PORSCHE SE

Annual Report 2020

Key figures

		2020 IFRS	2019 IFRS	2018 IFRS
Porsche SE Group				
Total assets	€ million	36,250	35,592	33,708
Equity	€ million	35,946	35,284	33,416
Investments accounted for at equity	€ million	35,259	34,597	32,518
Result from investments accounted for at equity	€ million	2,641	4,406	3,641
Revenue	€ million	107	116	103
Personnel expenses	€ million	80	80	77
Financial result	€ million	54	24	–3
Result before tax	€ million	2,646	4,416	3,514
Result after tax	€ million	2,624	4,408	3,491
Earnings per ordinary share[1]	€	8.56	14.39	11.39
Earnings per preference share[1]	€	8.57	14.39	11.40
Net liquidity	€ million	563	553	864
Employees on 31 December		916	951	935

		2020 HGB	2019 HGB	2018 HGB
Porsche SE				
Net profit	€ million	703	788	480
Net profit available for distribution	€ million	676	952	676
Dividend per ordinary share	€	2.204[2]	2.204	2.204
Dividend per preference share	€	2.210[2]	2.210	2.210

[1] Basic and diluted
[2] Proposal to the annual general meeting of the Porsche SE

Investments of Porsche SE

PORSCHE SE

Core Investment

Stake of ordinary shares: 53.3 %
(Represents a stake of subscribed capital: 31.4 %)

VOLKSWAGEN
AKTIENGESELLSCHAFT

Audi | SEAT | ŠKODA
BENTLEY | BUGATTI | LAMBORGHINI | PORSCHE
DUCATI | Commercial Vehicles | SCANIA | MAN

VOLKSWAGEN FINANCIAL SERVICES
AKTIENGESELLSCHAFT

Further Investments

PTV GROUP

Minority stakes

INRIX | Markforged | SEURAT | AEVA | AURORALABS

Status 10 March 2021


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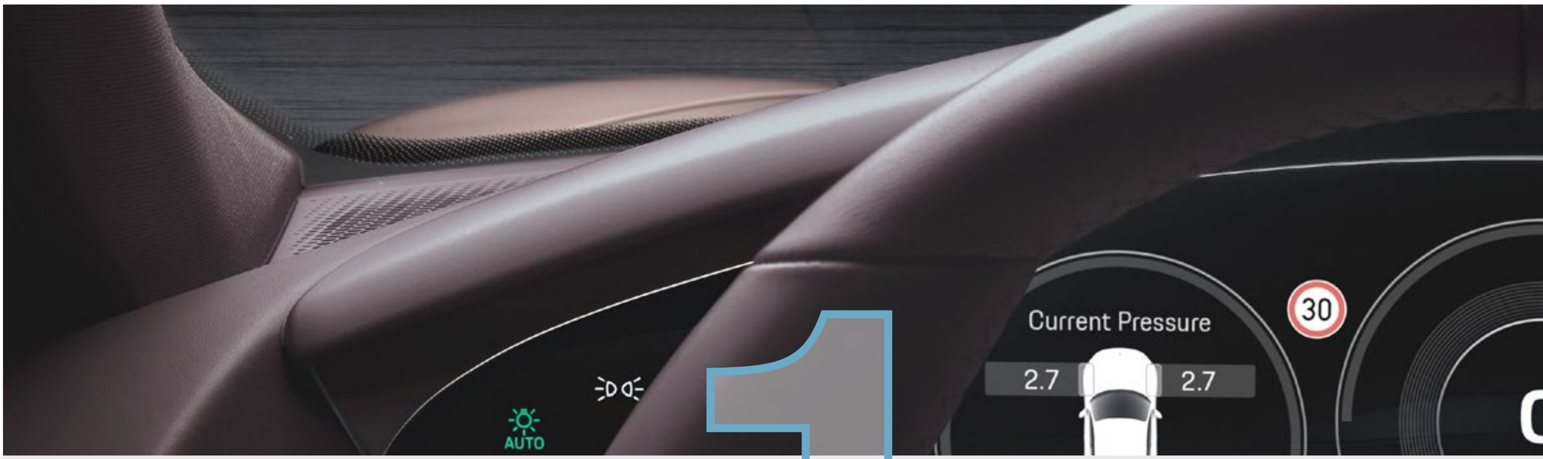
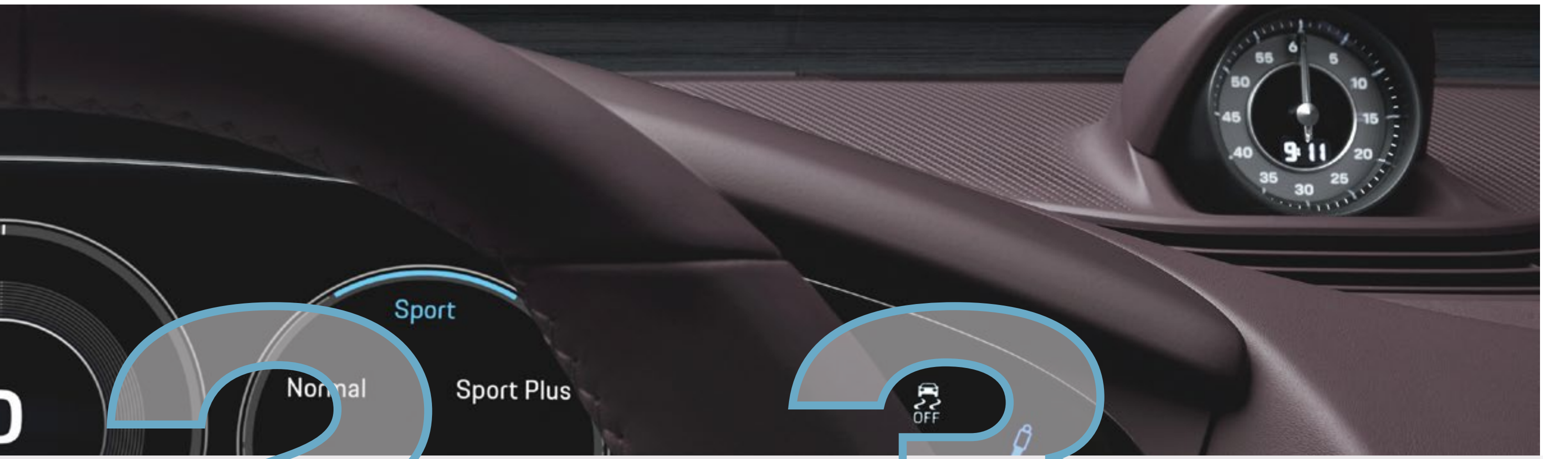
2020

"The fiscal year 2020 was also challenging for Porsche SE. We recorded a positive group result after tax of around 2.6 billion euro, despite conditions remaining difficult overall."

Hans Dieter Pötsch



1 To our shareholders



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Group management report and management report of Porsche Automobil Holding SE 30

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Financials 98


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To our shareholders

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Letter to our shareholders

Dear shareholders,

The fiscal year 2020 was also challenging for Porsche SE. The Covid-19 pandemic resulted in a sharp downturn in virtually all major economies. Since March 2020, the Volkswagen Group and its brands have reacted to the pandemic determinedly and taken measures to cushion the impact as best as possible. With the number of new cases falling, the automotive business then began to stabilize again in the second half of the year, not least on the important Chinese market. In consequence, this pleasing development led to Porsche SE recording a positive group result after tax of around 2.6 billion euro for the fiscal year 2020, despite conditions remaining difficult overall.

This result was significantly influenced by the result from our investment accounted for at equity in Volkswagen AG of 2.7 billion euro, after 4.4 billion euro in the prior year. Net liquidity of the Porsche SE Group amounted to 563 million euro as of 31 December 2020, compared to 553 million euro as of year-end 2019.

Regardless of the Covid-19 pandemic, the automotive industry is undergoing a fundamental change that has accelerated even more this past fiscal year. In light of this, the Volkswagen Group is planning to invest around 73 billion euro in electromobility, hybridization and digitalization over the next five years, thus pushing ahead with its transformation into a technology group. We at Porsche SE support this strategy and are confident that the market value of the Volkswagen Group will increase in the medium to long term.

Our subsidiary PTV AG is continuing to push ahead with its strategic development. The modernization of the product portfolio and cloud-based solutions are opening up promising growth perspectives in light of the accelerated digitalization of mobility. Although revenue decreased in the fiscal year 2020 as a result of the pandemic, a positive operating result on a par with the prior year was generated. This is proof that the substantial measures taken by the board of management to improve profitability are working.

A positive development is also shown in our venture capital investments. Indeed, the two US companies AEVA and Markforged have announced IPOs as of the end of the first and third quarters of 2021, respectively. In August 2020, Porsche SE invested in the Israeli software company Aurora Labs. The technology from Aurora Labs enables efficient and secure software updates for vehicles via a radio interface and will thus save a considerable amount of time, data volume and cost.

Hans Dieter Pötsch
Chairman of the board of management

On the legal side, there was little movement in the fiscal year 2020. Most of the scheduled hearings did not take place due to the Covid-19 pandemic. Following a ruling handed down by the Federal Court of Justice, the Higher Regional Court of Stuttgart appointed a model case plaintiff for a case according to the Capital Markets Model Case Act (KapMuG) in October 2020. We are convinced that the lawsuits brought against Porsche SE are without merit and partially also inadmissible.

For the fiscal year 2021, we expect a recovery in important automobile markets provided that efforts to sustainably curb the Covid-19 pandemic are successful. On this basis, Porsche SE expects a group result after tax of between 2.6 billion euro and 4.1 billion euro. This is mainly attributable to the result of the Volkswagen Group. Net liquidity in the Porsche SE Group is expected to range between 0.4 billion euro and 0.9 billion euro as of 31 December 2021, not taking into account future investments.

For the past fiscal year 2020, the board of management and supervisory board propose that a dividend of 2.21 euro per share be distributed to the holders of preference shares and of 2.204 euro per share to the holders of ordinary shares. The resulting payout of around 676 million euro is on a par with the prior-year amount.

An additional encouraging piece of news for our shareholders is that Porsche SE has been admitted to the MDAX as announced by Deutsche Börse at the beginning of March 2021. Admission to the index could result in an increase in the liquidity in our shares, driven for instance by increased demand of index-oriented investors and funds.

We are convinced more than ever that Volkswagen AG will successfully help shape the transformation of the automotive industry and that Porsche SE will benefit from this. We continue to count on your trust and your support on this journey.

Hans Dieter Pötsch

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Company boards of Porsche Automobil Holding SE and their appointments

Members of the supervisory board

Dr. Wolfgang Porsche
Chairman

Chairman of the supervisory board of
Dr. Ing. h.c. F. Porsche AG

Appointments:
● AUDI AG, Ingolstadt
● Dr. Ing. h.c. F. Porsche AG, Stuttgart (chairman)
● Volkswagen AG, Wolfsburg
o Familie Porsche AG Beteiligungsgesellschaft, Salzburg (chairman)
o Porsche Cars Great Britain Ltd., Reading
o Porsche Cars North America Inc., Atlanta
o Porsche Greater China, consisting of:
  Porsche (China) Motors Ltd., Shanghai
  Porsche Hong Kong Limited, Hong Kong
o Porsche Holding Gesellschaft m.b.H., Salzburg
o Schmittenhöhebahn AG, Zell am See

Dr. Hans Michel Piëch
Deputy chairman

Supervisory board of Volkswagen AG

Appointments:
● AUDI AG, Ingolstadt
● Dr. Ing. h.c. F. Porsche AG, Stuttgart
● Volkswagen AG, Wolfsburg
o Porsche Cars Great Britain Ltd., Reading
o Porsche Cars North America Inc., Atlanta
o Porsche Greater China, consisting of:
  Porsche (China) Motors Ltd., Shanghai
  Porsche Hong Kong Ltd., Hong Kong
o Porsche Holding Gesellschaft m.b.H., Salzburg
o Schmittenhöhebahn AG, Zell am See
o Volksoper Wien GmbH, Vienna

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

Appointments:
● Deutsche Telekom AG, Bonn (chairman)
o Henkel AG & Co. KGaA, Düsseldorf

As of 31 December 2020

● Memberships in German statutory supervisory boards
o Comparable appointments in Germany and abroad

Dr. Ferdinand Oliver Porsche
Chairman of the board of management
of Familie Porsche AG Beteiligungsgesellschaft

Appointments:
- AUDI AG, Ingolstadt
- Dr. Ing. h.c. F. Porsche AG, Stuttgart
- Volkswagen AG, Wolfsburg
- o Porsche Holding Gesellschaft m.b.H., Salzburg
- o Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg

Mag. Josef Michael Ahorner
Supervisory board of AUDI AG

Appointments:
- AUDI AG, Ingolstadt
- o Automobili Lamborghini S.p.A., Sant'Agata Bolognese
- o Emarsys eMarketing Systems AG, Vienna (chairman) (until 4 November 2020)

Mag. Marianne Heiß
Chief Executive Officer of
BBDO Group Germany GmbH

Appointments:
- AUDI AG, Ingolstadt
- Volkswagen AG, Wolfsburg

Dr. Günther Horvath
Managing director of
Dr. Günther J. Horvath Rechtsanwalt GmbH

Dr. Stefan Piëch
Member of the board of management
of Your Family Entertainment AG

Appointments:
- o SEAT S.A., Barcelona

Peter Daniell Porsche
Supervisory board of
Porsche Automobil Holding SE as well as member of additional control bodies of domestic and foreign commercial enterprises

Appointments:
- o Porsche Holding Gesellschaft m.b.H., Salzburg
- o Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg
- o ŠKODA AUTO a.s., Mladá Boleslav

Prof. TU Graz e.h. KR Ing. Siegfried Wolf
Supervisory board of Schaeffler AG as well as member of additional control bodies of domestic and foreign commercial enterprises

Appointments:
- ● Continental AG, Hanover
- ● Schaeffler AG, Herzogenaurach
- o Banque Eric Sturdza SA, Geneva (until 21 April 2020)
- o MIBA AG, Mitterbauer Beteiligungs AG, Laakirchen (in accordance with Sec. 28a (5) No. 5 Austrian Banking Act a position on the supervisory board)
- o OJSC GAZ Group, Nizhny Novgorod (since 19 June 2020)
- o Sberbank Europe AG, Vienna (chairman)

As of 31 December 2020

- ● Memberships in German statutory supervisory boards
- o Comparable appointments in Germany and abroad

Current committees of the supervisory board of Porsche Automobil Holding SE and their members

Executive committee:
- Dr. Wolfgang Porsche (chairman)
- Dr. Hans Michel Piëch
- Dr. Ferdinand Oliver Porsche

Audit committee:
- Prof. Dr. Ulrich Lehner (chairman)
- Dr. Hans Michel Piëch
- Dr. Ferdinand Oliver Porsche

Nominations committee:
- Dr. Wolfgang Porsche (chairman)
- Dr. Hans Michel Piëch
- Dr. Ferdinand Oliver Porsche

Members of the board of management

Hans Dieter Pötsch
Chairman of the board of management
and Chief Financial Officer of
Porsche Automobil Holding SE

Chairman of the supervisory board of
Volkswagen AG

Appointments:
- AUDI AG, Ingolstadt
- Autostadt GmbH, Wolfsburg
- Bertelsmann Management SE, Gütersloh
- Bertelsmann SE & Co. KGaA, Gütersloh
- Dr. Ing. h.c. F. Porsche AG, Stuttgart
- TRATON SE, Munich (chairman)
- Volkswagen AG, Wolfsburg (chairman)
- Wolfsburg AG, Wolfsburg

o Porsche Austria Gesellschaft m.b.H., Salzburg (chairman)
o Porsche Holding Gesellschaft m.b.H., Salzburg (chairman)
o Porsche Retail GmbH, Salzburg (chairman)
o VfL Wolfsburg-Fußball GmbH, Wolfsburg (deputy chairman)

Dr. Manfred Döss
Board of management member
responsible for legal affairs and compliance
of Porsche Automobil Holding SE

Appointments:
- PTV Planung Transport Verkehr AG, Karlsruhe
- TRATON SE, Munich

Lutz Meschke (since 1 July 2020)
Board of management member
responsible for investment management
of Porsche Automobil Holding SE

Deputy chairman of the board of management and board of management member responsible for finance and IT of Dr. Ing. h.c. F. Porsche AG

Appointments:
- ● MHP Management und IT-Beratung GmbH, Ludwigsburg (chairman)
- ● Porsche Consulting GmbH, Bietigheim-Bissingen
- ● Porsche Deutschland GmbH, Bietigheim-Bissingen
- ● Porsche Digital GmbH, Ludwigsburg (chairman)
- ● Porsche Engineering Group GmbH, Weissach
- ● Porsche Engineering Services GmbH, Bietigheim-Bissingen
- ● Porsche Financial Services GmbH, Bietigheim-Bissingen (chairman)
- ● Porsche Leipzig GmbH, Leipzig
- ● Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg (chairman)
- ● Porsche Werkzeugbau GmbH, Schwarzenberg
- ● PTV Planung Transport Verkehr AG, Karlsruhe (chairman) (since 30 July 2020)
- ● Volkswagen Bank GmbH, Braunschweig
- o Bentley Motors Limited, Crewe
- o Porsche Business Services Inc., Wilmington, Delaware (until 1 September 2020)
- o Porsche Digital, Inc., Wilmington, Delaware (chairman) (until 1 September 2020)
- o Porsche Enterprises Inc., Wilmington, Delaware
- o Porsche Russland OOO, Moskow

Philipp von Hagen (until 30 June 2020)
Board of management member
responsible for investment management
of Porsche Automobil Holding SE

Appointments:
- ● PTV Planung Transport Verkehr AG, Karlsruhe (chairman) (until 30 June 2020)
- o INRIX Inc., Kirkland, Washington (until 30 June 2020)

As of 31 December 2020 or as of the date of departure from the board of management of Porsche Automobil Holding SE.

- ● Memberships in German statutory supervisory boards
- o Comparable appointments in Germany and abroad

Dr. Manfred Döss

Legal affairs and compliance

Hans Dieter Pötsch
Chairman of the board of management and
Chief Financial Officer

Lutz Meschke
Investment management

1

Report of the supervisory board

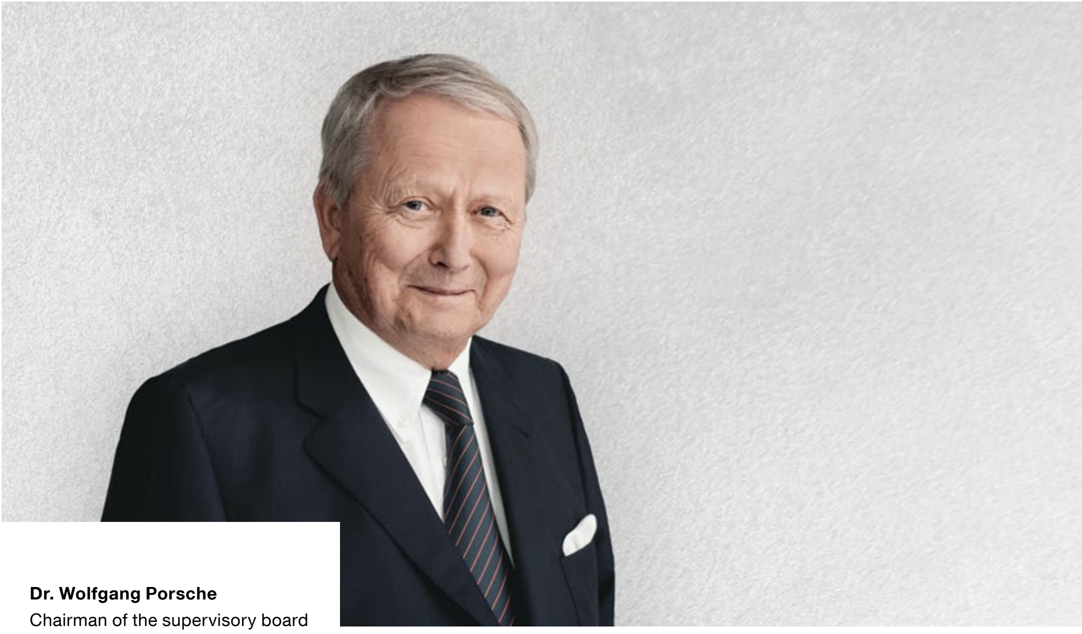
Ladies and gentlemen,

Porsche SE is a holding company with investments in the areas of mobility and industrial technology. As a core investment, it holds the majority of the ordinary shares in Volkswagen Aktiengesellschaft, Wolfsburg (“Volkswagen AG” or “Volkswagen”), and sees itself as a long-term anchor investor. In the fiscal year 2020, Porsche SE acquired an additional 0.2% of the ordinary shares in Volkswagen AG via the capital market. Porsche SE therefore now holds 53.3% of the ordinary shares. We remain convinced that the Volkswagen Group has vast potential for increasing value added.

The board of management of Volkswagen AG is currently realigning the company. Electromobility, digital connectivity and autonomous driving will revolutionize the industry in the years to come. We believe this transformation harbors huge opportunities. The Volkswagen Group is planning to invest around €73 billion in electromobility, hybridization and digitalization over the next five years. In the area of digitalization, a large portion of funds is being invested in artificial intelligence, autonomous driving as well as the digitalization of significant business processes. With this strategy, the Volkswagen Group has set itself the target of transforming itself into a technology group within the automotive industry as well as increasing the enterprise value. We at Porsche SE support this strategy and are convinced that Volkswagen will continue to play a leading role in the automotive industry in the future.

In the past fiscal year, our subsidiary PTV Planung Transport Verkehr AG, Karlsruhe (“PTV”), devised a strategy for developing the company further. On the basis of its position as a world-leading software provider in the area of mobility infrastructure planning as well as the optimization of logistics processes, PTV’s product portfolio is gradually being modernized and refined. The new strategy opens up promising growth prospects for PTV.

In August 2020, Porsche SE also invested in the Israeli technology company Aurora Labs. For the investment volume of around US$2.5 million, we acquired a low single-digit capital share. The technology of Aurora Labs is specifically designed for efficient and secure software updates for vehicles via a radio interface, known as over-the-air updates. In light of the growing use of software functions in vehicles over the next few years and the associated necessity of keeping them up to date, strong growth is expected for this market.



Dr. Wolfgang Porsche
Chairman of the supervisory board

In addition to Aurora Labs, Porsche SE holds non-controlling interests in four US technology companies via its investment companies.

Tasks of the supervisory board

Pursuant to the articles of association, the supervisory board has ten members (shareholder representatives) to be appointed by the annual general meeting. The composition of the supervisory board can be found in the section “Company boards of Porsche Automobil Holding SE and their appointments” of the annual report of Porsche SE.

In the fiscal year 2020, the supervisory board of Porsche SE performed all the tasks assigned to it by law, the articles of association and rules of procedure. During the fiscal year 2020, the supervisory board held four ordinary meetings and three extraordinary meetings. The ordinary meetings took place in March, June, October and December, the extraordinary meetings in June, July and August. The purpose of these extraordinary meetings of the supervisory board was to discuss the appointment of a new member of the board of management, prepare proposals for resolution by management for the annual general meeting of Porsche SE as well as to deal with the investigation against Prof. Dr. Martin Winterkorn, Hans Dieter Pötsch and Matthias Müller concerning the alleged market manipulation in connection with the diesel issue.

All supervisory board members participated in every supervisory board meeting in the fiscal year 2020. Members participated either in person or, in line with the company’s articles of association, by video or conference call.

Individual resolutions of the supervisory board were passed by circularization. These included in particular resolutions on the appointment of Mr. Meschke as member of the board of management of Porsche SE, the reappointment of Dr. Döss as member of the board of management, the approval of ancillary activities of a former member of the board of management as well as the determination of the key audit topics and the approval of the auditor’s fees.

