6 NOTES

Notes to the Annual Accounts (Financial year ending December 31, 2016)

1. Company activity

a) Registered offices and legal form

SEAT, S.A. was legally incorporated on May 9, 1950, and is currently included in the Barcelona Mercantile Register, Volume 23,662, Folio 1, Page B 56,855, CIF A-28049161. On June 7, 2006, the Ordinary Shareholders' meeting changed the company's registered offices, with effect the same day, to its present site at: Autovía A2, Km 585 (E-08760 Martorell).

b) Business aim and activities

The company's business aim is the manufacture and sale of cars, parts, spare parts, accessories, R&D services, and any other complementary or related services, including technical assistance and service. Through its subsidiaries SEAT also undertakes commercial sales and marketing activities.

2. Exemption from presenting consolidated Annual Accounts

The General Shareholders' Meeting, held on June 20, 1991, voted for the exemption of the companies making up the SEAT Group, pursuant to the terms of Article 43 of the Code of Commerce, from presenting Consolidated Annual Accounts. In accordance with the provisions of the above-mentioned Article 43, SEAT, S.A. (Single Shareholder Joint Stock Parent Company of the SEAT Group) is exempt from the obligation of presenting Consolidated Annual Accounts, as it is a wholly-owned subsidiary of Volkswagen Finance Luxemburg S.A. (its sole shareholder, with registered offices in Luxembourg), and indirect subsidiary of VOLKSWAGEN AG (with registered offices in Wolfsburg, Germany); the pertinent financial statements, together with those of its subsidiaries, are included in those of the Volkswagen Group, of which VOLKSWAGEN AG is the parent company.

From the aforementioned agreement, the Consolidated Annual Accounts of VOLKSWAGEN AG, as well as the Consolidated Management Report and the Group's Auditors' Report, are presented in their Spanish translation for deposition at the Barcelona Mercantile Register.

3. Presentation basis of Annual Accounts

a) True and fair view

The Annual Accounts — comprising the Balance Sheet, Profit and Loss Statement, Statement of Changes in Equity, Cash Flow Statement and Notes — have been prepared on the basis of the company's accounting records, and are presented in accordance with the Spanish General Accounting Plan approved by Royal Decree 1514/2007 of November 16, in addition to subsequent modifications to said Plan by Royal Decree 1159/2010 of September 17 and Royal Decree 602/2016 of December 2.

The Annual Accounts give a true and fair view of the company's equity, its financial situation and results of business, cash flow and changes in equity.

b) Comparability of information

The figures contained in the Annual Accounts are expressed in millions of euros.

The company merged on May 1, 2016 (with retroactive effect from January 1, 2016) with Centro Técnico de SEAT, S.A., hence the current annual accounts for the period ending December 31, 2016 include explanations of the amounts incorporated due to said merger in the Notes to the Annual Accounts.

As explained in Note 23, the company carried out the merger by absorption of Centro Técnico de SEAT, S.A., wholly owned by SEAT, S.A., by means of dissolution without liquidation of the company absorbed. The operation was executed on the basis of the Balance Sheet at December 31, 2015, of all equity elements comprising the assets and liabilities of the company absorbed, entailing wholesale transfer of its equity to the absorbing company.

c) Grouping of headings

In order to present the figures clearly, the headings are grouped together in the Balance Sheet and the Profit and Loss Statement and broken down in the Notes (Art. 256 of new Capital Company Act).

d) Items appearing under several headings

There are some items whose amounts are shown under different headings of the Balance Sheet, due to their being credits or liabilities whose collection arises in different financial years, with the items receivable or payable in the next year shown as short-term items, while amounts that will fall due in the forthcoming years are shown as long-term.

e) Measurement and estimation of uncertainty

In preparing the Annual Accounts, company management was required to make estimates and assumptions that may affect the accounting policies finally adopted as well as the value of assets, liabilities, income, expenditure and breakdowns related thereto.

Estimates and hypotheses are based, inter alia, on past experience or other factors considered reasonable in view of the factors or circumstances considered at the balance sheet date, the result of which constitutes the basis for decisions concerning the book value of the assets and liabilities which cannot be determined immediately in any other fashion. Actual results may differ from initial estimates.

Some accounting estimates are considered significant if the nature of the estimates and assumptions is material, and if the impact of the estimates and assumptions on the financial position or the operative performance is material. Details are provided below of the principal estimates made:

/ Useful life of elements of fixed assets (see Notes 5a, 5b and 6).
/ The calculation of taxes on profits requires interpretations of tax legislation applicable to the company. The company assesses the recoverability of deferred taxes assets on the basis of the existence of future tax bases against which it is possible to realize said assets (see Notes 5i and 18).

/ Provisions are recognized when it is probable that a current obligation, the result of past events, gives rise to an outflow of resources and the amount of the obligation can be estimated in a reliable fashion. To comply with the requirements of accounting standards, significant estimates are necessary. The company makes estimates by evaluating all information and relevant events concerning the probability of occurrence of the contingencies as well as the amount of the liabilitity to be settled in the future (see Notes 5g and 14).

4. Application of results

At its meeting on February 6, 2017, the Board of Directors formulated a proposal to the General Shareholders' Meeting whereby profit generated in 2016 (903.2 million euros) be allocated as follows: 589.9 to the compensation of losses from previous years, 250 to dividends and 63.3 to voluntary reserves.

In compliance with the new Capital Company Act, dividends which reduce the balance of reserves below outstanding balances for R&D expenses amortization may not be distributed.

5. Recognition and measurement standards

a) Intangible assets

Those specifically individualized development projects which present sound motives for technical success and economic-commercial profitability are capitalized as intangible assets. Projects will be amortized according to their useful life (see Appendix 1).

Software is valued at acquisition price and the cost is amortized over a three-year period. Likewise, expenditure related to software maintenance is accounted for as such when incurred.

When the book value of an asset is higher than its estimated realizable value, its net value is reduced immediately to its recoverable amount. Those assets subject to depreciation are subjected to impairment test, provided that any event or change in circumstances indicate that the book value may not be recoverable. A loss due to impairment is recognized by the excess of book value of the asset over its recoverable amount, the latter being understood as the fair value of the asset less the retail costs or value in use, whichever is the greater. With a view to valuing losses due to impairment, assets are grouped together at the lowest level so as to provide separately identifiable cash flow (cash generating units). Non-financial assets, other than goodwill, which are seen to have undergone loss due to impairment, are submitted to periodical reviews at each Balance Sheet date in case there have been possible reversals of the loss.

The costs related to SEAT's participation in the manufacturing of tooling needed for the production of shared parts for the platforms of the Volkswagen Group, which incorporate the new models of the Group's different brands, are shown under this heading and will have a linear amortization over a maximum period of five years from the date of the model's launch. Finance costs (estimated at 2% in 2016 and 1.3% in 2015) assigned to long-term projects involving R&D developments by Group companies are also shown under this heading.

b) Tangible assets

Tangible assets are valued at their acquisition price or production cost. Assets acquired before December 31, 1983 were revalued in accordance with the provisions of Act 76/1961, Decree 12/1973, Act 1/1979, Act 74/1980 and Act 9/1983.

When an asset's book value is greater than its estimated realizable value, its net value is reduced immediately to its recoverable value (see previous Note).

