAT, ŠKODA,

Porsche and DUCATI brands in the dealer network, as well as sales of group-brand used vehicles. The Company provides a number of financial services products. Since 2015, it has been using the marketing brand Volkswagen Financial Services. The Volkswagen Financial Services designation is used as a trademark, but the legal name remains unchanged.

The provision of products and services not only for group-brand vehicles but also for other vehicles on the Czech market is also supported through close co-operation with the Volkswagen Group dealer network.

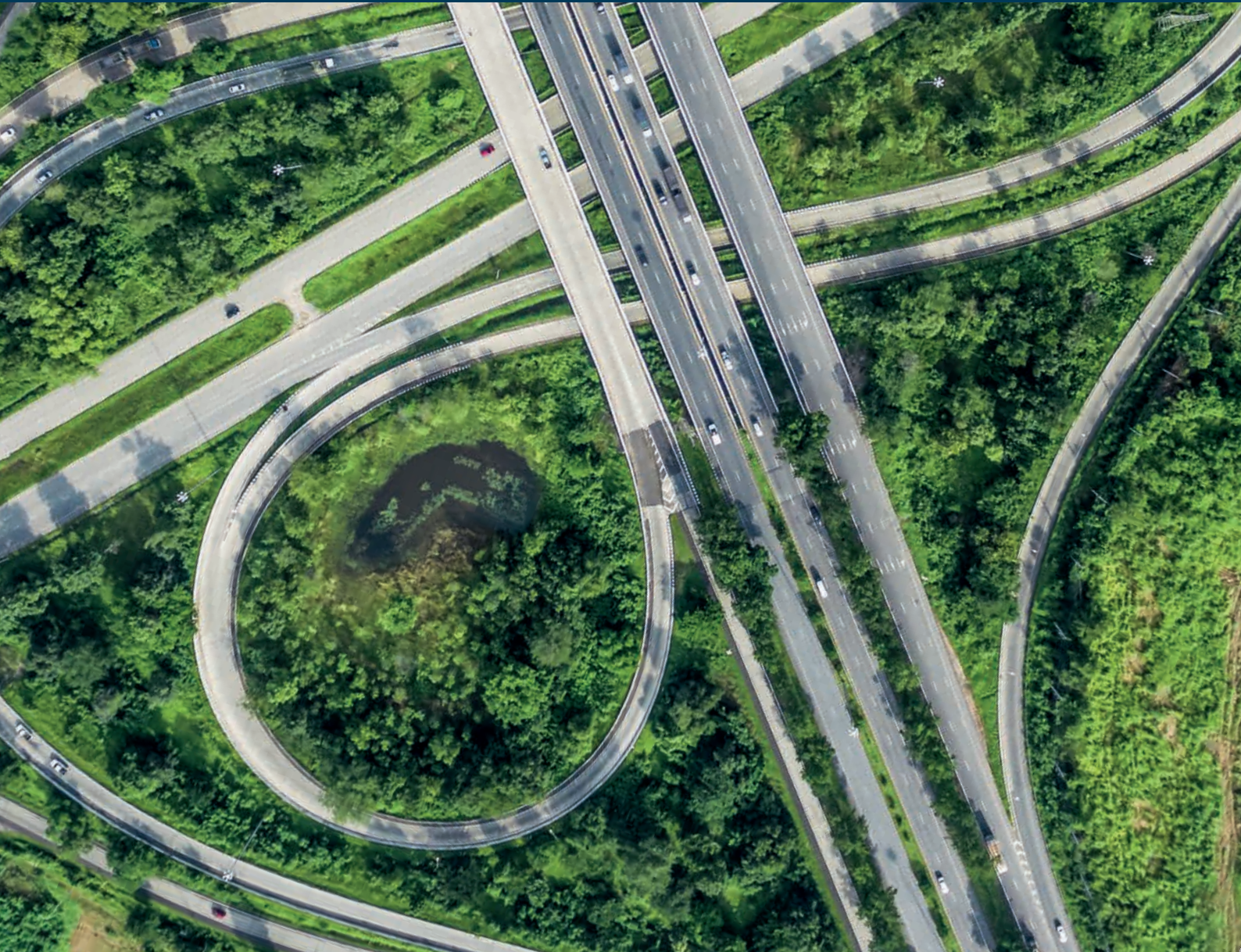
Main products of Volkswagen Financial Services

- » Financial products for private (retail) and corporate (fleet) customers, including loans as well as operational and financial leasing.
- » Branded insurance products for vehicle financing and for vehicle sales without financing – ŠKODA, Volkswagen, Audi and SEAT Insurance. The Group's branded insurance comprises third party motor insurance, accident insurance and other supplemental insurance, including windscreen insurance and guaranteed auto protection insurance.
- » Lending to finance operational and investment needs of the Group's dealer network. Investment loans provide financing for auto showrooms and service centres.
- » Extended warranties for used vehicles under the ŠKODA Plus and Das WeltAuto programmes.
- » ŠKODA Prepaid Service – a supplementary service which covers customers' costs related to regular vehicle service and maintenance.
- » Supplementary products: The client centre offers accident insurance and third party motor insurance, credit protection insurance, administrative legal protection insurance (Assistant), and other customer care services.

More information is available at vwfs.cz.



THE GROUP'S STRUCTURE



The Company is fully owned by Volkswagen Financial Services AG, a division of Volkswagen Group.



Financial services

Volkswagen Financial Services

VOLKSWAGEN FINANCIAL SERVICES

Europe / Asia-Pacific / North and South America

FINANCIAL SERVICES

USA / Canada / Spain / Argentina

Scania Financial Services

MAN Financial Services

Porsche Holding Financial Services

Porsche Financial Services

You can find the annual report of Volkswagen Financial Services AG at vwfsag.de.



STRUCTURE OF THE GOVERNING BODIES



ŠkoFIN s.r.o. was entered into the Commercial Register on 10 August 1992, having its registered office at Pekařská 6, Prague 5. The Company's primary business activities are the purchase of goods for the purpose of their resale, sale (leasing) of automobiles, and provision of consumer credit inclusive of additional services.

The structure of the statutory bodies in 2016 was as follows

STATUTORY REPRESENTATIVES

Joachim Ewald Reinhard Mathieu

AUTHORISED SIGNATORIES

Radek Cizner Radek Milštain

SUPERVISORY BOARD

Ralf Erich Teichmann Volker Anton Stadler Patrick Ortwin Welter Luboš Vlček Vratislav Stražil

The Supervisory Board has been established by the decision of the Shareholder with effect from 22 December 2016.



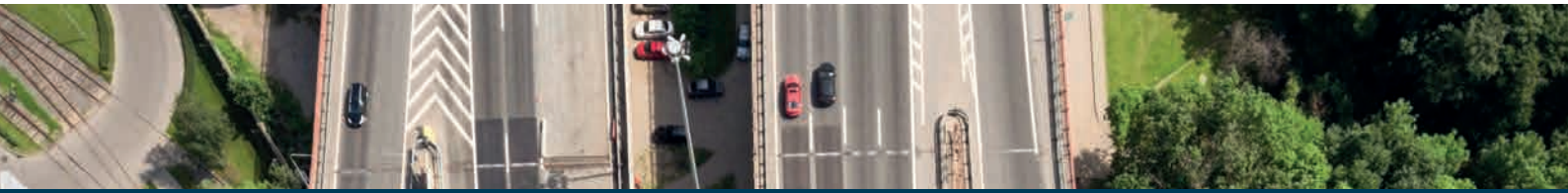
Joachim Ewald

Joachim Ewald has held the position of statutory representative of ŠkoFIN s.r.o. since 1 March 2014. He is responsible for sales, marketing, project management, strategy and contract administration.



Reinhard Mathieu

Reinhard Mathieu has served in the position of statutory representative of ŠkoFIN s.r.o. since 1 October 2015. He is responsible for managing the Company's finance, controlling, legal, HR and IT operations (back office).



OUR STRATEGY



Through initiatives and programmes, we support the new strategy of Volkswagen Financial Services AG known as ROUTE 2025.

This strategy confirms the Group's general vision: "Volkswagen Financial Services is a key to mobility". In implementing our strategy, we endeavour to support the Company's values, including our employees' engagement in corporate social responsibility.

We are bound to implement our plans and objectives in accordance with these company values: Customer Orientation, Enthusiasm, Responsibility, Courage, and Trust.



TOGETHER
STRATEGY 2025

Five chief strategic pillars

CUSTOMERS

Our clients' needs are constantly changing. By developing digital distribution channels, we can fulfil and satisfy them.

SALES VOLUME

We endeavour for the entire Group to grow, and the various measures we implement help us increase the number of contracts.

