PORSCHE SE

Annual Report
Short Fiscal Year
2010

Porsche group highlights

		2010 IFRS	2009/10 IFRS	2008/09 IFRS	2007/08 IFRS	2006/07 IFRS	2005/06 IFRS	2004/05 IFRS	2003/04 IFRS	2002/03 HGB	2001/02 HGB
Financials											
Revenue	**€ million**	**0**	**0[4]**	**0[4]**	**7,466**	**7,368**	**7,273[2]**	**6,574**	**6,148**	**5,583**	**4,857**
thereof domestic	€ million	0	0[4]	0[4]	1,365	1,326	1,234	1,267	1,214	1,483	1,121
thereof export	€ million	0	0[4]	0[4]	6,101	6,042	6,039	5,307	4,934	4,100	3,736
Total assets	€ million	29,666	28,152	213,565	45,577	23,332	14,641	9,710	9,014	6,315	5,409
Shareholders' equity	€ million	17,214	15,197	48,479	16,846	9,481	5,338	3,420	2,921	1,755	1,467
Fixed assets	€ million	24,258	22,707	85,066	11,168	9,760	5,681	2,428	2,380	2,663	2,208
Capital expenditures	€ million	0	21,964	22,410	1,383	3,881	4,083	919	1,111	1,295	1,120
Personnel expenses	€ million	11	17[4]	74[4]	1,359	1,264	1,037	965	950	850	799
Depreciation	€ million	0	0[4]	0[4]	569	532	489	511	382	392	279
Income before tax	€ million	639	5,855[4]	–2,559[4]	8,569	5,857	2,110[2]	1,238	1,137	933	829
Net income	€ million	1,286	454	–3,563	6,392	4,242	1,393[2]	779	690	565	462
Dividends paid in total	**€ million**	**[6]**	**17**	**8**	**472**	**385**	**157**	**87**	**70**	**59**	**297**
Dividends per share[1]											
Ordinary share	€	[6]	0.094	0.044	0.694+2.00	0.694+1.50	0.594+0.30	0.494	0.394	0.334	0.294+1.40
Preference share	€	[6]	0.10	0.050	0.700+2.00	0.700+1.50	0.600+0.30	0.5	0.4	0.34	0.300+1.40
Earnings per ordinary share[1]	€	7.28	32.67[4]	–13.68[4]	35.943	23.98	7.81	4.468	3.963	–	–
Earnings per preference share[1]	€	7.29	32.68[4]	–13.67[4]	35.949	23.986	7.822	4.474	3.969	–	–
Employees (at year-end)	**number**	**36**	**37**	**375,959**	**12,202**	**11,571**	**11,384**	**11,878**	**11,668**	**10,699**	**10,143**
Vehicle sales (new cars) total[5]	**units**	**–**	**–**	**3,082,837**	**98,652**	**97,515**	**96,794**	**88,379**	**76,827**	**66,803**	**54,234**
thereof vehicle sales (new cars) Volkswagen group[5]	units	–	–	3,007,599	–	–	–	–	–	–	–
thereof vehicle sales (new cars) Porsche Zwischenholding GmbH group[5]	units	–	–	75,238	98,652	97,515	96,794	88,379	76,827	66,803	54,234
Domestic Porsche[5]	units	–	–	12,291	13,524	14,314	13,921	13,902	12,176	13,896	12,825
Export Porsche[5]	units	–	–	62,947	85,128	83,201	82,873	74,477	64,651	52,907	41,409
911[5]	units	–	–	27,070	31,423	37,415	34,386	27,826	23,704	27,789	32,337
Boxster/Cayman[3,5]	units	–	–	13,140	21,747	26,146	27,906	18,009	12,988	18,411	21,897
Cayenne[5]	units	–	–	34,265	45,478	33,943	34,134	41,884	39,913	20,603	–
Panamera[5]	units	–	–	763	0	–	–	–	–	–	–
Carrera GT & RS Spyder[5]	units	–	–	0	4	11	368	660	222	–	–
Production total[5]	**units**	**–**	**–**	**2,899,388**	**105,162**	**101,844**	**102,602**	**90,954**	**81,531**	**73,284**	**55,050**
thereof production Volkswagen group[5]	units	–	–	2,822,649	–	–	–	–	–	–	–
thereof production Porsche Zwischenholding GmbH group[5]	units	–	–	76,739	105,162	101,844	102,602	90,954	81,531	73,284	55,050
911[5]	units	–	–	27,776	34,303	38,959	36,504	28,619	26,650	29,564	33,061
Boxster/Cayman[3,5]	units	–	–	14,403	22,356	26,712	30,680	20,321	13,462	18,788	21,989
Cayenne[5]	units	–	–	32,640	48,497	36,169	35,128	41,299	41,149	24,925	–
Panamera[5]	units	–	–	1,920	3	–	–	–	–	–	–
Carrera GT & RS Spyder[5]	units	–	–	0	3	4	290	715	270	7	–

1 The years up until 2007/08 have been adjusted according to the share split in fiscal year 2000/01 and 2007/08.
2 Incl. figures from discontinued operations of CTS group
3 Cayman from fiscal year 2005/06
4 Continuing operations (figures adjusted for the fiscal year 2008/09)
5 Vehicles sales and production figures are not presented for fiscal year 2009/10 due to the deconsolidation of the former subgroups Porsche and Volkswagen in the fiscal year 2009/10.
6 A proposal for the appropriation of profit was not available for submission to the annual general meeting by the time the financial statements were authorized by the executive board.

Porsche Automobil Holding SE Short Fiscal Year 2010

2010


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2010

Change in fiscal year

With regard to the creation of the integrated automotive group with Volkswagen, the annual general meeting of Porsche SE decided on 29 January 2010 that the fiscal year of the company, which ran from 1 August to 31 July of the following year, should be changed to run concurrently with the calendar year effective 1 January 2011. A short fiscal year was created for the period from 1 August 2010 to 31 December 2010 and this is the reporting period covered by the accompanying financial statements.

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To our shareholders

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Dear shareholders,

Porsche Automobil Holding SE significantly improved its performance in the short fiscal year 2010. The strong group profit after tax of 1.29 billion euro is testimony to this.

Our company is clearly back on course for success. This is being driven by the excellent operating development of our two investments. With its high profitability, Porsche continues to set the standard in the automotive industry and now draws more customers than ever with its fascinating vehicles. During the upswing, the Volkswagen group again demonstrated the competitive advantages of its multi-brand strategy.

We have also made significant progress toward creating the integrated automotive group. Joint project teams are working flat out to create the preconditions for the merger of Volkswagen and Porsche, and to step up cooperation at an operating level. In addition, we were able to resolve an important tax issue. As a result of the agreement reached with the tax authorities on the tax treatment of stock option transactions from earlier years, we have been able to reverse provisions that we had set up and finally bring this chapter to a close. Moreover, we achieved a stage victory before court in the USA. Last December, the U.S. court responsible dismissed all claims against Porsche SE and former members of the executive board as legally insufficient. All plaintiffs appealed this decision in January 2011.

The most important milestone of the current fiscal year 2011 is the capital increase. This not only forms the basis for the intended merger of Porsche SE into Volkswagen AG. The planned issue volume of five billion euro is also the crucial factor in considerably reducing the company's liabilities. In light of this, the shareholders' approval of this capital increase at the annual general meeting of Porsche SE on 30 November 2010 was a clear sign for the future. At the same time, we regard the clear result of the vote as testimony to the shareholders' great confidence in the future of the company. The proposed capital increase was not only unanimously adopted by the holders of ordinary shares; it was also approved by more than 88 percent of the very high percentage of the holders of preference shares present at the annual general meeting (more than 50 percent).

However, we are aware that it may not be possible to adhere to the timetable set out in the basic agreement, which provides for a merger of Porsche SE into Volkswagen AG in 2011. The legal and tax assessment of the transaction is not yet completed. This means that the effects of the damages claims filed in the USA, and of the claims for damages brought in Germany, cannot be conclusively valued at present. Moreover, the Stuttgart public prosecutor announced in February 2011 that the investigations against two former members of the executive board of Porsche SE will take longer than planned. They are not expected to be

concluded before the start of 2012. In the view of the executive board of Porsche SE, this reduces the probability of achieving the merger before the end of 2011 from previously 70 to 50 percent.

The executive board of Porsche SE currently assumes that, if the outstanding issues are successfully clarified, the merger will be able to go ahead, even if this is after 2011. And the board knows that it has the backing of important parties involved, Volkswagen, Porsche, the Porsche and Piëch families as well as the employee representatives of both companies. But even if legal or tax issues lead us to take the alternative route of Volkswagen AG increasing its investment in Porsche Zwischenholding GmbH to 100 percent, with around 50.7 percent of the ordinary shares in Volkswagen AG, Porsche SE would remain a highly attractive investment.

This means that two things are clear: First, the integrated automotive group will happen. This is because the combination of Porsche and Volkswagen is based on a clear and compelling logic from an industry perspective. All the necessary groundwork has been laid for joint success. And second, the new, strong integrated group will permit the fascinating traditional Porsche brand to fully achieve its great potential. The declared objective of the Porsche brand is to double sales figures while maintaining high profitability and exclusivity.

As shareholders of Porsche SE, you will participate in this development. We thank you for your confidence in a company that is one of the best in the automotive industry when it comes to products, brand strength, innovative power and profitability.

Prof. Dr. Martin Winterkorn

Company boards of Porsche Automobil Holding SE

Members of the supervisory board

Dr. Wolfgang Porsche
Diplom-Kaufmann
Chairman

Uwe Hück*
Deputy chairman
Deputy chairman of the
Porsche Automobil Holding SE
works council
Chairman of the general and
group works council
Dr. Ing. h.c. F. Porsche AG
Chairman of the works council
Zuffenhausen and Ludwigsburg

His Excellency Sheik
Yassim Bin Abdulaziz Bin Yassim Al-Thani
Chairman of the board of Qatar Foundation
International, USA
Member of the board of Qatar National Bank,
of InvestCorp and of
Qatar Foundation Endowment Fund

Hans Baur*
Diplom-Ingenieur
Trade union secretary

Berthold Huber*
1st chairman of IG-Metall

Prof. Dr. Ulrich Lehner
Member of the shareholders' committee
of Henkel AG & Co. KGaA

Peter Mosch*
Member of the
Porsche Automobil Holding SE
works council
Chairman of the AUDI AG
general works council

Bernd Osterloh*
Chairman of the
Porsche Automobil Holding SE
works council
Chairman of the general and group
works council of Volkswagen AG

Hon.-Prof. Dr. techn. h.c.
Ferdinand K. Piëch
Diplom-Ingenieur ETH

Dr. Hans Michel Piëch
Attorney at law

Dr. Ferdinand Oliver Porsche
Investment management

Werner Weresch*
Member of the
Porsche Automobil Holding SE
works council
Member of the
Dr. Ing. h.c. F. Porsche AG
works council

* Employee representatives
As of 31 December 2010

Members of the executive board

Prof. Dr. rer. nat. Martin Winterkorn
Diplom-Ingenieur

Chairman of the executive board of
Porsche Automobil Holding SE
Chief Executive Officer of Volkswagen AG and
member of the board of management
of Volkswagen AG
Corporate research and development

Matthias Müller
(since 13 October 2010)
Diplom-Informatiker

General technical
product issues
Chairman of the executive board of
Dr. Ing. h.c. F. Porsche AG
(since 1 October 2010)

Dr. Ing. E. h. Michael Macht
(until 30 September 2010)
Diplom-Ingenieur

General technical
product issues
Chairman of the executive board of
Dr. Ing. h.c. F. Porsche AG
(until 30 September 2010)

Hans Dieter Pötsch
Diplom-Wirtschaftsingenieur

Chief Finance Officer of
Porsche Automobil Holding SE
Member of the board of management
of Volkswagen AG
Finance and Controlling

Thomas Edig
Diplom-Betriebswirt (BA)

Commercial and
administrative issues
Deputy chairman of
the executive board of
Dr. Ing. h.c. F. Porsche AG

Report of the supervisory board

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Ladies and gentlemen,

In the short fiscal year 2010 (1 August 2010 to 31 December 2010), Porsche Automobil Holding SE took another major step toward the creation of the integrated automotive group with Volkswagen AG. At the annual general meeting on 30 November 2010, both the holders of ordinary shares and the holders of preference shares approved the capital measures proposed by the executive board and supervisory board with projected gross issue proceeds of up to 5 billion euro. It is planned to use the cash from the capital increase to further significantly reduce the liabilities of Porsche Automobil Holding SE.

Throughout the short fiscal year the supervisory board also discussed the economic situation, financial position and results of operations including in particular the liquidity situation of Porsche Automobil Holding SE and its affiliated companies pursuant to Sec. 15 German Stock Corporation Act (AktG), and complied with the advisory and oversight functions imposed on it by the law and the articles of association.

During the short fiscal year, the supervisory board held two ordinary meetings and one extraordinary meeting. If unable to attend meetings, the supervisory board members sometimes participated in the resolutions by casting votes in writing. His Excellency Sheik Yassim bin Abdulaziz bin Yassim Al-Thani and Mr. Peter Mosch attended less than half of the supervisory board meetings.

Cooperation between the supervisory board and the executive board

As part of its advisory and oversight functions, the supervisory board was kept informed throughout the short fiscal year by means of written and verbal reports from the executive board and in joint meetings. The reporting dealt in particular with the situation of the company, business development and business policy, as well as its development of the financial position, results of operations and of liquidity. The supervisory board examined the main planning and reporting documents submitted to it and satisfied itself that these were correct and adequate. It reviewed and

discussed all the reports and documents presented to the extent required and subjected them to a critical review. Between the individual meetings of the supervisory board, various members of the supervisory board held talks with members of the executive board. In the reporting year, the chairman of the supervisory board was also continually in contact with the executive board.

The supervisory board examined the planned creation of the integrated automotive group and other fundamental issues of corporate planning, in particular financial, liquidity, investment and human resources planning. After a thorough examination, the supervisory board approved all matters presented to it by the executive board for approval or passed resolutions in accordance with the co-determination agreement, the articles of association or the rules of procedure of the executive board. Such matters included, in particular, the conclusion of an agreement on the amendment to the commitment to increase capital agreed with, among others, the holders of ordinary shares who are deemed part of the Porsche and Piëch families, as well as the voting behavior at the annual general meeting of Dr. Ing. h.c. F. Porsche Aktiengesellschaft as regards the exoneration of the management for the fiscal year 2009/10.

The supervisory board satisfied itself that the executive board is duly conducting the company's business and has taken all the necessary measures in good time. This also applies to appropriate risk provisioning and compliance. The supervisory board monitored whether the executive board took the measures for which it is responsible pursuant to Sec. 91 (2) AktG and that the risk monitoring system prescribed therein works effectively.

Significant issues addressed by the supervisory board in the short fiscal year 2010

At an extraordinary meeting on 28 September 2010, the supervisory board discussed the motion proposed by several shareholders for the appointment of a special auditor and passed a statement. At the first ordinary supervisory board meeting of the short fiscal year 2010 on

13 October 2010, the supervisory board appointed Mr. Matthias Müller as member of the executive board. In addition the supervisory board approved the separate financial statements and consolidated financial statements for the fiscal year 2009/10. One focal point of the audit was the valuation of the put and call options relating to the shares in Porsche Zwischenholding GmbH remaining at Porsche Automobil Holding SE. Moreover, the executive board informed the supervisory board about the business situation. Furthermore, the supervisory board prepared resolutions for proposal to the annual general meeting on 30 November 2010 and approved the conclusion of an agreement on the amendment to the commitment to increase capital agreed with, among others, the holders of ordinary shares who are deemed part of the Porsche and Piëch families. In the second and final ordinary supervisory board meeting of the short fiscal year 2010 on 29 November 2010, the supervisory board mainly discussed the annual general meeting scheduled for the following day, and the capital increase planned for the first half of 2011 with projected gross issue proceeds of up to 5 billion euro. Moreover, the executive board informed the supervisory board about the business situation.

Efficient work of the supervisory board committees

The supervisory board has set up a total of three committees to support the work of the whole supervisory board and enhance efficiency. In the short fiscal year 2010, the three committees were the executive committee, the audit committee and the nomination committee. The committees prepare supervisory board resolutions as well as topics for discussion by the whole supervisory board. In some instances, the decision-making authority of the supervisory board has been transferred to the committees to the extent permitted by law.

Executive committee

The executive committee decides in urgent cases about transactions requiring the approval of the supervisory board and about concluding, amending and canceling employment agreements of members of the executive board as well as decisions on remuneration levels or their reduction.

The executive committee comprises the chairman of the supervisory board, his deputy and a shareholder representative and employee representative elected from the supervisory board. Besides supervisory board chairman Dr. Wolfgang Porsche and his deputy Mr. Uwe Hück, the members of the executive committee are Dr. Hans Michel Piëch as shareholder representative and Mr. Bernd Osterloh as employee representative. The executive committee met twice during the short fiscal year 2010.

It was not necessary to convene the mediation committee. The full supervisory board was regularly informed of the work of the executive committee.

Audit committee

The audit committee provides the supervisory board with support for monitoring the company management with special focus on the accounting process, the effectiveness of the systems of internal control, compliance, risk management and the internal audit function and the audit of the financial statements.

The audit committee has four members: Prof. Dr. Ulrich Lehner (chairman) and Messrs. Uwe Hück, Bernd Osterloh and Dr. Ferdinand Oliver Porsche. It held two meetings and reported to the full supervisory board regularly on its work.

At its meeting on 12 October 2010, the audit committee mainly discussed the risk report (September 2010) as well as the current status of litigation concerning damage claims filed by US hedge funds against Porsche Automobil Holding SE. In addition, the audit committee reviewed the separate financial statements and consolidated financial statements 2009/10, the combined management report, as well as the dependent company report, and recommended that the full supervisory board approve the separate financial statements and consolidated financial statements. Furthermore, the audit committee recommended that the full supervisory board propose to the annual general meeting that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, be elected as auditor for the short fiscal year 2010. At the second meeting of 26 November 2010, the audit committee discussed the interim report of Porsche Automobil Holding SE for the period from 1 August 2010 to 31 October 2010, as well as the risk report (November 2010), and acknowledged it.

Nomination committee

The nomination committee provides the supervisory board with recommendations for the supervisory board's proposals to the annual general meeting concerning the election of supervisory board members. The nomination committee consists of the supervisory board chairman, who is at the same time the chairman of the nomination committee, and three other shareholder representatives. The current members of the nomination committee are Dr. Wolfgang Porsche, who chairs the committee, and Prof. Dr. Ferdinand K. Piëch, Dr. Hans Michel Piëch and Dr. Ferdinand Oliver Porsche.

The nomination committee did not hold any meetings during the reporting period.

Corporate governance

The supervisory board and executive board have repeatedly and intensively discussed the recommendations and suggestions of the German Corporate Governance Code, submitted the declaration of compliance in accordance with Sec. 161 AktG and made it permanently accessible to shareholders on the website www.porsche-se.com. The current declaration of compliance is published in full in the corporate governance report as part of the 2009/10 annual report. The supervisory board reviews the efficiency of its activities as part of its self-assessment.

In connection with the amendment to the commitment to increase capital, there was a potential conflict of interest. The amendment was made at the request of the company to its benefit. It was approved by mutual agreement.

Audit of the separate financial statements and consolidated financial statements for the short fiscal year 2010

The separate financial statements prepared by the executive board of Porsche Automobil Holding SE and the consolidated financial statements for the short fiscal year 2010, together with the bookkeeping system, and the combined management report, have been audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The auditors have not raised any objections and have confirmed this by rendering an unqualified audit opinion.

The earnings before tax of the Porsche SE group came to 639 million euro in the short fiscal year 2010. Profit after tax was 1,286 million euro. The financial statements of Porsche Automobil Holding SE disclose net income for the year of 879 million euro and a net profit available for distribution of 440 million euro.

The key areas of the audit of the financial statements specified by the supervisory board in conjunction with the audit committee included, in particular, the valuation of the put and call options relating to the shares in Porsche Zwischenholding GmbH remaining at Porsche Automobil Holding SE and the disposal of the cash-settled options relating to shares in Volkswagen AG.

In accordance with Sec. 313 AktG, the audit of financial statements included a review of the executive board's report on relations with affiliated companies (Sec. 312 AktG).

Based on the findings of the audit, the independent auditor came to the conclusion that the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) German Commercial Code (HGB), and that the separate financial statements comply with requirements of German commercial law respectively, and that both sets of financial statements give a true and fair view of the net assets, financial position and results of operations of the group, and the company, respectively, in accordance with these requirements. Moreover, the auditor found that the combined management report is consistent with the consolidated financial statements and separate financial statements and as a whole provides a suitable view of the position of the group and the company and suitably presents the opportunities and risks of future development. Based on the assessment of the independent auditor, Porsche Automobil Holding SE's early warning system for the detection of risk satisfies the legal requirements of Sec. 91 (2) AktG.

The separate financial statements of Porsche Automobil Holding SE, the consolidated financial statements and the combined management report, on which Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, has rendered an unqualified audit opinion, as well as the audit reports of the auditors of the financial statements and the proposal of the executive board on the appropriation of net profit available for distribution were made available in a timely manner to the supervisory board for review.

At its meeting on 7 March 2011, the audit committee had a discussion with the independent auditor on the separate financial statements on which an unqualified audit opinion had been issued, the consolidated financial statements on which an unqualified audit opinion had been issued and the combined management report and group management report as well as the proposal for the appropriation of net profit available for distribution, Other significant audit topics included the valuation of the put and call options relating to the shares in Porsche Zwischenholding GmbH remaining at Porsche Automobil Holding SE necessary and the disposal of the cash-settled options relating to shares in Volkswagen AG. It was the task of the audit committee to check the appropriateness of the accounting and whether the legal requirements for the preparation of the consolidated and separate financial statements and the combined management report had been complied with and also whether the representations give a true and fair view of the net assets, financial position and results of operations of the company and of the group. Representatives of the auditor attended the meeting of the audit committee on the relevant point of the agenda and reported on the significant results of their audit of the separate and consolidated financial statements. In particular, the representatives of the auditors commented on the net assets, financial position and results of operations of Porsche Automobil Holding SE and were available to the supervisory board to provide any additional information.

The audit committee decided to recommend to the supervisory board to approve the separate and consolidated financial statements. A declaration of independence was obtained from the auditor in accordance with No. 7.2.1 of the German Corporate Governance Code. The audit committee also decided to recommend to the supervisory board to propose to the annual general meeting on 17 June 2011 to elect Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as auditors.

In its meeting of 15 March 2011, the supervisory board conducted a detailed review and discussion of the documents presented pursuant to Art. 9 (1) c (ii) Council Regulation (EC) No. 2157/2001 and Sec. 170 (1) and (2) AktG as well as the audit reports of the auditors of the financial statements. The chairman of the audit committee gave a detailed report on the review of the separate financial statements and the consolidated financial statements in the audit committee. The supervisory board's review related in particular to the valuation of the put and call options relating to the shares in Porsche Zwischenholding GmbH remaining at Porsche Automobil Holding SE, to the disposal of the cash-settled options relating to shares in Volkswagen AG, and the risk management of Automobil Holding SE. Representatives of the auditor attended the meeting of the supervisory board on the relevant point of the agenda and reported on the significant results of their audit of the separate and consolidated financial statements. In particular, the representatives of the auditors commented on the net assets, financial position and results of operations of Porsche Automobil Holding SE and were available to the supervisory board to provide any additional information.

The supervisory board agrees with the audit findings of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. Subsequent to its own reviews, the supervisory board has found that no objections can be raised. In accordance with the recommendation of the audit committee, the supervisory board has approved the separate financial statements and the consolidated financial statements for the short fiscal year 2010. The separate financial statements are therewith ratified. The supervisory board has declared that it agrees with the combined management report of the executive board. The supervisory board agrees to the proposal of the executive board on the appropriation of net profit available for distribution.

In accordance with, Art. 9 (1) c (ii) Council Regulation (EC) No. 2157/2010 and Sec. 312 AktG the executive board has prepared a report on related companies (dependent company report) for the short fiscal year 2010. The auditors have audited the dependent company report and have rendered the following audit opinion:

“Based on our audit and assessment in accordance with professional standards, we confirm that

(1) the actual disclosures contained in the report are correct,

(2) the payments made by the company in connection with transactions detailed in the report were not unreasonably high.”

The dependent company report together with the audit report of the auditor of the financial statements were provided to the supervisory board in a timely manner. Both were discussed in detail at the meetings of the audit committee and the supervisory board on 7 and 15 March 2011 and checked in particular for completeness and correctness. Representatives of the auditors participated in these meetings, reported on the significant findings of the audit and were available to the audit committee and the supervisory board to provide additional information. The supervisory board concurred with the result of the auditors' review of the dependent company report. According to the concluding results of its own review, there were no objections with respect to the closing declaration of the executive board in the dependent company report.

Composition of the supervisory board and executive board

Dr. Michael Macht was a member of Porsche Automobil Holding SE's executive board until 30 September 2010 and also held the position of CEO at Dr. Ing. h.c. F. Porsche Aktiengesellschaft until that date. Since 1 October 2010 onwards, Dr. Macht has been a member of Volkswagen AG's board of management (Group Production). At the supervisory board meeting on 13 October 2010, Mr. Matthias Müller was appointed a member of the executive board of Porsche Automobil Holding SE. Mr. Müller has been chairman of the executive board of Dr. Ing. h.c. F. Porsche AG since 1 October 2010.

The composition of the supervisory board has not changed in the reporting period.

Thank you

The supervisory board expresses its gratitude to the executive board, the employees' elected representatives and all employees in acknowledgement of their dedicated work and outstanding efforts in the past fiscal year.

Stuttgart, 15 March 2011

Wolfgang Porsche

Supervisory board

Dr. Wolfgang Porsche

Chairman

Corporate governance report

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Responsible, transparent and efficient corporate governance is an integral part of Porsche's corporate culture.

Declaration of compliance required by Sec. 289a German Commercial Code (HGB)

You can find the declaration of compliance required by Sec. 289a German Commercial Code (HGB) on our website at www.porsche-se.com/pho/de/investorrelations.

Corporate statutes of Porsche Automobil Holding SE

The main legal basis for the corporate statutes of Porsche SE is formed by the European SE provisions and the German SE Implementation Act (SEAG) as well as the German Stock Corporation Act (AktG). The differences this leads to compared to the statutes of a stock corporation mainly pertain to the formation and composition of the supervisory board. The dual management system with a strict separation of executive board and supervisory board, the principle of parity co-determination in the supervisory board, as well as the co-administration and control rights of the shareholders in the annual general meeting are also core elements of the company statutes of Porsche SE.

Corporate management by the executive board

The executive board has sole responsibility for the management of Porsche SE and the Porsche group and represents the company in transactions with third parties. Its main tasks pertain to the strategy and management of the Porsche group as well as the implementation and monitoring of an efficient risk management system. The activity of the executive board is regulated in more detail in rules of procedure issued by the supervisory board.

The executive board informs the supervisory board regularly, without delay and comprehensively about the planning, business development and the risk management of the company and consults with the supervisory board on the strategy of the Porsche group. Certain transactions stipulated in the articles of association of Porsche SE and the executive board's rules of procedure may only be carried out by the executive board subject to the prior approval of the supervisory board. These include, among others, the acquisition and sale of companies of a certain size, the establishment and closure of plant locations, the introduction or discontinuation of business divisions as well as transactions with holders of ordinary shares or supervisory board members of Porsche SE.

Corporate governance takes into consideration conflicts of interest that can arise from membership of two executive boards (at Porsche SE on the one hand, and at Volkswagen AG or Porsche AG on the other) and addresses these in the company's interest. For example, members of the executive board who are also members of the Volkswagen AG board of management do not participate in any resolutions concerning issues relating to Volkswagen AG.

In accordance with the provisions of the German Corporate Governance Code, the executive board ensures compliance with legal provisions and internal policies, and works toward ensuring they are taken into account. The Chief Compliance Officer of Porsche SE reports directly to the chairman of the executive board. The Chief Compliance Officer's task is to advise the executive board on all questions relating to compliance, to introduce preventive measures, manage these and monitor compliance with regulations. Compliance activities are based on a strategy aimed at prevention.

Monitoring of management by the supervisory board

The supervisory board appoints the members of the executive board, and also advises and monitors the executive board in their managerial activities. The structure already ensures the fundamental independence of the supervisory board in its control of the executive board since a member of the supervisory board may not at the same time belong to the executive board and the competencies of the two bodies are strictly segregated.

The supervisory board is composed of twelve members. The size and composition of the supervisory board are governed by the European SE provisions. These are supplemented by the co-determination agreement entered into with representatives of the European Porsche employees. This defines the competencies of the employees in the works council of Porsche SE, the procedure for the election of the Porsche SE works council and the representation of the employees in the Porsche SE supervisory board as well as the relevant rulings in the articles of association. Shareholder and employee representatives are equally represented on the supervisory board of Porsche SE, following the basic principles of German co-determination law. None of the current members of the supervisory board is a former member of the executive board of Porsche SE or Porsche AG. Based on the assessment of the supervisory board, it includes a sufficient number of independent members.

The supervisory board takes its decisions with a simple majority of votes cast by the participating supervisory board members. In the event of a tie, the supervisory board chairman, who always has to be a member of the supervisory board elected by the shareholders, casts a deciding vote.

The supervisory board has formed several committees: an executive committee, an audit committee and a nomination committee. To implement the resolutions to increase capital adopted by the annual general meeting on 30 November 2010, a capital increase committee was established for the period from 24 February 2011 until the end of the day on 30 August 2011.

The executive committee functions as the personnel committee and decides in urgent cases on transactions requiring approval. The audit committee supports the supervisory board in monitoring the company's management and reviews the accounting process, the effectiveness of the internal control system, compliance system, risk management system and internal audit system, and the independent audit of the financial statements. The nomination committee provides the supervisory board with recommendations for the supervisory board's proposals to the annual general meeting concerning the election of supervisory board members. The tasks relating to the capital increase which by law, the articles of association and the resolution of the annual general meeting are the duty of the supervisory board, were transferred to the capital increase committee. In particular, the committee is authorized to take decisions in the place of the supervisory board with regard to approving decisions of the executive board relating to the definition of further details of the capital increase and its implementation, including but not limited to deciding on the subscription price, the maximum number of shares to be offered for subscription and the resulting subscription ratio, as well as the other conditions for the issue of the new shares. Moreover, the capital increase committee is authorized to take decisions in the place of the supervisory board concerning the amendment of article 4 (1) of the company's articles of association (share capital) in accordance with the capital increase performed.

Rights of the shareholders

Porsche SE's share capital is equally divided into ordinary shares and preference shares without voting rights. The shareholders exercise their rights in the annual general meeting. When passing resolutions, each ordinary share of Porsche SE grants one vote. There are no shares with multiple or preferential voting rights, nor are there maximum voting rights. Every shareholder is entitled to take part in the annual general meeting, to express an opinion on items on the agenda, to table motions and to demand information about company matters if this is needed to properly judge an item on the agenda.

Among other things, the annual general meeting adopts resolutions on the exoneration of the executive board and the supervisory board, the appropriation of profits, capital measures and amendments to the articles of association.

The representatives of the shareholders on the supervisory board are elected by the annual general meeting. The following applies to the election of employee representatives on the supervisory board: The articles of association of Porsche SE provide for the appointment of employee representatives to the supervisory board by the annual general meeting, unless an agreement reached in accordance with the German Act on Employee Involvement in SEs (SEBG) provides for any other procedure for the appointment of employee representatives to the supervisory board. The latter is currently the case. The agreement on the involvement of employees at Porsche SE contains the provision that employee representatives are directly appointed to office following their election by the Porsche SE works council. Even if no such agreement had been made, the annual general meeting would be bound by the nominations of the employees when electing employee representatives.

Financial reporting and annual audit

The Porsche group's financial reporting is based on the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as adapted by the European Union, and the additional requirements of German commercial law pursuant to Sec. 315a (1) German Commercial Code (HGB). The financial statements of Porsche SE as parent company of the Porsche group are based on the accounting provisions of the German Commercial Code. Both sets of financial statements are audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as independent auditor. In addition, the underlying facts of the declaration of compliance in accordance with Sec. 161 AktG are audited during the annual audit.

Risk management

The Porsche group has a group-wide risk management system which helps management to recognize major risks at an early stage, thus enabling them to initiate countermeasures in good time. The risk management system at the Porsche group is continuously tested for efficiency and continually optimized to reflect changed conditions. For details, please refer to pages 84 ff. of this annual report.

Communication and transparency

Porsche attaches great importance to transparent communication and regularly keeps shareholders, financial analysts, shareholder associations, the media and the general public informed about the situation of the company and its business development. This information can be sourced at the website www.porsche-se.com, which contains all press releases and financial reports as well as the articles of association of Porsche SE and information about the annual general meeting. Interested visitors to the homepage of Porsche SE can subscribe to a newsletter that regularly informs them of developments at the Porsche group.

Besides the regular reporting, Porsche announces details of circumstances that are not in the public domain in accordance with Sect. 15 German Securities Trading Act (WpHG) which, when they become known, could significantly impact on the share prices of the Porsche share. These ad hoc announcements are also presented on the homepage of Porsche Automobil Holding SE.

Directors' dealings

Pursuant to Sec. 15a WpHG, members of the executive board and supervisory board as well as other management personnel and persons closely related to them must disclose the purchase and sale of Porsche shares and related financial instruments. Porsche SE publishes such announcements about transactions of this kind on the Porsche homepage.

Declaration of compliance with the German Corporate Governance Code

The background

On 26 February 2002 the Federal German Government Commission on the Corporate Governance Code introduced a standard of good and responsible corporate governance for companies listed on the stock exchange. Pursuant to Sec. 161 (1) AktG, the executive and supervisory boards of listed companies are obliged to make an annual declaration of whether they have complied and are continuing to comply with the code, or which of the recommendations contained in the code have not been or are not applied, and why.

For the period until 2 July 2010 the declaration below refers to the version of the code amended on 18 June 2009 and for the period from 3 July 2010 to the version of the code amended on 26 May 2010, which was published in the elektronischer Bundesanzeiger (German electronic Federal Gazette) on 2 July 2010. If no explicit reference is made to a specific version of the code, then the respective recommendation remained unchanged in that period.

Corporate statutes of Porsche Automobil Holding SE of October 2010

The executive board and supervisory board of Porsche Automobil Holding SE declare in accordance with Sec. 161 (1) AktG that since issuing the previous declaration of compliance the company has complied and currently complies with the recommendations of the Government Commission of the German Corporate Governance Code as announced by the Federal Ministry of Justice in the official part of the elektronischer Bundesanzeiger (German Electronic Federal Gazette), with the following exceptions:

“The Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board and diversity. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation.

Recommendations by the Supervisory Board to the competent election bodies shall take these objectives into account. The concrete objectives of the Supervisory Board and the status of the implementation shall be published in the Corporate Governance Report.” (No. 5.4.1 (2) and (3) of the German Corporate Governance Code as amended on 26 May 2010)

The supervisory board welcomes the intention of the code to define rules for the composition of supervisory boards and is committed to this goal. However, in light of the intended merger with Volkswagen AG and the fact that, at present, no new elections of shareholder representatives to the supervisory board are planned prior to the merger, the specification of concrete goals would not be appropriate at the current point in time.

“Beyond the statutory obligation to report and disclose dealings in shares of the company without delay, the ownership of shares in the company or related financial instruments by Management Board and Supervisory Board members shall be reported if these directly or indirectly exceed 1% of the shares issued by the company. If the entire holdings of all members of the Management Board and Supervisory Board exceed 1% of the shares issued by the company, these shall be reported separately according to Management Board and Supervisory Board. The aforesaid disclosures shall be included in the Corporate Governance Report.” (No. 6.6 German Corporate Governance Code)

Porsche Automobil Holding SE publishes voting rights notifications by our shareholders in accordance with the German Securities Trading Act (WpHG) as required by this law. Notifications concerning the purchase and sale of Porsche preference shares by members of the executive board and supervisory board in accordance with Sec. 15a WpHG are published insofar as this is required by Sec. 15a WpHG. The shares in the company and related financial instruments held by members of the company’s governing bodies have not been published in the past and will not be published in future as we believe complete compliance by us with statutory publishing requirements provides the capital markets and our shareholders in particular with sufficient information.

Corporate Governance in the Volkswagen subgroup

Volkswagen AG

In their declaration of compliance with the German Corporate Governance Code as of 20 November 2009, the board of management and supervisory board of Volkswagen AG disclosed that, in the period from 21 November 2008 to 5 August 2009, the recommendations of the code as of 6 June 2008 had been complied with, with the exception of No. 4.2.3. (4) and (5) (severance payment cap), and that the recommendation of the code published on 5 August 2009 in the new version of 18 June 2009 had been complied with, with the exception of No. 3.8 (2) (deductible in D&O insurance), No. 4.2.3 (2) sentences 2 and 3 (comparison parameters for variable compensation) and No. 4.2.3 (3) and (4) (severance payment cap).

The board of management and supervisory board of Volkswagen AG also declared that the recommendations of the code as of 18 June 2009 were complied with in full, with the exception of No. 3.8 (2) (deductible in D&O insurance), No. 4.2.3 (2) sentences 2 and 3 (comparison parameters for variable compensation) and No. 4.2.3 (3) and (4) (severance payment cap). In future, it is intended to comply with these recommendations, and with No. 3.8 (2) from 1 January 2010. The declaration of compliance can be found on the web page www.volkswagenag.com/ir, under the header Corporate Governance, and the menu item declaration of compliance.

AUDI AG

In their declaration of compliance with the German Corporate Governance Code dated 23 November 2009, the executive board and supervisory board of AUDI AG declared that, until the publication of the new version on 5 August 2009, the recommendations of the code as amended on 6 June 2008 were complied with, with the exception of No. 4.2.3 (4) and (5) (severance payment cap), No. 5.3.3 (nomination committee), 5.4.3 sentence 1 (elections to the supervisory board on an individual basis) and No. 5.4.6 (3) sentence 1 (individual reporting of compensation of members of the supervisory board, subdivided according to components).

The executive board and supervisory board of AUDI AG also declared that after 5 August 2009 the recommendations of the code as of 18 June 2009 were and are complied with, with the exception of No. 3.8 (2) sentence 2 (deductible in D&O insurance for the supervisory board), No. 4.2.3 (2) sentences 2 and 3 (comparison parameters for variable compensation), No. 4.2.3 (3) and (4) (severance payment cap), No. 5.3.3 (nomination committee) and No. 5.4.3 sentence 1 (elections to the supervisory board on an individual basis). It is intended to take No. 3.8 (2) sentence 2 into consideration from 1 January 2010. No. 4.2.3 (3) and (4) will be taken into consideration in the future. The declaration of compliance can be found on the internet at www.audi.de / cgk-erklaerung.

Stuttgart, 15 March 2011

Porsche Automobil Holding SE

Supervisory board and executive board

Remuneration report

(Part of the management report)

The remuneration report describes the remuneration system for members of the executive board and supervisory board of Porsche Automobil Holding SE, Stuttgart, ("Porsche SE" or "the company") and explains the basic structure, composition and the individualized amount of income. In addition, the report includes disclosures on other benefits promised to members of the executive board in the event of termination of their office.

Remuneration of the executive board

General principles

At the end of the short fiscal year 2010, the members of Porsche SE's executive board were Prof. Dr. Martin Winterkorn (CEO), Thomas Edig (commercial and administrative issues), Hans Dieter Pötsch (finance and controlling), and Matthias Müller (general technical product issues).

Dr. Michael Macht, who was still a member of the executive board of Porsche SE at the end of the preceding fiscal year, stepped down from the executive board effective as of 30 September 2010. His successor, Matthias Müller, took up his appointment on the executive board of Porsche SE effective as of 13 October 2010.

Besides their membership of the executive board of Porsche SE, the board members are also members of the board of management of Volkswagen Aktiengesellschaft, Wolfsburg, ("Volkswagen AG") or the executive board of Dr. Ing. h.c. F. Porsche Aktiengesellschaft, Stuttgart ("Porsche AG"). Prof. Dr. Martin Winterkorn and Hans Dieter Pötsch are also members of the board of management of Volkswagen AG, while Thomas Edig and Matthias Müller are also members of the executive board of Porsche AG, the subsidiary of Porsche Zwischenholding GmbH.

Dr. Michael Macht stepped down from the executive board of Porsche AG effective as of 30 September 2010. His successor, Matthias Müller, was appointed as the new CEO of Porsche AG by Porsche AG's supervisory board effective as of 1 October 2010.

Remuneration of the executive board in the short fiscal year 2010

Remuneration principles at Porsche SE

At regular intervals the supervisory board takes a look at remuneration matters concerning the executive board, examining the structure and amount of remuneration of the executive board in the process. At the beginning of the prior fiscal year 2009/10, Porsche SE's supervisory board decided to extensively revise the remuneration system for members of the company's executive board in order to reflect the measures implemented in accordance with the basic agreement as well as the company's new role.

The presentation of the executive board's remuneration is in compliance with the legal requirements and the recommendations of the German Corporate Governance Code.

As compensation for their service at Porsche SE, the four executive board members receive a fixed basic component only.

The supervisory board has, however, expressly reserved the right to introduce a variable remuneration system or to make special payments or pay out bonuses subsequently to members of the executive board based on targets agreed beforehand.

In addition, the members of the executive board receive other benefits in kind, such as the use of company cars and provision of insurance cover, for which the company bears the taxes incurred. The deductible provided by Sec. 93 (2) German Stock

Corporations Act (AktG) has been arranged for the D&O insurance policy concluded by the company for its executive board members.

There are no other benefits provided for by the company. In particular, the members of the company's executive board do not receive any pension benefits. The executive board members' individual service agreements with the company do not contain any special regulations regarding premature termination of membership of the executive board.

Remuneration of members of the executive board according to Sec. 314 (1) No. 6a HGB in the short fiscal year 2010

	Non-performance-related components
Prof. Dr. Martin Winterkorn	323,945
Thomas Edig	208,333
Matthias Müller (since 13 October 2010)	109,722
Hans Dieter Pötsch	218,995
Dr. Michael Macht (until 30 September 2010)	83,333
Total	**944,328**

Remuneration of the executive board in fiscal 2009/10

In accordance with the provisions of the law, the presentation of the structure and composition of remuneration for members of the executive board in the fiscal year 2009/10 takes into account not only the remuneration for service as a member of Porsche SE's executive board, but also the pro rata remuneration earned up until the date of deconsolidation of the Volkswagen group on 3 December 2009 and of Porsche Zwischenholding GmbH on 7 December 2009 for membership of those groups' boards.

Remuneration principles at Volkswagen AG

The remuneration of the executive board members Prof. Dr. Martin Winterkorn and Hans Dieter Pötsch for their service to the Porsche SE group as presented in the remuneration report for the fiscal year 2009/10 also contains the remuneration earned from Volkswagen AG for the period from acceptance of their appointment to the company's executive board effective as of 25 November 2009 to the date of deconsolidation of the Volkswagen group on 3 December 2009.

This remuneration comprises a fixed basic salary, including other benefits in kind, and a variable component based on the business development of the previous two years. No remuneration was granted from conversion rights under the stock option plan in effect until the end of 2009.

Instead, the supervisory board of Volkswagen AG decided to introduce a long-term incentive (LTI) as a new variable component for the board of management and management of the Volkswagen group, the amount of which is largely dependent on whether the aims of the Strategy 2018 are met.

The underlying indices of customer satisfaction, in the field of employer appeal and sales growth are added and then multiplied by the return index derived from the development of return on sales. The LTI is consequently paid out only if the group is financially successful. The supervisory board determines the amount of the LTI for each fiscal year on the basis of the total index's four-year average. In the introductory phase, the LTI will be calculated and paid out for the first time in 2011 for the 2010 fiscal year and forecasts for the 2011 fiscal year. This process will successively be applied in the years 2012 and 2013. Calculations will be based on historical figures for four fiscal years for the first time as of the 2014 fiscal year.

Remuneration principles at Porsche AG

In addition to their membership of Porsche SE's executive board, Thomas Edig and Dr. Michael Macht were members of the executive board of Porsche AG in the fiscal year 2009/10 and received remuneration for their service. This remuneration has been considered in the executive board remuneration disclosed for the fiscal year 2009/10 as of the beginning of the comparative period until the date of deconsolidation of the Porsche Zwischenholding GmbH group and thus also of Porsche AG on 7 December 2009. The management of Porsche Zwischenholding GmbH, which comprises the same individuals as the executive board of Porsche AG, does not receive any remuneration for the assumption of its duties at Porsche Zwischenholding GmbH.

The remuneration system for Porsche AG's executive board was adjusted accordingly by the supervisory board when the German Act on the Adequacy of Management Board Compensation (VorstAG) was introduced and the service agreements of the executive board members were changed accordingly in the course of spin-off of operations to (the new) Porsche AG.

The remuneration of Porsche AG's executive board essentially comprises three components:

Each executive board member receives a fixed annual salary, comprising a fixed basic component and a fixed management bonus. The latter is not included in the calculation of the company pension entitlements.

In addition, each executive board member receives a variable component, the amount of which is based on the result from ordinary activities determined (in accordance with International Financial Reporting Standards (IFRSs)) for the Porsche AG group (Porsche AG and its subsidiaries) and the degree of target achievement for certain agreed targets. It is paid out after the close of a fiscal year (short-term incentive). The targets that are arranged in a separate agreement are oriented towards a sustainable development of the Porsche AG group.

In addition, the supervisory board added a long-term incentive (LTI) to the remuneration structure as a variable component, which is also based on the result from ordinary activities determined (in accordance with IFRSs). It is not paid out until two years later and is additionally contingent on the defined long-term targets being reached at the time of payment.

Payment of the LTI component is conditional upon a profit being generated in the last fiscal year before it falls due.

The amount paid out for the LTI component depends to a large extent on the targets set forth in the long-term business plan concerning the fiscal year in question and the objective defined there. If the result falls short of the target figure by 50 percent, the LTI component is forfeited.

Both remuneration components are capped (bonus cap). The supervisory board has the option to reduce the variable remuneration components at its discretion provided it considers this appropriate in light of extraordinary developments. This may in particular be the case if, for example, the result from ordinary activities increases significantly without the executive board or any individual member of the board having been involved to a considerable extent.

The short-term incentive makes up approximately 40 percent of the maximum variable total remuneration, while the long-term incentive accounts for around 60 percent.

In addition, the members of Porsche AG's executive board receive other benefits in kind, such as the use of company cars and provision of insurance cover, for which Porsche AG bears the taxes incurred.

The deductible provided by Sec. 93 (2) German Stock Corporations Act (AktG) has been arranged for the D&O insurance policy concluded by the company for its executive board members.

The executive board members' service agreements with Porsche AG do not contain any special regulations regarding premature termination of membership of the executive board.

Remuneration of the members of the executive board according to Sec. 314 (1) No. 6a HGB for the fiscal year 2009/10[1]

	Non-performance-related components	Performance-related components	thereof long-term incentive	Total
Prof. Dr. Martin Winterkorn				
Porsche SE group	553,570	120,822	–	674,392
thereof Porsche SE	511,644	–	–	511,644
Thomas Edig				
Porsche SE group	789,424	535,226	321,136	1,324,650
thereof Porsche SE	500,000	–	–	500,000
Dr. Michael Macht [2] (until 30 September 2010)				
Porsche SE group	965,741	706,849	–	1,672,590
thereof Porsche SE	500,000	–	–	500,000
Hans Dieter Pötsch				
Porsche SE group	364,528	61,644	–	426,172
thereof Porsche SE	341,096	–	–	341,096
Total				
Porsche SE group	**2,673,263**	**1,424,541**	**321,136**	**4,097,804**
thereof Porsche SE	**1,852,740**	**–**	**–**	**1,852,740**

[1] The figures in the table above do **take into account** the **deconsolidation** of the Porsche Zwischenholding GmbH group and of the Volkswagen group as required for the purpose of group reporting in accordance with IFRSs. In addition to the remuneration for service on Porsche SE's executive board, the figures for the Porsche SE group include remuneration paid to Dr. Michael Macht and Thomas Edig in the Porsche Zwischenholding GmbH group from 1 August 2009 **to 7 December 2009** and remuneration paid to Prof. Dr. Martin Winterkorn and Hans Dieter Pötsch in the Volkswagen group from 25 November 2009 **to 3 December 2009**.

[2] Dr. Macht left the executive board of Porsche SE and the executive board of Porsche AG at the end of the day on 30 September 2010.

Post-employment benefits

The members of Porsche SE's executive board do not receive any pension benefits from the company.

Executive board members Prof. Dr. Martin Winterkorn and Hans Dieter Pötsch receive a pension commitment for their service for the Volkswagen group. The pension is determined as a percentage of the fixed basic salary. Starting from a rate of 50 percent, the individual percentage rate increases by two percentage points per year of service at the company. The maximum rate determined by the executive committee of Volkswagen AG's supervisory board is 70 percent.

Dr. Michael Macht and Thomas Edig were members of the executive board of Porsche SE and the executive board of Porsche AG in fiscal year 2009/10. Following the departure of Dr. Michael Macht from the executive board of Porsche AG as of

30 September 2010, Matthias Müller was appointed as his successor effective as of 1 October 2010. The members of the executive board of Porsche AG are entitled to future benefits from this company which as a rule range between 25 percent and 40 percent of the most recent basic salary depending on their years of service.

As of the end of the short fiscal year 2010, just like at the end of the comparative period, Porsche SE did not have any pension obligations due to former members of the executive board and their surviving dependants.

Until the date of deconsolidation of the Porsche Zwischenholding GmbH group and the Volkswagen group, benefit payments came to 1.0 million euro for this group of persons in fiscal 2009/10.

Remuneration of the supervisory board

The remuneration of Porsche SE's supervisory board is governed by article 14 of the company's articles of association. It consists of a fixed component and an attendance fee for the meetings of the supervisory board and the respective committees. In addition, the supervisory board members receive a performance-related component based on the profit/loss before tax from continuing operations of the Porsche SE group.

The chairman of the supervisory board, his deputy and the chairperson and members of the audit committee receive twice (chairperson) and one and a half times (deputy and members of the audit committee) the amount of remuneration of a supervisory board member. If a member of the supervisory board holds several offices at the same time, he/she receives remuneration only for the office with the highest remuneration.

In addition, the company refunds each supervisory board member for VAT payable on their remuneration.

Various members of Porsche SE's supervisory board are also members of supervisory boards and other control bodies as defined by Sec. 125 (1), Sentence 3 German Stock Corporations Act (AktG) in the Porsche Zwischenholding GmbH group and the Volkswagen group. The remuneration of Porsche AG's supervisory board is governed by article 13 of the Porsche AG's articles of association. Art. 17 of the articles of association of Volkswagen AG contains the rulings on the remuneration of the supervisory board of Volkswagen AG. The remuneration of the members of the supervisory board of AUDI Aktiengesellschaft, Ingolstadt (AUDI AG) is governed by the rulings in Art. 16 of the articles of association of AUDI AG.

Remuneration of the supervisory board in the short fiscal year 2010

In accordance with article 14 of Porsche SE's articles of association, the supervisory board received remuneration totaling 0.6 million euro for its service at Porsche SE in the short fiscal year 2010. This amount includes fixed components of 0.3 million euro and variable components of 0.3 million euro.

Beyond this, the supervisory board members did not receive any other remuneration or benefits for any services they provided personally, such as consultancy and mediation services.

The remuneration presented below comprises the remuneration paid for work on the supervisory boards of Porsche SE and its subsidiaries.

Supervisory board remuneration according to Sec. 314 (1) No. 6a HGB in the short fiscal year 2010[1]

	Non-performance-related components	Performance-related components	Total
Dr. Wolfgang Porsche	35,833	44,327	80,160
Uwe Hück [1]	36,625	33,245	69,870
Hans Baur [1]	16,417	22,163	38,580
Berthold Huber [1]	16,417	22,163	38,580
Prof. Dr. Ulrich Lehner	35,833	44,327	80,160
Peter Mosch [1]	13,417	22,163	35,580
Bernd Osterloh [1]	33,625	33,245	66,870
Hon.-Prof. Dr. techn. h.c. Dipl. Ing. ETH Ferdinand K. Piëch	19,417	22,163	41,580
Dr. Hans Michel Piëch	25,417	22,163	47,580
Dr. Ferdinand Oliver Porsche	30,625	33,245	63,870
His Excellency Sheik Yassim Bin Abdulaziz Bin Yassim Al-Thani	13,417	22,163	35,580
Werner Weresch [1]	19,417	22,163	41,580
Total	**296,460**	**343,530**	**639,990**

[1] These employee representatives have declared that their supervisory board remuneration is transferred to the Hans-Böckler-Stiftung foundation in accordance with the regulations of the German Federation of Trade Unions (DGB).

Remuneration of the supervisory board in the 2009/10 fiscal year

In accordance with article 14 of Porsche SE's articles of association, the remuneration of the supervisory board for its service at Porsche SE in the fiscal year 2009/10 totaled 2.2 million euro. This amount includes fixed components of 0.9 million euro and variable components of 1.3 million euro.

Performance-related remuneration of the supervisory board as set forth in article 14 of the articles of association of Porsche SE for the fiscal year 2009/10 is also calculated on the basis of the pre-tax result from ordinary activities from continuing operations recognized in the company's consolidated financial statements.

The supervisory board considers this ruling of the articles of association on performance-related remuneration, and the rules on remuneration as a whole, to be appropriate. However, in light of the significant non-recurring accounting effects in the fiscal year 2009/10, which affect performance-related remuneration as set forth in article 14 (1) (c) (1st bullet point) of the articles of association, the members of the supervisory board do not consider this remuneration component to be appropriate. The pre-tax result from ordinary activities from continuing operations recognized in the consolidated financial statements for the fiscal year 2009/10 was very positive. This was due, in particular, to the first-time inclusion of Volkswagen AG at equity. On the other hand, the overall high negative contribution to profit from discontinued operations due to the deconsolidation of the Volkswagen group and the Porsche Zwischenholding GmbH group was not included in the calculation of the performance-related remuneration.

At the supervisory board meeting of 13 October 2010, the members of the supervisory board therefore declared that they would waive the performance-related remuneration for their work on the supervisory board totaling 749,925 euro due to them as set forth in article 14 of the company's articles of association.

Beyond this, the supervisory board members did not receive any other remuneration or benefits in the fiscal year 2009/10 for any services they provided personally, such as consultancy and mediation services.

The remuneration presented below for the individual members of Porsche SE's supervisory board for fiscal 2009/10 comprises the remuneration paid for their work on the supervisory boards of Porsche SE and its subsidiaries. Accordingly, for those members of Porsche SE's supervisory board who are members of the supervisory board or other control bodies in the Porsche Zwischenholding GmbH group and the Volkswagen group, it also includes remuneration for memberships of supervisory board and other control bodies as defined by Section 125 (1) Sentence 3 German Stock Corporation Act (AktG) of these companies until deconsolidation of Volkswagen AG on 3 December 2009 and of Porsche Zwischenholding GmbH on 7 December 2009. In accordance with article 13 (2) of Porsche AG's articles of association, members of Porsche AG's supervisory board who are also on Porsche SE's supervisory board do not receive performance-related remuneration from Porsche AG in order to avoid duplicate payment. The remuneration presented does not take into account the resolution passed by the supervisory board of Porsche SE as of 13 October 2010 to waive part of the performance-related remuneration due to them totaling 749,925 euro.

Supervisory board remuneration according to Sec. 314 (1) No. 6a HGB in the fiscal year 2009/10[1]

	Non-performance-related components	Performance-related components	Total
Dr. Wolfgang Porsche	151,376	250,630	402,006
Uwe Hück [2]	140,625	150,945	291,570
Hans Baur [2]	78,264	100,630	178,894
Berthold Huber [2]	52,666	117,430	170,096
Prof. Dr. Ulrich Lehner	78,264	100,630	178,894
Peter Mosch [2]	65,645	154,611	220,256
Bernd Osterloh [2]	103,507	162,702	266,209
Hon.-Prof. Dr. techn. h.c. Dipl. Ing. ETH Ferdinand K. Piëch	82,678	233,403	316,081
Dr. Hans Michel Piëch	119,900	140,717	260,617
Dr. Ferdinand Oliver Porsche	85,063	171,041	256,104
Hans-Peter Porsche	41,625	49,756	91,381
His Excellency Sheik Yassim Bin Abdulaziz Bin Yassim Al-Thani	15,639	50,874	66,513
Werner Weresch [2]	69,264	100,630	169,894
Total	**1,084,516**	**1,783,999**	**2,868,515**

[1] The figures in the table above **take into account** the **deconsolidation** of the Porsche Zwischenholding GmbH group and of the Volkswagen group as required for the purpose of group reporting in accordance with IFRSs. In addition to remuneration for service on Porsche SE's supervisory board, the figures include remuneration for service on the Porsche Zwischenholding GmbH group's supervisory board **until 7 December 2009** and on the Volkswagen group's supervisory board **until 3 December 2009**. Moreover, the amounts included in the overview **do not take into account** the **resolution** passed by the supervisory board of Porsche SE as of 13 October 2010 to **waive part of the performance-related remuneration** due to them totaling 749,925 euro.