Repair and maintenance expenses are posted as expenses when incurred. Expenses that represent an improvement or lengthening of the useful life of assets are capitalized and depreciated over the new estimated useful life. Depreciation is calculated using the straight-line method, based on the estimated useful life of the assets.

c) Leases

I. When the company is lessee

Leases of tangible assets in which the company substantially has all the risks and rewards deriving from ownership are classified as finance leases. They are capitalized at the beginning of the lease period at the fair value of the property leased or the current value of the minimum payments agreed for the lease, whichever is the lesser. The interest rate implicit in the contract is used to calculate current value; failing that, the company's usual interest rate in similar transactions is applied. Each lease payment is distributed between liabilities and financial charges. Total financial charges are distributed over the duration of the lease operation and are booked to the Profit and Loss Statement of the financial year in which they accrue, applying the method of effective interest rate. Contingent quotas are costs of the financial year in which they are incurred. The corresponding obligations for the lease operation, net of financial charges, are included under 'Creditors for financial leasing'. The fixed assets acquired under finance leases are depreciated during their useful life.

Those leases in which the lessor maintains a substantial part of the risks and rewards of ownership are classified as operating leases. Payments for operating leases (net of any incentive received from the lessor) are booked to the Profit and Loss Statement during the financial year when they accrue, on a straight-line basis for the duration of the leasing period.

II. When company is lessor

When assets are leased under operating leases, the asset is entered on the Balance Sheet in accordance with its nature. Income deriving from leases is recognized on a straight-line basis for the duration of the lease operation.

d) Financial instruments

I. Investments in group, multigroup and associate companies

These instruments are valued at their cost less the accumulated amount of any impairments of value, where applicable. However, when an investment exists prior to it becoming classified as a group, multigroup or associate company, the cost of the investment is taken to be its net book value prior to this new classification. Any previous valuation adjustments recognized directly in equity are maintained in equity until they are cancelled.

If there is objective evidence that the net book value is not recoverable, the appropriate valuation adjustments are applied for the difference between its net book value and the recoverable amount, which is understood as the higher of its fair value less costs to sale and the present value of the cash flows derived from the investment. Unless better evidence exists for the recoverable amount in estimating the impairment of these investments, the subsidiary's equity, adjusted for any unrecognized increases in value on the valuation date, is taken. The valuation adjustment, and where applicable its reversal, is recognized in the Profit and Loss Statement in the period in which it occurs.

II. Loans and accounts receivable
Loans and receivables are non-derivative financial assets with receipts that are fixed or that can be determined, which are not quoted in an active market. They are included in current assets, except for maturities exceeding 12 months from the balance sheet date, which are classified as non-current assets.

These financial assets are initially recognized at their fair value, including the transaction costs that are directly attributable to them. They are subsequently valued at their amortized cost, recognizing the accrued interest according to their effective interest rate, understood as the discount rate that equates the instrument's net book value with the total of its estimated cash flows to maturity. Nevertheless, accounts receivables from commercial operations with a maturity within one year are valued at their nominal value, both upon their initial recognition and thereafter, provided that the effect of not discounting the cash flows is not significant.

At least at the end of each financial year, the necessary valuation adjustments due to impairment are applied if there is objective evidence that not all the amounts due will be collected.

The amount of the loss due to impairment is the difference between the asset's net book value and the present value of the estimated future cash flows, discounted at the effective interest rate at the time of the initial recognition. Valuation adjustments, and where applicable their reversal, are recognized in the Profit and Loss Statement.

III. Debts and accounts payable
This category includes amounts payable from commercial operations and non-commercial operations. These funds owed to third parties are classified as current liabilities, unless the company has an unconditional right to defer their settlement until at least 12 months after the balance sheet date.

These debts are initially recognized at their fair value, adjusted for directly attributable transaction costs, and they are subsequently valued at their amortized cost according to the effective interest rate method. This effective interest rate is the discount rate that equates the instrument's net book value with the expected flow of future payments up until the liability's maturity.

Nevertheless, accounts payable from commercial operations with a maturity within one year and which do not have any contractual interest rate are valued at their nominal value, both upon their initial recognition and thereafter, when the effect of not discounting the cash flows is not significant.

e) Inventories
Inventories are valued at cost or net realizable value, whichever is less, with the pertinent value corrections being made. The following methods are used to determine the cost of inventories:

/ Raw materials: At acquisition cost, applying the FIFO method (first in, first out).
/ Work in progress, vehicles, gearboxes and spare parts produced by the company: At raw material cost, according to the method described previously, adding labor costs and other direct and indirect manufacturing expenses of production.
/ Acquired spare parts: At acquisition cost as per invoice (plus customs, insurance and transport costs), applying the FIFO method.

The vehicle fleet utilized by the company for its own use, whose useful life or sales period is considered lower than one year, is maintained within the year's inventory and is not shown under tangible assets, registering the corresponding valuation correction.

Vehicles handed over to rental car companies with a purchase commitment are recorded in this section with the corresponding depreciation applied. The amount of the consideration received at the time of initial delivery of the vehicles is booked on the liability side of the balance sheet. The difference between the amount received and the agreed repurchase price is transferred to the Profit and Loss Statement on a straight-line basis in the period ranging between the initial delivery and the repurchase date.

f) Grants

Capital grants are posted to equity, at the amount granted when they are not repayable. These grants are transferred to the Profit and Loss Statement as a function of the depreciation of the assets associated to the subsidized projects. For their part, non-repayable grants related to specific costs are recognized on the Profit and Loss Statement in the same financial year in which the corresponding costs accrue, with those granted to offset an operating loss being recorded in the financial year in which they are granted, except when given to offset an operating loss in future years, in which case they are entered during said financial years.

g) Provisions and risks

Provisions for environmental restoration, restructuring costs and litigation are recognized when the company has a present obligation, whether legally or implicitly, as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are valued at the present value of the payments that are expected to be necessary to settle the obligation, using a pre-tax discount rate that reflects the current market's assessments of the time value of money and the specific risks of the obligation. Adjustments to the provision to unwind the discount are recognized as a finance cost as and when they accrue.

h) Foreign currency transactions

The conversion into euros (functional currency) of the cost of fixed assets and inventory items whose original value was expressed in foreign currency is conducted at the going exchange rate on the date of acquisition.

Positive and negative differences which may arise between payables and receivables and their corresponding exchange rates in force on the closing date are recorded in the Profit and Loss Statement in the year in which they arise.

i)) Corporation tax

The company is subject to corporation tax under the consolidated tax regime, which includes all Group companies that fulfill the requirements required by current legislation.

The Profit and Loss Statement includes as corporation tax income or expenses attributed to the company arising from tax consolidation, calculated according to the criteria established for groups of companies with consolidated taxation (see Note 18).

The expense (income) for taxes on profits is the amount that accrues under this item in the financial year, and which comprises both the expense (income) for current as well as deferred tax.

The expense (income) for both current and deferred taxes is recorded on the Profit and Loss Statement. This notwithstanding, the tax effect related to items directly recorded in equity is recognized in equity.

Deferred taxes are recorded with the liability method, based on time differences arising between taxation bases of assets and liabilities and their book values.

Deferred taxes are determined by application of the rules and tax rates approved or about to be approved at the Balance Sheet date, and which are expected to be applied when the corresponding deferred tax asset is realized or when deferred tax liability is settled.

Deferred tax assets are recognized insofar as it is probable that there will be future taxable income which can be used to offset time differences.

j) Income and expenses

Income and expenses are posted when realized or incurred, for the reasonable value of the consideration received, and represent the amounts receivable or payable for goods delivered and services rendered, less returns, reductions, discounts and value added tax.