Within the framework of its control and advisory responsibilities, the supervisory board was informed in depth about company performance during the fiscal year 2020 by means of written reports from the board of management as well as verbally in meetings. Reporting focused on Porsche SE's economic position and its investments (in particular Volkswagen AG), business results, the development of net assets, financial position and results of operations and the risk situation. The supervisory board also monitored the effectiveness of corporate governance. Furthermore, the supervisory board reviewed the annual and consolidated financial statements issued with unqualified auditor's reports as well as the combined management report and the non-financial group report for the fiscal year 2019, approved these and ratified the 2019 annual financial statements of Porsche SE. Likewise, no objections were raised against the dependent company report. In the fiscal year 2020, the supervisory board largely dealt with the impact of the Covid-19 pandemic and its influence on the business operations of Porsche SE, and regularly had the board of management inform it about any developments. Another focus of the supervisory board's monitoring activities was on obtaining regular reports on the development and status of the various legal disputes (especially the claims for damages, the criminal investigation by the Stuttgart public prosecutor's office against Mr. Pötsch, Prof. Dr. Winterkorn and Mr. Müller as well as the rescission proceedings and compulsory information procedures). Central topics were also the actions for damages concerning the stake building of the investment in Volkswagen AG in 2008 as well as those in connection with the diesel issue. In addition, the supervisory board discussed the possibility claims of the company existing against a former member of the board of management in connection with the credit fraud proceedings. Based on various reports by an independent university professor, which the supervisory board reviewed in detail, it came to the conclusion that strong grounds relating to the interests of the company conflict with asserting any possible claims or taking measures to toll the statute of limitations, which is why no additional measures should be taken.

The supervisory board also discussed the business plan. Furthermore, the supervisory board ensured that the board of management carried out its business in compliance with the regulations. Monitoring also encompassed appropriate measures for risk avoidance and compliance. It checked that the board of management carried out the measures for which it is responsible in accordance with Sec. 91 (2) AktG in an appropriate form and that the risk monitoring system the act requires is functioning effectively to identify any developments jeopardizing the company's ability to continue as a going concern at an early stage.

The supervisory board also dealt extensively with the new statutory requirements and the recommendation of the German Corporate Governance Code published by the Federal Ministry of Justice on the remuneration system for the board of management. Based on this, on 3 December 2020 a new remuneration system was decided on for the board of management of Porsche SE, which will be presented to this year's annual general meeting for approval.

As certain matters are subject to the approval of the supervisory board, it also discussed the voting behavior of Porsche SE at the annual general meeting of Volkswagen AG.

Committees

As before, the supervisory board has a total of three committees to carry out its duties: the executive committee, audit committee and nominations committee. The committees support the supervisory board and prepare supervisory board resolutions as well as topics for discussion by the full supervisory board. Moreover, decision-making authority of the supervisory board may be transferred to the individual committees to the extent permitted by law.

The executive committee decides in urgent cases on business matters requiring the approval of the supervisory board. It also functions as a personnel committee and makes recommendations to the supervisory board on concluding, amending and terminating contracts of employment for members of the board of management. In addition, the executive committee draws up a proposal for the individual amount of the variable remuneration for each completed fiscal year, taking into account the respective business and earnings situation and based on the specific performance of the individual member of the board of management, if agreed as such with Porsche SE. This proposal is submitted to the supervisory board of Porsche SE for decision. Furthermore, the executive committee is responsible for the approval of ancillary activities of members of the board of management and prepares resolutions of the supervisory board on the remuneration system for the board of management as well as its regular review.

The audit committee supports the supervisory board in monitoring management of the company and pays particular attention to reviewing accounting, monitoring the accounting process, the effectiveness of the internal control system, the risk management system and internal audit, compliance function and the audit. In the past fiscal year, the audit committee regularly reviewed whether the risk early warning system in place is suitable for identifying at an early stage any developments jeopardizing the ability of the company to continue as a going concern. It satisfied itself as to the efficiency of the risk management system, including the internal control system, as well as the activities of internal audit and obtained regular reports on these. The audit committee passed its findings on to the full supervisory board in regular reports.

The audit committee's review of accounting primarily relates to the consolidated financial statements and the combined management report, interim financial information and the annual financial statements prepared in accordance with HGB. The audit committee deals with the half-yearly financial report and the group quarterly statements for the supervisory board and discusses them with the board of management and the auditor. The audit committee also focuses on the non-financial group report, the dependent company report and the proposal for profit appropriation and prepares them for review by the supervisory board.

In connection with the audit, the audit committee submits to the supervisory board a recommendation for the appointment of the auditor, which – except in cases where the auditor is reappointed – is prepared following a selection procedure within the meaning of Art. 16 (3) Regulation (EU) No 537/2014, comprises at least two candidates and is explained. In addition, the audit committee monitors the independence of the auditor and ensures that the auditor's non-audit services assigned by the board of management do not give rise to any indications of grounds for exclusion or disqualification or that endanger the independence of the auditor. The audit committee is authorized on behalf of the supervisory board to award the audit engagement to the auditor selected by the annual general meeting, to agree on the fee with the auditor and to determine the key topics of the audit. It also examines the key audit matters and regularly assesses the quality of the audit.

The nominations committee makes recommendations for the supervisory board's proposals to the annual general meeting concerning the election of supervisory board members.

The composition of the individual committees of the supervisory board is described in more detail in the corporate governance declaration of compliance, published on the company's website.

During the fiscal year 2020, the executive committee held four ordinary meetings and two extraordinary meetings. The audit committee met five times. The nominations committee did not meet in the fiscal year 2020. The chairman of the supervisory board, Dr. Wolfgang Porsche, attended the meetings of the audit committee as a guest. The members of the respective committees attended all meetings held in the fiscal year 2020, with the exception of Dr. Hans Michel Piëch, who did not attend one of the executive committee's meetings. The full supervisory board was regularly informed about the work of the committees.

Cooperation with the board of management

The chairman of the supervisory board and the chairman of the audit committee were in regular contact with the board of management to exchange ideas and information, thus ensuring that they were kept directly informed about significant events and developments for the company and the group.

The supervisory board gave its approval as required for individual transactions, such as the voting behavior of Porsche SE in the annual general meeting of Volkswagen AG.

Corporate governance

The supervisory board and board of management have repeatedly and intensively discussed the recommendations and suggestions of the German Corporate Governance Code, submitted the first annual declaration of compliance in accordance with Sec. 161 AktG in December 2020 under the updated German Corporate Governance Code and made it permanently accessible to shareholders on the company's website at www.porsche-se.com/en/company/corporate-governance/. Furthermore, in June and September 2020 the board of management and supervisory board published updates to the declaration of compliance submitted in December 2019. The current declaration of compliance is reproduced in full in the declaration of compliance, published on the company's website.

Due to the influence of individual members of the supervisory board of Porsche SE on individual ordinary shareholders of Porsche SE or the fact that individual supervisory board members are also members of the supervisory boards of Porsche SE and Volkswagen AG or Volkswagen subsidiaries, conflicts of interest can arise for these members of the supervisory board in individual cases.

To the extent that concrete conflicts of interest existed or were feared, the particular conflict of interest was reported to the supervisory board. In the past fiscal year, this related to the resolutions of the company at the annual general meeting of Volkswagen AG regarding the individual exoneration of members of the supervisory board for the fiscal year 2019. If supervisory board members are also on the supervisory board of Volkswagen AG, they abstained from voting in the resolutions on voting behavior in the annual general meeting of Volkswagen AG regarding their own exoneration.

Comments on the result of the audit of the financial statements and on the proposal for the appropriation of profit

The annual general meeting on 2 October 2020 elected PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Stuttgart office, to audit the annual financial statements and consolidated financial statements for the fiscal year 2020. Prior to the supervisory board issuing its recommendation for election to the annual general meeting, the auditor submitted a declaration of independence to the supervisory board, which was reviewed by the audit committee.

Alongside the key audit matters identified by the auditor in the auditor's report, the audit committee set the key topics as “Presentation of legal risks in the combined management report”, “Presentation of the effects of the diesel issue in the combined management report” and “Accounting treatment of the acquisition of ordinary shares in Volkswagen in the consolidated financial statements and combined management report” and “Presentation of the impact of the Covid-19 pandemic in the combined management report”.

The auditors responsible at PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Stuttgart office, audited the separate and consolidated financial statements of Porsche SE as well as the combined management report for fiscal year 2020 and issued an unqualified auditor's report. They attended both the audit committee meeting and the supervisory board meeting where the separate and consolidated financial statements and the combined management report for the fiscal year 2020 were discussed. The members of the audit committee and supervisory board provided extensive documents and the audit reports of the auditor for preparation. The audit committee examined and discussed all reports made available to it and inquired about them in a critical manner. These were also discussed in great detail in the presence of the auditor. The auditors reported on the results of their audits, also referring to the key audit matters, the respective procedures during the audit, including the conclusions, the additional key topics set by the audit committee and were available to answer any additional questions or provide information. Furthermore, the auditor confirmed that the risk early warning system implemented by the board of management is suitable for identifying at an early stage any risks jeopardizing the ability of the company to continue as a going concern, and that no weaknesses were found in the internal control system and risk management system with regard to the accounting process. After its own audit, the audit committee concurred with the result of the audits by the auditor.

The chairman of the audit committee and the auditor reported on the results of their audits to the supervisory board and were available to answer any additional questions or provide information. After its own audit, the supervisory board concurred with the result of the auditor's and audit committee's audits. It determined that it had no objections to raise, approved the consolidated and annual financial statements as well as the combined management report prepared by the board of management for the fiscal year 2020 and thus ratified the financial statements for the fiscal year 2020 of Porsche SE.

Based on this, the supervisory board endorsed the suggestion of the board of management for the appropriation of net profit available for distribution.

Audit of the dependent company report

Pursuant to Art. 9 (1) lit. c (ii) SE-VO and Sec. 312 AktG, the board of management prepared a report on related companies (dependent company report) for the fiscal year 2020. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Stuttgart office, audited the dependent company report and rendered the following opinion:

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

(1) the factual 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 supervisory board concurred with the result of the audit by the auditor of the dependent company report. According to the concluding results of its own review, the supervisory board had no objections to raise with respect to the closing declaration of the board of management in the dependent company report.

Audit of the non-financial group report

The supervisory board thoroughly examined the non-financial group report. It had no objections to raise.

Composition of the board of management and supervisory board

Member of the board of management Mr. Philipp von Hagen stepped down from his position on the board of management at his own volition and by mutual agreement effective 30 June 2020. Mr. Lutz Meschke was appointed by the supervisory board as his successor in charge of the investment management function effective 1 July 2020. In addition to this, the supervisory board extended the appointment of the board of management member responsible for legal affairs and compliance, Dr. Manfred Döss, by five years effective 1 January 2021.

There were no changes in personnel on the supervisory board of Porsche SE in the fiscal year 2020.

Acknowledgment

The supervisory board expresses its gratitude to the board of management and all employees in acknowledgment of the work they have done and their unflagging commitment.

Stuttgart, 12 March 2021

The supervisory board
Dr. Wolfgang Porsche
Chairman

Porsche SE share

Stock markets[1]

In the reporting year 2020, the Covid-19 pandemic not only had a severe impact on society, but also shaped the international financial markets. After the first cases of the new infectious disease were reported in China in December 2019, with the virus then spreading across many countries worldwide in the following months, the stock markets collapsed in March 2020. Following a temporary decline in the number of cases and the announcement of comprehensive government aid packages, the stock markets began to recover before global uncertainty started to grow again towards the end of the year as cases began to rise once more. However, this time the stock markets were largely left unscathed.

Other factors influencing the financial markets included the low-interest policy of the most important central banks, the foreign and economic policy of the USA and China as well as the US presidential elections in November and the Brexit negotiations that were concluded in December with the signing of the trade agreement between the European Union and the United Kingdom.

After a strong start to 2020 and reaching an all-time high in February, the German stock exchange index (DAX) plummeted in response to the Covid-19 pandemic, hitting a low for the year of 8,441.71 points on 18 March. However, the index was able to recover from its losses over the course of the year, reaching its high for the year (13,790.29 points) on 28 December. As of year-end, the index closed at 13,718.78 points – up 469.77 points or around 4% on the closing from 30 December 2019 (13,249.01 points).

As of the end of 2020, the Euro Stoxx 50 by contrast recorded 3,552.64 points, down around 5% compared to the 2019 closing level (3,745.15 points). The high for the year of 3,865.18 points was recorded on 19 February. The low for the year of 2,385.82 points was recorded on 18 March.

Porsche SE's preference shares reached the highest price for the year of €69.86 on 10 January 2020. However, the shares were unable to escape the effects of the collapse in the share markets as a result of the Covid-19 pandemic, hitting a low for the year of €30.27 on 19 March. Over the rest of the year, the shares recovered again and ended 2020 at a price of €56.40, down around 15% on the price as of the end of 2019 (€66.64).

The preference shares of Porsche SE have been admitted to the MDAX effective 22 March 2021. We expect this to increase the liquidity in our stock, also due to the demand of index-oriented investors and funds.

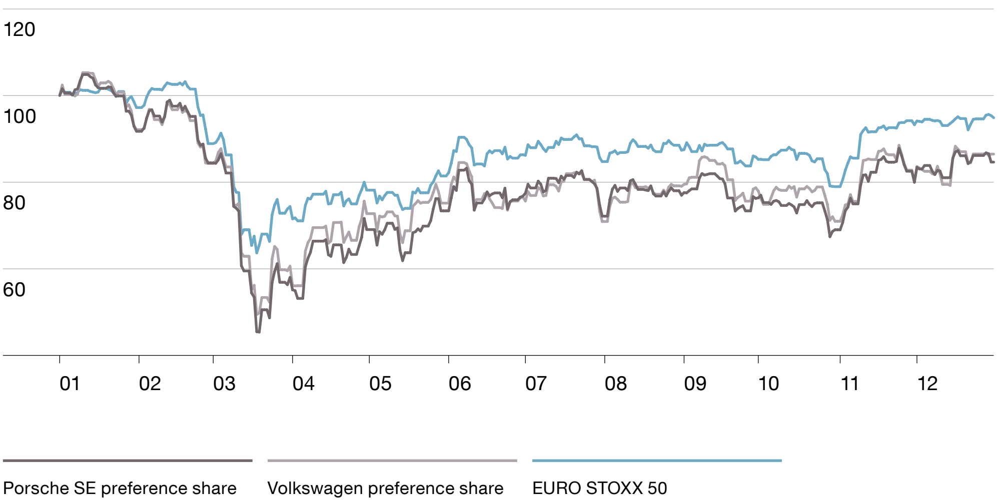
[1] All disclosures with regard to the respective closing price.

2020 annual general meeting

The annual general meeting of Porsche SE, originally planned for 19 May 2020 and postponed due to the Covid-19 pandemic, took place on 2 October 2020 and was held virtually for the very first time. The annual general meeting resolved to distribute a dividend of €2.210 per preference share and of €2.204 per ordinary share for the fiscal year 2019. This corresponds to a payout of around €676 million.

The shareholders exonerated the members of the board of management and those of the supervisory board in office in the fiscal year 2019. Furthermore, the annual general meeting elected PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft to audit the annual financial statements and consolidated financial statements for the fiscal year 2020.

Development of the Porsche SE preference share price 2020
(indexed to 31 December 2019)



Porsche SE preference share: basic data

ISIN	DE000PAH0038
WKN	PAH003
Stock codes	PSHG_p.DE, PAH3:GR
Stock exchange	All German stock exchanges
Trading segment	General Standard
Sector	Automotive
Key indices	CDAX, General All Share, MSCI International Euro Price Index, STOXX Europe 600 Index, STOXX All Europe 800, EURO STOXX Auto & Parts
Subscribed capital[1]	€306,250,000
Denomination	153,125,000 ordinary and preference shares respectively
Class of shares	No-par value bearer shares

[1] Of which half as ordinary shares

Shareholder composition

Porsche SE's subscribed capital in the form of no-par value bearer shares comprises 153,125,000 ordinary shares and 153,125,000 non-voting preference shares, each share arithmetically representing a 1 euro notional value of the share capital.

Significantly more than half of the preference shares are held by institutional investors, the majority of which are based outside of Germany. Private investors in Porsche SE's preference shares are largely based in Germany.

Porsche SE share key figure

		2020	2019	2018
Closing price[1,2]	€	56.40	66.64	51.64
Annual high[1,2]	€	69.86	70.00	78.72
Annual low[1,2]	€	30.27	50.28	50.78
Number of ordinary shares issued (31 December)		153,125,000	153,125,000	153,125,000
Number of preference shares issued (31 December)		153,125,000	153,125,000	153,125,000
Market capitalization (31 December)[3]	€	17,272,500,000	20,408,500,000	15,814,750,000
Earnings per ordinary share[4]	€	8.56	14.39	11.39
Earnings per preference share[4]	€	8.57	14.39	11.40
Dividend per ordinary share	€	2.204[5]	2.204	2.204
Dividend per preference share	€	2.210[5]	2.210	2.210

1 Preference share in Xetra trading
2 Based on the closing price
3 Ordinary shares valued at the market price of the preference shares
4 Basic and diluted
5 Proposal to the annual general meeting of Porsche SE

Investor relations activities

Beyond the regular corporate reporting in the quarterly and half-yearly financial reports as well as the annual general meeting, the board of management and investor relations team stayed in close contact with analysts and investors. Due to the Covid-19 pandemic, face-to-face events and roadshows were only possible to a very limited extent in the fiscal year 2020. In order to nevertheless meet all the information needs of capital market participants, the investor relations team increasingly used digital communications channels such as virtual meetings or conference calls.

The aim of our investor relations work was and is to inform the capital market participants about the latest business developments, our investment strategy as well as the status of the legal proceedings.

2

Group management report and management report of Porsche Automobil Holding SE

Fundamental information about the group

Porsche Automobil Holding SE ("Porsche SE" or the "company"), as the ultimate parent of the Porsche SE Group, is a European Company (Societas Europaea) and is headquartered at Porscheplatz 1 in 70435 Stuttgart, Germany. As of 31 December 2020, the Porsche SE Group had 916 employees (951 employees).

The Porsche SE Group is made up of the fully consolidated subsidiaries Porsche Beteiligung GmbH, Stuttgart, Porsche Zweite Beteiligung GmbH, Stuttgart, including PTV Planung Transport Verkehr AG, Karlsruhe ("PTV AG"), and its subsidiaries (the "PTV Group"), Porsche Dritte Beteiligung GmbH, Stuttgart, Porsche Vierte Beteiligung GmbH, Stuttgart, and the alternative investment fund HI-Liquiditätsfonds. The investments in Volkswagen Aktiengesellschaft, Wolfsburg ("Volkswagen AG" or "Volkswagen"), and INRIX Inc., Kirkland, Washington, USA ("INRIX"), are included in Porsche SE's IFRS consolidated financial statements as associates.

The business activities of Porsche SE essentially consist in acquiring, holding, managing and selling investments in companies. The management reports for Porsche SE and for the Porsche SE Group are combined in this report.

Investment management of Porsche SE

Porsche SE is a holding company with investments in the areas of mobility and industrial technology. In particular, it holds the majority of the ordinary shares in Volkswagen AG, one of the leading automobile manufacturers in the world. The Volkswagen Group comprises twelve brands with registered offices in seven European countries: Volkswagen passenger cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen commercial vehicles, Scania and MAN. The collaboration between the MAN and Scania commercial vehicle brands is coordinated in TRATON SE, which has been listed on the stock exchange since mid-2019. In addition to the investment in Volkswagen AG, the Porsche SE Group holds 100% of the shares in PTV AG as well as non-controlling interests in five technology companies based in the USA and Israel.

The principal criteria of Porsche SE for the acquisition of investments are the connection to industrial production or to the future of mobility. The prerequisites for investment by Porsche SE are always the positioning in an attractive market environment, an above-average growth profile and mid- to long-term potential for profitability of the companies.

All figures and percentages are rounded according to customary business practice, so minor discrepancies may arise from the addition of these amounts. The comparative prior-year figures are presented in parantheses alongside the figures for the current reporting period.

Core management and financial indicator system

Porsche SE's main corporate goal is to invest in companies that contribute to the mid- and long-term profitability of the Porsche SE Group while securing sufficient liquidity. In line with this corporate goal, the result and liquidity are the core management indicators in the Porsche SE Group.

The IFRS group result after tax is used as the financial indicator for the result of the Porsche SE Group. For liquidity, net liquidity is monitored and managed accordingly. By definition, net liquidity is calculated as cash and cash equivalents, time deposits and securities less financial liabilities.

The management of the Porsche SE Group comprises Porsche SE and the consolidated entities. There is therefore no separate management and forecast of the core management indicators for Porsche SE.

The planning and budgeting process implemented in the Porsche SE Group is designed to enable management to take its decisions on the basis of the development of these indicators. In this context, an integrated multi-year plan is prepared for the results of operations, financial position and net assets of the Porsche SE Group.

In the course of the year, the development of the indicators is continuously tracked and made available to the board of management and supervisory board in regular reports. The reporting includes in particular the consolidated financial statement reports for the Porsche SE Group as well as risk reports.

Report on economic position

Significant events and developments at the Porsche SE Group

Global spread of the coronavirus SARS-CoV-2

At the end of December 2019, initial cases of a potentially fatal respiratory disease became known in Wuhan, in the Chinese province of Hubei. This disease is attributable to a novel coronavirus. Infections also appeared outside China from mid-January 2020. In Europe, the number of people infected rose continuously in the course of February, and especially in March and April 2020. While many European countries recorded declining numbers of new infections as the second quarter of 2020 progressed, the rate of new infections continued to rise in North, Central and South America, Africa and parts of Asia. In the second quarter, many of the measures taken to contain the Covid-19 pandemic were gradually eased, especially in Europe. This included partially lifting border controls and travel restrictions and easing lockdowns as well as the reopening of businesses and public facilities. In addition, the European Commission and numerous European governments approved aid packages to support the economy. In other regions, too, governments introduced measures aimed at shoring up the economy to counteract the enormous disruption to everyday life and economic activity caused by the Covid-19 pandemic. During the third quarter, and particularly during the fourth quarter of 2020, many regions around the world saw a renewed – and in some cases very rapid – increase in new infections, which led to the easing of restrictions being reversed in certain situations.

Throughout the whole of 2020, the global spread of the SARS-CoV-2 virus brought enormous disruption to all areas of everyday life and the economy.

Significant developments with regard to the investment in Volkswagen AG accounted for at equity

Due to its share in capital of Volkswagen AG, Porsche SE is significantly influenced by the developments at the level of the Volkswagen Group. In this context, the impact of the Covid-19 pandemic as well as the diesel issue at the level of the Volkswagen Group and their implications for the Porsche SE Group are the main points to be addressed in the fiscal year 2020.

The Volkswagen Group's business in the fiscal year 2020 was severely affected by the Covid-19 pandemic. The group result after tax decreased from €14.0 billion in the prior year to €8.8 billion (see also sections "Business development" and "Results of operations of the Volkswagen Group").

On 18 September 2015, the US Environmental Protection Agency (EPA) publicly announced in a notice of violation that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain Volkswagen Group vehicles with 2.0 l diesel engines in the USA. On 2 November 2015, the EPA issued a notice of violation alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines. In this regard, numerous judicial and regulatory proceedings were subsequently initiated in various countries ("diesel issue"). In the fiscal year 2020, the operating result at the level of the Volkswagen Group was negatively influenced by special items in connection with the diesel issue of minus €0.9 billion (minus €2.3 billion) in the passenger car business area. They largely result from legal risks.

Furthermore, the proportionate market capitalization of the investment in Volkswagen AG is influenced by the development of the prices of the Volkswagen ordinary and preference shares that may result from any negative effects in connection with the Covid-19 pandemic and/or with the diesel issue. As of 31 December 2020, there was no need to recognize an impairment loss on the basis of the earnings forecasts for the investment accounted for at equity in Volkswagen AG. However, an impairment in the value of the investment cannot be ruled out, particularly in the event of any sustained decline in earnings due to the Covid-19 pandemic and/or a further increase in the costs of mitigating the diesel issue. In addition, there may be consequences for the dividend policy of Volkswagen AG and therefore for the cash inflows at the level of Porsche SE. We refer to the explanations in the section "Opportunities and risks of future development".