[2] These employee representatives have declared that their supervisory board remuneration is transferred to the Hans-Böckler-Stiftung foundation in accordance with the regulations of the German Federation of Trade Unions (DGB).

Supplementary disclosures in accordance with the German Corporate Governance Code

Notwithstanding the deconsolidation of Porsche Zwischenholding GmbH as well as of Volkswagen AG for the purpose of group reporting in accordance with IFRSs in fiscal 2009/10, Porsche Zwischenholding GmbH (and thus also Porsche AG) as well as of Volkswagen AG were still group entities of Porsche SE as defined by Sec. 18 German Stock Corporations Act (AktG) in the short fiscal year 2010. Therefore, the total remuneration required to be published according to the German Corporate Governance Code for Porsche SE's executive board members also includes any remuneration that the members of the executive board received on account of their service on the boards of the group entities Porsche AG and/or Volkswagen AG as well as of its subsidiaries.

The total remuneration of the members of Porsche SE's executive board for the short fiscal year 2010 given below therefore includes not only remuneration for their service as a member of the company's executive board, but for Dr. Michael Macht, Matthias Müller and Thomas Edig additional remuneration for their service on executive boards in the Porsche Zwischenholding GmbH group for the short fiscal year 2010, and for Prof. Dr. Martin Winterkorn and Hans Dieter Pötsch pro rata temporis for the short fiscal year 2010 of Porsche SE additional remuneration for their service on executive boards in the Volkswagen group in 2010 as well as for their service on the supervisory board of Porsche AG.

The expense recognized for the current addition to pension provisions amounts to 50,726 euro for Matthias Müller and 30,957 euro for Thomas Edig. The vested benefit obligations of Dr. Michael Macht were transferred in full to Volkswagen AG in the short fiscal year 2010. Pro rata temporis for Porsche SE's short fiscal year 2010, the expense recognized at Volkswagen AG for the addition to pension provisions amounts to 375,404 euro for Prof. Dr. Martin Winterkorn and 536,610 euro for Hans Dieter Pötsch.

Remuneration of the members of the executive board in accordance with the German Corporate Governance Code[1]

	Non-performance-related components	Performance-related components	thereof long-term incentive	Total
Prof. Dr. Martin Winterkorn				
Porsche SE group	1,067,283	3,174,620	1,166,667	4,241,903
thereof Porsche SE	323,945	–	–	323,945
Thomas Edig				
Porsche SE group	570,866	872,400	523,440	1,443,266
thereof Porsche SE	208,333	–	–	208,333
Matthias Müller [2] (since 1 resp. 13 October 2010)				
Porsche SE group	347,644	654,300	392,580	1,001,944
thereof Porsche SE	109,722	–	–	109,722
Hans Dieter Pötsch				
Porsche SE group	642,621	1,362,119	520,833	2,004,740
thereof Porsche SE	218,995	–	–	218,995
Dr. Michael Macht [3] (until 30 September 2010)				
Porsche SE group	308,074	–	–	308,074
thereof Porsche SE	83,333	–	–	83,333
Total				
Porsche SE group	**2,936,488**	**6,063,439**	**2,603,520**	**8,999,927**
thereof Porsche SE	**944,328**	**–**	**–**	**944,328**

1 The figures in the table above **take into account** the remuneration in the Porsche Zwischenholding GmbH group and in the Volkswagen group that are no longer group companies of Porsche SE as defined by IFRSs.
2 Mr. Müller was appointed as the new CEO of Porsche AG by Porsche AG's supervisory board effective as of 1 October 2010. He took up his appointment on the executive board of Porsche SE effective as of 13 October 2010.
3 Dr. Macht left the executive board of Porsche SE and the executive board of Porsche AG at the end of the day on 30 September 2010.

As described above, Porsche Zwischenholding GmbH (and thus also Porsche AG) as well as Volkswagen AG were still group entities of Porsche SE as defined by Sec. 18 German Stock Corporations Act (AktG) in the short fiscal year 2010. Therefore, the total remuneration required to be published according to the German Corporate Governance Code for Porsche SE's supervisory board members also includes any remuneration that the members of the supervisory board received on account of their service on the boards of Porsche SE group entities.

In addition to remuneration for service on the company's supervisory board, the remuneration of the members of Porsche SE's supervisory board presented below therefore also includes remuneration for service on supervisory boards of Porsche SE group entities.

The remuneration paid to the company's supervisory board members in their capacity as supervisory board members of Volkswagen AG or AUDI AG is presented pro rata temporis based on the duration of Porsche SE's short fiscal year 2010.

Remuneration of the members of the supervisory board in accordance with the German Corporate Governance Code[1]

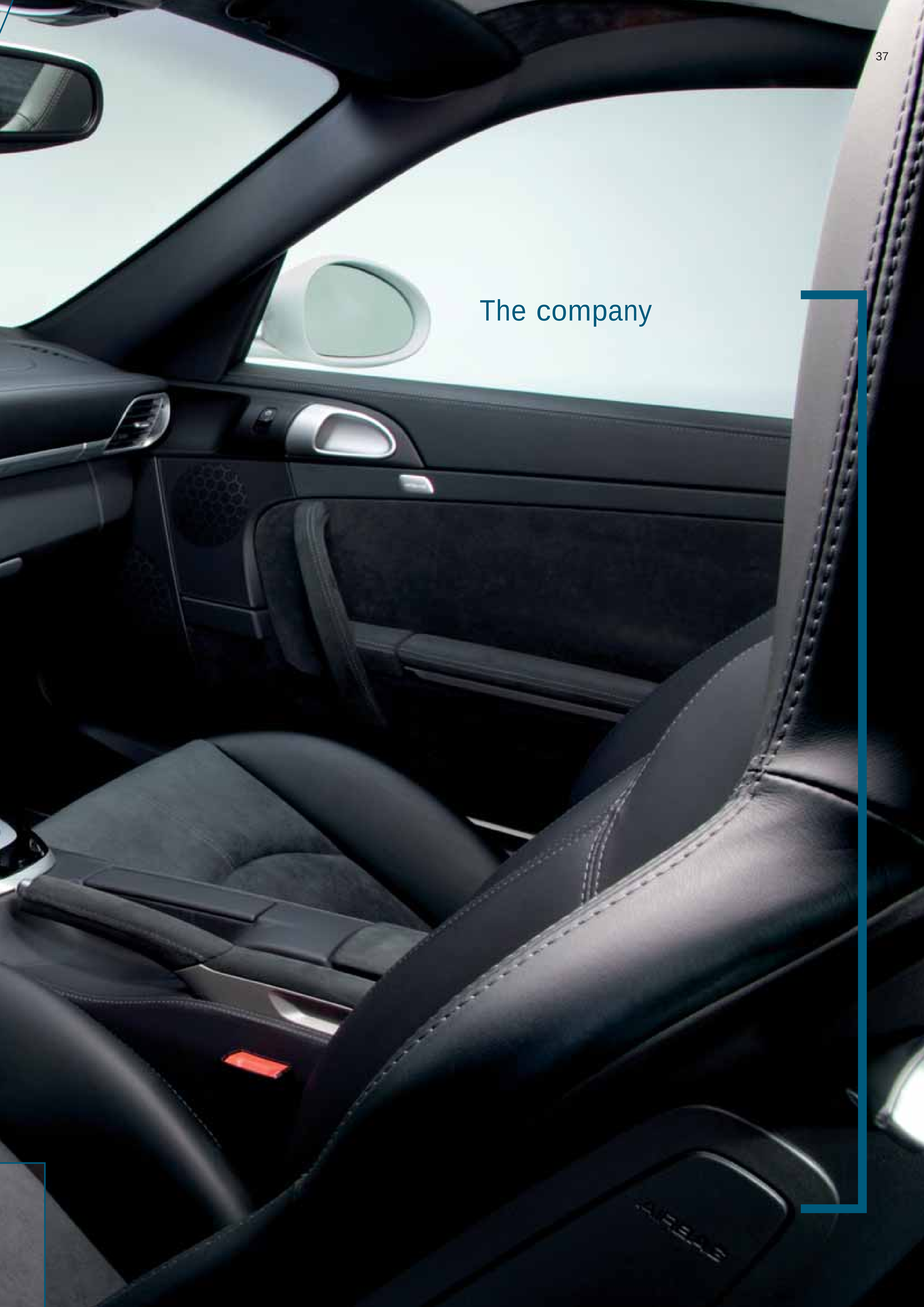
	Non-performance-related components	Performance-related components	Total
Dr. Wolfgang Porsche	74,916	151,097	226,013
Uwe Hück [2]	64,250	33,245	97,495
Hans Baur [2]	38,834	22,163	60,997
Berthold Huber [2]	28,646	126,095	154,741
Prof. Dr. Ulrich Lehner	35,833	44,327	80,160
Peter Mosch [2]	24,458	110,344	134,802
Bernd Osterloh [2]	39,875	140,016	179,891
Hon.-Prof. Dr. techn. h.c. Dipl. Ing. ETH Ferdinand K. Piëch	52,292	252,705	304,997
Dr. Hans Michel Piëch	57,417	104,677	162,094
Dr. Ferdinand Oliver Porsche	61,000	192,606	253,606
His Excellency Sheik Yassim Bin Abdulaziz Bin Yassim Al-Thani	13,417	22,163	35,580
Werner Weresch [2]	41,834	22,163	63,997
Total	**532,772**	**1,221,601**	**1,754,373**

[1] The figures in the table above **take into account** the remuneration in the Porsche Zwischenholding GmbH group and in the Volkswagen group that are no longer group companies of Porsche SE as defined by IFRSs.

[2] These employee representatives have declared that their supervisory board remuneration is transferred to the Hans-Böckler-Stiftung foundation in accordance with the regulations of the German Federation of Trade Unions (DGB).

2

The company



2

Significant events

Capital measures planned by Porsche SE

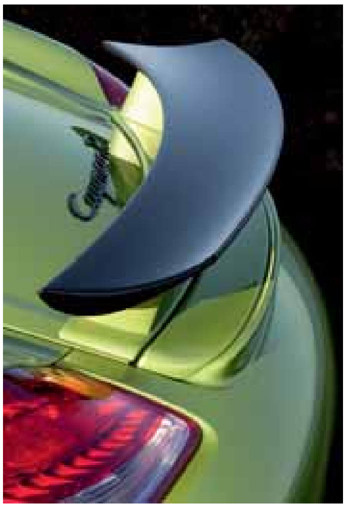
The annual general meeting of Porsche Automobil Holding SE, Stuttgart ("Porsche SE" or "the company") on 30 November 2010 approved with a significant majority the direct capital increase of up to five billion euro, divided into 2.5 billion new shares (up to 1.25 billion new ordinary shares and up to 1.25 billion new preference shares) proposed by the executive board and supervisory board. This capital increase is part of the concept agreed upon in the basic agreement to create an integrated automotive group between Porsche and Volkswagen (we refer to our statements in the section "Implementation of the basic agreement to create an integrated automotive group"). The capital increase provides a further basis for the intended merger of Porsche SE into Volkswagen Aktiengesellschaft, Wolfsburg ("Volkswagen AG"). In accordance with contractual requirements, all the planned proceeds must be used for repayment of the syndicated loan of Porsche SE. This applies specifically to the first tranche of the syndicated loan totaling 2.5 billion euro which falls due on 30 June 2011. The capital increase is scheduled for execution by 30 May 2011.

The capital increase is what is referred to as an "up to" capital increase, i.e. up to a defined amount. This means that the exact number of new shares to be issued will depend on the target issue volume and the subscription price which has not yet been set. The target issue volume of the capital increase is 5 billion euro and is to be raised by issuing an equal number of new ordinary and preference shares. The same subscription price will be set for both types of shares. Holders of shares of one class are precluded from subscribing for shares of the other class ("cross-exclusion of subscription rights").

As part of the overall concept of the basic agreement, the holders of ordinary shares of Porsche SE who are deemed part of the Porsche and Piëch families have undertaken, subject to certain conditions, to ensure that the new ordinary shares issued as part of the capital increase adopted on 30 November 2010, are subscribed for at an estimated total subscription price of 2.5 billion euro.

In addition, the annual general meeting authorized Porsche SE's executive board, subject to the approval of the supervisory board, to issue convertible bonds and corresponding instruments in a total nominal amount of up to 5 billion euro. When issuing convertible bonds, conversion rights and conversion obligations pertaining to ordinary and preference shares are to be granted. Conversion rights or obligations pertaining to preference shares can be served from newly created contingent capital. Conversion rights or obligations pertaining to ordinary shares can be served from newly created authorized capital. The authorized capital can also be used separately. These additional authorizations will only be of significance if the direct capital increase cannot be performed on time or completely. In this case, Porsche SE should have the required flexibility to raise capital as necessary, in particular to repay the first tranche of the syndicated loan maturing on 30 June 2011 and to allow the merger. The proceeds from all capital measures approved by the annual general meeting are limited to 5 billion euro.

The resolution of the annual general meeting on the capital increase was entered into the commercial register on 13 January 2011, rendering it effective. The other amendments to the articles of association approved by the annual general meeting on 30 November 2010 (these are the creation of new contingent capital and authorized capital) were entered into the commercial register and are also effective.



Implementation of the basic agreement on the creation of an integrated automotive group

Porsche SE intends to create an integrated automotive group together with Volkswagen AG and Dr. Ing. h.c. F. Porsche Aktiengesellschaft, Stuttgart, ("Porsche AG").

In recent months, the significant transaction steps described below were implemented on the way to an integrated automotive group.

In the fiscal year 2009/10, Porsche SE sold a significant portion of the cash-settled options relating to the shares of Volkswagen AG to an investor. Moreover, the company restructured its financing arrangements and in November 2009 agreed a new credit line totaling 8.5 billion euro with an international banking syndicate.

In December 2009, Volkswagen AG acquired a 49.9 percent shareholding in Porsche Zwischenholding GmbH, Stuttgart, by means of a capital increase against cash contributions, thereby indirectly acquiring an identical share in Porsche AG. To improve capitalization in preparation for the creation of an integrated automotive group and the associated purchase of this shareholding, as well as the cash outflow associated with this purchase, Volkswagen AG undertook an increase in preferred share capital in April 2010, generating net proceeds of approximately 4.1 billion euro.

As a further part of the basic agreement concept, the family shareholders of Porsche Holding Gesellschaft mbH, Salzburg, resolved on 10 November 2010 to exercise the put option to sell to Volkswagen the operating business of Porsche Holding Salzburg.

According to the basic agreement, the final stage in the creation of the integrated automotive group will be the merger of Porsche SE into Volkswagen AG. In the event of the failure of the merger, as defined by the basic agreement, in other words, if the required merger resolutions from the annual general meetings of Porsche SE and Volkswagen AG are not adopted by 31 December 2011 or, should they have been adopted, if approval proceedings have been unsuccessful and claims filed continue to prevent registration of the merger, Porsche SE and Volkswagen AG have granted each other put and call options pursuant to the basic agreement. These options relate to the remaining 50.1 percent shareholding in Porsche Zwischenholding GmbH that is held by a trustee on behalf of Porsche SE and can be exercised at defined times within the period from 15 November 2012 to 31 January 2015.

There is still uncertainty with regard to the tax framework for the merger. In addition, the effects that the claims for damages brought against Porsche SE in the USA and by various fund companies and a private individual in Germany will have on the merger cannot be conclusively assessed given the current status of litigation. The Stuttgart public prosecutor announced on 22 February 2011 that the investigations against two former executive board members of Porsche SE, inter alia because of allegations of manipulating the market in Volkswagen shares, will take longer than anticipated.

The outcome of the investigations is relevant for the valuation, of damage claims raised against Porsche SE and based on alleged share price manipulation. This valuation must be made for purposes of the merger of Porsche SE into Volkswagen AG (for more information on this point, and on the status of the legal proceedings, please see the section "Litigation risk" in risk report of Porsche SE and the section "Forecast report and outlook" of this management report). Since the end of the investigations can be expected at the earliest at the beginning of 2012, the legal and tax assessments of the merger of Porsche SE into Volkswagen AG to be made under the basic agreement will likely be delayed. From the executive board's view, this also reduces the probability that the merger can be achieved under the timeline of the basic agreement (which requires that the necessary shareholder resolutions on the merger are made in 2011) from previously 70 percent to 50 percent.

In the view of the Porsche SE executive board, the overall probability of the merger decreases in case of substantial delays in the merger process compared to the timeline of the basic agreement.

However, the executive board of Porsche SE is currently of the opinion that the assessments can be finalized so timely, that the merger can be achieved even after 2011.

Measures to secure liquidity and steps to reduce liabilities

To secure liquidity beyond 30 June 2011, it will be necessary for the planned capital increase of Porsche SE to be performed by 30 May 2011, with an issue volume of at least 2.5 billion euro. For more details on the capital measures approved by the annual general meeting on 30 November 2010, we refer to our statements in the section "Capital measures planned by Porsche SE" of this management report. The proceeds from the planned capital increase must be used to repay the first tranche of the syndicated loan of 2.5 billion euro. Any proceeds exceeding this figure must be used to further reduce liabilities to banks.

Since December 2009, the total loan facility available to Porsche SE has amounted to a total of 8.5 billion euro, of which 7.0 billion euro had been drawn as of 31 December 2010. The collateral for the loan has been provided primarily by pledging all of Porsche SE's shares in Volkswagen AG.

The lending banks support the proposed capital measures and have expressed their willingness to extend the first tranche of the credit line of 2.5 billion euro, which is due on 30 June 2011, by up to four months, in the event of certain legal obstacles to the implementation of the capital increase.

Change in Porsche SE's fiscal year

With regard to the creation of the integrated automotive group with Volkswagen, the annual general meeting of Porsche SE decided on 29 January 2010 that the fiscal year of the company, which ran from 1 August to 31 July of the following year, should be changed to run concurrently with the calendar year effective 1 January 2011. A short fiscal year was created for the period from 1 August 2010 to 31 December 2010 and this is the reporting period covered by the accompanying financial statements. Unless otherwise stated, the comparative period is the fiscal year 2009/10 which covered a period of twelve months. Corresponding resolutions were passed by the annual general meeting of Porsche Zwischenholding GmbH as well as by the annual general meeting of Porsche AG for the Porsche Zwischenholding GmbH group.

Disposal of cash-settled stock options

In the prior years, the increases in the shareholding in Volkswagen were hedged to a large extent by means of cash-settled options for Volkswagen AG shares. The remaining cash-settled options held by Porsche SE as of the prior-year reporting date (31 July 2010) relating to about two percent of Volkswagen AG's ordinary shares were disposed of in full.

Enlargement of the executive board of Porsche SE

At its meeting held on 13 October 2010, the supervisory board of Porsche SE unanimously appointed Matthias Müller to the executive board of Porsche SE (member with responsibility for general technical product issues) with immediate effect. Matthias Müller, who has been CEO of Porsche AG since 1 October 2010, succeeded Dr. Michael Macht on Porsche SE's executive board. The latter was appointed to the board of management of Volkswagen AG effective as of 1 October 2010 where he is responsible for group production.

In addition to Matthias Müller, the other members of Porsche SE's executive board are Prof. Dr. Martin Winterkorn (chairman), Hans Dieter Pötsch (finance and controlling) and Thomas Edig (commercial and administrative issues).

U.S. claims for damages dismissed as legally insufficient at first instance

In 2010, a total of 46 plaintiffs filed a total of six actions for damages against Porsche SE in the United States District Court for the Southern District of New York in the USA. The plaintiffs allege damages of more than 2.5 billion US dollars. In three of the six actions, the former members of the executive board Dr. Wendelin Wiedeking and Holger P. Härter are also named as defendants. Plaintiffs alleged in their complaints that Porsche SE's activities in connection with its acquisition of a stake in Volkswagen AG during the year 2008 constituted market manipulation and securities fraud in violation of the U.S. Securities Exchange Act and common law fraud. Porsche SE believes that the complaints are legally insufficient and without merit, and has sought their dismissal. The U.S. court dismissed all the complaints at first instance as legally insufficient. All plaintiffs appealed this decision in January 2011 (for further explanation, we refer to the section "Litigation risk" in the risk report of Porsche SE in this management report).

Shareholders' legal challenge fails

Two shareholders of Porsche SE who had brought actions against the resolutions of the annual general meeting on 30 January 2009 to have them declared null and void failed on appeal. The lawsuits were dismissed by the Regional Court of Stuttgart in May 2010. The appeals against these rulings were dismissed by the Higher Regional Court of Stuttgart in a judgment of 17 November 2010. Leave to appeal was denied. The plaintiffs then lodged an appeal against the denial of leave to appeal.

Tax treatment of stock option transactions

In the course of stock option transactions relating to various companies listed on the stock exchange, Porsche SE and Porsche AG also entered into transactions that in the company's opinion resulted in tax-free profits and tax-deductible losses. The tax authorities initially did not accept the opinion held by Porsche SE. The company filed an appeal against the tax authorities' decisions. Upon request, the tax authorities granted a stay of execution on the subsequent tax payments until the final ruling on the tax treatment was handed down.

The differences of opinion between the company and the tax authorities were resolved in November 2010. As a result, until the actual maturity date, there will be a cash outflow of some 628 million euro for tax and interest payments at the company, 357 million euro of which had been paid out by the reporting date. The provisions remaining after the payment totaling approximately 717 million euro were released to income but without affecting liquidity.

Supervisory board waives claim to part of performance-related remuneration

At the supervisory board meeting on 13 October 2010, the members of the company's supervisory board announced their intention not to assert their claim regarding a part of their performance-related remuneration for the fiscal year 2009/10 based on the result from ordinary activities from continuing operations in the past fiscal year (remuneration pursuant to article 14 (1) (c) (1st bullet point) of Porsche SE's articles of association). This portion of the remuneration comes to a total of 749,925 euro. The members of the supervisory board do not consider payment of this remuneration component to be appropriate on account of the significant non-recurring accounting effects in the fiscal year 2009/10. The pre-tax result from ordinary activities from continuing operations recognized in the consolidated financial statements for the fiscal year 2009/2010 was very positive. This was due, in particular, to the first-time inclusion of Volkswagen AG at equity. On the other hand, the overall high negative contribution to profit from discontinued operations due to the deconsolidation of the Volkswagen group and the Porsche Zwischenholding GmbH group (Porsche Zwischenholding GmbH and its subsidiaries) was not included in the calculation of the performance-related supervisory board remuneration. The provisions created for this part of the supervisory board remuneration were reversed in the short fiscal year 2010.

Significant events at the Porsche Zwischenholding GmbH group

Matthias Müller was appointed as the new CEO of Porsche AG on 6 July 2010 by Porsche AG's supervisory board effective as of 1 October 2010. He had previously been the head of product planning, product management and model series of the Volkswagen group and the Volkswagen brand. Matthias Müller is taking over from Dr. Michael Macht at Porsche AG, who left the executive board effective as of 30 September 2010. Dr. Michael Macht was appointed by Volkswagen AG's supervisory board to the board of management of Volkswagen AG, effective as of 1 October 2010.

The corresponding change also took place in the management of Porsche Zwischenholding GmbH.

At its meeting of 29 November 2010, the supervisory board of Porsche AG appointed Wolfgang Hatz to the executive board of the company, effective 1 February 2011. He assumed responsibility for research and development. In addition, he remained head of engines and transmissions development at the Volkswagen group. The previous member of the Porsche AG executive board with responsibility for research and development, Wolfgang Dürheimer, assumed the post of Chairman of the executive board at Bentley Motors Ltd., and on 1 February 2011 took up the position of president and managing director of Bugatti S.A., and the function of motorsport director for the Volkswagen group.

New loan agreement

During the reporting period, Porsche AG agreed a new syndicated loan of 1 billion euro that will be used to refinance bonds of 1 billion euro which fell due in early February 2011. The syndicated loan will fall due at the end of 2011 or, if a prolongation option is exercised, one year later.

Porsche plans new model

At its meeting of 29 November 2010, the supervisory board of Porsche AG instructed the executive board to drive forward development of a new model up to series production. With the new model, Porsche AG intends to extend its offering in the sporty off-roader segment which comprises the existing Cayenne model series. Porsche AG had earlier approved capital expenditures of 150 million euro for the construction of a wind tunnel, a design center and an electronics integration center at the Weissach development facility.

Significant events at the Volkswagen group

Group's board of management enlarged

The Volkswagen group extended its board of management as part of its Strategy 2018. With effect as of 1 October 2010, Prof. Dr. Jochem Heizmann, previously in charge of "Group Production", took over the new "Group Commercial Vehicles" portfolio on the board of management and assumed management of the group's truck activities. His previous position on Volkswagen AG's board of management was taken over by Dr. Michael Macht, previously CEO of Porsche AG.

New engine plant in Mexico

Volkswagen is expanding its production capacity in Mexico. Following the opening of a new section in July 2010, the Puebla plant is now one of the group's largest production facilities with an annual capacity of 525,000 vehicles. The group has additional plans to invest up to 1 billion US dollars in Mexico in the next three years.

As part of its growth strategy for North America, the Volkswagen group is also constructing a new engine plant in Silao, Mexico. Up to 330,000 latest generation engines will be produced there each year from 2013. The Silao plant will supply engines to Volkswagen's North American facilities in Puebla (Mexico) and Chattanooga (USA). The investment volume for developing new powertrains and establishing the plant totals 550 million US dollars. Volkswagen aims to employ around 700 people in Silao in the medium term. Other jobs will also be created at suppliers and in the logistic sector.

Strategic partnerships

On 12 August 2010, Volkswagen and the US company Cummins MerCruiser Diesel (CMD) agreed on a strategic partnership for the development and supply of marine engines. As a leading manufacturer of up to 285 kW diesel marine engines, Volkswagen will develop serial production of a new generation of engines at its Salzgitter plant that will meet future emissions standards in the USA and Europe. Starting in 2011, all Volkswagen marine engines will be supplied exclusively to CMD and sold under its name. This cooperation allows Volkswagen to develop another automotive-related area of expertise and to safeguard jobs at its Salzgitter plant for the long term.

On 13 August 2010, Volkswagen and the Malaysian company DRB Hicom signed a memorandum of understanding to examine local vehicle production. The joint plans envisage the manufacture of Volkswagen models in Malaysia from 2012. This move enables Volkswagen to gradually expand its activities in South East Asia as part of its Strategy 2018.

Automobile trading business of Porsche Holding Salzburg

On 10 November 2010, the family shareholders of Porsche Holding Gesellschaft mbH, Salzburg exercised the right granted to them within the framework of the basic agreement on the creation of an integrated automotive group consisting of Volkswagen and Porsche to sell the operating business of Porsche Holding Salzburg to Volkswagen. The shares are expected to be transferred in the course of the first half of 2011, at the latest on 30 September 2011, for a price of 3.3 billion euro, which is fixed in the basic agreement.

The acquisition is a considerable enhancement of Volkswagen's own sales activities. Porsche Holding Gesellschaft mbH is one of the most successful private automobile trading companies in Europe, with a strong presence in particular in Austria, the rest of western Europe and southeast Europe, as well as in China. It will continue to be maintained as a business unit with its own successful business model and all of its divisions and brands.

Business development

Dynamic growth of significant investments

In 2010, the world economy recovered from the deep crisis significantly faster than many experts expected. According to the calculations of the International Monetary Fund (IMF), global growth totaled some 5.0 percent in 2010. The greatest impetus for the recovery of the global economy during the reporting period came from China and Germany. With an increase in GDP of 3.6 percent in 2010, Germany achieved its highest growth rate since reunification. China's economy, which even during the crisis lost little of its dynamism, grew by 10.3 percent in 2010. By contrast, recovery in the USA was sluggish. While the world's largest economy returned to growth, it only achieved a growth rate of 2.8 percent.

The positive developments during the reporting period were clouded by the debt crisis of individual member countries of the euro area. Following the liquidity support of 110 billion euro required for Greece in early 2010, the EU approved an 85 billion euro aid package for Ireland in December 2010. It is unclear whether other states will require assistance and whether the rescue system of the monetary union, which is equipped with a guaranteed amount of 440 billion euro, will have sufficient funds in the medium term. The southern European countries of Portugal, Spain, Italy, Greece, as well as Ireland will certainly be forced to cut spending, which will impact their growth prospects.

During the reporting period, the crisis in the international automotive markets was already a thing of the past. The global automobile market grew by 12 percent in 2010, with 61.7 million cars sold – topping pre-crisis levels. This growth was driven mainly by extremely high demand in the BRIC states of Brazil, Russia, India and China. According to the German Association of the Automobile Industry (VDA), sales in China rose by 34 percent to 11.3 million vehicles. In India, the increase was 31 percent to 2.4 million units; in Russia, 30 percent to 1.9 million vehicles; and in Brazil, 11 percent to 3.3 million units. The American market also contributed to overall growth worldwide, with sales of new passenger cars and light trucks increasing by eleven percent to 11.6 million vehicles.

However, global sports cars sales saw less than average benefits from the renewed overall demand for cars, as the sports car segments are still considerably smaller in the BRIC states, which are driving growth in the world automobile market, than in the mature markets.

In Germany, only 2.9 million new vehicles were sold in 2010; the marked fall in comparison to the prior-year figure (3.8 million passenger cars) was due to the scrappage bonus granted in 2009. As expected, the number of new vehicles registered in western Europe as a whole fell by five percent to just under 13 million units in the wake of the expiration of economic rescue programs. When government recovery programs came to an end, the sales markets returned to their pre-crisis structure. In Germany, it was mainly manufacturers of small and compact cars that benefited from the scrappage bonus in 2009; in 2010, however, luxury car manufacturers came off particularly well.

The following statements on sales, production, financial services and employees only take into consideration operating developments at the Porsche Zwischenholding GmbH group, comprising Porsche AG and its subsidiaries, and at the Volkswagen group. They do not take into account the Porsche SE group. In addition, the following sections compare the sales and production figures of the Porsche Zwischenholding GmbH group for the reporting period from 1 August to 31 December 2010 with the five-month figures for the prior year (1 August to 31 December 2009), as a comparison with the entire prior fiscal year 2009/10 would not be useful since it covered twelve months.

In the current short fiscal year, which was created based on the resolution adopted by the company's annual general meeting on 29 January 2010 to align the fiscal year with the calendar year, Porsche SE has for the first time as of 31 December 2010 included the profit/loss attributable to it from its investment at equity in Volkswagen AG without a one-month delay. In the explanations below, the Volkswagen group's production and sales figures are, like the profit/loss attributable to the investment at equity, taken into account for the period from 1 July 2010 to 31 December 2010 and compared with the figures for the comparative prior-year period.

Considerable increase in sales at significant investments

The Porsche Zwischenholding GmbH group increased its unit sales by 56.6 percent to 40,446 vehicles in the short fiscal year 2010. This significant percentage rise was partly due to the impact of the financial and economic crisis during the prior-year period. On the other hand, this strong growth reflects the market success of the new Cayenne and Porsche's fourth model series, the Gran Turismo Panamera. The new generation of the Cayenne sporty off-roader, which has been available from dealers since May 2010, achieved sales of 20,770 units during the reporting period – a 99.9 percent increase in comparison to the prior-year figures. Overall, sales of the Cayenne break down into 6,054 vehicles with six-cylinder gasoline engines, 7,710 vehicles with eight-cylinder engines, 1,476 vehicles with hybrid drives and 5,530 vehicles with diesel engines. In the short fiscal year, Porsche sold 9,385 Panameras, an increase of 44 percent in comparison to the comparable prior-year period. This figure also reflects the fact that the Panamera was not yet available in all markets worldwide in the prior-year; furthermore, the six-cylinder version, which accounted for 5,418 units, was not introduced until May 2010.

Despite the recognizable trend toward overall economic recovery, sales of the 911 model series during the reporting period remained impacted by the difficult economic conditions that continued to prevail in the sports cars market environment. Unit sales increased by 13.5 percent to 6,255 vehicles for the period from 1 August 2010 to 31 December 2010. Unit sales of vehicles from the Boxster model series, including the Cayman models, increased by 18.5 percent to 4,036 vehicles. Of these, 2,048 vehicles were Boxster vehicles and 1,988 Cayman vehicles.

The Volkswagen group was also able to increase its unit sales. 1,922,494 of the 3,712,319 vehicles sold around the globe in the period from 1 July to 31 December 2010 were from the Volkswagen passenger car brand (prior year: 1,808,766 out of a total of 3,302,144 vehicles sold). There was increased demand for the Polo, Sharan, Tiguan, Touareg, Passat and the Jetta/Bora models.

The Audio brand achieved sales of 660,605 vehicles in the period from 1 July to 31 December 2010 (prior year: 615,769 vehicles). While demand for the Audi Q5 and Audi Q7 models was particularly high in this period, the new Audi A5 Sportback and the new Audi A8 were also very popular with customers. Audi's sales figures include the numbers for the Lamborghini brand. The Škoda brand sold 286,529 vehicles between 1 July and 31 December 2010, compared to 289,244 vehicles in the comparative period. Demand for the Superb models developed especially favorably. 162,839 SEAT vehicles were sold during the reporting period, compared to 161,118 vehicles in the prior year. In particular, demand for the Exeo model developed favorably.

Volkswagen commercial vehicles sold 190,322 vehicles in the second half of the year after 140,099 vehicles in the prior year. The sales figures for Scania were 35,391 vehicles in the reporting period, compared to 22,776 in the prior year.

Regional differences

Porsche Zwischenholding GmbH group achieved significant growth in all key sales regions. Sales rose most sharply in Europe, rising 61.9 percent to 13,893 vehicles. In the German market, Porsche achieved an increase of 49.2 percent to 4,761 units. However, there was also a clear upward trend outside the company's traditional market of Europe during the short fiscal year: in the region Asia / rest of the world, sales increased by 52.3 percent to 13,464 vehicles. The Chinese market alone accounted for 6,830 units, up 77.5 percent on the comparative prior-year period. With the Panamera, Porsche offers a sporty product in the four-door, four-seater sedan segment which is seeing particularly high demand among Chinese customers. In the Americas, the Porsche saw growth of 55.9 percent to 13,089 vehicles in the reporting period. North America alone accounted for 11,862 units (up 50.7 percent).

The Volkswagen group sold 1,758,810 vehicles in the period from 1 July to 31 December 2010 in the Europe / other markets region (prior year: 1,730,018 vehicles). 289,405 units were sold in North America (prior year: 238,595 vehicles). In the South American markets, Volkswagen sold a total of 494,454 vehicles in the reporting period (prior year: 434,245 vehicles). The Volkswagen group's unit sales in markets in the Asia-Pacific region (including the Chinese joint ventures) amounted to 1,169,650 units, after 899,286 vehicles in the comparative prior-year period.

Production expanded

In the reporting period, 41,949 vehicles were produced in the Porsche Zwischenholding GmbH group, an increase of 18.1 percent in comparison to the comparative prior-year period. In Leipzig, 22,343 units of the Cayenne series were built over the period from 1 August 2010 to 31 December 2010, 47.7 percent more vehicles than in the comparative prior-year period. 8,189 Panamera vehicles were produced, 4.6 percent fewer than in the prior year. At the plant in Zuffenhausen, a 2.4 percent reduction in production of the 911 model series resulted in 7,174 units being produced. Production of the Boxster (including the Cayman models) series decreased 4.4 percent to 4,243 units. In Finland, the number of vehicles produced fell by 36.3 percent to 1,986 units. Here it should be considered that some Boxster models have been manufactured in Zuffenhausen since February 2009, and almost all were manufactured there in the short fiscal year 2010.

The Volkswagen group produced 3,771,435 vehicles over the period from 1 July to 31 December 2010, after 3,232,180 vehicles in the period from 1 July to 31 December 2009. As of 31 December 2010, vehicle inventories at group companies and in the retail organization around the world were up on the prior year.

Financial services in demand

Porsche Financial Services offers a comprehensive range of financial services to meet all of the customers' needs with leasing, financing, Porsche insurance services and the Porsche Card. Porsche financial services companies have been established in all major markets. With around 13,000 new contracts, the individual companies managed more than 80,000 financial services contracts throughout the world in the short fiscal year 2010. In addition to this, around 13,000 customers took advantage of Porsche's credit card service. As owners of the Porsche Card or the Porsche Card S, which comes with an extended range of services, customers can take advantage of a multitude of services and personal benefits tailored specifically to the interests and needs of Porsche drivers. Personalized insurance protection is offered by financial services as part of the Porsche insurance services with the Porsche CarPolicy and the Porsche CarPolicy S. Both services allow customers to provide for risks tailored to the value of their vehicle. This applies equally to third-party liability, fully comprehensive and third-party, fire and theft insurance. Porsche insurance services has been working successfully for years with HDI-Gerling Firmen- und Privatversicherung AG and enjoys the trust of some 20,000 satisfied Porsche drivers.

The innovative products offered by Volkswagen's financial services along the automotive value chain met with good response from customers, enabling Volkswagen financial services to make another positive contribution to the Volkswagen group's earnings and sales situation. The "Umwelt-Programm" (Environmental Program) fleet program, which Volkswagen Leasing GmbH initiated in cooperation with Naturschutzbund Deutschland (NABU – Nature and Biodiversity Conservation Union), combines intelligent economic and ecological aspects, allowing fleet operators to lease the most efficient and lowest-emission models available. In September 2010, this innovative program received the "ÖkoGlobe 2010" international environmental award in the "Environmentally Compatible Fleet" category and, following its success in Germany, is to be used as a model for future international projects. In the period from 1 July to 31 December 2010, the number of new contracts concluded in the financing, leasing and insurance business came to 1.4 million after 1.3 million in the period from 1 July to 31 December 2009. The number of accounts managed by Volkswagen Bank direct was 1.4 million at 31 December, 2010. As of the same date, the joint venture company LeasePlan Corporation N.V. managed a total of some 1.3 million vehicles.

New jobs

As of 31 December 2010, the Porsche SE group had 36 employees (31 July 2010: 37 employees).

As of 31 December 2010, the headcount at the Porsche Zwischenholding GmbH group of 13,159 employees was up 3.4 percent on the figure seen as of 31 July 2010. In Germany, the Porsche Zwischenholding GmbH group employed 11,267 as of 31 December 2010. This means that Germany accounts for 86 percent of the total workforce.

The Volkswagen group had 399,381 employees as of 31 December 2010, 5.9 percent more than as of 30 June 2010 (377,074). The number of people employed in Germany came to 181,328, or 45.4 percent of the total workforce.

Capital market

Overall, the mood on the international stock exchanges improved considerably in the course of the reporting period. The German stock exchange index (Dax), which stood at just 6,292 points on 2 August 2010 and therefore on the first trading day in the Porsche short fiscal year 2010, exceeded the 7,000 mark for the first time again at the beginning of December 2010. It closed at 6,914 points on 30 December 2010, recording growth of just under ten percent compared to the end of the prior fiscal year. The Composite Dax (C-Dax) even rose by 31 percent in the five-month reporting period. Porsche SE's preference shares, which were trading at 39 euro at the beginning of the short fiscal year 2010, rose by 54 percent to 60 euro by the end of the fiscal year.

Annual document pursuant to Sec. 10 WpPG

The annual document containing the disclosures required by Sec. 10 (1) German Securities Prospectus Act (WpPG) can be viewed at www.porsche-se.com/pho/en/investorrelations.

Implementation of the requirements of the German Corporate Governance Code

In accordance with the declaration of compliance dated 13 October 2010, Porsche SE complies with the recommendations of the German Corporate Governance Code with two exceptions. The shares in the company and related financial instruments held by members of the company's governing bodies (No. 6.6 of the German Corporate Governance Code) will still not be published in the future as complete compliance with statutory publishing requirements provides the capital markets and Porsche SE's shareholders in particular with sufficient information.

In future concrete objectives will not be specified regarding the composition of the supervisory board which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, an age limit to be specified for the members of the supervisory board and diversity (No. 5.4.1 (2 and 3), version dated 26 May 2010). However, in light of the intended merger with Volkswagen AG and the fact that, at present, no new elections of shareholder representatives to the supervisory board are planned prior to the merger, the specification of concrete goals would not be appropriate at the current point in time.

Publication of the declaration of compliance

Porsche SE has issued the declaration of compliance as required by Sec. 289a German Commercial Code (HGB). It can be viewed at www.porsche-se.com/pho/en/investorrelations.

Porsche SE's annual general meeting well-attended

Around 5,000 people attended the annual general meeting of Porsche SE held on 30 November 2010 at the Stuttgart trade fair center. The dividend approved for the fiscal year 2009/10 is 0.094 euro per ordinary share and 0.10 euro per preference share. The annual general meeting of Porsche SE approved the direct capital increase of up to five billion euro proposed by the executive board and supervisory board. This will involve the issue of equal numbers of ordinary and preference shares. The proposal was unanimously approved by the holders of ordinary shares, all of whom were represented at the meeting. The holders of preference shares approved the proposed direct capital increase with 88.39 percent of votes cast. Over 50 percent of preference shareholders attended the meeting. For more details on the capital measures proposed to the annual general meeting, we refer to our statements in section “Capital measures planned by Porsche SE” of the “Significant events” section of this management report.

Shareholder composition

The share capital of Porsche SE amounts to 175 million euro, and is divided into 87.5 million ordinary shares and 87.5 million listed preference shares, with a pro rata share of capital stock of one euro per no-par value share. Until the end of the 2008/09 fiscal year, the ordinary shares had been held indirectly exclusively by members of the Porsche and Piëch families. In August 2009, Qatar Holding LLC indirectly acquired ten percent of the ordinary shares of Porsche SE.

In the reporting period, more than half of the preference shares were held by institutional investors such as equity funds, banks and insurance firms. Most of these are based in the US and Canada, as well as the UK and Germany, and to a lesser extent in other European countries and Asia. Less than half of the Porsche preference shares are in free float and are held by private investors mainly from Germany. The holders of ordinary shares of Porsche SE also own preference shares.

Indices

Porsche is represented on important international indices such as “Morgan Stanley Capital International” index (MSCI), the “Dow Jones STOXX 600” and the British “FTSE4Good” index on which stock corporations are listed whose corporate policy is guided by ecological, ethical and social considerations.

Net assets, financial position and results of operations

Since deconsolidation of the two former subgroups, Porsche and Volkswagen, in the fiscal year 2009/10 Porsche SE has been functioning as a holding company for its investments in the operating companies Porsche Zwischenholding GmbH and Volkswagen AG. The current short fiscal year 2010 covers a period of five months from 1 August 2010 to 31 December 2010. The comparative prior-year period, fiscal year 2009/10, ran from 1 August 2009 to 31 July 2010, covering a twelve-month period. Due to the different number of months covered by the two fiscal years, the items in Porsche SE's consolidated financial statements for the short fiscal year 2010 and the prior-year figures for the fiscal year 2009/10 are comparable only to a very limited extent, in particular with respect to the financial position and results of operations.

In addition, as a result of the change in Porsche SE's fiscal year in the short fiscal year 2010, the Volkswagen group is now included as of the same reporting date, whereas it had previously been included with a delay of one month. Accordingly, the Volkswagen group has been included in the profit from investments accounted for at equity with the figures for a period of six months (1 July 2010 to 31 December 2010) in the short fiscal year 2010.

Net assets

The total assets of Porsche SE group increased by 1,514 million euro compared to 31 July 2010 to 29,666 million euro.

The non-current assets of the Porsche SE group totaling 28,733 million euro (31 July 2010: 27,026 million euro) essentially pertain to the shares in Porsche Zwischenholding GmbH and Volkswagen AG accounted for at equity. Whereas the carrying amount of the investment in Volkswagen AG accounted for at equity increased by a total of 1,623 million euro to 20,709 million euro – partly also on account of the positive business development – , the carrying amount of the investment in Porsche Zwischenholding GmbH accounted for at equity fell by a total of 72 million euro to 3,549 million euro in particular due to received dividends in the short fiscal year – in spite of a likewise positive development of business. Other receivables and assets as of the end of the reporting period of 4,475 million euro (31 July 2010: 4,319 million euro) relate primarily to non-current other receivables due from Porsche Zwischenholding GmbH and Porsche AG. In addition, the other receivables and assets contain a positive fair value totaling 459 million euro (31 July 2010: 301 million euro) for the put option Porsche SE received from Volkswagen under the basic agreement for the remaining shares that it holds in Porsche Zwischenholding GmbH. It is calculated based on a 50 percent theoretical probability of exercise of the options; in other words, there is a 50 percent probability that the merger will fail within the meaning of the basic agreement.

Non-current assets expressed as a percentage of total assets increased from 96.0 percent at the end of the comparative period to 96.9 percent at the end of the short fiscal year.

Current assets fell by 193 million euro in comparison to 31 July 2010 to 933 million euro. This figure mainly comprises the cash and cash equivalents of Porsche SE and its subsidiaries as well as income tax receivables that primarily relate to reimbursement claims for tax on investment income from dividends received. As a percentage of total assets, current assets fell from 4.0 percent in the prior year to 3.1 percent as of 31 December 2010.

As of 31 December 2010, the equity of the Porsche SE group increased to 17,214 million euro, mostly on account of the group's net profit (as of 31 July 2010: 15,197 million euro). The equity ratio (taking hybrid capital into account) increased from 54.0 percent in the prior year to 58.0 percent as of 31 December 2010 as total assets had risen slightly.

Provisions decreased from 1,550 million euro at the end of the fiscal year 2009/10 to 247 million euro. The decrease compared to 31 July 2010 is essentially due to the decision made by the tax authorities regarding the tax treatment of stock option transactions. Overall, this has reduced tax provisions by 1,250 million euro. An amount of 584 million euro thereof was utilized and 666 million euro thereof was reversed. Provisions of 51 million euro for interest on deferred payments and tax payments in arrears were reversed in connection with a decision by the tax authorities, leading to a corresponding reduction in other provisions in relation to 31 July 2010.

Financial liabilities remained virtually unchanged compared to 31 July 2010, at a total of 10,844 million euro as of the reporting date. The portion of the syndicated loan that had been presented as non-current as of 31 July 2010 was reclassified to current financial liabilities as of the reporting date, as the loan will mature during the fiscal year 2011. This figure includes liabilities to banks and liabilities to companies belonging to the Porsche Zwischenholding GmbH group of 3,880 million euro. Other liabilities increased from 574 million euro at the end of the prior fiscal year to 1,093 million euro as of the reporting date. Non-current other liabilities contain a negative fair value of 942 million euro (31 July 2010: 395 million euro) for Volkswagen AG's call option pursuant to the basic agreement for the remaining shares held by Porsche SE in Porsche Zwischenholding GmbH. The change in the value of the call option, just like the change in the value of the put option presented under non-current assets, is attributable to updated assumptions underlying their valuations, in particular the increase in the theoretical probability of exercise of the options to 50 percent.

Financial position

The following presentation contains the prior-year effects of business operations of the Porsche Zwischenholding GmbH group and the Volkswagen group until their respective date of deconsolidation. Consequently, a comparison of the reporting period and the prior year is possible only to a limited extent.

The cash flow from operating activities came to minus 325 million euro in the short fiscal year 2010 (prior year: 4,785 million euro). The negative cash flow is primarily attributable to income tax payments of 370 million euro. Whereas the dividends received in the short fiscal year of 198 million euro related exclusively to Porsche Zwischenholding GmbH, in the prior year dividends of 240 million euro were attributable to Porsche Zwischenholding GmbH and Volkswagen AG.

The cash inflow from investing activities amounted to 222 million euro in the short fiscal year 2010, compared to cash outflows of 25,745 million euro in the prior year. The cash outflow in the prior year was mainly due to the deconsolidation of the Porsche Zwischenholding GmbH group and the Volkswagen group in the comparative period. In the short fiscal year the cash flow from investing activities principally relates to changes in the cash-settled options relating to shares in Volkswagen AG, which were disposed of in full in the course of the short fiscal year, and also includes the associated effect of the restricted cash as of the end of the prior year being released.

Cash outflows used in financing activities came to 507 million euro in the comparative period and to 28 million euro in the reporting period. In the comparative period, the cash flow from financing activities had been significantly influenced by effects from restructuring and refinancing measures in the Porsche SE group and by the inclusion of the Volkswagen group and the Porsche Zwischenholding GmbH group until their respective dates of deconsolidation. In the short fiscal year the cash flow from financing activities contains only dividends paid to the shareholders of Porsche SE and its hybrid capital investors.

Compared to 31 July 2010 cash funds fell by 131 million euro to 406 million euro.

Gross liquidity, i.e., cash and cash equivalents, fell from 898 million euro one year earlier to 622 million euro. Liabilities to banks rose slightly from a total of 6,945 million euro as of 31 July 2010 to 6,964 million euro as of 31 December 2010.

The net liquidity of the Porsche SE group, i.e., cash and cash equivalents less liabilities to banks, came to minus 6,342 million euro as of 31 December 2010 (31 July 2010: minus 6,047 million euro).

Results of operations

At the end of the short fiscal year 2010, the Porsche SE group reports a profit after tax of 1,286 million euro, following a loss after tax of 454 million euro recorded for the prior year.

Over the period from 1 August 2010 to 31 December 2010 other operating income fell by 709 million euro in relation to the comparative period to 269 million euro. In the short fiscal year this item mainly contains effects from the valuation of the put option relating to the remaining shares held by Porsche SE in Porsche Zwischenholding GmbH at a fair value of 158 million euro and an amount of 102 million euro from the cash-settled options relating to shares in Volkswagen AG, which were disposed of in full in the short fiscal year.

Other operating expenses decreased from 956 million euro to 590 million euro. In the short fiscal year 2010 they mainly contain the effect from the valuation of the call option for the shares in Porsche Zwischenholding GmbH remaining with Porsche SE at a fair value of minus 547 million euro. In addition, expenses arose from the valuation of the cash-settled options relating to Volkswagen AG shares at 10 million euro; they were disposed of in full in the short fiscal year.

Personnel expenses came to 11 million euro in the Porsche SE group (2009/10: 17 million euro).

The profit from investments accounted for at equity amounts to 1,075 million euro (2009/10: 6,792 million euro); an amount of 106 million euro thereof stems from the Porsche Zwischenholding GmbH group and 969 million euro from the Volkswagen group. As a result of the change in Porsche SE's fiscal year in the short fiscal year 2010, the Volkswagen group is now included as of the same reporting date in the reporting period, whereas it had previously been included with a delay of one month. Accordingly, the Volkswagen group has been included in the profit from investments accounted for at equity with the figures for a period of six months (1 July to 31 December 2010) in the short fiscal year 2010. The contributions to profit also include effects of amortization of the purchase price allocations performed at the time of inclusion of Porsche Zwischenholding GmbH as a joint venture and Volkswagen AG as an associate. The profit/loss from investments accounted for at equity – and therefore the Porsche SE group's profit after tax – was reduced by 206 million euro in total by the subsequent effects of the purchase price allocations for the Porsche Zwischenholding GmbH and Volkswagen groups, i.e., the amortization of hidden reserves and liabilities identified in the process. The purchase price allocations required for the purpose of accounting for the entities at equity was completed in early December 2010. No restatements had to be made to the figures contained in the consolidated financial statements for the fiscal year 2009/10.

In the comparative period the profit/loss from investments accounted for at equity included above all non-recurring effects, income of 7,841 million euro from the first-time inclusion of the investment in Volkswagen AG at equity, as well as a dilutive effect of 1,440 million euro from the capital increase performed at Volkswagen AG in March 2010, in which Porsche SE did not participate.

Over the reporting period, the financial result improved from minus 673 million euro to minus 104 million euro. The reasons include not only the different period covered by the comparative periods, but also lower interest payments to banks, attributable to the reduction of the average level of bank liabilities in the reporting period in relation to the

comparative period, as well as to higher expenses for refinancing incurred in the prior year.

The profit before tax totals 639 million euro (prior year: 5,855 million euro). The income of 647 million euro reported under income taxes includes income of 666 million euro arising from the reversal of provisions set up in the prior years relating to the tax treatment of stock option transactions (2009/10: tax expense of 114 million euro).

In the prior year, the profit after tax was reduced by a loss after tax from discontinued operations of 6,195 million euro. The latter included the net profit of discontinued operations until the date of their deconsolidation and the profit contributions arising from deconsolidation. The loss arising from the deconsolidation of the Volkswagen group of 15,902 million euro in the fiscal year 2009/10 was partially offset by the positive contribution to profit/loss from the deconsolidation of the Porsche Zwischenholding GmbH group of 9,027 million euro.

Profit after tax of the Porsche SE group amounted to 1,286 million euro in the short fiscal year 2010 (prior year: loss of 454 million euro).

Operating result of significant equity investments

The following statements relate to the ongoing operating business of the Porsche Zwischenholding GmbH group, Porsche AG and its subsidiaries (Porsche AG group) and the Volkswagen group. Effects from inclusion in the consolidated financial statements of Porsche SE, i.e. particularly relating to amortization of the hidden reserves and liabilities identified in the course of the purchase price allocations are not taken into consideration.

The Porsche Zwischenholding GmbH group sold 40,446 vehicles in the short fiscal year 2010. Revenue came to 3,867 million euro. The operating result of the Porsche Zwischenholding GmbH group for the five months of the short fiscal year amounted to 688 million euro. The Porsche Zwischenholding GmbH group reports a healthy double-digit return on sales.

The Volkswagen group sold 3,712,319 vehicles in the period from 1 July 2010 to 31 December 2010. With revenue of 65,066 million euro, the operating result came to 4,300 million euro in that period.

Overall statement on the economic situation of the Porsche SE group

Due to the corporate restructuring performed in the 2009/10 fiscal year, the Porsche SE group no longer has any vehicle operations itself. Since then Porsche SE has been functioning as a holding company for its investments in the operating companies Porsche Zwischenholding GmbH and Volkswagen AG.

The Porsche SE group's results of operations are therefore impacted most by the profit contributions of the investments accounted for at equity in Porsche Zwischenholding GmbH and Volkswagen AG as well as the finance costs associated with the existing credit line. In addition, the valuation of the put and call options relating to the remaining shares held by Porsche SE in Porsche Zwischenholding GmbH can have a significant effect on the results of operations in the event of changes in the underlying assumptions, in particular the enterprise value of Porsche Zwischenholding GmbH and the executive board's assessment of the likelihood of the failure of the merger as defined in the basic agreement.

The material factors determining net assets remain the development of the carrying amounts of investments held in Porsche Zwischenholding GmbH and Volkswagen AG accounted for at equity, the development of financial liabilities as well as the status and planned repayment of liabilities to banks.

The financial position is determined, on the one hand, by the cash inflows from dividends paid by Porsche Zwischenholding GmbH and Volkswagen AG. On the other, there are cash outflows from interest and principal payments as well as taxes paid, among other things.

Porsche SE's executive board considers the economic situation of its significant investments to be positive. The significant investments have largely overcome the effects of the global financial and economic crisis and have reinforced their earnings power. Porsche SE was able to benefit from these positive developments in the short fiscal year.

Porsche Automobil Holding SE (separate financial statements pursuant to the German Commercial Code)

The reporting period presented in the separate financial statements of Porsche SE pursuant to the German Commercial Code is the short fiscal year 2010, covering a period of five months. The comparative period, however, is the fiscal year 2009/10 which covered a period of twelve months. Due to the different number of months covered by the two fiscal years as well as the restructuring effects in the comparative period, the financial position and results of operations in particular of the short fiscal year 2010 are comparable only to a very limited extent with the fiscal year 2009/10.

Net profit for the period

Porsche SE's net profit for the period is determined mainly by the profit/loss from investments, the interest result and a non-recurring tax effect. In the short fiscal year Porsche SE received a dividend from Porsche Zwischenholding GmbH of 282 million euro and income of 71 million euro from the profit transfer by Porsche Zweite Vermögensverwaltung GmbH. In the comparative period, the company received a dividend via a withdrawal in kind of 9,523 million euro. Porsche SE's withdrawal in kind at Porsche Zwischenholding GmbH related to receivables due from (the new) Porsche AG and from Porsche SE itself. In addition, the company recognized dividend income of 87 million euro from Porsche Zwischenholding GmbH and 240 million euro from Volkswagen AG in the prior year.