Income from dividends is entered as income on the Profit and Loss Statement when the right to receive payment is established. In the event of coming from results generated prior to the date of acquisition it is entered by reducing the book value of the investment.

k) Severance payments

Severance payments are paid by the company to employees as a result of the decision to terminate their labor contract. The company recognises this compensation when it has committed itself demonstrably to terminating the contracts of employees in accordance with a formal detailed plan.

l) Environmental expenses

Expenses deriving from business activities aimed at protecting and improving the environment are posted as expenses in the financial year in which they are incurred. Said expenses are posted as an increase to the value of fixed assets when involving additions to tangible assets whose objective is minimizing environmental impact and protecting the environment.

m) Related party transactions

As a general rule, transactions between Group companies are initially accounted at their fair value. In the event that the agreed price is different from the fair value, the difference is recorded with consideration for the economic reality of the operation. Subsequent valuation is carried out in accordance with the applicable standards.

n) Business combinations

Merger, demerger and non-monetary contribution operations of any deal between group companies are accounted for in accordance with the criteria established for related party transactions (Note 5m).

Merger and demerger operations other than the above, as well as business combinations arising from the acquisition of all the assets and liabilities of a company or of a part that constitutes one or more business, are accounted for in accordance with the acquisition method.

In the case of business combinations arising as a result of the acquisition of shares or holdings in the share capital of a company, the company recognizes the investment in accordance with the criteria established for investments in group, multigroup and associate companies (Note 5d).

o) Greenhouse gas emission rights

Greenhouse gas emission rights, obtained for consideration are valued at acquisition price. Rights received via the National Allocation Plan are valued at the beginning of the calendar year they correspond to, in line with a Group-wide uniform single policy.

As gas emissions are generated, the company reflects the cost deriving from the obligation to return the corresponding rights by establishing a balance within 'Short-term provisions'. The rights have been received gratis by the company, so the amount of the subsidy posted should be applied, in general, as the emissions associated with the rights received gratis are booked against costs.

On November 15, 2013 the Spanish Cabinet approved the definitive individual assignment of emission rights for greenhouse gases for 2013-2020. SEAT, S.A. obtained a free assignment of 304,122 tonnes of CO_2 for the above-mentioned period.

On July 17, 2015 a modification was approved affecting the assignment of emission rights for greenhouse gases for 2015-2020. SEAT, S.A. obtained a free assignment of 401,899 tonnes of CO_2 for the above-mentioned period.

During the financial year acquisitions of 121,000 emission rights (EUAs), to the value of 589,926 euros, have been made (34,000 emission rights, to the value of 272,204 euros in 2015).

6. Non-current assets

a) Evolution of non-current assets

Movements of the items included in non-current assets are detailed in Appendix 1 of these Notes.

b) Intangible assets

At the year end, there is no correction due to impairment (68.6 million euros in 2015). Said corrections are linked to the estimate of future sales volumes of the vehicles comprising the model range. The current value of the margin of contribution to sales during the life cycle of the models has been calculated on the basis of an annual discount rate of 6.5% in 2016 (6.5% in 2015). A variation of ±10 percentage points in the hypotheses used would not have a significant effect on these annual accounts. The sum total of investments capitalized under R&D is acquired from Group companies.

During the year, 21.3 million euros (25.2 in 2015) corresponding to the use of tooling and technology of the Group, were capitalized under sub-section ‘Payments on account and intangible assets in progress’.

The value of fully depreciated and in-use assets amounts to 1,281.6 million euros (1,245.6 in 2015).

At the end of the financial year, the company has firm commitments for the purchase of goods to the amount of 0.6 million euros (0.5 in 2015).

In 2016 and 2015 no grants for the acquisition of R&D assets were received.

c) Tangible assets

The estimated useful life of the goods in tangible assets are as follows: buildings and other constructions, from 10 to 50 years; technical equipment and machinery, from 4 to 18 years; other facilities, tooling and office equipment, and other assets, from 1.3 to 35 years.

At the year end, there is no correction due to impairment (43.7 million euros in 2015). Said corrections are linked to the estimate of future sales volumes of vehicles in the model range. The present value of the sales contribution margin during the life cycle of the models has been calculated on the basis of an annual discount rate of 6.5% in 2016 (6.5% in 2015). A variation of ±10 percentage points in the hypotheses used would not have a significant effect on these annual accounts.

The land and buildings heading includes the gross value of both in a single section. Of the total amount, 6% corresponds to land, and the remaining 94% to buildings (6% and 94% respectively in 2015).

In 2016 and 2015, goods unrelated to operations, amounting to 3.5 million euros, are fully depreciated, and value of goods fully depreciated and still in use amounting to 3,430.9 million euros (3,399.9 in 2015). Of these 141.4 million euros relate to buildings (130.8 in 2015).

Likewise, in 2016 investment in tangible assets acquired from VW Group companies amounted to 42.3 million euros (15.7 in 2015).

The principal amounts of assets (listed according to origin, utilization and location) are as follows:

Millions of euros	2016		2015	
	Gross Value	Depreciation	Gross Value	Depreciation
Tangible assets acquired from VW Group companies	465.1	343.3	426.0	310.0
Tangible assets used by VW Group companies	49.4	33.9	48.7	32.7
Tangible assets used by non-Group suppliers	1,397.9	1,281.1	1,326.5	1,254.7
Tangible assets placed abroad	217.9	151.4	146.4	131.8

The financial year results deriving from disposal of tangible assets totaled –0.6 million euros (3.4 in 2015).

The company has taken out various insurance policies to cover risks to which tangible assets are subject. The coverage of these policies is considered sufficient.

At the year end the company assumed firm commitments to purchase capital goods to the value of 311 million euros (216 in 2015).

d) Long-term Group company investments

The companies in which SEAT, S.A. has an investment of 20% or more in the share capital are listed in Appendix 2 of these Notes. None of the companies are quoted on the Stock Exchange.

7. Leases and other similar operations

a) Finance leases

The breakdown of the rights over goods under the system of finance leases included in the section 'Land and Buildings' of tangible assets is as follows:

Millions of euros		Length of contract (years)	Cost	Purchase option value	Quotas pending payment 2016	Quotas pending payment 2015
Corporate building	(02.02.05)	10	21.1	0.0	0.0	0.9
Dining building	(20.09.06)	10	2.0	0.0	0.0	0.2
T-Systems building	(20.09.06)	10	3.4	0.0	0.1	0.5
SAT building	(20.09.06)	10	5.2	0.0	0.1	0.7
Smelter building	(30.11.06)	10	5.0	0.0	0.0	0.6
Desing building	(22.01.08)	10	4.2	0.0	0.6	1.1

The present values of the quotas pending payment are distributed by maturity date in the following way: 0.76 million euros in 2017 and 0.04 million euros between 2018-2021. The impact of discounting said quotas amounts to 0.02 million euros.

b) Operating leases

The company also has operating leases. The amounts paid for rent to other Group companies or third parties, excluding those already mentioned in the previous paragraph, and comprising mainly information technology, land, buildings, fork-lift trucks, containers, fields and warehouses, total 14.7 million euros (14.8 in 2015). Rents received, mainly for buildings, fields and warehouses, amounted to 5.9 million euros (6.4 in 2015). Future amounts to be paid and received, in the event of early cancellation of contracts, are calculated not to be substantially different from those in the current financial year.