PROFITABILITY

We strive to increase revenues while also focusing on providing comprehensive services.

OPERATIONAL EXCELLENCE

Information technologies are the basis of our future success in the digital area. We endeavour to make our processes conform to our clients' needs.

EMPLOYEES

We realise the importance of training and education, not only for new employees but for everyone. At Volkswagen Financial Services AG, we recognise that everybody's performance is vital, whether by an individual or as a team. Everyone is important to us.



MAJOR EVENTS IN 2016



Volkswagen Financial Services supports its business development through a number of innovative products, which constitute the main prerequisite for fulfilling our clients' mobility expectations.

Operational Leasing IN

At the start of 2016, we introduced in the dealerships a new product designed for small and medium enterprises requiring administration and acquisition of a small vehicle fleet. This progressive product's main advantage lies in its speed of execution. The client may obtain a vehicle offer right at the dealership within half an hour. This is the first service of its kind available within an authorised dealership network in the Czech Republic. Customers appreciate the availability of instalments in a pre-defined amount, zero down payment, and tax deduction for tax payers.

Branded insurance

At the beginning of last year, in co-operation with leading insurance companies on the market, we developed new insurance products for the Group brands Volkswagen passenger vehicles, Volkswagen utility vehicles, Audi, and SEAT. These include third party motor insurance, comprehensive accident insurance, and other supplemental insurance. We also improved the ŠKODA Insurance offer.

Millionth contract concluded

On 26 September 2016, after 24 years on the market, we concluded a record-breaking one millionth contract for vehicle financing.

Awards

- » The Company placed first in the prestigious IEA15 (Internet Effectiveness Awards) competition. It was awarded the highest prize in the Auto-Moto category for the project "How to sell a car weightlessly".
- » The ŠkoFIN ON AIR event placed second in the Czech Event Awards in the B2B event/social event category.
- » For the ŠkoFIN Changes project, the Company was awarded a gold medal in the Czech Direct competition, Integrated Communications category.

Vision for mobility in Prague for 2030

In autumn, Volkswagen Financial Services launched a student competition for universities in co-operation with the Prague Institute of Planning and Development under the patronage of the Prague City Assembly, the Central Bohemia Region, and the Prague Public Transit Company. The objective was to identify university students' visions for mobility in the capital for 2030.





CORPORATE SOCIAL RESPONSIBILITY



At Volkswagen Financial Services, we believe that success is built on responsible actions that are founded on established long-term goals. Our corporate social responsibility and human resources strategy are connected to the global strategy and corporate values of the entire Volkswagen Financial Services AG. For us, responsibility means acting in accordance with the requirements and needs of our company, employees, and customers.

We endeavour to be proactive, and we actively co-operate with our dealers and other stakeholders. We also want to be one of the best employers in the Czech Republic. We support education and training for developing individual capabilities, teamwork, and communication. We also develop programmes for strengthening employee motivation. For us, every employee is exceptional and important. Each employee is rewarded according to his or her performance.

We care about more than just employee and customer satisfaction. Even though we provide exclusively services with no direct impact on the environment, we also take into consideration the impact of our activities in this area.

As part of the HEALTHY YEAR project, we organised many activities concerning health and prevention.

In accordance with our corporate culture, we of course also adhere to laws and regulations, as well as internal standards and rules.

The Company is part of Volkswagen Financial Services

Holding Group and Volkswagen Bank GmbH. Accordingly, the Group must comply with obligations pursuant to the German Banking Act and other regulations, as well as related national and international rules. We comply with all rules and limits set out by the parent company.

Integral to our activities are to protect our clients' data, prevent corruption, and avoid any sort of illegal activities. We carefully follow the rules protecting each consumer as well as principles of competition. Our Code of Ethics is also an important element in this respect.

ŠkoFIN s.r.o. is a founding member of NRKI and a member of the Czech Leasing and Financing Association. It upholds the ethical standards of these associations, and we are a responsible provider of financing.

ŠkoFIN s.r.o. intends to satisfy all requirements stipulated by the new Consumer Credit Act, as is mandated by the Czech National Bank in providing a license to offer this type of product. This applies, as well, to the dealers network.



Sponsorship and Charity Activities

In addition to financing and vehicle sales, Volkswagen Financial Services also invests its attention and funds into helping others. We long have supported several carefully selected charitable projects through which we help people with disabilities achieve greater mobility, independence, and, above all, a sense of satisfaction in their lives.

Paraple Centre

The Company was a partner of the Run for Paraple. The Paraple Centre is a charitable trust helping people with paralysis. Volkswagen Financial Services has long been a partner of this event.

Sue Ryder

Volkswagen Financial Services sponsored the Sue Ryder Charity Cup football tournament, the proceeds from which help in operating the Sue Ryder senior home. The Company is a regular participant and has sponsored the tournament since its second year.

LORM

A team of our employees participated in a relay run to support this society for the deaf and blind, which since 1991 has joined together the deaf-blind, their family members, and people from the experts and the general public interested in the topic of people with deaf-blindness.

Heartbreakers

We also supported the Heartbreakers (Srdcerváči) project. Since 2013, this exceptional fund- and awareness-raising project has been run by the Foundation for Support of Employing People with Medical Disabilities. The project aims to show the general public that people with medical disabilities want to and can work, and that often all it takes is one small act of giving someone a chance, to open a door, as it were.

RACING 21 Rally Team

The Company became a partner of the RACING 21 Rally Team, crewed by Vojtěch Štajf and František Rajnoha.

Employee activities

In addition to the aforementioned annual projects, other smaller charity projects are worthy of note. In 2016, employees supported a young girl, Kačenka, with a “healthy gift basket” and organised a collection for the son of one of the employees.

The coming year will again provide us opportunity to show solidarity, as well as to engage in charitable activities and new opportunities to help.



FINANCIAL SITUATION IN 2016

ŠkoFIN s.r.o. achieved an excellent net profit of CZK 662 million in 2016.

Key 2016 Figures

2016

2015

NUMBER OF NEW FINANCING CONTRACTS

49,743

46,634

TOTAL ASSETS

CZK 39,383 mil.

CZK 33,386 mil.

TOTAL EQUITY

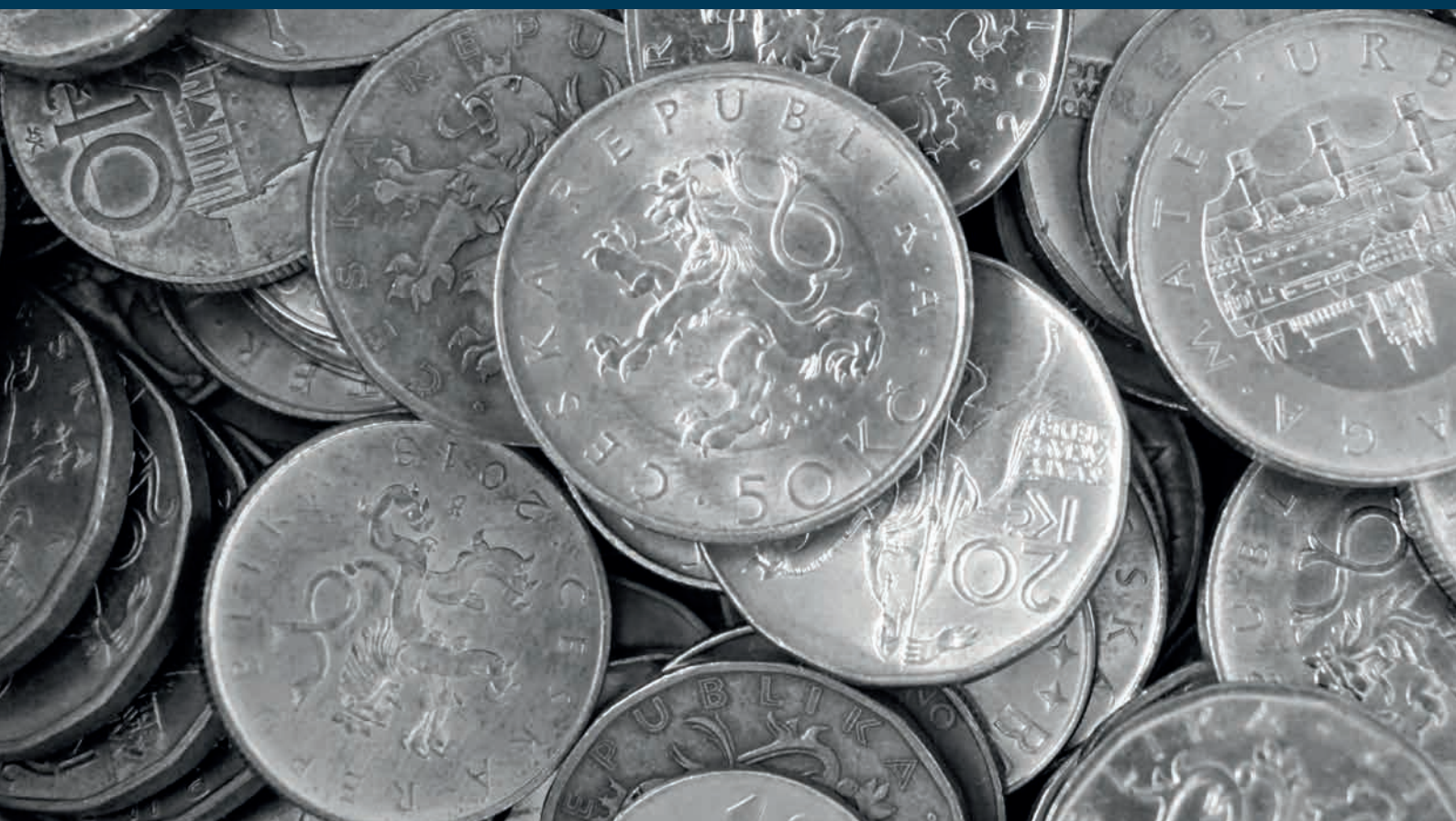
CZK 5,900 mil.