The cash-settled options relating to Volkswagen AG shares that Porsche SE held as of the end of the comparative period were disposed of in full in the short fiscal year. The accounting profit for the short fiscal year 2010 includes effects from stock options totaling 21 million euro (prior year: 17 million euro). An amount of 23 million euro thereof (prior year: 392 million euro) is attributable to other operating income and 2 million euro (prior year: 409 million euro) to other operating expenses.

The interest result essentially consists of income and expenses from loans. The interest result includes income from the reversal of provisions of 51 million euro for interest on deferred payments and tax payments in arrears that had been recognized in connection with the tax treatment of stock option transactions. The decrease in interest expenses in the short fiscal year is primarily due to the reduced average level of liabilities to banks in the reporting period compared to the comparative period.

Income from ordinary activities fell from 8,991 million euro in the prior year to 217 million euro in the short fiscal year 2010.

The extraordinary expenses of 2 million euro are a result of the first-time adoption of all requirements of the German Accounting Law Modernization Act (BilMoG) in the separate financial statements pursuant to the German Commercial Code.

The taxes of 664 million euro include income of 666 million euro arising from the reversal of provisions set up in prior years relating to the tax treatment of stock option transactions. After taxes and the extraordinary result, the net profit for the period was 879 million euro (prior year: 8,991 million euro).

Income statement of Porsche Automobil Holding SE

€ million	SFY 2010	2009/10
Other operating income	32	641
Personnel expenses	– 11	– 18
Other operating expenses	– 44	– 631
Income from investments	353	9,850
Interest result	– 113	– 851
Income from ordinary activities	**217**	**8,991**
Extraordinary expenses	– 2	0
Taxes	664	0
Net profit	**879**	**8,991**
Transfer to retained earnings	– 439	– 4,495
Net profit available for distribution	**440**	**4,496**

Net assets and financial position

The financial assets of Porsche SE mainly comprise the investments held in Porsche Zwischenholding GmbH and Volkswagen AG, which are recognized at cost in the separate financial statements. Porsche SE's receivables primarily include loan receivables from Porsche Zwischenholding GmbH (2,703 million euro) and from Porsche AG (1,313 million euro) that are due in more than one year.

Other assets principally relate to tax refunds based on the recognition of reimbursement claims against the tax authorities relating to dividends received. In addition, other assets still contain 13 million euro for the put option with Volkswagen AG for the remaining shares in Porsche Zwischenholding GmbH held by Porsche SE.

Prepaid expenses mainly comprises a debt discount of 34 million euro (prior year: 53 million euro) and prepayments for service agreements.

Provisions include provisions for pensions and similar obligations, tax provisions for prior-year taxes that have not been assessed yet as well as other provisions. The decrease compared to 31 July 2010 is first and foremost attributable to the decision by the tax authorities on the tax treatment of stock option transactions and the associated reduction in tax provisions by 1,250 million euro as well as to the related reversal of other provisions for interest on deferred payments and tax payments in arrears of 51 million euro.

Liabilities to banks are virtually unchanged in comparison to 31 July 2010. At 4,653 million euro, sundry liabilities decreased marginally in comparison to the prior year (4,740 million euro). They mostly relate to liabilities due to Porsche Zwischenholding GmbH and Porsche AG. Other liabilities include (unchanged) 10 million euro for Volkswagen AG's call option for the remaining shares in Porsche Zwischenholding GmbH held by Porsche SE.

Balance sheet of Porsche Automobil Holding SE as of 31 December 2010

€ million	31/12/2010	31/7/2010
Assets		
Financial assets	24,771	24,771
Receivables	4,027	4,348
Other receivables and assets	302	230
Cash and cash equivalents	622	887
Prepaid expenses	35	53
	29,757	**30,289**
Equity and liabilities		
Equity	17,839	16,977
Provisions	265	1,572
Liabilities to banks	7,000	7,000
Sundry liabilities	4,653	4,740
	29,757	**30,289**

Risks relating to the business development

The risks relating to the development of Porsche SE's business as the parent company of the Porsche SE group are closely connected to the risks relating to the significant investments in Porsche Zwischenholding GmbH and Volkswagen AG. Acting as a holding company also entails additional risks. Please refer to the report on the opportunities and risks of future development in this management report for a description of the risks.

Risks arising from financial instruments

Porsche SE is exposed to particular risks, partly on account of its management function within the Porsche SE group. These are described in the report on the opportunities and risks of future development in this group management report, along with the risks relating to the significant investments held by Porsche SE.

Proposed dividend

The statutory financial statements of Porsche SE as of 31 December 2010 report a distributable profit of 439,527,668.81 euro. A proposal for the appropriation of profit was not available for submission to the annual general meeting by the time the financial statements were authorized by the executive board.

Dependent company report drawn up

As in previous years, in accordance with Sec. 312 German Stock Corporation Act (AktG), Porsche SE has drawn up a report on relations with companies affiliated with holders of its ordinary shares (a dependent company report). The conclusion of this report is as follows: "In accordance with the circumstances known to it when the transactions stated in the report were conducted, Porsche Automobil Holding SE has rendered or, as the case may be, received reasonable payment. The company was not disadvantaged by these transactions. There were no reportable measures in accordance with Sec. 312 (1) Sentence 2 German Stock Corporations Act (AktG) in the short fiscal year."

Value-enhancing factors

This section presents the main non-financial performance indicators of the Porsche Zwischenholding GmbH group and the Volkswagen group. Even after deconsolidation of the two groups, these value drivers help raise the value of these significant investments held by Porsche SE in the long term. They include newly developed products, processes in the fields of research and development, procurement, production, sales and marketing, and the environment, as well as the behavior of company management towards its employees.

Research and development

New launches by the Porsche Zwischenholding GmbH group

The reporting period saw the market launch of the most powerful series-production sports car in Porsche AG's history: The 911 GT2 RS* with an output of 620 hp celebrated its world debut on 25 August 2010 at the Moscow Auto Salon, sales began in September 2010. The small series limited to 500 vehicles had already sold out by mid-October. This high-performance sports car is powered by a 3.6 liter six-cylinder Boxer engine with two turbochargers with variable turbine geometry. Its acceleration rates: 0 to 100 km/h in 3.5 seconds, 0 to 200 km/h in 9.8 seconds and 0 to 300 km/h in 28.9 seconds. Its top speed is 330 km/h.

The Paris Motor Show at the beginning of October saw the world premiere of two further models from the successful 911 series: The 911 Speedster* and the 911 Carrera GTS*. With their 408 hp, the 3.8 liter six-cylinder Boxer engines in the two new 911s produce 23 more hp than the 911 Carrera S. With its markedly sporty fittings, the Carrera GTS forms the new top of the Carrera model series. The coupé and convertible versions of the GTS have been available from dealers since December 2010. Also on sale since December, the new 911 Speedster was produced in a small series limited to 356 cars as a tribute to the first Porsche model to bear the Speedster name – the 356 Speedster. This two-seater is significantly different from the other vehicles in the 911 series. The striking profile of this sports car arises from the flatter front screen, which has been lowered by 60 millimeters, the subtle contours of the roof's sporty design and a characteristic dash cowl.

The new launch at the Los Angeles Auto Show in mid-November was the Cayman R*. Powered by a performance-enhanced 3.4 liter six-cylinder engine with 330 hp, the mid-engined sports car with six-speed manual gearbox can accelerate from a standing start to 100 km/h in 5.0 seconds – or 4.9 seconds with the optional double-clutch gearbox (PDK). Its top speed is 282 km/h (with PDK: 280 km/h). It went on sale in February 2011.

* Fuel consumption and emission data can be found on page 65 of this report.

New launches by the Volkswagen group

The Audi brand introduced the new Audi A7 Sportback to the public at the Pinakothek der Moderne in Munich in July 2010. The vehicle combines the sporty elegance of a coupé with the functionality of a five-door vehicle.

The Volkswagen group presented a large number of new models to the Russian audience at the auto salon in Moscow in August. The highlight of these was the Polo saloon, produced at Volkswagen's Kaluga plant in Russia; development of this vehicle took into account the country's special climate and road conditions.

Volkswagen commercial vehicles presented five innovations offering a high degree of efficiency, functionality and safety to visitors of the International Motor Show (IAA) in Hanover in September 2010. The main focus was on the new Caddy. The compact urban delivery vehicle's design, functionality, safety and equipment have been perfected even further compared with its predecessor. Its innovative and efficient range of engines reduces fuel consumption by up to 21 percent. Another highlight at the Volkswagen stand was the Amarok SingleCab, whose loading space has been extended to 2.20 meters despite having the same vehicle dimensions as the four-door model. The Transporter featuring BlueMotion Technology also celebrated its debut. Compared with the current standard model with the same power, the new Transporter's combined consumption has been reduced by another 0.5 liters, which means that it only requires an average of 6.8 liters of fuel per 100 km.

The Scania brand revealed the new V8 at the Hanover Show, the most powerful truck worldwide. In addition, the Swedish brand unveiled the innovative R series, which sets new standards in efficiency and comfort. Other innovations were the new the Scania Touring coach, the low-floor Scania OmniCity bus and the Ecolution by Scania service program. The program offers customers tailored services designed to reduce CO_2 emissions and fuel consumption, and thus increasing the Scania fleet's environmental compatibility, efficiency and profitability for customers in the long term.

The Volkswagen passenger cars brand scored a particular highlight at the Paris Motor Show with the world premiere of the seventh generation Passat saloon and Passat Variant at the end of September. The vehicles offer a compelling design thanks to their straight lines, clearly structured surfaces and dynamic proportions. The new Passat's perfected comfort, quality and safety features as well as its premium-level assistance systems allow it to again set standards in the mid-range segment. Energy recovery (recuperation), an automatic city emergency braking function, fatigue detection and the masked dynamic light assist are only some of its new technical features. The interior of the Passat has also been extensively revamped, while the nature and quality of the materials used bridge the gap to the segment above.

The Audi brand impressed motor show visitors in Paris with the Audi quattro concept, a modern interpretation of the legendary 1980s Audi quattro. Audi gave a preview of the sports car of the future in the form of the Audi e-tron Spyder, which intelligently combines TDI technology and an electric drive. Its hallmarks are a strikingly powerful design and a highly efficient plug-in hybrid drive. The Paris Motor Show also saw the launch of the Audi R8 GT*, a lighter and more powerful version of the Audi R8 high-performance sports car that is limited to 333 examples.

The Škoda stand focused on environmentally friendly mobility. The brand demonstrated its innovative strength and technical expertise by showcasing the Octavia Green E Line concept car, Škoda's first purely electric powered vehicle. Škoda's second generation GreenLine models also represent sustainable mobility. The brand's eco label stands for state-of-the-art engines and innovative solutions, such as the start-stop system or regenerative braking, and is now available in all Škoda's model series.

* Fuel consumption and emission data can be found on page 65 of this report.

SEAT presented its vision of an electromobile future in Paris by unveiling the IBE concept car. This compact sports coupé with powerful proportions is an enhancement of the concept presented by the brand in March 2010 in Geneva. The SEAT IBE is powered by a 75 kW electric motor and combines dynamic driving pleasure with ecological responsibility. SEAT also showcased the new Alhambra in Paris.

The premiere of the new Bentley Continental GT* was a further highlight of the Volkswagen group at the Paris Motor Show. Lamborghini fascinated show visitors with the Lamborghini Sesto Elemento. The European debut of the world record breaking Bugatti Veyron 16.4 Super Sport* similarly caused quite a sensation at the Paris Motor Show.

Pooling strengths through strategic alliances

In 2010, the Volkswagen group continued its existing cooperation arrangements with Dr. Ing. h.c. F. Porsche AG, Daimler AG and the Chrysler Group on the development and production of vehicles. Volkswagen also entered into a long-term strategic partnership with Suzuki Motor Corporation.

In 2010, the Volkswagen group sought or intensified its cooperation with many expert battery manufacturers to promote the development of high-voltage battery systems for hybrid drives and electric vehicles. Volkswagen and its partner VARTA Microbattery GmbH, Ellwangen, founded the joint venture VOLKSWAGEN VARTA Microbattery Forschungsgesellschaft mbH & Co KG for research into and the development of battery cells suitable for automobiles as well as the associated production technology. The Volkswagen group also built up its expertise in the field of electric traction in cooperation with a large number of universities such as the Institute of Physical Chemistry at the University of Münster.

In the area of renewable second-generation biofuels Volkswagen is continuing to work with CHOREN Industries and IOGEN. Volkswagen has held a financial investment in CHOREN Industries since 2007.

Porsche Intelligent Performance

At the Detroit Auto Show 2011, Porsche presented the 918 RSR – a high-end synthesis of the successful hybrid concepts of 2010. The mid-engined 918 RSR coupé combines the technology of the 911 GT3 R hybrid and the design of the 918 Spyder in a leading-edge super sports car. The V8 engine is a further development of the direct-injection engine used in the successful RS Spyder racing car and delivers an output of 563 hp in the 918 RSR. The electric motors on the two front wheels each contribute 75 kW to the peak drive power of 767 hp. The integrated flywheel accumulator is an electrical motor, with a rotator that spins at up to 36,000 rpm to store rotation energy. Charging occurs when the two electric motors on the front axle reverse their function during braking processes and operate as generators. At the push of a button, the driver is able to call up the energy stored in the charged flywheel accumulator and use it during acceleration or overtaking maneuvers. The flywheel is braked electro-magnetically in this case in order to additionally supply up to 150 kW from its kinetic energy to the two electric motors on the front axle. At the Auto Show in Detroit, the 918 RSR received the Best in Show – AutoWeek Editors' Choice Award 2011.

* Fuel consumption and emission data can be found on page 65 of this report.

Research and development costs

In the short fiscal year 2010, research costs and non-capitalized development costs in the Porsche Zwischenholding GmbH group came to 100 million euro (prior fiscal year 2009/10: 189 million euro). Development costs totaling 175 million euro were capitalized (fiscal year 2009/10: 400 million euro). The capitalization rate, which was 68 percent in the fiscal year 2009/10, was 64 percent in the reporting year.

In the period from 1 July 2010 to 31 December, research costs and non-capitalized development costs in the Volkswagen group totaled 2,352 million euro; in the period from 1 July to 31 December 2010, they came to 1,722 million euro. Development costs totaling 821 million euro were capitalized (comparative period: 1,013 million euro). The capitalization rate from the Volkswagen group was 37.0 percent in the period from 1 July to 31 December 2009; and in the period from 1 July to 31 December 2010, it was 25.9 percent.

Industrial property rights and licenses

The volume of patent applications for innovations and designs in the Porsche Zwischenholding GmbH group remained at a high level. These mainly related to vehicle projects relating to hybrid technology and electromobility. When it comes to patent applications outside Germany, the focus remains firmly on Asia, in particular China, Japan and South Korea. The licensing business has also developed positively, and royalties remain high.

The Volkswagen group also obtained many patents in Germany and abroad during the reporting period. The majority of these innovations related to driver assistance systems and infotainment topics as well as to hybrid and bodywork technology. The large number and the technological quality of the applications showed once again that the employees of the Volkswagen group have exceptional innovative strength.

Consumption and emissions

Model	Output kW (hp)	Fuel consumption urban (l/100km)	Fuel consumption extra-urban (l/100km)	Fuel consumption combined (l/100km)	CO_2-Emissions combined (g/km)
Audi R 8 GT	412 (560)	21.0	9.9	13.9	323
Bentley Continental GT	423 (575)	25.4	11.4	16.5	384
Bugatti Veyron 16.4 Super Sport	882 (1200)	37.2	14.9	23.1	539
Porsche 911 GT2 RS	456 (620)	17.9	8.7	11.9	284
Porsche 911 Carrera GTS	300 (408)	15.9	7.6	10.6	250
Porsche 911 Carrera GTS PDK	300 (408)	15.3	7.2	10.2	240
Porsche 911 Carrera GTS Cabriolet	300 (408)	16.2	7.7	10.8	254
Porsche 911 Carrera GTS PDK Cabriolet	300 (408)	15.5	7.3	10.3	242
Porsche 911 Speedster	300 (408)	15.5	7.3	10.3	242
Porsche Cayman R	243 (330)	14.2	7.1	9.7	228
Porsche Cayman R PDK	243 (330)	14.0	6.6	9.3	218

Procurement

In the short fiscal year 2010, the cost of materials within the Porsche Zwischenholding GmbH group totaled 2,267 million euro. As a result of numerous measures aimed at optimizing products and processes and implemented jointly with suppliers, it was possible to reduce the cost of materials per vehicle, as in previous years. Following the conclusion of several large-scale projects from the prior fiscal year, the volume of procurement of non-production materials and services during the short fiscal year was down on the comparative period of the prior year.

Gradual expansion of collaboration with VW

In the past short fiscal year, joint procurement with Volkswagen in the areas of production and non-production materials was stepped up on the basis of the master cooperation agreement concluded in the prior fiscal year. The procurement volumes of both companies were pooled for defined volumes that offer potential synergies. In addition, the global procurement organization of the Volkswagen group was leveraged. This has delivered sustainable effects on the cost of materials for Porsche AG. Going forward, it is planned to gradually extend joint procurement of production materials and non-production materials. This will positively impact the cost of materials, particularly for new vehicle projects.

In light of the high proportion of value added by third parties, the performance and stability of the supplier base will continue to play a key role under the new conditions.

Production supplies secured at Porsche despite tough conditions

While the automotive supply industry continued to face the ongoing effects of the worldwide financial and economic crisis during the first half of 2010, the economy recovered significantly in the second half of the year. However, the rapid recovery of parts of the world economy led to capacity bottlenecks and increased financing requirements. The extremely cautious lending policy of the banks and rising refinancing costs continue to have a critical impact. Despite this difficult situation, Porsche collaborated successfully with suppliers to identify potential weaknesses at an early stage and improve suppliers' financial stability. This was achieved by systematically leveraging Porsche's risk management system. As a result, the number of supplier insolvencies seen by Porsche was significantly lower than in the industry as a whole. Even in critical cases, it was possible to avoid long-term disruption to the reliability and quality of supplies for vehicle production, while significantly increasing production figures.

In view of the uncertainty regarding the development of the global financial crisis, and the high proportion of value added by third parties, the efficiency of suppliers' production processes and the competitiveness of their cost structures were more important than ever. Throughout the reporting period, supplier management therefore worked hand in hand with suppliers to enhance their value-added processes. Key tasks included providing suppliers with support to safeguard the start-up of new vehicle projects and implementing preventive measures to ensure trouble-free series development.

The performance of Porsche suppliers is regularly evaluated. As in the prior fiscal year, the results of these evaluations confirmed the high performance of the supplier base in ongoing series production; however, results in the product creation process revealed scope for improvement.

Supplier selection at Porsche

The start-ups of the 911 Carrera Speedster and Carrera GTS models marked two significant milestones for Porsche's procurement processes. The kick-off of series development for the 918 Spyder, which integrates plug-in hybrid technology, represents a further major advance in the development of Porsche's hybrid expertise. Selecting suppliers for this model posed particular issues for procurement, as the vehicle combines typical racing components and new electric-mobility technologies with regular series features.

The start of series development for a further model series in the sporty off-roader segment (under the working title of “Cajun”) has set the stage for continuous, successful growth. As with the Cayenne, procurement for the new model makes extensive use of the structures and processes of the Volkswagen group’s procurement organization. The deployment of specific platform components, complemented by specially developed new elements, have effectively contained the costs of materials, investments and development costs for the new vehicle, while ensuring its design and features meet Porsche’s typical standards.

To tailor the standard features of the Panamera to customers’ individual needs, a customization offer has been introduced for this model series.

Purchasing of non-production materials in the Porsche group

Our group procurement activities have centralized the procurement of non-production materials within the Porsche group. Thanks to early identification and pooling of requirements, and professional procurement support, it was possible to exploit potential for savings. In addition to requirements pooling within the Porsche group, joint procurement activities with the Volkswagen group have led to a tangible improvement in the terms of contracts concluded for non-production materials. The second construction phase of the central spare parts warehouse in Sachsenheim, with a total volume of 100 million euro, was completed and went into operation in the short fiscal year 2010.

Increased raw materials prices

The raw materials sectors saw significant price increases in the second half of 2010. This was due not only to industrial demand, but also to the sharp increase in investor demand for commodity and hedge funds. As a result, the automotive industry not only faces a tighter supply situation, but is also in a similar situation to 2008, before the beginning of the global financial crisis. Porsche AG was able to contain the effects on the company by means of targeted hedging measures and compensatory measures in other cost components of production materials.

The Volkswagen group also developed strategies to offset the higher prices of raw materials. It was also necessary to align supplier and procured component management to the new situation in compliance with the sustainability principles of the Volkswagen group. As in prior years, procurement activities concentrated on the development of new markets and the continuous optimization of processes.

Supply situation for procured components and raw materials in the Volkswagen group

Whereas in 2009 the government subsidy programs in many countries triggered an increase in unit sales of compact cars, 2010 saw increased demand for vehicles from the premium segments with luxury equipment features. Procurement succeeded in managing increases and changes in material requirements that this shift in demand entailed, supplying procured components to all component and vehicle plants. This was especially the case at the Volkswagen group’s production facilities in China, which had to contend with a sharp rise in demand. Key factors contributing to this smooth alignment were the systematic improvements in processes, especially in capacity, requirements, and procured component management, and the increasingly close integration with all divisions involved.

During 2010, the commodity markets developed in step with the global economy. The spot markets registered substantial price increases sparked by rising demand, speculation on listed commodities and a changed pricing system for iron ore. As a result, the price situation on the international steel markets remained strained, with large fluctuations in the prices of all commodities.

Volkswagen was quick to take steps to counter this trend and continued in the same vein in 2010.

Based on the globally applicable procurement strategy, the focus of the Volkswagen group was on the strategic orientation of the supplier portfolio. The group closely integrated its local companies in China, India, Russia and the United States in particular into this process.

In addition, Volkswagen is working at high speed on ways of reducing materials usage and increasing the utilization rate – for example by systematically pursuing its lightweight construction strategies or by substituting tools with materials that were optimized for the specific applications.

Greater localization through expansion into new markets by the Volkswagen group

The new production facilities in India, Russia and the United States provide numerous opportunities for group procurement. Firstly, localization – using local markets for local production – allows the Volkswagen group to reduce costs. Secondly, the local suppliers are a potential supply source for the Volkswagen group's production facilities in other regions as well. Through what is known as radical localization Volkswagen is increasing the share of value added generated by locally procured components by trying to find cost-effective supply sources for raw materials in the relevant regions at an early stage and in doing so optimize the cost of materials. Here, Procurement works closely with the Technical Engineering and Quality Assurance divisions, with which it agrees on the proportion of locally procured components.

The C3 Sourcing (Cost-Competitive Country Sourcing) program introduced in 2008 builds on the two above-mentioned strategies of localization and radical localization. The objective of this program is to harness cost advantages in competitive procurement markets for European vehicle projects. Volkswagen has succeeded in leveraging and expanding synergies from local production for the export of components while adhering to Volkswagen's quality standards. Suppliers are supported by the group's own regional offices, both in radical localization in the country in question and when exporting their components to group production facilities in other countries. The C3 Sourcing program is going a long way to helping Volkswagen meet its cost targets for new vehicle projects at the start of series production and also to maintaining the company at a globally competitive level of procurement.

Production

Porsche Zwischenholding GmbH wins top accolade for outstanding

In the short fiscal year 2010, Porsche produced a total of 41,949 vehicles, 18.1 percent up on the comparable prior-year period. 7,174 units of the 911 model series and 2,255 units of the Boxster series were manufactured in Stuttgart Zuffenhausen. 1,986 units of the Boxster model series were manufactured by Finnish partner Valmet, with the Cayman accounting for 1,982 of these vehicles. At the Leipzig plant, 22,343 vehicles of the new Cayenne series were assembled during the reporting period. And 8,189 units of the Gran Turismo Panamera rolled off the Leipzig assembly line.

Customers associate the Porsche brand with superlative quality and reliability. During the reporting period, this outstanding image was again confirmed by the numerous awards garnered by the carmaker. These are also impressive testimony to the company's commitment to producing vehicles that feature innovative technology, outstanding handling characteristics, and unique comfort and design.

For example, the Porsche 911 won the ADAC's "Yellow Angel" award for Germany's highest quality and most reliable car of the year. The vehicle scored top marks in the automobile club's customer satisfaction study, in which 43,000 readers of the magazine "ADAC Motorwelt" participated, as well as in breakdown statistics based on analysis of some two million reports by ADAC patrolmen.

In the TÜV Report 2011, Porsche was honored as the manufacturer of Germany's most reliable cars. Porsche sports cars topped four out of five of the TÜV report's categories, based on the vehicle age, as the vehicles with the lowest number of defects. The 911 dominated the categories for six- to eleven-year-old vehicles; and the Boxster was the vehicle with fewest defects in the four- to five-year class. Every year, the impressive reliability of Porsche vehicles wins them top places in the TÜV report which documents defects identified in the general inspections required by law.

Leipzig: Production at full throttle

Following the start-up of production of the new Panamera and the launch of the new Cayenne in the past fiscal years, the Leipzig plant focused on further ramping up production of the sporty off-roader during the reporting period. High market demand meant that daily production volume had to be increased repeatedly. This challenge was mastered thanks to the motivation and flexibility of the team. In addition, the integration of forward-looking hybrid-drive technology into the sporty off-roader, which places entirely new demands on production, went off without a hitch. Many adjustments to vehicle assembly were required to integrate the totally new technology into the assembly process without jeopardizing the high efficiency and flexibility of the system.

The Leipzig facility systematically applies lean production principles, making it one of the world's most advanced automobile factories. For example, the logistics system introduced with the new Panamera further enhances productivity. An exact timeline and process description, involving all suppliers, now allows parts to be delivered in rapid succession with inventory of materials on hand measured in hours. The assembly of an off-roader and a luxury premium sedan in highly individual configurations on a single production line is unique worldwide.

Wide range of models at the main Porsche plant

During the reporting period, several attractive special models were integrated into the assembly lines at the Zuffenhausen plant. Porsche produced 500 units of the top-of-the-range 911 GTS RS, which debuted in August. The most powerful series-production sports car in the company's history rapidly sold out. The fourth edition of the legendary 911 Speedster is limited to just 356 units. Earlier, another 911 model – the new 911 Carrera GTS – was integrated into production at the Zuffenhausen plant.

The integration of additional variants into the existing mix increased the number of models assembled on one line. In addition, it demonstrated the benefits of the extraordinarily efficient and flexible production system, as well as the competence of the highly skilled workforce. To maintain and enhance the skills of the Porsche workforce, a number of training courses were again held during the reporting period. These are of key importance – not least because they contribute to ensuring Porsche's high standards of quality.

The concept of team work is particularly important for efficient production. Porsche places value on enabling workers to help shape assembly processes and contribute their ideas. This not only improves productivity, it also promotes identification with the company. The continuing active involvement of employees and the many ideas for optimizations are impressive testimony to the fact that teamwork is now firmly established in Porsche's lean production.

New paint shop on schedule

The new paint shop is currently the company's largest construction project and is an investment in the long-term security of jobs at the company's headquarters. Worth some 200 million euro, this major undertaking will ensure the continued high quality of Porsche's vehicle production in Zuffenhausen, while cutting costs and reducing environmental impact through highly efficient use of resources. Work is progressing on schedule, and the new paint shop will go into operation as planned in early 2011.

Central supplies from Sachsenheim

The second section of the central spare parts warehouse in Sachsenheim (near Stuttgart) went into operation in September 2010, marking the completion of this construction project. The facility supplies spare parts to over 700 Porsche dealers in all parts of the world. Porsche has invested more than 100 million euro in the project. The building was designed with an emphasis not only on productivity and effectiveness, but also on environmental friendliness. For example, 8,500 photovoltaic modules on the roof generate approximately two million kilowatt hours of electricity annually. This also reduces CO_2 emissions by around 1,780 metric tons per year. Moreover, the new warehouse has created additional jobs in the region.

At present, 82,000 different Porsche parts are available in Sachsenheim. Sophisticated, exceptionally lean logistics processes ensure excellence in the international supply of spare parts – ensuring top quality customer service worldwide.

High product quality in the Volkswagen group

The Volkswagen group produced 3,771,435 vehicles in the period from 1 July to 31 December 2010. Between 1 July and 31 December 2009, the Volkswagen group produced 3,232,180 vehicles.

Volkswagen brands principally rate the quality of a product on its reliability and appeal, but also on the basis of the after-sales service provided. The Volkswagen group's goal is to become the product quality leader in the global market.

The variety of models in the group and the rise in the delivery volume worldwide are presenting Quality Assurance with huge challenges, among them the growing number of production facilities and market-specific model derivatives, as well as the ever-increasing range of equipment features and the multitude of innovations. All these require consistent alignment of all elements along the value chain with standardized processes and continuous optimization of these processes. This led to the initiation of the cross-divisional "Quality in Growth" program in 2009 by the Volkswagen passenger cars brand, for example. In collaboration with Sales, Quality Assurance also regularly reviews the product safety and reliability of models that are already established in the market, which allows any necessary measures for improvement to be taken right away. Originally conceived for the German core market, the "Quality in Growth" program proved so successful that it was also rolled out in other countries in 2010 with the cooperation of the Volkswagen group's importers.

The knowledge gained from this program is an integral part of the measures that the Volkswagen group is taking to drive up Volkswagen's quality in the markets and increase customer satisfaction – one of the main objectives of the group Strategy 2018. The aim is to secure a pole position in terms of customer satisfaction and brand loyalty with the Volkswagen passenger cars brand and its products by 2018 at the latest. All areas of the company are working hard to achieve this goal. The large-scale activities are coordinated by the Quality Assurance and Sales functions and are regularly presented in the "Customer Satisfaction Forum". The defined target of obtaining a leading position in terms of customer satisfaction and customer loyalty applies equally to all other group brands, which are developing and implementing measures in their own programs and bodies for this purpose.

In spite of the large number of production start-ups and the growing volume of vehicles manufactured, the Volkswagen group's high level of quality was reaffirmed in 2010 across all group brands and corporate locations and the number of repairs was maintained at a consistently low level.

The Volkswagen group's production locations

At the end of 2010, the Volkswagen group had 61 locations, with production facilities at 40 of these. After commencing full production in 2009, the Russian site in Kaluga added two more vehicle models to its production range, bringing the number of vehicle launches to four in just eleven months. The facility in Pune, India, now produces a total of four different models as well. Construction is progressing at the Volkswagen plant in Chattanooga, USA, where production of a model developed specially for the North American market will begin in 2011. Volkswagen Osnabrück GmbH will also start building vehicles in the same year. In China, the group – in line with its long-term growth strategy – is building two new vehicle plants in Yizheng and Foshan, both of which will become operational in 2013. The new engine plant in the Mexican city of Silao will start producing the latest generation of engines for the North American market in the same year. Following an extensive overhaul, Scania now has efficient, state-of-the-art bus production at its site in Slupsk, Poland. Volkswagen's plant in Chemnitz, Saxony, was rated "Factory of the Year 2009" in the "outstanding innovation management" category by management consultants A.T. Kearney and the German magazine "Produktion".

The Volkswagen group's production system

The Volkswagen group's value-driven synchronous production system has been designed with the aim of improving quality and adherence to schedules while simultaneously reducing costs. The core element of the system is a consistent, systematic organization of work and processes that will be achieved through a uniform group-wide production system and the methodical approach of the continuous improvement process. Employees, employee representatives and management have together made it their business to turn the company into a learning organization.

Around the world, Lean Centers are currently being established in the group brands along with training centers at the plants. These will offer training courses for employees, from skilled workers to top managers, thus broadening their fields of expertise. The Lean Center in Chattanooga opened its doors in 2010; other new training centers have been set up at the Chemnitz plant for engine assembly and at the Kassel facility for mechanical production and gearbox assembly.

On account of the demographic trend, Volkswagen is facing the challenge of achieving its ambitious goals as the age structure of its workforce changes. In this context, people are the group's most important resource. For employees to keep performing at high levels, their workstations must be designed ergonomically and appropriate to their age. This must be taken into account early on, in the product development process. By making ergonomics a particular priority in this process, Volkswagen ensures an improvement in the quality of production employees' workstations, resulting in shorter production cycles and a lower error rate. The Volkswagen group also creates job opportunities for employees with reduced capabilities. All these measures help to safeguard the company's competitiveness.

Sales and distribution

Sales and distribution network in the Porsche Zwischenholding GmbH group

Porsche's dealership network has grown steadily in recent years. Since the launch of the Panamera was announced in 2006, almost 100 additional Porsche centers have opened their doors worldwide. On average, our sales partners have invested more than 200 million euro to adapt their selling and service capacities in line with increased sales potential, and offer our customers a purchasing and service experience that is appropriate for the brand. At the end of the short fiscal year 2010, a total of 700 dealers served Porsche customers worldwide.

To provide additional support for Porsche's planned growth, sales-network development focused on two tasks during the reporting period: On the one hand, activities to pave the way for further growth in the individual regions, particularly in the BRIC states (Brazil, Russia, India and China); on the other, activities to step up the quality of the worldwide dealership network. Taking into consideration expected economic development in the relevant countries, a detailed roadmap was drawn up for the expansion of the dealership network in the growth regions during the coming years. At the same time, the necessary organizational foundations were laid. Based on positive experience, various programs such as mystery shopping, product and process training, and the international exchange of best practices were evolved and implemented with a view to enhancing the quality of the sales network.

Porsche tops customer satisfaction ratings

The great appeal of the Porsche brand and the attractiveness of the company's product range are reflected in the high level of customer brand loyalty. Most Porsche owners buy more than one Porsche vehicle in their lifetime; and many Porsche drivers own more than one Porsche. This level of loyalty is also fostered by made-to-measure and

Porsche-specific customer care. In addition, comprehensive international monitoring of customer satisfaction with products and services is used to identify additional opportunities for consistently communicating the Porsche brand experience and the high quality of customer care. The dedicated and highly professional partners at the Porsche centers play a key role in delivering and ensuring the quality of this care. The retail organization is actively integrated into the chain comprising customer satisfaction, customer feedback and improvement processes.

Porsche's top ratings in a wide range of polls are testimony to the success of Porsche's firm focus on customers. In the reporting year, readers of the magazine "Consumer Reports" voted the Porsche Boxster the best vehicle in the entire market. The magazine polled 1.3 million U.S. vehicle customers and readers on their experiences during the previous twelve months. The Porsche brand took second place overall. Visitors to the edmunds.com car portal again rated the Boxster as the consumers' favorite in the Best Convertible category. In addition, the prestigious "Car and Driver Magazine" included the Boxster and Cayman in its 10 Best list of cars sold in the USA; and "Automobile Magazine" honored both models with its coveted All-Star award.

In addition to providing outstanding care for existing customers, Porsche has been very successful in acquiring new customers and sparking their enthusiasm for the Porsche brand. The company's own studies deliver detailed insight into the series and variants that hold the greatest appeal for drivers of other brands. When it came to attracting new customer groups for Porsche, the Panamera and new Cayenne were particularly successful: the attractiveness of Porsche for potential customers is clearly indicated by the Panamera's top ranking in a large number of relevant customer surveys. For example, the Panamera won the "Golden Steering Wheel" for the year's best new car in the luxury class. The accolade is awarded by German magazines "Bild am Sonntag", "Auto Bild" and affiliated European titles on the basis of 250,000 readers' votes. The Cayenne took the "Golden Steering Wheel" in the SUV category. Moreover, readers of "Autozeitung" voted the Panamera overall winner in the Luxury Class category. In the same poll, the Porsche 911 took top honors in the Sports Car category.

Sales structure of the Volkswagen group

The Volkswagen group's multibrand structure promotes the independence of its brands and was honed further in 2010. The board of management sales function was reorganized in 2010 with the goal of optimizing the Volkswagen group's cross-brand sales activities. This enabled us to create ideal conditions for steadily increasing volume and market share and for lifting earnings contributions and sales efficiency while optimizing costs.

To leverage synergies and to optimize the exchange of information among dealers and with the Volkswagen group's wholesale operations, the integration of dealers into the group's IT system was driven forward in 2010. The group's close working relationship with dealers and their profitability is a focus of its distribution network strategy. The Volkswagen group handles 85 percent of its wholesale business through companies within the group. In 2010, this business was strengthened by setting up a central department for the national sales companies that is tasked with increasing the transparency of sales activities, improving cost management and integrating the activities of the brands more closely for better use of synergies. This enables the best practice approaches of individual companies to be transferred to the other wholesale companies quickly and efficiently. The central department will be instrumental in helping the Volkswagen group achieve the goals laid down in the Group Strategy 2018.

Customer satisfaction and customer loyalty in the Volkswagen group

Against the background of growing customer demands, one of the areas on which the Volkswagen group's sales activities have focused – and will continue to focus – is on improving customer satisfaction. In 2010, the Volkswagen group therefore specifically implemented processes and measures that further increased the satisfaction of its vehicle buyers and customers in the after-sales area, as well as that of its dealership partners.

The Volkswagen group's brands regularly measure the satisfaction of their customers in the individual markets with the help of specialized questionnaires that concentrate primarily on product and service quality. The brands analyze the results and derive measures for progressively increasing customer satisfaction.

In terms of customer satisfaction with product quality, the Audi brand occupies a leading position in the core European markets, in comparison with both the group brands and the company's competitors. The Volkswagen group's other brands also score just as highly or even higher than competing brands for overall satisfaction.

Customers who are satisfied with the quality of the Volkswagen group's products and services are very likely to remain loyal to its brands. The loyalty figures, which are measured regularly, clearly reflect customers' confidence in the group's brands: for example, the Volkswagen passenger cars brand has maintained customer loyalty at a high level in its European core markets for several years. Škoda also ranked among the leaders in terms of brand loyalty – as in previous years.

Professional service

When it comes to service, Porsche promotes customer satisfaction and customer loyalty. Customer-oriented action and stable processes are key to achieving this goal. To ensure high-quality processes within the retail organization, comprehensive training programs were developed which provide skills across the entire service process. This offering is rounded out by ongoing auditing of the Porsche centers. On the basis of this and market research findings, measures were defined that are being implemented by the sales companies and retail organization. This has initiated a continuous improvement process with long-term effects. As a result, Porsche not only maintains a high level of customer satisfaction, it also ensures that over 70 percent of all Porsches ever built remain on the road.

After-sales and customer service in the Volkswagen group focuses primarily on establishing and maintaining long-term relationships with customers and partners worldwide. Volkswagen's aim is to captivate customers with an outstanding commitment to good service combined with high quality standards. This is the reason Volkswagen always considers customers' individual wishes and needs as guidelines, and aims to not just meet, but to exceed their expectations of the group.

For dealers, quality means creating all the requirements for maximizing customer satisfaction as regards advising, scheduling appointments, vehicle handover, order execution, billing and after-sales services. When communicating with partners around the world, the Volkswagen group is careful to make adjustments so as to live up to customers' expectations and cater to market trends, also with the goal of identifying and meeting unspoken expectations. Volkswagen is a leader in the field of state-of-the-art technologies and innovative vehicle concepts and gives its dealers full support during the launch of new models. Early on in the product development phase, Quality Assurance systematically provides guidance on product concepts so as to facilitate service-friendly, low-cost repair solutions and minimize repair times. Volkswagen also took further steps in 2010 to ensure a high quality of customer and trade literature such as the owner's manual or technical product information.

Employees

Employment situation at Porsche

In the reporting period, the great commitment of the company's employees, their high level of motivation, and their close identification both with the company and its products continued to provide the basis for a good working atmosphere and successful business development. One of Porsche's success factors was the renewed increase in the number of employees at the Porsche Zwischenholding GmbH group. As of the reporting date, the Porsche SE group had 36 employees (31 July 2010: 37 employees); one employee was in the passive phase of the German special phased retirement scheme. As of the reporting date, the Porsche Zwischenholding GmbH group employed a workforce of 13,159 – a 3.4 percent increase on 31 July 2010. 211 of these employees were in the passive phase of the German special phased retirement scheme. 411 young people were in training.

Initiative to safeguard Porsche locations

As part of the new agreement to safeguard company locations, the management and group works council reached an agreement in late July 2010 on a number of measures and investments aimed at securing jobs, as well as measures for further increasing the productivity and flexibility of the workforce. From August 2010, the first implementation activities were initiated by all departments, in close coordination with employee representatives.

At the same time, negotiations between company management and the central works council were initiated with the aim of reaching a corresponding agreement for employees of German subsidiaries represented on the central works council. These discussions are slated for completion in the first quarter of fiscal 2011.

Great interest in VW vehicles

Since 1 November 2010, Porsche employees have had the opportunity to participate in the vehicle program for VW plant employees. This enables them to lease or buy Volkswagen or Audi vehicles on the same special terms as staff at Volkswagen AG plants. The program was well received by Porsche employees.

Porsche’s vocational training is fit for the future

The agreement to secure Porsche’s production locations includes important rules on recruiting new skilled employees via in-house training: Over the next five fiscal years, 100 trainees will be taken on annually, and the same number will be offered a permanent post after successfully completing their training. During the coming years, Porsche will place special emphasis on training in the fields of auto-electrics, electronics and electromobility, as well as in lightweight aluminum and steel body construction. Porsche will continue to give particular attention to providing training in soft skills, especially when it comes to ensuring that individuals are motivated to work in teams.

Targeted marketing at universities

In view of its growth strategy in Germany and key markets such as China, Porsche participated actively in various events at schools and universities during the reporting period in order to meet the constant demand for skilled and motivated new employees. Human resources representatives and staff from various departments fielded questions from interested pupils and students.

Manager development

The Porsche Management Assessment and Development (PFE) process was continued as planned during the short fiscal year. The results are decisive for placement decisions and succession planning. In addition, the process provides structured feedback and made-to-measure development activities, ensuring that managers are systematically promoted in line with business requirements. As the key tool in the strategic management process, PFE significantly contributes to maintaining and enhancing the high quality of management within the company.

Supporting change processes at Porsche

During the short fiscal year, human resources continued to support change processes. This support starts with consulting and assistance for projects during the concept phase. Accompanying communication and training measures ensure that changes are implemented successfully.

Employment situation in the Volkswagen group

As of 31 December 2010, the Volkswagen group had 384,058 active employees; 4,778 were in the passive phase of phased early retirement. 10,545 people were in training. The Volkswagen group’s total headcount amounted to 399,381 employees at the end of 2010. This was a 5.9 percent increase on the figure as of 30 June 2010. A total of 181,328 people were employed in Germany (plus 4.0 percent). The German share of the workforce fell from 46.3 percent as of 30 June 2010 to 45.4 percent as of 31 December 2010. This trend toward an increase in the percentage of the workforce employed abroad is expected to continue in the coming years and is a reflection of Volkswagen’s global expansion and the group’s particularly strong growth in emerging markets.

Starting a career at Volkswagen

Most employees start their career at Volkswagen as trainees. The quality of this vocational training is essential for the development of specialist skills in the workforce. Volkswagen has stepped up its commitment to the training of young people in the last few years: in September 2010, the number of employees in vocational training across the Volkswagen group exceeded 10,000 for the first time. At the end of 2010, Volkswagen AG was training approximately 4,500 apprentices and students in 32 professions and 21 degree courses at its six German locations.

Volkswagen is also nurturing particularly talented vocational trainees in talent groups for young specialists. Talent groups have existed at all Volkswagen AG sites since the end of 2010. These are an invaluable tool for providing support for technically and intellectually gifted employees in managing the transition from vocational training to professional work and help participants make a smooth switch to a department in which they have already acquired specialized knowledge.

Since 2006, on completion of their training, young people at the start of their career have had the opportunity to take part in the “Wanderjahre” (Years Abroad) program, spending twelve months at one of the group’s international locations. So far, over 200 young employees of the Volkswagen group have taken this chance to gain initial work experience outside Germany. 17 companies in 13 different countries now participate in the “Wanderjahre” program.

Every year, the Group Board of Management and the World Works Council present the “Best Apprentice Award” to the group’s best trainees. The 2010 ceremony was held in Emden at the end of October, when the Group Board of Management and World Works Council presented Best Apprentice Awards to 22 trainees from twelve countries. It was the first time in the Award’s ten-year history that a Scania trainee was honored as one of the best apprentices.

Going forward, uniform standards of expertise will form the basis of vocational training and securing a job at Volkswagen. These standards, which have been developed for the five core automotive vocations, are already being used in vocational training. Standards of expertise are currently being developed for three more vocations. These will not only help to further standardize the quality of vocational training, but also to systematically focus the training on the areas of expertise required in the workplace.

In 2008, Volkswagen launched the StartUp Direct trainee program to give young university graduates a head start in the company. Over a two-year period, participants in the program not only work in their own department and familiarize themselves with the company, but also attend supplementary training seminars. The program additionally includes multiple-week placements in production and sales as well as an optional foreign placement.

University graduates with an international focus can alternatively enter the StartUp Cross program. This 18-month international trainee program includes a three-month international placement. Over 800 trainees have passed through one of these two programs since their launch in 2008.

In the last ten years, about 1,400 young people who demonstrated outstanding abilities and dedication during their internships at Volkswagen have been included in the Student Talent Bank, Volkswagen's staff development program for people who are still at university. Volkswagen supports and nurtures these former interns until they finish their studies with events such as workshops, specialist presentations, seminars, or visits to Volkswagen sites, building ties with talented students in the process.

Training programs at the Volkswagen group's international locations

After successfully implementing the "Profi room concept" at its Russian site in Kaluga in 2009, Volkswagen also rolled it out in 2010 in Pune, India, where the concept is being used for assembly, body shell production and painting. In Profi rooms, employees learn all the basic skills needed for assembly work under conditions similar to production.

In early October 2010, the "Volkswagen India Academy" opened its doors in Pune. This training institution is the cornerstone of Volkswagen's vocational training in India and is currently training over 70 apprentices as welders, painters, fitters, electricians and tool mechanics. Apprentices thus receive the best possible training to prepare them for the high level of quality and state-of-the-art production methods at the Pune facility.

The new production plant in Chattanooga, Tennessee, USA, is working hard on preparing the start-up and subsequent regular production with a training program. By organizing extensive training courses, Volkswagen ensures that its employees acquire and continue to expand both basic and expert knowledge for their field of activity. In addition, the Volkswagen Academy was set up in cooperation with the State of Tennessee and boasts its own teaching buildings for factory automation, automotive production and vocational training, as well as Profi rooms for body shell production, painting and assembly. The primary focus of all training programs is on practical relevance.

Environment

Environmental management in the Porsche Zwischenholding GmbH group

The mobility of tomorrow presents challenges and opportunities for Germany in terms of business and technology. New concepts and technologies offer solutions for protecting the environment and saving resources. They are an important indicator of growth and employment in the German automobile and automotive supplier industry. In light of this, the German federal government launched the National Development Plan for Electric Mobility in 2009. This provided the basis for the foundation of the National Platform for Electric Mobility on 3 May 2010. The platform comprises representatives from industry, science, politics, trades unions and society, with the common goal of making Germany a leading market for and supplier of electromobility solutions – and putting at least a million electric vehicles on Germany's roads by 2020. Porsche supports these goals with innovative technology, forward-looking concepts and solutions, including vehicles powered entirely by electricity.

Since early 2010, the company has participated in the joint Stuttgart Electric Mobility Pilot Region initiative, part of the National Development Plan for Electric Mobility. From 2009 to mid-2011, the German federal government will provide total funding of 500 million euro to support measures for promoting market readiness and the expansion of electric mobility nationwide. Within the scope of its Electric Mobility in Pilot Regions program, the German Federal Ministry of Transport, Building and Urban Development is funding eight pilot regions to the tune of 115 million euro from this support package. The individual projects are aimed at raising public awareness of electric mobility, testing various ways of introducing it, and accelerating the launch of electrical vehicles on the mass market.

Under the umbrella of the pilot region, the group is building and testing three electric sports cars based on the Porsche Boxster. Various aspects – including battery durability, charge and discharge cycles, range and acceptance of electrical vehicles and charging stations, and traffic safety in everyday conditions – will be comprehensively tested. Customers' specific expectations of sports cars will also be taken into consideration.

Smart combination of drive concepts

With Porsche Intelligent Performance, Porsche is proving that sports car appeal and exclusive premium quality are compatible with lower fuel consumption, and that increased performance does not have to exclude reduced CO_2 emissions. 2010 saw the launch of the Cayenne S Hybrid, for which a technically sophisticated parallel full hybrid drive was developed. The system is characterized by a complex interplay between a gasoline engine and an electric motor. On the one hand, the car can be powered by the gasoline engine, with the electric motor acting as an electricity generator. On the other, the nickel-metal-hydride battery allows the Cayenne Hybrid to be run on electricity alone at speeds of up to 60 km/h. Based on the NEDC (New European Driving Cycle), fuel consumption is 8.2 liters per 100 kilometers. And with CO_2 emissions of 193 grams per kilometer, the Cayenne S Hybrid boasts the lowest CO_2 levels in the Porsche subgroup's model portfolio to date.

The Panamera S Hybrid will go on the market in June 2011. The vehicle, which debuted at the Geneva International Motor Show in March 2011, boasts even lower CO_2 emissions than the Cayenne S Hybrid. Without sacrificing sportiness or elegance, the new Gran Turismo combines a total mechanical output of 380 hp (279 kW) with fuel consumption of just 6.8 liters per 100 km in the best-case scenario, based on the NEDC (New European Driving Cycle). This is equivalent to CO_2 emissions of 159 g/km, making the Panamera S Hybrid the most economical Porsche of all time. These figures are achieved with the optional all-season low-rolling-resistance tires, specially developed for the Panamera by Michelin.

Continuous, sustainable improvements

Porsche is aware of its responsibility for the future and has made a commitment to environmental protection. The express aim of Porsche's environmental policy is to minimize the detrimental consequences of all of its activities on the environment and save resources, while supporting international efforts to solve global environmental problems. The management coordinates targeted measures for the continuous and sustainable improvement of environmental protection. To this end, Porsche has implemented an environmental management system. Based on the provisions of the EU's Eco-Management and Audit Scheme (EMAS) and ISO 14001, the company's environmental protection policy is conceived as an end-to-end system of interlocking measures. The environmental management system at the Zuffenhausen production plant was first validated according to EMAS as long ago as 1996. Since 1999, the Zuffenhausen plant has also been certified to the internationally applicable ISO 14001 standard. Since 2002, 2005 and 2008, the Leipzig, Weissach and Sachsenheim facilities have also been certified to DIN EN ISO 14001. At the Porsche subgroup, accountability for actions and economic success are inextricably intertwined. The following projects and environmental targets demonstrate how seriously the sustainable use of eco-friendly plant technology and resources is taken at Porsche.

During the planning and construction of the new paint shop at the Zuffenhausen plant, Porsche is investing in state-of-the-art technology. The exceptionally eco-friendly facility is due to go into operation in early 2011. 100 percent containment will ensure that the painting process is completely protected from dust. An innovative electrostatic separator system for paint overspray keeps particle and solvent emissions to a minimum. Thanks to an increased volume of circulated air and an extremely efficient exhaust air purification system using a 10-meter (33-foot) chimney stack, the process does not require the otherwise mandatory 60-meter (200-foot) stack. The paint shop's state-of-the-art production technology keeps its emissions well below statutory limits.

At the engine assembly shop, Porsche achieved its environmental goal of reducing single-use extra packaging by five percent. A number of workshops were conducted to examine the delivery and, in particular, the packaging of engine parts. This enabled a large number of parts to be identified with packaging that could be reduced by more than five percent.

Around 70 percent of new vehicles in the Cayenne and Panamera model series are shipped to destinations worldwide from the ports of Emden and Bremerhaven. The logistics department therefore agreed the goal of reducing existing and preventing further film adhesion on new vehicles by using closed rail cars. The move to closed rail cars further optimized the rail transport that had been successfully implemented for new Cayenne and Panamera vehicles. Time-consuming and costly car-wrapping of the new vehicles is reduced and avoided completely.

Successful environmental protection is the result not only of a well-functioning and integrated environmental management system. The personal commitment of all employees also plays a key role. Motivated and skilled employees whose ideas are incorporated into the company's processes are Porsche's most valuable asset. It is only with their expertise, experience and knowledge that the company can put into practice an efficient environmental management system that delivers forward-looking improvements for our environment.

Environmental management in the Volkswagen group

Environmentally focused management is one of the pillars of the Volkswagen group's corporate culture. Taking social, economic and ecological aspects into account in the group's business activities is the foundation for sustainable development, environmentally responsible action and safeguarding jobs. The Volkswagen group's environmental policy is primarily based on the environmental efficiency of its products as well as on resource-friendly production. Since 2010, an effective energy management system has been helping the Volkswagen group achieve its goal of becoming the environmental leader in the automotive industry by the year 2018.

Since 1995, Volkswagen's German sites have participated voluntarily in the EU Eco-Management and Audit Scheme (EMAS), making Volkswagen one of the first automakers to get involved in this program, while the group's sites worldwide have participated in environmental certification processes in accordance with the international standard EN ISO 14001. From 1996, this last standard has also been applied to the environmental management system used by Volkswagen's Technical Engineering division, which has additionally been certified in accordance with DIN ISO/TR 14062 since 2009. In the course of the recertifications, Volkswagen confirmed its role as a trailblazer. For example, the group identifies environmentally relevant aspects early on and integrates them into the product development process. The Volkswagen group complies with the requirement to take environmental considerations into account at all stages of the product lifecycle.

Environmentally friendly production processes at Volkswagen

In view of the climate debate and the increasing scarcity of raw materials, Volkswagen uses not only environmentally compatible products but also fuel-efficient and environmentally friendly production processes. The group improved its key environmental indicators in production once again in the reporting period. Volkswagen collects and validates the environmental data for its manufacturing locations in line with an internal standard and a process standard before approving it. Annual updates to the environmental data enable the group's environmental pollution trends to be identified. The data captured includes 65 corporate locations.

The latest developments in paintshop technology are helping to protect the environment and reduce costs at the same time. After six years of researching and testing, the first catalytic units were installed in the paintshop in Wolfsburg at the beginning of 2010. Catalysts constructed using the bypass principle clean the exhaust air from the paint dryers, thus enhancing the exhaust gas treatment. This enables the Volkswagen group to reduce its emissions to well below the legal limits and additionally cut its consumption of natural gas by 40 percent. By decoupling the dryer heating from the exhaust air treatment, temperature equilibrium was created for the thermal afterburner (heat generator) and the body dryer (heat consumer). This reduced the reaction temperatures by around 200°C for each system, generating savings of approximately 1.0 million euro for the Wolfsburg site and lowering its carbon emissions by around 10,000 tons per year. The Volkswagen group is already looking into or preparing the conversion of further locations.

Going forward, the Volkswagen group intends to continue its pioneering role in the field of sustainable mobility using innovative, environmentally friendly technologies. This explains Volkswagen's involvement in a research project for the recycling of lithium-ion batteries, a key technology in the development of hybrid and electric vehicles. There is currently no commercial process for recycling these batteries. Volkswagen and 15 partners are taking on this challenge and participating in the LithoRec research project sponsored by the German Federal Ministry for the Environment, Nature Conservation and Reactor Safety (BMU), which aims to develop and test efficient processes and lifecycle-spanning concepts for the institution of industrial recycling of lithium-ion batteries. The processes and concepts cover the battery's entire journey starting with its removal from the vehicle, through transportation, collection and storage, to recycling and the production of new battery cells. The project will culminate in the construction of a pilot plant.

The world's most powerful wind energy plant went on stream in 2010 at Volkswagen's site in Emden. This will increase the share of energy generated from renewable sources at the Emden location and is taking the North German facility one step closer to its goal of becoming a carbon-neutral plant.

Fuel and powertrain strategy

The general vision of e-mobility in recent years was followed at the end of 2010 by a new level of objectivity in the discussion on the electrification of the powertrain. Policymakers and the general public are increasingly better informed about the opportunities and challenges presented by e-mobility and are following the strategy communicated by Volkswagen of coexistence between different powertrain concepts: while carbon-neutral mobility is the future, electric drives and conventional combustion engines will continue to exist side by side for several more decades.

This coexistence of powertrain concepts will be accompanied by a steady increase in the share of carbon-neutral fuels, either in the form of power for electric vehicles generated from renewable energy sources or in the form of carbon-neutral biofuels – for example from plant residue or straw (biomass), the latter being used in conventional combustion engines that are progressively becoming more efficient.

The successful TSI, TFSI and TDI engines, ideally combined with innovative dual clutch gearboxes (DSG), provide an excellent starting point for the continuing electrification of the Volkswagen group's vehicle fleet.

In spring 2010, Volkswagen impressed the world with its expertise in this field when it unveiled the Touareg Hybrid, the first fully off-road hybrid SUV worldwide. The combination of a highly efficient 3.0 l V6 TSI engine and an electric engine with an output of 38 kW (52 hp) reduces fuel consumption to just 8.2 l per 100 km with CO_2 emissions of only 193 g per km (combined)* – outstanding values for a vehicle in this class. Hybrid versions of the Golf, the new Jetta, the Audi Q5 and the Audi A8 will shortly be launched, and there are other projects in the pipeline.