8. Financial instruments

a) Impact on financial situation and results

I. Balance Sheet

The categories of financial assets and liabilities appearing on the company's Balance Sheet can be broken down thus:

Millions of euros	Equity instruments		Borrowing securities		Credits, derivatives and others	
	2016	2015	2016	2015	2016	2015
Long-term financial assets						
Group company investments (Note 6a)	724.9	962.9	0.0	0.0	0.0	0.0
Financial investments (Note 6a)	0.0	0.0	0.0	0.0	1.5	1.5
Short-term financial assets						
Loans and receivables	0.0	0.0	0.0	0.0	1,312.3	586.5
Trade and other receivables (Note 10)	*0.0*	*0.0*	*0.0*	*0.0*	*585.2*	*551.7*
Group company investments (Note 11)	*0.0*	*0.0*	*0.0*	*0.0*	*727.1*	*34.8*
Financial investments (Note 11)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*

Millions of euros	Borrowing from credit institutions		Bonds and other negotiable securities		Derivatives and others	
	2016	2015	2016	2015	2016	2015
Long-term financial liabilities						
Debts and other payables	0.0	0.0	0.0	0.0	132.5	86.9
Group company liabilities (Note 15)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Third-party liabilities (Note 15)	*0.0*	*0.0*	*0.0*	*0.0*	*132.5*	*86.9*
Short-term financial liabilities						
Debts and other payables	0.0	0.0	0.0	0.0	1,906.0	2,221.0
Group company liabilities (Note 15)	*0.0*	*0.0*	*0.0*	*0.0*	*4.5*	*521.6*
Third-party liabilities (Note15)	*0.0*	*0.0*	*0.0*	*0.0*	*145.1*	*59.9*
Trade and other payables (Note 16)	*0.0*	*0.0*	*0.0*	*0.0*	*1,756.4*	*1,639.5*

During the financial year, SEAT did not hold any own shares, and therefore carried out no related operations; neither was this the case in 2015.

II. Profit and Loss Statement and equity

In 2016 and 2015 there is no correction due to impairment of financial interests in Group companies.

III. Other information

SEAT has formalized various commercial surety contracts jointly with other companies within the Group, for the issue of guarantees covering the refundable advances made by government bodies, and covering third parties, to a maximum total amount of 295.3 million euros (295.3 in 2015).

b) Nature and level of risk

The company's activities are exposed to various financial risks: market risks (including exchange rates, interest rates and prices), as well as credit and liquidity risks. The company's global risk management program centers on managing the uncertainty of financial markets and aims to minimize potential adverse effects on financial profitability.

Risk management is under the purview of company Management, which identifies, assesses and covers financial risks in accordance with the policies approved by the Board of Directors. The Board provides guidelines for global risk management, as well as for more specific areas such as exchange rate risk, interest rate risk, liquidity risk, the use of derivatives and non-derivatives as well as investment of excess liquidity.

The company has the necessary financing for its business operations via financial support provided by the Group.

I. Market risk

I.I Exchange rates

As an operator with global reach, the company is exposed to exchange rate risk via currency operations, especially with the US dollar, pound sterling, Swiss franc, Japanese yen, Polish zloty, Russian rouble, Chinese yuan, as well as Czech, Danish, and Swedish crowns. The exchange rate risk emerges from future commercial transactions, recognized assets and liabilities, and net investment in operations abroad. This notwithstanding, the risk is covered by the Volkswagen Group through centralization of foreign currency operations management.

I.II. Price

The company is not exposed to the risk of the price of securities since it does not include in its Balance Sheet investments held for sale or at a fair value with changes in the Profit and Loss Statement. The company limits its risk exposure to the price of commodities by participating in hedging operations applied at a Volkswagen Group level so as to ensure the price of certain metals such as aluminum, copper and lead.

I.III Interest rates

Since the company does not possess any major remunerated assets, income and cash-flow from its business activities are substantially unaffected by changes in market interest rates.

II. Credit risk

Credit risk arises out of cash and equivalents, deposits with banks and financial institutions, and clients. With regard to banks and financial institutions, independent creditworthiness scales are used. If clients have been assessed independently, the resulting scale is used; failing an independent creditworthiness check, credit control assesses the client's creditworthiness, taking into account their financial situation, previous experience and other factors. Individual credit limits are established on the basis of internal and external credit qualifications, with regular monitoring of the use of said limits.

III. Liquidity risk

Precaution in the management of liquidity risk involves maintaining sufficient cash and tradable securities as well as financing availability via a sufficient amount of committed credit facilities. Management undertakes close scrutiny of forecasts of the company's liquidity reserves on the basis of expected cash-flows.

9. Inventories

Millions of euros	31.12.16	31.12.15
Acquired products	100.9	70.7
Raw materials and other supplies	39.6	53.8
Work in progress and partly-finished goods	60.7	60.2
Finished goods	180.9	177.4
Total	**382.1**	**362.1**

At the year end the impairment of inventory amounted to 159.2 million euros (141.7 in 2015), with provision for the financial year totaling 16.6 million euros (15.7 in 2015).

The additions of inventories and impairment of value deriving from the merger of the company with Centro Técnico de SEAT, S.A. (see Note 23) total 2.4 and 0.9 million euros respectively.

The company maintains a commitment to purchase cars invoiced to rental car companies (see Note 5e) to the value of 27.5 million euros (31.9 in 2015).

The company has taken out various insurance policies to cover risks to which inventories are exposed. Coverage provided by these policies is deemed sufficient.

10. Trade and other receivables

Millions of euros	31.12.16	31.12.15
Trade receivables	58.0	71.9
Group company receivables	522.7	476.1
Other receivables	3.4	3.0
Personnel	1.1	0.7
Current tax assets	53.4	20.6
Government bodies	58.9	89.5
Total	**697.5**	**661.8**

Impairment of the value of receivables from commercial operations totaled 0.4 million euros (1.3 million in 2015).

The additions and disposals of trade and other receivables deriving from the merger of the company with Centro Técnico de SEAT, S.A. (see Note 23) total 70.9 and 33.6 million euros respectively.

11. Short-term investments

Millions of euros	31.12.16	31.12.15
Group companies	727.1	34.8
Loans	*2.7*	*2.4*
Other financial assets	*724.4*	*32.4*
Third-party	0.0	0.0
Loans	*0.0*	*0.0*
Other financial assets	*0.0*	*0.0*
Total	**727.1**	**34.8**

Additions in short-term investments deriving from the merger of the company with Centro Técnico de SEAT, S.A. (see Note 23) total 250 million euros. This amount corresponds mainly to balances with Group companies and includes two loans granted by Centro Técnico de SEAT, S.A.: one to Volkswagen Group Services (VGS) for 27 million euros, and another to SEAT, S.A. for 200 million euros.

The 'Loans in Group companies' section includes loans at current market interest rates, while 'Other financial assets in Group companies' includes mainly the cash pooling (see Note 19i) and the net value of balances generated on an annual basis by the tax assessment bases of the Group companies subject to corporation tax under the consolidated tax regime applicable to SEAT (see Note 18).

During the fiscal year the company has maintained loans and deposits with Group companies and credit institutions at a weighted average interest rate of 0.0069% (0.0008% in 2015).

12. Shareholders' equity

The breakdown and evolution of company equity may be found in the Statement of Changes in Equity.

On February 25, 2010, the sole shareholder of SEAT, S.A., the German company Volkswagen AG, transferred its shareholding (100%) in SEAT's share capital to the Dutch company Volkswagen International Finance N.V. On May 13, 2014, Global VW Automotive B.V. became sole shareholder of SEAT, by means of a partial division ('split-off') from VW International Finance N.V. Later, on June 28, 2014 Volkswagen Finance Luxemburg S.A. became sole shareholder of SEAT, by means of cross-border absorption of its subsidiary Global VW Automotive B.V.