CZK 5,238 mil.

AVERAGE NUMBER OF EMPLOYEES

213

206



OUTLOOK FOR 2017



Together with our automobile brands, we expect our business to continue growing in 2017. In addition to the expected growth in GDP and of the industry as a whole, we also are planning to expand our portfolio in order to be better able to provide mobility solutions for our clients.

We will continue to develop services which we feel provide a competitive advantage. These will include new forms of mobility financing as well as branded insurance and prepaid services for vehicle maintenance.

We are pleased to be the first choice not only for individuals but also for many companies. We will strive especially to strengthen the fleet segment, where we succeeded in acquiring a number of excellent clients during 2016.

Meanwhile, we will respond to the growing demands for efficiency and digitalisation in our internal processes, where a key project will be to implement our new information system.

In accordance with our long-term strategy, we will continue to develop new solutions to increase the quality of our services and satisfy our customers' changing needs. We will focus on optimising and simplifying all our processes as well as on upholding our corporate values.





SHAREHOLDER'S MEETING REPORT

SHAREHOLDER'S MEETING REPORT

The Board of Management regularly informed the shareholder about the company's situation, business development and business policy over the reporting period. Based on written records and oral information, the Board of Management was supervised by the shareholder.

The shareholder's meeting had the financial statements of ŠkoFIN s.r.o., Prague, as of 31 December 2016 at its disposal. The auditors, PricewaterhouseCoopers Audit, s.r.o., have audited the financial statements.

The shareholder's meeting agrees to the audited result and approves the financial statements showing a CZK 662.2 million net profit.

Braunschweig, 12 April 2017

VOLKSWAGEN FINANCIAL SERVICES AG

Dr. Ch. Dahlheim

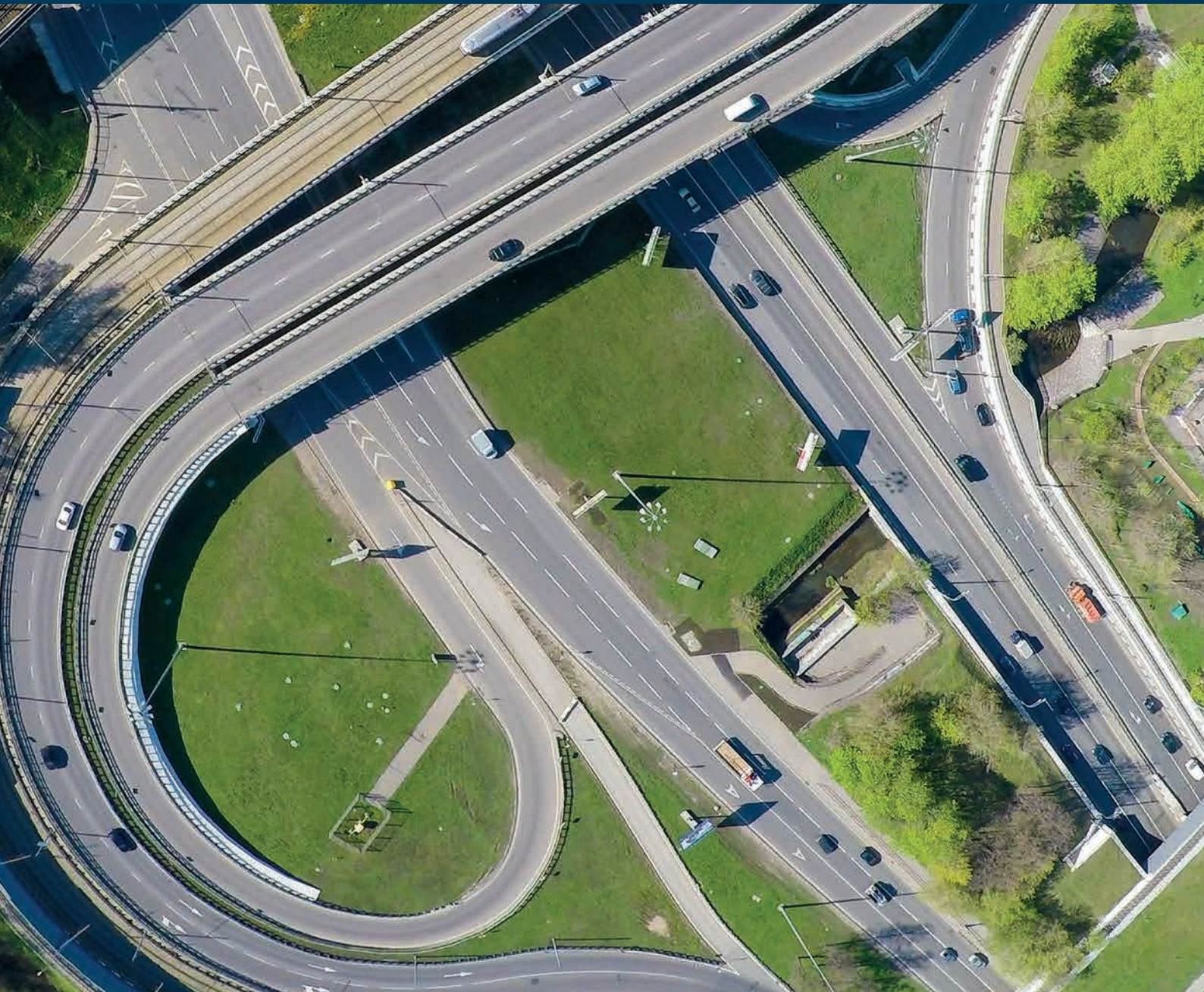
Member of the Management Board

R. Teichmann

proxy holder



INDEPENDENT AUDITOR'S REPORT





Independent auditor's report

to the shareholder of ŠkoFIN s.r.o.

Opinion

We have audited the accompanying financial statements of ŠkoFIN s.r.o., with its registered office at Pekařská 6, Praha 5 ("the Company") prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2016, the income statement, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Statutory Body is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Company obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Statutory Body for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the Statutory Body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, 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 Evidence No 021.



**Shareholder of ŠkoFIN s.r.o.
Independent auditor's report**

In preparing the financial statements, the Statutory Body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body.
- Conclude on the appropriateness of the Statutory Body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Statutory Body regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

28 April 2017


represented by partner



Petr Kříž
Statutory Auditor, Evidence No. 1140



FINANCIAL STATEMENTS

ŠkoFIN s.r.o.