The road to pure e-mobility, a key component of the group's forward-looking fuel and powertrain strategy, is already clearly marked. In June 2010, the Volkswagen passenger cars brand presented the prototype of the Golf blue e-motion – a vehicle run solely on electricity with a range of around 150 km that does not require customers to make any concessions as regards safety, comfort and suitability for everyday use. Beginning with fleet trials starting in 2011, Volkswagen will usher in the age of pure e-mobility in the group in 2013, taking the electric car out of the niche and bringing it to the mass market. This will kick off with the rollout of the UP! blue e-motion, whose electric motor and battery system will be manufactured in the Volkswagen group's component plants. Electric versions of the Golf and the Jetta and also of the Lavida for the Chinese market will follow.

The strategy for e-mobility at Audi is also clearly defined. Similar to the Golf blue e-motion, fleet trials with the Audi A1 e-tron began recently in the Munich pilot region. The group's SEAT and Škoda brands will follow with their own test fleets.

Efforts to make conventional combustion engines more efficient were also a major focus of engine development activities last year. The Volkswagen group believes that in growth markets, e.g. Russia, India and the Far East, combustion engines will continue to provide the basis for responsible use of sustainable, forward-looking mobility in the medium term. So that it can effectively meet the challenges of the future, the Volkswagen group has started developing a whole new generation of petrol and diesel engines. The refinement of technologies such as variable valve timing, intelligent thermal management, requirements-based control of auxiliary units and minimization of mechanical and energy loss provide the potential to increase the efficiency of both diesel and petrol engines by up to 15 percent in the coming years. Volkswagen is working very hard on these areas.

* Fuel consumption and emission data can be found on page 65 of this report.

Substantial savings can already be made by combining efficient conventional drives and vehicle-related measures such as rolling resistance-optimized tires or aerodynamic measures, as shown by the group's efficiency models marketed by the Volkswagen passenger cars brand under the name BlueMotion, as GreenLine models at Škoda and as ECOMOTIVE models at SEAT. Efficiency technologies are also being used in series production at Audi. The group's portfolio currently includes 220 model variants with carbon emissions below 130 g per km, while 20 model variants actually emit less than 100 g of CO_2 per km. The Polo BlueMotion* is the most environmentally friendly five-seater in the world with carbon emissions of 87 g per km. The sixth generation Passat BlueMotion, which is powered by a 1.6 l TDI engine, traveled 2,463 km on just one tank of fuel, an achievement that was entered in the Guinness Book of Records.

The Volkswagen group made significant advances in the area of gearbox development as well: the seven-gear direct shift gearbox (DSG) introduced in 2010 for the first time in the new Multivan/Transporter is now also being used in the Tiguan and in the Audi TT-RS. Volkswagen's direct shift gearboxes marry comfort, sportiness and fuel efficiency in a unique way. They are as suitable for four-wheel drives as they are for high engine torques of up to 500 Nm and for sporty vehicle concepts – the latest DSG clearly demonstrates that Volkswagen is the unchallenged leader in the field of gearbox development.

* Fuel consumption and emission data can be found on page 65 of this report.

Opportunities and risks of future development

Risk report of Porsche SE

Integrated control and risk management system relevant for the financial reporting process

Organization and responsibilities

The accounting-related internal control and risk management system that is relevant for the financial statements of Porsche SE and the Porsche SE group is designed to ensure the complete, accurate and timely transmission of the information required for the preparation of the financial statements and the group management report of Porsche SE, and to minimize the risk of material misstatements in the accounts and in external reporting.

For this purpose, key controls are integrated into Porsche SE's accounting-related internal control and risk management system, covering the areas of finance, treasury, investments, consolidation and reporting with clearly defined responsibilities. On aggregate, they are designed to ensure recording, preparation and assessment of business matters in financial reporting that is accurate and in compliance with the law.

Internal control and risk management systems that are relevant for the financial reporting process are also implemented in the Porsche Zwischenholding GmbH group and the Volkswagen group. Details of their scope are presented in the sections on significant investments held by Porsche SE. The subsidiaries included in the consolidated financial statements of Porsche SE – in addition to these investments – are covered by the systems implemented at Porsche SE.

In the short fiscal year 2010, Porsche SE also decided to establish a compliance organization that is specifically tasked with preventing breaches of laws, other legal provisions and company-internal guidelines and rules, and is integrated into the internal risk management system as a control system.

Key features

For the purpose of group accounting, Porsche SE lost control as defined by the IFRSs of the Volkswagen group on 3 December 2009 and of the Porsche Zwischenholding GmbH group on 7 December 2009. Since then, the investments in Volkswagen AG and Porsche Zwischenholding GmbH have been included at equity in the consolidated financial statements of Porsche SE.

The reporting packages of the Porsche Zwischenholding GmbH group and the Volkswagen group as well as the related adjustments to the carrying amounts of these two investments accounted for at equity and the inclusion and consolidation of the remaining Porsche SE subsidiaries' reporting packages are processed at group level.

The group accounting manual of Porsche SE and formal instructions ensure uniform recognition and measurement based on the accounting policies applicable at Porsche SE, also after deconsolidation of the Porsche Zwischenholding GmbH group and the Volkswagen group in fiscal year 2009/10. The components of the formal reporting packages required to be prepared for Porsche SE are set out in detail and updated regularly. The reporting dates that are relevant for the reporting units are set out in a reporting calendar.

In the course of preparation of the consolidated financial statements, the reporting packages are analyzed in detail, tested for plausibility and audited. In addition, interviews are held with representatives of the significant investments and the subsidiaries of Porsche SE as part of the financial statements closing process.

The data reports are processed in a consolidation system, which is based on standard software and to which access and rights are restricted by the existing authorization and access rules. The clear delineation of areas of responsibility and the application of the dual control principle during preparation of the financial statements is ensured by means of unambiguous rules.

Testing for reasonableness, the clear delineation of areas of responsibility and the application of the dual control principle are control mechanisms applied during the preparation of the financial statements of Porsche SE. At Porsche SE, provisions and accruals and deferrals are set up, and the recoverability of the company's equity investments included in the balance sheet are checked in cooperation with the departments and are recognized only after they have been approved internally. The accounting processes implemented at Porsche SE ensure that matters arising from agreements that are relevant in terms of accounting and subject to disclosure requirements are identified in full and presented appropriately in the financial statements. There are authorization and access rules for the IT systems of relevance for the financial reporting process.

The internal control system relevant for the financial reporting process and the guidelines for Porsche SE and its remaining subsidiaries were implemented with the involvement of Porsche SE's internal audit function. The control system and the guidelines are subject to appropriateness reviews and are updated on an ongoing basis.

Risk management and early risk warning

According to Sec. 91 (2) German Stock Corporation Act (AktG), Porsche SE is required to operate a risk management and early warning system which allows the company to identify any risks to the ability of the company to continue as a going concern at an early stage. The risk management system of the Porsche SE group was set up to identify at an early stage any potential risks to the ability of the group to continue as a going concern as well as any risks that could significantly and negatively impact the net assets, financial position and results of operations of the group and to avoid these by means of suitable countermeasures that allow the group to rule out any risks to its ability to continue as a going concern.

Since deconsolidation of the Volkswagen group and the Porsche Zwischenholding GmbH group on 3 December 2009 and 7 December 2009, respectively, for group accounting purposes in accordance with IFRSs, Porsche SE now acts as a holding company for its investments in the operating companies Porsche Zwischenholding GmbH and Volkswagen AG. The income of Porsche SE consists mainly of the dividend payments of these two equity investments. The risks from investments now only have an indirect effect on Porsche SE in the form of valuation, consolidation, dividend and liability risks. In addition, there are risks from the basic agreement and the associated corporate restructuring as well as from the investment held by Volkswagen AG in Porsche Zwischenholding GmbH.

These structural changes are also considered in the Porsche SE group's risk management, which consists of three autonomous, but nevertheless integrated risk management subsystems. Two of these subsystems are located at the level of Porsche Zwischenholding GmbH and Volkswagen AG respectively (we refer to the section "Opportunities and risks of significant investments"). The risks of relevance at the level of Porsche Zwischenholding GmbH are covered by Porsche AG's early risk warning system which is required by Sec. 91 (2) German Stock Corporations Act (AktG) to establish for the Porsche AG group. The subsystems are intended to identify, manage and monitor the risks resulting from the operating activities of the two investments that could jeopardize the investment's ability to continue as a going concern. The two investments are themselves responsible for their local risk management, but are required at the same time to inform Porsche SE as the holding company at an early stage of any risks jeopardizing the investment's ability to continue as a going concern.

The third subsystem, the risk management system at the level of Porsche SE, monitors the direct risks of Porsche SE as a single entity, the risks at the level of its subsidiaries and, as part of its integration function, the indirect risks from investments. The direct risks of Porsche SE as a single entity mainly comprise the financial and legal risks that are typical for a holding company.

The indirect effect of risks from investments in the operating companies is taken into account by integrating the three subsystems in one group risk management system. Regular communication, in management talks among other things, ensures that Porsche SE is informed directly of any risks to the company's ability to continue as a going concern should any such risks arise at the investments.

Porsche SE thus bears the responsibility for monitoring its own risks and, moreover, draws together all the findings from the existing risk early warning systems of the Porsche Zwischenholding GmbH group and Volkswagen group. It thereby ensures that risks are aggregated, consolidated, monitored and managed. The design of information flows and decision-making bodies at group level guarantees that the executive board of Porsche SE is always informed of significant risk drivers and the potential impact of the identified risks so as to take suitable countermeasures. The audit committee and the entire supervisory board are kept informed of the risk situation in regular reports.

The implementation and general effectiveness of the early warning system for the detection of risk was checked during the audit of Porsche SE's consolidated financial statements

In addition, the financial services segment in the Volkswagen group is subject to regular special audits by the Federal Financial Supervisory Authority pursuant to Sec. 44 of the German Banking Act (KWG) and other controls by association auditors.

Specific risks faced by Porsche SE

Due its function as a holding company managing its investments in the two operating companies, Porsche SE faces mainly financial and legal risks. Financial risks are managed using a comprehensive liquidity and financial management system that constitutes the central component of the integrated early warning system for the detection of risk. Freely available liquidity is a significant financial and risk indicator as it reflects both the financing and the investment strategy and is therefore included in the regular reporting.

Risks originating from the capital and credit markets

Day-to-day monitoring ensures that the executive board is informed at an early stage about changes in the conditions on the credit and capital markets allowing it to develop and decide on suitable methods of handling and transferring the risk. The main focus is placed on the liquidity of the markets and the development of the cost of capital in comparison to competitors. The relationship to creditors is another key aspect of the strategic considerations and risk analyses.

Liquidity has been secured until 30 June 2011 by a credit line with a total volume of up to 8.5 billion euro arranged through Porsche SE's refinancing completed in 2009. The implementation of the financing strategy also includes the fundamental attempt to transfer interest risks to a large extent to third parties at conditions that are economically reasonable. In the process, potential risks inherent in the interest components of the debt capital carried by Porsche SE are analyzed in terms of the expected development of interest rates and transferred to third parties if appropriate.

Liquidity risk

The Porsche SE group's liquidity has decreased since 31 July 2010. This is attributable, in particular, to the tax and interest paid in part in December in connection with the revised tax assessments from the tax authorities relating to the final tax treatment of the stock option transactions (for further information on this point, we refer to our statements in the section "Tax risk" in this risk report). Cash inflows arose in particular from dividends paid by Porsche Zwischenholding GmbH and the disposal of all of the remaining cash-settled options relating to Volkswagen AG shares as of 31 July 2010.

Porsche SE has a total loan facility of 8.5 billion euro, of which 7.0 billion euro has currently been drawn. All of Porsche SE's shares in Volkswagen AG are used as collateral for the loan. If a potential sale of the pledged shares in Volkswagen AG does not satisfy the banks, further collateral has been provided in the form of a lien on the 50.1 percent shareholding in Porsche Zwischenholding GmbH, as well as on the claims accruing to Porsche SE in the event that the call or put option relating to the 50.1 percent shareholding in Porsche Zwischenholding GmbH is exercised. The 50.1 percent shareholding in Porsche Zwischenholding GmbH has been assigned to a trustee as collateral.

The cash and cash equivalents of Porsche SE totaled 0.6 billion euro as of 31 December 2010. In principle, Porsche SE additionally has at its disposal the aforementioned, currently unused line of credit of 1.5 billion euro.

To secure liquidity beyond 30 June 2011 it will be necessary for the planned capital increase of Porsche SE to be performed by 30 May 2011, with an issue volume of at least 2.5 billion euro. The company's annual general meeting on 30 November 2010 decided on the corresponding capital measures. The resolution for a capital increase was entered in the commercial register on 13 January 2011. The proceeds from the capital increase must be used to repay to the banks the first loan tranche of 2.5 billion euro, which according to the conditions of the syndicated loan falls due for payment on 30 June 2011. The syndicated loan agreement stipulates that the funds used to repay the first tranche may not stem from the sale of Volkswagen AG shares or Porsche Zwischenholding GmbH shares. The remaining funds from the capital increase of up to 2.5 billion euro must also be used to repay the liabilities from the syndicated loan. If the timetable for the direct capital increase is delayed, Porsche SE's lending banks have expressed their willingness to extend repayment of the first tranche of the syndicated loan by up to four months, in the event of certain legal obstacles to the implementation of the capital increase. In the event that the capital increase cannot be implemented or implemented completely, the annual general meeting of the company on 30 November 2010 approved other measures for increasing capital (for further details we refer to our statements in the section "Capital measures planned by Porsche SE" in the section "Significant events"). The second tranche of the syndicated loan amounting to 4.5 billion euro and the currently unused revolving loan fall due for payment on 31 December 2011. The company can, under certain circumstance, request that the maturity date be postponed until 31 December 2012.

As part of the overall concept of the basic agreement, the holders of ordinary shares of Porsche SE who are deemed part of the Porsche and Piëch families have undertaken, subject to certain conditions, to ensure that the new ordinary shares issued as part of the capital increase adopted on 30 November 2010, are subscribed for at an estimated total subscription price of 2.5 billion euro. These conditions stipulate that Porsche SE must not be insolvent or illiquid, nor should there be a threat of insolvency or illiquidity, nor should there be an event of default under the syndicated loan agreement. In addition, the goodwill of the investment in Volkswagen must not be impaired. Moreover, according to the commitment to increase capital, the above holders of ordinary shares and Porsche Gesellschaft mbH, Salzburg, Austria, have undertaken to give their approval only if the minimum value of the automotive trading business of Porsche Familienholding as specified in the capital increase commitment as of the date of approval by the above holders of ordinary shares and Porsche Gesellschaft mbH is confirmed by an expert commissioned by Porsche SE. A further requirement is that the above holders of ordinary shares and Porsche Gesellschaft mbH approve the price range proposed by Porsche SE for the subscription price of new shares and that the subscription within this range is set in a specific timeframe.

If the steps involved in the merger of Porsche SE and Volkswagen AG do not take place as planned (please refer to the section "Implementation of the basic agreement on the creation of an integrated automotive group" in the section "Significant events"), Porsche SE might be left, following the repayment of the aforementioned first tranche, with residual debt that may have to be repaid by selling shares of Porsche Zwischenholding GmbH or Volkswagen AG.

Risks originating from financial covenants

Porsche SE and various banks agreed on financial covenants that must be complied with in connection with the new syndicated loan concluded in late 2009. They relate to earnings and share indicators of Volkswagen AG and therefore cannot be directly influenced by Porsche SE. During the short fiscal year 2010 and as of 31 December 2010, the financial covenants were complied with. They are reviewed on a monthly or quarterly basis. The loan agreement is deemed to have been infringed only if all financial covenants are breached at the same time. In that case, the banking syndicate is entitled to terminate the syndicated loan. This would give rise to a short-term refinancing requirement at Porsche SE. The executive board currently does not see any indication that these covenants will not be met in the future.

Valuation risk

In addition, Porsche SE is exposed to potential risks from the recoverability of its investments in Volkswagen AG and Porsche Zwischenholding GmbH. If the financial position and results of operations of the Porsche Zwischenholding GmbH group and the Volkswagen group were to deteriorate materially, this could lead to an impairment loss recognized on the significant investments in Porsche Zwischenholding GmbH and Volkswagen AG recognized in Porsche SE's consolidated financial statements and could reduce the profit or loss reported by the Porsche SE group. In order to ascertain any need to record an impairment, the company's own evaluations are prepared regularly and the assessments made by analysts are also monitored with regard to the investment in Volkswagen AG.

Risk arising from the use of financial instruments

In its business activities Porsche SE is exposed to risks arising from the primary or derivative financial instruments used.

The principles and responsibilities for managing and controlling these risks are defined by the executive board and monitored by the supervisory board. The risk controlling processes implemented in particular govern the ongoing monitoring of the liquidity situation in the Porsche SE group, the development of interest levels on the capital markets and monitoring of the financial indicators. At the beginning of the short fiscal year, the risks relating to the remaining cash-settled options relating to shares in Volkswagen AG were also monitored, as in the prior fiscal years. The requirement to monitor these options expired with their disposal in full. Porsche SE's risk controlling ensures that risks are identified, analyzed and monitored using suitable information systems. Moreover, transactions may only be concluded in permitted financial instruments, only with approved counterparties and to the admissible extent.

The remaining cash-settled options held by Porsche SE as of 31 July 2010, relating to about two percent of Volkswagen AG's ordinary shares, were disposed of in full.

Derivative financial instruments used by Porsche SE and its remaining subsidiaries are entered into mainly to manage interest rate risks as well as in relation to the sale of the remaining shares in Porsche Zwischenholding GmbH.

Any default on Porsche SE's receivables, most of which are due to companies of the Porsche Zwischenholding GmbH group, could have a negative impact on Porsche SE's liquidity situation. In addition, the investment of cash also gives rise to counterparty risks. Regarding the term and call money investments at Porsche SE, however, they are hedged using hedging systems customary in the banking business. Cash investments are also exposed to interest rate risks.

Under the basic agreement Porsche SE and Volkswagen AG granted each other put and call options for the remaining 50.1 percent share held by Porsche SE in Porsche Zwischenholding GmbH. Regarding valuation of these options there is a risk of future changes in value that could have a negative impact on the Porsche SE group's results of operations. Changes in value can primarily arise from changes in the valuation of the underlying enterprise value of Porsche Zwischenholding GmbH and changes in the executive board's assessment of the likelihood of the failure of the merger as defined in the basic agreement. In addition, if the merger as defined by the basic agreement fails, Porsche SE's put option and Volkswagen AG's call option for the 50.1 percent share held by Porsche SE in Porsche Zwischenholding GmbH would theoretically be exercisable as of the end of the fiscal year 2011. In this case, the theoretical probability of exercise of the put and call options, on which the evaluation is based, would increase to 100 percent and significantly influence the results of operations. As of 31 December 2010, the executive board of Porsche SE estimates a 50-percent theoretical probability of exercise of the options. The exercise price for the options is 3,883 million euro in each case and is subject to certain adjustments. In order to secure any remaining claims of Volkswagen AG from the agreement between Porsche SE and Volkswagen AG on the investment held by Volkswagen AG in Porsche Zwischenholding GmbH, a retention mechanism was agreed in favor of Volkswagen AG for the purchase price payable in the event of the put or call options being exercised. If any retained amount has not been used to fulfill claims of Volkswagen AG, the retained amount must be paid to Porsche SE on 30 June 2016, unless it is likely that claims for indemnity will be made against the company as of that date.

A large portion of Porsche SE's financial liabilities is subject to floating interest rates and, as a result, interest payments are exposed to fluctuation over time that cannot be foreseen. Should interest rates rise, this would have an adverse effect on the company's liquidity situation. Porsche SE partially limits this risk by using interest rate hedges (cap structures). The amounts capitalized in connection with interest rate hedges are also exposed to fluctuations in value depending on the development of interest rate levels and the remaining term. Interest rate hedges are also exposed to counterparty risks.

For the risks from financial covenant rules regarding the syndicated loan concluded in 2009, please refer to “Risks originating from financial covenants” in this section of the management report.

Overall, Porsche SE's executive board considers the risks arising from the use of financial instruments – with the exception of the possible effects relating to the put and call options for the 50.1 percent share held by Porsche SE in Porsche Zwischenholding GmbH – to be low.

For further information on financial risk management, financial instruments used and the associated risks, please also refer to note [24] of the consolidated financial statements of Porsche SE as of 31 December 2010.

Further risks relating to the basic agreement and the associated corporate restructuring

As part of the basic agreement and the associated agreements implementing it, Porsche SE entered into a number of agreements with Volkswagen AG and entities of the Porsche Zwischenholding GmbH group. For further details, we refer to our disclosures on related parties in note [29] of the consolidated financial statements of Porsche SE as of 31 December 2010. The company's executive board considers the risk that the agreements made could have a significant adverse effect on the net assets, financial position and results of operations of the Porsche SE group to be low.

Litigation risk

Porsche SE and the entities in which it holds a direct or indirect investment are involved in legal disputes and administrative proceedings both nationally and internationally within the framework of their operating activities. Where such risks are foreseeable, appropriate provisions are created to cover any ensuing losses. The company does not believe, therefore, that these risks will have a sustained effect on the economic position of the group. However, due to the fact that some risks cannot be estimated, or only to a limited degree, it cannot be ruled out that very serious losses may eventuate that are not covered by the provisions already created.

To the knowledge of Porsche SE – which is not a party to the investigations and therefore has only limited knowledge of the subject matter and status of investigations – the Stuttgart public prosecutor has initiated investigations against the former members of the executive board Dr. Wendelin Wiedeking and Holger P. Härter in connection with allegations of manipulating the market in Volkswagen shares. According to the public prosecutor, the allegations involve public statements made by representatives of Porsche SE and the failure to make certain required statements regarding the acquisition of the shareholding in Volkswagen AG between 2007 and 2009. In addition, the public prosecutor is investigating the two former members of the executive board in connection with allegations of breach of fiduciary duty to the detriment of Porsche SE. According to the public prosecutor, there is reason to suspect that the two former members of the executive board may have taken risks jeopardizing the company's ability to continue as a going concern by entering into share price hedging transactions in the course of acquiring the shareholding in Volkswagen AG. Furthermore, the public prosecutor has launched investigations against Holger P. Härter and two employees of Porsche SE on suspicion of obtaining credit by deception in connection with a loan that has already been repaid. The investigations are not expected to be concluded before the start of 2012.

The investigations could not only have very serious and direct effects (in particular in the case of a forfeiture or freezing order, should the requirements for such an order be found to exist) or indirect effects on the net assets of the company; they are also relevant for the valuation of damage claims raised against Porsche SE and based on alleged market manipulation. This valuation must be made for the purposes of the merger of Porsche SE into Volkswagen AG. Since the end of the investigations can be expected at the earliest at the beginning of 2012, the legal and tax assessments of the merger of Porsche SE into Volkswagen AG to be made under the basic agreement will likely be delayed. From the executive board's view this also reduces the probability that the merger can be achieved under the timeline of the basic agreement (which requires that the necessary shareholder resolutions on the merger are made in 2011) from previous 70 percent to 50 percent.

In the view of the Porsche SE executive board, the overall probability of the merger decreases in case of substantial delays in the merger process compared to the timeline of the basic agreement. Should charges be brought or some or all of the defendants be sentenced, this could cause a loss of reputation for the company and potentially also be to the detriment of its significant investments.

Forty-six plaintiffs have filed six actions for damages against Porsche SE in the United States District Court for the Southern District of New York. The plaintiffs allege damages of more than 2.5 billion US dollars. In three of the six actions, the former members of the executive board Dr. Wendelin Wiedeking and Holger P. Härter are also named as defendants. Plaintiffs alleged in their complaints that Porsche SE's activities in connection with its acquisition of a stake in Volkswagen AG during the year 2008 constituted market manipulation and securities fraud in violation of the U.S. Securities Exchange Act and common law fraud. Porsche believes that both complaints are legally insufficient and without merit, and has sought their dismissal. The U.S. court dismissed all the complaints as legally insufficient at first instance. All plaintiffs appealed this decision in January 2011.

In addition, three of the plaintiffs filed an action for damages in New York state court on 18 February 2011. In their complaint, which has not yet been served on Porsche SE, they allege common law fraud and unjust enrichment based on allegations similar to those made in their aforementioned claims. The plaintiffs claim to have lost at least 390 million US dollars. Porsche SE believes this claim to be legally insufficient and without merit. It is possible that other plaintiffs may file similar claims with courts in individual US states.

In Germany, institutional investors have applied for conciliatory proceedings against Porsche SE with regard to the assertion of claims for damages on the basis of alleged breaches of statutory capital market regulations. The alleged claims relate to alleged lost profits, estimated by the investors to total approximately 2.5 billion euro. Porsche SE considers the asserted claims to be without merit and has not taken part in the proceedings.

In January 2011, a private investor filed a claim for damages against Porsche SE and another defendant in the amount of approximately 3 million euro. The plaintiff claims to have entered into options relating to shares in Volkswagen AG in 2008 on the basis of inaccurate information and the omission of information as well as market manipulation by Porsche SE and to have incurred losses from these options due to the share price development in 2008 in the amounts claimed. The action is currently pending in the Regional Court of Stuttgart. Porsche SE considers the asserted claims to be without merit and will defend itself against the claims.

In 2010, the appointment of a special auditor was applied for before the Regional Court of Stuttgart. The application relates to the examination of the management activities of the company's executive board and supervisory board in connection with hedging transactions that Porsche SE concluded to economically secure the ability to undertake potential purchases of Volkswagen shares that it might have later decided to undertake, as well as payment agreements with, and severance payments to, former members of Porsche SE's executive board. If the application is granted, the special auditor would have to report on the results of the audit even if facts capable of causing not insubstantial detriment to the company were to become known. This would carry the risk of business secrets being exposed. If a special auditor came to the conclusion that there had been any dishonesty or gross violations of the law in connection with the activity under examination, the content of his report could offer grounds for further actions for damages against the company and its boards, and considerably weaken the legal position adopted by the company in the proceedings relating to the actions for damages in the USA and Germany, as well as in any future proceedings. Porsche SE considers the application to be without merit and will defend itself against the application. The company believes that adequate provisions have been recognized for the anticipated attorneys' fees and litigation expenses.

Tax risk

The differences of opinion between the company and the tax authorities regarding the tax treatment of stock option transactions, which were reported in the risk report for the fiscal year 2009/10, have been resolved. As a result, the risk relating to the Porsche SE group's results of operations which existed as of 31 July 2010 no longer exists as of 31 December 2010.

For further information, we refer to our statements in the sections "Significant events" and Net assets, financial position and results of operations in this management report.

Opportunities and risks of cooperation projects

Cooperation projects include opportunities and risks, particularly in the areas of development and production.

The cooperation between the Porsche Zwischenholding GmbH group and its important cooperation partner, the Volkswagen group, can lead to additional synergies for these significant investments held by Porsche SE in future. The two groups have already cooperated for many years on the Colorado project, in which a platform was developed for the Porsche Cayenne, the VW Touareg and the Audi Q7. This project serves as a model for new cooperation projects. For example, cooperation on a new Porsche model in the sporty off-roader segment is currently being discussed. Potential synergies could arise in the design of additional shared platforms and in the field of new technologies as well as auto-electrics and electronics. By avoiding duplicate investment, the annual depreciation charge could be reduced. Moreover, the results of operations of both groups and thereby the profit/loss from investments accounted for at equity in the Porsche SE group can also be improved by combining purchasing functions and sharing existing sales channels.

The main risks relating to cooperation concern changes desired by a cooperation partner, for example to a platform and/or parts. As a result, achieving the planned development and production goals (and therefore the start of production) may involve delays, and additional expenses. Production at different locations (as, for example, in the case of the Cayenne, which is produced in Leipzig and Bratislava) may cause interface problems, particularly in the later production phase, which can result in interruption to production. Where the cooperation partner procures parts for prototypes and series production, this can also present a risk as it creates a dependency that cannot be countered by direct influence, in particular on the cooperation partner’s suppliers. To promote cooperation and avoid risks of this kind, Porsche and its partner are equally represented in the organization for cooperation projects. The ultimate decision-making body, with representatives of both companies, has sole responsibility for key topics and issues such as project strategy, key figures, technology, quality, deadlines, finances and model updates, and meets several times a year.

Opportunities and Risks of significant investments

Risk report of the Porsche Zwischenholding GmbH group

Integrated internal control and risk management system relevant for the financial reporting process

The accounting-related internal control system that is relevant for the financial statements of Porsche Zwischenholding GmbH and the Porsche Zwischenholding GmbH group is designed to ensure the complete, accurate and timely transmission of the information required for the preparation of the separate financial statements of Porsche Zwischenholding GmbH and the consolidated financial statements and the group management report of Porsche Zwischenholding GmbH, and to minimize the risk of material misstatements in the accounts and in external reporting.

The separate financial statements of Porsche Zwischenholding GmbH and the subsidiaries are prepared in accordance with the applicable national laws, reconciled to IFRSs and transmitted to the group. The Porsche Zwischenholding GmbH group monitors developments in IFRSs centrally on an ongoing basis, checks their relevance and defines uniform, intragroup rules for implementing new accounting requirements. The group accounting manual ensures the application of uniform accounting policies based on the requirements applicable to the parent. Components of the reporting packages required to be prepared by the group companies are also set out in detail and requirements established regarding the presentation and settlement of intragroup transactions and the associated balance reconciliation process.

Control activities at group level include analyzing and, if necessary, adjusting the separate financial statements presented by subsidiaries, taking into account the reports submitted by the auditors and the meetings on the financial statements with representatives of the individual companies, at which both the plausibility of the separate financial statements and specific critical issues at the subsidiaries are discussed.

Alongside reasonableness reviews, the clear delineation of areas of responsibility and the application of the dual control principle are further control mechanisms applied during the preparation of the financial statements of Porsche AG, which are significant for the Porsche Zwischenholding GmbH group. Provisions and accruals/deferrals recognized are tested for plausibility at Porsche AG by the finance department and only recognized in the statement of financial position following internal approval. The department with central responsibility for certain global risks (processes, warranty, etc.) ensures that these are completely documented and consistently measured. Moreover, material movement data from feeder systems is automatically compared with the movements presented in financial accounting, and errors immediately rectified. Matters arising from agreements that are relevant in terms of accounting and subject to disclosure requirements are identified in full and presented appropriately as part of the accounting process. In addition, there are authorization and access rules that apply to IT systems of relevance for the financial reporting process.

Risk management in line with the KonTraG

All shares in Porsche AG are held by Porsche Zwischenholding GmbH. A domination and profit and loss transfer agreement is in place between the companies that requires Porsche Zwischenholding GmbH as the controlling company to absorb any loss. This is why risks of Porsche AG and its group companies can also constitute risks for Porsche Zwischenholding GmbH and the Porsche Zwischenholding GmbH group. For this reason,

the group maintains an early warning system for the detection of risk pursuant to Sec. 91 (2) German Stock Corporation Act (AktG). The group's risk situation and risk management is reviewed and documented annually in accordance with the requirements of the German Act on Control and Transparency in Business (KonTraG). Risk management, which forms an operational component of the business processes, is designed to identify risks in a timely manner, assess their extent and, where appropriate, take countermeasures.

Updating the risk documentation

Function-specific surveys of risks and measures carried out at certain divisions of the group defined in advance are used to record and update the potential risk position at appropriate rolling intervals. In the process, the qualitative likelihood of occurrence and the relative extent of any loss are assigned to each risk identified considering the countermeasures taken. The continuous updating of the risk documentation is coordinated centrally by Porsche AG's risk management department in cooperation with the planning department. The plausibility and adequacy of the risk reports are examined in detailed interviews with the divisions concerned.

The leasing and hire-purchase business operated in the group's financial services division is additionally subject to regulatory supervision for finance leases as defined by Sec. 1 (1a) Sentence 2 No. 10 German Banking Act (KWG). As part of the reporting duties that apply for leasing companies, the group's financial services division has to fulfill certain formal, qualitative and quantitative requirements. Implementation of the minimum requirements for risk management is documented in a division-specific risk management manual and updated on an ongoing basis to reflect changes in law and new requirements.

Adherence to process organization rules, guidelines, instructions and descriptions is assured by internal controls performed by the risk officers appointed in this area and by the internal audit function.

The risk management system – goals and operation

The group's risk management system is designed to identify potential risks at any early stage so that suitable countermeasures can be taken to avoid any developments that might jeopardize the company's ability to continue as a going concern.

The risk management system is an integral part of the group's structure and process organization and is embedded in all of its daily business processes. The opportunities and risks in the group are assessed during the annual planning. Constant monitoring is provided throughout the year by means of the reporting system. Deviations are analyzed, recorded, and countermeasures initiated in the event of negative developments. In addition, the risk management and internal audit departments monitor and document the risks and early warning systems. If new or changed risks are discovered, these departments report immediately to management and propose solutions. This procedure allows negative trends to be identified promptly and immediate countermeasures to be taken. The documented reporting channels mean that management always has access to an overall picture of the current risk situation.

Porsche Zwischenholding GmbH and the Porsche Zwischenholding GmbH group are only prepared to take transparent risks that are proportionate to the benefits expected from the business.

Continuous enhancement

The internal control system and risk management system are constantly optimized as part of Porsche’s improvement process. Equal importance is attached to both internal and external requirements – such as the provisions of the German Accounting Law Modernization Act (BilMoG). The objective of the improvements made to the systems is to ensure continuous monitoring of the relevant risk areas, including the organizational units responsible, and more efficient structuring of risk processes.

Individual risks of the Porsche Zwischenholding GmbH group

Macroeconomic risk

The global economy has not yet recovered entirely from the effects of the global financial crisis. The recovery has been hampered, for instance, by the risk of illiquidity of some countries. Experts are also warning of a “real estate bubble” bursting in China, which could lead to inflation, among other things. This may also impact on the business operations of Porsche as a group with global operations, for which China represents a major sales market. The situation of the economy as a whole may make potential Porsche customers reluctant to buy a vehicle. Significant risks are also the continuing high prices for energy and raw materials, increasing protectionism and the persisting imbalance in foreign trade. Changes in the legislation, taxes and customs duties as well as a greater degree of permanent state intervention could also have a significant negative impact on the international activities of the group.

Sector-specific risk

In the automotive industry the financial crisis gave rise to new risks or increased existing ones. Lower purchasing power among potential automotive customers has meant that a large number of automotive manufacturers have had to reduce their prices; cost-intensive marketing measures were implemented to gain an edge on the competition. Porsche also had to offer purchase incentives on several markets in order to optimize sales.

The automotive industry is the center of attention in the environmental debate. There is great public pressure to minimize fuel consumption, which could in turn impact sales. Some markets are threatening to levy taxes or tolls in an attempt to reduce fuel consumption and CO_2 figures. Other markets have already introduced such regulations. Porsche is continuously working on improving fuel consumption and CO_2 figures of the vehicles to meet existing regulations or potential new regulations. So as not to adversely impact demand and sales, drive systems with reduced emissions are offered such as the hybrid drive for the Cayenne.

Risks arising from operations

Risks can never be completely eliminated. Incidents such as fires or explosions can severely disrupt operating processes. Regular safety checks and protective measures integrated into buildings and processes offer preventive protection. Moreover, business interruptions and damage to property are covered by insurance. Natural disasters, terrorist activities, pandemics and changes in the law are risks that can be difficult to predict in some cases but have a sizeable economic impact if they come to pass.

The statistics show that natural perils such as storm, hail, or earthquakes (property risks) are becoming more frequent. In order to reduce such risks and the resulting interruption to production, the group has set up an emergency team that can take quick action in a coordinated manner to minimize the loss. Each case of loss leads to new findings. If these findings reveal a need to optimize the existing processes, the findings are evaluated in detail and, if need be, implemented in the risk mitigation organization. In addition, property risks are insured on the basis of a commercial cost-benefit analysis, taking insurance methods into account. However, it is not possible to guarantee full insurance cover for all claims.

Risks related to demand

Levels of demand and sales are also influenced by the changing economic landscape. The key markets for the group's products are western Europe and North America, which have recently been joined by China. However, growth in China could be jeopardized if major cities such as Beijing wish to dramatically reduce the volume of new vehicles registered annually by introducing corresponding regulations. Intensive monitoring of local markets and early warning signs enable the group to quickly spot a potential fall in sales. The general decline in demand for premium vehicles in the wake of the financial crisis has hit Porsche and its competitors alike. The fall in sales has been confronted by reallocating the geographical distribution of sales and introducing country-specific sales promotion packages. Despite these measures, Porsche had to maintain short-time work in production in Zuffenhausen in the reporting period.

The retail organization is granted terms of payment that involve the individual recipients being rated positively in terms of their economic performance, a rating that is reviewed regularly by a credit committee. Risk diversification and active risk management, such as obtaining the collateral customarily expected by banks as well as obtaining information and monitoring it daily also contribute to reducing the risk of default for the group.

Procurement risk

The prices of raw materials and oil remain volatile. At the same time, they have an impact on production costs. The scarcity of raw materials, particularly in the face of increasing demand, is leading to a significant increase in the price of end products, as well as assemblies and components. Commodity markets are permanently monitored and analyzed in order to enable Porsche AG to effectively plan for future materials costs and secure the materials it needs. Long-term contracts with suppliers also hedge against bottlenecks and the risk of price fluctuations. The global financial crisis has also affected the automotive supply industry, led to the risk of insolvency or, in isolated cases, to actual insolvency of suppliers. A comprehensive, proactive and reactive supplier risk management system, which was implemented back in 2005, ensures at the level of Porsche AG that potential supplier defaults are identified in good time, ideally avoiding disruption to the supply situation by means of suitable action (on this point, see also the statements in the section “Procurement” in the section “Value-enhancing factors”). In the past, this systematic approach has prevented supply bottlenecks due to suppliers in a critical financial situation.

Liquidity risk

The Porsche Zwischenholding GmbH group is reliant on adequate refinancing to meet its capital requirements. The terms of the refinancing depend not only on general market conditions, but also on the assessment of Porsche’s credit rating. If the general market conditions were to deteriorate, or if the banks rated the credit-worthiness, in particular of Porsche AG, low, this could negatively impact refinancing options and thus liquidity.

When it comes to safeguarding liquidity, Porsche pursues a policy of maximum financial security. To ensure its credit rating and liquidity, Porsche AG has negotiated a syndicated line of credit with a banking syndicate which falls due at the end of 2011 or, if Porsche AG exercises a unilateral option, one year later. In conjunction with the loan agreement, it was arranged with the banks involved that the group will deliver and comply with two financial covenants. In this fiscal year, the group satisfied these covenants which relate primarily to a rolling twelve-month EBITDA (earnings before tax, financial result, depreciation and amortization) in relation to the net debt of the group’s vehicle division. The second covenant refers to the financial services division’s total assets, adjusted to eliminate intangible assets, in relation to its overall financial liabilities. The covenants are reviewed internally in the group on a monthly basis and reported to the banking syndicate on a quarterly basis. The loan agreements are deemed to have been infringed if any one of the covenants is breached. In that case, the banking syndicate is entitled to terminate and immediately call the syndicated loan. The risk of non-compliance is deemed by the management of Porsche Zwischenholding GmbH to be low.

In early February 2011, a bond of one billion euro fell due. The bond was directly refinanced via a syndicated loan of one billion euro, which falls due at the end of 2011 or, following the exercise of a unilateral option by Porsche AG, one year later.

The financial services business of the Porsche Zwischenholding GmbH group is financed primarily via securitization of loan and leasing receivables (asset-backed securities programs), sales and leaseback programs, bonds and bank loans.

Risks arising from financial instruments

In its business activities the group is exposed to risks arising from the primary or derivative financial instruments used. The primary aim of using financial instruments is to limit the financial risk position for the group's ability to continue as a going concern and its earnings power. In order to manage these risks, the group has set out guidelines to ensure that transactions are concluded only in financial instruments approved in advance, only with approved counterparties and on the admissible scale. Without using such instruments, the group would be exposed to higher financial risks.

The financial instruments entered into for hedging purposes lead to accounting risks in addition to counterparty default risks. This risk of effects on the presentation of results of operations in the income statement is limited by way of hedge accounting.

Default risks in receivables are reduced by means of a strict receivables management system.

Channeling excess liquidity into investments exposes the group to further counterparty risks. Partial or complete failure by a counterparty to perform its obligation to pay interest and repay principal would have a negative impact on liquidity and accordingly on the net assets, financial position and results of operations. The group has set out clearly defined guidelines to manage these default risks and to ensure that only approved financial instruments are entered into with approved counterparties.

Interest rate risks arising from the refinancing of the financial services business of Porsche Financial Services are fully hedged through the use of suitable derivatives (e.g., interest swaps). In the case of fixed-rate bonds of the Porsche Zwischenholding GmbH group, there is no interest risk. For the syndicated lines of credit that fall due at the end of 2011 or optionally at the end of 2012, variable interest, which is hedged against increasing short-term interest, is paid on the basis of a one-to six-month Euribor.

The currency risk from future sales revenue denominated in foreign currencies is hedged through the use of exchange rate hedging instruments for a period of up to four years. The main hedging instruments used are forward exchange transactions, currency options, repayment of foreign currency liabilities, and currency swaps. The volume of exchange rate hedges is determined on the basis of the planned sales figures in the respective foreign currency. The counterparties for the exchange rate hedges are major international financing partners. Cooperation is subject to standard regulations and continuous monitoring.

Residual value and credit risk in the financial services business

The risk inherent in leasing business results from a negative deviation between the residual value calculated when the agreement is concluded and the market value of the leased vehicle when it is sold following expiry of the agreed leasing period.

In some markets, the Porsche Zwischenholding GmbH group bears this residual value risk. Operational risk management is provided via ongoing monitoring of the development of used car prices by means of data available within and outside the company. Residual value forecasts are used to check the appropriateness of risk provisioning and the residual value risk potential.

The default risk quantifies the unexpected loss which arises if a borrower cannot fulfill the contractually agreed payment obligations within the scope of the loan agreement. To monitor the default risks that exist for customers and dealers in financing arrangements as well as leasing business, rating procedures are used with dealers and commercial fleet customers, and scoring procedures for business and private customers. Due to the type of financing activity, the collateral for the outstanding financing volumes is mainly the financed vehicles. Conservative risk provisioning has been set up to cover the default risk.

Development risk

Porsche is constantly developing new products in pursuit of its sales strategy. Misjudging customers' needs in individual markets can result in lower sales in the short term and, if such misjudgments recur, to loss of customers and investment errors in the long term. In order to avoid developing products that do not meet the needs of consumers, Porsche conducts trend studies and market surveys before making decisions on new vehicle projects. Porsche hedges against potential breaches of industrial property rights, which could lead to considerable compensation claims, market-specific export barriers or cost-intensive new development, by conducting research into worldwide industrial property rights when developing new vehicles. In this way, it is possible to quickly identify whether the industrial property rights of third parties are affected.

IT risk

The failure of IT systems can cause considerable losses if, for example, the production of vehicles is interrupted. Although the likelihood of the IT system failing is low, Porsche has introduced an emergency and disaster contingency program which duplicates important data and machines. The program is continuously adapted to meet operating requirements. Sensitive data can also be misused due to unauthorized access to data. In order to guard against this, the group has detailed access authorization concepts, as well as binding instructions for the handling of sensitive data. There are also technical countermeasures such as virus scanners and firewall systems in place.

To minimize delays in production, the group has an escalation model. If defined thresholds are exceeded – e.g. an unacceptably high number of vehicles are on the assembly line in the wrong order – a meeting of a certain group of persons is convened in order to take appropriate countermeasures without delay. This process helps to ensure that vehicles are manufactured to plan.

Personnel risk

A positive image is crucial to any company. The communication strategy of the group ensures that communication and actions are decisive and professional in the event of crisis scenarios or events that could tarnish the company's image. Porsche's positive image as an employer, as revealed by surveys, enables the company to find and keep qualified personnel. The group combats the risk of qualified specialists and management leaving the company taking their experience and knowledge with them by offering attractive employment conditions and training programs. As a result of the five-year agreement to safeguard company locations concluded at Porsche AG in July 2010, which precludes redundancies, there is a danger that it will not be possible to respond rapidly to a change in economic conditions by making staff reductions.

Litigation risk

Like any other company, group entities may become involved in court or arbitration proceedings. At present there are no proceedings which could have a material impact on the economic position of the group.

Quality risk

High-quality products are crucial to the company's image. The development department works closely together with suppliers in order to achieve this. In addition to economic benefits, this collaboration also creates dependencies. Delayed deliveries or even failure to deliver can quickly lead to a standstill in production due to the “just-in-time” nature of parts deliveries. The group’s risk management system therefore prescribes the careful selection and monitoring of suppliers. A technical and business profile is created, and the supplier’s creditworthiness is continuously monitored. The credit assessment enables recognition of companies running the risk of insolvency at an early stage. Short development times and pressure on costs place high demands on suppliers. Parts deliveries are regularly subjected to quality and punctuality checks.

The group sets itself high quality goals in both the production and the development of new vehicles, taking care to ensure that all technical and qualitative requirements are taken into account and achieved. Warranty claims, product liability claims and recalls can incur considerable costs. The quality gate systems used by the group ensure the requisite quality. This cross-functional project management instrument is used to make sure that the level of target achievement can be measured following pre-defined development phases, in order to monitor project progress. If development goals have not been met, the departments responsible must propose solutions for meeting them without significantly delaying the development project. Development gates for the most important milestones have been positioned below the quality gates in the development chain to help manage development processes. The goal is to recognize any critical issues in development at an early stage (between the quality gates) and limit their impact.

If product defects are extant after the start of production despite these risk avoidance measures, these defects are recorded and assessed in the sales markets. The aim is to determine and remedy the cause. To this end, Porsche AG has set up an interdisciplinary working group that introduces remedial measures to the production process either at Porsche or the supplier. Provisions have been set up in an effort to counter the risk from warranty claims and recalls. Coverage for product liability claims is provided by the company’s business liability insurance.

Environmental protection regulations

At the Major Economies Forum (MEF) in L’Aquila, Italy, the G8 states and the group of the 16 largest industrial nations and emerging economies meeting recognized the 2-degree goal for reducing the continuing global warming. This means that the Forum has approved the goal advocated by the Intergovernmental Panel on Climate Change (IPCC) to reduce global greenhouse gas emissions by 50 percent measured on the value of 1990 by 2050. According to the analyses of the International Energy Agency and the IPCC this goal will only be attainable by reducing emissions in all sectors of the global economy, from power generation, industry, household consumption, agriculture and to transport. Some countries are already in the process of introducing the necessary policies. It can be expected that such policies will become tighter across the globe in future. The group is affected by this development, both in terms of its manufacturing facilities and in terms of its products, particularly with regard to energy efficiency and rising prices for energy in general. The group is countering the possible consequences by managing its resources and energy as part of its environmental management system as well as devoting special working committees to energy management.

In the regulation of 23 April 2009 on CO_2 emission performance standards, the EU Commission set an upper limit of 130 g/km for the mean emissions of the entire European fleet of new vehicles from 2012. A further ten grams should be attained by supplementary measures, such as the use of bio-fuels, low-drag tires, effective air conditioners and other technical improvements.

The regulation sets European manufacturers the target of average emissions of 95 g/km from 2020, to be achieved through phased reductions. As of 2012, the Commission will impose an annual excess emissions premium on any manufacturer that exceeds its emission target. The regulation has a major impact on the variety of products, the distribution among the segments and the earnings on the European market.

Moreover, companies like Porsche Zwischenholding GmbH and its subsidiaries, which have a very special product portfolio and small production runs, have the possibility of applying for a special ruling so as to avoid losing their economic foundation. Alternatively, they can form an emissions pool together with other manufacturers and be considered as one manufacturer with regard to the regulation. Emission and CO_2 levels are also being reduced this way in the USA. As a small series manufacturer, Porsche has been granted an exemption until 2016, according to which Porsche vehicles may have a 25 percent higher fuel consumption compared to products of other (mass) producers.

Compliance with the environmental protection regulations is technologically demanding and cost intensive. However, as a result of its leading technologies and products, Porsche Zwischenholding GmbH group sees itself in a position to master most of these future challenges.

Other factors

Going beyond the risks already outlined, there are other factors that cannot be predicted and are therefore difficult to manage. Should these transpire, they could have an adverse effect on the further development of the group. These factors include natural disasters, epidemics and terror attacks.

Overall statement on the risks faced by the Porsche Zwischenholding GmbH group

Based on the information currently available, no developments were identified in the Porsche Zwischenholding GmbH group that could jeopardize the ability of the group to continue as a going concern or that could significantly and negatively impact the net assets, financial position and results of operations of the group. The overall risk exposure of the Porsche Zwischenholding GmbH group is made up of the individual risks presented above, which are managed using the risk management system.

Risk report of the Volkswagen group

Integrated internal control and risk management system relevant for the financial reporting process

The accounting-related internal control and risk management system that is relevant for the financial statements of Volkswagen AG and the Volkswagen group comprises measures that are intended to ensure the complete, accurate and timely transmission of the information required for the preparation of the financial statements of Volkswagen AG, the consolidated financial statements and the group management report, and to minimize the risk of material misstatement in the accounts and in the external reporting.

Main features of the integrated internal control and risk management system relevant for the financial reporting process

The Volkswagen group's accounting is organized along decentralized lines. For the most part, accounting duties are performed by the companies themselves or transferred to the group's centralized shared-service centers. The single-entity financial statements of Volkswagen AG and the subsidiaries are prepared in accordance with the applicable national laws, reconciled to IFRSs and transmitted to the group in encrypted form. A standard market product is used for encryption.

The group accounting manual ensures the application of uniform accounting policies based on the requirements applicable to the parent. This manual and other group-wide accounting regulations contain rules applicable to the financial statements of Volkswagen AG prepared in accordance with the German Commercial Code (HGB) and stipulate precisely defined formal requirements to be met by the consolidated financial statements prepared in accordance with IFRSs. In particular, these include more detailed guidance on the application of legal requirements and the determination of the entities to be included in the consolidated financial statements. Components of the reporting packages required to be prepared by the group companies are also set out in detail and requirements established regarding the presentation and settlement of intra-group transactions and the balance reconciliation process that builds on that.

Control activities at group level include analyzing and, if necessary, adjusting the data reported in the single-entity financial statements presented by the subsidiaries, taking into account the reports submitted by the auditors and the outcome of the meetings on the financial statements with representatives of the individual companies, at which both the reasonableness of the single-entity financial statements and specific critical issues at the subsidiaries are discussed. Alongside reasonableness reviews, the clear delineation of areas of responsibility and the application of the dual control principle are further control mechanisms applied during the preparation of the financial statements of Volkswagen AG.

In addition, the financial reporting-related internal control system is independently reviewed by group internal audit in Germany and abroad.

Integrated consolidation and planning system

The consolidation and corporate management system (VoKUs) employed in the Volkswagen group can be used to consolidate and analyze both financial reporting's backward-looking data and controlling's forward-looking data. The system offers centralized master data management, uniform reporting and maximum flexibility with regard to changes to the legal environment, thus providing a future-proof technical platform that benefits group financial reporting and group controlling in equal measure. To verify data consistency, VoKUs has a multi-level validation system that primarily checks the completeness of the data delivered and carries out content plausibility checks between the balance sheet and the income statement. VoKUs supports further plausibility checks through materiality analyses and data screening for anomalies.

Risk management in line with the KonTraG

The company's risk situation is documented annually in accordance with the requirements of the German Act on Control and Transparency in Business (KonTraG). The auditors check the adequacy of this documentation. Risk management, which forms an operational component of the business processes, is designed to identify risks in a timely manner, assess their extent and, where appropriate, take counter-measures. The Scania brand, which has been consolidated in the group since 22 July, 2008, has not yet been incorporated into the Volkswagen group's risk management system due to various provisions of Swedish company law. According to Scania's corporate governance report, risk management and risk assessment are integral parts of corporate management. Risk areas are evaluated by the controlling department and reflected in the financial reporting.

Updating the risk documentation

Standardized risk position surveys of both the risk managers of the individual divisions and the members of the boards of management and managing directors of investees are performed annually. Their responses are used to update the overall picture of the potential risk situation. In the process, the qualitative likelihood of occurrence and the relative extent of any loss are assigned to each risk identified and appropriate measures are specified for each risk category in the shape of guidelines and organizational instructions, so as to counter the risks concerned. The continuous updating of the risk documentation is coordinated centrally by the governance, risk and compliance function set up in 2010, working in conjunction with group internal audit. Under the guidance of the auditors, the plausibility and adequacy of the risk reports are examined on a test basis in detailed interviews with the divisions and companies concerned. The Volkswagen AG auditors assessed the effectiveness of the group's risk early warning system based on this information and established both that the risks identified were presented in a suitable manner and that measures and rules have been assigned to the risks adequately and in full. Volkswagen AG therefore meets the requirements of the KonTraG. In addition, the Financial Services Division is subject to regular special audits by the German Federal Financial Supervisory Authority (BaFin) in accordance with Sec. 44 German Banking Act (KWG) and controls by association auditors.

Workflow rules, guidelines, instructions and descriptions are systematically recorded and can for the most part be accessed online. Adherence to these rules is assured by internal controls performed by the heads of the group internal audit, quality assurance, group treasury, brand controlling and group controlling organizational units.

The risk management system – goals and operation

The Volkswagen group's risk management system is designed to identify potential risks at any early stage so that suitable counter-measures can be taken to avert the threat of loss to the company, and any risks that might jeopardize its continued existence can be ruled out.

The risk management system is an integral part of the Volkswagen group's structure and workflows and is embedded in its daily business processes. Events that entail a risk are identified and assessed on a decentralized basis in the divisions and at the investees. Countermeasures are introduced immediately, their effects are assessed and the information is incorporated into the planning in a timely manner. The results of the risk management process are used to support budget planning and controlling on an ongoing basis. The targets agreed in the budget planning rounds are continually verified in revolving planning reviews.

At the same time, the results of risk mitigation measures that have already been taken are incorporated into the monthly forecasts on further business development in a timely manner. This means that the board of management always has access to an overall picture of the current risk situation through the documented reporting channels.

The Volkswagen group is prepared to enter into transparent risks that are proportionate to the benefits expected from the business.

Continuous enhancement

The Volkswagen group constantly optimizes the internal control system and the risk management system as part of its continuous improvement processes. In doing so, equal consideration is given to both internal and external requirements – such as the provisions of the German Accounting Law Modernization Act (BilMoG). The objective of the improvements made to the systems is to ensure continuous monitoring of the relevant risk areas, including the organizational units responsible. The focus is on reviewing the effectiveness of the management and monitoring instruments identified. This concept culminates in both regular and event-driven reporting to the board of management and supervisory board of Volkswagen AG, into which the reporting in accordance with the KonTraG is now being gradually integrated.

Specific risks faced by the Volkswagen group

The following section explains the individual risks arising from the business activities of the Volkswagen group.

Macroeconomic risk

High energy and commodity prices, increasing international trade restrictions, persistent imbalances in foreign trade and ongoing political conflicts present significant risks to the global economy. The high level of debt in many countries is also a major potential threat. Although the risk of renewed global recession is relatively low at present, the abovementioned factors could result in a prolonged period of below-average global economic growth. Likewise, changes in legislation, taxes, or customs duties in individual countries may have a severe adverse effect on international trade and present significant risks to the Volkswagen group.

Sector-specific risk

The growth markets of Asia, South America, and central and eastern Europe are particularly important in terms of the global trend in demand for passenger cars. Although these markets harbor the greatest potential, the overall environment in some of the countries in these regions makes it difficult to increase unit sales figures; some have high customs barriers or minimum local content requirements for domestic production, for example. The announced reduction in the number of new vehicles allowed to be registered in Beijing could be followed by further restrictions on registrations in other metropolitan areas in China. In established markets, meanwhile, there is a risk of price pressure due to the high level of market coverage. In the automotive markets of western Europe, the USA and China in particular, various manufacturers are using massive discounts to promote sales of their own vehicles, thereby putting the entire sector under pressure. This is a particular challenge for the Volkswagen group as a supplier of volume models, as it would be especially affected if competing automakers were to further step up their sales incentives.

Freight transportation faces the risk of transported volumes being shifted from commercial vehicles to other means of transport.