The share capital amounts to 120,200 euros which represents 20,000 shares at 6.01 euros per share, entirely subscribed and paid up by the sole shareholder Volkswagen Finance Luxemburg S.A. Share premium totals 1,008.1 million euros and legal reserves, recognized in full in compliance with current legislation, total 24,040 euros.

Reserves deriving from the merger of the company with Centro Técnico de SEAT, S.A. (see Note 23) total 51.6 million euros.

13. Grants

Non-repayable capital grants appearing on the Balance Sheet in this section have been provided by central and autonomous regional governments for projects in production process improvement as well as new product development. The movement is as follows:

Millions of euros	2016	2015
Initial balance	**9.9**	**13.3**
Addition for merger	*0.2*	*0.0*
Addition	*0.0*	*0.0*
Transferred to results	*(3.3)*	*(3.4)*
End balance	**6.8**	**9.9**

Additions of non-repayable capital grants deriving from the merger of the company with Centro Técnico de SEAT, S.A. (see Note 23) correspond to income from loans with subsidized interest granted by central government for the execution of development projects for new products.

The company has also received operating grants, basically to cover costs associated with R&D projects as well as activities relating to training, commercial development and energy efficiency (see Note 19d).

The total of operating grants amounts to 1.7 million euros (1.2 in 2015).

14. Provisions and risks

Millions of euros	Balance 01.01.16	Addition for merger 01.01.16	Addition 2016	Disposal 2016	Balance 31.12.16
Trade operations	491.1	0.0	189.0	(97.6)	582.5
Personnel benefits	32.8	7.9	46.9	(39.0)	48.6
Environmental activities	4.7	0.0	1.6	(0.2)	6.1
Other provisions	536.6	7.6	164.0	(137.2)	571.0
Total	**1,065.2**	**15.5**	**401.5**	**(274.0)**	**1,208.2**

At the year end, provisions amounted to 1,208.2 million euros, of which 311 million euros were long-term (discounted at a market interest rate) and 897.2 million euros were short-term.

Additions of provisions deriving from the merger of the company with Centro Técnico de SEAT, S.A. (see Note 23), correspond to personnel benefits (7.9 million) and other provisions (7.6 million).

The ‘Trade operations’ section includes mainly provisions for vehicle warranties. The estimated cost of warranties has been calculated on the basis of historic ratios held by the company on vehicles sold.

The ‘Environmental activities’ section includes those activities aimed at recycling vehicles based on the 2000 European directive on end-of-life vehicles (see Note 20b), as well as those provided for concerning emission rights (see Note 5o). The estimated cost for the provision of vehicle recycling has been based on two factors – the average useful life of vehicles per country and cost of scrapping. Provision for emission rights is calculated on the basis of annual consumption of the same.

The ‘Other provisions’ section covers basically provisions for production, legal and trading risks. The estimated cost of these provisions has been based on the probable settlement of claims received, as well as the likey risks to be assumed by the company.

Calculations of provisions have been discounted to present value at a rate of 0.04% in 2016 (0.4% in 2015).

15. Liabilities

Millions of euros	31.12.16	31.12.15
Group companies	**4.5**	**521.6**
Third-party	**277.6**	**146.8**
Financial institutions	0.0	0.0
Financial leasing	0.8	2.7
Other financial liabilities	276.8	144.1
Official loans with granted interest	*162.9*	*98.9*
Bonds and deposits received	*0.4*	*0.6*
Suppliers of fixed assets	*113.5*	*44.6*
Total	**282.1**	**668.4**

At the year end liabilities amounted to 282.1 million euros, 4.5 million euros with Group companies (short-term), and 277.6 million euros with third parties (132.5 long-term and 145.1 short-term).

Liabilities (mainly with official organizations at zero interest rate) are distributed according to maturity date as follows: 149.6 million euros in 2017, 85.6 million euros for 2018-2021 and 46.9 million euros in later financial years (581.5, 41.5, and 45.4 respectively in 2015).

Additions of liabilities deriving from the merger of the company with Centro Técnico de SEAT, S.A. (see Note 23) total 86.6 million euros (0 with Group companies and 86.6 with third parties). Of the total of additions, 85.2 million euros correspond to official credits with subsidized interest rates (see Note 13).

When granting a loan to the company financial institutions apply current market interest rates applicable at time of authorisation. Likewise, interest rates applied to liabilities with Group companies are also subject to market conditions.

Credit lines granted to the company by Group companies totaled 1,100 million euros on December 31, 2016 of which 0 million euros were used (1,800 and 309 respectively in 2015).

16. Trade and other payables

Millions of euros	31.12.16	31.12.15
For third-party suppliers	955.8	877.9
For Group companies suppliers	675.3	628.0
Other payables	30.8	65.5
Personnel (remunerations pending)	94.5	68.1
Current tax liabilities	0.1	0.0
Government bodies	35.4	32.3
Total	**1,791.9**	**1,671.8**

Additions and disposals regarding trade and other payables deriving from the merger of the company with Centro Técnico de SEAT, S.A. (see Note 23) total 101.1 and 55.8 million euros respectively.

Payment periods to suppliers comply with limits established by Act 15/2010 of July 5, modifying Act 3/2004 concerning late payments in commercial operations.

Said law stipulates a limit for payment of 75 days for 2012, and 60 days from January 1, 2013 onwards. At the year end, payments made within the legally established time-frame totaled 9,099.1 million euros and pending payments totaled 828.4 million euros (8,860.7 and 731.3 respectively in 2015). Furthermore, the weighted average payment period to company suppliers was 37 days, with the ratio of transactions paid being 38 days and the ratio of transactions pending payment, 28 days (37, 37, and 28 respectively in 2015).

17. Foreign currency

The net value of balances in foreign currency totaled a debit balance of 51.5 million euros on December 31, 2016 (credit balance of 12 million euros in 2015), held mainly in US dollar, pound sterling, Swiss franc, Mexican peso, Japanese yen, Polish zloty, Russian rouble, Chinese yuan, as well as Czech, Danish and Swedish crowns. Of this total, 20.2 million euros correspond to credit balances with Group companies and other suppliers, and 71.7 million euros to debit balances with Group companies and other customers (21.6 and 9.6 respectively in 2015). The amounts attributed to income and expenses for exchange rate differences during the year total 38 and 32.6 million euros, respectively (43.3 and 85.1 in 2015).

Amounts (in millions of euros) of the main transactions carried out in foreign currency are as follows:

Millions of euros	2016	2015
Purchases	124.0	118.2
Sales	1,432.1	1,543.6
Services received	56.7	67.5
Services rendered	3.6	5.0

18. Tax situation

a) SEAT Group Corporate Tax Policy

I. General Principles

The SEAT Group, within the framework of tax risk management and the Volkswagen Group's guidelines on Governance Risk and Compliance (GRC), as well as the endorsement of the Code of Good Tax Practices of the Spanish Tax Agency, adopts a non-aggressive conservative position in the assumption of tax risks.

The SEAT Group is committed to assuming its social responsibility by complying with its tax obligations, in line with the laws of each country and the agreements reached with the Authorities, thus maintaining a transparent and collaborative position.

The tax planning projects must have an economic base or essence and be based on the company's business operations.

This corporate tax policy has been approved in line with these basic principles, with the objective of laying out the SEAT Group's tax strategy, as well as the integration of processes and principles that are to guide the tax policy.

This policy includes the recommendations from the Code of Good Tax Practices (hereinafter CGTP), promoted by the Spanish Tax Agency and which the SEAT Group adhered to in 2010.