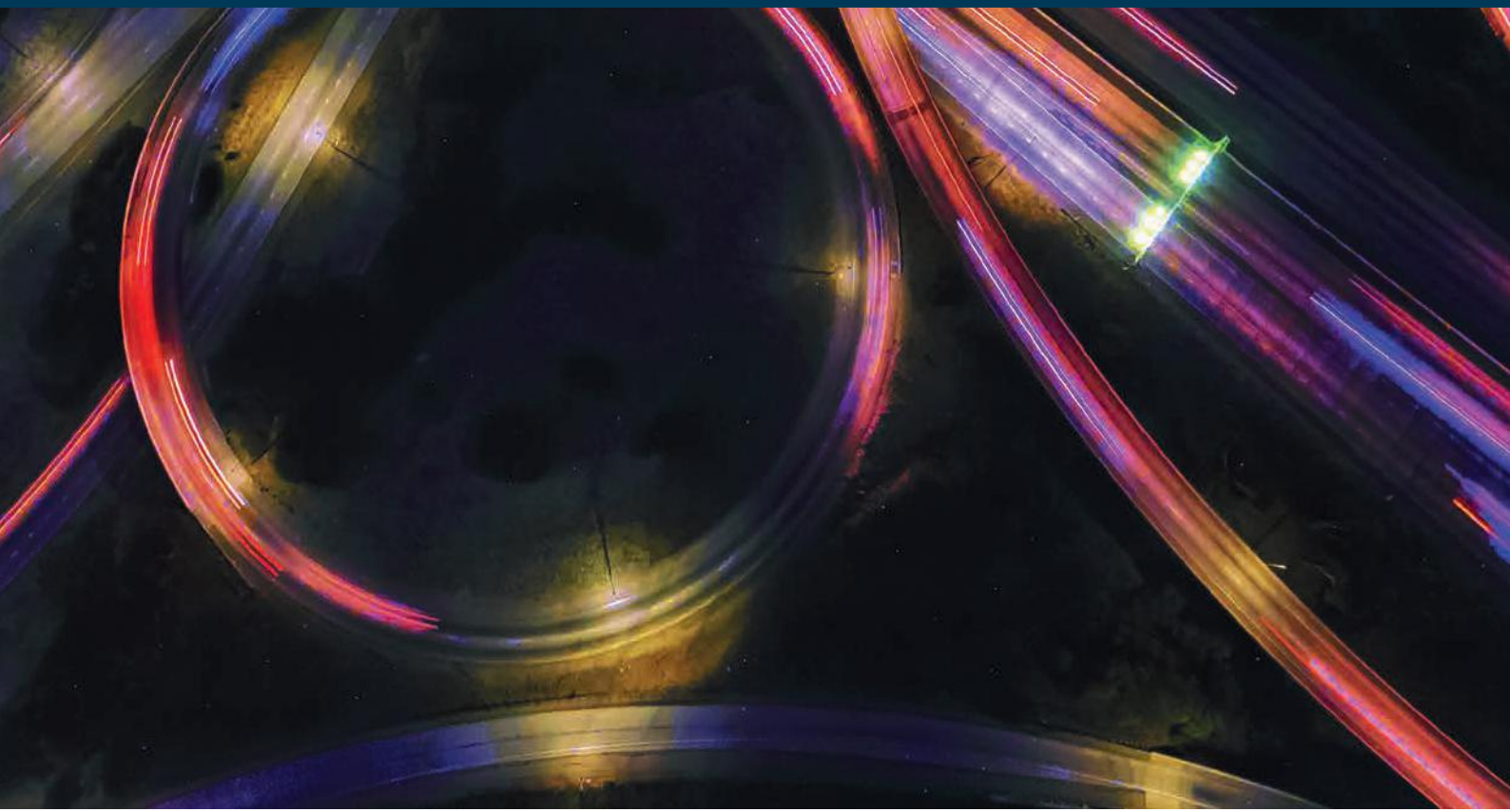
Identification number: 458 05 369

Legal form: limited liability company

Balance sheet date: 31 December 2016

Date of preparation of the financial statements: 31 March 2017

The financial statements have been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.



BALANCE SHEET

AS AT 31 DECEMBER 2016

(CZK mil.)			Gross amount	Provision	2016 Net amount	2015 Net amount
ASSETS						
B.		Fixed assets	11,990	(2,519)	9,471	7,002
B.	I.	Intangible fixed assets	459	(370)	89	42
	2.	Software	415	(370)	45	32
	5.	Intangible fixed assets in the course of construction	44	–	44	10
B.	II.	Tangible fixed assets	11,531	(2,149)	9,382	6,960
	1.	Land and constructions	33	(27)	6	10
	2.	Equipment	11,305	(2,122)	9,183	6,742
	5.	Tangible fixed assets in the course of construction	193	–	193	208
C.		Current assets	30,591	(745)	29,846	26,292
C.	II.	Receivables	30,581	(745)	29,836	26,289
	1.	Long-term receivables	9,171	(220)	8,951	8,246
	1.	1. Trade receivables	7,226	(190)	7,036	6,272
	1.	5. Receivables - other	1,945	(30)	1,915	1,974
	2.	Short-term receivables	21,410	(525)	20,885	18,043
	2.	1. Trade receivables	20,246	(512)	19,734	16,846
	2.	4. Receivables - other	1,164	(13)	1,151	1,197
C.	IV.	Cash	10	0	10	3
D.		Prepayments and accrued income	66	0	66	92
D.	1.	Prepaid expenses	29	0	29	56
D.	3.	Accrued income	37	0	37	36
Total assets			42,647	(3,264)	39,383	33,386

(CZK mil.)

2016
Net amount2015
Net amount**LIABILITIES AND EQUITY**

A.			Equity	5,900	5,238
A.	I.	1.	Share capital	865	865
A.	III.		Reserve fund and other reserves	257	257
		1.	Other reserve funds	110	110
		2.	Statutory and other reserves	147	147
A.	IV.	1.	Retained earnings	4,116	3,631
A.	V.		Profit for the current period	662	485
B.	+ C.		Liabilities	32,679	27,365
B.			Provisions	83	63
B.	2.		Income tax provision	9	–
B.	4.		Other provisions	74	63
C.			Liabilities	32,596	27,302
C.	I.		Long-term liabilities	4,787	4,234
		2.	Liabilities due to financial institutions	2,300	2,350
		6.	Liabilities - subsidiaries and controlling parties	2,136	1,636
		8.	Deferred tax liability	351	248
C.	II.		Short-term liabilities	27,809	23,068
		1.	2. Debentures and bonds issued - other	3,743	2,496
		2.	Liabilities due to financial institutions	10,624	9,623
		4.	Trade payables	3,356	2,348
		6.	Liabilities - subsidiaries and controlling parties	9,041	7,809
		8.	Liabilities - other	1,045	792
D.			Accruals and deferred income	804	783
D.	1.		Accrued expenses	–	2
D.	2.		Deferred income	804	781
Total liabilities and equity				39,383	33,386

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

(CZK mil.)		2016	2015
I.	Sales of products and services	2,629	2,445
II.	Sales of goods	43	39
A.	Cost of sales	1,335	1,361
A. 1.	Cost of goods sold	59	89
A. 2.	Raw materials and consumables used	54	66
A. 3.	Services	1,222	1,206
D.	Staff costs	221	207
E.	Value adjustments in operating activities	1,086	1,188
III.	Operating income – other	4,073	2,985
III. 1.	Sales of fixed assets	3,767	2,707
III. 3.	Other operating income	306	278
F.	Operating expenses – other	4,096	2,913
F. 1.	Net book value of fixed assets sold	3,739	2,661
F. 3.	Taxes and charges from operating activities	49	36
F. 4.	Operating provisions and complex prepaid expenses	10	(43)
F. 5.	Other operating expenses	298	259
*	Operating result	7	(200)
VI.	Interest and similar income	917	878
VI. 2.	Other interest and similar income	917	878
J.	Interest and similar expenses	109	84
J. 1.	Interest and similar income – subsidiaries or controlling party	11	9
J. 2.	Other interest and similar expense	98	75
VII.	Other financial income	1	1
K.	Other financial expenses	8	10
*	Financial result	801	785
**	Net profit before taxation	808	585
L.	Tax on profit	146	100
L. 1.	Tax on profit – current	43	0
L. 2.	Tax on profit – deferred	103	100
***	Net profit for the financial period	662	485
Net turnover for the financial period = I. + II. + III. + IV. + V. + VI. + VII.		7,663	6,348

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

YEAR ENDED 31 DECEMBER 2016

(CZK mil.)	Note	Share capital	Other reserve funds	Retained earnings	Total
As at 1 January 2015		865	257	3,631	4,753
Net profit for the current period	6	–	–	485	485
As at 31 December 2015		865	257	4,116	5,238
Net profit for the current period	6	–	–	662	662
As at 31 December 2016		865	257	4,778	5,900

CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2016

(CZK mil.)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit on ordinary activities before tax	808	585
A.1 Adjustments for non-cash movements:		
A.1.1 Depreciation of fixed assets	1,156	1,241
A.1.2 Changes in provisions	(51)	(86)
A.1.3 (Profit) from disposal of fixed assets	(28)	(46)
A.1.5 Net interest (income)/ expense	(808)	(795)
A.1.6 Other non-cash movements	56	57
A* Net cash flow from operating activities before tax, changes in working capital	1,133	956
A.2 Working capital changes:		
A.2.1 Changes in receivables and prepayments and accrued income	(3,513)	(5,336)
A.2.2 Changes in short-term payables, accrued expenses and deferred income	1,275	1,671
A** Net cash flow from operating activities before tax	(1,105)	(2,709)
A.3 Interest paid	(94)	(84)
A.4 Interest received	917	878
A.5 Income tax on ordinary activities paid	52	33
A*** Net cash flow from operating activities	(230)	(1,882)
CASH FLOWS FROM INVESTING ACTIVITIES		
B.1 Acquisition of fixed assets	(7,452)	(5,487)
B.2 Proceeds from the sale of fixed assets	3,767	2,707
B*** Net cash flow from investing activities	(3,685)	(2,780)
CASH FLOWS FROM FINANCING ACTIVITIES		
C.1 Changes in long- and short-term liabilities		
C.1.1 Changes in bank loans	730	1,565
C.1.2 Changes in loans provided by related parties	1,732	3,609
C.1.3 Income from issued debentures and bonds	1,239	(602)
C*** Net cash flow from financing activities	3,701	4,572
Net increase/decrease in cash and cash equivalents	(214)	(90)
Cash and cash equivalents as at the beginning of the year	(720)	(630)
Cash and cash equivalents as at the end of the year	(934)	(720)

1. GENERAL INFORMATION

1.1. Introductory information about the Company

ŠkoFIN s.r.o. (“the Company”) was incorporated on 10 August 1992 by the Municipal court in Prague Section C, Insert 11881 and has its registered office at Pekařská 6, Prague 5, zip code 155 00. The Company’s primary business activities are the purchase of assets for resale, sale (leasing of cars) and the provision of consumer credits.

THE STATUTORY DIRECTORS AS AT 31 DECEMBER 2016

Joachim Ewald Reinhard Mathieu

PROXY AS AT 31 DECEMBER 2016

Radek Cizner Radek Milštain

The Company is organised as follows

JOACHIM EWALD
Statutory Director

REINHARD MATHIEU
Statutory Director

RETAIL SALES & CORPORATE FINANCING

INTERNAL AUDITOR

FLEET SALES & REMARKETING

LEGAL DEPARTMENT

SALES STEERING

ACCOUNTING & TREASURY BO

ADMINISTRATION

CONTROLLING

MARKETING & BRAND

CREDIT & RISK MANAGEMENT

PRODUCT & PROCESS

HUMAN RESOURCES / ORGANIZATION

PROJECT & LEAN OFFICE

INFORMATION TECHNOLOGIES

The Company updated its Articles of Association that are now fully governed by the new Corporations Act. This fact became effective as at 7 July 2014.

During 2016 a new the department - Sales steering was created.

2. ACCOUNTING POLICIES

2.1. Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic relevant for large companies and have been prepared under the historical cost convention. Amounts are stated in CZK mil.

2.2. Comparative figures

Based on the amendment to the Act on Accounting and implementing Decree effective from 1 January 2016, individual items of the balance sheet and income statement are presented in a different structure. In order to ensure the comparability of items presented in the financial statements, the comparative figures were reclassified in accordance with Czech accounting standard no. 24: "The comparative figures for the accounting period beginning in 2016".

2.3. Intangible fixed assets

All intangible assets with a useful life longer than one year and a unit cost of more than CZK 40,000 are treated as intangible fixed assets.

Purchased intangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition.

The cost of intangible fixed assets includes technical improvements.

Intangible fixed assets are amortised applying the straight-line method over their estimated useful lives and anticipated residual value of the intangible fixed assets.

The period of depreciation is determined according to the useful life of assets.

The amortisation plan is updated during the useful life of the intangible fixed assets based on the expected useful life change and anticipated residual value of the intangible fixed assets.

A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by the certain asset.

2.4. Tangible fixed assets

All tangible assets with a useful life longer than one year and a unit cost of more than CZK 40 thousand are treated as tangible fixed assets.

Acquired tangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition.

For the purpose of depreciation, the tangible fixed assets are divided into two groups - fixed assets for which a lease agreement was concluded with a customer - leasing fixed assets (further divided into financial lease, operating lease and operating lease with services) and fixed assets which are not the subject of the leasing business.

Tangible fixed assets are depreciated using the following methods:

- » Accounting depreciation of tangible fixed assets subject to finance lease contracts is calculated on a daily straight line basis from the date of contract commencement to the date of termination of the leasing contract;
- » Accounting depreciation of tangible fixed assets subject to an operating lease contract is calculated so as to reduce the cost of the fixed asset down to its estimated residual value on a straight-line basis from the first day of the month the asset is delivered to the client over the lease term;
- » Accounting depreciation of tangible fixed assets subject to an operating lease contract with services is calculated on a straight-line basis using a daily method from the day the asset is delivered to the client over the lease term;
- » Accounting depreciation of tangible fixed assets not subject to the lease business is calculated using the straight-line method over the fixed asset's estimated useful life.

The Company applies an annual depreciation charge of 11% - 50% (depending on the class of assets).

Land is not depreciated.

The depreciation plan is updated during the useful life of the tangible fixed assets based on the expected useful life change and anticipated residual value of the tangible fixed assets.

A provision for impairment is established when the carrying value of an asset is greater than its estimated recoverable amount.

The estimated recoverable amount is determined based on expected future cash flows generated by the certain asset. The provision to operating lease is determined based on the estimated recoverable amount and on the expected date of termination of the leasing contract.

Repairs and maintenance expenditures of tangible fixed assets are expensed as incurred.

Technical improvements of tangible fixed assets exceeding CZK 40,000 per item per year are capitalised.

2.5. Receivables

Receivables are stated at nominal value less a provision for doubtful amounts. Irrecoverable receivables are written-off on the basis of a court decision or completion of bankruptcy proceedings against the customer.

A provision for doubtful amounts is created on the basis of an ageing analysis and individual evaluation of the credit worthiness of the customers. Receivables from VW Group Companies have not been provided for.

2.6. Cash and cash equivalents

Cash and cash equivalents include cash in hand, stamps and vouchers and cash in banks, including bank overdrafts.

Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and no significant changes of value over time are expected. Cash equivalents are, for example, deposits with a maturity of less than 3 months from the date of acquisition and liquid debt securities traded in public markets.

The Company has prepared a Cash-flow statement using the indirect method.

2.7. Foreign currency translation

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

Cash, receivables and liabilities balances denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank as at the balance sheet date. All foreign exchange gains and losses on cash, receivables and liabilities balances are recorded in the income statement.

2.8. Changes of accounting policies and corrections of prior period

Changes to accounting policies (inclusive of deferred tax impact) and corrections of errors arising from incorrect accounting or unrecorded expenses and income in prior periods, if material, are recorded on financial statements line Restatements of retained earnings.

2.9. Provisions

The Company recognises provisions to cover its obligations or expenses, when the nature of the obligations or expenses is clearly defined and it is probable or certain as at the balance sheet date that they will be incurred, however their precise amount or timing is not known. The provision recognised as at the balance sheet date represent the best estimate of expenses that will be probably incurred, or the amount of liability that is required for their settlement.

The Company recognises a provision for its future income tax payable which is presented net of advances paid for the income tax. If advances paid are higher than the estimated income tax payable, the difference is recognised as a short-term receivable.

The Company recognises a provision for employee bonuses, payoffs, court charges and fleet costs.

2.10. Employment benefits

The Company recognises a provision relating to untaken holidays and a provision relating to rewards and bonuses of employees.

Regular contributions are made to the state to fund the national pension plan. The Company also provides

contributions to defined contribution plans operated by independent pension funds.

2.11. Revenue analysis

Sales are recognised as at the date the services are rendered and are stated net of discounts and value added tax.

Sales of production represent revenues from leasing services provided by the Company. Leasing revenues are accounted for on a straight-line basis over the lease term from the date of commencement of the lease contract to the normal or early termination of the lease contract. Contractual fees and penalties are recognised when enforced.

Revenues from provided consumer credits are recognised as interest income using the effective interest rate method over the term of the contract depending on the total amount outstanding on the consumer credit provided.

Revenues from financing the dealer network are recognised in revenues using the effective interest rate method over the finance period depending on the outstanding total amount of finance provided.

Factoring commission is accrued in revenues using the straight-line method on a daily basis.

2.12. Related parties

The Company's related parties are considered to be the following:

- » Parties, which directly or indirectly control the Company, their subsidiaries and associates;
- » Parties, which have directly or indirectly significant influence on the Company;
- » Members of the Company's or parent company's statutory and supervisory boards and management and parties close to such members, including entities in which they have a controlling or significant influence.

Material transactions and outstanding balances with related parties are disclosed in Notes 13 Related party transactions and 14 Employees.

2.13. Leases of assets used by the Company

The costs of assets held under operating leases are not capitalised as fixed assets. Lease payments are expensed evenly over the life of the lease. Future lease payments not yet due are disclosed in the notes but not recognised.

2.14. Interest expense

All borrowing costs are expensed.