Volkswagen sells most of its vehicles in western Europe. Consequently, a sustained drop in prices and resulting fall in demand in this region would have a particularly strong impact on the company's earnings. Volkswagen counters this risk with a clear, customer-oriented and innovative product and pricing policy. By contrast, its overall delivery volume outside western Europe is broadly diversified across the markets of North America, South America, Asia-Pacific, and central and eastern Europe, with the Chinese market accounting for an increasing share of the volume. The Volkswagen group is already market leader in numerous existing and developing markets or is working resolutely to become market leader. In addition, strategic partnerships are enabling us to increase the presence of the Volkswagen group in the relevant countries and regions and cater to regional requirements.

The Volkswagen group continues to approve loans for vehicle finance on the basis of the same cautious principles applied in the past, taking into account the regulatory requirements of Sec. 25a (1) German Banking Act (KWG).

The economy recovered markedly overall during the past fiscal year. However, the Volkswagen group's trading and sales companies continue to feel the effects of the financial and economic crisis, as it remains difficult to raise bank loans to finance business operations. A group support program that granted automotive dealers and outlets financing on attractive terms via the group's financial services companies during the financial and economic crisis, thus reducing the risk of their insolvency, was therefore very well received. In addition, the Volkswagen group has established a risk management system to identify in good time and counteract liquidity bottlenecks that could hinder smooth business operations.

The provisions of the new Block Exemption Regulation and European legislative initiatives could result in further liberalization and therefore increasing competition, particularly in after-sales service and the sale of genuine parts.

The European Commission is planning to end design protection for visible vehicle parts. If this plan is actually implemented, it could adversely affect the Volkswagen group's genuine parts business.

Research and development risk

The Volkswagen group combats the risk of failing to give its customers' requirements adequate consideration during the development process by conducting extensive trend analyses, customer surveys and scouting activities. These measures also ensure that trends are recognized at an early stage and that their relevance for customers is verified in good time.

In addition, there is a risk that it may not be possible to develop products or modules within the specified timeframe, to the required quality standards, or in line with cost specifications. To avoid this, the progress of all projects is continuously and systematically monitored and compared with the original targets. In addition, the Volkswagen group regularly compares this progress with the original targets; in the event of deviations, suitable countermeasures are initiated in good time. The group's end-to-end project organization supports effective cooperation among all areas involved in the process. It ensures that specific requirements are incorporated into the development process as early as possible and their implementation planned in good time.

The Volkswagen group's wide variety of research and development activities means that risks are not concentrated on particular patents or licenses.

Procurement risk

As a result of the global recovery in the automotive markets, the automotive supplier industry also stabilized in 2010. The number of insolvencies declined significantly year-on-year. Suppliers that weathered the financial and economic crisis well are currently using their position to drive the industry's consolidation, thus helping to reduce default risk. In establishing and expanding a comprehensive procurement risk management system, Volkswagen placed particular emphasis on risk prevention. Risk management continuously monitors suppliers' economic stability. If there is evidence of negative developments, the appropriate measures are taken to ensure supplies and reduce additional risks. To date, ongoing risk classification and monitoring has enabled the Volkswagen group to avoid supply risks due to supplier defaults.

Production risk relating to demand

Following the slump in the global economy, some passenger car markets recovered faster than expected in 2010 and the Volkswagen group therefore expanded production at its international locations significantly in the course of the year. In order to ensure the necessary capacity, the group's suppliers also increased their deliveries above and beyond what was originally agreed. Volkswagen expects demand to remain high in 2011 and possibly cause fluctuations, particularly in installation rates of features and components. Through its turntable concept and highly flexible logistics operations, Volkswagen ensures that it optimally adapts the programs at its vehicle and component plants to current market conditions. The ability to implement extensive flexibility measures within the existing working time models as the situation demands also mitigates the risk.

Risks arising from changes in demand

Consumer demand depends not only on real factors such as disposable income, but also to a significant extent on psychological factors that are impossible to plan for. Increased fuel and energy prices could lead to unexpected buyer reluctance, which could be further exacerbated by media reports. This is particularly the case in saturated automotive markets such as western Europe, where demand could drop as a result of owners then holding on to their vehicles for longer.

In 2010, the effects of these psychological factors that cannot be planned for were again exacerbated by the impact of the economic and financial crisis on the global economic trend and the entire automotive industry. Many automotive markets were in a downward spiral, which in some cases assumed dramatic proportions, while others had to be supported through government intervention. The Volkswagen group countered the risk of buyer reluctance with its attractive range of models and in-depth customer orientation.

In addition to buyer reluctance as a result of the crisis, a combination of vehicle taxes based on CO_2 emissions – like those already structured in some European countries – and high oil and energy prices is causing a shift in demand towards smaller segments and engines. The Volkswagen group is countering the risk that a shift negatively impacts its financial result by continuously developing new, fuel-efficient vehicles and alternative fuels on the basis of its fuel and drive train strategy. In the rapidly expanding markets of Asia and eastern Europe, risks may also arise due to government intervention in the form of restrictive lending or tax increases, for example, which could adversely affect private consumption.

Dependence on fleet customer business

As in the past, the fleet customer business is experiencing increasing concentration and internationalization. Thanks to its broad product portfolio, the group is also well positioned in view of the growing importance of the issue of CO_2 and the trend towards downsizing. No default risk concentrations exist for individual corporate customers.

Quality risk

The continuing positive trend in sales and the Volkswagen group's strong growth in core markets such as China pose new challenges for quality assurance. Ever-growing competitive pressure means that product quality is becoming more and more important. In addition, the continuous increase in vehicle complexity and the new drive systems that are becoming established are resulting in a growing number of quality assurance tasks. It is essential to identify the associated risks at an early stage so that they can be countered effectively.

Achieving the highest product quality is key to the Volkswagen group's business success. Across all divisions, Volkswagen therefore systematically analyzes the possible risks arising from quality defects and takes effective measures to minimize them. Customer expectations and practical experience are taken into account during the design and development of new vehicles and technologies. This is done in close cooperation with all divisions and with suppliers. Quality assurance acts as an interface between all the parties involved in this ongoing process.

Adopting this approach always creates an opportunity to jointly enhance and optimize established processes in all areas. By pursuing it, the Volkswagen group will continue to ensure the quality of its products and therefore its business success in the future.

Personnel risk

The individual skills and knowledge of employees are a major factor contributing to the Volkswagen group's success. The aim of becoming top employer in the automotive industry at all levels of the company improves Volkswagen's chances of recruiting and retaining the most talented employees.

The strategic, end-to-end personnel development gives all employees attractive training and development opportunities, with particular emphasis placed on increasing technical expertise in the company's different vocational groups. The Volkswagen group counters the risk that knowledge will be lost as a result of employee fluctuation and retirement with intensive, department-specific training. In addition to the standard twin-track vocational training, programs such as the StIP integrated degree and traineeship scheme ensure a steady rise in the number of highly qualified new employees in the company. The Volkswagen group has also expanded its base of senior experts in the group to ensure that the valuable knowledge of specialists retiring from Volkswagen is transferred to other employees.

Environmental protection regulations

Following the entry into force in April 2009 of EU Regulation 443/2009 capping CO_2 emissions from passenger cars, the EU forged ahead in 2010 with the parliamentary decision-making process for a CO_2 regulation for light commercial vehicles. At the same time, the European rules lead the way for further international regulations planned for fuel consumption and greenhouse gases, for example in China, India, the USA and Korea. The draft international regulations specify a concrete time horizon to the year 2020, or in some cases 2025.

The increasing global convergence of regulatory approaches and targets concerning emission control may lead to significant economic benefits worldwide in introducing new and sustainable technologies. However, there is a risk that these regulations will be formulated to benefit the domestic industry of the nations concerned.

Goals to dramatically reduce greenhouse gas emissions by 2030 and almost completely avoid the use of fossil carbon by 2050 are already the subject of public and political debate. However, it will only be possible to meet these goals by using mostly non-fossil sources of energy such as renewable electromobility.

The representatives at the most recent World Climate Conference in Cancun, Mexico, at the end of 2010 did take a small step towards establishing a uniform global framework for climate protection: with the exception of Bolivia, all member states officially pledged to limit global warming to 2°C. Concrete steps towards this goal will not be identified until the next conference at the end of 2011. However, it was agreed to assist developing countries to limit increases in their emissions by transferring technology from the industrialized nations. At present, it is impossible to predict whether this could force Volkswagen AG to pass on expertise in the future.

In preparation for the third emissions trading period beginning in 2013, the Volkswagen group calculated the CO_2 emissions requirements to be reported for the plants of the Volkswagen Passenger Cars brand in accordance with the German Data Collection Regulation (DEV 2020). The assessment showed that we only need to report installations for the plants in Salzgitter and Zwickau: we reported an additional requirement of approximately 3,000 tons of CO_2 a year for the Salzgitter site and around 20,000 tons of CO_2 a year for the Zwickau site. Appropriate checks were also carried out at the other plants in the European Union in accordance with the national laws in force at those locations. The number of Volkswagen group installations included in the EU Emissions Trading System as of 2013 will not rise significantly overall.

The main change to the emissions trading system starting in 2013 is that the emissions certificates required will no longer be allocated free of charge on the basis of National Allocation Plans. Instead, all certificates for CO_2 emissions from pure power generation and an annually increasing percentage of certificates for other emissions will have to be purchased (auctioning). Provisional estimates indicate that the energy costs incurred by the Volkswagen group's European sites will increase dramatically solely as a result of purchasing the emission allowances required for the operation of their own incineration installations.

Legal cases

In the course of their operating activities, Volkswagen AG and the companies in which it is directly or indirectly invested become involved in legal disputes and official proceedings in Germany and internationally. In particular, such proceedings may occur in relation to suppliers, dealers, customers, or investors. For the companies involved, these may result in payment or other obligations. Particularly in cases where US customers assert claims for vehicle defects individually or by way of a class action, highly cost-intensive measures may have to be taken and substantial compensation or punitive damages paid. Corresponding risks also result from US patent infringement proceedings.

Where transparent and economically viable, adequate insurance cover is taken out for these risks and appropriate provisions recognized for the remaining identifiable risks. The company does not believe, therefore, that these risks will have a sustained effect on the economic position of the group.

However, as some risks cannot be assessed or can only be assessed to a limited extent, the possibility of loss or damage not being covered by the insured amounts and provisions cannot be ruled out.

In fiscal year 2010, the United Kingdom Office of Fair Trading (OFT) started an investigation into Volkswagen subsidiary Scania. In fiscal year 2011, Scania also became the subject of an investigation launched by the European Commission concerning alleged inappropriate exchange of information. Besides other truck manufacturers, the EU probe also includes MAN SE, in which Volkswagen holds a 28.67 percent interest. Such investigations normally take several years. It is still too early to judge whether these investigations pose any risk to Scania or MAN.

Strategies for hedging financial risks

The Volkswagen group's business activities entail financial risks that may arise from changes in interest rates, exchange rates, commodity prices and fund prices. Management of these financial risks as well as liquidity risk is the responsibility of the central group treasury department. The Volkswagen group limits these risks using non-derivative and derivative financial instruments. The Volkswagen group board of management is informed of the current risk situation on a regular basis.

The group hedges interest rate risk, where appropriate in combination with currency risk, and risks arising from fluctuations in the value of financial instruments by means of interest rate swaps, cross-currency swaps and other interest rate contracts with matching amounts and maturity dates. This also applies to financing arrangements within the Volkswagen group.

Foreign currency risk is reduced primarily through natural hedging, i.e., by flexibly adapting production capacity at locations around the world, establishing new production facilities in the most important currency regions and also procuring a large percentage of components locally, currently for instance in India, Russia and the USA. The residual foreign currency risk is hedged using hedging instruments. These include currency forwards, currency options and cross-currency swaps. These transactions are used to limit the currency risk associated with forecast cash flows from operating activities and intragroup financing in currencies other than the respective functional currency. The currency forwards and currency options can have a term of up to six years. The Volkswagen group thus hedges its principal foreign currency risks associated with forecasted cash flows in the following currencies: US dollars, pound sterling, Czech koruna, Swedish krona, Russian rubles, Australian dollars, Polish zloty, Swiss francs, Mexican pesos and Japanese yen – mostly against the euro.

The purchasing of raw materials gives rise to risks relating to availability and price trends. The risks are limited mainly by entering into forward transactions and swaps. Appropriate contracts are used to hedge some of the commodities required such as aluminum, copper, lead, platinum, rhodium, palladium and coal over a period of up to eight years. Similar transactions have been entered into for the purpose of supplementing and improving allocations of CO_2 emission certificates.

The solvency of the company is ensured at all times by providing sufficient liquidity reserves, access to confirmed credit lines and tried-and-tested money market and capital market programs. The capital requirements of the growing financial services business are covered mainly through borrowings at matching maturities raised in the national and international financial markets. Risk premiums, a component of refinancing costs that had risen sharply when the financial and economic crisis broke, almost dropped back to pre-crisis levels in 2010. Thanks to the broadly diversified structure of its refinancing sources, the Volkswagen group was able to raise sufficient liquidity in the various markets throughout 2010.

By diversifying when it invests excess liquidity and by entering into financial instruments for hedging purposes, the Volkswagen group ensures that it remains solvent at all times, even in the event of a default by individual counterparties.

Credit lines from banks are generally only ever used within the group to cover short-term working capital requirements. Projects are financed by, among other things, loans provided at favorable interest rates by development banks such as the European Investment Bank and the European Bank for Reconstruction and Development (EBRD), or by national development banks such as KfW and Banco Nacional de Desenvolvimento Econômico e Social (BNDES). This extensive range of options means that the liquidity risk to the Volkswagen group is extremely low.

Risks arising from financial instruments

Channeling excess liquidity into investments gives rise to counterparty risk. Partial or complete failure by a counterparty to perform its obligation to pay interest and repay principal would have a negative impact on earnings and liquidity. The Volkswagen group counters this risk through its counterparty risk management. In addition to counterparty risk, the financial instruments held for hedging purposes hedge balance sheet risks, which are limited by applying hedge accounting.

Liquidity risk

A rating downgrade could adversely affect the terms attached to the Volkswagen group's borrowings. One important factor in this context is Volkswagen AG's interest in Dr. Ing. h.c. F. Porsche AG, which resulted in a high outflow of liquidity in late 2009. In addition, at the beginning of 2010, Volkswagen acquired an interest in the Suzuki Motor Corporation at a total cost of around 1.8 billion euro. In the first half of 2010, Volkswagen AG implemented a capital increase by issuing new preferred shares. At the same time, this transaction strengthened Volkswagen's financial stability and flexibility and enabled the group to maintain its existing credit rating. The acquisition of the automobile trading operations of Porsche Holding Gesellschaft mbH (Porsche Holding Salzburg) in 2011 will result in a further significant outflow of liquidity in the near future. Due primarily to its current liquidity and the inflow of funds from the capital increase, the company does not anticipate any liquidity risks.

Residual value risk in the financial services business

In the financial services business, the Volkswagen group agrees to buy back selected vehicles at a residual value that is fixed at inception of the contract. Residual values are set realistically so that market opportunities can be leveraged. The Volkswagen group evaluates the underlying lease contracts at regular intervals and takes the necessary precautions if any potential risks are identified.

Management of the residual value risk is based on a defined feedback loop ensuring the full assessment, monitoring, management and communication of risks. The process design ensures not only professional management of residual risks but also that the handling of residual value risks is systematically improved and enhanced.

As part of its risk management, the Volkswagen group uses residual value forecasts to regularly assess the appropriateness of the provisions for risks and the potential for residual value risk. The contractually agreed residual values are compared with the fair values obtainable. These are produced from data from external providers and internal marketing data. The upside of residual market values is not taken into account when making provisions for risks.

IT risk

At Volkswagen, a global company geared towards further growth, the information technology (IT) used in all divisions group-wide is assuming an increasingly important role. IT risks include unauthorized access to sensitive electronic corporate data and information as well as limited availability as a consequence of systems failure or natural disasters. The Volkswagen group addresses the risk of unauthorized access to corporate data by using virus scanners and firewall and intrusion prevention systems. It achieves additional protection by restricting the allocation of access rights to systems and information and by keeping backup copies of critical data resources. For this, the Volkswagen group uses technical resources that have been tried and tested in the market, adhering to standards applicable throughout the company. By implementing redundant IT infrastructures, the Volkswagen group protects itself against risks that occur in the event of a systems failure or natural disaster.

As Volkswagen's importance as a multinational corporation grows, so do the intensity and sophistication of the attacks on its IT systems and data resources. This is why Volkswagen continuously takes measures against identified and anticipated risks during the software development process, when protecting the IT infrastructure and also in the allocation of access rights to systems and data resources.

Rapid technological advancement creates a residual risk in relation to IT security that cannot be managed completely.

Other factors

Going beyond the risks already outlined, there are other factors that cannot be predicted and are therefore difficult to control. Should these transpire, they could have an adverse effect on the further development of the Volkswagen group. These factors include natural disasters, epidemics and terror attacks.

Summary of the risk situation of the Volkswagen group

The Volkswagen group's overall risk situation results from the specific risks shown above. The Volkswagen group's comprehensive risk management system ensures that these risks are controlled. Taking into account all the information currently available, no risks exist which could pose a threat to the continued existence of the Volkswagen group.

Overall statement on the risks faced by the Porsche SE group

The overall risk exposure of the Porsche SE group is made up of the individual risks relating to the significant investments held in Porsche Zwischenholding GmbH and Volkswagen AG presented above and the specific risks of Porsche SE. The risk management system ensures that these risks can be controlled. Based on of the information currently available to us, the executive board has not identified any risks which could endanger the ability of the Porsche SE group to continue as a going concern.

Subsequent events

In January 2011, all plaintiffs appealed against the dismissal by the United States District Court for the Southern District of New York of actions for damages against Porsche SE.

In January 2011, a private investor filed a claim for damages against Porsche SE and another defendant in the amount of approximately 3 million euro. The plaintiff claims to have entered into options relating to shares in Volkswagen AG in 2008 on the basis of inaccurate information and the omission of information as well as market manipulation by Porsche SE and to have incurred losses from these options due to the share price development in 2008 in the amounts claimed. The action is currently pending in the Regional Court of Stuttgart. Porsche SE considers the asserted claims to be without merit and will defend itself against the claims.

On 18 February 2011, three plaintiffs filed an action for damages in New York state court. In their complaint, which has not yet been served on Porsche SE, they allege common law fraud and unjust enrichment based on allegations similar to those made in the US claims set out above. The plaintiffs claim to have lost at least 390 million US dollars. Porsche SE believes this claim to be legally insufficient and without merit.

In addition, the Stuttgart public prosecutor announced on 22 February 2011 that the investigations against the former members of the executive board Dr. Wendelin Wiedeking and Holger P. Härter in connection with allegations of manipulating the market in Volkswagen shares were taking longer than planned. They are not expected to be concluded before the start of 2012. In addition, the public prosecutor is investigating the two former members of the executive board in connection with allegations of breach of fiduciary duty to the detriment of Porsche SE. According to the public prosecutor, there is reason to suspect that the two former members of the executive board may have taken risks jeopardizing the company's ability to continue as a going concern by entering into share price hedging transactions in the course of acquiring the shareholding in Volkswagen AG. According to the public prosecutor, the investigations on suspicion of trading-based (not information-based) market manipulation have been dropped.

For further details of the status of the legal proceedings, please see the section “Litigation risk” in the risk report of Porsche SE in this management report.

Moreover, the section “Anticipated development of the Porsche SE group” in the section “Forecast report and outlook” of this management report contains further statements on events that occurred after the close of the short fiscal year 2010.

Forecast report and outlook

Overall economic development

The marked upturn in the global economy in 2010 is expected to abate in 2011. The high levels of public indebtedness in many countries, and increased raw materials prices are putting the brakes on the development of the economy. This year and next year, Germany is expected to be the only nation in the European Union that will succeed in complying with the Maastricht reference figure for budget deficits of three percent of GDP. But it is not only the southern European countries of Portugal, Spain, Italy and Greece that are being forced to implement cost-cutting measures. According to the International Monetary Fund, even the major economic powers of the USA and Japan must swiftly reorganize their budgets. As a result, China and other developing emerging economies, such as India and Brazil, will remain the key growth drivers in the world economy in 2011. In Europe, this role will continue to be played by Germany and France.

The growing international significance of the Chinese economy involves the risk that the traditional industrialized countries will become increasingly dependent on high levels of exports to the Far East. Should demand from China significantly decrease, this would have negative repercussions for the global economy as a whole.

Exchange rate developments

In the reporting period, there were major fluctuations in the exchange rates between important currencies. These were due to the high levels of public indebtedness of some member countries of the euro area, as well as of the USA. The resulting concerns regarding the stability of the euro and the US dollar will continue to hold the currency markets in suspense, and the US dollar and the euro will continue to be volatile. Because the Asian currencies are linked to the US dollar, they will also continue to fluctuate in a similar way to the euro. By contrast, the currently strong Swiss franc and Japanese yen are expected to gradually return to normal.

Interest rate developments

At the end of the reporting period, it remained unclear which central bank would be first to increase the key interest rates, and when. These points are not expected to be clarified for several months. At present, not even the rising global risk of inflation has been a cause of concern for the central bankers. As a result, a change in the key interest rates can be expected at the end of 2011 or beginning of 2012 at the earliest – and is likely to be relatively moderate. Irrespective of this, the reversal of the trend in the capital markets started last fall.

Commodity price developments

The strong economic upturn also had effects on the commodity markets. However, the price increases seen during the reporting period, some of them substantial, are to some extent driven by postponed investment – the marked upward trend in the markets is expected to slow down in the course of 2011. This is also indicated by the Chinese government's efforts to curb the enormous growth by increasing interest rates, thereby moderating demand for commodities.

Prospects on the automotive markets

Overall, the global automobile market will continue to grow in 2011. The western European market, which last year saw a drop in new vehicles registered, will recover this year. The German Association of the Automotive Industry (VDA) expects a market volume of 3.1 million vehicles (prior year: 2.9 million) in Germany in 2011. The eastern European market is expected to develop more favorably. In North America, the upward trend is likely to continue. Stronger growth can be expected in the BRIC states of Brazil, Russia, India and China.

Anticipated development of significant investments

The Porsche Zwischenholding GmbH group expects that sales and revenue will continue to grow in fiscal 2011 in comparison to 2010. However, it is unlikely that the extraordinarily high growth rates seen in the short fiscal year 2010 will be repeated. On the one hand, this is because this growth was partly due to the effects of the financial and economic crisis on the sales situation, which burdened the first months of the fiscal year 2009/10. On the other, the anticipated slight slowdown in the growth of the global economy can also be expected to curb growth. Nevertheless, the Porsche Zwischenholding GmbH group expects higher sales and revenue in fiscal 2011 than in 2010. This growth is likely to be fueled by continued high demand for Porsche vehicles in China and other emerging markets. Moreover, the Porsche Zwischenholding GmbH group expects its attractive product range to fuel further growth in demand in the main markets of Europe and North America.

In the next two fiscal years, this development and the strong competitiveness of the Porsche Zwischenholding GmbH group and the Porsche brand should have a positive impact on revenue and on income from ordinary activities, as well as on cash flow from operating activities. For example, the group plans to increase sales and revenue for the coming two years and to repeat the double-digit return on sales before tax.

The Volkswagen group's key competitive advantages are its unique brand portfolio and its continually growing presence in all key regions of the world. Thanks to the group's expertise in technology and design, it has a diverse, attractive and environmentally friendly range of products that meets all customer desires and needs. In addition, the modular toolkit system, which Volkswagen is continually optimizing, will have an increasingly positive effect on the group's cost structure. In 2011, the Volkswagen group's nine brands will once again introduce a large number of fascinating new models to the market, thus further expanding the group's strong position in the global markets. Volkswagen therefore expects its deliveries to customers to increase as against the previous year.

The Volkswagen group expects its sales revenue and operating profit in 2011 to be higher than the previous year. However, the continuing volatility in interest and exchange rate trends and commodities prices will weaken the positive volume effect. Disciplined cost and investment management and the continuous optimization of processes remain core components of the Volkswagen group's "Strategy 2018".

Anticipated development of the Porsche SE group

The Porsche SE group's profit/loss hinges on the results of operations and the profit/loss of the significant investments in Porsche Zwischenholding GmbH and Volkswagen AG, which are accounted for at equity, that is attributable to Porsche SE. Porsche SE records investment income in the form of dividends in its separate financial statements prepared in accordance with the German Commercial Code.

In view of the recovery of the automotive markets and the growth enjoyed by China and other emerging markets, Porsche SE expects the profit/loss attributable to it from investments accounted for at equity to develop positively in 2011 and, should the merger not take place, also in 2012. The profit/loss attributable to it from investments accounted for at equity will, however, continue to include the effects resulting from amortization of the purchase price allocations begun at the time of inclusion of Porsche Zwischenholding GmbH as a joint venture and Volkswagen AG as an associate. In addition, the interest expenses associated with the existing syndicated loan will have a negative impact on the group's profit/loss until this loan has been partially repaid as planned as of 30 June 2011. Once it has been partially repaid as planned, interest expenses are expected to fall significantly. Therefore, Porsche SE expects to generate a profit for the period before special effects at group level in the fiscal year 2011.

The special effects on the group's profit for the year 2011 could arise from an adjustment through profit or loss of the valuation of the put and call options for the shares in Porsche Zwischenholding GmbH remaining with Porsche SE. At the time of publishing this management report, it is not possible to conclusively assess the amount of such adjustment. The factors underlying the valuation are not wholly within the control of Porsche SE and may change over time. This concerns above all the probability that the merger, as defined by the basic agreement, will fail i.e., the theoretical probability of the exercise of the options, as well as the actual enterprise value of Porsche Zwischenholding GmbH, which in turn depends to a large extent on the underlying planning and the cost of capital derived as of the valuation date. An increase in the theoretical probability of the exercise of the options, as well as a sustained improvement in the profit forecasts of the Porsche Zwischenholding GmbH group could lead to an adjustment in the valuation of the put and call options that reduces the profit for the year. An increase in the cost of capital in determining the enterprise value could, however, have a positive impact on the net valuation result. Depending on the changes in the significant parameters in the fiscal year 2011, Porsche SE cannot rule out that the valuation of the put and call options may give rise to effects on profit or loss that might produce a net loss for the year at group level despite the profit before special effects.

Based on the loan liability of 2.5 billion euro maturing, in principle, on 30 June 2011 and the need to make a sufficient level of liquidity available at Porsche SE by the end of the fiscal year 2011, further equity or debt capital will need to be injected and is being planned accordingly. Porsche SE will push ahead over the coming weeks with the implementation of the capital increase, which is intended to play a decisive role in reducing the company's liabilities. The proceeds from the capital increase are to be used to repay Porsche SE's syndicated loan, thereby laying the foundations for the merger. As part of the overall concept of the basic agreement, the holders of ordinary shares who are deemed part of the Porsche and Piëch families have undertaken, subject to certain conditions, to ensure that the new ordinary shares issued as part of the capital increase resolved on 30 November 2010 are subscribed for at an estimated total subscription price of 2.5 billion euro. In the event that the direct capital increase cannot be performed on time or completely, on 30 November 2010 the annual general meeting of Porsche SE additionally authorized Porsche SE's executive board, subject to the approval of the supervisory board, to issue convertible bonds and corresponding instruments in a total nominal amount of up to 5 billion euro. The above commitment made by the holders of ordinary shares belonging to the Porsche and Piëch families also relates, in principle, to capital measures based on the authorization approved on 30 November 2010 to issue convertible bonds and corresponding instruments. The executive board believes that all conditions stipulated in the commitment will be satisfied and that the loan liability maturing on 30 June 2011 can therefore be repaid as planned.

There is still uncertainty with regard to the tax framework for the merger. In addition, the effects that the claims for damages brought against Porsche SE in the USA and by various fund companies and a private individual in Germany will have on the merger cannot be conclusively assessed given the current status of litigation. The Stuttgart public prosecutor announced on 22 February 2011 that the investigations against two former executive board members of Porsche SE, inter alia because of allegations of manipulating the market in Volkswagen shares, will take longer than anticipated. The outcome of the investigations is relevant for the valuation, of damage claims raised against Porsche SE and based on alleged share price manipulation. This valuation must be made for purposes of the merger of Porsche SE into Volkswagen AG (please also refer to the details provided in the section "Significant events" and in the section "Litigation risk" in Porsche SE's risk report in this management report). Since the end of the investigations can be expected at the earliest at the beginning of 2012, the legal and tax assessments of the merger of Porsche SE into Volkswagen AG to be made under the basic agreement will likely be delayed. From the executive board's view this also reduces the probability that the merger can be achieved under the timeline of the basic agreement (which requires that the necessary shareholder resolutions on the merger are made in 2011) from previously 70 percent to 50 percent.

In the view of the Porsche SE executive board, the overall probability of the merger decreases in case of substantial delays in the merger process compared to the timeline of the basic agreement.

However, the executive board of Porsche SE is currently of the opinion that the assessments can be finalized so timely, that the merger can be achieved even after 2011.

Stuttgart, 28 February 2011

Porsche Automobil Holding SE

The executive board

Markets

The short fiscal year 2010 was highly successful for Porsche in its international sales markets – with all regions seeing double-digit growth rates over the comparable prior-year period. Total vehicle deliveries came to 41,749, exceeding the prior-year figure by 37 percent. Deliveries to customers were evenly distributed across the three big regions: the Americas, Europe and Asia.

A key driver of this positive development was the new Cayenne. With its appealing, dynamic and sporty design, and significantly reduced fuel consumption, the new generation of the sporty off-roader attracted customers' interest. As a result, 20,914 Cayennes were sold between 1 August and 31 December 2010. This was a 59 percent increase on the corresponding period of the prior year. The Panamera also saw a great improvement in comparison to the prior year: 9,900 vehicles were delivered, an increase of 82 percent. One reason for this huge increase was that, since May 2010, the Panamera has also been available with a highly efficient six-cylinder engine with direct fuel injection.

In the 911 model series, the 911 GT2 RS (with a production run limited to 500 units), the 911 Speedster (limited to 356 units), and the new 911 Carrera GTS hit the headlines. The two limited series rapidly sold out. During the short fiscal year, Porsche delivered a total of 6,865 units of the 911 model series. The Boxster series, which includes the Cayman models, achieved 4,070 deliveries in the reporting period.

Americas

USA: Great success in a difficult market environment

In the second half of 2010, the US economy and, in particular, the country's automobile market continued to recover. Porsche benefited from this development, increasing deliveries by 37 percent over the comparable prior-year period to 11,633 units. The Panamera continued its positive development, with 3,427 units sold (prior-year period: 1,247). The six-cylinder models, introduced in North America in June 2010, played a particular part in this success. The introduction of the new Cayenne generation resulted in a 69 percent rise in deliveries of this model series to 4,828 units (prior-year period: 2,855). In a market segment that is still shrinking, sports car sales fell to 3,378 vehicles (prior-year period: 4,391).

Canada: back on the road to recovery

Porsche delivered 816 vehicles to customers in Canada, exceeding the comparable prior-year figure of 603 units by 35 percent. The Cayenne saw an even bigger increase of 62 percent to 465 vehicles. Thanks to the six-cylinder models now available, the Panamera notched up 147 deliveries. 204 sports cars were delivered – with the 911 accounting for 142 vehicles and the mid-engined sports cars for 62 units.

Latin America: a success story

In the tenth year since its foundation, Porsche Latin America, which supports dealers in 25 countries in Central America and South America, continues its success story. Deliveries in the short fiscal year 2010 totaled 1,266 units, a 38 percent increase on the comparable prior-year figure. The most successful model series was the Cayenne with 844 deliveries, followed by the Panamera with 113 units. While sales of the 911 increased to 142 vehicles, 167 units of the mid-engined sports cars were delivered to customers. Brazil, the region’s growth driver, remains the largest individual market, followed by Mexico, Puerto Rico and Chile.

Europe

Germany: in the fast lane

In Germany, Porsche delivered 5,268 vehicles in the short fiscal year 2010, a 33 percent increase over the comparable prior-year period. A glance at the order books underscores this success: Incoming orders for the five months from August to December 2010 reached record levels. As a result, there were three times as many orders on hand at the end of the short fiscal year as there had been for the previous twelve-month period. 2,788 units of the new Cayenne were delivered in the reporting period, an increase of 140 percent on the prior-year period. The Panamera achieved 741 deliveries in the short fiscal year. The sports cars maintained their strong market positions. The 911 led the field, with a segment share of over 50 percent. Deliveries of the 911 model series came to

1,297 units during the reporting period, with the Boxster and Cayman accounting for 442 vehicles.

United Kingdom: sports cars still in demand

Porsche's market successes in the UK have without doubt been fueled by the many activities at the Porsche Experience Centre in Silverstone, which attracted around 12,000 visitors in 2010 – a new record. In the short fiscal year 2010, Porsche succeeded in capturing an even higher share of the sports car market. With 729 units delivered, the 911 matched its prior-year level (721 units); with 529 units, the Boxster and Cayman were slightly down on the prior year (545 units) The Panamera consolidated its market share of just under ten percent, with 244 units sold (prior-year period: 284). The new Cayenne was enthusiastically received: with 1,087 units sold (prior-year period: 400), deliveries almost trebled. The total number of vehicles delivered to customers rose by 33 percent to 2,589 units.

Italy: growth in an unstable environment.

In an economic environment that remains unstable, Porsche delivered 1,276 vehicles, increasing the comparable prior-year figure by 30 percent. The Cayenne (791 units) and Panamera (162 units) model series accounted for the majority of deliveries. Like the entire sports car segment, the sports cars were 23 percent below prior-year figures, with a total of 323 deliveries. An encouraging development is the high share (32 percent) of turbo and GT models delivered in the 911 model series.

France: strong performance

In France, Porsche is continuing to see very positive development. In the short fiscal year 2010, total deliveries increased by 61 percent to 1,378 vehicles. The new Cayenne accounted for 854 units (prior-year period: 267) and the Panamera for 191 (prior-year period: 234). Sports cars maintained their prior-year level, with a total of 333 units delivered to customers.

Spain and Portugal: Cayenne sales boost growth

Although the two countries are facing difficult economic times due to their significant national debt, Porsche was able to increase its deliveries in Spain and Portugal. At total of 791 vehicles were sold, a 47 percent increase on the prior-year figure (539 units). In the individual model series, the Cayenne took the lead with 523 units (prior-year period: 262). The Panamera accounted for 126 (128) vehicles. In the sports car segment, the 911 achieved 88 (90) deliveries, with the Boxster and Cayman totaling 54 (59).

Swiss and Austria: further growth

Despite the strong Swiss franc, Porsche delivered 612 units to customers in that country – an increase of 21 percent on the comparable prior-year period. Here, too, the Cayenne is particularly popular: the new generation of the sporty off-roader accounted for 368 units. In Austria, the Porsche importer delivered 297 vehicles, an increase of 57 percent on the prior-year figure (189 vehicles). Deliveries of the new Cayenne alone saw a rise of 149 units to 196 vehicles. 58 units of the 911 model series were delivered, a 23 percent increase on the prior-year result.

Belgium / Netherlands / Luxembourg: course for success

In the year it celebrated its 60th anniversary, the Belgian importer D'Ieteren remained on course for success. With 405 units (prior-year period: 320), the importer increased the number of deliveries in the short fiscal year 2010 by 27 percent. The new Cayenne accounted for 237 of these vehicles, and the Panamera for 68. In the particularly eco-conscious Netherlands, 177 units of the new, lower-consumption Cayenne were delivered. Total sales in that country rose by 53 percent to 281 vehicles (prior-year period: 184). Porsche again saw encouraging results in Luxembourg, where the number of vehicles delivered increased by 32 percent to 74 units. Here, too, the growth was the new Cayenne, with 42 vehicles delivered.

Northern Europe: a key market

Thanks to the continuing marked economic recovery and the expansion of the dealership network, deliveries to customers increased by 76 percent in comparison to the prior-year period to 596 vehicles. With 344 new vehicles delivered, the new Cayenne more than trebled its prior-year figure; and the Cayenne Diesel was the most successful model in the series with 214 vehicles delivered. The 911 model series accounted for 116 deliveries (prior-year period: 88), with 64 of these units coming from the high-margin top models. Sales of Boxster and Cayman vehicles totaled 21 units, remaining stable despite declining interest in the segment. With 115 vehicles delivered, the Panamera matched its successful prior-year figure.

Southern and Eastern Europe: a mixed picture

While countries such as Poland and Turkey weathered the economic crisis well, Greece is currently going through difficult times. In this heterogeneous market environment, Porsche delivered 1,448 vehicles in the short fiscal year, an increase of 65 percent in comparison to the prior-year period. As expected, sales of the Cayenne model series rose most strongly to 974 units (prior-year period: 375). At the same time, Porsche delivered 291 Panameras, exceeding prior-year figures, and 183 sports cars.

Russia: expansion of the dealership network

During the reporting period, Porsche increased deliveries by 55 percent to 751 vehicles. The strongest model series was again the Cayenne, with sales almost doubling to 643 vehicles (a 98 percent increase). 84 units of the Panamera and a total of 24 sports cars were delivered. If economic conditions permit, it is planned to create seven more locations in 2011. In December 2010, 16 dealerships provided coverage for Porsche's Russian market.

Middle East and Africa

Continued growth

In the reporting period, Porsche Middle East & Africa delivered 3,231 vehicles, increasing the comparable prior-year figure (2,665 units) by 21 percent. The generation change of the Cayenne model series was successfully completed. The 1,978 units (prior-year period: 1,400) delivered provide a promising basis for sales of the new Cayenne. The Panamera is established in the market, with 747 vehicles delivered, and the launch of the six-cylinder models (368 deliveries). In the sports car segment, the 911 defended its extremely high market share with 309 units. Future growth will continue focus on the Africa and India regions. A total of 19 importers are support from Dubai.

Australia/New Zealand

The success story continues

Porsche Cars Australia increased deliveries by 60 percent in the short fiscal year 2010 to 645 vehicles. 108 vehicles from the 911 model series were delivered – a marked increase on the comparable prior-year period (64 units). The 49 deliveries of Turbo and GT models contributed significantly to this growth. A total of 101 Boxster and Cayman vehicles were delivered to customers, another significant increase in comparison to the prior year (66 units). The Cayenne also cornered market share with strong growth rates (plus 75 percent): 394 sporty off-roaders were delivered in Australia and New Zealand (prior year: 225). With 42 vehicles delivered, the Panamera achieved its prior-year level.

Asia

Japan: success with all model series

In the reporting period, Porsche Japan increased the number of vehicles delivered to customers to 1,016 units (prior-year period: 805). This growth was primarily achieved by the sports car models. The 911 succeeded in further improving its position in a slightly contracting market segment, increasing the number of deliveries to customers by 60 percent to 269 (prior-year period: 168). While market segment for the Boxster and Cayman models continued to contract, the attractive mid-engined sports cars were able to buck the trend. The number of deliveries rose to 235 units (prior-year period: 225). 290 units of the new Cayenne and 222 of the Panamera were delivered.

China: largest growth market

China is now Porsche’s second-largest sales market. In the short fiscal year 2010, Porsche China saw continued growth, delivering 6,240 vehicles (prior-year period: 4,709), an increase of 33 percent. The new Cayenne generation enjoyed particular popularity, with 2,563 vehicles delivered. The Panamera model series has consolidated its position in the market (2,690 new vehicles delivered). The six-cylinder models attracted particular customer interest (2,178 deliveries). In the 911 segment, Porsche further extended its market share, with 325 vehicles delivered. Sales of the Boxster and Cayman more than doubled to 662 vehicles delivered (prior-year period: 312 units). The dealership network is being continuously expanded; it is planned to increase the number of dealers from 33 at the end of the short fiscal year to 43 by the end of 2011. Most recently, the two new Porsche centers at Chengdu Airport and Taiyuan were opened. In addition, Porsche opened its first group-run dealership in Shanghai September 2010.

Asia-Pacific

A burgeoning economic area

The significance of the Asia-Pacific region continues to grow. In the short fiscal year 2010, 1,127 vehicles were delivered to customers in the region (prior-year period: 522 units). The market launch of the new Cayenne was particularly successful, with 527 vehicles delivered. The diesel and hybrid variants generated particular customer interest. With 331 vehicles delivered, the Panamera consolidated its position in the market. Above all, the six-cylinder models (215 deliveries) were very well received. In the reporting period, Porsche was represented by 19 dealers in 12 countries. The expansion of the dealership network in Malaysia (Kuala Lumpur) and Vietnam (Hanoi) is progressing as planned.

Vehicle deliveries of the Volkswagen group worldwide

The Volkswagen group with its nine brands is present in all relevant automobile markets across the globe. At present, the main sales markets are western Europe region, China, Brazil, the USA, Russia and Mexico. In the second half of 2010, the Volkswagen group delivered 3,590,050 vehicles to customers worldwide. Throughout the six-month reporting period, the delivery figures were higher than for the respective months of the prior year, in which sales were in part adversely affected by the effects of the financial and economic crisis.

Sales of Volkswagen passenger cars came to 2,239,094 units in the second half of the year. Audi deliveries totaled 537,472 vehicles in the reporting period. In the second half of the year, 383,853 units were delivered to customers of the Škoda brand. The SEAT brand notched up 157,669 deliveries. Sales of Bentley vehicles came to 2,628 units in the reporting period. VW commercial vehicles sold 233,296 vehicles.

Deliveries in Europe / other markets

In western Europe, 1,350,422 vehicles were delivered to customers in the reporting period. The Polo, Tiguan and SEAT Leon models were particularly in demand during the reporting period. Demand was also high for the new Audi A4 allroad quattro, Audi A5 Sportback, Škoda Yeti, Škoda Superb station wagon and SEAT Exeo ST models. Volkswagen delivered 230,316 vehicles in central and eastern Europe. The Russian passenger car market alone accounted for 77,267 vehicles. In central and eastern Europe, demand was particularly high for the Polo, Golf, Tiguan, Audi A6, Audi Q5, Škoda Octavia und SEAT Leon. The new Audi A5 Sportback und Škoda Yeti models were also very popular with customers in this region. The Volkswagen group delivered 36,299 vehicles in South Africa. Entry-level models were particularly in demand in 2010.

Deliveries in Germany

In the German passenger car market, 505,652 Volkswagen group vehicles were delivered to customers in the reporting year. There was increased demand for the Audi Q5 and in SEAT Altea XL in 2010. Demand also increased for the new Touareg, Audi A4 allroad quattro, Audi A5 Sportback, Audi A8, Škoda Yeti, Škoda Superb station wagon and SEAT Exeo ST models. At the end of the 2010, five of the group's models (Polo, Golf, Touran, Tiguan and the Multivan / Transporter) topped the German Ministry of Transport's registration statistics in their respective segments. The Golf continued to lead the field when it comes to new passenger car registrations in Germany.

Deliveries in North America

In the USA, the Volkswagen group delivered a total of 184,964 vehicles in the second half of the year. The New Beetle, Golf, Tiguan, Passat CC, Audi A3, Audi A6, Audi A5 Coupé and Audi Q5 models were particularly in demand. In Canada, 29,425 units were delivered in the second half of the year. The Golf, Tiguan, Audi A4 and Audi Q5 models were particularly in demand. In the Mexican passenger car market, the Volkswagen group delivered 71,650 vehicles. The models with the highest growth rate included the Tiguan, Jetta, Audi A4 and SEAT Ibiza.

Deliveries in South America

The Volkswagen group delivered 487,854 vehicles in South America. In Brazil, where the Fox and Saveiro models were particularly popular in 2010, deliveries totaled 394,393 vehicles. The delivery figures include the Saveiro and T2 lightweight commercial vehicles. In Argentina, deliveries amounted to 68,164 vehicles. There was increased demand for the Fox MPV, Voyage and Jetta models in 2010.

Deliveries in Asia-Pacific

The Volkswagen group delivered 1,092,379 vehicles in the Asia-Pacific region. The Chinese market alone accounted for 973,920 units. Virtually all models contributed to this result. In Japan, a total of 30,113 vehicles were delivered in the reporting period. The Polo, Golf and Audi A3 models were especially popular in 2010. In India, 36,119 vehicles were delivered. The Polo, which was launched on the market in 2010, made a major contribution to this figure.

Commercial vehicle deliveries

The Scania brand delivered a total of 35,391 trucks and buses to customers during the reporting period – with South America accounting for 10,535 units. There was particular demand for heavy-duty commercial vehicles in Brazil, Argentina, and in the markets of the Asia-Pacific and Middle East regions.

3

Financials


Carrera GTS

Consolidated income statement of the Porsche SE group for the period from 1 August 2010 to 31 December 2010

€ million	Note	SFY 2010	2009/10
Other operating income	[1]	269	709
Personnel expenses	[2]	– 11	– 17
Amortization of intangible assets and depreciation of property, plant and equipment, leased assets and investment property	[11], [12], [14]	0	0
Other operating expenses	[3]	– 590	– 956
Profit/loss from investments accounted for at equity	[4]	1,075	6,792
Profit/loss before financial result		**743**	**6,528**
Finance costs	[5]	– 185	– 800
Financial revenue	[6]	81	127
Financial result		**–104**	**–673**
Profit/loss before tax		**639**	**5,855**
Income tax	[7]	647	– 114
Profit/loss after tax (continuing operations)		**1,286**	**5,741**
Profit/loss after tax (discontinued operations)		**0**	**–6,195**
Profit/loss for the year		**1,286**	**–454**
thereof profit attributable to shareholders of Porsche SE		1,275	– 379
thereof profit/loss attributable to non-controlling interests – hybrid capital investors	[8]	11	39
thereof profit/loss attributable to non-controlling interests – other investors	[8]	0	– 114
Earnings per ordinary share from continuing operations (basic)	[9]	7.28	32.67
Earnings per preference share from continuing operations (basic)	[9]	7.29	32.68
Earnings per ordinary share from continuing operations (diluted)	[9]	7.28	32.67
Earnings per preference share from continuing operations (diluted)	[9]	7.29	32.68
Earnings per ordinary share from discontinued operations (basic and diluted)	[9]	0.00	– 34.84
Earnings per preference share from discontinued operations (basic and diluted)	[9]	0.00	– 34.84

Consolidated statement of comprehensive income of the Porsche SE group for the period from 1 August 2010 to 31 December 2010

€ million	SFY 2010	2009/10
Profit/loss for the year	**1,286**	**–454**
Securities marked to market	0	– 23
Cash flow hedges	0	362
Currency translation	0	– 307
Other comprehensive income from investments accounted for at equity (after tax)	758	306
Deferred taxes	0	– 76
Other comprehensive income	**758**	**262**
thereof from continuing operations	758	301
thereof from discontinued operations	0	– 39
Total comprehensive income	**2,044**	**–192**
thereof attributable to		
shareholders of Porsche Automobile Holding SE	2,033	– 485
non-controlling interests – hybrid capital investors	11	39
non-controlling interests – other investors	0	254

Consolidated balance sheet of the Porsche SE group as of 31 December 2010

€ million	Note	31/12/2010	31/7/2010
Assets			
Intangible assets	[11]	0	0
Property, plant and equipment	[12]	0	0
Investments accounted for at equity	[13]	24,258	22,707
Other financial assets	[13]	0	0
Leased assets	[14]	0	0
Investment property	[14]	0	0
Other receivables and assets	[15]	4,475	4,319
Deferred tax assets	[7]	0	0
Non-current assets		**28,733**	**27,026**
Other receivables and assets	[15]	25	14
Income tax assets	[16]	286	214
Cash and cash equivalents	[17]	622	898
Current assets		**933**	**1,126**
		29,666	**28,152**

€ million	Note	31/12/2010	31/7/2010
Equity and liabilities			
Subscribed capital	[18]	175	175
Capital reserves	[18]	122	122
Retained earnings	[18]	16,572	14,555
Equity before non-controlling interests	**[18]**	**16,869**	**14,852**
Non-controlling interests – hybrid capital investors	[18]	345	345
Non-controlling interests – other investors	[18]	0	0
Equity		**17,214**	**15,197**
Provisions for pensions and similar obligations	[19]	7	7
Other provisions	[20]	17	83
Deferred tax liabilities	[7]	0	0
Financial liabilities	[22]	3,880	5,864
Other liabilities	[23]	1,088	540
Non-current liabilities		**4,992**	**6,494**
Income tax provisions	[20]	148	1,398
Other provisions	[20]	75	62
Trade payables	[21]	33	6
Financial liabilities	[22]	6,964	4,961
Income tax liabilities	[16]	235	0
Other liabilities	[23]	5	34
Current liabilities		**7,460**	**6,461**
		29,666	**28,152**

Consolidated statement of cash flows of the Porsche SE group for the period from 1 August 2010 to 31 December 2010

€ million	SFY 2010	2009/10
1. Operating activities		
Profit/loss for the year	1,286	– 454
Amortization and depreciation	0	4,642
Change in provisions for pensions and similar obligations	0	83
Change in other provisions	– 53	715
Income taxes	– 647	670
Change in deferred taxes	0	– 339
Income taxes paid	– 370	– 313
Income taxes received	7	393
Gain/loss from disposal of intangible assets, property, plant and equipment and investment property	0	10
Gains/losses from the disposal of stock options	– 92	16
Non-cash expenses/income from market valuation of stock options	0	– 11
Other non-cash expenses and income	– 667	– 1,085
Dividends received from investments accounted for at equity	198	240
Change in leased assets	0	– 1,107
Change in receivables from financial services	0	– 326
Change in inventories, trade receivables and other assets	– 8	886
Change in trade payables and other liabilities (excluding tax provisions and other provisions)	21	765
Cash flow from operating activities	**– 325**	**4,785**
2. Investing activities		
Cash received from disposal of intangible assets, property, plant and equipment and investment property	0	132
Cash received from deconsolidation of subsidiaries less cash funds disposed of	0	– 23,244
Cash paid for investments in intangible assets, property, plant and equipment and investment property	0	– 3,636
Cash paid for the acquisition of subsidiaries less cash funds received	0	– 3
Changes in stock options	122	733
Cash flow from investing activities before investments in securities, loans and time deposits	**122**	**– 26,018**
Change in investments in securities, loans and time deposits	100	273
Cash flow from investing activities	**222**	**– 25,745**

€ million	SFY 2010	2009/10
3. Financing activities		
Dividends paid to shareholders of Porsche SE	– 17	– 8
Dividends paid to non-controlling interests – hybrid capital investors	– 11	– 39
Capital transactions with non-controlling interests	0	3
Cash paid for the settlement of loans	0	– 10,857
Cash paid for the settlement of bonds	0	– 3,616
Cash received for loans borrowed	0	8,196
Cash received from the issuance of bonds	0	1,893
Cash received from other financial liabilities	0	3,928
Cash paid for other financial liabilities	0	– 7
Cash flow from financing activities	**–28**	**–507**
4. Cash funds		
Change in cash funds (subtotal of 1 to 3)	– 131	– 21,467
Exchange-rate related change in cash funds	0	– 21
Cash funds as of 31 July 2010 and 31 July 2009	537	22,025
Cash funds as of 31 December 2010 and 31 July 2010	**406**	**537**
Presentation of gross liquidity		
Cash and cash equivalents	622	898
Gross liquidity	**622**	**898**

Note [10] contains further explanations on the statement of cash flows.

Consolidated statement of changes in equity of the Porsche SE group for the period from 1 August 2010 to 31 December 2010

€ million	Subscribed capital	Capital reserves	Accumulated profit	Securities marked to market
As of 31 July 2009	**175**	**122**	**11,133**	**17**
Profit/loss for the year			– 379	
Other comprehensive income before taxes			0	– 24
Taxes recognized directly in equity			0	7
Total comprehensive income for the period	0	0	– 379	– 17
Dividends paid[1]			– 8	
Effects from deconsolidations			3,499	
Other changes			9	
As of 31 July 2010	**175**	**122**	**14,254**	**0**
Profit/loss for the year			1,275	
Other comprehensive income after tax				
Total comprehensive income for the period	0	0	1,275	0
Dividends paid[2]			– 17	
Other changes			1	
As of 31 December 2010	**175**	**122**	**15,513**	**0**

1 Distribution of a dividend of €0.044 per ordinary share; total €3,850,000
Distribution of a dividend of €0.05 per preference share; total €4,375,000
2 Distribution of a dividend of €0.094 per ordinary share; total €8,225,000
Distribution of a dividend of €0.10 per preference share; total €8,750,000
3 After taxes

Equity is explained in note [18].

Retained earnings				Equity before non-controlling interests	Non-controlling interests – hybrid capital investors	Non-controlling interests – others	Equity
Accumulated other comprehensive income							
Cash flow hedges	Currency translation	Investments accounted for at equity	Revaluation reserves				
243	**143**	**4**	**3,508**	**15,345**	**1,173**	**31,961**	**48,479**
				− 379	39	− 114	− 454
− 356	− 143	297[3]		− 226		564	338
113				120		− 196	− 76
− 243	− 143	297	0	− 485	39	254	− 192
				− 8	− 39		− 47
			− 3,508	− 9	− 825	− 32,187	− 33,021
				9	− 3	− 28	− 22
0	**0**	**301**	**0**	**14,852**	**345**	**0**	**15,197**
				1,275	11		1,286
		758		758			758
0	0	758	0	2,033	11	0	2,044
				− 17	− 11		− 28
				1			1
0	**0**	**1,059**	**0**	**16,869**	**345**	**0**	**17,214**

Notes to the consolidated financial statements of the Porsche SE group as of 31 December 2010

Basis of presentation

Porsche Automobil Holding SE ("Porsche SE") is a European Company (Societas Europaea) and is headquartered at Porscheplatz 1 in 70435 Stuttgart, Germany. It is registered at the Stuttgart local court under HRB 724512. The business objective of Porsche SE is the management of companies and the administration of investments in companies, in particular companies active in the following business fields: the development, design, manufacture and distribution of vehicles and engines of all kinds and other technical products as well as of parts and components thereof. The company may engage in all kinds of business and take all measures that are related to the business purpose or that it deems directly or indirectly useful for achieving that purpose. This also includes financial services.

The consolidated financial statements of Porsche SE as of 31 December 2010 were prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union. The standards published by the International Accounting Standards Board (IASB), London, that are applicable as of the reporting date as well as the interpretations issued by the IFRS Interpretations Committee (IFRS IC) that are valid for the fiscal year have been taken into account. The requirements of the standards and interpretations applied were satisfied in full. The financial statements thus give a true and fair view of the net assets, financial position and results of operations and cash flows of the Porsche SE group (Porsche SE and its subsidiaries).

These consolidated financial statements comply with the requirements of Sec. 315a HGB ["Handelsgesetzbuch": German Commercial Code]. This clause represents the legal basis for group accounting according to international financial reporting standards in Germany in conjunction with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the adoption of international financial reporting standards.

The Porsche SE group's fiscal year used to cover the period from 1 August of a year until 31 July of the following year. With regard to the creation of an integrated automotive group with the Volkswagen group (Volkswagen AG, Wolfsburg, and its subsidiaries), the annual general meeting of Porsche SE adopted a resolution on 29 January 2010 to change the fiscal year of the company to run concurrently with the calendar year effective 1 January 2011. A short fiscal year ("SFY") has been created for the period from 1 August 2010 to 31 December 2010.

The reporting period presented in these consolidated financial statements is SFY 2010 covering a period of five months, while the fiscal year 2009/10 presented as comparative period comprises a period of twelve months. As a result, the figures presented for the reporting period and the comparative period are not fully comparable.

The group's presentation currency is the euro. Unless otherwise stated, all figures in the notes are presented in millions of euro (€ million).

The income statement has been prepared using the nature of expense method.

The consolidated financial statements for the comparative period were significantly affected by the deconsolidation of discontinued operations. Please refer to the explanations given in the section “Consolidated group”.

Since the deconsolidation of the Porsche Zwischenholding GmbH group (Porsche Zwischenholding GmbH, Stuttgart, and its subsidiaries) and the Volkswagen group, the business activities of the Porsche SE group (Porsche SE and its subsidiaries) are limited to holding and managing investments in Porsche Zwischenholding GmbH and Volkswagen AG. As separate assets the investments do not meet the definition of operating segments, and segment reporting in accordance with IFRS 8 is therefore not necessary.

The consolidated financial statements and group management report of Porsche SE were released to the supervisory board by the executive board by resolution dated 28 February 2011.

Consolidated group

The consolidated financial statements of Porsche SE include all companies in which Porsche SE has the power to govern the financial and operating policy, either directly or indirectly, so as to obtain benefits from its activities (control concept). Initial consolidation is performed as of the date on which the acquirer obtains the possibility of control. A company is no longer consolidated upon cessation of control. Subsidiaries that are immaterial on a stand-alone basis and in total for a true and fair presentation of the net assets, financial position and results of operations are accounted for at cost in the consolidated financial statements.

Companies where Porsche SE is able, directly or indirectly, to significantly influence financial and operating policy decisions (associates), or where Porsche SE shares joint control together with another party (joint ventures), are accounted for at equity.