II. Tax strategy

The main objective of the SEAT Group's tax strategy is to ensure compliance with the tax legislation and all the tax obligations in each of the jurisdictions it operates in, all within a framework of respect toward the corporate principles of integrity, transparency and achievement of social interest.

Similarly, the SEAT Group is committed to maintaining a relationship of cooperation with the different Public Administrations.

III. Good tax practices

In order to include the above points in the corporate tax policy, as well as the recommendations included in the CGTP, the SEAT Group assumes the following practices:

III.I Prevention of tax risk

Without prejudice to an optimal business management, the SEAT Group will always respect the tax legislation:

- / Promoting and implementing both processes and practices leading to the prevention, reduction and elimination of tax risk at a global company level.
- / Informing the Board of Directors on the tax implications of any operations and/or matters that are to be submitted for its approval.
- / Adopting decisions on tax matters on the basis of a reasonable interpretation of the rules and, where applicable, avoiding possible conflicts of interpretation through the use of instruments provided by the relevant Tax Authorities, such as prior consultations, assessment agreements, etc.
- / Avoiding the use of opaque or artificial structures, as well as the acquisition of companies in tax havens with the aim of evading the applicable tax burdens.
- / Making a preliminary assessment of investments and/or operations that carry a particular tax risk.

III.II Relations with Tax Administrations

The relations of the SEAT Group with the relevant Tax Authorities will be governed by the principles of transparency, mutual trust and good faith. Specifically, the following good tax practices will be assumed:

- / Collaborating with the relevant Tax Administration to detect and search for solutions regarding fraudulent tax practices in the countries where the SEAT Group operates.
- / Providing information and documentation that is relevant for tax purposes when it is requested by the Tax Authorities, in the shortest time possible and in a comprehensive manner.
- / Promoting as much as possible agreements with the competent Tax Administrations.

III.III Reporting to the Board of Directors

The SEAT Board of Directors assumes powers such as the approval of the tax strategy, the supervision of the internal tax risk control system that forms part of the general company risk control system (RICORS), as well as the approval of investments and/or operations that represent a particular tax risk due to their nature.

The principles mentioned throughout this document, which are to govern the activities of the SEAT Group in tax and corporate matters, will be drafted and executed by the SEAT Tax Department, establishing the internal control mechanisms and rules required to ensure they are complied with.

The Tax Department will report the results of the actions taken in relation to tax risk control and management to the Audit Commission, so that it can inform the Board of Directors appropriately.

III.IV Communication of the corporate tax policy and good tax practices

The Board of Directors will promote the communication of the corporate tax policy, not only through its Chairman, but also through its senior managers. Similarly, the SEAT tax policy will be communicated:

- / By being included in the SEAT Group’s annual report.
- / By being added to the SEAT corporate website.
- / By being published on the SEAT intranet.

b) Corporation tax

SEAT, S.A., has been integrated in the SEAT Group since 1988, under the consolidated tax system of corporation tax, with No. 2/88.

In the 2015 financial year, as a result of the application of the new Corporation Tax Act, the Tax Group of which SEAT was the parent company has expanded to include all of the Spanish companies in which Volkswagen AG holds an investment that meet the requirements established by this Act, with SEAT having been named its representative. Furthermore, the Group has agreed the inclusion of financial entities in it, meaning that the Group pays tax at the rate of 30%. SEAT has compensated Volkswagen Navarra, S.A. and Volkswagen Group España Distribución, S.A. for the economic loss arising from applying a higher tax rate totaled 1.8 and 1.3 million euros, respectively.

In 2016, the taxable profit of the SEAT Group deriving from its consolidated corporation tax totaled 73.8 million euros, after offsetting negative tax assessment bases for previous years amounting to 51.1 million euros, and applying fiscal deductions amounting to 73.8 million euros.

The reconciliation of the posted result with the tax assessment base for the corporation tax for SEAT, S.A., including eliminations and adjustments from tax consolidation, is as follows:

Millions of euros	Profit and Loss Statement			Equity		
	Increase	Decrease	Total	Increase	Decrease	Total
Result for year	**903.2**	**0.0**	**903.2**	**0**	**0**	**0**
Corporation tax	**0.0**	**(28.5)**	**(28.5)**	**0**	**0**	**0**
Permanent differences	**0.0**	**(738.6)**	**(738.6)**	**0**	**0**	**0**
Specific to the company	0.0	(671.4)	(671.4)	0	0	0
From consolidation adjustment	0.0	(67.2)	(67.2)	0	0	0
Timing differences	**365.1**	**(308.3)**	**56.8**	**0**	**0**	**0**
Specific to the company	363.0	(305.8)	57.2	0	0	0
Originating in the year	*362.6*	*(0.9)*	*361.7*	*0*	*0*	*0*
Originating in previous years	*0.4*	*(304.9)*	*(304.5)*	*0*	*0*	*0*
From consolidation adjustment	2.1	(2.5)	(0.4)	0	0	0
Originating in the year	*0.0*	*(2.5)*	*(2.5)*	*0*	*0*	*0*
Originating in previous years	*2.1*	*0.0*	*2.1*	*0*	*0*	*0*
Tax assessment base	**1,268.3**	**(1,075.4)**	**192.9**	**0**	**0**	**0**

Corporation tax comprises income of 27.6 million euros of current tax and expenses of 0.3 million euros of deferred tax.

Additionally, due to the adjustments from the previous year and as a result of the tax inspection process, an income has been accrued and posted on the Profit and Loss Statement for corporation tax of 1.2 million euros.

47.5 million euros in SEAT, S.A. negative tax assessment base corresponding to previous years have been applied to the consolidated corporation tax settlement, as well as 71.2 million euros in fiscal deductions.

As a consequence of consolidated taxation, the total reciprocal debts and loans between the Group companies amount to 103.9 million euros.

At December 31, 2016, the accumulated deferred tax assets amounted to 367 million euros, all of them arising from timing differences.

For their part, deferred tax liabilities amount to 10.1 million euros, of which 7.2 million euros arise from timing differences, basically due to the tax depreciation of assets acquired under the system of finance leases, and 2.9 million euros are related to equity items.

Variation during the fiscal year on deferred tax assets and liabilities totals 6.7 and –0.5 million euros respectively. The detailed breakdown of the net movement of the same is as follows:

Millions of euros	2016	2015
Initial Balance	**349.7**	**397.8**
Addition for merger (see Note 23)	*3.6*	*0.0*
Deferred taxes entered directly to profit and loss statement	*2.2*	*(49.6)*
Deferred taxes entered directly to equity	*0.0*	*0.0*
Deferred taxes transferred to profit and loss statement	*1.4*	*1.5*
End Balance	**356.9**	**349.7**

At December 31, 2016, SEAT, S.A. tax credits or tax incentives for the following items and amounts in millions of euros were left pending application:

Millions of euros			Maturity date				
	Addition for merger 01.01.16 (*)	Balance 31.12.16	2017	2018	2019	2020	Later
R&D	36.0	234.7	0.0	0.0	0.0	0.0	234.7
Export companies	0.0	1.8	0.0	0.0	0.0	0.0	1.8
Environmental investment	0.0	0.7	0.0	0.0	0.0	0.0	0.7
Vocational training	0.1	1.2	0.0	0.0	0.0	0.0	1.2
Pension plans contributions	0.0	0.2	0.0	0.0	0.0	0.0	0.2

(*) See Note 23.

These tax credits and incentives will be applied in accordance with consolidated settlements of the Group, within the legal period established for each one.

The company is open to an administrative audit for non-prescribed taxes for the period 2013-2016, with the exception of corporation tax which extends to the period 2012-2015.