Porsche SE acquires further ordinary shares in Volkswagen AG

Porsche SE holds the majority of the ordinary shares in Volkswagen AG as a core investment, sees itself as a long-term anchor investor and remains convinced of the Volkswagen Group's potential for increasing value added. In the period from 17 March 2020 to 20 April 2020, Porsche SE acquired overall an additional 0.2% of the ordinary shares in Volkswagen AG for €81 million via the capital market. As of 31 December 2020, Porsche SE held 53.3% (53.1%) of the ordinary shares in Volkswagen AG. The acquisitions resulted overall in income from first-time at equity accounting of €127 million. This increase in the investment is another demonstration of the company's clear commitment to Volkswagen.

Significant developments and current status relating to litigation risks and legal disputes

For several years, Porsche SE has been involved in various legal proceedings. The main developments that occurred in the legal proceedings during the reporting period are described in the following. Porsche SE continues not to have reliable findings or assessments that would lead to a different evaluation of the legal risks.

Legal proceedings and legal risks in connection with the expansion of the investment in Volkswagen AG

A model case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE initiated by an order of reference of the Regional Court of Hanover dated 13 April 2016 is pending with the Higher Regional Court of Celle. Subject of those actions are alleged damage claims based on alleged market manipulation and alleged inaccurate information in connection with Porsche SE's expansion of the investment in Volkswagen AG. In part these claims are also based on alleged violations of antitrust regulations. In the six initial proceedings suspended with reference to the model case a total of 40 plaintiffs assert alleged claims for damages of about €5.4 billion (plus interest). Since the beginning of the model case several hearings have already been held before the Higher Regional Court of Celle, in which the court, inter alia, explained its preliminary view on the state of affairs and of the dispute. The next dates for hearings are scheduled to begin on 21 April 2021. Porsche SE is of the opinion that the claims asserted in the suspended initial proceedings are without merit and that the requested establishment objectives in the model case will be rejected. Porsche SE considers its opinion endorsed by the previous development of the oral hearing before the Higher Regional Court of Celle.

In a proceeding pending before the Regional Court of Frankfurt against an incumbent and a former, meanwhile deceased, member of the supervisory board of Porsche SE, Porsche SE joined as intervener in support of the defendants. In this proceeding the same alleged claims are asserted that are already subject of a currently suspended action concerning alleged damages of about €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover. No new developments occurred in this proceeding during the reporting period. Porsche SE considers these claims to be without merit.

Since 2012, Porsche SE and two companies of an investment fund have been in dispute over the existence of alleged claims in the amount of about US$195 million and have filed lawsuits in Germany and England respectively. On 6 March 2013, the English proceedings were suspended at the request of both parties until a final decision had been reached in the proceedings commenced in the Regional Court of Stuttgart concerning the question of which court is the court first seized. A final decision on this issue continues to be outstanding. Currently, the proceedings are pending before the Higher Regional Court of Stuttgart. Porsche SE considers the action filed in England to be inadmissible and the asserted claims to be without merit.

Legal proceedings and legal risks in connection with the diesel issue and shareholder proceedings

In connection with the diesel issue, legal proceedings with a total volume of approximately €1.1 billion (plus interest) are pending against Porsche SE before the Regional Court of Stuttgart, the Higher Regional Court of Stuttgart and the Regional Court of Braunschweig. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information or alleged incorrect capital market information in connection with the diesel issue. Some of these proceedings are directed against both Porsche SE and Volkswagen AG. Porsche SE considers the actions to be inadmissible in part, but in any case to be without merit.

Before the Regional Court of Stuttgart 199 actions are currently pending at first instance. After withdrawal of a few lawsuits, the actions concern payment of damages, if quantified, in the total amount of approximately €914.4 million (plus interest) and in part establishment of liability for damages. In the majority of the proceedings pending before the Regional Court of Stuttgart, the plaintiff side had filed motions for recusal. To the extent that decisions have been made so far on these motions for recusal, they have been dismissed. The remaining motions for recusal have become inadmissible because of a change in the composition of the chamber. 30 claims for damages against Porsche SE, with a claim volume (according to the current assessment of the partially unclear head of claims) of approximately €9 million (plus interest), are pending before the Regional Court of Braunschweig. A number of the proceedings pending before the Regional Court of Stuttgart and the Regional Court of Braunschweig are currently suspended with reference to the KapMuG proceedings pending before the Higher Regional Court of Stuttgart and the Higher Regional Court of Braunschweig. Porsche SE considers the actions filed against it before the Regional Court of Stuttgart to be without merit. The actions filed against Porsche SE before the Regional Court of Braunschweig are considered by Porsche SE to be inadmissible and to be without merit.

In addition, two further proceedings, in which a total of further approximately €164 million (plus interest) in damages was claimed, are pending before the Higher Regional Court of Stuttgart on appeal. The Regional Court of Stuttgart granted these actions in the amount of approximately €47 million (plus interest) and otherwise dismissed the actions on 24 October 2018. Porsche SE and the respective plaintiffs filed appeals. The appeal proceedings had been suspended with reference to the KapMuG proceedings pending before the Higher Regional Court of Stuttgart and the Higher Regional Court of Braunschweig. The orders to suspend the proceedings by the Higher Regional Court of Stuttgart were appealed by the respective plaintiffs on points of law. In one proceeding, the appeal on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points of law against the order to suspend the proceeding has meanwhile been withdrawn. In the other proceeding, the Federal Court of Justice, by court order dated 16 June 2020, set aside the order to suspend the proceeding by the Higher Regional Court of Stuttgart and ordered that the proceeding be resumed. Porsche SE considers these actions filed against it before the Regional Court of Stuttgart to be without merit.

A KapMuG proceeding, initiated by order for reference of the Regional Court of Stuttgart of 28 February 2017, is pending before the Higher Regional Court of Stuttgart. The Higher Regional Court of Stuttgart decided by court order dated 27 March 2019 that the model case proceeding is inadmissible. Against this decision an appeal on points of law was filed with the Federal Court of Justice. By court order dated 16 June 2020, the Federal Court of Justice set aside the court order of the Higher Regional Court of Stuttgart and referred the case back to the Higher Regional Court of Stuttgart. On 22 October 2020, the Higher Regional Court of Stuttgart appointed a model case plaintiff.

Following corresponding orders to suspend the proceedings by the Regional Court of Braunschweig and the courts of Stuttgart, Porsche SE became a further model case defendant in the model case proceedings before the Higher Regional Court of Braunschweig. Several oral hearings have taken place before the Higher Regional Court of Braunschweig. The next oral hearing is set to take place on 19 April 2021. With regard to the partial model case ruling of the Higher Regional Court of Braunschweig regarding questions of jurisdiction, an appeal on points of law was filed with the Federal Court of Justice. By court order dated 21 July 2020, the Federal Court of Justice dismissed the appeal on points of law.

During the reporting period, no significant new developments have occurred with regard to claims asserted out of court and not yet brought to court against Porsche SE with a total amount of approximately €63 million and in some cases without defined amounts as well as with regard to the waiver of the statute of limitations defense granted by Porsche SE to the United States of America for alleged claims for damages in relation to the alleged acquisition of in total 40,992 Porsche SE preference shares.

The investigation proceedings on suspicion of market manipulation against Matthias Müller, Hans Dieter Pötsch and Prof. Dr. Martin Winterkorn, have meanwhile been terminated. After a thorough examination and consideration, the Porsche SE supervisory board has argued that Porsche SE will assume a fine imposed in this regard on Hans Dieter Pötsch amounting to €1.5 million. The regulatory fining proceedings against Porsche SE pursuant to Sec. 30, 130 Regulatory Offences Act (OWiG) continue to be pending. Porsche SE considers the allegation made to be without merit.

In the shareholder proceedings, the so-called status proceeding in accordance with Sec. 98 German Stock Corporation Act (AktG) was closed due to the withdrawal of all motions. Also closed is the proceeding for annulment regarding the resolutions of the annual general meeting on 29 June 2016 on the exoneration of the board of management and the supervisory board for the fiscal year 2015. The appeal against the refusal of leave to appeal on points of law filed by Porsche SE has been rejected.

Significant events and developments at the Volkswagen Group

Effects of the Covid-19 pandemic

By causing a global decline in demand – driven among other factors by measures taken by governments in the form of restrictions on trade in motor vehicles – as well as temporary production stoppages, the Covid-19 pandemic had a negative impact on the Volkswagen Group's net assets, financial position and results of operations in fiscal year 2020. Since the Covid-19 pandemic still persists at the beginning of 2021, effects on the net assets, financial position and results of operations of the Volkswagen Group are again expected for 2021. We refer to the explanations in the sections "Business development", "Results of operations of the Volkswagen Group", "Report on opportunities and risks of the Volkswagen Group" and "Forecast report and outlook".

Capital increase at QuantumScape Corporation

In the fiscal year 2020, the Volkswagen Group took part in a capital increase at QuantumScape Corporation, a US-based company that develops solid-state batteries, entering into forward purchase agreements for new shares. The capital contribution comprises two tranches of US$100 million each. The first tranche was already paid in December 2020.

Payment of the second tranche is subject to a technical milestone being reached. Since there has meanwhile been a merger with a special purpose acquisition company (SPAC), which resulted in a listing on the New York Stock Exchange, the forward purchases are measured with reference to the share price of QuantumScape Corporation until the contribution has been made and the new shares have been issued. This measurement and realization resulted in non-cash income of €1.4 billion in the fiscal year 2020, which is reported in the other financial result.

Diesel issue

On 18 September 2015, the US Environmental Protection Agency (EPA) publicly announced in a notice of violation that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain Volkswagen Group vehicles with 2.0 l diesel engines in the USA. In this

context, Volkswagen AG announced that noticeable discrepancies between the figures recorded in testing and those measured in actual road use had been identified in around eleven million vehicles worldwide with type EA 189 diesel engines. On 2 November 2015, the EPA issued a notice of violation alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines. The diesel issue is rooted in a modification of parts of the software of the relevant engine control units – which, according to Volkswagen AG's legal position, is only unlawful under US law – for the type EA 189 diesel engines that Volkswagen AG was developing at that time. The decision to develop and install this software function was taken in late 2006 below board of management level of Volkswagen. No member of the board of management of Volkswagen had, at that time and for many years to follow, knowledge of the development and implementation of this software function.

In the fiscal year 2020, additional expenses of €0.9 billion mainly for legal risks had to be recognized in this connection at the level of the Volkswagen Group.

Contribution of Autonomous Intelligent Driving

On 12 July 2019, Volkswagen announced that, together with Ford Motor Company (Ford), it would be investing in Argo AI, a company that is working on the development of a system for autonomous driving. The investment involves the provision of financial resources totaling US$1.0 billion, spread over several years, and the contribution by Volkswagen of its consolidated subsidiary Autonomous Intelligent Driving (AID). Furthermore, Volkswagen acquired existing Argo AI shares from Ford for a purchase price of US$500 million, payable in three equal annual installments. The transaction, including the contribution of AID, was executed as of 1 June 2020. After proportional profit elimination, the contribution of AID to Argo AI at fair value resulted in non-cash income of €0.8 billion, which was recognized in the other operating result. Argo AI will be accounted for as a joint venture and included in the consolidated financial statements of the Volkswagen Group using the equity method.

Squeeze-out under the German Stock Corporation Act agreed at AUDI AG

As part of the planned squeeze-out at AUDI AG under the German Stock Corporation Act, Volkswagen AG announced on 16 June 2020 that the cash settlement for the transfer of shares held by minority shareholders had been set at €1,551.53 per share. On 31 July 2020, the annual general meeting of AUDI AG approved the squeeze-out under the German Stock Corporation Act at AUDI AG and thus the transfer of all outstanding Audi shares to Volkswagen AG. By resolution, the present value of the granted put option of around €0.2 billion was recognized by the Volkswagen Group as a current liability through other comprehensive income. The non-controlling interests in the Volkswagen Group and the retained earnings of the shareholders of Volkswagen AG decreased accordingly. This resolution took effect upon its entry in the commercial register on 16 November 2020. In December 2020, a former shareholder of AUDI AG initiated award proceedings against Volkswagen AG at the Munich I Regional Court, asking the court to review the amount of the cash settlement offered by Volkswagen AG.

Sale of interest in Renk AG

On 6 October 2020, the Volkswagen Group completed the sale of its 76% interest in Renk AG following the required regulatory approvals. The sale price was €0.5 billion. The transaction generated operating income of €0.1 billion at the level of Volkswagen.

Acquisition of all shares in Navistar

In November 2020, TRATON SE (TRATON) and Navistar International Corporation (Navistar), a leading US truck manufacturer, announced the signing of a binding merger agreement. Under this agreement, TRATON will acquire all outstanding shares in Navistar not already owned by TRATON in return for cash payment at a price of US$44.50 per share (total: approximately US$3.7 billion). As of 31 December 2020, TRATON already held a 16.7% interest in Navistar. The shareholders of Navistar approved the takeover by TRATON at the annual general meeting on 2 March 2021. The transaction is subject to regulatory approval. The completion of the transaction, through which TRATON will become Navistar’s sole owner, is still intended for mid-2021.

Business development

The business development of the Porsche SE Group is largely shaped by its investment in Volkswagen AG as well as the development of the actions pending. For the business development of the Porsche SE Group, please refer to the sections “Significant events and developments at the Porsche SE Group” and “Results of operations, financial position and net assets”. The following statements take into consideration factors influencing operating developments in the passenger cars and light commercial vehicles, commercial vehicles and financial services business areas at the Volkswagen Group.

General economic development

The global spread of the SARS-CoV-2 virus, the associated restrictions, and the resulting downturn in demand and supply meant that growth in the world economy was negative in 2020, at minus 4.0% (2.6%). The average rate of expansion of gross domestic product (GDP) was far below the prior-year’s level in both the advanced economies and the emerging markets. At country level, performance in the reporting period depended on the extent to which the negative impact of the Covid-19 pandemic was already materializing. The governments and central banks of numerous countries responded in some cases with substantial fiscal and monetary policy measures. This meant cuts in the already relatively low interest rates. There was a significant drop in prices for energy resources, while other commodity prices increased slightly year on year on average. On a global average, consumer prices rose at a slower pace than in 2019, and global trade in goods declined in the reporting period.

Trends in the markets for passenger cars and light commercial vehicles

In the fiscal year 2020, the global market volume of passenger cars fell significantly below the prior-year level due to the Covid-19 pandemic, decreasing to 67.7 million vehicles (down 15.2%). This marked a decline for the third year in a row. All regions were affected by this slump. The overall markets of Western Europe, South America and Africa recorded above-average losses, while the decline in Asia-Pacific and the Middle East was smaller in percentage terms. Global demand for light commercial vehicles in the reporting period was down significantly on the prior year.

Trends in the markets for commercial vehicles

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was down substantially year on year in the fiscal year 2020 due to the spread of the SARS-CoV-2 virus: 460 thousand new vehicles were registered (down 20.1%). Despite the ongoing uncertainty generated by the Covid-19 pandemic, a recovery could be seen in almost all of the markets that are relevant for the Volkswagen Group in the second half of 2020 compared with the first six months. Demand for buses in the markets that are relevant for the Volkswagen Group was much lower than in the prior year as a consequence of the pandemic.

Trends in the markets for financial services

Demand for automotive financial services was at a high level in 2020, particularly in the first three months, due in part to the persistently low-key interest rates in the main currency areas. Nevertheless, the Covid-19 pandemic put pressure

on the demand for financial services in almost all regions during the reporting period. The effects of the Covid-19 pandemic were noticeable worldwide, especially in the second quarter of 2020. Markets for automotive financial services staged a partial recovery in the third and fourth quarters.

Volkswagen Group deliveries

The Volkswagen Group delivered 9.3 million vehicles to customers worldwide in the fiscal year 2020. The decrease of 15.2% or 1.7 million units year on year was due almost exclusively to the Covid-19 pandemic and the measures taken worldwide to contain its spread. Sales figures for both the passenger cars business area and the commercial vehicles business area declined as a result of the fall in demand.

In connection with the pandemic, deliveries to customers were affected by differing temporal and geographical effects. Following in some cases drastic losses at the end of the first quarter and the start of the second quarter, demand for group models recovered as the reporting year went on, with declines becoming weaker. Volkswagen registered declining demand year on year in all regions. The Volkswagen Group's e-mobility offensive had a positive impact on group sales, delivering 231,624 fully electric vehicles to customers globally – more than three times as many as in 2019.

In a significantly declining overall global market, the Volkswagen Group's passenger car market share increased slightly to 13.0% (12.9%).

In the period from January to December 2020, the Volkswagen Group handed over 21.5% fewer commercial vehicles to customers worldwide than in the prior year. Volkswagen delivered a total of 190 thousand commercial vehicles to customers.

Deliveries of passenger cars, light commercial vehicles, trucks and buses of the Volkswagen Group[1]

	2020	2019	Change %
Regions			
Europe/Other markets	3,907,671	4,881,577	−20.0
North America	785,801	951,494	−17.4
South America	489,698	608,560	−19.5
Asia-Pacific	4,122,202	4,533,666	−9.1
Worldwide	**9,305,372**	**10,975,297**	**−15.2**
by brands			
Volkswagen passenger cars	5,328,029	6,279,007	−15.1
Audi	1,692,773	1,845,573	−8.3
ŠKODA	1,004,816	1,242,767	−19.1
SEAT	427,035	574,078	−25.6
Bentley	11,206	11,006	1.8
Lamborghini	7,430	8,205	−9.4
Porsche	272,162	280,800	−3.1
Bugatti	77	82	−6.1
Volkswagen commercial vehicles	371,657	491,559	−24.4
Passenger cars and light commercial vehicles total	**9,115,185**	**10,733,077**	**−15.1**
Scania	72,085	99,457	−27.5
MAN	118,102	142,763	−17.3
Commercial vehicles total	**190,187**	**242,220**	**−21.5**

1 Deliveries for prior year have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

Financial services of the Volkswagen Group

The products and services of the Volkswagen financial services division were popular in the fiscal year 2020, although the Covid-19 pandemic weighed on demand. At 8.6 million (9.3 million), the number of new financing, leasing, service and insurance contracts worldwide was below the prior-year level. The ratio of leased or financed vehicles to group deliveries (penetration rate) in the financial services division's markets increased to 35.5% (34.5%) as the group's deliveries fell at a higher rate than the number of contracts signed. As of 31 December 2020, the total number of contracts was 24.1 million, up 1.8% from year-end 2019.

Sales, production and inventory in the Volkswagen Group

The Volkswagen Group's unit sales to the dealer organization[1] decreased by 16.4% to 9.2 million units (including the Chinese joint ventures) in the reporting year. This decline was essentially due to the negative effects of the Covid-19 pandemic. Ongoing uncertainty in connection with this and national measures introduced to contain the pandemic, such as mobility restrictions and store closures, were accompanied by a fall in customer demand.

In the fiscal year 2020, the Volkswagen Group's global production declined by 17.8% to a total of 8.9 million vehicles due to the measures taken to contain the spread of the SARS-CoV-2 virus. The impact of national measures to contain the pandemic led to a disruption of supply chains and consequently to production stoppages within the Volkswagen Group. The production figures for the locations in China saw a year-on-year recovery from the second quarter of 2020. By contrast, the delayed impact of the Covid-19 pandemic at the other locations worldwide caused declines in production in the first three quarters of 2020.

Global inventories at Group companies and in the dealer organization were significantly lower at the end of the reporting period than at year-end 2019.

[1] The dealer organization comprises all external dealer companies that are supplied by the Volkswagen Group.

Results of operations, financial position and net assets

The Porsche SE Group distinguishes between two segments. The first segment, “PSE”, primarily includes Porsche SE holding operations including the investments in Volkswagen AG and the five non-controlling interests in technology companies. The second segment, “Intelligent Transport Systems” (“ITS”), comprises the development of smart software solutions for transport logistics as well as traffic planning and traffic management. The results of operations of the Porsche SE Group are essentially the sum of the two segments, as the consolidation effects are immaterial.

Results of operations of the Porsche SE Group

The group result after tax for the fiscal year 2020 came to €2.6 billion (€4.4 billion). On 16 April 2020, the board of management of Porsche SE had decided to no longer uphold the forecast for the group result after tax for the fiscal year 2020 as disclosed in the combined group management report of Porsche SE for the fiscal year 2019 due to the extraordinary uncertainty caused by the Covid-19 pandemic. As a result of the effects of the Covid-19 pandemic at the level of the Volkswagen Group and the related reduction in profit contributions from at equity accounting at the Porsche SE Group the corridor of between €3.5 billion and €4.5 billion originally forecast in the Annual Report 2019 has not been achieved.

Of the result after tax, €2.6 billion (€4.4 billion) related to the PSE segment. For the ITS segment, a result after tax of minus €7 million (minus €6 million) was derived. This includes effects from the purchase price allocation amounting to minus €9 million (minus €9 million).

In addition to that, total comprehensive income of €1.4 billion (€2.3 billion) mainly contains positive effects from the measurement of cash flow hedges of €0.5 billion (minus €0.6 billion) as well as negative effects from currency translation of minus €0.9 billion (€0.2 billion) and from actuarial losses from the remeasurement of pension provisions of minus €0.6 billion (minus €1.7 billion) from at equity accounting for the investment in Volkswagen AG.

The result after tax for the PSE segment was significantly influenced by the result from the investment in Volkswagen AG accounted for at equity of €2.7 billion (€4.4 billion). This contains profit contributions from ongoing at equity accounting of €2.6 billion (€4.2 billion) as well as subsequent effects from purchase price allocations of minus €90 million (minus €88 million). The decrease in the result from ongoing at equity accounting reflects the impact of the Covid-19

pandemic at the level of the Volkswagen Group. The result from investments accounted for at equity also contains income from first-time at equity accounting of newly acquired ordinary shares of Volkswagen of €127 million (€322 million). Income from first-time at equity accounting is mainly attributable to the fact that the fundamental data for the Volkswagen Group used particularly in the valuation of the brands and the investments in joint ventures are not fully reflected in the share price and therefore not in the acquisition cost when calculating the pro rata revalued equity. Furthermore, matters negatively affecting the share price only had an impact on the revalued equity to the extent that they satisfy the recognition criteria for accounting purposes.

The decrease in other operating income for the PSE segment by €43 million primarily results from income from the prior-year reversal of provisions in connection with other taxes. Other operating expenses decreased mainly due to lower legal and consulting fees compared to the prior year of €21 million (€26 million). The increase in the financial result to €55 million (€25 million) is largely attributable to the positive development of the non-controlling interests in technology companies.

The €13 million increase in the income tax expense in the PSE segment to €24 million largely relates to the income tax receivables recognized for refunds in the prior year. This was counterbalanced by the lower year-on-year result from the investment accounted for at equity in Volkswagen AG and as a result the lower deferred income tax expense.

In the reporting period, the ITS segment generated revenue of €107 million (€116 million), resulting primarily from the sale of software products (license sales and subscriptions), maintenance services and the project business. The decrease in revenue caused by the Covid-19 pandemic resulted accordingly in a proportionate decrease in the cost of materials. With personnel expenses down slightly year-on-year to €67 million (€68 million), cost-cutting measures reduced other operating expenses by €9 million to €17 million and the segment result before interest, tax, amortization and depreciation remained unchanged year-on-year at €13 million. Amortization and depreciation of €21 million (€21 million) related in particular with an amount of €13 million (€13 million) to the subsequent measurement of the hidden reserves identified in the intangible assets in the course of the purchase price allocation as well as depreciation of right-of-use assets from leases of €4 million (€4 million).

Financial position of the Porsche SE Group

Net liquidity of the Porsche SE Group, i.e., cash and cash equivalents, time deposits and securities less financial liabilities, amounted to €563 million as of 31 December 2020. This was therefore within the corridor forecast for net liquidity of between €0.4 billion and €0.9 billion in the Annual Report 2019.