Joint ventures and associates also include companies in which the Porsche SE group holds the majority of voting rights, but whose articles of association or partnership agreements stipulate that important decisions may not be made without the approval of the other entity or where Porsche SE does not have control as defined by IFRSs for other reasons.

The number of companies included in the consolidated financial statements of Porsche SE as of the reporting date is shown in the following table:

	31/12/2010	31/7/2010
Fully consolidated subsidiaries		
Germany	1	1
International	1	1
Subsidiaries accounted for at cost		
Germany	1	1
Associates and joint ventures		
Germany	2	2
	5	**5**

List of shareholdings of the group

	Share in capital as of 31 December 2010	Equity	Profit/loss
	%	EUR000	EUR000
Fully consolidated entities			
Germany			
Porsche Zweite Vermögensverwaltung GmbH, Stuttgart	100.00	25	0[1]
International			
Porsche Holding Finance plc., Dublin, Ireland	100.00	5,901	416
Subsidiaries accounted for at cost			
Porsche Erste Vermögensverwaltung GmbH, Stuttgart	100.00	23	0
Joint ventures accounted for at equity			
Porsche Zwischenholding GmbH, Stuttgart	50.10	7,335,481	205,321
Associates accounted for at equity			
Volkswagen AG, Wolfsburg	32.19[2]	17,072,034	1,549,524

1 After profit transfer

2 Diverging from the capital share, the share in voting rights is 50.74% as of the reporting date.

The consolidated financial statements and group management report prepared as of 31 December 2010 can be downloaded from the electronic German business register at www.unternehmensregister.de.

Applying the exemption pursuant to Sec. 264 (3) HGB, the separate financial statements of Porsche Erste Vermögensverwaltung GmbH and those of Porsche Zweite Vermögensverwaltung GmbH are not published.

Changes in the consolidated group in the comparative period – Volkswagen group

The common goal of the basic agreement on the creation of an integrated automotive group between Porsche and Volkswagen, which sets out the steps towards creating an integrated automotive group, is a merger of Porsche SE with Volkswagen AG in the course of 2011 provided the legal prerequisites are met at that time.

The basic agreement provides, among other things, for an amendment of the articles of association of Volkswagen AG which prescribes that the State of Lower Saxony has a right to appoint two members of the supervisory board of Volkswagen AG, provided that it holds at least 15% of the ordinary shares in Volkswagen AG. At the extraordinary general meeting of Volkswagen AG on 3 December 2009, the shareholders of Volkswagen AG approved the inclusion of this delegation right in the articles of association. The amendment of the articles of association was entered in the commercial register on 7 December 2010.

The resolution to include in Volkswagen AG's articles of association the right of the State of Lower Saxony to appoint two members of the supervisory board of Volkswagen AG prevents Porsche SE from continuing to fully consolidate the Volkswagen group because there is a loss of control according to IFRSs. As a result, the Volkswagen group was deconsolidated effective 3 December 2009 despite the fact that Porsche SE still holds 50.74% of the voting rights in Volkswagen AG. Since this point in time, the investment in Volkswagen AG has been accounted for at equity in the consolidated financial statements of Porsche SE.

When the reporting date of a subsidiary or associate is different from that of the parent company, IAS 27.22 et seq. (rev. 2008) or IAS 28.24 et seq. (rev. 2008), respectively, allow the use of financial statements of the subsidiary as of a different reporting date in the preparation of consolidated financial statements if it is not practicable for the subsidiary or associate to prepare separate interim financial statements as of the reporting date of the parent company. Due to the volume of work at the Volkswagen group dedicated to preparing its half-yearly financial report for 2010, the data for the month of July 2010 could not be made available in the quality necessary for external reporting. For this reason, the Volkswagen group was included in the consolidated financial statements of Porsche SE as follows in the comparative period:

- For the period during which it was fully consolidated, the Volkswagen group was included using figures for the period from 1 July 2009 to 3 December 2009.
- For the period during which it is accounted for at equity, the Volkswagen group was included using figures for the period from the date of deconsolidation to 30 June 2010.

Changes in the consolidated group in the comparative period – Porsche Zwischenholding GmbH group

The basic agreement also provides for the acquisition of an investment of Volkswagen AG in Dr. Ing. h.c. F. Porsche Aktiengesellschaft ("Porsche AG"). In the course of restructuring, Porsche Zwischenholding GmbH was established as a subsidiary of Porsche SE, which holds 100% of the shares in (the new company) Porsche AG. Porsche's operating business was transferred with legal effect to (this new) Porsche AG.

On 7 December 2009, Volkswagen AG assumed a 49.9% shareholding in Porsche Zwischenholding GmbH in the course of a capital increase. Due to the rulings established in the implementing agreements and in the articles of association of Porsche Zwischenholding GmbH, Porsche SE lost control of this company under IFRSs despite the fact that it holds the majority of voting rights of 50.1%. From this point in time, Porsche Zwischenholding GmbH is a joint venture of Porsche SE and Volkswagen AG. For this reason, the Porsche Zwischenholding GmbH group was deconsolidated as of 7 December 2009. Since deconsolidation, the investment of Porsche SE in Porsche Zwischenholding GmbH has also been accounted for at equity.

Effects of changes in the consolidated group in the comparative period

Both the Volkswagen group and the Porsche Zwischenholding GmbH group represent discontinued operations from the perspective of Porsche SE. In accordance with IFRS 5 the expenses and income of the discontinued operations were reclassified in the income statement to a separate line "Profit/loss after tax (discontinued operations)".

The income statement of these discontinued operations before reclassification to discontinued operations and including the effects of deconsolidation was as follows in the comparative period:

€ million	Discontinued operations **2009/10**
Revenue	46,349
Changes in inventories and own work capitalized	1,314
Total operating performance	**47,663**
Other operating income	5,138
Cost of materials	– 26,489
Personnel expenses	– 7,128
Amortization of intangible assets and depreciation of property, plant and equipment, leased assets and investment property	– 4,642
Other operating expenses	– 13,649
Profit/loss before financial result	893
Profit/loss from investments accounted for at equity	371
Finance costs	– 938
Other financial result	571
Financial result	**4**
Profit/loss before tax from discontinued operations	**897**
Income tax	– 217
Profit/loss after tax from discontinued operations	**680**
Profit/loss before and after tax arising from the deconsolidation of operations	**–6,875**
Profit/loss after tax (discontinued operations)	**–6,195**
thereof profit attributable to shareholders of Porsche SE	– 6,097
thereof profit/loss attributable to non-controlling interests – hybrid capital investors	16
thereof profit/loss attributable to non-controlling interests – other investors	– 114

In the comparative period, the profit or loss before tax from discontinued operations included a positive effect from the reclassification of other comprehensive income due to deconsolidations of €1,223 million. The income taxes thereon totaled €-333 million in the comparative period.

The profit/loss after tax arising from the deconsolidation of operations in the comparative period was made up of an expense of €15,902 million from the deconsolidation of the Volkswagen group and income of €9,027 million from the deconsolidation of the Porsche Zwischenholding GmbH group. Both amounts correspond to the portion in profit or loss that was attributable to recognizing any investments retained in the former subsidiaries at its fair value at the date when control was lost in the comparative period.

The carrying amounts of the assets and liabilities which were derecognized in the comparative period in connection with the deconsolidation of the discontinued operations can be summarized by major categories as follows:

€ million	Carrying amount
Intangible assets	32,635
Property, plant and equipment, leased assets and investment property	43,414
Investments accounted for at equity	8,361
Inventories	16,128
Receivables from financial services	61,849
Cash and cash equivalents	24,696
Other assets	34,230
Provisions for pensions and similar obligations	13,942
Other provisions and tax provisions	25,184
Financial liabilities	82,735
Other liabilities	43,612

As a consideration for the assets and liabilities derecognized, the remaining investments in Porsche Zwischenholding GmbH and Volkswagen AG were recognized at their fair value totaling €15,941 million in the comparative period.

In the comparative period the discontinued operations contributed to the cash inflows and outflows in the statement of cash flows as follows:

€ million	**2009/10**
Cash flow from operating activities	4,607
Cash flow from investing activities (including cash funds disposed of)	– 25,863
Cash flow from financing activities	– 17

Investments in associates

Volkswagen AG has been included in the consolidated financial statements as an associate based on consolidated figures since the date of deconsolidation on 3 December 2009. As of 31 December 2010, the market value of the investment in Volkswagen AG amounted to €15,861 million (31 July 2010: €10,891 million).

Due to extensive accounting activities for preparing the half-yearly financial report for 2010 for the Volkswagen group, the data for the month of July 2010 could not be made available in the quality necessary for external reporting. That is why, applying the rules set forth in IAS 27.22 et seq. (rev. 2008) and IAS 28.24 (rev. 2008), in the comparative period the Volkswagen group was included in the consolidated financial statements of Porsche SE as of a reporting date that differs by one month from that of the Porsche SE group. As a result of the change in Porsche SE's fiscal year in SFY 2010, the Volkswagen group is now no longer included with a delay of one month. Accordingly, the Volkswagen group has been included in the profit from investments accounted for at equity with the figures for a period of six months (1 July 2010 to 31 December 2010) in SFY 2010.

The Porsche SE group also had a significant influence over MAN SE, Munich, in the comparative period until the date of deconsolidation of Volkswagen AG. The contributions to profit or loss from the MAN group (MAN SE and its subsidiaries) were included in the profit or loss from discontinued operations in the comparative period.

Based on the proportionate interest, the following consolidated amounts relating to MAN SE and Volkswagen AG were attributable to the Porsche SE group. In the comparative period, MAN SE was included in revenue and profit until the date of deconsolidation of the Volkswagen group on 3 December 2009. Volkswagen AG was included in revenue and profit in the comparative period from the date of deconsolidation on 3 December 2009 to 30 June 2010 and in the reporting period from 1 July to 31 December 2010.

€ million	SFY 2010	2009/10
Non-current assets	113,457	108,425
Current assets	85,936	84,535
Non-current liabilities	73,781	74,222
Current liabilities	76,900	77,798
Revenue	65,066	71,886
Profit	5,161	1,783

The amounts presented do not contain any effects from the purchase price allocation performed for the purpose of accounting at equity.

Interests in joint ventures

Porsche Zwischenholding GmbH is a significant joint venture from the date of its deconsolidation on 7 December 2009.

In the comparative period, significant joint ventures of the Porsche SE group until the date of deconsolidation of the Volkswagen group were the investments held in Shanghai-Volkswagen Automotive Company Ltd., Shanghai, China (“SVW”), in FAW-Volkswagen Automotive Company Ltd., Changchun, China (“FAW”) and in Global Mobility Holding B.V., Amsterdam, Netherlands, as the holding company of LeasePlan N.V., Amsterdam, Netherlands (“LeasePlan”). The contributions from these investments to profit/loss are included in the profit or loss from discontinued operations in the comparative period. The joint ventures are included in income and expenses in the disclosures for the comparative period until the date of deconsolidation of the Volkswagen group.

Based on the shareholding, the amounts relating to the joint ventures summarized below are attributable to the Porsche SE group (Porsche Zwischenholding GmbH is included in income and expenses in the comparative period from the date of deconsolidation on 7 December 2009):

€ million	SFY 2010	2009/10
Non-current assets	10,871	10,535
Current assets	2,934	2,635
Non-current liabilities	9,887	9,845
Current liabilities	5,764	5,116
Income	4,499	13,599
Expenses	4,120	12,447

The amounts presented do not contain any effects from the purchase price allocation performed for the purpose of accounting at equity.

Consolidation principles

Porsche SE applied IFRS 3 “Business Combinations” (rev. 2008) and IAS 27 “Consolidated and Separate Financial Statements” (rev. 2008) prospectively as of the beginning of the comparative period.

In the reporting period, the financial statements of all subsidiaries and investments accounted for at equity were prepared as of the reporting date of the consolidated financial statements, which is the reporting date of Porsche SE. Where necessary, adjustments are made to the uniform group accounting policies.

Business combinations are accounted for by applying the acquisition method pursuant to IFRS 3 (rev. 2008).

The cost of a business combination is measured in accordance with IFRS 3 (rev. 2008) as the aggregate of the consideration transferred at fair value as of the acquisition date, measured at acquisition-date fair value, and the non-controlling interests in the entity. The non-controlling interests can be measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed and therefore do not constitute a component of cost.

If the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as of the acquisition date and the gain or loss resulting from remeasurement recognized in profit or loss.

Where the cost of a business combination exceeds the fair value of identifiable assets acquired net of liabilities assumed as of the acquisition date, the excess is recognized as goodwill. In contrast, where the cost of a business combination is less than the fair value of identifiable assets acquired net of liabilities assumed as of the acquisition date, the difference is recognized in the income statement after reassessing the fair values.

Any difference arising upon acquisition of additional shares or sale of shares after initial consolidation without loss of control in a subsidiary that has already been fully consolidated is recognized within equity.

Intragroup expenses and income as well as receivables, liabilities and provisions are eliminated. Intercompany profits from the sale of assets within the group which have not yet been resold to third parties are eliminated. Deferred taxes are recognized for intragroup transactions that affect income taxes. In addition, guarantees and warranties assumed by Porsche SE or one of its consolidated subsidiaries in favor of other consolidated subsidiaries are eliminated.

In the event that control is lost and the parent company continues to hold shares in the previous subsidiary, such shares are measured at fair value on the date of loss of control. If the shares are listed on the stock exchange, the fair value of the shares on the date when control is lost is the product of the number of shares retained and the quoted market price of the shares as of that date.

When deconsolidating the previous subsidiary, the difference between the consideration received (upon disposal) or the fair value of the investment retained (upon partial sales or loss of control for other reasons) and the net assets disposed of at the date when control is lost (including any goodwill from acquisition accounting disposed of) and the carrying amount of the non-controlling interests disposed of as of the date of loss of control is recognized in profit or loss. Income and expenses recognized directly in the previous subsidiary's equity for foreign currency effects, securities marked to market, cash flow hedges and investments accounted for at equity are also derecognized through profit or loss at the date of loss of control. Any revaluation reserve recognized in accordance with IFRS 3 (rev. 2004) is not derecognized through profit or loss at the date of deconsolidation but reclassified to accumulated profits within equity.

Equity accounting

When investments accounted for at equity are acquired, they are recognized at cost as of the date of initial recognition at equity. In the event of partial sale or loss of control of previously fully consolidated subsidiaries for other reasons, they are recognized at fair value as of the date when control is lost. The consolidation procedures generally apply by analogy to investments accounted for at equity. Any goodwill that arises as part of the investment carrying amount is not amortized or tested for impairment separately. Any negative goodwill is reassessed and recognized through profit or loss at the date when the investment is initially accounted for at equity.

In subsequent periods, the carrying amount is changed to reflect the Porsche SE group's share of changes in net assets of the associate or joint venture. The group's share in profit/loss after tax and non-controlling interests is recognized in the income statement within the item "profit/loss from investments accounted for at equity". This item also includes dilutive effects reducing the investment carrying amount that arise from capital increases at the level of the investment without participation or with disproportionately low participation of the Porsche SE group and which do not lead to any changes in the status of the investment as an associate or joint venture.

Changes in income and expenses recognized directly in equity at the level of the associate or joint venture are recognized in a separate item within Porsche SE's group equity. Distributions received lead to a reduction of the investment's carrying amount.

An impairment test is carried out whenever there is any indication in accordance with IAS 39 that the entire carrying amount of the investment is impaired. Where the carrying amount of the investment exceeds its recoverable amount determined in accordance with IAS 36, an impairment loss is recognized in profit or loss to account for the difference. Value in use is determined on the basis of the estimated future cash flows expected to be generated by the investment accounted for at equity in accordance with IAS 28.33a. At least once a year, it is assessed whether there is any indication that the reason for a previously recognized impairment loss no longer exists or an impairment amount has decreased. If this is the case, the recoverable amount is recalculated and an impairment previously recognized that no longer exists is reversed.

An impairment test was carried out in the reporting period for both the investment in Volkswagen AG and the investment in Porsche Zwischenholding GmbH. Value in use was determined for both investments using the discounted cash flow method. The most recent five-year plan approved by the management of the equity investments was used as a basis. A growth rate of 1% was used to extrapolate the cash flow beyond the detailed planning phase. The sustainable EBIT margin was determined conservatively, taking into account the EBIT margins generated in the last two reporting years. A weighted average cost of capital of 6.6% or 7.2% (prior year: 6.5% or 7.3%) was used to discount cash flows. This was derived from a specific group of comparable entities (peer group) for each equity investment to reflect a return on capital that is appropriate for the risks involved in the respective business operations. When selecting the two peer groups, the special aspects of the multi-brand strategy pursued by VW as well as of those of the sports car business of the Porsche Zwischenholding GmbH group were taken into consideration.

Even an isolated decrease in the EBIT margin by 20% or a growth rate of 0%, or an isolated increase in the WACC by 20% would not lead to an impairment of either equity investment.

Currency translation

Foreign currency items in the financial statements of the entities included in the consolidated financial statements are measured at the spot exchange rates on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the closing rate. Non-monetary items denominated in a foreign currency measured at historical cost are translated using the exchange rate on the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate prevailing on the date when the fair value was determined. Exchange rate gains and losses as of the reporting date are recorded in profit or loss.

Goodwill and adjustments to recognize assets and liabilities arising from business combinations at their fair value are expressed in the functional currency of the subsidiary.

The financial statements of consolidated subsidiaries prepared in a foreign currency are translated to the euro in accordance with IAS 21. The functional currency of the company included in consolidation is the currency of the primary economic environment in which it operates.

Assets, liabilities and contingent liabilities are translated at the closing rate as of the reporting date, while equity is translated at historical rates with the exception of income and expenses recognized directly in equity. The income statement is translated using average exchange rates. Exchange rate differences resulting from the translation of financial statements are recognized as a separate component directly in equity until the disposal of the subsidiary. Upon disposal the separate item is reclassified to profit or loss.

The foreign currency rates applied for translating transactions to the euro are presented in the following table.

					Balance sheet Closing rate
		Porsche SE group and Porsche Zwischenholding GmbH group[1]	VW group[1]	Porsche SE group and Porsche Zwischenholding GmbH group[1]	VW group
	€1=	**31/12/2010**	**31/12/2010**	**31/7/2010**	**30/6/2010**
Argentina	ARS	N/A	5.3086	N/A	4.8171
Australia	AUD	1.3157	1.3136	1.4409	1.4403
Brazil	BRL	2.2212	2.2177	2.2919	2.2082
China	CNY	8.8212	8.8220	N/A	8.3215
United Kingdom	GBP	0.8623	0.8608	0.8332	0.8175
India	INR	N/A	59.7580	N/A	56.9930
Japan	JPY	108.8600	108.6500	112.8300	108.7900
Canada	CAD	1.3355	1.3322	1.3446	1.2890
Mexico	MXN	16.5663	16.5475	16.4908	15.7363
Poland	PLN	N/A	3.9750	N/A	4.4170
Republic of Korea	KRW	1,501.5100	1,499.0600	1,544.2950	1,499.5900
Russia	RUB	40.9449	40.8200	39.4500	38.2820
Sweden	SEK	8.9776	8.9655	9.4195	9.5259
South Africa	ZAR	8.8753	8.8625	9.5276	9.3808
Czech Republic	CZK	25.0958	25.0610	24.7805	25.6910
USA	USD	1.3388	1.3362	1.3022	1.2271

[1] Accounted for at equity

€1 =		Porsche SE group and Porsche Zwischenholding GmbH group[1] SFY 2010	VW group[1] SFY 2010	Income statement Average rate Porsche SE group and Porsche Zwischenholding GmbH group[1] 2009/10	VW group[1] 2009/10
Argentina	ARS	N/A	5,242	N/A	5.1969
Australia	AUD	1.3900	1.4024	1.5539	1.5049
Brazil	BRL	N/A	2.2821	N/A	2.4111
China	CNY	N/A	8.8933	N/A	9.1978
United Kingdom	GBP	0.8484	0.8465	0.8771	0.8743
India	INR	N/A	60.4644	N/A	61.8412
Japan	JPY	111.4699	111.4154	125.5777	122.8827
Canada	CAD	1.3643	1.3593	1.4489	1.3974
Mexico	MXN	N/A	16.6777	N/A	17.1072
Poland	PLN	N/A	3.9873	N/A	4.0228
Republic of Korea	KRW	N/A	1,532.7589	N/A	1,556.6632
Russia	RUB	40.9063	40.6333	41.6085	40.4911
Sweden	SEK	N/A	9.2988	N/A	9.8827
South Africa	ZAR	N/A	9.4235	N/A	10.1354
Czech Republic	CZK	24.7331	24.8538	25.6812	25.7848
USA	USD	1.3350	1.3252	1.3805	1.3474

[1] Accounted for at equity

Due to the deconsolidations, in the comparative period average exchange rates for the period from 1 August 2009 to 7 December 2009 and closing dates as of 7 December 2009 were used for foreign currency translation purposes in the then Porsche subgroup. For the same reason, average exchange rates for the period from 1 July 2009 to 3 December 2009 and closing rates as of 3 December 2009 were used for the then Volkswagen subgroup in the comparative period. The foreign currency rates applied are presented in the table below.

		Closing rate		Average rate	
		Porsche subgroup	VW subgroup	Porsche subgroup	VW subgroup
	€1=	**7/12/2009**	**3/12/2009**	**1/8-7/12/2009**	**1/7-3/12/2009**
Argentina	ARS	N/A	5.7220	N/A	5.5573
Australia	AUD	1.6437	1.6452	1.6632	1.6810
Brazil	BRL	N/A	2.6251	N/A	2.6321
China	CNY	10.2633	10.2564	9.9938	9.9228
United Kingdom	GBP	0.9113	0.9116	0.8924	0.8859
Hong Kong	HKD	11.6509	N/A	11.3479	N/A
India	INR	N/A	69.7590	N/A	69.2527
Japan	JPY	129.9300	129.7700	133.7919	133.6864
Canada	CAD	1.5881	1.5882	1.5670	1.5705
Mexico	MXN	N/A	19.3984	N/A	19.2061
Poland	PLN	N/A	4.1441	N/A	4.1930
Republic of Korea	KRW	N/A	1,746.8800	N/A	1,758.2230
Russia	RUB	43.9532	43.9800	44.1866	44.2300
Sweden	SEK	N/A	10.4533	N/A	10.3776
Switzerland	CHF	1.5065	N/A	1.5151	N/A
South Africa	ZAR	N/A	11.1421	N/A	11.1598
Czech Republic	CZK	26.0810	26.1350	25.6511	25.6918
USA	USD	1.5034	1.5023	1.4640	1.4530

Accounting policies

The assets and liabilities of Porsche SE and the consolidated German and foreign subsidiaries included are accounted for using uniform accounting policies applicable within the Porsche SE group. The same accounting policies are also used at the level of the associates and joint ventures of Porsche SE. Where necessary, adjustments are made. Generally, the comparative information for SFY 2010 is based on the same accounting policies as for the fiscal year 2009/10.

Since the contributions to profit or loss made by the investments accounted for at equity have a significant impact on the net assets and results of operations of the Porsche SE group, the accounting policies applicable for the Porsche SE group only until deconsolidation of the Porsche Zwischenholding GmbH group and the Volkswagen group and since then only applicable within the Porsche Zwischenholding GmbH group and the Volkswagen group are also included in the explanations below.

With the exception of certain items such as investments accounted for at equity, derivative financial instruments and available-for-sale financial assets, the consolidated financial statements are prepared using the historical cost principle. The measurement principles used are described below in detail.

Intangible assets

Purchased intangible assets that are not acquired in a business combination are initially recognized at cost in accordance with IAS 38. The cost of intangible assets acquired as part of a business combination is their fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets acquired separately with a finite useful life are amortized on a straight-line basis over their useful life, taking any impairments into account. Useful lives generally range from three to five years. Useful lives, residual values and methods of amortization are reviewed, and adjusted if appropriate, at least at the end of the reporting year. If adjustments are made, these are accounted for as changes in estimates.

Intangible assets with indefinite useful lives are not amortized. These include goodwill and brand names from business combinations. The useful lives of brands are considered indefinite based on the assessment that the inflow of economic benefits from these assets cannot be attributed to a specific period. Each asset or cash-generating unit is tested at least once a year for impairment. Intangible assets with indefinite useful lives are reviewed once a year to determine whether the indefinite life assessment continues to be supportable. If this is no longer the case, the change in the useful life assessment from indefinite to finite is made prospectively.

With the exception of their capitalizable portion, development costs are not capitalized, but recognized in profit or loss in the period in which they are incurred. The portion of development expenditure that can be measured reliably and meets all other recognition criteria of IAS 38 is capitalized. The capitalized development costs include all costs and overhead expenditure directly attributable to the development process incurred after the point in time at which all recognition criteria are met. Capitalized development costs are amortized beginning at the start of production using the straight-line method over the expected useful life of the product, taking any impairments into account. The useful life is usually five to ten years. Research costs are expensed as incurred.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation over the useful life of the assets and any accumulated impairment losses. The cost of items of property, plant and equipment acquired as part of a business combination is fair value as of the date of acquisition. Self-constructed items of property, plant and equipment are recognized at cost. Cost is determined on the basis of the direct and the proportionate indirect production-related costs. Grants are generally deducted from cost. Costs for repairs and maintenance are recognized as an expense.

Depreciation, which is generally charged on a straight-line basis, reflects the pattern of the assets' expected utility to the company. Higher depreciation rates are applied for some equipment used in shift operations.

Depreciation is based on the following useful lives:

	Years
Buildings	25 to 50
Site improvements	9 to 20
Technical equipment and machinery	6 to 20
Other equipment, furniture and fixtures (including special tools)	3 to 15

Residual values, depreciation methods and useful lives are reviewed, and adjusted prospectively as changes in estimates if appropriate, at each reporting date.

Property, plant and equipment are either derecognized upon disposal or when no future economic benefits are expected from the continued use or sale of a recognized asset. The gain or loss arising from the derecognition of the asset, determined as the difference between net disposal proceeds and the asset's carrying amount as of the date of disposal, is included in profit or loss for the period when the asset is derecognized.

Leases

Whether an arrangement is, or contains a lease, is determined on the basis of the economic substance of the arrangement at its inception date and requires an assessment whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment after the inception of the lease is only performed under the prerequisites set forth in IFRIC 4.

Operating leases

Leases under which substantially all the risks and rewards incidental to ownership of the asset are not transferred to the lessee are classified as operating leases.

Most of the assets leased to third parties under operating leases are vehicles leased from the group's leasing companies and are presented in non-current assets. Leased vehicles are recognized at cost and depreciated on a straight-line basis over the term of the lease to the lower of estimated residual value and fair value.

Where group companies are the lessee in operating leases, i.e. when not all significant risks and rewards incidental to ownership are transferred, lease or rental payments are recognized as an expense in the income statement.

Finance leases

A lease is classified as a finance lease if substantially all risks and rewards incidental to ownership are transferred to the lessee.

Where items of property, plant and equipment are used under a finance lease, the lessee recognizes the individual assets and liabilities resulting from the lease at fair value or, if lower, the present value of the minimum lease payments. Items of property, plant and equipment are depreciated on a straight-line basis over the economic useful life or the term of the lease, if shorter.

Where group companies act as the lessor under finance leases, receivables relating to the leases are initially recognized at an amount equal to the net investment.

Borrowing costs

Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset are recognized as part of the cost of that asset. No borrowing costs were capitalized in SFY 2010. In the comparative period, an amount of €0.8 million was capitalized in discontinued operations until the date of deconsolidation. A borrowing cost rate of 3.9% was assumed in the comparative period for this purpose. All other borrowing costs are expensed as incurred.

Impairment test

At the end of each reporting period, the group assesses whether there is any indication of impairment. An impairment test is performed at least once a year for goodwill, capitalized costs for products under development and intangible assets with an indefinite useful live. For intangible assets with finite useful lives, property, plant and equipment as well as investments accounted for at equity an impairment test is performed when there is an indication that the asset may be impaired. With respect to the latter, please also refer to the section on equity accounting under “Consolidation principles” above.

The recoverable amount is determined in the course of impairment testing. The recoverable amount is the higher of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less any costs to sell. Costs to sell are incremental costs incurred to sell the asset or cash-generating unit. Value in use is determined using the discounted cash flow method or capitalized earnings method on the basis of the estimated future cash flows expected to arise from the continuing use of the asset and its disposal.

The recoverable amount is generally determined separately for each asset. If it is not possible to determine the recoverable amount for an individual asset because it does not generate cash inflows that are largely independent of the cash inflows from other assets, it is determined on the basis of a group of assets that constitutes a cash-generating unit.

If the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recognized to account for the difference. Impairment losses are recognized through profit or loss in the item amortization of intangible assets and depreciation of property, plant and equipment, leased assets and investment property.

It is reviewed on an annual basis whether the reasons for a previously recognized impairment loss still exist. If the reasons for impairments recognized in prior years no longer exist, the impairments are reversed through profit or loss (with the exception of goodwill). The amount reversed cannot exceed the amount that would have been determined as the carrying amount, net of any depreciation and amortization, had no impairment loss been recognized for the asset in prior years.

To determine whether goodwill is impaired, the segments of the Porsche SE group were used in general as a cash-generating unit until the date of their deconsolidation. The impairment test of recognized brands was based on the data of the relevant brand organizations. In the case of other intangible assets and property, plant and equipment, the product or model series was used to determine the cash-generating units.

Investment property

Investment property held to generate rental income is accounted for at depreciated cost. The underlying useful lives and depreciation methods used in subsequent measurement correspond to those applied for items of property, plant and equipment used by the group. Due to the measurement at depreciated cost, the fair values of the investment property must be disclosed in the notes to the consolidated financial statements. An income capitalization approach is used to calculate the fair value of each building by determining the income value based on gross income taking other factors such as land value, remaining useful lives and a multiplier specific to residential property into account. Internal calculations take account of market information.

Other receivables and financial assets

Other receivables and financial assets (excluding derivative financial instruments) are accounted for at amortized cost. Appropriate allowance is made for known individual risks and general credit risks.

Inventories

Inventories are stated at the lower of cost or net realizable value as of the reporting date.

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. In addition to costs directly attributable, the costs of conversion of the internally produced goods include an appropriate portion of incurred materials and production overheads as well as production-related depreciation and other directly attributable costs.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

If the carrying amounts are no longer realizable due to a decrease in prices, inventories are written down accordingly.

Inventories of similar nature are generally measured using the weighted average cost method.

Long-term development contracts

Future receivables from long-term development contracts are recognized according to their percentage of completion. The percentage of completion to be recognized per contract is calculated by comparing the accumulated costs with the total costs expected (cost-to-cost method). If the result of a development contract cannot be determined reliably, income is only recognized at the amount of the contract costs incurred (zero profit method). If the total of accumulated contract costs and reported profits exceeds advance payments received, the development contracts are recognized as an asset under trade receivables as future receivables from long-term development contracts. Any negative balance is reported under trade payables. The principle of measuring assets at the lower of carrying amount and net realizable value is taken into consideration.

Financial instruments

According to IAS 39, a financial instrument is any contract that gives rise to a financial asset at one entity and a financial liability or equity instrument at another entity. If the trade date of a financial asset differs from the settlement date, it is initially accounted for at the settlement date. Initial recognition of a financial instrument is at fair value. Transaction costs are included for financial instruments not designated as at fair value through profit or loss. Subsequent measurement of financial instruments is either at fair value or amortized cost depending on their category. Each financial instrument is allocated to a category upon initial recognition.

With respect to measurement, IAS 39 distinguishes between the following categories of financial assets:
- Financial assets at fair value through profit or loss (FVtPL) and held for trading (HfT)
- Held-to-maturity investments (HtM)
- Available-for-sale financial assets (AfS)
- Loans and receivables (LaR)

Financial liabilities are divided into the two categories:
- Financial liabilities at fair value through profit or loss (FVtPL) and held for trading (HfT)
- Financial liabilities measured at amortized cost (FLAC)

Depending on the category, measurement of financial instruments is either at fair value or amortized cost.

Fair value corresponds to market price provided the financial instruments measured are traded on an active market. If there is no active market for a financial instrument, fair value is calculated using appropriate valuation techniques such as generally accepted option price models or discounting future cash flows with the market interest rate, or by referring to the most recent business transactions between knowledgeable, willing and independent business partners for one and the same financial instrument, if necessary confirmed by the banks processing the transactions.

Amortized cost corresponds to the original cost less redemption, impairment losses and the release of any difference between costs and the amount repayable upon maturity calculated by applying the effective interest method. Financial instruments are recognized as soon as the Porsche SE group becomes a party to the contractual provisions of the financial instrument. Financial assets are generally derecognized when the contractual right to the cash flows expires or this right is transferred to a third party. Financial liabilities are derecognized when the obligation underlying the liability has been cancelled or extinguished.

Non-derivative financial instruments

Financial instruments accounted for at fair value include financial instruments held for trading and financial assets classified as at fair value through profit or loss upon initial recognition. Gains and losses from the subsequent measurement are recognized in profit or loss. In the Porsche SE group, financial instruments in the category held for trading include derivative financial instruments only. The discontinued operations' financial instruments classified upon initial recognition as financial assets at fair value through profit or loss related to index certificates. Classification in this category reflects the risk management and investment strategy. No financial assets or liabilities were classified as at fair value through profit or loss upon initial recognition in the short fiscal year.

Any financial instruments held to maturity are accounted for at amortized cost. Gains and losses from the subsequent measurement are recognized in profit or loss. The Porsche SE group did not hold any financial instruments in the category as of the reporting date.

Any available-for-sale financial instruments are measured at fair value. Non-derivative financial assets that are classified as available for sale and that cannot be allocated to any other category are included in this category. Unrealized gains and losses from subsequent measurement are recognized in equity taking into account deferred taxes until the financial instruments are derecognized or there is objective evidence of impairment. Investments presented as non-current financial assets that are not accounted for at equity also constitute available-for-sale financial instruments and are generally measured at fair value. If no active market exists and fair value cannot be reliably estimated, they are measured at cost. The Porsche SE group did not hold any financial instruments in the category as of the reporting date.

Loans and receivables, held-to-maturity financial instruments and financial liabilities are measured at amortized cost unless they are related to hedging instruments. In particular, these include other financial receivables, financial guarantees, trade payables, financial liabilities and other financial liabilities.

With regard to financial guarantees, the Porsche SE group is required to make specified payments if a debtor fails to make payment when due. Financial guarantees are presented on a net basis. The compensation paid for assumption of the liability is not recognized before it is due. It is presented as other receivables and assets or other liabilities. Liabilities are not recognized until the utilization of a financial guarantee becomes probable. No liability had to be recognized in the current fiscal year or in the comparative period.

Financial assets are subject to an impairment test if there is objective evidence that the asset is permanently impaired. An impairment loss is immediately recorded as an expense.

Specific valuation allowances are recognized for individually significant receivables by applying uniform guidelines and are measured at the amount of incurred losses. Indicators of a potential impairment include delayed payments over a certain period of time, the institution of enforcement measures, the threat of insolvency or overindebtedness, application for or the opening of insolvency proceedings or the failure of financial reorganization measures.

Valuation allowances are generally recognized in separate allowance accounts and give rise to impairment losses that are recognized in profit or loss.

An impairment loss is recognized on available-for-sale financial assets if there is objective evidence of permanent impairment. In the case of equity instruments, evidence of impairment is considered to exist, among other things, if the fair value decreases significantly below cost and the decrease in fair value is prolonged. Where there is evidence of impairment, the cumulative loss of available-for-sale financial instruments – measured as the difference between cost and their current fair value, less any impairment loss previously recognized on that financial instrument in the income statement – is derecognized from equity and recognized in the income statement. Any increase in the value of debt securities at a later date is accounted as a reversal of the impairment loss recognized in profit or loss. In the case of equity instruments, reversals of impairment losses are recognized directly in equity.

Derivative financial instruments

The derivative financial instruments recognized by the Porsche SE group as of the reporting date relate to an interest derivative used to hedge interest rate risks arising from existing liabilities. In addition, there is a put option for Porsche SE and a call option for Volkswagen AG to Porsche SE's remaining 50.1% of shares in Porsche Zwischenholding GmbH. In the reporting period, the cash-settled options relating to Volkswagen AG shares that remained as of the end of the prior period were disposed of in full.

Derivative financial instruments are generally recognized at fair value through profit or loss and remeasured at fair value in subsequent periods.

As soon as the criteria of IAS 39 for hedge accounting are fulfilled, the derivative financial instruments are designated either as fair value or cash flow hedges. Otherwise, they are allocated to the category financial assets or liabilities held for trading.

A fair value hedge hedges the exposure to changes in fair value of a recognized asset, a recognized liability or an unrecognized firm commitment. Gains or losses arising from marking hedging instruments to market and the secured portion of the risk of the hedged transaction are recognized in profit or loss. If the fair value hedge ends, the adjustment of the carrying amount arising from fair value hedge accounting for financial instruments measured at amortized cost as hedged transaction is released to profit or loss over the remaining term of the hedged transaction.

In the case of portfolio-based fair value hedges, the accounting for changes in fair value corresponds to the accounting for fair value hedges. Gains or losses from changes in measurement are recognized through profit or loss.

A cash flow hedge is used to hedge exposures from highly probable future cash flows. Hedges are only included in hedge accounting to the extent that they offset changes in the value of the cash flows of the hedged transaction. The ineffective portion is immediately recognized in profit or loss. When included in cash flow hedge accounting, changes in value are recorded directly in other comprehensive income, taking deferred taxes into account. When the hedged transaction occurs, the change in value is reclassified from other comprehensive income to profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognized in equity is reclassified to profit or loss. Gains or losses from cash flow hedge accounting are presented under other operating income or expenses in the income statement.

The options held by the Porsche SE group as of the reporting date generally are not traded on a public market. In such cases, IAS 39.48 et seq. requires that a suitable valuation technique or recent transaction be used for measurement purposes. Measurement was performed using generally accepted valuation techniques based on observable market data and historical values.

Offsetting of financial instruments

Financial assets and liabilities are presented net in the balance sheet only if the group has a present contractual right to settle net and if it intends to settle net or by realizing the liability together with the asset.

Cash and cash equivalents

The cash and cash equivalents include checks, cash on hand and at banks. This item may also include cash and cash equivalents that are not freely available for use by the Porsche SE group. There was no longer any restricted cash as of the reporting date.

Deferred taxes

Deferred tax assets are generally recognized for deductible temporary differences between the tax base and carrying amounts in the consolidated balance sheet (taking into account temporary differences arising from consolidation) as well as on unused tax losses and tax credits if it is probable that they will be used. Deferred tax liabilities are generally recognized for all taxable temporary differences between the tax base and the carrying amounts in the consolidated balance sheet (temporary concept). Deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures are not recognized if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Valuation allowances are recognized on deferred tax assets that are unlikely to be realized in a manageable period. A previously unrecognized deferred tax asset is reassessed and recognized to the extent that it has become probable that future taxable profit will allow it to be recovered.

Deferred taxes are measured on the basis of the tax rates that apply or that are expected to apply based on the current legislation in the individual countries at the time of realization. Deferred taxes are not discounted.

Deferred taxes referring to items recognized directly in equity are presented in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Current taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws applied for measurement are those that are enacted or substantively enacted by the reporting date. Adequate provisions were recognized for future probable tax liabilities, considering a large number of factors such as interpretations, commentaries and jurisdiction on the pertinent tax legislation as well as past experience.

Current tax relating to items recognized directly in equity is also recognized directly in equity.

Discontinued operations and non-current assets held for sale

Discontinued operations are components of an entity that have either been disposed of or are classified as held for sale and which

- represent a separate major line of business or geographical area of operations,
- are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- are a subsidiary acquired exclusively with a view to resale.

Discontinued operations are presented separately in accordance with IFRS 5. The income and expenses arising prior to disposal and the gain or loss on sale are disclosed separately in the income statement as profit from discontinued operations below the profit from continuing operations. The prior-year information in the income statement is restated accordingly.

Under IFRS 5, non-current assets or groups of assets and liabilities are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such assets are carried at the lower of their carrying amount and fair value less costs to sell, and are presented separately in current assets and liabilities in the balance sheet.

Hybrid capital

Provided the bond conditions of the hybrid capital issued satisfy the criteria, hybrid capital is accounted for as an equity instrument of the group in accordance with IAS 32. If the hybrid capital is classified as equity, the deductible interest is not presented as interest expenses but accounted for corresponding to the accounting for dividends to the shareholders. Any transaction costs are deducted from the hybrid capital, taking tax effects into account.

If classified as a debt instrument, hybrid capital is presented under bonds. Interest is included in other interest and similar expenses.

Provisions for pensions and similar obligations

In accordance with IAS 19, the actuarial measurement of pension obligations arising from defined benefit plans is based on the projected unit credit method. This method considers not only the pension payments and the future claims known on the reporting date but also future anticipated increases in salaries and pensions. The calculation of pension obligations is based on actuarial expert opinions taking into account biometric assumptions. The interest rate used to discount provisions is determined on the basis of the return on long-term high-quality corporate bonds at the reporting date.

If pension obligations are funded by plan assets the obligation and the assets are offset. The company applies the corridor method to measure the pension obligations and determine the pension cost. Actuarial gains and losses from a pension plan are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses of the plan exceed 10% of the defined benefit obligation or 10% of the fair value of existing plan assets of the prior year (corridor method). The amount exceeding the corridor is recognized by allocation to the average remaining working lives of the employees. Past service cost is recognized on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately in profit or loss. Service cost is presented as personnel expense while the interest expense of the obligation and return on plan assets are presented in finance costs.

Other provisions

Other provisions are recognized if a past event has led to a current legal or constructive obligation to third parties which is expected to lead to a future outflow of resources that can be estimated reliably. Provisions are generally measured at the expected settlement amount taking into account all identifiable risks. The settlement amount is calculated using best estimates, including estimated cost increases.

Non-current provisions are stated at their present value at the reporting date. The interest rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The expense resulting from the unwinding of the interest rate is presented in finance costs.

Provisions are not offset against reimbursement claims from third parties. Reimbursement claims are recognized separately in other assets if it is virtually certain that the Porsche SE group will receive the reimbursement when it settles the obligation.

Accruals are not presented under provisions, but under trade payables or other liabilities, depending on their nature.

Liabilities

Non-current liabilities are recognized at amortized cost. Differences between their historical cost and their repayment amount are accounted for using the effective interest method. Current liabilities are recognized at their repayment or settlement value.

Revenue and expenses

Revenue is generally recognized to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured.

Revenue from the sale of products is generally not recognized until the point in time when the significant opportunities and risks associated with ownership of the goods and products being sold are transferred to the buyer. Revenue is reported net of discounts, customer bonuses and rebates.

Income from assets for which a group entity has a buy-back obligation cannot be realized until the assets have definitely left the group. If a fixed repurchase price was agreed when the contract was concluded, the difference between the selling and repurchase price is recognized as income ratably over the term of the contract. Prior to that time, the assets are accounted for as inventories.

Revenue from receivables from financial services is realized using the effective interest method.

Revenue is generally recorded separately for each business transaction. If two or more transactions are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole, the criteria for revenue recognition are applied to these transactions as a whole. If, for example, loans in the financial services sector are issued at below market interest rates to promote sales of new vehicles, revenue is reduced by the incentive arising from the loan.

Revenue from long-term development contracts is recognized in accordance with the percentage of completion method.

Interest income and expenses are determined using the effective interest method for financial instruments measured at amortized cost and interest-bearing securities held for sale.

Dividend income is recognized when the group's right to receive the payment is established.

Production-related expenses are recognized upon delivery or utilization of the service, while all other expenses are recognized as an expense as incurred. The same applies for development costs not eligible for recognition as part of the cost of an asset.

Interest expenses incurred for financial services are presented as cost of materials.

Contingent liabilities

A contingent liability is a possible obligation to third parties that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Porsche SE group. A contingent liability may also be a present obligation that arises from past events but is not recognized because an outflow of resources is not probable or the amount of the obligation cannot be measured with sufficient reliability. The amount of contingent liabilities is only stated in cases where the probability of an outflow of resources is not classified as remote by management.

Significant accounting judgments and estimates

The preparation of consolidated financial statements requires certain judgments and estimates that have an effect on recognition, measurement, presentation and disclosure of assets, liabilities, income and expenses as well as contingent assets and contingent liabilities. These judgments and estimates reflect the current information available. Key sources of estimations are the parameters influencing the profit or loss from investments accounted for at equity such as the fair value from purchase price allocations, useful lives and amortization or depreciation methods at the level of the investee, the measurement of impairment losses and reversals of impairment losses recognized on the carrying amounts of associates and joint ventures (see the section on equity accounting under "Consolidation principles"), the measurement of derivative financial instruments (see section 4.2.3 in note [24]), the measurement of provisions and contingent liabilities (see note [25] on litigation in particular) and the recoverability of receivables. In individual cases, amounts realized may differ from the estimates. The carrying amounts of the assets and liabilities affected by estimates can be seen in the breakdowns of the individual balance sheet items.

Key sources of judgment are the classification of subgroups as discontinued operations, the classification of financial instruments as well as determining the parameters underlying their measurement (see section 4.2.3 in note [24]), deciding which indicators are indicative of an impairment of items of property, plant and equipment, associates and joint ventures (see the section on equity accounting under "Consolidation principles") as well as the recognition of provisions and contingent liabilities (see note [25] on litigation in particular). At the level of the investees, further key sources of judgment include determining the starting point for the recognition of development costs as an asset, the classification of leases as operating or finance leases and deciding which indicators are indicative of an impairment of items of property, plant and equipment and leased assets.

The judgments and estimates are based on assumptions that are derived from the current information available. In particular, the circumstances given when preparing the consolidated financial statements and assumptions as to the expected future development of the global and industry environment were used to estimate the company's future business performance.

The estimates on which accounting is based are associated with uncertainties. This applies above all to forecast cash flows and discount rates. Other factors which may cause variances from expectations are the development of share prices and business values, a change in the estimate of likelihood of certain option conditions occurring, and the outcome of litigation. Factors which may cause variances from judgments and estimates at the level of associates and joint ventures include new information about the buying behavior on the sales markets and in response to this changes in planning, dependency on suppliers, in particular exclusive suppliers, developments in exchange rates, interest rates and the price of raw materials as well as environmental and other legal provisions.

In such cases, the assumptions, and if necessary the carrying amounts of the assets and liabilities concerned, are adjusted accordingly. Prior to the date of authorization of the financial statements by the executive board for issue to the supervisory board, there were no indications that the carrying amounts of the assets and liabilities presented in the consolidated balance sheet would require any significant adjustment in the following reporting period. Judgments and estimates by management included assumptions that are described in the forecast report as part of Porsche SE's group management report for SFY 2010.

New accounting standards

a) The following new or revised standards and interpretations which were adopted for first time in the short fiscal year had no material effect on the consolidated financial statements

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC 19 contains guidance on accounting for debt for equity swaps where an entity renegotiates the terms of a financial liability with the creditor with the result that it extinguishes the liability fully or partially by issuing equity instruments to the creditor. IFRIC 19 clarifies that:

- The entity's equity instruments are part of the consideration paid to extinguish the financial liability.
- The equity instruments issued are measured at fair value. If the fair value of the equity instruments issued cannot be reliably measured, then the equity instruments are required to be measured to reflect the fair value of the financial liability extinguished.
- The difference between the carrying amount of the financial liability extinguished and the amount initially recognized and measured for the equity instruments shall be recognized in profit or loss.

Annual Improvements Project II

The International Accounting Standards Board (IASB) published the "Improvements to IFRSs" in April 2009. Most of the amendments are clarifications or corrections to existing IFRSs or changes resulting from modifications already made to IFRSs.

IAS 32 "Financial Instruments: Presentation"

This amendment clarifies how to account for certain rights issues if the instruments issued are not denominated in the functional currency of the issuer.

Amendments to IFRS 2 "Share-based Payment"

The amendment to IFRS 2 clarifies the accounting for share-based payments when a supplier of goods or services is paid in cash and the obligation to this cash settlement is with another group company (group cash-settled share-based payment transactions).

b) The following standards and interpretations, which have been published but whose adoption is not yet mandatory or which are not yet applicable in the EU, have not yet been applied

Amendments to IFRS 9 “Financial Instruments”

IFRS 9 revises the classification and measurement of financial instruments, providing for only two measurement categories for financial assets in future: at amortized cost and at fair value. The amendments add new chapters to IFRS 9 “Financial Instruments”, thereby completing the classification and measurement phase of the IASB project’s to replace IAS 39 “Financial Instruments: Recognition and Measurement”. They were issued subsequently to IFRS 9 as published by the IASB in November 2009, which addresses the classification and measurement of financial assets. The amendments require entities having elected to use the fair value option in accounting for financial liabilities to recognize the portion of the change in fair value resulting from a change in the entity’s own credit risk within other comprehensive income instead of in profit or loss. IFRS 9 is applicable for reporting periods beginning on or after 1 January 2013. Early adoption is permitted only if the regulations contained in IFRS 9 for financial assets are simultaneously applied. IFRS 9 as a whole has not yet been adopted by the EU. Porsche SE is in the process of analyzing the effects on the presentation of its net assets, financial position and results of operations as well as on cash flows.

Amendments to IAS 12 “Income Taxes”

In accordance with IAS 12, the measurement of deferred taxes depends on whether an entity expects to recover an asset’s carrying amount by using it or by selling it. The distinction may be difficult and involve judgment in certain circumstances. The amendment introduces a rebuttable presumption that the carrying amount will be recovered through sale. The scope of application of this rebuttable presumption is limited to investment property measured at fair value and property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 or IAS 38. As part of the amendments made, the regulations of SIC 21 were incorporated in IAS 12 and SIC 21 was withdrawn accordingly. The amendments are effective for reporting periods beginning on or after 1 January 2012. They have yet to be endorsed by the EU as part of the comitology procedure. These amendments are not expected to have any significant effect on the presentation of the Porsche SE group’s net assets, financial position and results of operations or on its cash flows.

In addition, a number of other changes were presented in the consolidated financial statements for the fiscal year 2009/10 which had still not been applied in SFY 2010.

Voluntary early adoption of the changes before they become mandatory under the transitional provisions of IASB is not planned.

Notes to the consolidated income statement and consolidated statement of cash flows

The reporting period presented in these consolidated financial statements is the SFY 2010 covering a period of five months, while the fiscal year 2009/10 presented as comparative period comprises a period of twelve months. As a result, the figures presented for the reporting period and the comparative period are not fully comparable.

[1] Other operating income

Other operating income breaks down as follows:

€ million	SFY 2010	2009/10
Income from stock price hedging derivatives	102	393
Income from reversal of provisions and accruals	8	11
Income from valuation of options on non-stock company shares	158	301
Sundry operating income	1	4
	269	**709**

The income from stock price hedging derivatives was generated as a result of cash-settled stock option transactions relating to Volkswagen AG shares, which in the past served to hedge the increase in the investment in Volkswagen AG. This strategy is not to be pursued further and such stock options were no longer held as of the reporting date.

The income reported from valuation of options on non-stock company shares contains the change in the fair value of the put option of Porsche SE relating to its remaining shares in Porsche Zwischenholding GmbH.

[2] Personnel expenses

€ million	SFY 2010	2009/10
Wages and salaries	11	16
Social security contribution, pension and other benefit costs	0	1
	11	**17**
Employees (annual average)		
Performance-related wage-earners	-	73,292
Salaried staff	37	70,628
Employees acc. to Sec. 314 (1) No. 4 HGB	**37**	**143,920**
Other	7	4,279
Total	**44**	**148,199**

[3] Other operating expenses

Other operating expenses consist of:

€ million	SFY 2010	2009/10
Expenses from valuation of options on non-stock company shares	547	395
Expenses from stock price hedging derivatives	10	408
Expenses from stock options marked to market	0	1
Legal and consulting fees	17	109
Sundry operating expenses	16	43
	590	**956**

Expenses from stock price hedging derivatives were incurred primarily as a result of cash-settled options, which in the past served to hedge the increase in the investment in Volkswagen AG. This strategy is not to be pursued further and such stock options were no longer held as of the reporting date.

Expenses from valuation of options on non-stock company shares contain the change in the fair value of the call option of Volkswagen AG relating to the remaining shares in Porsche Zwischenholding GmbH.

[4] Profit/loss from investments accounted for at equity

The profit or loss from investments accounted for at equity breaks down as follows:

€ million	SFY 2010	2009/10
Income from initial equity accounting	0	7,841
Profit/loss from ongoing equity accounting (before purchase price allocation)	1,281	997
Effects from purchase price allocation	– 206	– 606
Profit/loss from ongoing equity accounting	1,075	391
Dilutive effect from increase in capital	0	– 1,440
	1,075	**6,792**

The profit or loss from investments accounted for at equity consists of the profit or loss contribution from the investments in Porsche Zwischenholding GmbH and Volkswagen AG of €106 million and €969 million (prior year: €30 million and €6,762 million respectively).

The profit or loss from investments accounted for at equity contains the profit or loss from the investments held by Porsche SE in Volkswagen AG and Porsche Zwischenholding GmbH from the respective dates of deconsolidation. The Volkswagen group used to be included in the consolidated financial statements of Porsche SE as of a reporting date that differs by one month from that of the Porsche SE group (for details, see the section on “Investments in associates”). Due to the change of Porsche SE’s fiscal year and inclusion of the Volkswagen group as of the same reporting date, the profit or loss from investments accounted for at equity for SFY 2010 includes the share in profit of the Volkswagen group for a period of six months (1 July 2010 to 31 December 2010).

The purchase price allocation for the Porsche Zwischenholding GmbH group and the Volkswagen group that was required for the purpose of accounting for the entities at equity was completed in early December 2010. No restatements had to be made to the figures contained in the consolidated financial statements for the fiscal year 2009/10.

The income from initial equity accounting in the comparative period results from the difference between the pro rata revalued equity of the Volkswagen group taking into account the purchase price allocation that has been performed again and the lower fair value of the shares held on the date of initial recognition at equity. It is mainly attributable to the fact that the fundamental data for Volkswagen AG used in the purchase price allocation are not fully reflected in the stock prices of Volkswagen AG. The expense from the dilutive effect arising from the capital increase in the comparative period is due to the capital increase performed at Volkswagen AG in March 2010, in which Porsche SE did not participate. The share in capital held by Porsche SE in Volkswagen AG fell from 37.4% to 32.2% as a result.

[5] Finance costs

€ million	SFY 2010	2009/10
Loan interest	184	459
Interest from using the effective interest method	22	253
Interest on deferred payments	– 30	76
Other interest and similar expenses	9	12
	185	**800**

The interest from using the effective interest method relates to the total interest expenses from financing activities determined using the effective interest method. The interest on deferred payments includes the effect from the reversal of provisions that had been recognized in connection with the previously disputed tax treatment of stock option transactions. The finance costs contain interest expenses of €215 million (prior year: €758 million) from financial instruments that are not measured at fair value through profit or loss.

In the comparative period, other interest and similar expenses also contain expenses for other fees of €3 million not included in the calculation using the effective interest method.

[6] Finance revenue

€ million	SFY 2010	2009/10
Interest income on loans against joint ventures	75	116
Other interest and similar income	6	11
	81	**127**

Finance revenue contains interest income of €80 million (prior year: €123 million) from financial instruments that are not measured at fair value through profit or loss.

[7] Income tax

The income tax expense (+) and income (–) disclosed breaks down into:

€ million	SFY 2010	2009/10
Current tax income/expense, Germany	– 648	0
Current tax income/expense, other countries	1	3
Current tax income/expense	– 647	3
thereof income/expenses relating to other periods	– 648	0
Deferred tax income/expense, Germany	0	111
Deferred tax income/expense, other countries	0	0
Deferred taxes	0	111
Income tax	**–647**	**114**

The overall income tax rate for the German entities is 30% (prior year: 30%). The tax rate applied for the foreign subsidiary is 12.5% (prior year: 12.5%). There were no changes to the tax rates in either reporting period.

Previously unused tax losses for which no deferred tax assets were recorded amounted to €2,110 million (prior year: €2,926 million) and are unforfeitable. If the merger set out in the basic agreement occurs, the then unused tax losses will be forfeited. The decrease compared to 31 July 2010 is essentially due to the decision made by the tax authorities regarding the tax treatment of stock option transactions.

Deductible temporary differences on which no deferred taxes were recognized amounted to €30 million in the reporting period (prior year: €57 million).