19. Income and expenses

a) Distribution of net sales

The distribution of items is as follows:

Millions of euros	2016	2015
Vehicles	7,542.9	7,388.4
Spare parts	530.0	519.7
Gearboxes	233.6	224.3
Other sales	290.8	199.7
Materials	*168.3*	*160.1*
By-products and reusable waste	*25.1*	*33.1*
R&D services	*92.0*	*0.0*
Other services	*5.4*	*6.5*
Total	**8,597.3**	**8,332.1**

The geographical distribution of markets is as follows:

Millions of euros	2016	2015
Spain	1,515.6	1,404.2
Rest of European Union	6,287.2	6,085.8
Rest of world	794.5	842.1
Total	**8,597.3**	**8,332.1**

Net sales are affected by the increase in income ('R&D services' section) deriving from the merger of the company with Centro Técnico de SEAT, S.A. (see Note 23).

b) Change in inventories of finished goods and work in progress

Millions of euros	2016	2015
Decrease/increase of inventory	15.4	3.8
Work in progress	*(1.1)*	*(14.9)*
Partly-finished goods	*(1.7)*	*(1.1)*
Finished goods	*18.2*	*19.8*
Impairment of inventory	(14.6)	(7.0)
Total	**0.8**	**(3.2)**

c) Supplies

Millions of euros	2016	2015
Acquired products	1,628.4	1,151.7
Purchases	*1,661.9*	*1,159.3*
Decrease/increase of inventory	*(33.5)*	*(7.6)*
Raw materials and other supplies	4,916.3	5,200.3
Purchases	*4,901.6*	*5,200.2*
Decrease/increase of inventory	*14.7*	*0.1*
Other external expenses	14.9	14.4
Impairment of acquired products, raw materials and others	2.0	8.7
Total	**6,561.6**	**6,375.1**

d) Other operating income

Millions of euros	2016	2015
Sundry income	423.2	471.2
Operating grants (see Note 13)	1.7	1.2
Discounted provisions	0.1	0.6
Other income	0.8	0.2
Total	**425.8**	**473.2**

The ‘Sundry income’ section includes, among others, income from the rendering of services to Group companies and personnel.

e) Personnel costs

Millions of euros	2016	2015
Wages, salaries and similar concepts	647.9	556.0
Social costs	175.7	163.8
Social security	*164.6*	*149.2*
Others	*11.1*	*14.6*
Provisions	(0.1)	(1.1)
Total	**823.5**	**718.7**

f) Other operating expenses

Millions of euros	2016	2015
External services	1,229.5	1,421.0
Taxes	11.5	10.3
Losses, impairment and variation in provisions due to trade operations	159.6	160.6
Greenhouse gas emission rights	0.1	0.1
Other expenses	7.4	0.0
Total	**1,408.1**	**1,592.0**

g) Financial income

Millions of euros	2016	2015
For participations	67.2	62.1
Group companies	*67.2*	*62.1*
Third-party	*0.0*	*0.0*
For other investments and financial instruments	0.4	0.4
Group companies	*0.0*	*0.0*
Third-party	*0.4*	*0.4*
Total	**67.6**	**62.5**

h) Financial expense

Millions of euros	2016	2015
For Group company debts	3.0	3.0
For third-party debts	7.7	6.1
Discounted provisions and debts	2.5	8.6
Total	**13.2**	**17.7**

i) Impairment and result on disposal of financial instruments

This heading contains the capital gain of 671.4 million euros resulting from the sale of the company Volkswagen Finance, S.A., together with its subsidiaries (Volkswagen Renting, S.A, Volkswagen Insurance Services Correduría de Seguros, S.L., MAN Financial Services España, S.L.) to Volkswagen AG (see Appendix 2).

20. Environment

a) Environment-related assets

Under the 'Tangible assets' section, the company possesses a waste water treatment facility, plus a heat and power co-generation plant, at the Martorell factory, as well as other environment-related assets. The combined gross value of these facilities amounts to 159.5 million euros, and accumulated depreciation stands at 122.1 million euros (146.1 and 113.6 respectively in 2015).

Additions in gross value of facilities dedicated to environmental protection deriving from the merger of the company with Centro Técnico de SEAT, S.A. (see Note 23) total 4 million euros, with accumulated depreciation standing at 2.1 million euros.

In the wide-ranging investment program implemented in 2016, a capitalized amount of 10.1 million euros, plus another totaling 1.6 million euros (5.9 and 3.9 respectively in 2015) corresponding to firm commitments for the purchase of capital goods has been identified, which can be devoted entirely to environmental protection-related activities.

b) Environment-related liabilities

In compliance with the European Union directive on end-of-life vehicles, approved in 2000, the company set up a provision to cover risks deriving from end-of-life vehicle recycling (see Note 14).

c) Environment-related expenses

Expenses for material and outside services have been identified. Said expenses, earmarked for protection and improvement of the environment, can be broken down as follows:

Millions of euros	2016	2015
Control and monitoring of air pollution	1.2	0.6
Waste water treatment and management	2.8	2.7
Industrial waste treatment and management	5.5	5.5
Energy savings	1.2	1.3
Visual impact improvement	0.3	0.2
Communication management	0.1	0.1
Environmental process management	0.5	0.4
End-of-life vehicles management	0.8	0.2
Miscellaneous	0.2	0.2
Total	**12.6**	**11.2**

Expenses incurred for the financial year, regarding amortization of environment-related assets, amount to 7.3 million euros (5.8 in 2015).

The overall estimated staff costs of SEAT employees devoted to total or partial implementation of environmental protection-related activities amount to 1.7 million euros (1.7 in 2015).

d) Environment-related income

Income deriving from the sale of by-products and reusable waste totaled 25.2 million euros (33.1 in 2015).

21. Related party transactions

a) Group companies

The following transactions were carried out with Volkswagen Group companies. In addition to the companies included in Appendix 2 of these Notes, the most noteworthy being: Audi AG; Audi Hungaria Motor Kft.; Audi Tooling Barcelona, S.L.; Groupe VW France s.a.; Skoda Auto a.s.; Skoda Auto Slovensko s.r.o.; VW AG; VW de México, S.A.; VW Group Services S.A.; VW Group UK Ltd.; VW Insurance Service Correduría de Seguros S.L.; and VW Slovakia a.s.

Millions of euros	2016	2015
Supplies	2,819.7	2,390.8
Materials	*1,300.7*	*1,365.1*
Spare parts	*205.8*	*195.0*
Vehicles	*1,313.2*	*830.7*
Net sales	6,290.3	6,238.3
Services received	343.4	618.7
Services rendered	289.6	311.9
Accrued financial income	0.0	0.0
Dividends received	67.2	62.1
Accrued financial expenses	3.0	3.0

The breakdown of the total amount of the main transactions carried out in foreign currencies is as follows:

Millions of euros	2016	2015
Supplies	29.6	33.7
Net sales	1,157.5	1,219.9
Services received	50.3	58.3
Services rendered	2.7	4.3

Supplies refer mainly to the acquisition of vehicles, parts, accessories and machinery. Sales corresponded mainly to vehicles produced in Spain for export markets. Services received comprise R&D, transport of sales, maintenance of equipment, logistics, marketing, consulting services and training. Services rendered refer mainly to transport, warranties, advertising, technical assistance, training, vehicle rental and leasing of buildings. Financial income and expenses stem from loans and current account operations between Group companies.

The margin generated by sales operations with Group companies is broken down by business lines as follows: 35.4% in materials (27.8% in 2015), 28.4% in spare parts (32.1% in 2015), 12.9% in vehicles (13.5% in 2015) and 22.2% in gearboxes (20.3% in 2015). Purchases made from Group companies were done so in normal market conditions.