The cash flow from operating activities for the fiscal year 2020 came to €773 million (€722 million) and primarily contains the dividends of €756 million (€753 million) received from the investment in Volkswagen AG. The increase in the cash flow from operating activities on the prior year is largely attributable to income tax refunds received and the interest accrued thereon.

There was a cash outflow from investment activities totaling €186 million (€318 million) in the fiscal year 2020. This resulted primarily from a €104 million increase (€15 million decrease) in investments in time deposits as well as cash paid for the acquisition of additional ordinary shares in Volkswagen AG of €81 million (€311 million).

There was a cash outflow from financing activities of €676 million (€676 million) in the fiscal year 2020, largely due to the dividend payment made to the shareholders of Porsche SE of €680 million (€681 million).

Compared to 31 December 2019, cash and cash equivalents decreased by €93 million to €259 million. In addition to that, Porsche SE has at its disposal a credit facility with a volume of €1 billion and a term until July 2025.

Net assets of the Porsche SE Group

The Porsche SE Group’s total assets amount to €36.3 billion as of 31 December 2020 (€35.6 billion).

The Porsche SE Group’s non-current assets primarily relate to the carrying amount of the investment in Volkswagen AG accounted for at equity of €35.3 billion (€34.6 billion). Of the increase in the carrying amount, €2.5 billion is attributable to the result from investments accounted for at equity, €81 million to the acquisition of further ordinary shares in Volkswagen AG and €127 million to income generated as a result of the acquisition.

This was counterbalanced in particular by expenses and income recognized through other comprehensive income of minus €1.3 billion. Furthermore, dividend payments received of €756 million reduced the carrying amount of the investment accounted for at equity.

Intangible assets of the Porsche SE Group of €227 million (€241 million) primarily contain the goodwill of the PTV Group of €147 million (€147 million) as well as the carrying amounts for customer bases, software and brand resulting from the purchase price allocation. Current assets of €637 million (€684 million) mainly consist of cash and cash equivalents, securities and time deposits.

As of 31 December 2020, the equity of the Porsche SE Group increased to a total of €35.9 billion (€35.3 billion) in particular due to the positive group result after tax; this was counterbalanced by dividend payments made to the shareholders of Porsche SE and other comprehensive income. As of 31 December 2020, the equity ratio remained virtually constant compared to the end of the fiscal year 2019 at 99.2%.

Results of operations of the Volkswagen Group

The following statements relate to the original profit/loss figures of the Volkswagen Group in the fiscal year 2020. It should be noted that the group result of Porsche SE only reflects its capital share in the result of the Volkswagen Group in the course of at equity accounting. Furthermore, effects from at equity accounting in the consolidated financial statements of Porsche SE, particularly relating to the subsequent measurement of the hidden reserves and liabilities identified in the course of the purchase price allocations, are not taken into consideration in the explanations below.

In the fiscal year 2020, the Volkswagen Group generated revenue of €222.9 billion. The year-on-year decrease of 11.8% was mainly attributable to falling volumes as a result of the Covid-19 pandemic, as well as the negative effects of changes in exchange rates. Improvements in the mix and in price positioning had a positive impact. 80.8% (80.6%) of the Volkswagen Group's revenue originated abroad.

Gross profit amounted to €38.9 billion, €10.2 billion lower than in 2019. This figure also included risk provisions for any non-compliance with legal emissions limits. Positive special items amounting to €0.1 billion (€0.3 billion) recognized here in both periods due to the reversal of provisions for technical measures in connection with the diesel issue had an offsetting effect. The gross margin stood at 17.5% (19.5%); excluding special items, it amounted to 17.4% (19.3%).

The persistent negative impact of the spread of the SARS-CoV-2 virus was the main factor driving the €8.7 billion decline in the Volkswagen Group's operating result before special items to €10.6 billion in the reporting year. The operating return on sales before special items fell to 4.8% (7.6%). In addition to lower unit sales due to the pandemic-related decline in customer demand, turbulence in the capital markets meant that the measurement of receivables and liabilities denominated in foreign currencies had a negative effect. One-off expenses for restructuring measures of €0.5 billion also contributed to the reduction in profit. Positive factors were lower costs. The contribution of the consolidated subsidiary Autonomous Intelligent Driving (AID) to Argo AI, a company that is working on the development of a system for autonomous driving, led to income of €0.8 billion. This figure also includes the income from the sale of Renk. Special items in connection with the diesel issue weighed on the operating result, reducing this item by €0.9 billion (minus €2.3 billion). The Volkswagen Group's operating result was €9.7 billion (€17.0 billion), while the operating return on sales fell to 4.3% (6.7%).


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The financial result increased by €0.6 billion year on year to €2.0 billion. The interest expenses included in the financial result were down, mainly for measurement-related reasons caused by a change in discount rates applied in the measurement of liabilities, while changes in share prices, also as a response to the Covid-19 pandemic, weighed on net income from securities and funds. The share of the result of equity-accounted investments was lower than in the prior year. The decline was primarily due to lower profit generated by the Chinese joint ventures, which were affected by the spread of the SARS-CoV-2 virus especially in the first quarter of 2020. The other financial result includes the measurement and realization of forward purchase agreements for new shares in QuantumScape Corporation, which led to non-cash income of €1.4 billion in the fiscal year 2020.

The Volkswagen Group’s result before tax amounted to €11.7 billion (€18.4 billion). The return on sales before tax decreased to 5.2% (7.3%). Income taxes resulted in an expense of €2.8 billion (€4.3 billion) in the fiscal year 2020, which in turn led to a tax rate of 24.4% (23.6%). The result after tax decreased by €5.2 billion to €8.8 billion.

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

The following explanations of the results of operations, financial position and net assets relate to the separate financial statements of Porsche SE for the fiscal year 2020.

Results of operations

Porsche SE achieved a net profit of €703 million (€788 million) in the fiscal year 2020. The result after tax amounted to €703 million (€744 million) and was within the upper-triple-digit million-euro range expected for the fiscal year 2020.

Other operating expenses of €33 million (€39 million) mainly contain legal and consulting fees of €21 million (€26 million).

In the fiscal year 2020, Porsche SE received a dividend from its investment in Volkswagen AG of €756 million (€753 million). In the reporting period, profit and loss transfer agreements resulted in a negative effect on the result from investments of €8 million (positive effect of €1 million).

The interest result for the fiscal year 2020 decreased from €10 million in the prior year to minus €2 million. In the prior year, this had primarily comprised interest income on capitalized tax refund claims.

Income tax recognized in the prior year are attributable to tax refund claims for past fiscal years. The income from other tax recognized in the prior year is largely due to the reversal of provisions for other taxes.

Income statement of Porsche Automobil Holding SE

€ million	**2020**	2019
Revenue	0	1
Other operating income	4	2
Personnel expenses	–15	–16
Other operating expenses	–33	–39
Result from investments	748	754
Interest result	–2	10
Income tax	0	32
Result after tax	**703**	**744**
Other tax	0	45
Net profit	**703**	**788**
Transfer to (-) / withdrawal from (+) retained earnings	–27	163
Net profit available for distribution	**676**	**952**

Net assets and financial position

Non-current assets primarily contain the investment in Volkswagen AG of €22,512 million (€22,431 million). The increase in the carrying amount of the investment results from the acquisition of further ordinary shares in Volkswagen in the fiscal year 2020. This was counterbalanced by sales from securities classified as non-current assets of €99 million.

The decrease in receivables and other assets was largely attributable to the collection of tax refund claims of €32 million capitalized as receivables in the prior year and the corresponding interest on tax refunds of €16 million.

Cash and cash equivalents contain bank balances including short-term time deposits. The increase in cash and cash equivalents was primarily attributable to the surplus of €80 million from dividend payments received of Volkswagen AG over the dividends paid to shareholders of Porsche SE as well as income tax refunds including interest on tax refunds of €49 million. This was counterbalanced by the acquisition of ordinary shares in Volkswagen AG of €81 million in the first half of 2020 as well as cash paid for other operating holding expenses.

Provisions contain provisions for pensions and similar obligations, tax provisions as well as other provisions.

As before, the liabilities relate largely to loan relationships entered into with subsidiaries.

Balance sheet of Porsche Automobil Holding SE

€ million	**31/12/2020**	31/12/2019
Assets		
Non-current assets	22,945	22,961
Receivables and other assets	1	50
Marketable securities	95	
Cash and cash equivalents	412	396
Prepaid expenses	0	1
	23,453	**23,407**
Equity and liabilities		
Equity	23,238	23,211
Provisions	92	93
Liabilities	123	103
	23,453	**23,407**

Risks relating to the business development

The risks relating to the development of Porsche SE's business are closely connected to the risks relating to the significant investment in Volkswagen AG and to the development of the legal proceedings. The risks are described in the section "Opportunities and risks of future development".

Dividends

Porsche SE's dividend policy is generally geared to sustainability. The shareholders should participate in the success of Porsche SE in the form of an appropriate dividend, while taking the objective of securing sufficient liquidity into consideration, in particular for the purpose of acquiring future investments.

The separate financial statements of Porsche SE as of 31 December 2020 report a net profit available for distribution of €676 million consisting of a net profit of €703 million and a transfer to retained earnings of €27 million. The board of management proposes a resolution for the distribution of a dividend of €2.204 per ordinary share and €2.210 per preference share, i.e., a total distribution of €676 million.

Dependent company report

In accordance with Sec. 312 AktG, Porsche SE has drawn up a report on relations with holders of its ordinary shares and companies affiliated with these (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 SE has rendered or, as the case may be, received reasonable payment. The company was not disadvantaged by these transactions."

Outlook

Due to Porsche SE's links with its group companies and their significance within the group, we refer to the statements in the section "Anticipated development of the Porsche SE Group", which also in particular reflect the expectations for the parent company. Based on the dividend proposed by the board of management and supervisory board of Volkswagen AG, Porsche SE expects a dividend of €4.80 per ordinary share and €4.86 per preference share for the fiscal year 2020. As a result, dividend income from Volkswagen of €756 million is expected at the level of Porsche SE for the fiscal year 2020, which will have a significant impact on the 2021 separate financial statements.

Sustainable value enhancement in the Porsche SE Group

The investment in Volkswagen AG remains Porsche SE's core investment. In addition to this, Porsche SE's aims to acquire additional investments related to industrial production or the future of mobility in order to generate sustainable returns through active investment management.

When it comes to identifying, implementing and further developing investment projects, Porsche SE draws on its integration into one of the world's largest automotive and industrial networks.

In addition to the core investment in Volkswagen, the Porsche SE Group has over the past few years invested in several companies that have significant sustainability aspects anchored in their respective business models. With the data portfolio they offer and their software solutions, the PTV Group and INRIX are aiming to optimize traffic and routes, thereby making a significant contribution to reducing the consumption of resources and lowering emissions. The innovative 3D printing solutions of two of our investments should allow raw materials to be used more efficiently in development and production.

Separate non-financial group report

The separate non-financial group report of the Porsche SE Group pursuant to Sec. 315b HGB for the fiscal year 2020 can be accessed at the latest by 30 April 2021 in German at www.porsche-se.com/unternehmen/corporate-governance and in English at www.porsche-se.com/en/company/corporate-governance.

Overall statement on the economic situation of Porsche SE and the Porsche SE Group

In the past fiscal year 2020 the results of operations of Porsche SE and the Porsche SE Group were largely characterized by the development of the Volkswagen Group. In light of the extraordinary challenges and negative economic impact caused by the Covid-19 pandemic, the board of management of Porsche SE assesses the business development in the fiscal year 2020 and the economic situation with a group result after tax of €2.6 billion (€4.4 billion) as positive. As a result of the severe disruption of the Volkswagen Group's business activities through the Covid-19 pandemic and the related reduction in profit contributions from at equity accounting at the Porsche SE Group, the corridor of between €3.5 billion and €4.5 billion originally forecast in the Annual Report 2019 has not been achieved. At €703 million, Porsche SE's result after tax was within the expected upper-triple-digit million-euro range.

The financial position was influenced to a large extent by dividends received and paid as well as the acquisition of further ordinary shares in Volkswagen AG. As of 31 December 2020, net liquidity was within the corridor forecast in the prior year of between €0.4 billion and €0.9 billion.

The board of management of Porsche SE expects the Volkswagen Group to maintain its market position in a persistently challenging environment, and remains convinced of the Volkswagen Group's potential for increasing value added. By acquiring further ordinary shares in the fiscal year 2020, the board of management of Porsche SE has made another clear demonstration of its commitment to the company's role as Volkswagen AG's long-term anchor shareholder.

Remuneration report

The remuneration report describes the main features of the remuneration system applicable in the fiscal year 2020 for members of the board of management and supervisory board of Porsche SE holding office in the fiscal year 2020 and explains the basic structure, composition and the individualized amounts of remuneration. The total remuneration for each member of the board of management is disclosed by name in accordance with the provisions of the German Commercial Code and the German Corporate Governance Code (GCGC)[1], divided into fixed and variable remuneration. In addition, the report includes disclosures on benefits granted or promised to members of the board of management in the event of regular or early termination of their service.

The disclosures comprise the remuneration that members of the board of management and supervisory board receive for board activities at the parent company and subsidiaries of the Porsche SE Group. As a result, the disclosures below do not contain any remuneration granted for board activities at the level of the Volkswagen Group.

Remuneration of the board of management

Acting on a proposal from the executive committee, the supervisory board passes resolutions on the remuneration system and total remuneration for each individual member of Porsche SE's board of management. At regular intervals the supervisory board addresses remuneration matters concerning the board of management, examining the structure and amount of remuneration of the board of management in the process.

In connection with ARUG II that came into force on 1 January 2020 and the revised version of the German Corporate Governance Code effective 20 March 2020, the supervisory board decided at its meeting on 3 December 2020 to introduce a new board of management remuneration system. This is being presented for approval to the 2021 annual general meeting pursuant to Sec. 120a AktG and will be generally applicable as of 1 January 2021.

The disclosures on the remuneration of the board of management in this remuneration report relate to the remuneration system that applied to the members of the board of management of Porsche SE in the fiscal year 2020.

[1] All of the following references relate to the version of the GCGC dated 7 February 2017 (GCGC 2017). For reasons of consistency, the remuneration report continues to contain the model tables recommended by the GCGC 2017, which will continue to be used until transition to the new remuneration report within the meaning of Sec. 162 AktG introduced by the German Act to Implement the Second Shareholder Rights Directive (ARUG II).

Changes in the composition of the board of management in the fiscal year 2020

In consultation with the supervisory board, Mr. von Hagen left the company effective 30 June 2020 of his own accord and by mutual agreement. Mr. Meschke was appointed by the supervisory board as his successor in charge of the investment management function of Porsche SE effective 1 July 2020.

Remuneration principles at Porsche SE

All members of the board of management receive fixed basic remuneration for their work at Porsche SE.

In addition to this, Dr. Döss and Mr. Meschke as well as the former member of the board of management Mr. von Hagen receive variable remuneration. The amount of variable remuneration is specified by the supervisory board at its discretion, taking into account the business and earnings situation of the company, as well as their performance. If all targets are met, this amounts to €750 thousand (€750 thousand) for Dr. Döss and €375 thousand for Mr. Meschke for 2020 as a whole.

For Mr. Meschke, the supervisory board is entitled, in the event of extraordinary developments, i.e., special situations not adequately accounted for in the set targets, to increase or decrease the bonus amount by up to 20% at its discretion.

40% of the set variable remuneration is due for payment three months after the fiscal year relevant for the bonus ends (short-term variable remuneration). The remaining 60% is generally due for payment two years after the short-term variable remuneration falls due (long-term variable remuneration). For Dr. Döss and Mr. Meschke, payment of long-term variable remuneration is primarily dependent on the Porsche SE Group generating a positive group result before tax in the most recent fiscal year concluded before the long-term variable remuneration falls due. Payment of long-term variable remuneration for both members of the board of management is therefore dependent on the development of the Porsche SE Group over several years.

For Mr. von Hagen, payment of both variable remuneration components was dependent on the Porsche SE Group generating a positive group result before tax in the most recent fiscal year concluded before the variable remuneration fell due. The payment of long-term variable remuneration was also contingent on Porsche SE having positive net liquidity as of the end of the fiscal year before it fell due. Following the exit of Mr. von Hagen, it was agreed not to apply these conditions.

Moreover, at its discretion, the supervisory board of the company may grant Mr. Pötsch and Mr. Meschke a special bonus for previously agreed targets and Mr. Pötsch and Dr. Döss a subsequent bonus in recognition of outstanding performance.

All members of the board of management of Porsche SE receive non-cash benefits, Mr. Pötsch and Dr. Döss in particular in the form of the use of company cars. Furthermore, members of the board of management who also serve as members of the Volkswagen AG supervisory board are also reimbursed for any costs between their place of residence and primary workplace. Porsche SE bears any taxes incurred in connection with this. Non-cash benefits are included at their tax or actual values in the table presenting the remuneration of the members of the board of management.

Porsche SE continues to pay the remuneration to the members of the board of management for a period of twelve months in the event of illness and, in the event of death, to the beneficiary dependents for six months following the month of death.

Board of management remuneration received and granted

The remuneration of each member of the board of management of Porsche SE presented below contains the remuneration as defined by the German Commercial Code and the GCGC that each member received for his service as a member of the board of management of Porsche SE or which was respectively granted. The disclosures on Mr. Meschke, Dr. Döss and Mr. von Hagen also contain the remuneration paid by PTV AG for serving as chairman of its supervisory board and member of the supervisory board respectively. The remuneration paid by PTV AG for Mr. Meschke's service on the supervisory board since 30 July 2020 (since 26 August 2020 as chairman of the supervisory board) is offset against his remuneration paid by Porsche SE. There was no other remuneration for membership on governing bodies from subsidiaries.

The short-term variable remuneration is recognized as benefits granted in the year for which they were granted. It is also recognized as benefits received in the same year.

The long-term variable remuneration is also recognized as benefits granted in the year for which they were granted. By contrast, they are recognized as benefits received at the end of the year in which all conditions precedent were fulfilled and the plan term ended in the reporting period; this is usually two fiscal years after the fiscal year for which they were granted.

A subsequent bonus in recognition of outstanding performance is recognized as benefits granted and received in the year in which it was resolved. This is not included in the presentation of the maximum remuneration for the benefits granted.

Hans Dieter Pötsch

Chairman of the board of management (since 1 November 2015) and Chief Financial Officer (since 25 November 2009)

	Benefits received		Benefits granted			
in €	2019	**2020**	2019	**2020**	**2020 (Min)**	**2020 (Max)**
Fixed compensation	500,000	500,000	500,000	500,000	500,000	500,000
Fringe benefits	324,196	315,695	324,196	315,695	315,695	315,695
Total remuneration (non-performance related)	**824,196**[1]	**815,695**[1]	**824,196**	**815,695**	**815,695**	**815,695**

1 Remuneration as defined by Sec. 285 No. 9a HGB, Sec. 314 (1) No. 6a in conjunction with Sec. 315e HGB.

Dr. Manfred Döss

Board of management member responsible for legal affairs and compliance (since 1 January 2016)

	Benefits received		Benefits granted			
in €	2019	**2020**	2019	**2020**	**2020 (Min)**	**2020 (Max)**
Fixed compensation[1]	532,927	562,383	532,927	562,383	562,383	562,383
Fringe benefits	85,647	86,826	85,647	86,826	86,826	86,826
Non-performance related components	**618,574**[2]	**649,209**[2]	**618,574**	**649,209**	**649,209**	**649,209**
One-year variable compensation	260,000	280,000	260,000	280,000	0	300,000
Multi-year variable compensation (long-term incentive)	0	330,000	390,000	420,000	0	450,000
Performance related components	**260,000**[2]	**610,000**[2]	**650,000**	**700,000**	**0**	**750,000**
Total	**878,574**[2]	**1,259,209**[2]	**1,268,574**	**1,349,209**	**649,209**	**1,399,209**
Service cost	481,838	548,276	481,838	548,276	548,276	548,276
Total remuneration	**1,360,412**	**1,807,485**	**1,750,412**	**1,897,485**	**1,197,485**	**1,947,485**

1 €32,383 (€2,927) thereof relates to remuneration for his service as member of the supervisory board of PTV AG, a subsidiary of Porsche SE.
2 Remuneration as defined by Sec. 285 No. 9a HGB (taking footnote 1 into account), Sec. 314 (1) No. 6a in conjunction with Sec. 315e HGB.

Lutz Meschke

Board of management member responsible for investment management (since 1 July 2020)

	Benefits received	Benefits granted		
in €	**2020**	**2020**	**2020 (Min)**	**2020 (Max)**
Fixed compensation	270,000	270,000	270,000	270,000
Fringe benefits	78	78	78	78
Non-performance related components	**270,078**[2]	**270,078**	**270,078**	**270,078**
One-year variable compensation	64,000	64,000	0	90,000
Multi-year variable compensation (long-term incentive)		96,000	0	135,000
Performance related components	**64,000**[2]	**160,000**	**0**	**225,000**
Total[1]	**334,078**[2]	**430,078**	**270,078**	**495,078**
Service cost	30,221	30,221	30,221	30,221
Total remuneration	**364,299**	**460,299**	**300,299**	**525,299**

1 The remuneration for service on the supervisory board of PTV AG since 30 July 2020, a subsidiary of Porsche SE, of €20,943 is offset against total remuneration.

2 Remuneration as defined by Sec. 285 No. 9a HGB (taking footnote 1 into account), Sec. 314 (1) No. 6a in conjunction with Sec. 315e HGB.

Philipp von Hagen

Board of management member responsible for investment management
(from 1 March 2012 until 30 June 2020)

	Benefits received		Benefits granted			
in €	2019	**2020**	2019	**2020**	**2020 (Min)**	**2020 (Max)**
Fixed compensation[1]	546,150	292,181	546,150	292,181	292,181	292,181
Fringe benefits	86,603	46,715	86,603	46,715	46,715	46,715
Non-performance related components	**632,753**[2]	**338,896**[2]	**632,753**	**338,896**	**338,896**	**338,896**
One-year variable compensation	100,000	50,000	100,000	50,000	0	60,000
Multi-year variable compensation (long-term incentive)	150,000	150,000	150,000	75,000	0	90,000
Performance related components	**250,000**[2]	**200,000**[2]	**250,000**	**125,000**	**0**	**150,000**
Total	**882,753**[2]	**538,896**[2]	**882,753**	**463,896**	**338,896**	**488,896**
Service cost	330,120	392,696	330,120	392,696	392,696	392,696
Total remuneration	**1,212,873**	**931,592**	**1,212,873**	**856,592**	**731,592**	**881,592**

1 €22,181 (€6,150) thereof relates to remuneration for his service as chairman of the supervisory board of PTV AG, a subsidiary of Porsche SE. Effective 30 June 2020, he resigned from the supervisory board mandate at PTV AG.

2 Remuneration as defined by Sec. 285 No. 9a HGB (taking footnote 1 into account), Sec. 314 (1) No. 6a in conjunction with Sec. 315e HGB; for 2020 this also contains €225,000 for multi-year variable remuneration from activities in the fiscal year 2019 and 2020, for which the conditions precedent no longer apply due to his exit.

Benefits in connection with the exit of a member of the board of management during the fiscal year 2020

In connection with Mr. von Hagen leaving the board of management, it was agreed that the benefits to which he is entitled under his contract of employment will be honored in full until the end of the term of the contract on 28 February 2021. As a result, for the period from 1 July to 31 December 2020 Mr. von Hagen received fixed remuneration of €270 thousand, fringe benefits of €25 thousand, short-term variable remuneration of €50 thousand (benefits received in 2020) as well as long-term variable remuneration of €75 thousand (benefits to be received in 2022). For the period from 1 January 2021 to 28 February 2021, Mr. von Hagen receives a fixed salary of €90 thousand, fringe benefits of €8 thousand as well as variable remuneration of €42 thousand (short-term variable remuneration to be received in 2021 and long-term variable remuneration in 2023). The originally planned determination/disbursement requirements for the variable remuneration for 2018 to (pro rata) 2021 (positive group result before tax and – in the case of long-term variable remuneration – also positive net liquidity of Porsche SE) are no longer applied.