2.15. Operating and financial results disclosure

The operating result and the result from financing activities in the income statement are affected by the fact that based on current accounting rules for entrepreneurs, interest income and expense are included in the result from financing activities, even though they represent the Company's main activities.

2.16. Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax asset is recognised if it is probable that sufficient future taxable profit will be available against which the asset can be utilised.

2.17. Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are quantified and disclosed, but are not themselves recognised in the financial statements.

3. INTANGIBLE FIXED ASSETS

(CZK mil.)	1 January 2016	Additions/ transfers	Disposals	31 December 2016
COST				
Software	382	33	–	415
Intangible fixed assets in the course of construction	10	67	33	44
Total	392	100	33	459
ACCUMULATED AMORTISATION				
Software	350	20	0	370
Total	350	20	0	370
Net book value	42	–	–	89

(CZK mil.)	1 January 2015	Additions/ transfers	Disposals	31 December 2015
COST				
Software	433	16	67	382
Royalties	38	–	38	–
Intangible fixed assets in the course of construction	4	43	37	10
Total	475	59	142	392
ACCUMULATED AMORTISATION				
Software	382	36	68	350
Royalties	38	–	38	–
Total	420	36	106	350
Net book value	55	–	–	42

Additions to the cost of intangible fixed assets are represented mainly by acquisitions.

Additions to accumulated amortisation of intangible fixed assets are represented by amortisation charges.

4. TANGIBLE FIXED ASSETS

(CZK mil.)	1 January 2016	Additions/ transfers	Disposals	31 December 2016
COST				
Land	5	–	–	5
Constructions	61	–	33	28
Equipment	8,749	7,399	4,843	11,305
Tangible fixed assets in the course of construction	208	31	46	193
Total	9,023	7,430	4,922	11,531
ACCUMULATED DEPRECIATION				
Constructions	56	3	32	27
Equipment	1,936	1,134	1,051	2,019
Total	1,992	1,137	1,083	2,046
Net book value before impairment provision	7,031	–	–	9,485
Impairment provision against fixed assets	71	65	33	103
Net book value	6,960	–	–	9,382

(CZK mil.)	1 January 2015	Additions/ transfers	Disposals	31 December 2015
COST				
Land	27	–	22	5
Constructions	241	1	181	61
Equipment	7,458	5,406	4,115	8,749
Tangible fixed assets in the course of construction	98	110	–	208
Total	7,824	5,517	4,318	9,023
ACCUMULATED DEPRECIATION				
Constructions	217	14	175	56
Equipment	2,107	1,192	1,363	1,936
Total	2,324	1,206	1,538	1,992
Net book value before impairment provision	5,500	–	–	7,031
Impairment provision against fixed assets	66	39	34	71
Net book value	5,434	–	–	6,960

The net book value of tangible fixed assets subject to lease contracts amounted to CZK 9,331 mil. as at 31 December 2016 (2015: CZK 6,910 mil.).

The impairment provision against tangible fixed assets can be analysed as follows:

(CZK mil.)	31 December 2016	31 December 2015
Impairment provision against residual values on operating lease assets	77	28
Impairment provisions against equipment	26	43
Total amount of impairment provision against tangible fixed assets recognised in the balance sheet in the column "Provision"	103	71

Repair and maintenance expenses are recognised in the period when they are incurred. During 2016, these expenses amounted to CZK 54 mil. (2015: CZK 249 mil.). From 2016, service costs related to servicing of cars under operating lease are not part of repair and maintenance expenses and are recorded as other expenses.

Tangible fixed assets include also vehicles stemming from terminated operating lease contracts with a net book value of CZK 282 mil. as at 31 December 2016 (2015: CZK 98 mil.). The Company created an impairment provision of CZK 19 mil. (2015: CZK 2 mil.) against these assets. This provision is recorded in provisions against residual value risk.

Additions to the cost of tangible fixed assets are represented mainly by acquisitions. Additions to accumulated depreciation of tangible fixed assets are represented mainly by depreciation. Disposals of cost of tangible fixed assets are represented mainly by disposals through sale. In 2016, the cost of disposal through sale

amounted to CZK 4,804 mil. (2015: CZK 4,278 mil.). The other reasons for disposals (mainly stolen and damaged cars) of tangible fixed assets in 2015 had an acquisition cost of the fixed assets of CZK 73 mil. (2015: CZK 85 mil.).

The total amount of tangible fixed assets not included in the balance sheet and recognised directly as an expense in the income statement (fixed assets whose unit cost is up to CZK 40,000) as at 31 December 2016 amounted to CZK 8 mil. (2015: CZK 9 mil.).

The Company does not use any assets held under finance lease contracts.

Fixed assets are not burdened by any conditional transfer of ownership rights or collateral.

5. RECEIVABLES

(CZK mil.)	31 December 2016	31 December 2015
LONG-TERM RECEIVABLES		
Long-term trade receivables	7,226	6,495
Long-term other receivables	1,945	2,000
Total long-term receivables	9,171	8,495
Provision for long-term receivables	(220)	(249)
Net book value of long-term receivables	8,951	8,246
SHORT-TERM RECEIVABLES		
Trade receivables - current	19,489	16,712
Trade receivables - overdue	757	721
Total trade receivables	20,246	17,433
Other receivables - current	835	872
Other receivables - overdue	79	87
Total other receivables	914	959
Estimated receivables	250	249
Total short-term receivables	21,410	18,641
Provision for doubtful receivables	(525)	(598)
Net book value of short-term receivables	20,885	18,043
Total receivables	30,581	27,136
Total net book value of receivables	29,836	26,289

Receivables with maturity over 5 years as at 31 December 2016 amounted to CZK 643 mil. (2015: CZK 554 mil.).

The Company has no receivables nor provided any guarantees which are not included in the balance sheet.

Receivables from consumer credits are secured by the conditional transfer of ownership rights, the guarantor and pledged collateral, respectively. Factoring receivables are secured by the related car.

Short-term trade receivables include mainly factoring receivables and the short-term consumer credits provided to customers. The Company provides a significant part

of the financial services for brand new and used car financing (receivables factoring) of the ŠKODA brand for the distribution network of ŠKODA AUTO a.s. in the Czech Republic and financial services for the distribution network of Porsche Česká republika s.r.o. in the Czech Republic.

The total amount of receivables resulting from these services, as at 31 December 2016 for ŠKODA AUTO a.s. amounts to CZK 6,063 mil. (2015: CZK 4,670 mil.). The total amount of receivables resulting from these services provided as at 31 December 2016 for Porsche Česká republika s.r.o. amounts to CZK 5,971 mil. (2015: CZK 5,442 mil.).

Other short-term receivables include mainly short-term loans provided to dealers as at 31 December 2016 of CZK 714 mil. (2015: CZK 689 mil.). Penalties related to trade receivables as at 31 December 2016 amounting to CZK 9 mil. (2015: CZK 11 mil.) are also recognised in the balance sheet in short term receivables.

Tax receivables include VAT receivables amounting to CZK 116 mil. (2015: CZK 66 mil.).

Estimated receivables include mainly estimated revenues from insurance and sales support from the group's car brands.

Long-term trade receivables include mainly the long-term portion of consumer credits provided to customers as at 31 December 2016 amounting to CZK 7,226 mil. (2015: CZK 6,495 mil.). Other long-term receivables

include mainly long-term loans provided to dealers as at 31 December 2016 amounting to CZK 1,945 mil. (2015: CZK 1,999 mil.).

Interest income from short-term and long-term consumer credits and commissions from the factoring of receivables are disclosed in Note 12.

Receivables are secured by promissory notes amounting to CZK 3,232 mil. as at 31 December 2016 (2015: CZK 3,020 mil.), by the pledge of collateral of CZK 17 mil. as at 31 December 2016 (2015: CZK 68 mil.) and by ownership rights of CZK 11,912 mil. as at 31 December 2016 (2015: CZK 12,627 mil.).

Analysis of change in the provision for doubtful receivables:

(CZK mil.)	2016	2015
Opening balance as at 1 January	847	905
Charge for the year	146	152
Released during the year	(183)	(140)
Written off during the year	(65)	(70)
Closing balance as at 31 December	745	847

6. EQUITY

The Company is fully owned by VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, incorporated in Braunschweig, Germany, and the ultimate holding company is VOLKSWAGEN AG, incorporated in Wolfsburg, Germany.

The share capital of the Company of CZK 865 mil. was fully paid as at 31 December 2016 and 2015.

The Company VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT with the registered office in Braunschweig prepares the consolidated financial statements of the largest group of entities of which the Company forms a part as a subsidiary. The consolidated financial statements of the largest group of entities can be obtained in VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT.