The following reconciliation shows the differences between the expected income tax expense from continuing operations calculated at the theoretical group tax rate of 30% (prior year: 30%) and the reported income tax expense:

€ million	SFY 2010	2009/10
Profit before tax (continuing operations)	639	5,855
Group tax rate	30 %	30 %
Expected income tax expense	**192**	**1,757**
Tax rate related differences	– 2	– 5
Difference in tax base	– 206	– 1,822
Recognition and measurement of deferred taxes	28	173
Taxes relating to other periods	– 659	11
Reported income tax expense	**–647**	**114**

The reconciliation item “Recognition and measurement of deferred taxes” mainly contains deferred taxes not recognized on unused tax losses and deductible temporary differences. In the reporting period the item “Difference in tax base” mainly pertains to the tax exemption of profit/loss from investments accounted for at equity. The effects relating to other periods are essentially due to the decision made by the tax authorities regarding the tax treatment of stock option transactions.

Since no deferred tax assets or liabilities were recognized in SFY 2010, no breakdown of deferred taxes by balance sheet item is presented.

[8] Profit/loss attributable to non-controlling interests

The profit/loss attributable to non-controlling interests, which is allocable to the investors in hybrid capital, amounts to €11 million (prior year: €39 million).

The profit/loss attributable to other non-controlling interests of €-114 million in the comparative period is mainly allocable to non-controlling interests in Volkswagen AG, AUDI AG, Ingolstadt, Germany, and Scania AB, Södertälje, Sweden.

[9] Earnings per share

		SFY 2010	2009/10
Continuing operations			
Profit/loss after tax (continuing operations)	€ million	1,286	5,741
Profit/loss attributable to non-controlling interests – hybrid capital investors	€ million	11	23
Profit/loss attributable to non-controlling interests – other investors	€ million		0
Profit/loss attributable to shareholders of Porsche SE	€ million	1,275	5,718
Profit/loss attributable to ordinary shares (basic)	€ million	637.2	2,858.7
Profit/loss attributable to preference shares (basic)	€ million	637.8	2,859.3
Profit/loss attributable to ordinary shares (diluted)	€ million	637.2	2,858.7
Profit/loss attributable to preference shares (diluted)	€ million	637.8	2,859.3
Average number of ordinary shares outstanding	Number	87,500,000	87,500,000
Average number of preference shares outstanding	Number	87,500,000	87,500,000
Earnings per ordinary share from continuing operations (basic)	€	7.28	32.67
Earnings per preference share from continuing operations (basic)	€	7.29	32.68
Earnings per ordinary share from continuing operations (diluted)	€	7.28	32.67
Earnings per preference share from continuing operations (diluted)	€	7.29	32.68
Discontinued operations			
Profit/loss after tax (discontinued operations)	€ million	0	– 6,195
Profit/loss attributable to non-controlling interests – hybrid capital investors	€ million	0	16
Profit/loss attributable to non-controlling interests – other investors	€ million	0	– 114
Profit/loss attributable to shareholders of Porsche SE	€ million	0	– 6,097
Profit/loss attributable to ordinary shares (basic and diluted)	€ million	0.0	– 3,048.5
Profit/loss attributable to preference shares (basic and diluted)	€ million	0.0	– 3,048.5
Earnings per ordinary share from discontinued operations (basic and diluted)	€	0.00	– 34.84
Earnings per preference share from discontinued operations (basic and diluted)	€	0.00	– 34.84

Earnings per share are calculated by dividing the profit or loss attributable to the shareholders of Porsche SE by the total number of shares outstanding in the fiscal year. There were no dilutive effects in the fiscal year.

[10] Notes to the consolidated statement of cash flows

The statement of cash flows shows how the cash funds of Porsche SE group have changed during the reporting year as a result of cash inflows and outflows. For this purpose the cash flows in the statement of cash flows are categorized into operating activities, investing activities (including investments in securities, loans and fixed-term deposits), and financing activities.

Cash inflows and outflows from investing and financing activities are presented using the direct method. Cash flows from investing activities contain additions to and disposals of property, plant and equipment and financial assets, intangible assets and investment property as well as additions and disposals of cash funds due to changes in the consolidated group. The cash flows from investing activities also contain cash received from and paid for the acquisition and disposal of cash-settled stock options used to secure stock prices in the comparative period and for other purposes. Changes in investments in securities, loans and time deposits are also included therein.

The statement of cash flows for the comparative period was significantly affected by the inclusion of the Volkswagen group and the Porsche Zwischenholding GmbH group until the dates of deconsolidation. The cash inflow from operating activities was influenced by the operating activities of the discontinued operations in particular. The cash and cash equivalents disposed of in the course of deconsolidation are presented as investing activities. An amount of €343 million thereof was attributable to the Porsche Zwischenholding GmbH group and €22,877 million to the Volkswagen group.

The cash flows from financing activities contain cash paid for dividends, for the repayment of loans, bonds, commercial papers and notes, to non-controlling interests and hybrid capital investors as well as cash received from loans, bonds, commercial papers and notes as well as the change in other financial liabilities.

In the comparative period, the item “cash received from other financial liabilities” mainly contains the cash contribution of €3.9 billion passed on to Porsche SE as a loan from Porsche Zwischenholding GmbH which had been contributed to Porsche Zwischenholding GmbH by Volkswagen AG in the course of the capital increase.

The cash flow from operating activities, on the other hand, is derived indirectly from profit/loss after tax. This involves eliminating all non-cash expenses – besides depreciation or amortization, this is mainly changes in provisions as well as other non-cash income and expenses – and adjusting them for changes in operating assets and liabilities.

To improve transparency, gains and losses on the disposal of stock options as well as non-cash expenses and income from marking stock options to market are presented in separate line items in the cash flow from operating activities. Other non-cash expenses and income mainly relate to expenses and income from rolling forward the investments accounted for at equity as well as from the valuation of the put and call options for the remaining shares in Porsche Zwischenholding GmbH held by Porsche SE. In the comparative period, non-cash expenses and income mainly related to the profit or loss on deconsolidation (including the reclassification of expenses and income recognized directly in equity for the Porsche Zwischenholding GmbH group and the Volkswagen group), income from the initial equity accounting of the Volkswagen group and the dilutive effect arising from the capital increase performed at Volkswagen AG.

The cash flow from operating activities includes:

€ million	SFY 2010	2009/10	2009/10 thereof continuing operations
Interest paid	– 205	– 1,431	– 606
Interest received	77	1,157	123
Dividends received from non-consolidated subsidiaries	0	1	0

The changes in the balance sheet items from which the statement of cash flows is derived are adjusted for non-cash factors arising from currency translation. Changes in the items in the balance sheet concerned can therefore not be reconciled directly with the figures in the published consolidated balance sheet.

The table below reconciles the cash and cash equivalents as reported in the balance sheet to cash funds reported in the statement of cash flows:

€ million	31/12/2010	31/7/2010
Cash and cash equivalents	622	898
– time deposits	– 216	– 316
– restricted cash and cash equivalents	0	– 45
Cash funds according to statement of cash flows	**406**	**537**

Cash funds according to the statement of cash flows basically comprise cash and cash equivalents with a remaining term to maturity of up to three months. Cash funds that are not available for use by the group were deposited as collateral in connection with the cash-settled stock option transactions used to secure stock prices in the comparative period and for other purposes and are therefore not included in cash funds reported in the statement of cash flows as of the end of the prior year. The changes in restricted cash and cash equivalents are presented in the statement of cash flows, as are the cash flows from these stock options, in the cash flow from investing activities.

Since the remaining cash-settled options relating to Volkswagen AG shares were disposed of in SFY 2010, there are no restricted cash and cash equivalents as of 31 December 2010.

The time deposits represent current investments with an original term of more than three months.

Notes to the consolidated balance sheet

The notes [11] through [14] show reconciliations for intangible assets, property, plant and equipment, other financial assets, leased assets and investment property. Due to the deconsolidation of discontinued operations in the comparative period, the carrying amounts and associated changes in assets other than investments accounted for at equity fell to amounts below €1 million as of the date of deconsolidation. This was the reason why it was decided not to present a reconciliation for these assets (with the exception of the reconciliation of investments accounted for at equity) in SFY 2010.

[11] Development of intangible assets

€ million	Goodwill	Capitalized development costs for products currently in use	Capitalized costs for products under development	Brands	Other intangible assets	Total
Cost						
As of 1 August 2009	10,449	7,356	3,220	10,861	2,635	34,521
Additions due to initial consolidation	1	0	0	0	0	1
Additions	0	161	763	0	127	1,051
Exchange differences	0	– 18	– 38	28	14	– 14
Reclassifications	0	251	– 251	0	5	5
Disposals due to deconsolidation	10,450	7,743	3,691	10,889	2,775	35,548
Other disposals	0	7	3	0	6	16
As of 31 July 2010	**0**	**0**	**0**	**0**	**0**	**0**
Amortization						
As of 1 August 2009	0	1,176	46	0	633	1,855
Additions	0	725	0	0	246	971
Exchange differences	0	– 33	– 3	0	4	– 32
Impairments	0	47	12	0	69	128
Reclassifications	0	6	– 6	0	0	0
Reversal of impairments	0	0	2	0	0	2
Disposals due to deconsolidation	0	1,920	44	0	949	2,913
Other disposals	0	1	3	0	3	7
As of 31 July 2010	**0**	**0**	**0**	**0**	**0**	**0**
thereof continuing operations	0	0	0	0	0	0
Net carrying amount 31 July 2010	0	0	0	0	0	0
Net carrying amount 31 December 2010	**0**	**0**	**0**	**0**	**0**	**0**

[12] Development of property, plant and equipment

€ million	Land, land rights and buildings incl. buildings on third-party land	Technical equipment and machinery	Other equipment, furniture and fixtures	Advance payments and assets under construction	Total
Cost					
As of 1 August 2009	13,421	9,637	11,078	3,599	37,735
Additions due to initial consolidation	91	1	1	5	98
Additions	244	631	762	879	2,516
Exchange differences	19	2	– 45	– 29	– 53
Reclassifications	329	409	272	– 1,013	– 3
Disposals due to deconsolidation	14,095	10,659	11,935	3,435	40,124
Other disposals	9	21	133	6	169
As of 31 December 2009	**0**	**0**	**0**	**0**	**0**
Depreciation					
As of 1 August 2009	670	1,604	3,325	0	5,599
Additions	292	967	1,203	14	2,476
Exchange differences	6	– 12	– 28	– 1	– 35
Impairments	0	1	50	0	51
Reclassifications	0	0	0	0	0
Reversal of impairments	0	0	6	2	8
Disposals due to deconsolidation	967	2,548	4,467	8	7,990
Other disposals	1	12	77	3	93
As of 31 July 2010	**0**	**0**	**0**	**0**	**0**
thereof continuing operations	0	0	0	0	0
Net carrying amount 31 July 2010	0	0	0	0	0
Net carrying amount 31 December 2010	**0**	**0**	**0**	**0**	**0**

In the comparative period, government grants of €108 million were deducted from the cost of property, plant and equipment of discontinued operations. The grants mainly subsidized the purchase of land and capital goods.

[13] Development of investments accounted for at equity and other financial assets

The investments accounted for at equity comprise a carrying amount of the investment in Volkswagen AG of €20,709 million (prior year: €19,086 million) and a carrying amount for the investment in Porsche Zwischenholding GmbH of €3,549 million (prior year: €3,621 million).

All of the ordinary and preference shares in Volkswagen AG held by Porsche SE were pledged as collateral on liabilities and other obligations of Porsche SE until they are settled or dispensed with in some other way. Until the liabilities with first-rank security have been partly repaid, the ordinary and preference shares cannot be sold without the prior written approval of a trustee of the collateral. However, Porsche SE can still exercise its voting rights and is also entitled to dividends from the ordinary and preference shares subject to the creditors' right to issue instructions otherwise in restrictively defined, exceptional cases. In addition, Porsche SE may sell subscription rights associated with the shares.

The investment in Porsche Zwischenholding GmbH has been assigned as collateral to a trustee. The trustee holds the investment in trust for Porsche SE and as collateral for the financing banks of Porsche SE. Porsche SE remains the economic owner, exercises voting rights and receives the profit distributions. The investment in Porsche Zwischenholding GmbH was also pledged as collateral for financial liabilities. The right of lien cannot be exercised before Volkswagen AG has had the opportunity to acquire the investment for €3.9 billion arranged as consideration in connection with the put option.

[14] Development of leased assets and investment property

€ million	Leased assets	Investment property
Cost		
As of 1 August 2009	12,598	403
Additions due to initial consolidation	0	0
Additions	2,354	69
Changes from accounting at equity	0	0
Exchange differences	– 510	0
Reclassifications	– 2	0
Disposals due to deconsolidation	13,194	472
Other disposals	1,246	0
As of 31 July 2010	**0**	**0**
Depreciation		
As of 1 August 2009	1,558	12
Additions	962	10
Exchange differences	– 120	0
Impairments	43	0
Reclassifications	0	0
Reversal of impairments	0	0
Disposals due to deconsolidation	2,364	22
Other disposals	79	0
As of 31 July 2010	**0**	**0**
thereof continuing operations	0	0
Net carrying amount 31 July 2010	0	0
Net carrying amount 31 December 2010	**0**	**0**

Until deconsolidation of the discontinued operations in the prior year leased assets contained assets of the discontinued operations leased under the terms of operating leases.

Investment property included apartments rented out and leased dealerships of discontinued operations until their deconsolidation in the prior year.

The impairment losses recognized on fixed assets in the comparative period totaling €223 million related to assets of the Volkswagen group. They were incurred on account of changes in the market arising from volume and exchange rate fluctuation and, with respect to the leased assets, also from developments of the residual values. The impairment losses recognized on other intangible assets had become necessary due to increased cost of risk. The recoverable amount used to determine the impairment was based on value in use. In the prior year, a discount rate of 9.8% was used and the calculations were based on five-year plans.

[15] Non-current and current other receivables and assets

€ million	31/12/2010	31/7/2010
Derivative financial instruments	459	311
Other receivables and assets		
from joint ventures	4,027	4,019
Non-income tax assets	1	0
Sundry receivables and assets	12	2
Prepaid expenses	1	1
	4,500	**4,333**
thereof non-current	4,475	4,319
thereof current	25	14

Receivables from joint ventures are due from companies in the Porsche Zwischenholding GmbH group. These receivables are counterbalanced by financial liabilities to these companies of €3,880 million (prior year: €3,880 million).

Porsche Zwischenholding GmbH has a lien on a loan due from itself amounting to €2,703 million (prior year: €2,703 million). This lien serves as collateral on a liability of the same amount due from Porsche SE to Porsche Zwischenholding GmbH and is presented within financial liabilities to joint ventures. Porsche Zwischenholding GmbH may exercise its right of lien if Porsche SE is in arrears with payments as they fall due for the secured liability due to Porsche Zwischenholding GmbH.

Offsetting is not permitted during the term of the loan unless any mandatory or optional grounds for insolvency have arisen at Porsche SE. Permission to offset the loan can be given when it falls due for repayment. Volkswagen AG will assume the loan obligations of this company due to Porsche SE in the event of insolvency of Porsche Zwischenholding GmbH provided it would have been possible to offset the obligations against claims against Porsche SE had the company not become insolvent.

Volkswagen AG has a corresponding obligation to settle a loan receivable due from Porsche AG of €1,313 million (prior year: €1,313 million) in the case of insolvency of Porsche AG. The loan agreement contains a premature repayment clause in the event of Porsche AG's insolvency. Offsetting with the liability to Porsche AG amounting to €1,177 million is not permitted unless any mandatory or optional grounds for insolvency have arisen at Porsche AG.

The loan receivables from the Porsche Zwischenholding GmbH group thus exceed the corresponding financial liabilities by a total of €136 million (prior year: €136 million). There is neither a guarantee by Volkswagen AG for the partial amount nor can it be offset.

Compensation of €2 million (prior year: €1 million) for the assumption of liability from financial guarantees has been recognized under sundry receivables and assets.

Collateral is generally accounted for when the contract is concluded and derecognized when the contract expires.

Valuation allowances are recognized to take account of default risks. The maximum risk of default corresponds to the net carrying amounts of the sundry receivables and assets. The current other receivables and assets are mainly non-interest-bearing. The non-current other receivables and assets contain derivative financial instruments totaling €459 million (prior year: €303 million).

Other receivables and assets excluding derivative financial instruments have a carrying amount of €4,041 million (prior year: €4,022 million). This value comprises other financial receivables with a carrying amount of €4,027 million (prior year: €4,020 million), financial guarantees with a carrying amount of €2 million (prior year: €1 million) and non-financial other receivables and assets with a carrying amount of €12 million (prior year: €1 million). The non-financial other receivables and assets mainly contain accrued expenses in connection with the capital increase planned for 2011.

The positive fair values of derivative financial instruments relate to the following items:

€ million	31/12/2010	31/7/2010
Fair values of:		
Interest derivatives	0	2
Stock price derivatives	0	8
Options on non-stock company shares	459	301
Assets from derivatives without hedging relationship	459	311
	459	**311**

The options on non-stock company shares contain the positive fair value of the put option relating to the remaining shares held by Porsche SE in Porsche Zwischenholding GmbH. The right to exercise the put option has been assigned as collateral for financial liabilities to banks. The claims from Volkswagen AG arising if the put option is exercised were pledged as collateral for financial liabilities to banks.

Further details on derivative financial instruments are given in note [24].

[16] Income tax assets and liabilities

The income tax assets are mainly reimbursement claims for tax on investment income which relate to profit distributions or dividends received.

The income tax liabilities mainly comprise amounts reclassified from provisions for upcoming trade tax payments.

[17] Cash and cash equivalents

Bank balances are held at various banks in different currencies. As of the end of the prior year, cash and cash equivalents of €45 million had been pledged in connection with the cash-settled options relating to Volkswagen AG shares; they were disposed of in full in the short fiscal year. The maximum default risk is equivalent to the carrying amount of cash and cash equivalents.

[18] Equity

The development of equity is presented in the Porsche SE group's consolidated statement of changes in equity.

Subscribed capital

Porsche SE's subscribed capital totals €175 million (prior year: €175 million) and, as in the prior year, is divided into 87,500,000 fully paid-in ordinary shares and 87,500,000 fully paid-in non-voting preference shares. Each share represents a notional share of €1 of the share capital. The preference shares carry an additional dividend of 0.6 cents per share in the event of there being net profit available for distribution.

On 30 November 2010, the annual general meeting adopted resolutions on a capital increase in return for cash contributions, on the authorization to issue convertible bonds, participation rights, participating bonds or a combination of these instruments, and on the creation of contingent capital and new authorized capital. The maximum gross issue proceeds from these instruments amount to €5 billion. For details on related parties' commitments with respect to the capital increase, reference is made to the note [29].

Capital increase in return for cash contributions

The company's share capital will be increased by up to €2.5 billion to up to €2.675 billion in return for cash contributions by issuing up to 1.25 billion new ordinary shares and up to 1.25 billion new preference shares, each share representing a notional share of €1 of the share capital. The executive board is authorized, subject to the approval of the supervisory board, to set the subscription price as high as possible, but at no less than €2.00 per share, taking into account the market situation prevailing prior to performance of the capital increase. The number of new ordinary and preference shares to be issued is to be determined by dividing the targeted gross issue proceeds of €2.5 billion for each class of shares by the subscription price, which is yet to be determined. The resolution on the capital increase excludes ordinary shareholders' subscription rights to preference shares and preference shareholders' subscription rights to ordinary shares ("cross-exclusion of subscription rights"). Based on new requirements under German stock corporation law, the number of new preference shares issued may not exceed the number of new ordinary shares issued. The resolution on the capital increase was entered into the commercial register of the Stuttgart district court on 13 January 2011. The resolution is void if the implementation of the capital increase has not been entered into the commercial register of the Stuttgart district court by the end of 30 May 2011 or, under the conditions described in the resolution, by 30 August 2011.

Authorization to issue convertible bonds, participation rights, participating bonds or a combination of these instruments

The executive board is authorized, subject to the approval of the supervisory board, to issue, on one or more occasions, convertible bonds, participation rights, participating bonds or a combination of these instruments with a total nominal amount of up to €5 billion until 29 November 2015. The granting of conversion rights or imposing of conversion obligations into ordinary shares and preference shares is limited to a total of 87.5 million ordinary shares and 87.5 million preference shares. The executive board is authorized to issue convertible bonds with conversion rights or obligations only if convertible bonds with conversion rights or obligations to ordinary shares and convertible bonds with conversion rights or obligations to non-voting preference shares are offered for subscription at the same time in proportion to their respective share of the total share capital and subscription rights are excluded for holders of shares of one class to convertible bonds with conversion rights or obligations to shares of the other class of shares ("cross-exclusion of subscription rights"). The subscription ratio set for convertible bonds with conversion rights or obligations and the conversion price must be the same for holders of both classes of shares. The conversion price per ordinary or preference share may not be lower than €2.00. In addition, the conversion price may not fall short of the subscription or conversion price set for partial performance of the capital increase described above or partial utilization of the authorized capital or in the course of a previous issue of convertible bonds with conversion rights or obligations.

Contingent capital

The share capital has been contingently increased by up to €87,500,000.00 through the issue of up to 87,500,000 new non-voting preference bearer shares (no par value shares) that are subject to the same rights pursuant to the articles of association as the non-voting preference shares described in the company's articles of association. The purpose of the contingent capital increase is to grant any non-voting preference bearer shares to holders of convertible bonds, participating rights, participating bonds or a combination of these instruments exercising conversion rights or satisfying conversion obligations. New shares are issued in accordance with the authorizing resolution described above at the respective conversion price that has yet to be set. The contingent capital was entered into the commercial register of the Stuttgart district court on 13 January 2011.

Authorized capital

The executive board is authorized until 29 November 2015, and subject to the approval of the supervisory board, to increase the company's share capital, on one or more occasions, by a maximum amount of €87,500,000.00 by issuing new ordinary shares or non-voting preference shares in return for contributions in cash or in kind. The authorization may only be exercised in such a way that the proportion of the share capital contributed by non-voting preference shares does not at any time exceed the proportion of the share capital contributed by ordinary shares. The authorization includes the right to issue non-voting preference shares that are placed on a par with any non-voting preference shares issued in the past with regard to the distribution of the profits or assets of the company. The authorized capital was entered into the commercial register of the Stuttgart district court on 13 January 2011.

The shareholders must generally be granted subscription rights. However, in the event that ordinary shares and non-voting preference shares are issued at the same time in proportion to their respective shares in the total share capital, the executive board is authorized, subject to the approval of the supervisory board, to preclude the holders of shares of one class from subscribing to shares of the other class ("cross-exclusion of subscription rights"). Moreover, the executive board is authorized, subject to the approval of the supervisory board, to preclude the subscription rights of shareholders if new ordinary bearer shares are issued in return for a contribution in kind to effect the acquisition of other entities, operations of other entities, equity investments in other entities or other assets. The subscription price, which has yet to be determined, may not be lower than €2.00. In addition, the subscription price may not fall short of the subscription or conversion price set for partial performance of the capital increase described above in return for cash contribution or in the course of an issue of convertible bonds with conversion rights or obligations.

Capital reserves

The capital reserves contain contributions from premiums only and are unchanged since the prior year.

Retained earnings

The retained earnings include the reserve for accumulated profits, reserves for available-for-sale securities marked to market, reserves for cash flow hedges, the currency translation reserve, reserves for investments accounted for at equity and the revaluation reserve.

The reserve for accumulated profits includes the profits of Porsche SE and its consolidated subsidiaries earned in prior years and the reporting year and not yet distributed. These also include the reclassified revaluation reserves from deconsolidated subsidiaries. This item also recognizes tax effects from accounting for hybrid capital that is presented within non-controlling interests.

The reserve for available-for-sale securities marked to market contains any changes in the fair value of these securities.

The portion of the gain or loss on hedging instruments that is determined to be effective is recognized in the reserve for cash flow hedges.

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Expenses and income from investments accounted for at equity recognized directly in equity are presented in the separate reserve for investments accounted for at equity.

The statutory financial statements of Porsche SE as of 31 December 2010 report a net profit available for distribution of €440 million. A proposal for the appropriation of profit was not available for submission to the annual general meeting by the time the financial statements were authorized by the executive board.

The table below shows the changes in expenses (–) and income (+) recognized directly in equity which are attributable both to Porsche SE's owners as well as to non-controlling interests:

€ million	Before tax	Taxes	After tax
SFY 2010			
Gains/losses from investments accounted for at equity (after tax)			
Changes of accumulated other comprehensive income recognized in equity	758	0	758
	758	**0**	**758**
2009/10			
Income/expenses from currency translation			
Differences from translation of financial statements recognized in equity	– 234	0	– 234
Reclassification of realized gains/losses	– 73	0	– 73
	– 307	0	– 307
Income/expenses from securities marked to market			
Changes of fair value recognized in equity	196	– 58	138
Reclassification of realized gains/losses	– 219	64	– 155
	– 23	6	– 17
Gains/losses from cash flow hedges			
Changes of fair value recognized in equity	1,310	– 551	759
Reclassification of realized gains/losses	– 948	469	– 479
	362	– 82	280
Gains/losses from investments accounted for at equity (after tax)			
Changes of accumulated other comprehensive income recognized in equity	319		319
Reclassification of realized gains/losses	– 13		– 13
	306		306
	338	**–76**	**262**

The expenses and income recognized directly in equity which arose from investments accounted for at equity include the following: income before tax from currency translation of €1,176 million (prior year: €1,342 million), income before tax from marking securities to market of €35 million (prior year: €18 million), expenses before tax from cash flow hedges of €455 million (prior year: €1,593 million), income after tax recognized directly in equity arising from investments accounted for at equity of €133 million (prior year: €76 million) and tax income of €170 million (prior year: €458 million).

Of the changes in expenses and income recognized directly in equity, the following amounts are attributable to non-controlling interests:

€ million	SFY 2010	2009/10
Income/expenses from currency translation	0	– 164
Income/expenses from securities marked to market	0	1
Gains/losses from cash flow hedges	0	718
Taxes	0	– 196
Gains/losses from investments accounted for at equity (after tax)	0	9
	0	**368**

Non-controlling interests – hybrid capital investors

The hybrid capital disclosed as of the reporting date has a nominal volume of €360 million (prior year: €360 million). It has an indefinite term to maturity. According to IAS 32, it represents group equity.

Non-controlling interests – other

The other non-controlling interests presented in the comparative period mainly relate to the non-controlling interests of Volkswagen AG, Scania AB and AUDI AG and were derecognized on account of the deconsolidations in the comparative period.

Stock option plan

The stock option plan at the level of the Volkswagen group, which was deconsolidated in the comparative period, entitled the optionees – the board of management of Volkswagen AG, group senior executives and management, as well as employees of Volkswagen AG covered by collective pay agreements – to purchase options for shares of Volkswagen AG by subscribing for convertible bonds at a price of €2.56 each. Each bond was convertible into ten ordinary shares.

Changes in the comparative period in the rights to stock options granted are shown in the following table:

	Nominal value of convertible bonds	Number of conversion rights	Number of potential ordinary shares
	€	Number	Number
As of 1 July 2009	39,505.92	15,432	154,320
Disposed of in fiscal year due to deconsolidation	39,505.92	15,432	154,320
As of 31 July 2010	**0**	**0**	**0**

The tables below show the changes in the comparative period in the convertible bonds in issue in tranches six to eight and their exercise prices:

	Average exercise price per convertible bond[1]	Convertible bonds
	€	Number
As of 1 July 2009	554.75	15,432
Disposed of in fiscal year due to deconsolidation	554.75	15,432
As of 31 July 2010	**0**	**0**

1 Conversion price per ten shares

Capital management

Until loss of control over the Porsche Zwischenholding GmbH group and the Volkswagen group at the beginning of December 2009 and the associated deconsolidations, capital management in the Porsche SE group was a two-step process. In a first step, both the Porsche Zwischenholding GmbH group and the Volkswagen group managed their capital in accordance with their individual requirements. In a second step, the two groups, the consolidation effects and the effects from the purchase price allocation were monitored at overall group level.

Since the loss of control over the discontinued operations in the comparative period, capital management in the Porsche SE group focuses on Porsche SE as the holding company. The target is the continuous increase in the value of the company, securing its liquidity and a return on investment that is commensurate with the risk involved. These goals aim to protect the interests of the shareholders and employees and other stakeholders in the long term. By means of a systematic investment and financial management system, Porsche SE ensures that cost of capital as well as capital structure are optimized.

The Porsche SE group's total capital, defined for capital management purposes as the sum of equity and financial liabilities, is as follows as of the reporting date:

€ million	31/12/2010	31/7/2010
Equity	17,214	15,197
Share of total capital	61%	58%
Non-current financial liabilities	3,880	5,864
Current financial liabilities	6,964	4,961
Total financial liabilities	10,844	10,825
Share of total capital	39%	42%
Total capital	**28,058**	**26,022**

[19] Provisions for pensions and similar obligations

The Porsche SE group provides both defined contribution and defined benefit plans.

In the case of defined contribution plans, the company makes contributions to state or private pension schemes based on legal or contractual requirements, or on a voluntary basis. Once the contributions have been paid, there are no further obligations for the company. Contributions are recognized as expenses of the period concerned and were immaterial.

The Porsche SE group's pension plans are unfunded defined benefit plans. The obligations for defined benefit plans are measured using the projected unit credit method in accordance with IAS 19. The defined benefit obligations are recognized at the present value of vested benefits as of the measurement date taking probable future increases in pensions and salaries into account. The defined benefit obligation for active employees increases annually by the interest cost plus the present value of the new benefit entitlements earned in the current period. Actuarial gains or losses result from changes in the composition of the plan and deviations of actual parameters (for example, increases in income and pensions or changes in interest rates) from the assumptions made in the valuation.

Provisions for pensions and similar obligations are recognized for benefits in the form of retirement, invalidity and dependents' benefits payable under pension plans. The benefits generally depend on the length of service, remuneration and working hours arrangements of the employees. The direct and indirect obligations include both current pension obligations and future pension and retirement benefit obligations. In addition, personal retirement capital is accumulated in Germany by way of employee contributions to Porsche VarioRente.

Actuarial assumptions

The defined benefit obligations are calculated using actuarial methods. These include assumptions concerning future wage and salary developments and pension increases. The measurement is based on the following assumptions:

	Germany	
%	SFY 2010	2009/10
Discount rate	4.80	4.80
Increase in wages and salaries	3.00	3.00
Career progression	0.50	0.50
Increase in pensions	1.50	1.00

In SFY 2010 amounts recognized in profit or loss were immaterial (prior year: service cost of €1 million).

The table below presents the changes in the present value of the pension obligations and the plan assets at market values. In the comparative period all plan assets were attributable to the deconsolidated discontinued operations. Continuing operations do not have any plan assets for defined benefit obligations.

Changes in the present value of pension obligations

€ million	SFY 2010	2009/10
As of 1 August	8	17,222
Exchange differences	0	137
Current service cost	0	184
Interest expenses	0	383
Past service cost	0	–46
Actuarial gains (–) and losses (+)	–1	1
Benefits paid	0	–319
Employee contributions	0	5
Changes to consolidated group	0	–17,559
Other changes	1	0
As of 31 December and 31 July	**8**	**8**

Development of plan assets

€ million	SFY 2010	2009/10
As of 1 August	0	3,510
Exchange differences	0	123
Expected return on plan assets	0	85
Actuarial gains (+) and losses (–)	0	– 12
Benefits paid	0	– 49
Employer contributions	0	115
Employee contributions	0	6
Changes to consolidated group	0	– 3,781
Other changes	0	3
As of 31 December and 31 July	**0**	**0**

The following amounts were recognized in the balance sheet for defined benefit obligations:

€ million	SFY 2010	2009/10
Present value of unfunded benefit obligations	8	8
Net obligations	8	8
Unrecognized net actuarial gains (+) and losses (–)	– 1	– 1
Unrecognized past service cost	0	0
Amount not recognized according to IAS 19.58b	0	0
Carrying amount 31 December and 31 July	7	7
thereof pension provisions	7	7
thereof other asset	0	0

The table below presents experience adjustments, meaning differences between changes in assets and obligations expected on the basis of actuarial assumptions and actual changes in those assets and obligations.

€ million	SFY 2010	2009/10	2008/09	2007/08	2006/07
Defined benefit obligation	8	8	17,222	760	744
Plan assets	0	0	– 3,510	– 41	– 43
Deficit (+)/Surplus (–)	8	8	13,712	719	701
Experience adjustments on pension obligation	– 8.8%	1.7%	– 0.7%	13.1%	6.0%
Experience adjustments on plan assets	–	–	– 0.5%	– 1.7%	1.3%

[20] Non-current and current tax provisions and other provisions

€ million	31/12/2010	thereof due within one year	31/7/2010	thereof due within one year
Income tax provisions	148	148	1,398	1,398
Other provisions	92	75	145	62
Provisions for employee expenses	10	10	11	10
Sundry other provisions	82	65	134	52

Provisions for employee expenses are recognized for bonuses, long-service awards, time credits, the phased retirement scheme, severance payments and similar obligations, among other things.

Sundry other provisions mainly comprise provisions for interest on suspended tax payments and litigation costs.

82% of the other provisions are expected to result in cash outflows in the following year and 18% in between one and five years.

Other provisions developed as follows:

€ million	As of 1/8/2010	Additions	Utilization	Reversal	As of 31/12/2010
Provisions for employee expenses	11	8	3	6	10
Sundry other provisions	134	28	28	52	82
	145	**36**	**31**	**58**	**92**

The effects of unwinding the discount on provisions were immaterial in SFY 2010.

[21] Trade payables

The trade payables disclosed, amounting to €33 million (prior year: €6 million), were mainly liabilities for legal and consulting services.

[22] Non-current and current financial liabilities

Financial liabilities break down as follows:

€ million	Total	Current	Non-current
31 December 2010			
Liabilities to banks	6,964	6,964	0
Financial liabilities to joint ventures	3,880	0	3,880
	10,844	**6,964**	**3,880**
31 July 2010			
Liabilities to banks	6,945	4,961	1,984
Financial liabilities to joint ventures	3,880	0	3,880
	10,825	**4,961**	**5,864**

Liabilities to banks are recognized at amortized cost.

Financial liabilities from joint ventures are due from companies in the Porsche Zwischenholding GmbH group. These are counterbalanced by other loan receivables of €4,016 million (prior year: €4,016 million) and other receivables of €11 million (prior year: €3 million) disclosed under other receivables and assets. Please refer to note [15] for details of offsetting permitted.

[23] Non-current and current other liabilities

As of the reporting date, other liabilities break down as follows:

€ million	31/12/2010	31/7/2010
Other tax liabilities	2	4
Other liabilities		
to joint ventures	1	3
Derivative financial instruments	942	417
Sundry liabilities	148	150
	1,093	**574**
thereof non-current	1,088	540
thereof current	5	34

The item derivative financial instruments includes interest hedges and Volkswagen AG's call option for the remaining shares in Porsche Zwischenholding GmbH held by Porsche SE. In the comparative period, this item additionally included the carrying amount of cash-settled options relating to Volkswagen AG shares.

The non-current other liabilities contain derivative financial instruments totaling €942 million (prior year: €395 million).

Other liabilities excluding derivative financial instruments have a carrying amount of €151 million (prior year: €157 million). This total breaks down into other financial liabilities with a carrying amount of €149 million (prior year: €153 million) and other non-financial liabilities with a carrying amount of €2 million (prior year: €4 million). Non-financial other liabilities relate to other tax liabilities.

The negative fair values of derivative financial instruments relate to the following items:

€ million	**31/12/2010**	**31/7/2010**
Stock price derivatives	0	22
Options on non-stock company shares	942	395
Liabilities from derivatives without hedging relationship	942	417
	942	**417**

The options on non-stock company shares contain the fair value of Volkswagen AG's call option relating to the remaining shares held by Porsche SE in Porsche Zwischenholding GmbH. The claims arising at the level of Porsche SE if the call option is exercised were pledged as collateral for financial liabilities to banks.

Further details on derivative financial instruments are given in note [24].

Other notes

[24] Financial risk management and financial instruments

1 Hedging guidelines and financial risk management principles

The principles and responsibilities for managing and controlling the risks that could arise from financial instruments are defined by the executive board and monitored by the supervisory board. The risk management processes are clearly defined in the Porsche SE group. The processes govern in particular the ongoing monitoring of the liquidity situation in the Porsche SE group, the monitoring of the enterprise value of Porsche Zwischenholding GmbH and Volkswagen AG, the development of interest levels on the capital markets and monitoring of the financial ratios. Prior to the disposal of all cash-settled options relating to Volkswagen AG shares, the risk controlling processes also included monitoring the status of these transactions. The processes are based on statutory requirements. The risks are identified, analyzed and monitored using suitable information systems.

The guidelines and the supporting systems are checked regularly and brought into line with current market and product development. The Porsche SE group manages and monitors these risks primarily via its business operations and financing activities and, where necessary, by using derivative financial instruments. The derivative financial instruments used were mainly entered into to manage interest rate risks. Without using such instruments, the group would be exposed to higher financial risks. In addition, the group entered into derivative financial instruments for the sale of the remaining shares in Porsche Zwischenholding GmbH held by Porsche SE.

For further details, reference is made to the “Opportunities and risks of future development” section in Porsche SE’s group management report.

2 Credit and default risk

The credit and default risk arising from financial assets involves the risk of default by counterparties, and therefore comprises at a maximum the amount of the positive fair values of claims against them. In addition, there is a credit and default risk at the amount of financial guarantees issued. The default risk of financial assets is taken into account through adequate valuation allowances considering collateral that has already been provided. Various measures are taken into account to reduce the default risk for non-derivative financial instruments, such as requesting declarations of support, hold harmless agreements or remuneration for the assumption of liability. The contracting partners for monetary investments, capital investments and derivative financial instruments are German and, to a lesser extent, international counterparties. Derivative financial instruments are entered into in accordance with standardized guidelines, and are continuously monitored.

There are no significant concentrations of risk that are not evident from the notes to the financial statements and management report.

Any non-significant classes of financial instruments are not presented separately.

The table below shows the credit and default risk of financial assets by gross carrying amount:

€ million	Neither past due nor impaired
31 December 2010	
Other financial receivables	4,029
Derivative financial instruments	459
Cash and cash equivalents	622
	5,110
31 July 2010	
Other financial receivables	4,021
Derivative financial instruments	311
Cash and cash equivalents	898
	5,230

There are no past due or impaired financial assets in the Porsche SE group.

€ million	SFY 2010	2009/10
Valuation allowances as of 1 August	0	864
Exchange differences	0	0
Additions	0	0
Utilization	0	0
Reversal	0	0
Changes to consolidated group	0	– 864
Valuation allowances as of 31 December and 31 July	**0**	**0**

There was no need to recognize impairment losses in the reporting period.

Credit rating of the gross carrying amounts of financial assets that are neither past due nor impaired break down as follows:

€ million	Risk class 1	Risk class 2	Total
31 December 2010			
Other financial receivables	4,029	0	4,029
Derivative financial instruments	459	0	459
Cash and cash equivalents	622	0	622
	5,110	**0**	**5,110**
31 July 2010			
Other financial receivables	4,021	0	4,021
Derivative financial instruments	311	0	311
Cash and cash equivalents	898	0	898
	5,230	**0**	**5,230**

The receivables rated as good are allocated to risk class 1. Receivables from customers whose credit rating is not good, but have not yet defaulted, are allocated to risk class 2. Allocation to the risk classes is based on the borrower's external rating or liquidity planning, which documents their solvency. In the latter case, compliance with all existing covenants from other loan agreements is checked as of the reporting date.

3 Liquidity risk

The solvency and liquidity of the Porsche SE group is continuously monitored by means of liquidity planning. Solvency and liquidity are additionally secured by a cash liquidity reserve and guaranteed credit lines. The total credit line available to Porsche SE amounts to €8,500 million as of the reporting date (prior year: €8,500 million), of which €7,000 million (prior year: €7,000 million) had been drawn as of the reporting date, which means that Porsche SE still has an unused line of €1,500 million (prior year: €1,500 million). Reference is made to explanations on the management of liquidity risks in the Porsche SE group and risks originating from financial covenants presented in the risk report as part of the group management report. Cash and cash equivalents comprise the liquid funds reported in the balance sheet (for their composition, reference is made to the note [17]).

The following overview shows the contractual undiscounted cash outflows from financial liabilities and financial guarantees:

€ million	Remaining contractual maturities within one year	in 1 to 5 years	in more than five years	Total
31 December 2010				
Financial liabilities	7,351	4,331	0	11,682
Trade payables	33	0	0	33
Other financial liabilities	2	149	0	151
Derivative financial instruments	0	0	0	0
Financial guarantees	3,298	0	0	3,298
	10,684	**4,480**	**0**	**15,164**
31 July 2010				
Financial liabilities	5,418	6,435	0	11,853
Trade payables	6	0	0	6
Other financial liabilities	7	149	0	156
Derivative financial instruments	22	0	0	22
Financial guarantees	3,248	0	0	3,248
	8,701	**6,584**	**0**	**15,285**

In the prior year, the item ‘derivative financial instruments’ included effects from interest hedges and stock option transactions.

The financial guarantees mostly relate to financial liabilities of the Porsche Zwischenholding GmbH group. Volkswagen AG has issued a hold harmless agreement for 49.9% of these financial guarantees; this is equivalent to a hold harmless agreement of €1,646 million (prior year: €1,621 million).

There are no significant concentrations of risk that are not evident from the notes to the financial statements and management report.

4 Market risk

4.1 Hedging policy and financial derivatives

In the reporting period, the Porsche SE group was exposed to interest rate and stock price risks as well as risks from put and call options for the remaining shares held by Porsche SE in Porsche Zwischenholding GmbH. The risks arise from financing activities, the cash-settled options relating to Volkswagen AG shares which were still held in the reporting year but had been disposed of in full by the reporting date, changes in the enterprise value of Porsche Zwischenholding GmbH and to a small extent from cash investments. It is company policy to exclude or limit these risks by entering into hedge transactions in some cases. All necessary hedging activities are coordinated by Porsche SE's finance department.

The nature and volume of hedging transactions is generally chosen with regard to the hedged item. Hedging transactions may only be concluded to hedge existing underlyings or forecast transactions. Only financial instruments approved by type and volume may be entered into.

There are no significant concentrations of risk that are not evident from the notes to the financial statements and management report.

The market price risk from interest hedging and from the put and call option relating to the shares in Porsche Zwischenholding GmbH remaining with Porsche SE was calculated using a sensitivity analysis. In the comparative period, the market price risk was also presented using a value-at-risk model for stock price risks.

The sensitivity analysis calculates the effect on equity and profit or loss by modifying risk variables within the respective market risk. In the value-at-risk calculation, a historical simulation was used to determine the potential change in market price. The value at risk shows the potential future loss of a certain portfolio over a predefined period of time (retention period) with certain probabilities which are not likely to be exceeded. The degree of risk does not, however, give any information about the distribution and anticipated loss, if it is actually exceeded.

4.2 Market price risks

4.2.1 Interest rate risk

The interest rate risk results from changes in market interest rates. This affects the current interest result for short-term deposits and medium- and long-term variable-rate liabilities, but can equally impact on the market value recognized for fixed-interest receivables and liabilities. Interest contracts are entered into to hedge the variable-rate liabilities.

Interest rate risks within the meaning of IFRS 7 are determined using sensitivity analyses. These analyses illustrate the effects on the financial result and on equity arising from market interest rates as risk variables. An increase in the market interest rates by 50 base points as of 31 December 2010 would not have affected equity, in the same way as in the comparative period an increase of 100 bps would not have affected equity. Likewise, a decrease in the market interest rates by 50 base points as of 31 December 2010 would not have affected equity, as in the prior year. If market interest rates had been valued 50 base points higher as of 31 December 2010, profit would have been €3 million higher (prior year: €7 million higher based on an increase of 100 base points in market interest rates). As in the prior year, a decrease in the market interest rates by 50 base points as of 31 December 2010 would not have affected profit.

4.2.2 Stock price risk

Stock option transactions were entered into in connection with the plans in the past to increase the share in Volkswagen AG. Based on a historical simulation of the last 360 days and a retention period of 10 days and confidence level of 95% and based on fair values, the value at risk amounted to €65 million in the comparative period. All stock options held as of the end of the prior year were disposed of in SFY 2010.

4.2.3 Risk from put and call options relating to the shares in Porsche Zwischenholding GmbH remaining at Porsche SE

The market price risk is due to changes in the enterprise value of Porsche Zwischenholding GmbH. It affects the measurement of the put and call option and, consequently, their measurement in the balance sheet as well as the profit or loss reported in the income statement. The enterprise value is determined on the basis of the key measurement parameters used in impairment testing of the investments accounted for at equity (for the description of these parameters, please refer to the section "Consolidated group"). The risk due to changes in the enterprise value is determined by means of a sensitivity analysis.

If the enterprise value of Porsche Zwischenholding GmbH as of 31 December 2010 had been 10% higher, the group's profit would have been €264 million (prior year: €132 million) lower. If the enterprise value as of 31 December 2010 had been 10% lower, the group's profit would have been €265 million (prior year: €133 million) higher.

Since the options are subject to the condition that the merger fails as defined in the basic agreement, their valuation is based on the theoretical probability to exercise them. All other measurement parameters remaining equal, a change in the assessment of probability of exercise would increase/reduce the carrying amount on a straight-line basis; any resulting change in the balance sheet items is recognized in profit or loss and impacts the Porsche SE group's results of operations accordingly. Porsche SE's executive board estimates the theoretical probability of exercise of the options at 50% as of the reporting date (prior year: 30%). The merger would fail in accordance with the terms of the basic agreement if the merger resolutions of annual general meetings of Porsche SE and of Volkswagen AG are not adopted by 31 December 2011 or if claims are filed, including but not limited to those filed after approval proceedings have taken place, that prevent entry of the merger in the commercial register. Reference is made to explanations in the forecast report under the heading "Anticipated development of the Porsche SE group" and in the risk report under "Risks arising from financial instruments" in Porsche SE's group management report.

If the theoretical probability of exercise of the options had been 70% as of 31 December 2010 instead of 50%, the group's profit would have been €193 million lower. If the theoretical probability of exercise of the options had been 30% as of 31 December 2010 instead of 50%, the group's profit would have been €193 million higher. If the theoretical probability of exercise of the options had been 50% as of 31 July 2010 instead of 30%, the group's profit would have been €63 million lower. If the theoretical probability of exercise of the options had been 10% as of 31 July 2010 instead of 30%, the group's profit would have been €63 million higher.

This is partially offset by the accounting for the investment in Volkswagen AG at equity, as the accounting for the options at the level of Volkswagen AG has the opposite effect on the pro rata profit/loss attributable to Porsche SE in accordance with its share in capital held in Volkswagen AG.

5 Methods for monitoring hedge effectiveness

In SFY 2010, as in the comparative period, hedge accounting was not used in continuing operations.

6 Measurement of financial instruments

The table below contains the notional amounts of the derivative financial instruments both on the assets and the liabilities side.

€ million	Notional amount: Due within one year	Notional amount: Due in 1 to 5 years	Notional amount: Due in more than five years	Total notional amount
31 December 2010				
Interest derivatives	7,000	0	0	7,000
Options on non-stock company shares	0	7,786	0	7,786
	7,000	**7,786**	**0**	**14,786**
31 July 2010				
Interest derivatives	5,000	2,000	0	7,000
Stock price derivatives with positive carrying amount	469	0	0	469
Stock price derivatives with negative carrying amount	469	0	0	469
Options on non-stock company shares	0	7,786	0	7,786
	5,938	**9,786**	**0**	**15,724**

No stock options were held any more as of the reporting date. Hedge accounting is not applied for the remaining derivative financial instruments. The notional amounts of options on non-stock company shares contain the put option relating to the remaining shares held by Porsche SE in Porsche Zwischenholding GmbH amounting to €3,893 million and the call option of the same amount.

Market values of the derivatives are determined using market data as of the reporting date, in some cases also using historical data where no market data are available, and suitable valuation techniques.

The market value of financial instruments is determined by reference to stock market listings, reference prices or generally accepted valuation models such as the discounted cash flow method. The following term structure of interest rates is used where appropriate (amounts given in %):

EUR	31/12/2010	31/7/2010
Interest rate for 6 months	1.23	1.11
Interest rate for 1 year	1.51	1.39
Interest rate for 5 years	–	2.15
Interest rate for 10 years	–	2.95
Interest rate for 15 years	–	3.33

The following table shows the reconciliation of the items of the balance sheet to the classes of financial instruments, as well as the comparison of carrying amount and fair value:

	Measurement category under IAS 39	31/12/2010		31/7/2010	
€ million		Carrying amount	Fair value	Carrying amount	Fair value
Assets					
Derivative financial instruments		459	459	311	311
Interest derivatives	HfT	0	0	2	2
Stock price derivatives	HfT	0	0	8	8
Other derivatives	HfT	459	459	301	301
Other financial receivables	LaR	4,027	4,027	4,020	4,020
Financial guarantees	LaR	2	2	1	1
Cash and cash equivalents	LaR	622	622	898	898
Equity and liabilities					
Financial liabilities		10,844	10,880	10,825	10,880
Financial liabilities	FLAC	10,844	10,880	10,825	10,880
Trade payables	FLAC	33	33	6	6
Other financial liabilities	FLAC	149	149	153	153
Derivative financial instruments		942	942	417	417
Stock price derivatives	HfT	0	0	22	22
Other derivatives	HfT	942	942	395	395

For materiality reasons, the fair value of current balance sheet items is assumed to equal the amount recognized in the balance sheet.

The fair value of the financial derivatives is presented in the balance sheet under other receivables and assets or other liabilities respectively.

Financial assets and liabilities measured at fair value can be broken down as follows according to the measurement hierarchy:

€ million	31/12/2010	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Derivative financial instruments	459	0	0	459
Financial assets accounted for at fair value	459	0	0	459
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	942	0	0	942
Financial liabilities accounted for at fair value	942	0	0	942

€ million	31/7/2010	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Derivative financial instruments	311	0	2	309
Financial assets accounted for at fair value	311	0	2	309
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	417	0	0	417
Financial liabilities accounted for at fair value	417	0	0	417

The allocation of fair value is based on the availability of observable market data on an active market. Level 1 shows the fair values of financial instruments, such as securities, where a quoted price is directly available on active markets for identical financial instruments. The fair value of financial instruments in level 2, such as derivatives, is derived from market data such as exchange rates or interest rate curves using market valuation techniques. The fair value of financial instruments in level 3 is calculated using valuation techniques with inputs that are not based on observable market data. These include options for equity instruments of non-listed companies. The put and call options relating to the shares in Porsche Zwischenholding GmbH remaining at Porsche SE were therefore allocated to level 3. The cash-settled options relating to shares in Volkswagen AG were measured at the beginning of the comparative period based on the most recent transaction at arm's length between knowledgeable, willing parties. The cash-settled stock options were allocated to level 2 for this period. Subsequent measurement was based on a generally accepted valuation technique. The inputs for the valuation technique are determined not only with reference to the market, but also on the basis of historical data. Since the start of application of the generally accepted valuation technique in the comparative period until their disposal at the end of SFY 2010, the cash-settled options relating to Volkswagen AG shares were allocated to level 3.

The changes in fair values that were allocable to level 3 in SFY 2010 and the 2009/10 fiscal year are shown in the table below.

€ million	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss
As of 1 August 2010	**309**	**417**
Additions (acquisitions)	74	24
Reclassification from level 2 to level 3	0	0
Total comprehensive income	0	0
with effect on profit/loss	228	– 525
recognized directly in equity	0	0
Disposal (sales)	152	24
As of 31 December 2010	**459**	**942**
Result recognized in profit or loss SFY 2010		
Other operating profit/loss	228	– 525
thereof attributable to assets/liabilities held on reporting date	158	– 547

	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss
As of 1 August 2009	**0**	**0**
Additions (acquisitions)	256	803
Reclassification from level 2 to level 3	0	408
Total comprehensive income	81	– 170
with effect on profit/loss	81	– 170
recognized directly in equity	0	0
Disposal (sales)	28	964
As of 31 July 2010	**309**	**417**
Result recognized in profit or loss 2009/10		
Other operating profit/loss	81	– 170
thereof attributable to assets/liabilities held on reporting date	301	– 395

The principal risk variables for measurement of the options held by Porsche SE for the remaining shares in Porsche Zwischenholding GmbH is the enterprise value in each case and the executive board's assessment of the theoretical probability of exercise. Effects on profit or loss arising from a change in the risk variables are presented in section 4.2.3.

The input factor volatility was changed in the comparative period to determine the sensitivity of fair value of the cash-settled options relating to Volkswagen AG shares. If the period used to determine volatility had been 30 days shorter in the comparative period, profit or loss would have been €1 million lower in the comparative period; whereas if the period had been 30 days longer, profit or loss would have been €1 million higher.

The carrying amounts of financial assets and liabilities are allocated to the measurement categories in accordance with IAS 39 as follows:

€ million	31/12/2010	31/7/2010
Financial assets at fair value through profit or loss	459	311
Held for trading (HfT)	459	311
Loans and receivables (LaR)	4,651	4,919
Financial liabilities at fair value through profit or loss	942	417
Held for trading (HfT)	942	417
Financial liabilities measured at amortized cost (FLAC)	11,026	10,984

The net gains or losses of the respective measurement categories are as follows:

€ million	SFY 2010	2009/10
Financial instruments at fair value through profit or loss	– 298	– 135
Held for trading (HfT)	– 298	– 135
Loans and receivables (LaR)	75	121
Financial liabilities measured at amortized cost (FLAC)	– 213	– 755

The net gains or losses from financial instruments at fair value through profit or loss are derived from the fair value measurement including interest.

The net gains or losses from the loans and receivables category include interest income.

The net gains or losses from financial liabilities at amortized cost essentially comprise interest expenses.

[25] Contingent liabilities

€ million	31/12/2010	31/7/2010
Guarantees	0	0
Warranties	0	0
Collateral for third-party liabilities	0	0
Other contingent liabilities	0	0

Litigation

To the knowledge of Porsche SE – which is not a party to the investigations and therefore has only limited knowledge of the subject matter and status of investigations – the Stuttgart public prosecutor has initiated investigations against the former members of the executive board Dr. Wendelin Wiedeking and Holger P. Härter in connection with allegations of manipulating the market in Volkswagen shares. According to the public prosecutor, the allegations involve public statements made by representatives of Porsche SE and the failure to make certain required statements regarding the acquisition of the shareholding in Volkswagen AG between 2007 and 2009. In addition, the public prosecutor is investigating the two former members of the executive board in connection with allegations of breach of fiduciary duty to the detriment of Porsche SE. According to the public prosecutor, there is reason to suspect that the two former members of the executive board may have taken risks jeopardizing the company's ability to continue as a going concern by entering into share price hedging transactions in the course of acquiring the shareholding in Volkswagen AG. Furthermore, the public prosecutor has launched investigations against Holger P. Härter and two employees of Porsche SE on suspicion of obtaining credit by deception in connection with a loan that has already been repaid. The investigations are not expected to be concluded before the start of 2012.

In the USA, forty-six plaintiffs have filed six actions for damages against Porsche SE in the United States District Court for the Southern District of New York. The plaintiffs allege damages of more than USD 2.5 billion. In three of the six actions, the former members of the executive board Dr. Wendelin Wiedeking and Holger P. Härter are also named as defendants. Plaintiffs alleged in their complaints that Porsche SE's activities in connection with its acquisition of a stake in Volkswagen AG during the year 2008 constituted market manipulation and securities fraud in violation of the U.S. Securities Exchange Act and common law fraud. Porsche believes that the complaints are legally insufficient and without merit, and has sought their dismissal. The U.S. court dismissed all the complaints at first instance as legally insufficient. All plaintiffs appealed this decision in January 2011.

In Germany, institutional investors have applied for conciliatory proceedings against Porsche SE with regard to the assertion of claims for damages on the basis of alleged breaches of statutory capital market regulations. The alleged claims relate to alleged lost profits, estimated by the investors to total approximately €2.5 billion. Porsche SE considers the asserted claims to be without merit and has not taken part in the proceedings.

In 2010, the appointment of a special auditor was applied for before the Regional Court of Stuttgart. The application relates to the examination of the management activities of the company's executive board and supervisory board in connection with hedging transactions that Porsche SE concluded to economically secure the ability to undertake potential purchases of Volkswagen shares that it might have later decided to undertake, as well as payment agreements with, and severance payments to, former members of Porsche SE's executive board. If the application is granted, the special auditor would have to report on the results of the audit even if facts capable of causing not insubstantial detriment to the company were to become known. This would carry the risk of business secrets being exposed. If a special auditor came to the conclusion that there had been any dishonesty or gross violations of the law in connection with the activity under examination, the content of his report could offer grounds for further actions for damages against the company and its boards, and considerably weaken the legal position adopted by the company in the proceedings relating to the actions for damages in the USA and Germany, as well as in any future proceedings. Porsche SE considers the application to be without merit and will defend itself against the application.