Post-employment benefits in the event of regular or early termination of service

Mr. Pötsch does not receive any pension benefits from the company. In addition to retirement benefits and surviving dependents' benefits, Dr. Döss', Mr. Meschke's and Mr. von Hagen's pension benefits include benefits in the event of permanent disability.

The future retirement benefits of Dr. Döss and Mr. von Hagen are calculated as a percentage of an agreed pensionable income. Starting at 25%, this percentage increases by one percentage point for each full year of active service on the board of management of Porsche SE. The defined maximum is 40%. As of 31 December 2020, Dr. Döss has a retirement pension entitlement of 30% and Mr. von Hagen of 33%; the benefit rate of Mr. von Hagen will also increase by one percentage point in his last year of service regardless of early termination of his board of management activity. Immediate vesting was agreed for both gentlemen.

The retirement pension is paid in monthly amounts upon reaching the age of 65 or earlier in the event of permanent disability. In the event of entitlement to a retirement pension before reaching the age of 65, the retirement pension is calculated using actuarial principles by annuitization of the pension provision permissible in accordance with tax law at the time the retirement pension falls due.

For both gentlemen, the surviving dependents' benefits comprise a widows' pension of 60% of the retirement pension and orphans' benefits of 20% of the retirement pension for each child, reduced to 10% for each child if a widow's pension is paid. The total amount of widows' pensions and orphans' benefits may not exceed the amount of the retirement pension. Orphans' benefits are limited to a total of 80% of the retirement pension.

Mr. Meschke is entitled to a pension contribution of €60 thousand for each calendar year that he serves on the board of management – however, at the latest until the age of 62. The pension contribution is calculated on a pro rata basis for 2020, the year he joined the board of management and in the event of termination of his board of management service during the year.

The pension capital is paid as a one-off principal amount upon reaching the age of 62 or earlier in the event of a full or partial reduction in earning capacity most likely lasting no less than six months.

For the widow, otherwise for the children, the surviving dependents' benefits comprise a claim to the pension capital determined in accordance with the entitlement.

Dr. Döss will continue to be entitled to a company car following the date of retirement.

The service cost pursuant to IFRSs corresponds to the respective pension expense; as a result, we refer to the tables in the section "Board of management remuneration received and granted". The table below contains the service cost pursuant to HGB and the present values from each performance obligation pursuant to HGB or IFRSs:

Service cost and present values from performance obligations

	Service cost HGB		Present value HGB		Present value IFRS	
in €	**2020**	2019	**2020**	2019	**2020**	2019
Dr. Döss	554,467	562,717	3,480,483	2,848,813	4,456,115	3,652,372
Meschke	27,923	n/a	27,923	n/a	31,225	n/a
von Hagen	433,203	367,816	2,531,301	2,042,740	3,895,503	3,119,494

In the event of early termination of service on the board of management without due cause, a severance payment cap is provided for each member, according to which any severance payments, including fringe benefits, may not exceed a maximum of two years' compensation. Under no circumstances may the payments exceed the amount of remuneration due for the remaining term of the employment agreement. The severance payment cap is calculated on the basis of the total compensation for the past full fiscal year and, if appropriate, also the expected total compensation for the current fiscal year.

On termination of service, however, the variable remuneration for the current fiscal year is reduced pro rata temporis. The date when payment falls due is not affected by early exit from the board of management of the company.

In the event of exiting the board of management as a result of termination for due cause by Porsche SE, the entitlements to variable remuneration that are not yet due (in full or in part) expire for Dr. Döss, and the variable remuneration not yet paid out expires for Mr. Meschke.

Remuneration of the supervisory board

Remuneration principles at Porsche SE

The remuneration of Porsche SE's supervisory board is governed by Art. 13 of the company's articles of association. Each member of the supervisory board receives fixed remuneration of €75 thousand for the past fiscal year. The chairman of the supervisory board receives €150 thousand and his deputy €100 thousand. Each member of the executive committee also receives fixed remuneration of €25 thousand for each fiscal year and the chairman receives additional fixed remuneration of €50 thousand. In addition, the members of the audit committee receive additional annual fixed remuneration of €50 thousand. The chairman of the audit committee receives additional annual fixed remuneration of €100 thousand. The members of the nomination committee do not receive separate remuneration. Supervisory board members who have been a member of the supervisory board or one of its committees for only part of a fiscal year or chair the committee receive the remuneration pro rata temporis.

Remuneration of the supervisory board

The supervisory board received remuneration totaling €1,150 thousand (€1,129 thousand) for its service at Porsche SE in the fiscal year 2020.

The remuneration for the current individual members of Porsche SE's supervisory board presented below comprises the remuneration for their service on the supervisory board of Porsche SE as well as their service on a committee of the supervisory board of Porsche SE.

Non-performance related remuneration of the supervisory board

in €	**2020**	2019
Dr. Wolfgang Porsche	200,000	200,000
Dr. Hans Michel Piëch	175,000	175,000
Prof. Dr. Ulrich Lehner	175,000	175,000
Dr. Ferdinand Oliver Porsche	150,000	150,000
Mag. Josef Michael Ahorner	75,000	75,000
Mag. Marianne Heiß	75,000	75,000
Dr. Günther Horvath	75,000	75,000
Dr. Stefan Piëch	75,000	75,000
Peter Daniell Porsche	75,000	75,000
Prof. KR Ing. Siegfried Wolf	75,000	54,452
Total	**1,150,000**	**1,129,452**

Opportunities and risks of future development

Report on opportunities and risks at the Porsche SE Group

Risk management system of the Porsche SE Group

Overview of the risk management system

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 have a significant and long-term negative impact on the results of operations, financial position and net assets of the group and to avoid these by means of suitable countermeasures that allow the group to avoid any risks to its ability to continue as a going concern.

The risk management system of the Porsche SE Group monitors both the direct risks at the level of Porsche SE as well as the significant indirect and direct risks from investments described below. The investments generally have their own independent risk management system and are responsible for managing their own risks. The risk management system can therefore be divided into the sphere of Porsche SE as holding company and the sphere of the investments.

In its risk management system, Porsche SE focuses on potential negative effects of risks. However, on occasion potential opportunities are also analyzed and presented.

The risk management system is designed to ensure that the management of Porsche SE is always informed of significant risk drivers and able to assess the potential impact of the identified risks in order to take suitable countermeasures at an early stage.

The Porsche SE Group's risk management system is updated on an ongoing basis and adapted to the company's requirements. Porsche SE's auditor examines the Porsche SE Group's risk early warning system annually with respect to its fundamental suitability of being able to identify risks at an early stage that might jeopardize the continued existence and assesses the functionality of the risk early warning and monitoring systems in accordance with Sec. 317(4) HGB. Assessing the probability and extent of future events and developments is, by its nature, subject to uncertainty. Even the best risk management system cannot foresee all potential risks and can never completely prevent irregular acts.

Risk management system of Porsche SE

Porsche SE’s risk management system is subdivided into three lines of defense: “operational risk management”, “strategic risk management” and “review-based risk management”.

As the first line of defense, “operational risk management” comprises analysis, management, monitoring and documentation of risks at operational level. Porsche SE distinguishes between two types of risk. The first type of risk comprises risks from business activities which are entered into as part of (conscious) entrepreneurial decisions (“entrepreneurial risks”). The second type of risk comprises risks resulting from the lack of a definition or insufficient compliance with processes (“organizational risks”). Each individual department within Porsche SE is responsible for independently identifying, evaluating, managing, monitoring and documenting risks in its area and reporting significant risks to the finance department. In particular, this means that measures for managing risks are derived and implemented immediately at this level in all areas of the company, with the aim of preventing these risks from spreading to other areas or even to the company as a whole. With regard to the organizational risks, operational risk management is performed using the internal control system, which is described in the “Internal control system including internal control system of Porsche SE relevant for the financial reporting process” section. In addition to operational management of the specific individual risk areas at department level, the finance department also creates a complete view of the significant risks in order to take into consideration the overall risk exposure of the group and identify interactions between risk areas.

The second line of defense, “strategic risk management”, is responsible for the conceptual design and control of the proper implementation of the entire risk management system. In addition to creating a risk map, deriving generic risk strategies, defining a general process structure for the operational management of risks and allocating risk areas to their respective risk owners, this includes in particular also control of the operation, effectiveness and documentation of operational and strategic risk management by the board of management and the supervisory board of Porsche SE.

The third line of defense, “review-based risk management”, aims to ensure the appropriateness and effectiveness of the risk management system and therefore in particular that the operational and strategic risk management are in line with externally and internally defined standards. Review-based risk management is the responsibility of the internal audit, which, as an objective instance, reviews on the basis of samples whether operational risk management is firmly embedded in all areas and regularly performed, and reports the audit findings to the supervisory board. Furthermore, the strategic level is reviewed to determine whether there is a structured systems approach and whether the respective controls and reviews are performed in strategic risk management.

Risk management at the level of the significant investments

The investments of Porsche SE generally have their own independent risk management system to monitor and manage risks at their level.

Management of the risks at Volkswagen is located at the level of Volkswagen AG. The task of Volkswagen AG's risk management is to identify, manage and monitor existing risks at the level of the Volkswagen Group. Volkswagen AG has implemented its own group-wide risk management system and is responsible for handling its own risks. At the same time, however, Volkswagen AG is required to ensure that Porsche SE as the holding company – within the scope of the legally permissible exchange of information – is informed at an early stage of any risks potentially jeopardizing the investment's ability to continue as a going concern. This information is provided, inter alia, in management talks and by forwarding risk reports. Volkswagen AG's auditor examines the risk early warning system with respect to its fundamental suitability of being able to identify risks that might jeopardize the continued existence and assesses the functionality of the risk early warning and monitoring systems in accordance with Sec. 317(4) HGB. For additional information on the structure of the risk management system at the level of Volkswagen AG, we refer to the explanations in the section "Risk management system of the Volkswagen Group".

PTV AG is responsible for handling its own risks via an independent group-wide risk management system. The implementation of an integrated risk management system was at an advanced stage as of the reporting date. Regular management meetings and regular reports on the economic situation aim to ensure that Porsche SE is informed about any significant risks at the level of PTV AG.

Internal control system including internal control system of Porsche SE relevant for the financial reporting process

The aim of Porsche SE's internal control system is to manage the organizational risks as part of operational risk management.

The internal control system defines uniform measures to manage the organizational risks. Based on a comprehensive process map, a suitable organizational structure is derived for the entire company and the individual process steps, responsibilities and interfaces are derived by the respective process owner for the key processes. Controls are defined for processes and interfaces of particular relevance, compliance with which is generally monitored using the dual control principle. These measures are documented in process overviews, guidelines and checklists.

The accounting-related internal control system aims to ensure the compliance and legality of internal and external accounting and financial reporting. It comprises measures aimed at ensuring complete, correct and timely transmission of the information required for authorizing for issue the separate and consolidated financial statements as well as the combined management report for Porsche SE.

Opportunities and risks of the Porsche SE Group

Organizational risks

Organizational risks comprise risks resulting from the lack of a definition or insufficient compliance with processes. The internal control system serves to manage these risks. Porsche SE distinguishes between the risk areas “Financial reporting/ accounting”, “Business operations” and “Compliance”.

With regard to the risk area “financial reporting/ accounting”, for the Porsche SE Group’s accounting that is essentially organized along decentralized lines, the IFRS accounting manual of Porsche SE ensures uniform recognition and measurement based on the accounting policies applicable at the Porsche SE Group. Accounting duties are performed by the individual group companies. The financial statements of the group companies are prepared using standard software. Issuing formal instructions such as a group-wide time schedule as well as set reporting packages for the respective group companies ensures the timely and uniform reporting of the units included in the consolidated financial statements. The components of the reporting packages required to be prepared for the Porsche SE Group are set out in detail and updated regularly to reflect changes to the legal requirements. Upon receipt, they are subjected to an extensive analysis and plausibility check. Depending on the matter at hand, significant developments are addressed in discussions with the group companies.

The reporting packages are processed in a certified consolidation system. Extensive checks performed manually and by the system aim to ensure the completeness and reliability of the information processed in the consolidated financial statements. For all accounting-related processes, the principle of dual control and plausibility checks form the basis of the internal control system. Furthermore, the consolidated financial statements as well as the figures and information reported by the group entities are subjected to variance analyses and analyses of the composition of individual items. Suitable selection processes and regular training measures aim to ensure that employees involved in the accounting process are appropriately qualified.

The combined management report is prepared – in accordance with the applicable requirements and regulations – centrally but with the involvement of the group companies.

With regard to the risk area “business operations”, all departments of Porsche SE have analyzed each of their operating processes and interfaces and also defined controls for processes and interfaces of particular relevance and monitor that they are being complied with.

With regard to the management of risks from the risk area “compliance”, Porsche SE has established a compliance organization, and thus a compliance management system, that is specifically tasked with preventing breaches of laws or other provisions and company-internal guidelines and regulations. In this connection, a compliance council was also set up, which comprises executives from the key departments. In addition to the adjustment of internal guidelines, the compliance council’s meetings in the fiscal year 2020 primarily addressed general compliance-relevant regulations.

Risk assessment for organizational risks

The organizational risks of the Porsche SE Group are regularly subjected to an overall risk assessment using the categories low, medium or high. The three identified risk areas “financial reporting/accounting”, “business operations” and “compliance” are each considered low as of the reporting date.

Entrepreneurial risks

In the area of entrepreneurial risks, the Porsche SE Group primarily faces opportunities and risks from investments, risks from financial instruments as well as legal and tax opportunities and risks. These are considered in terms of their potential influence on the earnings and liquidity situation of the Porsche SE Group. The focus of risk management is primarily on negative variances from expectations regarding the development of the group result after tax or net liquidity of the Porsche SE Group.

Opportunities and risks from investments

In connection with any existing and future investments, Porsche SE generally faces opportunities and risks regarding the effects on its result and/or net liquidity. This includes the risk of a need to recognize impairment losses, with a corresponding negative impact on the result of Porsche SE, the risk of a decrease in dividend inflow, the risk of burdens on profits from changes in the market value of equity instruments accounted for at fair value as well as the risk of burdens on profits attributed to Porsche SE in the consolidated financial statements under the equity method. However, there are also corresponding opportunities from positive development in these areas. Porsche SE is currently exposed to significant risks from the investments in Volkswagen AG and PTV AG as well as the venture portfolio comprising the non-controlling interests in technology companies.

To detect a possible impairment at an early stage, Porsche SE regularly analyzes key figures on the business development of the investments in Volkswagen AG and PTV AG in particular and, if applicable, monitors assessments made by analysts. Porsche SE carries out impairment testing if there is a specific indication that these assets may be impaired, or otherwise annually. Porsche SE’s valuations are based on a discounted cash flow method and are performed on the basis of the most recent corporate planning prepared by the management of the respective investment, which is adjusted to reflect the current information available, where necessary. A weighted average cost of capital is used to discount cash flows. On occasion, in addition to the discounted cash flow method, valuations are also performed using multiples.


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With regard to the investment in Volkswagen AG, there is an increased risk of the result attributable to Porsche SE as part of equity accounting falling short of expectations on account of the Volkswagen Group not developing as planned (referred to below as the risk area “Result contribution Volkswagen”). According to Volkswagen, the most significant risks at the level of the Volkswagen Group arise from a negative trend in markets and unit sales, with regard to quality and cyber security, and from an inability to develop products in line with demand and requirements, especially in view of e-mobility and digitalization. Non-fulfillment of CO_2-related requirements also constitutes a risk. The Volkswagen Group continues to be exposed to risks from the diesel issue. Negative effects, for example resulting from supply bottlenecks, may arise for 2021 if efforts to contain the Covid-19 pandemic are not successful in the long term. The assessment of risks at the level of the Volkswagen AG is based on the report on risks and opportunities in the 2020 group management report of Volkswagen AG.

As regards the recoverability of the investment in Volkswagen AG, impairment testing was performed in the fiscal year 2020 due to the proportionate market capitalization being below the carrying amount accounted for at equity. As the impairment test is based on the current planning of the Volkswagen Group, the risks described above of an unexpected development which might lead to an impairment in the value of the investment also exist here. The risk of an impairment loss needing to be recognized through profit or loss is referred to below as the risk area “Impairment Volkswagen”. As part of the impairment test, sensitivity analyses regarding key measurement parameters were performed. As the value in use of the investment in Volkswagen AG was significantly higher than the carrying amount in each of the scenarios considered in the sensitivity analysis, the risk of a need to recognize an impairment loss is considered to be unlikely on the basis of the current information.

There is also the general risk of a significant decrease in dividend inflow from Volkswagen AG (referred to below as the risk area “Dividend inflow Volkswagen”), which would in turn affect the net liquidity of the Porsche SE Group. Such developments are not currently expected.

Since fully including the PTV Group into the consolidated financial statements of Porsche SE, there is a general risk of the goodwill identified in the course of the purchase price allocation being impaired through profit or loss (referred to below as the risk area “Impairment risk PTV”). The goodwill is tested for impairment annually and if there is any indication that the goodwill may be impaired. As of 31 December 2020, the impairment test was performed as scheduled. As a result, there was no need to recognize an impairment loss for goodwill. Due to the higher difference between the determined value in use and the carrying amount of the cash-generating unit, the likelihood of occurrence of the risk area “Impairment risk PTV”

has decreased compared to the prior year. A future need to recognize an impairment loss for the goodwill is currently considered unlikely.

In light of the positive development of the non-controlling interests in technology companies in the fiscal year 2020 and the associated increase in the carrying amount of these investments, the reporting was expanded to include the risk area “Result contribution venture portfolio”. Opportunities and risks mainly arise from changes in market value, which have a full impact on the result of the Porsche SE Group. The performance of technology companies in disruptive markets is in general subject to increased uncertainty.

Risks from financial instruments

In its business activities Porsche SE is exposed to risks arising from the use of financial instruments. Significant risks resulting from such activities are referred to below as the risk area “Risks from financial instruments”. The financial instruments currently used at Porsche SE in particular comprise cash and cash equivalents, time deposits and securities.

The use of financial instruments as part of liquidity management gives rise to counterparty risks. To mitigate the counterparty risks, Porsche SE monitors the creditworthiness of counterparties and spreads the investment of liquidity across various counterparties. With the exception of the market price risks in the venture portfolio presented in the section on opportunities and risks from investments, further risks from using financial instruments are currently classified as insignificant for Porsche SE.

A hold harmless declaration to the deposit guarantee fund agency of the Association of German Banks is in place for the benefit of Volkswagen Bank GmbH, which Porsche SE issued in 2009.

Legal risks

Porsche SE is involved in legal disputes and administrative proceedings both nationally and internationally. As of 31 December 2020, this primarily relates to actions for damages concerning the stake building of the investment in Volkswagen AG and the allegation of market manipulation as well as legal proceedings because of alleged nonfeasance of capital market information or alleged incorrect capital market information in connection with the diesel issue. Where such risks are foreseeable, adequate provisions are made in order to account for any ensuing risks. The amount of the provisions for legal risks recognized in the reporting year corresponds to the attorneys’ fees

and litigation expenses anticipated for the ongoing proceedings. The company believes that thus far these risks have not had a sustained effect on the economic position of the group. However, due to the fact that the outcome of litigation can be estimated only to a limited degree, it cannot be ruled out that very serious losses may eventuate that are not covered by the provisions already made, which would result in a correspondingly negative impact on the result and liquidity.

For the status of the legal proceedings and for current developments, reference is made to the section “Significant events and developments at the Porsche SE Group”.

Tax opportunities and risks

The contribution of the holding business operations of Porsche SE to Volkswagen AG as of 1 August 2012 is generally associated with tax risks. To safeguard the transaction from a tax point of view, and thus avoid tax back payments for the spin-offs performed in the past, rulings were obtained from the competent tax authorities. Porsche SE implemented the necessary measures to execute the contribution transaction in accordance with the rulings received and is monitoring compliance with them.

The tax field audit is still being performed for the assessment periods 2009 to 2013. New findings of the tax field audit for the periods 2009 to 2013 could result in an increase or decrease in tax provisions and interest or any refunds already received might have to be partially paid back.

During the assessment periods 2006 to 2009, Porsche SE was initially the legal successor of Porsche AG and later the ultimate tax parent and thus liable for tax payments. As part of the contribution of the business operations, Volkswagen AG agreed to refund to Porsche SE any tax benefits – for example, in the form of a refund, tax reduction or tax saving, a reversal of tax liabilities or provisions or an increase in tax losses – of Porsche Holding Stuttgart GmbH, Porsche AG and its legal predecessors and subsidiaries which pertain to assessment periods up to 31 July 2009. In return, under certain circumstances Porsche SE holds Porsche Holding Stuttgart GmbH, Porsche AG and their legal predecessors harmless from tax disadvantages that exceed the obligations from periods up until and including 31 July 2009 recognized at the level of these entities. If the total tax benefits exceed the total tax disadvantages, Porsche SE has a claim against Volkswagen AG to payment of the amount by which the tax benefits exceed the tax disadvantages. The amount of tax benefits and tax disadvantages to be taken into

account is regulated in the contribution agreement. The risks arising at the level of Porsche SE, for which provisions were recognized in prior years and payments were made, will in some cases lead to tax benefits at the Volkswagen Group that are expected to partly compensate the tax risks of Porsche SE. However, the provisions in the contribution agreement do not cover all matters and thus not all tax risks of Porsche SE from the tax field audits for the assessment periods 2006 to 2009. The existence and amount of a possible reimbursement claim against Volkswagen AG can be reliably determined only following completion of the tax field audit for the assessment period 2009. Based on the findings of the completed tax field audit for the assessment periods 2006 to 2008 and the information available for the assessment period 2009 when these financial statements were prepared, it is estimated that Porsche SE has a compensation claim against Volkswagen AG in the low triple-digit million-euro range. Future findings may lead to an increase or decrease in the possible compensation claim.

Risk assessment for entrepreneurial risks

The methodology for regularly assessing entrepreneurial risks remained unchanged in the past fiscal year. A risk assessment is performed for each of the significant entrepreneurial risks of the Porsche SE Group using risk categories “Low”, “Moderate” and “High”. This involves assessing the risk of falling short of the forecast corridor communicated for the result after tax and/or the net liquidity of Porsche SE Group. Compared to the prior year, the forecast corridor for the group result after tax of Porsche SE has increased, while the forecast corridor for the group net liquidity of Porsche SE remains unchanged.

The risk assessment of a risk area includes the potential impact of the risk area as well as its likelihood of occurrence. A risk area under examination is allocated to one of the categories low, moderate or high based on its potential impact. The allocation is generally based on the potential impact that a risk area under examination can have on the result after tax and/or the net liquidity of the Porsche SE Group in terms of whether it negatively deviates from the corresponding forecast value. Considered individually as of the reporting date, risk areas categorized as high based on their potential impact generally have the potential to impact the key performance indicators result after tax and/or net liquidity of the Porsche SE Group by more than half of the forecast corridor.

The likelihood of occurrence is allocated using the categories unlikely, moderately likely and highly likely.

The risk assessment of the significant entrepreneurial risks of the Porsche SE Group using the risk categories remains unchanged compared to the prior year. The likelihood of occurrence of the risk area “Impairment risk PTV” has now been categorized as unlikely (prior year: moderately likely). The reporting was expanded to include the risk area “Result contribution venture portfolio” in the risk category “Low”. As of the reporting date, the risk assessment is as follows:

Presentation of the risk assessment (with regard to the forecast corridor)

Potential impact (with regard to the forecast corridor)	unlikely	moderately likely	highly likely
high	• Dividend inflow Volkswagen • Impairment risk Volkswagen • Tax risks • Legal risks	• Result contribution Volkswagen	
moderate	• Risks from financial instruments		
low	• Impairment risk PTV	• Result contribution venture portfolio	
	Likelihood of occurrence		

Risk category “Low” Risk category “Moderate” Risk category “High”

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 and the specific risks of Porsche SE presented. The risk management system aims to ensure that these risks are addressed adequately. Based on the information currently available, the board of management has not identified any risks which could endanger the ability of the Porsche SE Group to continue as a going concern.