The Company is fully governed by the new Corporations Act (see Note 1); however, it did not use the option not to create a reserve fund. The reserve fund of CZK 110 thousand (2015: CZK 100 thousand) was created from the profit of the Company. Based on a decision of

the General Meeting of the Company on 22 December 2016 the Company no longer creates a reserve fund. The General meeting has not decided on the transfer of the reserve fund to retained earnings of the company as of the date of financial statements.

As of the date of preparation of the financial statements there was no resolution of the General Meeting to pay any dividend.

On 4 February 2016 the general meeting of shareholders approved the financial statements for 2015 and decided about the allocation of the profit earned in 2015 of CZK 485 mil. to retained earnings.

Until the date of preparation of these financial statements, the Company has not proposed distribution of the profit earned in 2016.

7. PROVISIONS

(CZK mil.)	Fleet costs provision	Provision for employee bonuses and payoffs	Penetration bonuses provision	Court cases provision	Total
Opening balance as at 1 January 2015	–	42	64	–	106
Charge for the year	82	62	28	9	181
Used in the year	(77)	(55)	(86)	(5)	(223)
Closing balance as at 31 December 2015	5	49	6	4	64
Charge for the year	125	111	83	–	319
Used in the year	(110)	(110)	(89)	–	(309)
Closing balance as at 31 December 2016	20	50	–	4	74

For an analysis of the current and deferred income tax, see Note 17 – Income tax.

Tax advance payments paid by the Company as at 31 December 2016 amounting to CZK 31 mil. (as at 31 December 2015: CZK 97 mil.) were netted off with the provision for income tax of CZK 40 mil. created as at 31 December 2016 (as at 31 December 2015: 3 mil. Kč). Final liability as at 31 December 2016 amounting CZK 9 mil. (receivable as at 31 December 2015: CZK 94 mil.) is presented as Income tax provision (2015: see Short-term Receivables, Note 5).

8. LIABILITIES

(CZK mil.)

December 31, 2016 December 31, 2015

LONG-TERM LIABILITIES

Long-term bank loans due between 1 – 5 years	2,300	2,350
Long-term borrowings (Notes 9 and 13)	2,136	1,636
Deferred tax liability (Note 17)	351	248
Total long-term liabilities	4,787	4,234

SHORT TERM LIABILITIES

Debentures and bonds issued - current	3,743	2,496
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LIABILITIES DUE TO FINANCIAL INSTITUTIONS

Bank overdrafts	944	723
Other bank loans due within one year (including current portion of long term loans)	9,680	8,900
Total	10,624	9,623

TRADE PAYABLES - CURRENT

Total	3,356	2,348
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SHORT-TERM BORROWINGS (NOTES 9 AND 13)

Total	9,041	7,809
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OTHER LIABILITIES

Liabilities to employees	9	7
Liabilities to social security and health insurance	5	5
Taxes and state subsidies payable	3	2
Estimated liabilities	985	730
Other liabilities	43	48
Total	1,045	792

Total short-term liabilities	27,809	23,068
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Total short-term and long-term liabilities	32,596	27,302
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Trade liabilities include as at 31 December 2016 and 31 December 2015 related party liabilities due to factoring of receivables of CZK 547 mil. (2015: CZK 149 mil.) (see Note 13).

As at 31 December 2016 the social security and health insurance liability amounted to CZK 5 mil. (2015: CZK 5 mil.). The Company has no overdue tax liabilities.

Issued short-term bonds amounting to CZK 3,743 mil. as at 31 December 2016 (2015: CZK 2,496 mil.) are guaranteed by Volkswagen Financial Services AG and are not publicly traded. Financial resources from issued bonds are used for short term refinancing with maturity within 1 year.

Estimated liabilities include estimated payables for services and supplies not yet invoiced and insurance relating to leasing contracts not yet invoiced and unpaid interest.

Liabilities are not secured against any assets of the Company and are not due after more than 5 years.

9. BANK LOANS AND OTHER BORROWINGS

Bank loans can be divided this way:

(CZK mil.)	31 December 2016	31 December 2015
Bank overdrafts (Note 19)	944	723
Other bank loans due within 1 year (incl. current portion of long-term loans)	9,680	8,900
Long-term loans due between 1 – 5 years	2,300	2,350
Total bank loans and overdrafts	12,924	11,973
Short-term borrowings (Notes 8 and 13)	9,041	7,809
Long-term borrowings (Notes 8 and 13)	2,136	1,636
Total loans and borrowings	24,101	21,418
of which – short-term	19,665	17,432
of which – long-term	4,436	3,986

No Company loans or other borrowings are due after more than 5 years.

Interest rates charged on long-term loans newly drawn by the Company in 2016 reached at most 0.64 % p.a. (2015: at most 1.00 % p.a.).

10. COMMITMENTS AND CONTINGENT LIABILITIES

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2016.

The Company has the following rental commitments:

(CZK mil.)	31 December 2016	31 December 2015
Current within one year	14	12
Due after one year but within five years	51	–
Total commitments in respect of operational leases	65	12

Due to financial products for dealers the Company has commitment which corresponds to the undrawn part of credit limit amounting to CZK 204 mil. as at 31 December 2016 (2015: CZK 96 mil.).

11. ACCRUALS AND DEFERRALS

(CZK mil.)	31 December 2016	31 December 2015
Prepaid expenses	29	56
of which insurance related expenses	26	52
Accrued income	37	36
Total assets	66	92
Accrued expenses	–	2
Deferred income	804	781
of which - prepaid service	94	18
of which - unamortized part of the leasing down payment	65	76
of which - other deferred income	645	687
Total liability	804	783

Accruals and deferrals relate mainly to individual leasing and credit contracts. As a result, these costs and revenues are continually recognised in the Company's income statement over the length of these contracts.

12. REVENUE ANALYSIS

Revenue from operating activities can be analysed as follows:

(CZK mil.)	31 December 2016	31 December 2015
SALES OF PRODUCTS AND SERVICES		
Leasing revenues - domestic	2,454	2,317
Factoring commission income	175	128
Total	2,629	2,445
REVENUES FROM SALES OF GOODS		
Total	43	39
OTHER OPERATING INCOME		
Revenues from sale of cars	3,767	2,707
Other operating income	306	278
Total	4,073	2,985
INTEREST INCOME		
Revenues from credits (interest income)	883	851
Other interest and financial income	34	27
Total	917	878
Total other operating income	1	1
Total revenues	7,663	6,348

13. RELATED PARTY TRANSACTIONS

(CZK mil.)	2016	2015
REVENUES		
Sales of services	977	757
Sales of goods	105	85
Total	1,082	842
COSTS		
Purchase of services	234	1,743
Purchase of goods for resale	4,660	2,250
Interest costs	37	17
Total	4,931	4,010

The following related party balances were outstanding as at:

(CZK mil.)	31 December 2016	31 December 2015
RECEIVABLES		
Porsche Česká republika s.r.o.	15	67
ŠKODA AUTO a.s.	64	42
Porsche Inter Auto CZ s.r.o.	1,320	1,266
Scania Czech Republic s.r.o.	2	1
VW Bank Polska	4	1
MAN Truck & Bus Czech Republic	1	–
Vehicle Trading International GmbH	1	–
Total	1,407	1,377
PAYABLES		
Porsche Česká republika s.r.o.	489	101
ŠKODA AUTO a.s.	2,719	2,129
Porsche Inter Auto CZ s.r.o.	82	114
Volkswagen Bank GmbH	5,188	1,880
Volkswagen Financial Services N.V.	5,999	7,566
Total	14,477	11,790

Other (CZK mil.)	2016	2015
Assigned receivables – purchase – domestic	76,101	64,973
Assigned receivables – sales – domestic	12,132	10,763

The loans and borrowings payable bear interest at market interest rates.

Trade receivables and payables from these transactions arose under the same terms and conditions as with unrelated parties.

Cars under the Company's ownership, with an acquisition cost of CZK 37 mil. are made available for the business and private use of the statutory directors, the proxies, and the heads of the Company's departments as at 31 December 2016 (2015: CZK 31 mil.).

Except for the aforementioned remuneration and benefits there was benefit in form of financial contribution for fuel provided to the Company's statutory directors, the proxies and the heads of the Company's departments in 2016. To the Company's statutory directors there was benefit in the form of financial contribution for housing and flight tickets. To the Company's Expats there was benefit in the form of financial contribution for housing and flight tickets and kindergarten. Except for the aforementioned remuneration and benefits, there was no other consideration provided to the Company's statutory directors, the proxies and management in 2016 and 2015.

14. EMPLOYEES

The Company's management includes the statutory directors, the proxies, heads of the Company's departments and heads of the Company's sections.