For resulting risks associated with the planned merger of Porsche SE into Volkswagen AG, please refer to the “Litigation risk” section in the risk report presented as part of Porsche SE’s group management report.

The company believes that adequate provisions have been recognized for the anticipated attorneys’ fees and litigation expenses.

Adequate provisions have been recognized for potential financial costs from other court or arbitration proceedings.

[26] Other financial obligations

As of the reporting date, other financial obligations break down as follows:

€ million	Payable			Total
	1 year	in 1 to 5 years	> 5 years	
31 December 2010				
Sundry other financial obligations	1	4	0	5
31 July 2010				
Sundry other financial obligations	1	4	1	6

Sundry other financial obligations result from trust relationships and warranties.

Rent and leasing payments recorded as an expense in the fiscal year total €0 million (prior year: €1 million). The leases also contained renewal and purchase options as well as escalation clauses.

[27] Subsequent events

In January 2011, all plaintiffs appealed against the dismissal by the United States District Court for the Southern District of New York of actions for damages against Porsche SE.

In January 2011, a private investor filed a claim for damages against Porsche SE and another defendant in the amount of approximately €3 million. The plaintiff claims to have entered into options relating to shares in Volkswagen AG in 2008 on the basis of inaccurate information and the omission of information as well as market manipulation by Porsche SE and to have incurred losses from these options due to the share price development in 2008 in the amounts claimed. The action is currently pending in the Regional Court of Stuttgart. Porsche SE considers the asserted claims to be without merit and will defend itself against the claims.

In addition, the Stuttgart public prosecutor announced on 22 February 2011 that the investigations against the former members of the executive board Dr. Wendelin Wiedeking and Holger P. Härter in connection with allegations of manipulating the market in Volkswagen shares were taking longer than planned. They are not expected to be concluded before the start of 2012. In addition, the public prosecutor is investigating the two former members of the executive board in connection with allegations of breach of fiduciary duty to the detriment of Porsche SE. According to the public prosecutor, there is reason to suspect that the two former members of the executive board may have taken risks jeopardizing the company's ability to continue as a going concern by entering into share price hedging transactions in the course of acquiring the shareholding in Volkswagen AG. According to the public prosecutor, the investigations on suspicion of trading-based (not information-based) market manipulation have been dropped. Please refer to note [25] for details of the litigation.

On 18 February 2011, three plaintiffs filed an action for damages in New York state court. In their complaint, which has not yet been served on Porsche SE, they allege common law fraud and unjust enrichment based on allegations similar to those made in the US claims set out above. The plaintiffs claim to have lost at least 390 million US dollars. Porsche SE believes this claim to be legally insufficient and without merit.

[28] Disclosure pursuant to Sec. 160 (1) No. 8 AktG [“Aktiengesetz”: German Stock Corporation Act]

Notification on 7 January 2004:

Porsche AG received the following notification on 7 January 2004:

“We are writing to inform you on behalf of Familien Porsche-Daxer-Piëch Beteiligung GmbH, which we represent in legal matters, with registered offices in Stuttgart, Kronenstrasse 30, D-70174 Stuttgart, in accordance with Sec. 21 (1) Sentence 1 WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act] that the share of voting rights in Dr. Ing. h.c. F. Porsche Aktiengesellschaft held by Familien Porsche-Daxer-Piëch Beteiligung GmbH exceeded the thresholds of 5%, 10%, 25%, 50% and 75% of the voting rights as of 19 December 2003 and amounted to 100%. 74.33% of the voting rights are allocated to Familien Porsche-Daxer-Piëch Beteiligung GmbH in accordance with Sec. 22 (2) WpHG due to it joining an existing consortium agreement.”

Notification on 27 October 2006:

Ferdinand Porsche Privatstiftung, Salzburg (Austria), and Ferdinand Porsche Holding GmbH, Salzburg (Austria), announced the following to us on 27 October 2006 in accordance with Sec. 21 (1) Sentence 1 WpHG:

“The voting share held by Ferdinand Porsche Privatstiftung, Salzburg (Austria), and by Ferdinand Porsche Holding GmbH, Salzburg (Austria) in Dr. Ing. h.c. F. Porsche Aktiengesellschaft exceeded the voting right thresholds of 5%, 10%, 25%, 50% and 75% on 20 October 2006 and now amounts to 100%. A share of 25.67% in voting rights thereof is allocated to both notifying parties pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG based on voting rights arising from shares held by a subsidiary of the notifying parties. A share of 74.33% in voting rights thereof is additionally allocated to both notifying parties pursuant to Sec. 22 (2) WpHG based on voting rights arising from shares held by third parties with whom a subsidiary of the notifying parties arranges any steps taken with respect to Dr. Ing. h.c. F. Porsche Aktiengesellschaft based on an existing consortium agreement.”

Notification on 17 November 2006:

Familie Porsche Privatstiftung, Salzburg (Austria), and Familie Porsche Holding GmbH, Salzburg (Austria), announced the following to us on 17 November 2006 in accordance with Sec. 21 (1) Sentence 1 WpHG:

"The voting share held by Familie Porsche Privatstiftung, Salzburg (Austria), and by Familie Porsche Holding GmbH, Salzburg (Austria) in Dr. Ing. h.c. F. Porsche Aktiengesellschaft exceeded the voting right thresholds of 5%, 10%, 25%, 50% and 75% on 13 November 2006 and now amounts to 100%. A share of 24.44% in voting rights thereof is allocated to both notifying parties pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG based on voting rights arising from shares held by a subsidiary of the notifying parties. A share of 75.56% in voting rights thereof is additionally allocated to both notifying parties pursuant to Sec. 22 (2) WpHG based on voting rights arising from shares held by third parties with whom a subsidiary of the notifying parties arranges any steps taken with respect to Dr. Ing. h.c. F. Porsche Aktiengesellschaft based on an existing consortium agreement."

Notification on 29 January 2008:

Ferdinand Alexander Porsche GmbH and others notified us of the following on 29 January 2008 in accordance with Sec. 21 (1) Sentence 1 WpHG:

"The two parties who have signed this notification hereby announce to you on behalf of and with the authorization of the entities listed below (hereinafter also referred to as the "notifying parties") and represented by them, which at the time of this notification directly or indirectly held shares in Porsche Automobil Holding SE (then operating under the name of Dr. Ing. h.c. F. Porsche Aktiengesellschaft) in accordance with Sec. 21 (1) WpHG, as a correction to the notification of 22 December 2000:

The voting share held by each notifying party in Porsche Automobil Holding SE (formerly: Dr. Ing. h.c. F. Porsche Aktiengesellschaft), Porscheplatz 1, 70435 Stuttgart, Germany, exceeded the voting right thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% on 21 December 2000 and on that date amounted to 100% of the voting rights (875,000 voting rights). As of today, it also amounts to 100% (8,750,000 voting rights).

The voting rights allocated to the individual notifying parties based on the existing consortium agreement pursuant to Sec. 22 (1) No.3 WpHG in the version dated 9 September 1998 ("old version") or Sec. 22 (2) WpHG in the currently applicable version ("new version") and pursuant to Sec. 22 (1) No. 2 WpHG, old version, or Sec. 22 (1) No. 1 WpHG, new version were as follows:

Notifying party and address	Pursuant to Sec. 22 (1) No. 3 WpHG old version or Sec. 22 (2) WpHG new version		Pursuant to Sec. 22 (1) No. 2 WpHG old version or Sec. 22 (1) No. 1 WpHG new version	
	%	Voting rights	%	Voting rights
Ferdinand Alexander Porsche GmbH, Stuttgart	87.74	767,726		
Prof. Ferdinand Alexander Porsche GmbH, Salzburg, Austria	87.74	767,726	12.26	107,274
Hans-Peter Porsche GmbH, Stuttgart	87.78	768,104		
Ing. Hans-Peter Porsche GmbH, Salzburg, Austria	87.78	768,104	12.22	106,896
Wolfgang Porsche GmbH, Stuttgart	87.78	768,104		
Gerhard Porsche GmbH, Stuttgart	94.23	824,538		
Gerhard Anton Porsche GmbH, Salzburg, Austria	94.23	824,538	5.77	50,462
Louise Daxer-Piëch GmbH, Stuttgart	92.36	808,125		
Louise Daxer-Piëch GmbH, Salzburg, Austria	92.36	808,125	7.64	66,875
Ferdinand Piëch GmbH, Grünwald	86.84	759,827		
Dipl.-Ing. Dr. h.c. Ferdinand Piëch GmbH, Salzburg, Austria	86.84	759,827	13.16	115,173
Hans Michel Piëch GmbH, Grünwald	86.84	759,827		
Dr. Hans Michel Piëch GmbH, Salzburg, Austria	86.84	759,827	13.16	115,173

The allocated voting rights of the following notifying parties pursuant to Sec. 22 (1) No. 2 WpHG old version or Sec. 22 (1) No. 1 WpHG new version were held via the following controlled companies, whose share of voting rights amounted to 3% or more each:

Notifying party	**Controlled company**
Prof. Ferdinand Alexander Porsche GmbH, Salzburg, Austria	Ferdinand Alexander Porsche GmbH, Stuttgart
Ing. Hans-Peter Porsche GmbH, Salzburg, Austria	Hans-Peter Porsche GmbH, Stuttgart
Gerhard Anton Porsche GmbH, Salzburg, Austria	Gerhard Porsche GmbH, Stuttgart
Louise Daxer-Piëch GmbH, Salzburg, Austria	Louise Daxer-Piëch GmbH, Stuttgart
Dipl. Ing. Dr. h.c. Ferdinand Piëch, Salzburg, Austria	Ferdinand Piëch GmbH, Grünwald
Dr. Hans Michel Piëch GmbH, Salzburg, Austria	Hans Michel Piëch GmbH, Grünwald

3% or more of the voting rights arising from the shares of the following shareholders (notifying parties and third parties) were allocated to other notifying parties (excluding those notifying parties that have already been allocated voting rights arising from the shares of the respective shareholder in accordance with Sec. 22 (1) No. 2 WpHG, old version, or Sec. 22 (1) No. 1 WpHG, new version) in accordance with Sec. 22 (1) No. 3 WpHG, old version, or Sec. 22 (2) WpHG, new version: Ferdinand Alexander Porsche GmbH, Hans-Peter Porsche GmbH, Wolfgang Porsche GmbH, Gerhard Porsche GmbH, Louise Daxer-Piëch GmbH, Ferdinand Piëch GmbH, Hans-Michel Piëch GmbH, Porsche GmbH, all based in Stuttgart.

Dr. Wolfgang Hils

– representing the notifying parties Ferdinand Piëch GmbH, Dipl.-Ing. Dr. h.c. Ferdinand Piëch GmbH, Hans Michel Piëch GmbH, Dr. Hans Michel Piëch GmbH –

Dr. Oliver Porsche

– representing the other notifying parties – ”

Notification on 29 January 2008:

Porsche Holding Gesellschaft mbH, Salzburg, Austria, notified us of the following on 29 January 2008 in accordance with Sec. 21 (1) Sentence 1 WpHG:

“I am writing to announce to you on behalf of Porsche Holding Gesellschaft m.b.H., Vogelweiderstrasse 75, A-5020 Salzburg (“notifying party”) in accordance with Sec. 21 (1) WpHG that its share of the voting rights held in Porsche Automobil Holding SE (formerly: Dr. Ing. h.c. F. Porsche Aktiengesellschaft), Porscheplatz 1, 70435 Stuttgart, exceeded the voting right thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% on 27 February 1997 and on that date amounted to 100% of the voting rights (875,000 voting rights). As of today, it also amounts to 100% (8,750,000 voting rights).

A share in voting rights of 23.57% (206,251 voting rights) was allocated to the individual notifying parties pursuant to Sec. 22 (1) No. 2 WpHG in the version dated 26 June 1994 (“old version”) or Sec. 22 (1) No. 1 WpHG in the currently applicable version (“new version”) and a share of 76.43% (668,749 voting rights) was allocated pursuant to Sec. 22 (1) No. 3 WpHG, old version, or Sec. 22 (2) WpHG, new version.

The voting rights share allocated to the notifying parties pursuant to Sec. 22 (1) No. 2 WpHG, old version, or Sec. 22 (1) No. 1 WpHG, new version, amounting to 3% or more, were held via Porsche GmbH, Salzburg and Porsche GmbH, Stuttgart:

The share in voting rights allocated to the notifying parties pursuant to Sec. 22 (1) No. 3 WpHG, old version, or Sec. 22 (2) WpHG, new version, amounted to 3% or more: Prof. Ferdinand Alexander Porsche, Hans-Peter Porsche, Gerhard Anton Porsche, Dr. Wolfgang Porsche, Louise Daxer-Piëch, Dr. h.c. Ferdinand Piëch, Dr. Hans-Michel Piëch.

Dr. Oliver Porsche”

Notification on 29 January 2008:

Prof. Dr. Ing. h.c. Ferdinand Porsche and others, Austria, notified us of the following on 29 January 2008 in accordance with Sec. 21 (1) Sentence 1 WpHG:

"The two parties who have signed this notification hereby announce to you on behalf of and with the authorization of the individuals or entities listed under no. 1 and 2 below, which at the time of this notification directly or indirectly held shares in Porsche Automobil Holding SE (then operating under the name of Dr. Ing. h.c. F. Porsche Aktiengesellschaft) or their heirs and legal successors (hereinafter also referred to as the "notifying parties") in accordance with Sec. 21 (1) WpHG, as a correction to the notification of 5 February 1997:

The voting share held by each notifying party in Porsche Automobil Holding SE (formerly: Dr. Ing. h.c. F. Porsche Aktiengesellschaft), Porscheplatz 1, 70435 Stuttgart, Germany, exceeded the voting right threshold of 75% on 3 February 1997 and on that date amounted to 100% of the voting rights (875,000 voting rights). As of today, it also amounts to 100% for the persons that still exist today (8,750,000 voting rights).

The following voting rights were allocated to the individual notifying parties based on the existing consortium agreement pursuant to Sec. 22 (1) No. 3 WpHG in the version dated 26 June 1994 ("old version") or Sec. 22 (2) WpHG in the currently applicable version ("new version"):

	Pursuant to Sec. 22 (1) No. 3 WpHG old version or Sec. 22 (2) WpHG new version	
Notifying party and address	%	Voting rights
Prof. Dr. Ing. h.c. Ferdinand Porsche, Zell am See, Austria	99.84	873,569
Prof. Ferdinand Alexander Porsche, Gries/Pinzgau, Austria	87.82	768,461
Hans-Peter Porsche, Salzburg, Austria	87.82	768,461
Gerhard Anton Porsche, Mondsee, Austria	94.27	824,895
Dr. Wolfgang Porsche, Munich	87.82	768,461
Dr. Oliver Porsche, Salzburg, Austria	99.96	874,625
Kommerzialrat Louise Piëch, Thumersbach, Austria	99.80	873,216
Louise Daxer-Piëch, Vienna, Austria	93.89	821,499
Mag. Josef Ahorner, Vienna, Austria	99.24	868,313
Mag. Louise Kiesling, Vienna, Austria	99.24	868,313
Dr. techn. h.c. Ferdinand Piëch, Salzburg, Austria	86.94	760,719
Dr. Hans Michel Piëch, Salzburg, Austria	86.94	760,719
Porsche GmbH, Porscheplatz 1, 70435 Stuttgart	76.43	668,749

A share in voting rights of 23.57% (206,251 voting rights) was allocated to the former company Porsche Holding KG, Fanny-von-Lehnert Strasse 1, A-5020 Salzburg (current legal successor: Porsche Holding Gesellschaft m.b.H., Vogelweiderstrasse 75, A-5020 Salzburg) and Porsche GmbH, Vogelweiderstrasse 75, A-5020 Salzburg each in accordance with Sec. 22 (1) No. 2 WpHG, old version, and Sec. 22 (1) No. 1 WpHG, new version, and a share of voting rights of 76.43%

(668,749 voting rights) was allocated pursuant to Sec. 22 (1) No. 3 WpHG, old version, or Sec. 22 (2) WpHG, new version.

The share in voting rights of Porsche GmbH, Salzburg, allocated to the notifying parties pursuant to Sec. 22 (1) No. 2 WpHG, old version, or Sec. 22 (1) No. 1 WpHG, new version, were actually held via Porsche GmbH, Stuttgart. The share in voting rights of Porsche Holding KG allocated to the notifying parties pursuant to Sec. 22 (1) No. 2 WpHG, old version, or Sec. 22 (1) No. 1 WpHG, new version, were actually held via Porsche GmbH, Salzburg and Porsche GmbH, Stuttgart. In both cases, the share in voting rights held in Porsche GmbH, Stuttgart, allocated to the notifying parties pursuant to Sec. 22 (1) No. 2 WpHG, old version, or Sec. 22 (1) No. 1 WpHG, new version, amounted to 3% or more.

The share in voting rights allocated to the other notifying parties pursuant to Sec. 22 (1) No. 3 WpHG, old version, or Sec. 22 (2) WpHG, new version, amounted to 3% or more: Prof. Ferdinand Alexander Porsche, Hans-Peter Porsche, Dr. Wolfgang Porsche, Louise Daxer-Piëch, Dr. h.c. Ferdinand Piëch, Dr. Hans-Michel Piëch, Porsche GmbH, Stuttgart.

Dr. Wolfgang Hils

– representing the notifying parties Kommerzialrat Louise Piëch, Dr. techn. h. c. Ferdinand Piëch and Dr. Hans Michel Piëch –

Dr. Oliver Porsche

– representing the other notifying parties – ”

Notification on 6 August 2008:

On 6 August 2008, Ferdinand Karl Alpha Privatstiftung with registered office in Vienna, Austria made the following announcement as a correction to their announcement of 5 August 2008:

“The voting share of Ferdinand Karl Alpha Privatstiftung, Vienna, Austria in Porsche Automobil Holding SE, registered under HRB 724512 at the Stuttgart local court, with registered office in Stuttgart and the business address Porscheplatz 1, D-70435 Stuttgart, exceeded on 30 July 2008 the voting right thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% and on that date amounted to 100% of the voting rights.
Of these, 13.16% of the voting rights (11,517,300 of a total of 87,500,000 voting rights) are allocated to Ferdinand Karl Alpha Privatstiftung in accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG. The voting rights allocated to Ferdinand Karl Alpha Privatstiftung pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG are held via the following dependent companies whose voting share in Porsche Automobil Holding SE is 3% or more:
Dipl. Ing. Dr. h.c. Ferdinand Piëch GmbH, FN 202342 m, with registered office in Salzburg, Austria;
Ferdinand Piëch GmbH, HRB 163967 of the Munich local court, with registered office in Grünwald, Germany.

Moreover, 86,84% of the voting rights (75,982,700 voting rights of a total of 87,500,000 voting rights) of shareholders whose voting share in Porsche Automobil Holding SE amounts to 3% or more are allocated to Ferdinand Karl Alpha Privatstiftung in accordance with Sec. 22 (2) WpHG because, as a subsidiary of Ferdinand Karl Alpha Privatstiftung, Ferdinand Piëch GmbH coordinates its actions regarding Porsche Automobil Holding SE on account of the existing consortium agreement with these shareholders. The voting rights allocated to Ferdinand Karl Alpha Privatstiftung pursuant to Sec. 22 (2) WpHG are held by the following companies: Hans-Michel Piëch GmbH, Familie Porsche Beteiligung GmbH, Familien Porsche-Daxer-Piëch Beteiligung GmbH, Porsche Gesellschaft mit beschränkter Haftung."

Notification on 19 December 2008:

On 19 December 2008, Dr. Oliver Porsche, Austria, announced, on behalf of and with the authorization of Familie Porsche Beteiligung GmbH, Grünwald, Germany, as a correction to the announcement of 3 January 2003 pursuant to Sec. 21 (1) WpHG, that the share of voting rights in Porsche Automobil Holding SE (at that time operating under the name Dr. Ing. h.c. F. Porsche Aktiengesellschaft), Porscheplatz 1, 70435 Stuttgart held by Familie Porsche Beteiligung GmbH as of 30 December 2002 exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%, and amounted to 100% as of that date (8,750,000 voting rights). As of today, it also amounts to 100% (87,500,000 voting rights).

Allocation as of 30 December 2002
49.90% of the voting rights (4,365,970 voting rights) were allocated to Familie Porsche Beteiligung GmbH as of 30 December 2002 in accordance with Sec. 22 (2) WpHG on the basis of a consortium agreement. The share of voting rights allocated to the following shareholders in accordance with Sec. 22 (2) WpHG came to 3% or more: Ferdinand Piëch GmbH, Hans-Michel Piëch GmbH, Porsche GmbH, all based in Stuttgart, Germany.

Allocation as of today:
75.57% of the voting rights (661,208,000 voting rights) are allocated to Familie Porsche Beteiligung GmbH as of today in accordance with Sec. 22 (2) WpHG on the basis of a consortium agreement. The share of voting rights allocated to the following shareholders in accordance with Sec. 22 (2) WpHG comes to 3% or more: Familien Porsche-Daxer-Piëch Beteiligung GmbH, Ferdinand Piëch GmbH, Hans-Michel Piëch GmbH, all based in Grünwald, Germany, Porsche GmbH, Stuttgart, Germany.

Notification on 19 December 2008:

On 19 December 2008, Dr. Oliver Porsche, Austria, announced on his own behalf and on behalf of and with the authorization of the persons listed below (hereinafter also referred to as the "notifying parties") as a correction to the correction from January 2007 and published on 2 February 2007 in accordance with Sec. 41 (2) Sentence 1 WpHG that their respective shares in the voting rights of Porsche Automobil Holding SE (at that time operating under the name Dr. Ing. h.c. F. Porsche Aktiengesellschaft), Porscheplatz 1, 70435 Stuttgart amounted to 100% (8,750,000 voting rights) as of 1 April, 2002. As of today, it also amounts to 100% (87,500,000 voting rights).

Allocation as of 1 April 2002
These voting rights were allocated to the individual notifying parties as follows on 1 April 2002 pursuant to Sec. 41 (2) Sentence 1, Sec. 22 (1) Sentence 1 No. 1, Sec. 22 (2) WpHG:

	Pursuant to Sec. 41 (2) Sentence 1, Sec. 22 (1) Sentence 1 No. 1 WpHG		Pursuant to Sec. 41 (2) Sentence 1, Sec. 22 (2) WpHG	
Notifying party and address	%	Voting rights	%	Voting rights
Mag. Josef Ahorner, Austria	7.64	668,750	92.36	8,081,250
Mag. Louise Kiesling, Austria	7.64	668,750	92.36	8,081,250
Dr. Oliver Porsche, Austria	12.26	1,072,740	87.74	7,677,260
Kai Alexander Porsche, Austria	12.26%	1,072,740	87.74	7,677,260
Mark Philipp Porsche, Austria	12.26%	1,072,740	87.74	7,677,260
Peter Daniell Porsche, Austria	12.22%	1,068,960	87.78	7,681,040

The allocated voting rights of the following notifying parties pursuant to Sec. 41 (2) Sentence 1, Sec. 22 (1) Sentence 1 No. 1 WpHG were held via the following controlled companies, whose attributable share of voting rights amounted to 3% or more each:

Notifying party	**Controlled company**
Mag. Josef Ahorner, Mag. Louise Kiesling	Louise Daxer-Piëch GmbH, Salzburg Louise Daxer-Piëch GmbH, Stuttgart
Dr. Oliver Porsche, Kai Alexander Porsche, Mark Philipp Porsche	Prof. Ferdinand Alexander Porsche GmbH, Salzburg, Ferdinand Alexander Porsche GmbH, Stuttgart
Peter Daniell Porsche	Ing. Hans-Peter Porsche GmbH, Salzburg, Hans-Peter Porsche GmbH, Stuttgart

3% or more of the voting rights arising from the shares of the following shareholders were allocated to the notifying parties in accordance with Sec. 41 (2) Sentence 1, Sec. 22 (2) WpHG (excluding those notifying parties that have already been allocated voting rights arising from the shares of the respective shareholder in accordance with Sec. 41 (2) Sentence 1, Sec. 22 (1) Sentence 1 No. 1 WpHG): Ferdinand Alexander Porsche GmbH, Hans-Peter Porsche GmbH, Wolfgang Porsche GmbH, Gerhard Porsche GmbH, Louise Daxer-Piëch GmbH, Ferdinand Piëch GmbH, Hans-Michel Piëch GmbH, Porsche GmbH, all based in Stuttgart, Germany.

Allocation as of today
As of today, these voting rights are allocated to the individual notifying parties pursuant to Sec. 41 (2) Sentence 1, Sec. 22 (1) Sentence 1 No. 1, Sec. 22 (2) WpHG as follows:

Notifying party and address	Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG		Pursuant to Sec. 22 (2) WpHG	
	%	Voting rights	%	Voting rights
Mag. Louise Kiesling, Austria	25.67	224,611,000	74.33	650,389,000
Dr. Oliver Porsche, Austria	25.67	224,611,000	74.33	650,389,000
Kai Alexander Porsche, Austria	25.67	224,611,000	74.33	650,389,000
Mark Philipp Porsche, Austria	25.67	224,611,000	74.33	650,389,000
Peter Daniell Porsche, Austria	24.43	223,792,000	75.57	661,208,000

As of today, the allocated voting rights of the following notifying parties pursuant to Sec. 41 (2) Sentence 1, Sec. 22 (1) Sentence 1 No. 1 WpHG are held via the following controlled companies, whose attributable share of voting rights amounts to 3% or more each:

Notifying party	**Controlled company**
Mag. Josef Ahorner, Austria, Mag. Louise Kiesling, Austria, Dr. Oliver Porsche, Austria, Kai Alexander Porsche, Austria, Mark Philipp Porsche, Austria	Ferdinand Porsche Privatstiftung, Salzburg, Ferdinand Porsche Holding GmbH, Salzburg, Louise Daxer-Piëch GmbH, Salzburg, Louise Daxer-Piëch GmbH, Grünwald, Prof. Ferdinand Alexander Porsche GmbH, Salzburg, Ferdinand Alexander Porsche GmbH, Grünwald, Gerhard Anton Porsche GmbH, Salzburg, Gerhard Porsche GmbH, Grünwald, Familien Porsche-Daxer-Piëch Beteiligung GmbH, Grünwald
Peter Daniell Porsche	Familie Porsche Privatstiftung, Salzburg, Familie Porsche Holding GmbH, Salzburg, Ing. Hans-Peter Porsche GmbH, Salzburg, Hans-Peter Porsche GmbH, Grünwald, Familie Porsche Beteiligung GmbH, Grünwald

As of today, 3% or more of the voting rights arising from the shares of the following shareholders are allocated to the notifying parties in accordance with Sec. 41 (2) Sentence 1, Sec. 22 (2) WpHG (excluding those notifying parties that are already allocated voting rights arising from the shares of the respective shareholder in accordance with Sec. 41 (2) Sentence 1, Sec. 22 (1) Sentence 1 No. 1 WpHG): Familie Porsche Beteiligung GmbH, Familien Porsche-Daxer-Piëch Beteiligung GmbH, Ferdinand Piëch GmbH, Hans-Michel Piëch GmbH, all based in Grünwald, Germany, Porsche GmbH, Stuttgart, Germany.

Notification on 14 May 2009:

On 23 December 2008, at 7.22 p.m., Porsche Automobil Holding SE issued a ‘Correction to the publication of a miscellaneous voting right announcement’ entitled ‘Correction of a publication pursuant to Sec. 25 (1) WpHG, old version’. As a correction, it is hereby announced that this was a 'Correction to the publication of a miscellaneous voting right announcement pursuant to Sec. 21 (1) WpHG’ and 'Correction of a publication pursuant to Sec. 26 (1) WpHG’.

The publication on 23 December 2008 at 7.22 p.m. was worded as follows:
On 19 December 2008, Dr. Oliver Porsche, Austria, announced, on behalf of and with the authorization of Familie Porsche Beteiligung GmbH, Grünwald, Germany, as a correction to the announcement of 3 January 2003 pursuant to Sec. 21 (1) WpHG, that the share of voting rights in Porsche Automobil Holding SE (at that time operating under the name Dr. Ing. h.c. F. Porsche Aktiengesellschaft), Porscheplatz 1, 70435 Stuttgart held by Familie Porsche Beteiligung GmbH as of 30 December 2002 exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%, and amounted to 100% as of that date (8,750,000 voting rights). As of today, it also amounts to 100% (87,500,000 voting rights).

Allocation as of 30 December 2002
49.90% of the voting rights (4,365,970 voting rights) were allocated to Familie Porsche Beteiligung GmbH as of 30 December 2002 in accordance with Sec. 22 (2) WpHG on the basis of a consortium agreement.

The share of voting rights allocated to the following shareholders in accordance with Sec. 22 (2) WpHG came to 3% or more: Ferdinand Piëch GmbH, Hans-Michel Piëch GmbH, Porsche GmbH, all based in Stuttgart, Germany.

Allocation as of today
75.57% of the voting rights (661,208,000 voting rights) are allocated to Familie Porsche Beteiligung GmbH as of today in accordance with Sec. 22 (2) WpHG on the basis of a consortium agreement.

The share of voting rights allocated to the following shareholders in accordance with Sec. 22 (2) WpHG comes to 3% or more: Familien Porsche-Daxer-Piëch Beteiligung GmbH, Ferdinand Piëch GmbH, Hans-Michel Piëch GmbH, all based in Grünwald, Deutschland Porsche GmbH, Stuttgart, Germany.'

Notification on 1 September 2009:

We were notified of the following on 1 September 2009:

"(1) Pursuant to Sec. 21 (1) WpHG we hereby notify for and on behalf of the State of Qatar, acting by and through the Qatar Investment Authority, P.O. Box: 23224, Doha, Qatar, that its indirect voting rights in Porsche Automobil Holding SE exceeded the thresholds of 3% and 5% and reached the threshold of 10% on 28 August 2009 and amounted to 10% of the voting rights of Porsche Automobil Holding SE (8,750,000 voting rights) as per this date, all of which are attributed to the State of Qatar pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG. Voting rights that are attributed to the State of Qatar are held via the following entities which are controlled by it and whose attributed proportion of voting rights in Porsche Automobil Holding SE amounts to 3% each or more:

(a) Qatar Investment Authority, P.O. Box: 23224, Doha, Qatar;

(b) Qatar Holding LLC, Qatar Finance Centre, 8th Floor, Q-Tel Tower, West Bay, Doha, Qatar;

(c) Qatar Holding Luxembourg II S.à.r.l., 65 Boulevard Grande-Duchesse Charlotte, L-1331, Luxembourg;

(d) Qatar Holding Netherlands B.V., Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands.

(2) Pursuant to Sec. 21 (1) WpHG we hereby notify for and on behalf of Qatar Investment Authority, P.O. Box: 23224, Doha, Qatar, that its indirect voting rights in Porsche Automobil Holding SE exceeded the thresholds of 3% and 5% and reached the threshold of 10% on 28 August 2009 and amounted to 10% of the voting rights of Porsche Automobil Holding SE (8,750,000 voting rights) as per this date, all of which are attributed to the Qatar Investment Authority pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG. Voting rights that are attributed to the Qatar Investment Authority are held via the entities as set forth in (1) (b) through (d) which are controlled by it and whose proportion of voting rights in Porsche Automobil Holding SE amounts to 3% each or more.

(3) Pursuant to Sec. 21 (1) WpHG we hereby notify for and on behalf of Qatar Holding LLC, Qatar Finance Centre, 8th Floor, Q-Tel Tower, West Bay, Doha, Qatar, that its indirect voting rights in Porsche Automobil Holding SE exceeded the thresholds of 3% and 5% and reached the threshold of 10% on 28 August 2009 and amounted to 10% of the voting rights of Porsche Automobil Holding SE (8,750,000 voting rights) as per this date, all of which are attributed to Qatar Holding LLC pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG. Voting rights that are attributed to Qatar Holding LLC are held via the entities as set forth in (1) (c) through (d) which are controlled by it and whose proportion of voting rights in Porsche Automobil Holding SE amounts to 3% each or more.

(4) Pursuant to Sec. 21 (1) WpHG we hereby notify for and on behalf of Qatar Holding Luxembourg II S.à.r.l., 65 Boulevard Grande-Duchesse Charlotte, L-1331, Luxembourg, that its indirect voting rights in Porsche Automobil Holding SE exceeded the thresholds of 3% and 5% and reached the threshold of 10% on 28 August 2009 and amounted to 10% of the voting rights of Porsche Automobil Holding SE (8,750,000 voting rights) as per this date, all of which are attributed to Qatar Holding Luxembourg II S.à.r.l. pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG. Voting rights that are attributed to Qatar Holding Luxembourg II S.à.r.l. are held via the entity as set forth in (1) (d) which is controlled by it and whose attributed proportion of voting rights in Porsche Automobil Holding SE amounts to 3% or more.

(5) Pursuant to Sec. 21 (1) WpHG we hereby notify for and on behalf of Qatar Holding Netherlands B.V., Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands, that its direct voting rights in Porsche Automobil Holding SE exceeded the thresholds of 3% and 5% and reached the threshold of 10% on 28 August 2009 and amounted to 10% of the voting rights of Porsche Automobil Holding SE (8,750,000 voting rights) as per this date.

Frankfurt am Main, 1 September 2009”

Notification on 18 December 2009:

We were notified of the following on 18 December 2009:

"Pursuant to Sec. 21 (1) WpHG we hereby notify for and on behalf of Qatar Holding Germany GmbH, Frankfurt am Main, Germany, that its direct voting rights in Porsche Automobil Holding SE exceeded the thresholds of 3% and 5% and reached the threshold of 10% on 18 December 2009 and amounted to 10% of the voting rights of Porsche Automobil Holding SE (8,750,000 voting rights) as per this date.

Frankfurt am Main, 18 December 2009"

Notification on 5 October 2010:

On 5 October 2010, Porsche Wolfgang 1. Beteiligungs GmbH & Co. KG, Stuttgart informed us in accordance with Sec. 21 (1) WpHG that its voting rights share in Porsche Automobil Holding SE exceeded the thresholds of 3%, 5%, 10%, 15%,20%, 25%, 30%, 50% and 75% on 29 September 2010, reaching 90.00% of the voting rights (78,750,000 voting rights) on this day.

1. Of these voting rights, 24.43% (21,379,200 voting rights) are to be allocated to Porsche Wolfgang 1. Beteiligungs GmbH & Co. KG according to Sec. 22 (1) Sentence 1 No. 1 WpHG. The names of the controlled companies of Porsche Wolfgang 1. Beteiligungs GmbH & Co. KG through which the voting rights are in fact held and to which 3% or more of the voting rights in Porsche Automobil Holding SE are allocated are the following: Wolfgang Porsche GmbH and Familie Porsche Beteiligung GmbH, all based in Grünwald.

2. Furthermore, of these voting rights, 65.57% (57,370,800 voting rights) are allocated to Porsche Wolfgang 1. Beteiligungs GmbH & Co. KG according to Sec. 22 (2) Sentence 1 WpHG. The names of the controlled companies of Porsche Wolfgang 1. Beteiligungs GmbH & Co. KG through which the voting rights are in fact held and to which 3% or more of the voting rights in Porsche Automobil Holding SE are allocated are the following: Familien Porsche-Daxer-Piëch Beteiligung GmbH, Ferdinand Piëch GmbH, Hans-Michel Piëch GmbH, all based in Grünwald, and Porsche Gesellschaft mit beschränkter Haftung, Stuttgart.

These voting rights were not obtained by exercise of purchase rights resulting from financial instruments according to Sec. 25 (1) Sentence 1 WpHG.

Düsseldorf, 5 October 2010

[29] Related parties

In accordance with IAS 24, persons or entities which are in control of or controlled by Porsche SE must be disclosed. Pursuant to a consortium agreement, the Porsche and Piëch families have direct and indirect control respectively of Porsche SE.

The disclosure requirements under IAS 24 also extend to persons, and their close family members, who have the power to exercise significant influence over the entity, i.e. who have the power to participate in the financial and operating policies of the entity, but do not control it. In SFY 2010, this concerns members of the supervisory board and the executive board of Porsche SE as well as their close family members.

The Porsche and Piëch families, in their capacity as holders of ordinary shares in Porsche SE and Porsche Gesellschaft m.b.H., Salzburg, agreed within the framework of the overall concept of the basic agreement to increase capital as part of the planned capital increase at Porsche SE. In their commitment to increase capital, the holders of ordinary shares in Porsche SE agreed to a capital increase at Porsche SE with an issue volume of up to €5.0 billion (half in ordinary and half in preference shares) under certain circumstances and to make a contribution of an estimated €2.5 billion. The requisite resolutions on a capital increase implementing this undertaking were adopted by the annual general meeting on 30 November 2010. Porsche Gesellschaft m.b.H., Salzburg, has entered into a commitment to ensure subscription to the new ordinary shares from this capital increase at Porsche SE under certain circumstances and conditions in return for a contribution of an estimated €2.5 billion and under certain other circumstances and conditions to subscribe to convertible bonds or ordinary shares issued from authorized capital with a total subscription price of an estimated €2.5 billion.

Apart from that, there were only immaterial trade transactions between the Porsche SE group and the Porsche and Piëch families and their affiliated companies. Until the date of deconsolidation of the Porsche Zwischenholding GmbH group and the Volkswagen group, the volume of trade in the vehicles and parts business came to €1,568 million, and trade in the design business amounted to €0.4 million in the comparative period.

The disclosure requirements pursuant to IAS 24 also include persons and entities over which the Porsche SE group can exert a significant influence or joint control.

For the period before the deconsolidation of the Volkswagen group in the comparative period, only trade relations to subsidiaries that are not fully consolidated, joint ventures and associated companies of the Volkswagen group are presented. In this period, trade mainly pertained to the vehicle and parts business. In addition, consulting and development services as well as financial services were provided. Without exception, they were charged at arm's length conditions.

Since the date of the deconsolidation of the discontinued operations in the comparative period, Porsche SE exercises a significant influence over the Volkswagen group (associate) and joint control over the Porsche Zwischenholding GmbH group (joint venture). Relations to all entities of these two former subgroups are presented as of that date. Supplies and services rendered include dividends and profit distributions totaling €282 million received from these groups (prior year: €327 million from the group’s perspective).

There are relations to the Porsche Zwischenholding GmbH group in the form of receivables and liabilities subject to market interest (please refer to notes [15] and [22]). Financial services were rendered to entities in that group, giving rise to finance revenue totaling €78 million (prior year: €116 million) and cost of purchased services of €73 million (prior year: €144 million). In addition, financial and other guarantees for a total volume of €3,428 million were issued to entities of that group. The probability of claims being made on the guarantees is considered very low and Volkswagen AG has signed a hold harmless agreement for a share of 49.9% (for further details, please refer to note [24]).

As part of the basic agreement and the associated agreements implementing it, Porsche SE additionally entered into agreements with Volkswagen AG and entities of the Porsche Zwischenholding GmbH group including the following:

- Porsche SE holds Volkswagen AG as well as Porsche Zwischenholding GmbH and Porsche AG harmless from obligations resulting from certain litigation, tax liabilities (plus interest) and for certain major losses.
- In addition, Porsche SE has granted Volkswagen AG various guarantees regarding Porsche Zwischenholding GmbH and Porsche AG. These relate, among other things, to the proper issue and full payment of the shares in Porsche AG, to the ownership of shares in Porsche Zwischenholding GmbH and Porsche AG as well as to the licenses, permits and industrial property rights required for Porsche AG's operations.
- Volkswagen AG will hold Porsche SE harmless from certain financial guarantees issued by Porsche SE to the creditors of entities in the Porsche Zwischenholding GmbH group for the amount of its share in Porsche Zwischenholding GmbH's capital (please refer to note [24]).
- Should loan obligations of Porsche Zwischenholding GmbH or Porsche AG due to Porsche SE fall due and be uncollectible in the event of insolvency of Porsche Zwischenholding GmbH or Porsche AG, Volkswagen AG will assume these obligations provided it would have been possible when they fell due to offset the obligations against claims against Porsche SE had the companies not become insolvent (please refer to note [15]).
- Porsche SE has pledged a loan receivable due from Porsche Zwischenholding GmbH and the investment in Volkswagen AG as collateral for two loan liabilities to entities of the Porsche Zwischenholding GmbH group (please refer to notes [15] and [22]).
- In addition, Porsche SE will under certain circumstances hold Porsche Zwischenholding GmbH, Porsche AG and their legal predecessors harmless from tax burdens that go beyond the obligations from periods up until and including 31 July 2009 accounted for at the level of these entities.

Porsche SE and Volkswagen AG granted each other put and call options relating to the remaining 50.1% share of Porsche Zwischenholding GmbH, which is held in trust on behalf of Porsche SE. Porsche SE can exercise the put option from 15 November 2012 until the end of the day on 14 January 2013 and again from 1 December 2014 until the end of the day on 31 January 2015. Volkswagen AG can exercise the call option as of 1 March 2013 until the end of the day on 30 April 2013 and again from 1 August 2014 until the end of the day on 30 September 2014. The exercise price for the two options is €3,883 million and subject to certain adjustments (for the carrying amounts of these options and collateral provided, reference is made to notes [15] and [23]). Volkswagen AG (in the event that it exercises its call options) as well as Porsche SE (in the event that it exercises its put options) have both agreed to bear any tax expenses arising from exercising the options and from any downstream measures with respect to the investments in Porsche Zwischenholding GmbH (e.g., from back taxes on the 2007 and/or 2009 spin-off). Should Volkswagen AG, Porsche Zwischenholding GmbH, Porsche AG or their respective subsidiaries enjoy tax advantages as a result of subsequent taxation of the 2007 and/or 2009 spin-off, the purchase price payable by Volkswagen AG for transfer of the remaining 50.1% share in Porsche Zwischenholding GmbH will be increased by the present value of the tax advantages in the event that Porsche SE exercises its put options.

In order to secure any remaining claims of Volkswagen AG from the agreement between Porsche SE and Volkswagen AG on the investment held by Volkswagen AG in Porsche Zwischenholding GmbH, a retention mechanism was agreed in favor of Volkswagen AG for the purchase price payable in the event of the put or call options being exercised. If any retained amount has not been used to fulfill claims of Volkswagen AG, the retained amount must be paid to Porsche SE on 30 June 2016, unless it is likely that claims for indemnity will be made against the company as of that date.

Volkswagen AG has agreed to hold Porsche SE harmless for internal purposes from any claims of the deposit guarantee fund agency after Porsche SE issued a hold harmless declaration to the deposit guarantee fund agency as required by the Association of German Banks in August 2009. In addition, Volkswagen AG has undertaken to hold the deposit guarantee fund agency harmless from any losses incurred as a result of its measures in favor of a bank in which it holds the majority.

The table below shows the supplies and services rendered and received between the Porsche SE group and its related parties as well as existing receivables and liabilities.

	Supplies and services rendered		Supplies and services received	
€ million	**SFY 2010**	**2009/10**	**SFY 2010**	**2009/10**
Porsche and Piëch families	0	1,568	0	65
Members of the executive board and the supervisory board	0	0	0	0
Joint ventures	360	2,033	73	370
Associates	158	1,866	547	438
Pension plans	0	1	0	0
Non-consolidated subsidiaries	0	833	0	386
	518	**6,301**	**620**	**1,259**

€ million	Receivables 31/12/2010	Receivables 31/7/2010	Liabilities 31/12/2010	Liabilities 31/7/2010
Porsche and Piëch families	0	0	0	0
Members of the executive board and the supervisory board	0	0	0	0
Joint ventures	4,027	4,019	3,881	3,883
Associates	459	302	942	395
	4,486	**4,321**	**4,823**	**4,278**

For members of the executive board and of the supervisory board, short-term employee benefits of €1.6 million were paid out in SFY 2010 (prior year: €6.6 million). No post-employment benefits were paid out in SFY 2010 (prior year: €0.9 million).

In the prior year, post-employment benefits related to additions to pension provisions for active members of the executive board. As Porsche SE itself does not have any pension obligations to active members of the executive board, the additions made in the prior year related exclusively to services rendered by members of the executive board in discontinued operations in the period between their joining Porsche SE's executive board and the date on which the discontinued operations were deconsolidated.

As of the end of the fiscal year, the outstanding balances for remuneration of members of Porsche SE's executive board and supervisory board amounted to €0.4 million (prior year: €3.1 million).

Goods were delivered and services rendered to members of the executive board and supervisory board on a small scale, mainly for transactions in the vehicle and parts business, in the comparative period until the date of deconsolidation of the discontinued operations. They were charged at arm's length conditions. Other than that, no transactions requiring disclosure were conducted in the comparative period before deconsolidation of the discontinued operations by entities belonging to the Porsche SE group's discontinued operations with members of the supervisory board or executive board as key management personnel or with any other entities having these persons on their executive or supervisory board. The same applies for close family members of these persons.

[30] Remuneration of the supervisory board and the executive board

The total remuneration of members of Porsche SE's executive board amounted to €0.9 million in SFY 2010 (prior year: €4.1 million). It comprises the remuneration paid by Porsche SE. In the comparative period, total remuneration additionally included, pro rata temporis, remuneration for the services rendered by members of the executive board in discontinued operations in the period between their joining Porsche SE's executive board and the date on which the discontinued operations were deconsolidated.

The members of Porsche SE's executive board receive a fixed basic salary only. The remuneration for service on the executive board in discontinued operations taken into account pro rata temporis in the prior year included both fixed and variable components. The executive board remuneration comprised a long-term incentive amounting to €0.3 million.

The total remuneration of the supervisory board for SFY 2010 amounts to €0.6 million (prior year: €2.9 million). In the comparative period, it included remuneration for their service on Porsche SE's supervisory board as well as remuneration for memberships of supervisory board and other control bodies as defined by Section 125 (I) Sentence 3 AktG in discontinued operations on a pro rata temporis basis until deconsolidation of the discontinued operations. The remuneration consists of short-term benefits only.

There are no further obligations towards members of the supervisory board or the executive board.

The individualized remuneration of the members of the executive board and supervisory board is presented in the remuneration report as part of the management report.

[31] Auditor's fees

The auditor's fees charged by the auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, for the short fiscal year in accordance with Sec. 314 (1) No. 9 HGB break down as follows:

EUR000	SFY 2010	2009/10
Audit of financial statements	345	645
Other assurance services	0	1,001
Tax advisory services	1,000	1,900
Other services	787	5,224
	2,132	8,770

In accordance with the disclosure requirements of Sec. 314 (1) No. 9 HGB, other services in the comparative period include advisory services of €4.1 million rendered to Volkswagen AG and its subsidiaries prior to deconsolidation of the Volkswagen group on 3 December 2009.

[32] Declaration on the German Corporate Governance Code

The executive board and supervisory board of Porsche SE issued the declaration required by Sec. 161 AktG on 13 October 2010 and made it permanently accessible to the shareholders of Porsche SE on the webpage www.porsche-se.com.

Stuttgart, 28 February 2011

Porsche Automobil Holding SE

The executive board

Prof. Dr. Martin Winterkorn	Thomas Edig	Hans Dieter Pötsch	Matthias Müller

Responsibility statement

We assure to the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report, which has been combined with the management report of Porsche SE, includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Stuttgart, 28 February 2011

Porsche Automobil Holding SE

The executive board

Prof. Dr. Martin Winterkorn   Thomas Edig   Hans Dieter Pötsch   Matthias Müller

Auditors' report of the group auditor

"We have audited the consolidated financial statements prepared by Porsche Automobil Holding SE, Stuttgart, comprising the income statement, the statement of comprehensive income, the balance sheet, the statement of cash flows, the statement of changes in equity as well as the notes to the financial statements, together with the combined management report for the fiscal year from 1 August to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development."

Stuttgart, 28 February 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Wollmert	Matischiok
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Membership in other statutory supervisory boards and comparable domestic and foreign control bodies

Members of the supervisory board of Porsche Automobil Holding SE

Dr. Wolfgang Porsche
(chairman)

A) Dr. Ing. h.c. F. Porsche AG, Stuttgart (chairman)
Volkswagen AG, Wolfsburg
B) Porsche Holding GmbH, Salzburg
(deputy chairman)
Porsche Ges.m.b.H., Salzburg (deputy chairman)
Porsche Retail GmbH, Salzburg
(deputy chairman)
Porsche Austria GmbH, Salzburg
(deputy chairman)
Familie Porsche AG Beteiligungsgesellschaft, Salzburg (chairman)
Porsche Bank AG, Salzburg (deputy chairman)
Porsche Cars Great Britain Ltd., Reading
Porsche Cars North America Inc., Wilmington
Porsche Ibérica S.A., Madrid
Porsche Italia S.p.A., Padua
Eterna S.A., Grenchen (chairman)
Schmittenhöhebahnen AG, Zell am See

Uwe Hück
(deputy chairman)

A) Dr. Ing. h.c. F. Porsche AG, Stuttgart
(deputy chairman)

Hans Baur

A) Dr. Ing. h.c. F. Porsche AG, Stuttgart
Berthold Leibinger GmbH, Ditzingen

Berthold Huber

A) Volkswagen AG, Wolfsburg (deputy chairman)
AUDI AG, Ingolstadt (deputy chairman)
Siemens AG, Munich (deputy chairman)

His Excellency Sheik Yassim Bin Abdulaziz Bin Yassim Al-Thani

B) Qatar Foundation Board, Doha (chairman)
Qatar Foundation Endowment Fund, Doha
Investcorp, Manama
Qatar National Bank, Doha

Prof. Dr. Ulrich Lehner

A) Deutsche Telekom AG, Bonn (chairman)
HSBC Trinkaus & Burkhardt AG, Düsseldorf
E.ON AG, Düsseldorf
ThyssenKrupp AG, Düsseldorf
Henkel Management AG, Düsseldorf
B) Dr. August Oetker KG, Bielefeld
Henkel AG & Co. KGaA, Düsseldorf
Novartis AG, Basel

Peter Mosch

A) Volkswagen AG, Wolfsburg
AUDI AG, Ingolstadt

Bernd Osterloh

A) Volkswagen AG, Wolfsburg
Autostadt GmbH, Wolfsburg
Wolfsburg AG, Wolfsburg
B) Auto 5000 GmbH, Wolfsburg
Projekt Region Braunschweig GmbH, Braunschweig
Volkswagen Coaching GmbH, Wolfsburg
VfL Wolfsburg Fussball GmbH, Wolfsburg

Hon.-Prof. Dr. techn. h.c. Dipl. Ing. ETH Ferdinand K. Piëch

A) Dr. Ing. h.c. F. Porsche AG, Stuttgart
Volkswagen AG, Wolfsburg (chairman)
MAN SE, Munich (chairman)
AUDI AG, Ingolstadt
B) Porsche Holding GmbH, Salzburg
Porsche Ges.m.b.H., Salzburg
Porsche Retail GmbH, Salzburg
Porsche Austria GmbH, Salzburg

Dr. Hans Michel Piëch

A) Dr. Ing. h.c. F. Porsche AG, Stuttgart
Volkswagen AG, Wolfsburg
AUDI AG, Ingolstadt
B) Porsche Holding GmbH, Salzburg (chairman)
Porsche Ges.m.b.H., Salzburg (chairman)
Porsche Retail GmbH, Salzburg (chairman)
Porsche Austria GmbH, Salzburg (chairman)
Porsche Bank AG, Salzburg
Porsche Cars Great Britain Ltd., Reading
Porsche Cars North America Inc., Wilmington
Porsche Ibérica S.A., Madrid
Porsche Italia S.p.A., Padua
Volksoper Wien GmbH, Vienna
Schmittenhöhebahnen AG, Zell am See

Dr. Ferdinand Oliver Porsche

A) Dr. Ing. h.c. F. Porsche AG, Stuttgart
Volkswagen AG, Wolfsburg
AUDI AG, Ingolstadt
Voith GmbH, Heidenheim
B) Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Bietigheim-Bissingen
PGA S.A., Paris
Eterna S.A., Grenchen

Werner Weresch

A) Dr. Ing. h.c. F. Porsche AG, Stuttgart

Members of the executive board of Porsche Automobil Holding SE

Prof. Dr. rer. nat. Martin Winterkorn (chairman)

A) Dr. Ing. h.c. F. Porsche AG, Stuttgart
AUDI AG, Ingolstadt (chairman)
Salzgitter AG, Salzgitter
FC Bayern München AG, Munich

B) Scania AB, Södertälje (chairman)
ŠKODA AUTO a.s., Mladá Boleslav (chairman)
Porsche Holding GmbH, Salzburg
Porsche Ges.m.b.H., Salzburg
Bentley Motors Ltd., Crewe
Volkswagen (China) Investment Company Ltd., Beijing (chairman)
Volkswagen Group of America, Inc., Herndon, Virginia (chairman)

Hans Dieter Pötsch

A) Dr. Ing. h.c. F. Porsche AG, Stuttgart
AUDI AG, Ingolstadt
Volkswagen Financial Services AG, Braunschweig (chairman)
Autostadt GmbH, Wolfsburg (chairman)
Allianz Versicherungs-AG, Munich (until 21 December 2010)

B) Bentley Motors Ltd., Crewe
Volkswagen Group of America, Inc., Herndon, Virginia
Scania AB, Södertälje
Porsche Holding GmbH, Salzburg
Porsche Ges.m.b.H., Salzburg
VfL Wolfsburg Fussball GmbH, Wolfsburg

Dr. Ing. E. h. Michael Macht (until 30 September 2010)

B) Porsche Consulting GmbH, Bietigheim-Bissingen (chairman)
Porsche Cars North America Inc., Wilmington
Porsche Cars Great Britain Ltd., Reading
Porsche Italia S.p.A., Padua
Porsche Ibérica S.A., Madrid
Porsche Japan K.K., Tokyo
Porsche Enterprises Inc., Wilmington

Thomas Edig

A) DEKRA Automobil GmbH, Stuttgart

B) Porsche Consulting GmbH, Bietigheim-Bissingen
Porsche Logistik GmbH, Stuttgart
Porsche Leipzig GmbH, Leipzig
Mieschke Hofmann und Partner Gesellschaft für Management- und IT-Beratung mbH, Freiberg/N.

Matthias Müller (since 13 October 2010)

A) Porsche Deutschland GmbH, Bietigheim-Bissingen

B) Porsche Cars North America Inc., Wilmington
Porsche Cars Great Britain Ltd., Reading
Porsche Italia S.p.A., Padua
Porsche Ibérica S.A., Madrid
Porsche Hong Kong Ltd., Hong Kong
Porsche (China) Motors Ltd., Guangzhou
Porsche Enterprises Inc., Wilmington
SEAT S.A., Martorell

(Disclosures pursuant to Sec. 285 No. 10 HGB)

As of 31 December 2010 or the date on which members left the executive board of Porsche Automobil Holding SE.

A) Membership in German statutory supervisory boards
B) Comparable offices in Germany and abroad

Balance sheet of Porsche Automobil Holding SE as of 31 December 2010[1]

€ million	31/12/2010	31/7/2010
Assets		
Non-current assets		
Financial assets	24,771	24,771
	24,771	24,771
Current assets		
Trade receivables	4,027	4,348
Other receivables and assets	302	230
Cash and cash equivalents	622	887
	4,951	5,465
Prepaid expenses	35	53
	29,757	**30,289**
Equity and liabilities		
Equity		
Subscribed capital	175	175
Capital reserves	122	122
Retained earnings	17,102	12,185
Net profit available for distribution	440	4,495
	17,839	16,977
Provisions		
Provisions for pensions and similar obligations	7	6
Sundry provisions	258	1,566
	265	1,572
Liabilities		
Liabilities to banks	7,000	7,000
Trade payables	18	3
Sundry liabilities	4,635	4,737
	11,653	11,740
	29,757	**30,289**

[1] The financial statements of Porsche SE have been prepared in accordance with German accounting standards (HGB) and are published in the elektronischer Bundesanzeiger (German Electronic Federal Gazette). They can be obtained from Porsche SE, Financial Press and Investor Relations, Porscheplatz 1, 70435 Stuttgart, Germany.

Income statement of Porsche Automobil Holding SE for the period from 1 August 2010 to 31 December 2010

€ million	SFY 2010	2009/10
Other operating income	32	641
Personnel expenses	– 11	– 18
Other operating expenses	– 44	– 631
Income from investments	353	9,850
Interest result	– 113	– 851
Income from ordinary activities	**217**	**8,991**
Extraordinary expenses	– 2	0
Taxes	664	0
Net profit	**879**	**8,991**
Transfer to retained earnings	– 439	– 4,496
Net profit available for distribution	**440**	**4,495**

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