Report on opportunities and risks of the Volkswagen Group

Risk management system of the Volkswagen Group

In this section, the objective and structure of the Volkswagen Group's risk management system (RMS) and internal control system (ICS) are explained and its systems described with regard to the financial reporting process. Volkswagen AG has implemented its own group-wide risk management system and is responsible for handling its own risks. The following is based on extracts from the Report on Risks and Opportunities in the 2020 group management report of Volkswagen AG.

Objective of the risk management system and internal control system at Volkswagen

Only by promptly identifying, accurately assessing and effectively and efficiently managing the risks and opportunities arising from its business activities can the Volkswagen Group ensure its long-term success. The aim of the RMS/ICS is to identify potential risks at an early stage so that suitable countermeasures 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. Assessing the likelihood of occurrence and extent of future events and developments is, by its nature, subject to uncertainty. The Volkswagen Group is therefore aware that even the best RMS cannot foresee all potential risks and even the best ICS can never completely prevent irregular acts.

Structure of the risk management system and internal control system at Volkswagen

The organizational design of the Volkswagen Group's RMS/ICS is based on the internationally recognized COSO framework for enterprise risk management (COSO: Committee of Sponsoring Organizations of the Treadway Commission). Structuring the RMS/ICS in accordance with the COSO framework for enterprise risk management ensures that potential risk areas are covered in full. Uniform group principles are used as the basis for managing risks in a standardized manner. Opportunities are not recorded.

Another key element of the RMS/ICS at Volkswagen is the three lines model, a basic element required by, among other bodies, the European Confederation of Institutes of Internal Auditing (ECIIA). In line with this model, the Volkswagen Group's RMS/ICS has three lines designed to protect the company from significant risks occurring.

The minimum requirements for the RMS/ICS, including the three lines model, are set out in guidelines for the entire group.

The RMS/ICS was further developed in the past fiscal year. The IT risk management system called "Riskradar" was introduced at all brands and significant group companies of the Volkswagen Group in 2020. In this way, Volkswagen has increased process and data security and reduced its manual workload through automated workflows and end-to-end system support for the analysis of data. At the same time, risk awareness at the company is further intensified, risk transparency is improved and risks can be analyzed with end-to-end system support. The ICS has been standardized for high-risk business processes at significant companies. Volkswagen will continue to develop its RMS/ICS in the future.

First line: Operational risk management

The first line comprises the operational risk management and internal control systems at the individual group companies and business units. The RMS/ICS is an integral part of the Volkswagen Group's structure and workflows. Events that may give rise to risk are identified and assessed locally in the divisions and at the investees. Countermeasures are introduced immediately, the remaining potential impact is assessed, and the information incorporated into the planning in a timely manner. Material risks are reported to the relevant committees on an ad hoc basis. The results of the operational risk management process are incorporated into budget planning and financial control on an ongoing basis. The targets agreed in the budget planning rounds are continually reviewed in revolving planning updates. At the same time, the results of risk mitigation measures are promptly incorporated into the monthly forecasts regarding further business development. This means that the board of management also has access to an overall picture of the current risk situation via the documented reporting channels during the year.

The operational risk management and internal control system also includes compliance with the so-called Golden Rules in the areas of control unit software development, emission classification and escalation management. These rules are the minimum requirements in the organization, processes and tools & systems categories.

Second line: Identifying and reporting systemic and acute risks using group-wide processes

In addition to the ongoing operational risk management, the Group Risk Management department sends standardized surveys regarding the risk situation and the effectiveness of the RMS/ICS to the significant group companies and units worldwide (regular Governance, Risk & Compliance (GRC) process) each year.

As part of this process, each systemic risk inherent to the process or inherent to the business that is reported is recorded and assessed in the RICORS IT system. The risk assessment is made by multiplying the criterion of likelihood of occurrence (Prob) by the potential extent of the damage. The extent of the damage is calculated from the criteria of financial loss (Mat) and reputational damage (Rep) and criminal relevance (Penal). A score between 0 and 10 is assigned to each of these criteria. The measures taken to manage and control risk are taken into account in the risk assessment (net perspective). The result is a risk score that expresses the risk.

Calculation of risk score

$$\text{Risk score} = \text{Likelihood of occurence} \times \text{Potential extent of damage}$$

$$= \text{Score Prop} \times \left[\text{Score Mat} + \frac{\text{Score Rep} + \text{Score Penal}}{2} \right]$$

The score for a likelihood of occurrence of more than 50% in the analysis period is classified as high; for a medium classification, the likelihood of occurrence is at least 25%. For the criterion of financial loss, the score rises in line with the loss; the highest score of 10 is reached when the potential loss is upwards of €1 billion. The criterion of reputational damage can have characteristics ranging from local erosion of confidence and loss of trust at local level to loss of reputation at

regional or international level. Criminal relevance is classified based on the influence on the local company, the brand or the group.

In addition to strategic, operational and reporting risks, risks arising from potential compliance violations are also integrated into this process. Moreover, the effectiveness of key risk management and control measures is tested and any weaknesses identified in the process are reported and rectified.

All Volkswagen Group companies and units selected from among the entities in the consolidated group on the basis of materiality and risk criteria were subject to the regular GRC process in fiscal year 2020.

Quarterly risk reports are produced in addition to the annual risk assessment. These depict the Volkswagen Group's acute – short to medium-term – risk situation. The assessment of risks from this quarterly risk process (QRP) is conducted in the "Riskradar" IT system similarly to that of the annual regular GRC process. All group brands as well as Porsche Holding Salzburg, Volkswagen Financial Services AG and Volkswagen Bank GmbH are included in the QRP.

In addition, significant changes to the risk situation that can arise in the short term, for instance from unexpected external events, are reported to the board of management as required. This is necessary if, among other things, the risk may lead to potential financial loss of over €1 billion.

Based on the feedback from the annual regular GRC process and quarterly risk surveys, the overall picture of the potential risk situation is updated and the system's effectiveness assessed.

A separate Group Board of Management Committee for Risk Management examines the key aspects of the RMS/ICS every quarter. Its tasks are as follows:

- to further increase transparency in relation to significant risks to the group and their management,
- to explain specific issues where these constitute a significant risk to the group,
- to make recommendations on the further development of the RMS/ICS,
- to support the open approach to dealing with risks and promote an open risk culture.

Risk reporting to the committees of Volkswagen AG depends on materiality thresholds. Systemic risks from a risk score of 20 and acute risks from a risk score of 40 or potential financial loss of €1 billion or more are regularly presented to the board of management and the audit committee of the supervisory board of Volkswagen AG.

Third line:
Review by Group Internal Audit

Group Internal Audit helps the board of management to monitor the various divisions and corporate units within the group. It regularly checks the risk early warning system and the structure and implementation of the RMS/ICS and the compliance management system (CMS) as part of its independent audit procedures.

Risk early warning system in line with the KonTraG

The company's risk situation is ascertained, assessed and documented in accordance with the requirements of the German Act on Control and Transparency in Business (KonTraG). The requirements for a risk early warning system are met by means of the RMS/ICS elements described above (first and second line). Independently of this, the external auditors check both the processes and procedures implemented in this respect and the adequacy of the documentation on an annual basis. The plausibility and adequacy of the risk reports are examined via spot checks in detailed interviews with the divisions and companies concerned together with the external auditors. The auditor examines the risk early warning system integrated in the risk management system with respect to its fundamental suitability of being able to identify risks that might jeopardize the continued existence and assesses the functionality of the risk early warning and monitoring systems in accordance with Sec. 317 (4) HGB.

In addition, scheduled examinations as part of the audit of the annual financial statements are conducted at companies in the financial services division. As a credit institution, Volkswagen Bank GmbH, including its subsidiaries, is subject to supervision by the European Central Bank, while Volkswagen Leasing GmbH as a financial services institution and Volkswagen Versicherung AG as an insurance company are subject to supervision by the relevant division of the German Federal Financial Supervisory Authority (BaFin). As part of the scheduled supervisory process and unscheduled audits, the competent supervisory authority assesses whether the requirements, strategies, processes and mechanisms ensure solid risk management and solid risk cover. Furthermore, the Prüfungsverband deutscher Banken (Auditing Association of German Banks) audits Volkswagen Bank GmbH from time to time.

Volkswagen Financial Services AG operates a risk early warning and management system. Its aim is to ensure that the locally applicable regulatory requirements are adhered to and at the same time to enable appropriate and effective risk management at group level. Important components of it are regularly reviewed as part of the audit of the annual financial statements.

Monitoring the effectiveness of the risk management system and the internal control system

To ensure the effectiveness of the RMS/ICS, Volkswagen regularly optimizes it as part of its continuous monitoring and improvement processes. In the process, it gives equal consideration to both internal and external requirements. External experts assist in the continuous enhancement of the RMS/ICS on a case-by-case basis. The results culminate in both regular and event-driven reporting to the board of management and supervisory board of Volkswagen AG.

Risk management and integrated internal control system in the context of the financial reporting process within the Volkswagen Group

The accounting-related part of the RMS/ICS that is relevant for the financial statements of Volkswagen AG and the Volkswagen Group as well as its subsidiaries comprises measures intended to ensure that the information required for the preparation of the financial statements of Volkswagen AG, the consolidated financial statements and the combined management report of the Volkswagen Group and Volkswagen AG is complete, accurate and transmitted in a timely manner. These measures are designed to minimize the risk of material misstatement in the accounts and in external reporting.

Main features of the risk management and integrated internal control system in the context of the financial reporting process

The Volkswagen Group's accounting is essentially organized along decentralized lines. For the most part, accounting duties are performed by the consolidated companies themselves or entrusted to the group's shared service centers. In principle, the audited financial statements of Volkswagen AG and its subsidiaries prepared in accordance with IFRSs and the Volkswagen IFRS Accounting Manual are transmitted to the Volkswagen Group in encrypted form. A standard market product is used for encryption.

The Volkswagen IFRS Accounting Manual, which has been prepared in line with external expert opinions in certain cases, is intended to ensure the application and assessment of uniform accounting policies based on the requirements applicable to the parent of the Volkswagen Group. In particular, it includes more detailed guidance on the application of legal requirements and industry-specific issues. Components of the reporting packages that are required to be prepared by the group companies are also set out in detail there, and requirements have been established for the presentation and settlement of intragroup transactions and the balance reconciliation process that is based on these.

Control activities at group level include analyzing and, if necessary, adjusting the data reported in the 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. These discussions address both the plausibility of the single-entity financial statements and specific significant issues at the subsidiaries. Alongside plausibility checks, other

control mechanisms applied during the preparation of the single-entity and consolidated financial statements of Volkswagen AG include the clear delineation of areas of responsibility and the application of the “four eyes” principle.

The combined management report of the Volkswagen Group and Volkswagen AG is prepared – in accordance with the applicable requirements and regulations – centrally but with the involvement of and in consultation with the group units and companies.

In addition, the accounting-related internal control system is independently reviewed by Group Internal Audit in Germany and abroad.

Integrated consolidation and planning system

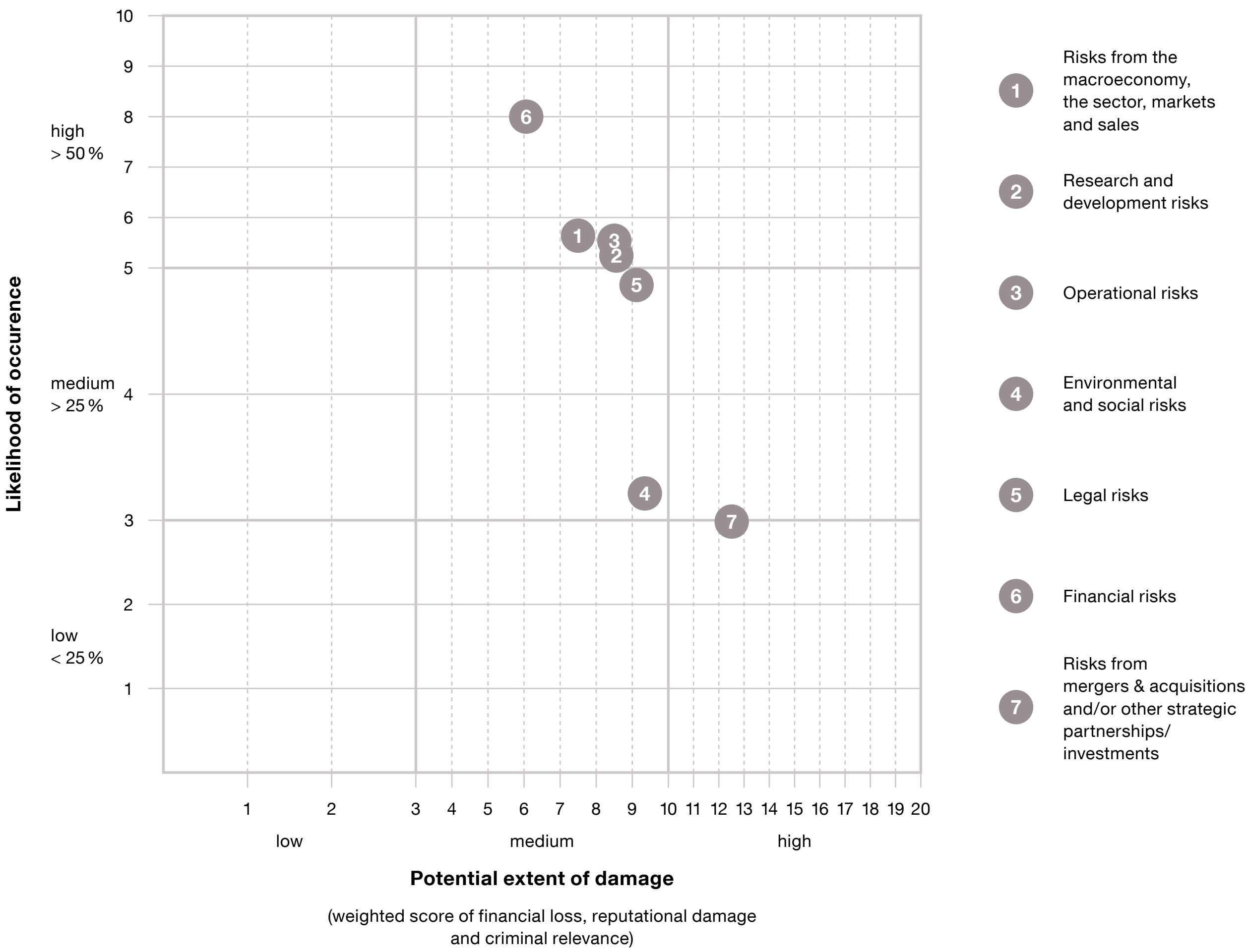
The Volkswagen consolidation and corporate management system (VoKUs) enables the Volkswagen Group to consolidate and analyze both Financial Reporting’s backward-looking data and Controlling’s budget data. VoKUs offers centralized master data management, uniform reporting, an authorization concept and the required flexibility with regard to changes to the legal environment, 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 content plausibility between the balance sheet, the income statement and the notes.

Opportunities and risks of the Volkswagen Group

This section outlines the main risks and opportunities arising in the business activities of the Volkswagen Group from the Volkswagen Group’s perspective. In order to provide a better overview, the risks and opportunities have been grouped into categories. At the beginning of each risk category, the most significant risks are stated in order of their importance as identified by Volkswagen using the risk score from the regular GRC process and the quarterly risk process (QRP).

The risks from the regular GRC process and the QRP reported to the board of management and the audit committee are incorporated into the assessment of the Volkswagen Group’s risk categories. The risk categories are plotted based on the average scores.

Average scores of the risk categories



Volkswagen uses analyses of the competition and the competitive environment in addition to market studies to identify not only risks but also opportunities that have a positive impact on the design of its products, the efficiency with which they are produced, their success in the market and its cost structure. Where they can be assessed, risks and opportunities that Volkswagen expects to occur are already reflected in its medium-term planning and its forecast. The Volkswagen Group therefore reports on internal and external developments as risks and opportunities that, based on information available to the Volkswagen Group at the time its management report is authorized for issue, may result in a negative or positive deviation from its forecast or targets.

Risk categories at the Volkswagen Group

The category "Risks and opportunities from the macroeconomy, the sector, markets and sales" summarizes macroeconomic risks and opportunities, sector-specific risks and market opportunities/ potential, sales risks as well as other factors. Under other factors, Volkswagen describes the risk in particular that the Covid-19 pandemic could intensify, due to reasons such as changes in the virus. All areas of the Volkswagen Group are affected by the pandemic, especially sales due to a fall in customer demand, production and supply chains. For this risk category, the likelihood of occurrence is classified as high (prior year: medium) and the potential extent of damage is classified as medium (prior year: medium) by Volkswagen. From the Volkswagen Group's perspective, the most significant risks from the regular GRC process and the QRP in this category lie in restrictions on trade and increasingly protectionist tendencies resulting in a negative trend in markets and unit sales.

The category "Research and development risks" contains risks arising from research and development as well as risks and opportunities from the modular toolkit strategy. For this risk category, the likelihood of occurrence is classified as high (prior year: high) and the potential extent of damage is classified as medium (prior year: medium) by Volkswagen. The most significant risks from the regular GRC process and QRP result from the inability to develop products in line with demand and requirements, especially with regard to e-mobility and digitalization.

"Operational risks and opportunities" summarizes risks from particular events in the Volkswagen Group's procurement and production network, risks and opportunities from Procurement and Components, production risks, risks arising from long-term production, quality risks, IT risks and risks from media impact. Risks from particular events in the Volkswagen Group's procurement and production network currently describes in particular the risk, that the spread of the coronavirus may result in supply risks in procurement and significantly disrupt production. As a consequence, bottlenecks or even outages in production may occur at Volkswagen, thus preventing the planned volume of production from being achieved. For this risk category, the likelihood of occurrence is classified as high (prior year: high) and the potential extent of damage is classified as medium (prior year: medium) by Volkswagen. The most significant risks from the regular GRC process and QRP lie particularly in the area of cyber security and new regulatory requirements for IT, in quality problems, and in volatile procurement markets.

The risk category "Environmental and social risks" include personnel risks as well as risks from environmental protection regulations. For this risk category, the likelihood of occurrence is classified as medium (prior year: medium) and the potential extent of damage is classified as medium (prior year: medium) by Volkswagen. The most significant risks from the regular GRC process and QRP arise from non-fulfillment of CO_2-related requirements.

Risks from litigation and legal risks in connection with the diesel issue as well as tax risks are subsumed under "Legal risks". For this risk category, the likelihood of occurrence is classified as medium (prior year: medium) and the potential extent of damage is classified as medium (prior year: high) by Volkswagen. The most significant risks from the regular GRC process and QRP are associated with the diesel issue.

In the category "Financial risks", the Volkswagen Group includes financial risks, risks arising from financial instruments, liquidity risks as well as risks and opportunities in the financial services business. For this risk category, the likelihood of occurrence is classified as high (prior year: high) and the potential extent of damage is classified as medium (prior year: medium) by Volkswagen. The most significant risks from the regular GRC process and QRP result from volatile foreign exchange markets.

Under "Opportunities and risks from mergers and acquisitions and/or other strategic partnerships/ investments", the Volkswagen Group summarizes opportunities and risks from partnerships, risks arising from the recoverability of goodwill or brand names as well as risks from the disposal of equity investments. For this risk category, the likelihood of occurrence is classified as medium (prior year: high) and the potential extent of damage is classified as high (prior year: high) by Volkswagen. The most significant risks from the regular GRC process and QRP are linked to the cooperation with other partners.

Risk assessment of Volkswagen AG regarding the diesel issue

An amount of around €1.9 billion (€2.9 billion) was included in the Volkswagen Group's provisions for litigation and legal risks as of 31 December 2020 to account for the legal risks related to the diesel issue currently known by the Volkswagen Group based on the presently available information and the current assessments of Volkswagen. Where adequately measurable at this stage, contingent liabilities relating to the diesel issue were disclosed in the consolidated notes of the Volkswagen Group in an aggregate amount of €4.2 billion (€3.7 billion), whereby roughly €3.5 billion (€3.4 billion) of this amount results from lawsuits filed by investors in Germany. The provisions recognized, the contingent liabilities disclosed, and the other latent legal risks in the context of the diesel issue within the Volkswagen Group are in part subject to substantial estimation risks given the complexity of the individual relevant factors, the ongoing coordination with the authorities, and the fact that the fact-finding efforts have not yet been concluded. Should these legal or estimation risks materialize, this could result in further substantial financial charges. In

particular, adjustment of the provisions recognized in light of knowledge acquired or events occurring in the future cannot be ruled out.

In line with IAS 37.92, no further statements have been made by Volkswagen concerning estimates of financial impact or regarding uncertainty as to the amount or maturity of provisions and contingent liabilities in relation to the diesel issue. This is so as to not compromise the results of the proceedings or the interests of the company.

Overall assessment of the risk and opportunity position of the Volkswagen Group

The Volkswagen Group's overall risk and opportunity position results from the specific risks and opportunities shown above. Volkswagen has put in place a comprehensive risk management system to ensure that these risks are controlled. The most significant risks to the Volkswagen Group across all risk categories arise from a negative trend in markets and unit sales, with regard to quality and cyber security, and from an inability to develop products in line with demand and requirements, especially in view of e-mobility and digitalization. Non-fulfillment of CO_2-related requirements also constitutes a risk. The Volkswagen Group continues to be exposed to risks from the diesel issue. Negative effects, for example resulting from supply bottlenecks, may arise for 2021 if efforts to contain the Covid-19 pandemic are not successful in the long term. Taking into account all the information known to the Volkswagen Group at the time of authorizing its management report for issue, no risks exist which could pose a threat to the continued existence of significant group companies or the Volkswagen Group.

Publication of the declaration of compliance

Porsche SE has issued the declaration of compliance as required by Secs. 289f and 315d HGB. The declaration of compliance is published at www.porsche-se.com/en/company/corporate-governance/.

Subsequent events

For more information on the agreement covering the key points of a comprehensive realignment of MAN Truck & Bus SE as well as the approval of Navistar shareholders on the takeover by TRATON, please refer to the details provided in section "Subsequent events" of the notes to the consolidated financial statements.

With the exception of the litigation developments presented in the section "Significant events and developments at the Porsche SE Group", there were no other reportable events after the reporting date.

Forecast report and outlook

Developments in the global economy

Planning is based on the assumption that global economic output will recover overall in 2021, provided lasting containment of the Covid-19 pandemic is achieved. This growth will most likely be sufficient for the economy to recover to approximately its pre-pandemic level. We expect that the expansionary monetary policy of the central banks will remain in place to support this development and therefore consider it currently unlikely that interest rates will rise in the USA and the eurozone. For 2021, the euro is forecast to strengthen against the currencies that are key for the Volkswagen Group.

Porsche SE continues to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts. Volkswagen anticipates that both the advanced economies and the emerging markets will experience positive momentum. The trend in the automotive industry closely follows global economic developments.

Trends in the markets for passenger cars and light commercial vehicles

Mixed trends in the markets for passenger cars in the individual regions are expected for 2021. Overall, the volume of demand worldwide for new vehicles is expected to be noticeably up on the reporting year, but will not reach the pre-pandemic level, provided successful containment of the Covid-19 pandemic is achieved.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2021; on the whole, a moderate rise in demand for 2021 is anticipated, assuming a successful containment of the Covid-19 pandemic.

Trends in the markets for commercial vehicles

For 2021, a significantly positive development is expected in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the prior year, with variations from region to region, in the markets that are relevant for the Volkswagen Group. A moderate increase in overall demand with regional variations for 2021 is likely in the bus markets relevant for the Volkswagen Group.