In the Notes, other transactions with Group companies are referenced: Notes 6b and 6c, additions of assets; and Note 18, net charges for tax consolidation.

Transactions carried out with the parent entity of the Volkswagen Group are: supplies 1,390.7 million euros (1,179.4 in 2015); net sales 174.3 million euros (168.3 in 2015); services received 136.1 million euros (150.2 in 2015); services rendered 191.3 million euros (147.1 in 2015); accrued financial income 0 million euros (0 in 2015); accrued financial expenses 0 million euros (0.1 in 2015). Likewise, balances at the year end with the parent entity of the Volkswagen Group are: customers and other trade receivables 101.2 million euros (83.9 in 2015), and suppliers and other trade payables 83.6 million euros (63.1 in 2015).

On December 31, 2016, SEAT, S.A. (Single Shareholder Company) and Volkswagen Finance Luxemburg S.A., sole shareholder of the company (see Note 12), have no agreements in force.

b) Board of Directors and Senior Management

The total amount of remuneration received under all headings by members of the Board of Directors and by Senior Management in the exercise of their functions during 2016 stood at 9.5 million euros (11.2 in 2015).

No advances or credits have been accorded to either members of the Board of Directors or Senior Management, nor other commitments made vis-à-vis pensions, insurance policies, credits, guarantees or similar items during the 2016 and 2015 financial years.

During 2016, public liability insurance premiums amounting to 0.03 million euros were paid, covering possible damages caused to the members of the Board of Directors and Senior Management in the performance of their duties.

Members of the Board of Directors make no declaration of interest concerning Article 229 of the new Capital Company Act, referring to posts or responsibilities which Board Members hold or discharge in companies outside the Group of which SEAT is a member, concerning activities similar, analogous or complementary to the stated business aims of the company.

Fulfilling their duty to avoid conflicts with the company's interests during the financial year, the members of the Board of Directors have complied with the obligations provided for in Article 228 of the consolidated text of the Capital Company Act. Likewise, they and their affiliates have not entered into the conflicts of interest set out in Article 229 of said Act, except in cases where authorization has been given.

22. Other information

a) Workforce

The breakdown of the total average basic workforce by functions of SEAT, S.A. is as follows:

	2016	2015
Productive wage earners	8,313	8,236
Time-rate wage earners	926	910
Managers, technicians, administrative and support staff	4,708	3,517
Members of the Executive Committee	8	8
Total	**13,955**	**12,671**

The average number of employees with a disability greater than or equal to thirty three percent, amounts to 302 people (225 productive wage earners, 10 time-rate wage earners and 67 managers, technicians, administrative and support staff).

The breakdown of SEAT, S.A.'s basic workforce at December 31 is as follows:

	2016			2015		
	Men	Women	Total	Men	Women	Total
Productive wage earners	6,606	1,695	8,301	6,497	1,702	8,199
Time-rate wage earners	871	24	895	881	25	906
Managers, technicians, administrative and support staff	3,613	1,151	4,764	2,713	927	3,640
Members of the Executive Committee	8	0	8	8	0	8
Total	**11,098**	**2,870**	**13,968**	**10,099**	**2,654**	**12,753**

SEAT, S.A.'s Board of Directors comprises 7 members (male).

Both the basic average workforce, and the workforce at December 31, 2016 are affected by the incorporation of 971 employees resulting from the merger of the company with Centro Técnico de SEAT, S.A. (see Note 23).

b) Auditors

The fees accrued by PricewaterhouseCoopers Auditores, S.L. for audit services were 0.4 million euros (0.4 in 2015). Likewise, the fees received for other services provided by the auditor and other companies which use the PricewaterhouseCoopers brand totaled 0 and 0.7 million euros, respectively (0.1 and 0.5 in 2015).

c) Emissions

In relation to the incident detected in September 2015 in some of Volkswagen's EA189 diesel engines, during 2016 the implementation of the appropriate technical solutions approved by the competent oversight authorities in the SEAT vehicles equipped with these engines began. The cost of this implementation is being and will continue to be assumed by Volkswagen AG. All the vehicles are technically safe and fit for driving.

The Volkswagen Group remains in permanent contact with the various European authorities in this matter, acting quickly and transparently.

The directors have assessed the possible risks that may arise as a result of this situation and have acted consequently considering all existing circumstances with impact in the Annual Accounts.

23. Merger by absorption

The respective Boards of Directors of SEAT, S.A. and Centro Técnico de SEAT, S.A., approved the project of merger by absorption of Centro Técnico de SEAT, S.A., (absorbed company) and SEAT, S.A. (absorbing company) on February 23, 2016 in both cases.

On March 21, 2016 the Annual General Shareholders' Meeting agreed on approval of the project of merger by absorption through the dissolution without liquidation of the absorbed company, with wholesale transfer of the entirety of the absorbed company's assets and liabilities to the absorbing company, fully subrogated in all rights and obligations proceeding from the absorbed company, with no reservation, exception or limitation.

The merger was based on the Balance Sheet ending December 31, 2015 of the two companies involved. Since at the time of the merger the absorbing company had a 100% equity holding in the company absorbed, the exchange of shares was not pertinent, and therefore there was no need to issue new shares, since the assets and liabilities of the company absorbed were incorporated in those of the absorbing company, having as a counterpart its assets and liabilities.

Once legal time limits had been complied with, on May 1, 2016 the merger was presented to the Barcelona Mercantile Register, where the company absorbed was officially withdrawn from the register on May 13, 2016.

The merger was carried out in accordance with the Special Tax Neutrality Regime for Mergers as established in Chapter VIII of Title VII of Act 4/2004 of March 5, which approves the revised text of the Corporate Tax Act.

The merger was registered as being an operation between companies of the same Group, since SEAT, S.A. had previously held control of Centro Técnico de SEAT, S.A. As a result, said merger was recorded in the accounts in accordance with Standard 21 of the Spanish General Accounting Plan as approved by RD 1514/2007 of November 16. Thus, the assets acquired and liabilities assumed were recorded in the accounts in terms of their book value before the merger operation on the individual accounts.

The breakdown of the book value of the assets and liabilities of Centro Técnico de SEAT, S.A. at December 31, 2015 was as follows:

ASSETS	Note	2015
Non-current assets		**39.8**
Intangible assets	6b	0.1
Tangible assets	6c	35.3
Long-term Group company investments	6d	0.0
Long-term financial investments		0.1
Deferred tax assets	18	4.3
Current assets		**323.5**
Inventories	9	2.4
Trade and other receivables	10	70.9
Short-term Group company investments	11	250.0
Short-term financial investments	11	0.0
Short-term prepaid expenses		0.2
Cash and cash equivalents		0.0
Total		**363.3**

EQUITY AND LIABILITIES	Note	2015
Equity		**156.2**
Shareholders' equity	12	156.0
Grants	13	0.2
Non-current liabilities		**78.3**
Long-term provisions	14	7.4
Long-term liabilities	15	70.2
Long-term Group company liabilities	15	0.0
Deferred tax liabilities	18	0.7
Long-term prepaid income		0.0
Current liabilities		**128.8**
Short-term provisions	14	0.2
Short-term liabilities	15	16.4
Short-term Group company liabilities	15	0.0
Trade and other payables	16	101.1
Short-term prepaid income		11.1
Total		**363.3**

As a result, the Balance Sheet and Income Statement on December 31, 2015 are affected in terms of comparability due to the aforementioned merger.