	2016	2015
Average number of members of management	26	24
Average number of other staff	187	182
Total number of employees	213	206

(CZK mil.)	Management	Other staff	Total
2016			
Wages and salaries	64	99	163
Social security and health insurance costs	15	38	53
Other social costs	1	4	5
Total staff costs	80	141	221
2015			
Wages and salaries	50	103	153
Social security and health insurance costs	12	39	51
Other social costs	1	2	3
Total staff costs	63	144	207

Wages and salaries for 2016 include paid bonuses amounting to CZK 20 mil. (2015: CZK 15 mil.).

The Company's management includes senior staff members directly reporting to the statutory body.

Other transactions with the Company's management are described in Note 13.

15. ADJUSTMENT OF VALUES IN OPERATING ACTIVITIES

(CZK mil.)	2016	2015
Adjustment of values in intangible and tangible fix assets – permanent (Note 4)	1,156	1,241
Adjustment of values in intangible and tangible fix assets – temporary (Note 4)	32	14
Adjustment of values in receivables (Note 5)	(102)	(67)
Adjustment of values in operating activities	1,086	1,188

16. FEES PAID AND PAYABLE TO THE AUDIT COMPANY

The total fees paid and payable for services performed by the audit company PricewaterhouseCoopers Audit, s.r.o. and its related parties:

(CZK mil.)	2016	2015
Statutory audit of financial statements and audit of VW Group reporting (PricewaterhouseCoopers Audit, s.r.o.)	2	2
Advisory services (PricewaterhouseCoopers Česká republika s.r.o.)	5	5
Total fees paid and payable to the audit company and its related parties	7	7

17. INCOME TAX

Analysis of the income tax expense:

(CZK mil.)	2016	2015
Current tax expense (19%)	40	2
Deferred tax expense	103	100
Adjustment of prior year tax expense based on final CIT return	3	(2)
Total income tax expense	146	100

Current tax can be analysed as follows:

(CZK mil.)	2016	2015
Net profit before taxation	808	585
ADJUSTMENTS TO TAX BASE:		
Additional tax deductible costs	(1,804)	(1,053)
Non-tax deductible costs	1,223	448
Non-taxable income	(146)	(85)
Additional taxable income	139	122
Research and development	(9)	(8)
Net taxable profit	211	9
Corporate income tax at 19%	40	2

Additional tax deductible costs relate mainly to accounting and tax depreciation difference of CZK 1,733 mil. (2015: CZK 963 mil.)

The deferred tax was calculated at 19% (the rate enacted for 2015 and subsequent years).

Analysis of deferred tax asset/(liability):

(CZK mil.)

31 December 2016

31 December 2015

DEFERRED TAX LIABILITY ARISING FROM:

Accelerated tax depreciation of tangible fixed assets subject to lease	(436)	(322)
Other provisions	46	33
Other temporary differences	39	41
Net deferred tax asset liability	(351)	(248)

18. CONTINGENT ASSETS

In 2016, the Company received a bank guarantee of CZK 6 mil. (2015: CZK 7 mil.). The Company does not expect to utilise this guarantee.

19. CASH FLOW STATEMENT

Analysis of cash and cash equivalents disclosed in the Cash flow statement:

(CZK mil.)	31 December 2016	31 December 2015
Cash on hand and in transit	1	3
Cash at bank	9	–
Overdraft of current accounts included in Short-term bank loans (Note 10)	(944)	(723)
Cash and cash equivalents	(934)	(720)

20. SUBSEQUENT EVENTS

The Supervisory Board has been registered in the Commercial Register on 17 February 2017.

No other events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2016.

31. 3. 2017



Dipl.-Wirtsch.-Ing. Reinhard Mathieu
Statutory director



Dipl. Kauf. Joachim Ewald
Statutory director

21. REPORT ON RELATIONS

of the company ŠkoFIN s.r.o. Pursuant to Section 82 of the Act on Corporations. For the accounting period of the calendar year 2016

Statutory Directors of ŠkoFIN s.r.o., with its registered office at Pekařská 6, 155 00, Praha 5, identification number: 45805369, registered in the Commercial Register maintained by the Municipal Court in Prague, Section C, File 11881 (in this Report also the “**controlled company**” or the “**Company**”), have prepared the following Report on Relations pursuant to Section 82 of Act No. 90/2012 Coll., the Corporations Act (the „**Corporations Act**”), for the accounting period of the calendar year 2016 (the “**Relevant period**”).

1. Structure of relations

1.1.

According to the information available to the Statutory Directors of the Company acting with due managerial care, for the whole of the Relevant period, the Company formed a part of a concern in which the controlling party is VOLKSWAGEN AG (the “Concern”). Information on the entities forming part of the Concern is stated as at 31. 12. 2016 according to the information available to the statutory body of the Company acting with due managerial care. The structure of relations within the Concern is graphically illustrated in the Annex No. 1.

1.1.1. Controlling Party

VOLKSWAGEN AG, with its registered office at Wolfsburg, Germany, (in this Report also the “**Controlling Party**”) indirectly controls the Company through the company VOLKSWAGEN FINANCIAL SERVICES AG which was the sole shareholder of the Company in the Relevant period.

2. Role of the Company in the Concern

The Company provides the financial services connected in particular with the financing and support of the Concern’s vehicles.

3. Methods and means of control

The Controlling Party indirectly controls the Company through the company VOLKSWAGEN FINANCIAL SERVICES AG which was the sole shareholder in the Relevant period. The control of the Company occurs in particular through the decisions at the General Meeting.

4. Mutual Contracts within the Concern

4.1.

Contracts entered into between the Company and the Controlling Party that were effective and valid in the Relevant period:

In the Relevant period, the Contract on business cooperation with the Controlling Party was valid and effective.

4.2.

Contracts entered into between the Company and the other parties controlled by the Controlling Party that were effective and valid in the Relevant period:

In the Relevant period, the following contracts entered into with the other parties controlled by the Controlling Party were valid and effective:

Contractual counterparty

Contracts

PORSCHE ČESKÁ REPUBLIKA S.R.O.

- » Contracts on business cooperation
- » Contracts on providing services
- » Factoring contract
- » Car leasing

PORSCHE INTER AUTO CZ S.R.O.

- » Agreement on providing target commissions
- » Contracts on providing services
- » Contracts on business cooperation
- » Loan agreement
- » Car leasing

ŠKODA AUTO A.S.

- » Contracts on business cooperation
- » Contracts on providing services
- » Car leasing
- » Subleasing contract
- » Factoring contract
- » General operative lease contract

SCANIA CZECH REPUBLIC S.R.O.

- » Car leasing
- » General operative lease contract

SCANIA FINANCE CZECH REPUBLIC, SPOL. S R.O.

- » Car leasing

PORSCHE CENTRAL EASTERN EUROPE S.R.O.

- » Car leasing
- » General operative lease contract

MAN TRUCK & BUS CZECH REPUBLIC S.R.O.

- » Car leasing
- » General operative lease contract

PORSCHE ENGINEERING SERVICES, S.R.O.

- » Car leasing

VOLKSWAGEN BANK GMBH

- » Credit facility agreement

VOLKSWAGEN INTERNATIONAL FINANCE N.V.

- » Credit facility agreement

Contractual counterparty

Contracts

VOLKSWAGEN FINANCIAL SERVICES N.V.

- » Credit facility agreement
- » Loan agreement

VOLKSWAGEN FINANCIAL SERVICES AG

- » Contracts on providing services

VEHICLE TRADING INTERNATIONAL GMBH

- » Framework agreement on providing services

5. Legal acts made at the instigation of or in the interest of the Controlling Party or other parties controlled by the Controlling Party

During the Relevant period, the Company did not make any legal acts and other measures in the interest, or at the instigation of, the Controlling Party or other parties controlled by the Controlling Party, which would involve assets exceeding in value 10% of the Company's equity reported in the latest Financial Statements.

6. Assessment of a detriment and its compensation

No detriment occurred to the Company on the basis of the agreements entered into in the Relevant period between the Company and other entities from the Concern, other acts or measures which were implemented in the interest, or at the instigation of, of such entities by the Company in the Relevant period.

7. Evaluation of relations and risks within the Concern

7.1.

In particular the following advantages arise from the participation within the Concern to the Company: The Concern is a world leading producer possessing a strong brand, strong financial background and access to the financing from which the Company benefits in particular during the entering into the transactions with its suppliers, customers and during negotiation with banks and other providers of facilities etc.

No disadvantages have arisen to the Company from the participation within the Concern.

7.2.

No risks have arisen to the Company from the relations within the Concern.

31 March 2017



Dipl. Kauf. Joachim Ewald
Statutory director



Dipl.-Wirtsch.-ING. Reinhard Mathieu
Statutory director

The ownership structure of ŠkoFIN s.r.o.