Trends in the markets for financial services

It is anticipated that automotive financial services will prove highly important to global vehicle sales in 2021, particularly in the context of the ongoing challenges posed by the Covid-19 pandemic. Demand is expected to rise in emerging markets where market penetration has so far been low. Regions with already established automotive financial services markets will see a continuation of the trend towards enabling mobility at the lowest possible total cost. Integrated end-to-end solutions, which include mobility-related service modules such as insurance and innovative packages of services, will become increasingly important for this. Additionally, it is expected that demand will increase for new forms of mobility, such as rental services, and for integrated mobility services, for example parking, refueling and charging, and that the shift in the European leasing business initiated with individual customers from financing to lease contracts will continue.

In the mid-sized and heavy commercial vehicles category, rising demand is anticipated for financial services products in emerging markets. In the developed markets, it expects to see increased demand for telematics services and services aimed at reducing total cost of ownership in 2021.

Anticipated development of the Volkswagen Group

Volkswagen believes it is well prepared overall for the future challenges pertaining to the automotive business activities and for the mixed development of the regional automotive markets. Its brand diversity, presence in all major world markets, broad and selectively expanded product range, and technologies and services put the Volkswagen Group in a good competitive position worldwide. As part of the transformation of its core business, Volkswagen is positioning its group brands with an even stronger focus on their individual characteristics, and is optimizing the vehicle and drive portfolio. The focus is primarily on its vehicle's carbon footprint and on the most attractive and fastest-growing market segments. In addition, the Volkswagen Group is working to leverage the advantages of its multibrand group even more effectively with the ongoing development of new technologies and the enhancement of its toolkits.

Volkswagen's planning is based on the assumption that global economic output will recover overall in 2021, provided a lasting containment of the Covid-19 pandemic is achieved. Further, these plans are based on the Volkswagen Group's current structures. They do not include the impact of organizational changes, such as the acquisition of additional shares in Navistar by TRATON SE.

The Volkswagen Group anticipates that deliveries to customers will be significantly up on the prior year in 2021 – assuming successful containment of the Covid-19 pandemic – amid continued challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, volatile commodity and foreign exchange markets, securing supply chains, and more stringent emissions-related requirements.

Volkswagen expects the revenue of the Volkswagen Group and passenger cars business area in 2021 to be significantly higher than the prior-year figure. In terms of operating result for the group and the passenger cars business area, it forecasts an operating return on sales in the range of 5.0% to 6.5% in 2021. For the commercial vehicles business area, Volkswagen anticipates an operating return on sales of 4.0% to 5.5% before restructuring measures amid a significant year-on-year increase in revenue. For the financial services division, Volkswagen forecasts that revenue will be noticeably higher than the prior-year figure and that the operating result will be in line with the prior year.

Anticipated development of the Porsche SE Group

The result of the Porsche SE Group is largely affected by the result from investments accounted for at equity that is attributable to Porsche SE and therefore on the earnings situation of the Volkswagen Group.

The forecast result after tax of the Porsche SE Group is therefore largely based on the Volkswagen Group's expectations regarding its future development. While the result after tax of the Volkswagen Group is included in the forecast of the Porsche SE Group, the forecast of the Volkswagen Group is based only on its operating result. As a result, effects outside of the operating result at the level of the Volkswagen Group do not affect its forecast, although they do have a proportionate effect on the amount of the Porsche SE Group's forecast result after tax.

The expectations of the Volkswagen Group regarding future development were therefore expanded on by the board of management of Porsche SE. This also includes the expectations of the board of management of Porsche SE regarding the profit contributions from investments that are contained in the financial result of the Volkswagen Group.

The following earnings forecast is based on the current structure of the Porsche SE Group and the Volkswagen Group. Effects from any other future investments and divestures of the Porsche SE Group or from future organizational changes at the level of the Volkswagen Group are not taken into account. Based in particular on the Volkswagen Group's expectations regarding its future development and the ongoing existing uncertainties with regard to the Covid-19 pandemic and possible special items in connection with the diesel issue, the Porsche SE Group expects a positive group result after tax of between €2.6 billion and €4.1 billion for the fiscal year 2021.

As of 31 December 2020, the Porsche SE Group had net liquidity of €563 million. The goal of the Porsche SE Group to achieve positive net liquidity remains unchanged as of 31 December 2021. This is expected to be between €0.4 billion and €0.9 billion, not taking future investments and divestures into account.

Stuttgart, 10 March 2021

Porsche Automobil Holding SE
The board of management

Glossary

Selected terms at a glance

Gross margin
Gross margin is the percentage of revenue attributable to gross profit of the Volkswagen Group in a period. Gross margin provides information on profitability net of cost of sales.

Equity ratio
The equity ratio measures the percentage of total assets attributable to shareholders' equity as of a reporting date. This ratio indicates the stability and financial strength of the company and shows the degree of financial independence.

Operating result
The revenue of the Volkswagen Group, which does not include the figures for its equity-accounted Chinese joint ventures, reflects the market success of the Volkswagen Group in financial terms. Following adjustment for its use of resources, the operating result reflects the actual business activity of Volkswagen and documents the economic success of its core business.

Operating return on sales
The operating return on sales of the Volkswagen Group is the ratio of the operating result to revenue.

Tax rate
The tax rate is the ratio of income taxes to profit before tax, expressed as a percentage. It shows what percentage of the profit generated has to be paid over as tax.

Return on sales before tax
The return on sales is the ratio of profit before tax to revenue in a period, expressed as a percentage. It shows the level of profit generated for each unit of revenue. The return on sales provides information on the profitability of all business activities before deducting income tax expense.

3

Financials

Consolidated income statement of Porsche Automobil Holding SE for the period from 1 January to 31 December 2020

€ million	Note	**2020**	2019
Revenue	[1]	107	116
Changes in inventories		0	0
Other own work capitalized		0	1
Other operating income	[2]	9	54
Cost of materials		–13	–17
Personnel expenses	[3]	–80	–80
Amortization and depreciation	[8]	–22	–21
Other operating expenses	[4]	–49	–66
Result from investments accounted for at equity	[5]	2,641	4,406
Result before financial result		**2,592**	**4,393**
Finance costs		–4	–4
Other financial result		57	28
Financial result	**[6]**	**54**	**24**
Result before tax		**2,646**	**4,416**
Income tax	[7]	–23	–9
Result after tax		**2,624**	**4,408**
thereof attributable to			
shareholders of Porsche SE		2,623	4,407
non-controlling interests		0	0
Earnings per ordinary share (basic and diluted)	[12]	8.56	14.39
Earnings per preference share (basic and diluted)	[12]	8.57	14.39

Consolidated statement of comprehensive income of Porsche Automobil Holding SE for the period from 1 January to 31 December 2020

€ million	**2020**	2019
Result after tax	**2,624**	**4,408**
Remeasurements of pensions	–4	–8
Deferred tax on remeasurements of pensions	1	3
Other comprehensive income not to be reclassified to profit or loss in subsequent periods from investments accounted for at equity (before tax)	–882	–2,508
Deferred tax on other comprehensive income not to be reclassified to profit or loss in subsequent periods from investments accounted for at equity	283	758
Deferred tax on investments accounted for at equity	9	27
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods	–593	–1,729
Currency translation	1	0
Other comprehensive income to be reclassified to profit or loss in subsequent periods from investments accounted for at equity (before tax)	–437	–649
Deferred tax on other comprehensive income to be reclassified to profit or loss in subsequent periods from investments accounted for at equity	–215	269
Deferred tax on investments accounted for at equity	10	6
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	–641	–375
Other comprehensive income after tax	**–1,234**	**–2,104**
Total comprehensive income	**1,389**	**2,304**
thereof attributable to		
shareholders of Porsche SE	1,389	2,303
non-controlling interests	0	0

Consolidated balance sheet of Porsche Automobil Holding SE as of 31 December 2020

€ million	Note	**31/12/2020**	31/12/2019
Assets			
Intangible assets	[8]	227	241
Property, plant and equipment	[8]	34	37
Investments accounted for at equity	[9]	35,259	34,597
Other financial assets	[10], [19]	88	28
Other assets	[11]	2	3
Deferred tax assets	[7]	3	2
Non-current assets		**35,614**	**34,908**
Inventories		5	4
Trade receivables	[19]	18	24
Other financial assets	[10], [19]	4	5
Other assets	[11]	8	25
Income tax receivables	[7]	2	34
Securities	[19]	143	147
Time deposits	[19]	197	93
Cash and cash equivalents	[19]	259	353
Current assets		**637**	**684**
		36,250	**35,592**
Equity and liabilities			
Subscribed capital	[12]	306	306
Capital reserves	[12]	4,884	4,884
Retained earnings	[12]	36,330	34,492
Other reserves (OCI)	[12]	–5,576	–4,399
Equity attributable to shareholders of Porsche SE		35,945	35,283
Non-controlling interests		1	1
Equity		**35,946**	**35,284**
Provisions for pensions and similar obligations	[13]	51	45
Other provisions	[14]	25	27
Financial liabilities	[15], [19]	23	35
Other financial liabilities	[19]	0	0
Other liabilities	[16]	0	0
Deferred tax liabilities	[7]	100	100
Non-current liabilities		**200**	**206**
Provisions for pensions and similar obligations	[13]	1	1
Other provisions	[14]	34	38
Trade payables	[19]	5	4
Financial liabilities	[15], [19]	14	5
Other financial liabilities	[19]	12	13
Other liabilities	[16]	37	40
Income tax liabilities		1	1
Current liabilities		**105**	**102**
		36,250	**35,592**

Consolidated statement of changes in equity of Porsche Automobil Holding SE for the period from 1 January to 31 December 2020

€ million	Equity attributable to the shareholders of Porsche SE						
	Subscribed capital	Capital reserves	Retained earnings	Other reserves (OCI)	Total	Non-controlling interests	Total equity
As of 1 January 2019	306	4,884	30,601	−2,376	33,415	1	33,416
Result after tax			4,407		4,407	0	4,408
Other comprehensive income after tax				−2,104	−2,104	0	−2,104
Total comprehensive income			4,407	−2,104	2,303	0	2,304
Dividends			−676		−676	0	−676
Reclassifications[1]			7	−8	−1	0	−2
Other changes in equity arising from the level of investments accounted for at equity			153	89	242		242
As of 31 December 2019	**306**	**4,884**	**34,492**	**−4,399**	**35,283**	**1**	**35,284**
As of 1 January 2020	306	4,884	34,492	−4,399	35,283	1	35,284
Result after tax			2,623		2,623	0	2,624
Other comprehensive income after tax				−1,234	−1,234		−1,234
Total comprehensive income			2,623	−1,234	1,389	0	1,389
Dividends			−676		−676	0	−676
Reclassifications			0	0	0	0	0
Other changes in equity arising from the level of investments accounted for at equity			−109	58	−51		−51
As of 31 December 2020	**306**	**4,884**	**36,330**	**−5,576**	**35,945**	**1**	**35,946**

1 Line item also contains transactions with non-controlling interests.

Equity is explained in note [12].

Consolidated statement of cash flows of Porsche Automobil Holding SE for the period from 1 January to 31 December 2020

€ million	2020	2019
1. Operating activities		
Result after tax	2,624	4,408
Result from investments accounted for at equity	–2,641	–4,406
Amortization and depreciation	22	21
Gains (-) / losses (+) from the disposal of intangible assets and property, plant and equipment	0	–3
Interest expenses	4	4
Interest income	–1	–16
Income tax expense	23	9
Other non-cash expenses (+) and income (-)	–62	–56
Change in other assets	6	–5
Change in provisions for pensions	0	–1
Change in other provisions	–3	12
Change in other liabilities	3	8
Dividends received	756	753
Interest paid	–3	–3
Interest received	17	0
Income tax paid	–3	–5
Income tax received	33	2
Cash flow from operating activities	**773**	**722**
2. Investing activities		
Cash paid for the acquisition of intangible assets and property, plant and equipment	–2	–6
Cash received from the disposal of intangible assets and property, plant and equipment	0	1
Cash paid for the acquisition of shares of non-controlling interests	0	–2
Cash received from the disposal of subsidiaries	0	3
Cash paid for the acquisition of shares in investments accounted for at equity	–81	–311
Cash paid for the acquisition of other shares in entities	–2	–11
Change in investments in securities	3	–8
Change in investments in time deposits	–104	15
Cash flow from investing activities	**–186**	**–318**
3. Financing activities		
Dividends paid to shareholders of Porsche SE	–676	–676
Dividends paid to non-controlling interests	0	0
Cash paid for settlement of financial liabilities	–4	–5
Cash flow from financing activities	**–680**	**–681**
4. Cash and cash equivalents		
Change in cash and cash equivalents (subtotal of 1 to 3)	–93	–277
Cash and cash equivalents as of 1 January	353	630
Cash and cash equivalents as of 31 December	**259**	**353**

Note [17] contains further explanations on the consolidated statement of cash flows.

Notes to the consolidated financial statements of Porsche Automobil Holding SE for the fiscal year 2020

Basis of presentation

Porsche Automobil Holding SE ("Porsche SE" or the "company"), as the ultimate parent of the Porsche SE Group, is a European Company (Societas Europaea) and is headquartered at Porscheplatz 1 in 70435 Stuttgart, Germany. The company is registered at the Stuttgart Local Court under HRB 724512.

The purpose of the company includes in particular the acquisition, holding and administration as well as the sale of investments and the provision of support and advice to them, including the provision of services on behalf of such companies.

In particular, Porsche SE holds the majority of the ordinary shares in Volkswagen Aktiengesellschaft, Wolfsburg ("Volkswagen AG" or "Volkswagen"). It also indirectly holds all shares in PTV Planung Transport Verkehr AG, Karlsruhe ("PTV AG" or "PTV Group"), and non-controlling interests in technology companies.

The principal criteria of Porsche SE for investments are the connection to industrial production or the future of mobility. The prerequisites for investment by Porsche SE are always the positioning in an attractive market environment, an above-average growth potential and a mid- to long-term potential for profitability of the companies.

The consolidated financial statements of Porsche SE are prepared in accordance with Sec. 315e German Commercial Code (HGB) and are in compliance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) as well as the additional requirements of German commercial law. For the reports and disclosures on the changes to the voting interest in Porsche SE pursuant to the Securities Trading Act (WpHG), reference is made to the separate financial statements of Porsche SE prepared in accordance with the German Commercial Code.

The fiscal year of the Porsche SE Group covers the period from 1 January to 31 December of a year.

The group's presentation currency is the euro. Unless otherwise stated, all figures are presented in millions of euro (€ million). All figures and percentages are rounded according to customary business practice, so minor discrepancies may arise from the addition of these amounts. Amounts smaller than €0.5 million are stated at zero. The comparative prior-year figures are presented in parentheses alongside the figures for the current reporting period.

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

The consolidated financial statements and the combined management report of Porsche SE were authorized for submission to the supervisory board by the board of management by resolution dated 10 March 2021. The period subsequent to the reporting date for which adjusting events can be disclosed ends on that date.

List of shareholdings of the group as of 31 December 2020

	Share in capital as of 31/12/2020	Currency	FX rate 1 € =	Equity in local currency	Result in local currency
	%			thousand	thousand
Fully consolidated entities					
Germany					
Porsche Beteiligung GmbH, Stuttgart	100.0	EUR	-	42,786	0[1]
Porsche Zweite Beteiligung GmbH, Stuttgart	100.0	EUR	-	315,025	0[1]
Porsche Dritte Beteiligung GmbH, Stuttgart	100.0	EUR	-	23,024	0[1]
Porsche Vierte Beteiligung GmbH, Stuttgart	100.0	EUR	-	24	0[1]
PTV Planung Transport Verkehr AG, Karlsruhe	100.0	EUR	-	33,081	2,303
DDS Digital Data Services GmbH, Karlsruhe	100.0	EUR	-	–544	–631
PTV Transport Consult GmbH, Karlsruhe	100.0	EUR	-	4,103	915
TransportTechnologie-Consult Karlsruhe GmbH (TTK), Karlsruhe	51.0	EUR	-	1,369	192
International					
Locatienet B.V., Utrecht	92.2	EUR	-	–4	–162
PTV Africa (Pty) Ltd., Johannesburg	100.0	ZAR	18.0152	2,514	592
PTV America Holding Inc., Arlington, Virginia	100.0	USD	1.2276	–2,509	–41
PTV America Inc., Arlington, Virginia	100.0	USD	1.2276	–3,543	–473
PTV América Latina, S.A. de C.V., Mexico City	100.0	MXN	24.4115	–13,202	–3,826
PTV Asia-Pacific Pte, Ltd., Singapore	100.0	SGD	1.6221	2,259	505
PTV Asia-Pacific Pty, Ltd., Sydney	100.0	AUD	1.5861	–1,223	–169
PTV Austria Planung Transport Verkehr GmbH, Vienna	100.0	EUR	-	534	369
PTV België B.V.B.A., Mechelen	99.9	EUR	-	71	3
PTV CEE Sp. z o.o., Warsaw	100.0	PLN	4.5562	2,232	1,276
PTV Distribution Planning Software Ltd., Halesowen	100.0	GBP	0.8993	64	102
PTV do Brasil Ltda., São Paulo	100.0	BRL	6.3756	–553	–425
PTV France SAS, Paris	100.0	EUR	-	2,649	874
PTV Italia Logistics S.r.l., Perugia	100.0	EUR	-	1,042	441
PTV Japan Ltd., Tokyo	100.0	JPY	126.5100	3,429	18,095
PTV MENA Region DMCC, Dubai	100.0	AED	4.5092	–18,434	2,313
PTV MENA Region W.L.L., Doha	49.0	QAR	4.4695	–880	–5,546
PTV MENA Region Transport Technology Solution L.L.C, Abu Dhabi[2]	49.0	AED	4.5092	–460	–7
PTV Nederland B.V., Utrecht	100.0	EUR	-	2,159	1,656
PTV Nordics AB, Gothenburg	100.0	SEK	10.0247	5,291	2,060
PTV Software Technology (Shanghai) Co., Ltd., Shanghai	100.0	CNY	8.0290	4,799	–134
PTV Traffic Technology (Shanghai) Co., Ltd., Shanghai	100.0	CNY	8.0290	1,731	–185
PTV Traffic and Transportation Software, S.L., Barcelona	100.0	EUR	-	–11	57

	Share in capital as of 31/12/2020	Currency	FX rate 1 € =	Equity in local currency	Result in local currency
	%			thousand	thousand
Fully consolidated entities					
International					
PTV Transworld Holding B.V., Utrecht	100.0	EUR	-	297	–6
PTV UK Ltd., Halesowen	100.0	GBP	0.8993	1,006	558
PTV UK Holding Ltd., Halesowen	100.0	GBP	0.8993	680	339
SISTeMA - Soluzioni per l´Ingegneria dei Sistemi di Trasporto e l´infoMobilitA' S.r.l., Rome	98.0	EUR	-	1,021	613
Associates					
Germany					
Volkswagen Aktiengesellschaft, Wolfsburg	31.4[3]	EUR	-	39,548,936	6,338,309
European Center for Information and Communication Technologies - EICT GmbH, Berlin[4]	20.0	EUR	-	1,535	138
Bahn.Elektro.Planung. GmbH (B.E.P.), Karlsruhe[5]	49.0	EUR	-	100	
International					
INRIX Inc., Kirkland, Washington[6]	11.7	USD	1.2276	–35,932	2,319
Mygistics Inc., Kansas City, Missouri[7]	30.0	USD	1.2276		
Truckparking B.V., Utrecht[2]	21.9	EUR	-		

1 Profit and loss transfer agreement with Porsche SE
2 In liquidation
3 Diverging from the capital share, the share in voting rights is 53.3% as of the reporting date.
4 Figures taken from the financial statements as of 31 December 2019
5 Founded in the current fiscal year. Equity corresponds to the opening balance sheet.
6 Consolidated figures taken from the 2019 consolidated financial statements of INRIX Inc.: INRIX is an associate because Porsche SE has the power to significantly influence its financial and operating policy decisions through participation rights granted on the board of directors and related committees.
7 Currently no business activities

An alternative investment fund is also fully consolidated.

Porsche Beteiligung GmbH, Porsche Zweite Beteiligung GmbH, Porsche Dritte Beteiligung GmbH and Porsche Vierte Beteiligung GmbH satisfied the conditions of Sec. 264 (3) HGB and make use of the exemption from the requirement to publish financial statements.

Changes in the reporting period

In the period from 17 March 2020 to 20 April 2020, Porsche SE acquired 0.2% of the ordinary shares in Volkswagen AG for €81 million via the capital market. This increased Porsche SE's shareholding in the ordinary share capital of Volkswagen AG to 53.3% (53.1%). The share held in the subscribed capital of Volkswagen AG increased by 0.1% to 31.4% (31.3%).

Full consolidation and at equity accounting

The consolidated financial statements of Porsche SE include all entities controlled by Porsche SE by means of full consolidation. An entity is controlled when the parent company has decision-making power over the subsidiary due to voting or other rights, it is exposed to, or has rights to, returns from the subsidiary and has the ability to affect those returns through its power over the investee. First-time full consolidation is performed as of the date on which the acquirer obtains control. A company is no longer fully consolidated upon loss of control.

Companies where Porsche SE is able, directly or indirectly, to significantly influence financial and operating policy decisions (associates) are accounted for at equity. When holding 20% or more of the voting rights, there is a rebuttable presumption that significant influence is given. Conversely, when holding less than 20% of the voting rights, it is presumed that there is no significant influence unless there is clear evidence of such significant influence.

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 shareholders or where Porsche SE does not have control as defined by IFRSs for other reasons. Porsche SE holds the majority of voting rights in Volkswagen AG. The articles of association of Volkswagen AG prescribe that the State of Lower Saxony has a right to appoint two members of the supervisory board, provided that it holds at least 15% of the ordinary shares in Volkswagen AG. On account of the interest held by the State of Lower Saxony in Volkswagen AG, this delegation right prevents Porsche SE from including the Volkswagen Group in the consolidated financial statements of Porsche SE by way of full consolidation because Porsche SE cannot determine the majority on the supervisory board of Volkswagen AG and it consequently does not have control as defined by IFRSs. Due to the significant influence nonetheless exercised by Porsche SE, its investment in Volkswagen AG is accounted for in the consolidated financial statements of Porsche SE at equity.

Consolidation principles

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 uniform group accounting policies.

The group accounts for business combinations using the acquisition method when the group has obtained control. The consideration transferred during the acquisition as well as the identifiable net assets acquired are measured at fair value. Any goodwill arising is tested for impairment at least once a year. Any profit from an acquisition at a price below the market value is recognized directly through profit or loss. Transaction costs are immediately expensed as incurred.

As of the acquisition date, any contingent consideration obligation is measured at fair value. If the contingent consideration is classified as equity, it is not remeasured as part of subsequent measurement and its settlement is accounted for directly within equity. Other contingent consideration is remeasured at fair value on every reporting date and any fair value changes are recognized through profit or loss.

Non-controlling interests are measured at the time of acquisition at their proportionate share of the acquiree’s identifiable net assets (excluding goodwill).

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 directly within equity.

All intra-group assets and liabilities, equity, income and expenses as well as cash flows relating to transactions between members of the group are eliminated in full on consolidation.

If the group loses control over a subsidiary, the assets and liabilities attributable to the subsidiary and all related non-controlling interests and other components of equity are derecognized. Any resultant gain or loss is recognized through profit or loss. Any investment retained is recognized at fair value.

At equity accounting

When investments in associates are acquired, they are generally recognized at cost, including acquisition-related costs, as of the date of initial recognition. In the event of partial sale or loss of control of previously fully consolidated subsidiaries, the investments in associates are recognized at fair value as of the date when control is lost. Any positive difference between the acquisition cost of the shares and the proportionate fair value of the identified assets, liabilities and contingent liabilities is recognized as goodwill in an ancillary calculation. Identified hidden reserves and liabilities along with goodwill are included in the carrying amount of the investment. Goodwill is neither amortized nor individually tested for impairment. Any negative difference between the acquisition cost of the shares and the proportionate fair value of the identified assets, liabilities and contingent liabilities is recognized as a gain through profit or loss at the date of acquisition.

In subsequent periods, the carrying amount is subsequently measured to reflect the Porsche SE Group's share of changes in net assets of the associate, including hidden reserves and liabilities (at equity method). The Porsche SE Group's share in the result after tax of the investment less the share of the result of non-controlling interests and hybrid investors of the investment is recognized in the income statement within the item "result from investments accounted for at equity". The Porsche SE Group's share in the other comprehensive income of these investments is recognized in the other comprehensive income of the Porsche SE Group. Furthermore, changes directly recognized in the equity of the associate are directly recognized pro rata in the equity of the Porsche SE Group. Dividends received lead to a reduction of the investment's carrying amount with no effect on the Porsche SE Group's income statement or equity.

When additional interests are acquired without a change in status, each tranche is generally accounted for separately using the at equity method, i.e., the positive or negative difference between the proportionate remeasured equity of the investee and the acquisition cost of the interest is calculated for the acquired interests and subsequent measurement of equity is accounted for individually (in tranches). Any negative difference attributable to the new interest is recognized through profit or loss at the time of acquisition.

An impairment test is carried out whenever there is objective evidence that the entire carrying amount of the investment is impaired. If the carrying amount of the investment exceeds its recoverable amount, a difference is recognized as an impairment loss through profit or loss. When an impairment loss was recognized in prior periods, it is assessed at least once a year whether there is any indication that the reason for a previously recognized impairment loss no longer exists or has decreased. If this is the case, the recoverable amount is recalculated and an impairment previously recognized that no longer exists is reversed.

Currency translation

In the separate financial statements of Porsche SE and the consolidated subsidiaries, business transactions in foreign currencies are translated using the rates at the time of the transactions. In the balance sheet, monetary assets and liabilities denominated in foreign currencies are measured at the closing rate, and any resulting exchange gains or losses are recognized through profit or loss.

The financial statements of foreign companies are translated into euros using the functional currency concept. Assets, liabilities and contingent liabilities are translated at the closing rate as of the reporting date, while equity is translated at historical rates except for other reserves (OCI). Any resulting exchange rate differences are recognized in other comprehensive income until the disposal of the subsidiaries and disclosed as a separate position within equity. The income statement is translated using average exchange rates.

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

		Balance sheet Closing rate		Income statement Average rate	
	1€=	**31/12/2020**	31/12/2019	**2020**	2019
Argentina	ARS	103.2880	67.2363	80.7318	53.7808
Australia	AUD	1.5861	1.6008	1.6553	1.6107
Brazil	BRL	6.3756	4.5135	5.8885	4.4149
China	CNY	8.0290	7.8147	7.8703	7.7344
United Kingdom	GBP	0.8993	0.8500	0.8890	0.8774
India	INR	89.6900	80.1545	84.5711	78.8640
Japan	JPY	126.5100	121.8950	121.7731	122.0865
Canada	CAD	1.5628	1.4621	1.5294	1.4860
Qatar	QAR	4.4695	4.0883	4.1579	4.0939
Mexico	MXN	24.4115	21.2434	24.5175	21.5633
Poland	PLN	4.5562	4.2597	4.4438	4.2978
Republic of Korea	KRW	1,336.2100	1,296.3500	1,345.1409	1,304.8927
Russia	RUB	91.7754	69.8469	82.6358	72.4671
Sweden	SEK	10.0247	10.4451	10.4888	10.5859
Singapore	SGD	1.6221	1.5105	1.5735	1.5285
South Africa	ZAR	18.0152	15.7647	18.7672	16.1772
Czech Republic	CZK	26.2390	25.4065	26.4544	25.6698
USA	USD	1.2276	1.1228	1.1413	1.1197
United Arab Emirates	AED	4.5092	4.1244	4.1921	4.1165

Accounting policies

The assets and liabilities of the companies included in the consolidated financial statements are accounted for using uniform accounting policies applicable at the Porsche SE Group. Generally speaking, the same accounting policies are also used at the level of the associates.

Since the contributions to profit or loss made by the investments in Volkswagen AG accounted for at equity have a significant impact on the results of operations and net assets of the Porsche SE Group, accounting policies relevant only for transactions within the Volkswagen Group are also included in the explanations below.

Measurement principles

With the exception of certain items, for example the investments accounted for at equity, financial instruments at fair value or the provision for pensions and similar obligations, the consolidated financial statements are prepared using the historical cost principle. The measurement principles used are described below in detail.

Intangible assets

Goodwill

Goodwill acquired in business combinations is measured at cost less any accumulated impairment losses.

Research and development

Research costs are expensed in the period as they are incurred. Development costs of an intangible asset are only recognized if they can be measured reliably, the development project is technically feasible, a future economic benefit is probable and the group has both the intention and sufficient resources to complete the development and to use or sell the asset. After their initial recognition as an asset, development costs are recognized at cost less accumulated amortization and any accumulated impairment losses. Economic useful lives range from two to 15 years.

Other intangible assets

Purchased intangible assets with finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with indefinite useful lives are not amortized, but instead tested annually for impairment.

Intangible assets with finite useful lives are amortized on a straight-line basis over their useful life. Useful lives mainly range from three to 15 years. Other intangible assets recognized do not contain any assets with indefinite useful lives.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation over their economic useful life as well as any accumulated impairment losses. 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 for assets are generally deducted from cost.

Property, plant and equipment are depreciated over the estimated useful life on a straight-line basis pro rata temporis.

Depreciation is based on the following useful lives:

	Years
Buildings	20 to 50
Site improvements	10 to 20
Technical equipment and machinery	6 to 12
Other equipment, furniture and fixtures (including special tools)	3 to 15

Net carrying amounts, depreciation methods and useful lives are regularly reviewed as of the reporting date, and adjusted prospectively as changes in estimates if appropriate.

Property, plant and equipment are derecognized either 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 corresponding period.

Leases

Pursuant to IFRS 16, it is assessed at inception of a contract whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to use an asset for a period of time in exchange for consideration.

The lessee generally recognizes a right-of-use asset and a lease liability in its balance sheet for all leases. The lease liability is measured at the amount of the outstanding lease payments discounted using the incremental borrowing rate, while the right-of-use asset is generally measured at the amount of the lease liability plus any initial direct costs. During the lease term, the right-of-use asset is depreciated over the term of the lease. Options to extend or terminate the lease are taken into account when determining the lease term if it is reasonably certain that the options will be exercised. The lease liability is subsequently measured using the effective interest method and taking into account the lease payments. Right-of-use assets recognized in the balance sheet are presented in the balance sheet item under which the assets underlying the lease would have been recognized had they been owned by the lessee.

The Porsche SE Group acts exclusively as lessee, in particular for buildings and vehicles. The right-of-use assets are recognized as non-current assets under property, plant and equipment and the lease liabilities as financial liabilities. The exemptions for short-term leases and leases for low-value assets are used. No right-of-use asset or liability is recognized for such leases and the lease payments are recognized as an expense in the income statement.

The accounting treatment for leases for which associates act as lessor is based on the classification into operating leases and finance leases. This classification is made on the basis of the distribution of risks and rewards incidental to ownership of the lease asset. For operating leases, the principal risks and rewards remain with the lessor. Vehicles leased out under operating leases are recognized at cost and depreciated to their estimated residual value using the straight-line method over the term of the lease. Impairments identified pursuant to IAS 36 are recognized as impairment losses. The forecast residual values are adjusted to include constantly updated internal and external information on residual values, depending on specific local factors and the experiences gained in the marketing of used cars. This requires making assumptions in particular about vehicle supply and demand in the future, as well as about vehicle price trends. Such assumptions are based either on qualified estimates or on data published by external experts. Qualified estimates are based on external data – if available - that reflects additional information that is available internally, such as historical experience and current sales data. Under a finance lease, the material risks and rewards are transferred to the lessee. The lease asset is derecognized from the fixed assets of the associate and instead a receivable is recognized in the amount of the net investment in the lease.

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 qualifying asset.

Impairment test

An impairment test is performed at least once a year for goodwill, capitalized development costs for products not yet ready for use 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 only performed when there is objective evidence that the asset may be impaired. At the end of each reporting period, the group assesses whether there is any indication of impairment. With respect to the procedure for impairment testing of investments accounted for at equity, reference is made to the section “At 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. Value in use is determined on the basis of the estimated future cash flows expected to arise from the continuing use of the asset and its disposal using a discounted cash flow method or capitalized earnings method.

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. It is reviewed on an annual basis whether the reasons for any previously recognized impairment loss still exist. If such reasons 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.

Investment property

Investment property held in order to obtain rental income (investment property) is accounted for at amortized cost. The underlying useful lives and depreciation methods used in subsequent measurement generally correspond to those applied for items of property, plant and equipment used by the group.

Inventories

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

Cost is determined on the basis of the direct and indirect costs that are directly attributable. Borrowing costs are not capitalized. The measurement of same or similar inventories is generally based on the weighted average cost method.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one company and a financial liability or an equity instrument of another.

Initial recognition of financial instruments

If the trade date of a financial instrument differs from the settlement date, it is initially accounted for at the settlement date. Initial recognition of a financial asset (with the exception of trade receivables without any significant financing component) or a financial liability is at fair value plus, in the case of financial instruments not measured at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at transaction price.

Subsequent measurement of financial assets

For subsequent measurement, financial assets are divided into four categories:

- Financial assets (debt instruments) at amortized cost (FAAC)
- Financial assets (debt instruments) at fair value with recognition of fair value changes through other comprehensive income (FVOCI debt instruments)
- Financial assets (equity instruments) at fair value with recognition of fair value changes through other comprehensive income (FVOCI equity instruments)
- Financial assets at fair value with recognition of fair value changes through profit or loss (FVtPL)

The classification and measurement of financial assets is based on the business model used and the structure of the cash flows.

Financial assets at amortized cost are held under a business model that is aimed at collecting contractual cash flows. The cash flows of these assets relate solely to payments of principal and interest on the principal amount outstanding made on specific dates. In subsequent periods, financial assets at amortized cost are measured using the effective interest method and tested for impairment. Gains or losses are recognized through profit or loss when the financial asset is derecognized, modified or impaired. At the level of the Porsche SE Group, this category primarily includes trade receivables, time deposits, cash and cash equivalents and other financial receivables. At the level of the Volkswagen Group, receivables from financing business are also allocated to this category.

An FVOCI debt instrument is recognized at fair value with recognition of fair value changes through other comprehensive income if it is held under a business model that is aimed at both collecting contractual cash flows and selling financial assets. Interest income, currency translation gains and losses as well as impairment losses or reversals of impairment losses are recognized through profit or loss and calculated in the same way as financial assets measured at amortized cost. The remaining changes in fair value are recognized through other comprehensive income. Upon derecognition, cumulative gains or losses from changes in fair value recognized through other comprehensive income are reclassified to profit or loss. No financial assets are currently allocated to this category at the level of the Porsche SE Group. However, other comprehensive income of the Porsche SE Group does contain corresponding proportionate changes in fair value of FVOCI debt instruments at the level of the Volkswagen Group as a result of applying at equity accounting.

Upon initial recognition of an equity instrument as defined by IAS 32 not held for trading, the option can irrevocably be exercised to recognize fair value changes through other comprehensive income rather than through profit or loss. It is not permitted to reclassify income and expenses previously recognized in other comprehensive income to profit or loss at a later stage. Upon the disposal of the equity instrument, accumulated income or expenses are reclassified within equity to retained earnings. By contrast, dividends are generally recognized through profit or loss for these instruments. FVOCI equity instruments are not tested for impairment. The option can be exercised for each investment on a case-by-case basis. This option is currently not exercised at the Porsche SE Group. At the level of the Volkswagen Group, this option is generally exercised for equity investments.

All financial assets that are not measured at amortized cost (FAAC) or at fair value with changes in fair value recognized through other comprehensive income (FVOCI) are measured at fair value with changes in fair value recognized through profit or loss (FVtPL). Net gains and losses, including any interest or dividend income, are also recognized through profit or loss. The fair value option, according to which other financial assets can be designated as at fair value through profit or loss upon initial recognition, is not applied. At the Porsche SE Group, this category primarily includes securities, derivatives and investments in technology companies. At the level of the Volkswagen Group, this category is largely made up of derivatives outside of hedge accounting and shares in investment funds.

Dividend income is recognized when the group's right to receive the payment is established.

Impairment losses on financial instruments

Financial assets are exposed to default risk, which is taken into account by recognizing loss allowances or, if losses have already been incurred, by recognizing an impairment loss. Loss allowances on trade receivables are generally recognized applying a simplified approach taking into account historical loss rates in addition to forward-looking information as well as using specific loss allowances.

Default risk on receivables and loans within the financial services business at the level of the Volkswagen Group is accounted for by recognizing specific loss allowances and portfolio-based allowances. In particular, a loss allowance is recognized on these financial receivables in the amount of the expected loss in accordance with group-wide standards. The actual specific loss allowances of the losses incurred are then charged to this loss allowance. A potential impairment is assumed not only for a number of situations such as delayed payment over a certain period of time, the institution of enforcement measures, the threat of insolvency or overindebtedness, application for or the opening of bankruptcy proceedings or the failure of financial reorganization measures, but also for receivables that are not past due. Portfolio-based loss allowances are recognized by grouping together insignificant receivables and significant individual receivables for which there is no indication of impairment into homogeneous portfolios on the basis of comparable credit risk features and allocating them by risk class. Average historical default probabilities are used in combination with forward-looking parameters for the portfolio concerned to calculate the amount of the impairment loss.

Loss allowances on trade receivables are generally recognized in separate allowance accounts.

Subsequent measurement of financial liabilities

For purposes of subsequent measurement, financial liabilities are divided into two categories:

- Financial liabilities at fair value through profit or loss (FVtPL), and
- Financial liabilities at amortized cost (FLAC)

Financial liabilities at fair value through profit or loss (FVtPL) include financial liabilities held for trading and other financial liabilities designated as at fair value through profit or loss upon initial recognition (fair value option). These also include derivatives that are not designated as hedging instruments. Financial liabilities in this category are measured at fair value and net gains and losses, including interest expenses, are recognized through profit or loss. The fair value option for financial liabilities is not applied. At the Porsche SE Group as well as the Volkswagen Group, this category includes derivatives that were not designated as hedging instruments.

Other financial liabilities are subsequently measured at amortized cost (FLAC) using the effective interest method. Interest expenses and currency translation differences are recognized through profit or loss. Gains and losses from derecognition are also recognized through profit or loss. This category primarily includes trade payables, financial liabilities and other financial liabilities.

Fair value of financial instruments

Fair value corresponds to the market or stock 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 pricing models or discounting future cash flows at the market interest rate, or by referring to the most recent business transactions between knowledgeable, willing and independent business partners. The carrying amount of current financial assets and liabilities not measured at fair value provides an approximation of their fair value.

Derecognition of financial instruments

Financial assets are primarily derecognized when the contractual right to the cash flows has expired or this right is transferred to a third party. Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expired.

Derivative financial instruments

Derivative financial instruments are measured at fair value in subsequent periods. Hedge accounting is only relevant at the level of the Volkswagen Group, where it is applied.

The accounting treatment of changes in fair value of hedging instruments depends on the nature of the hedging relationship. In the case of hedges against the risk of change in the fair value of balance sheet items (fair value changes), both the hedging instrument and the hedged risk portion of the hedged item are measured at fair value. Several risk portions of hedged items are grouped into a portfolio if appropriate. In the case of a fair value portfolio hedge, the changes in fair value are accounted for in the same way as for a fair value hedge of an individual underlying. Gains or losses from the measurement of hedging instruments and hedged items are recognized through profit or loss. At the level of the Volkswagen Group, IAS 39 is applied alongside IFRS 9 to account for portfolio hedges of interest rate risk for financial services companies.

In the case of hedges of future cash flows (cash flow hedges), the hedging instruments are also measured at fair value. At the level of the Volkswagen Group, the designated effective portion of the hedging instrument is recognized through other comprehensive income as is the cost of hedging allocable to the designated effective portion. The effects are only reclassified through profit or loss when the hedged item is realized. The ineffective portion of a hedging instrument is recognized through profit or loss immediately.

As a result of including the investment in Volkswagen AG accounted for at equity in the consolidated financial statements of Porsche SE, the effects from hedge accounting at the level of the Volkswagen Group are, in line with the accounting policies mentioned above, proportionately recognized at the level of the Porsche SE Group through profit or loss (within the result from investments accounted for at equity) or through other comprehensive income.

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 the liability on a net basis or by settling the liability together with realization of the asset.

Income tax

Deferred tax assets are generally recognized for tax-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 tax loss carryforwards and tax credits provided it is probable that they can be used in future periods. Deferred tax liabilities are generally recognized for all taxable temporary differences between the tax base and carrying amounts in the consolidated balance sheet (temporary concept). Deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries, investments in 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. As the timing of the reversal of the temporary taxable differences in particular in connection with the investment in Volkswagen AG cannot be controlled due to lack of control, deferred tax liabilities are recognized on these temporary differences. Deferred tax assets that are unlikely to be realized within a clearly predictable period are reduced by loss allowances. 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 realized.

Deferred tax is 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 tax is not discounted.

Deferred tax assets and deferred tax liabilities are offset if the group entities have a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax relates to the same taxable entity and the same taxation authority.

Current income tax assets and liabilities for the current and for prior periods are measured at the amount expected to be refunded by or paid to the taxation authorities. The tax rates and tax laws applied for measurement are those that are enacted at the reporting date.

Deferred and current tax relating to items recognized through other comprehensive income or directly in equity is likewise recognized through other comprehensive income or directly in equity. This includes deferred taxes on the investment in Volkswagen AG.

Provisions for pensions and similar obligations

The provisions for obligations from defined benefit plans are measured using the projected unit credit method in accordance with IAS 19. Remeasurement effects as a result of changes in parameters are recognized through other comprehensive income after deferred tax has been taken into account.

If pension obligations are funded by plan assets, the obligation and the assets are offset. Service cost is presented as personnel expense while net interest from the provision obligation and plan assets is 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 that is expected to lead to a future outflow of resources embodying economic benefits 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 on the basis of the best estimates and also includes estimated cost increases.

Litigation costs relating to legal proceedings where the group is the defendant are provided for at the amount of the expected legal fees. Any obligations to pay damages or penalties are taken into account in the measurement only if their occurrence is considered to be probable.

Non-current provisions are stated at their discounted settlement amount at the reporting date. The interest rate used is a pre-tax rate that reflects current market assessments of the interest effect and the risks specific to the liability. The interest expense resulting from the unwinding of the discount is presented in finance costs.

Provisions are not offset against refund claims from third parties. Refund claims are recognized separately in other assets or other financial assets if it is virtually certain that the Porsche SE Group will receive the refund when it settles the obligation.

Government grants

Government grants related to assets are deducted from the carrying amount and recognized through profit or loss over the useful life of the depreciable asset by way of a reduced depreciation charge. If a claim to a government grant arises subsequently, the amount of the grant attributable to prior periods is recognized through profit or loss. Government grants that compensate for expenses incurred are recognized through profit or loss in the period and in the items where the expenses to be compensated are incurred. As in the prior year, the grants received in the fiscal year at the level of the Porsche SE Group were largely recognized in personnel expenses.

Income and expenses

Revenue, interest and commission income from financial services as well as other operating income are generally not recognized until the relevant services have been rendered or the customer has obtained control of the goods or services.

Revenue presented in the income statement of the Porsche SE Group relates primarily to revenue from license sales, from maintenance services rendered, from hosting and from advisory services/project business. The products generally relate to standard software as far as no project business is affected. When this software or its license for an unlimited period is sold, the revenue is realized upon delivery or acquisition of the power of disposition. License revenue for software maintenance and support is recognized ratably over the term of the service being rendered and invoiced in advance on an annual or quarterly basis. User charges on a temporal basis are recognized on a straight-line basis over the term of the agreement. Deferred maintenance agreements, software maintenance and support agreements are recognized as a contract liability and realized over the term of the agreement. Advisory services generally relate to customer-specific orders that are realized over a particular period using the cost-to-cost method in accordance with the regulations of IFRS 15. Invoices are always issued on payment terms.

In contracts under which the goods or services are transferred over a period of time, revenue is recognized, depending on the type of goods or service provided, either according to the stage of completion or, to simplify, on a straight-line basis. The latter option, however, only applies if straight-line revenue recognition does not differ materially from recognition based on the stage of completion. As a rule, the stage of completion is determined as the proportion that contract costs incurred by the end of the reporting period bear to the estimated total contract costs (cost-to-cost method). Contract costs incurred invariably represent the best way to measure the stage of completion for the performance obligation. If the outcome of a performance obligation satisfied over time is not sufficiently certain, but the company expects, as a minimum to recover its costs from the customer, revenue is only recognized in the amount of the contract costs incurred (zero-profit-margin method). If the expected costs exceed expected revenue, the expected loss is recognized immediately in full as expenses by a recognizing impairment losses on the associated contract assets recognized and, additionally by recognizing provisions for any amounts in excess of the impairment loss. Until the performance obligation has been completely satisfied, revenue is realized by recognizing contract assets. If the prepayments made by the contractual partner exceed the capitalized amount, the net item is recognized as a contract liability. As soon as the performance obligation has been completely satisfied, the contract asset is replaced by a trade receivable.

If a contract comprises several separately identifiable performance obligations (multiple-element arrangements), these components are recognized separately in accordance with the principles outlined above.

Where new and used vehicles and original parts at the level of the Volkswagen Group are sold, performance invariably occurs upon delivery, because that is the point when control is transferred, and the inventory risk and, for deliveries to a dealer, invariably also the pricing decision pass to the customer. Revenue is reported net of sales allowances (discounts, price concessions, customer bonuses and rebates). Sales allowances and other variable consideration are measured on the basis of experience and by taking account of current circumstances. Vehicles are normally sold on payment terms. Financing components are only accrued if the period between the transfer of the goods and the payment of consideration is longer than one year and the amount to be accrued is significant.

Revenue from financing and finance lease agreements at the level of the Volkswagen Group is recognized using the effective interest method. If non-interest-bearing or low-interest vehicle financing arrangements are agreed, revenue is reduced by the interest benefits granted. Revenue from operating leases is recognized over the term of the contract on a straight line basis.

If, at the level of the Volkswagen Group, services are sold together to the customer at the same time as the vehicle and the customer pays for them in advance, the Volkswagen Group recognizes a corresponding contract liability until the services have been transferred. Examples of services that the customers pay for in advance are servicing, maintenance and certain warranty contracts as well as mobile online services. For extended warranties granted to customers for a particular model, a provision is normally recognized in the same way as for statutory warranties. If the warranty is optional for the customer or it includes an additional service component, the related revenue is deferred and realized over the term of the warranty.

Income from the sale of assets at the level of the Volkswagen Group for which there is a buyback obligation is recognized only when the assets have definitively left the Volkswagen Group. If a fixed repurchase price was agreed when the contract was entered into, the difference between the selling price and present value of the repurchase price is recognized ratably as income over the term of the contract. Prior to that time, the assets are carried as inventories in the case of short contract terms and as lease assets in the case of long contract terms.

Revenue is generally determined on the basis of the price stated in the contract. If variable consideration has been agreed in the contract (e.g. volume-based bonus payments), revenue is generally estimated using the expected value method. In exceptional cases, the most probable amount method may also be used. Once the expected revenue has been estimated, an additional check is carried out to determine whether there is any uncertainty that necessitates the reversal of the revenue initially recognized so that it can be virtually ruled out that revenue subsequently has to be adjusted downward. At the level of Volkswagen Group, provisions for reimbursements arise mainly from dealer bonuses.

In multiple-element arrangements, the transaction price is allocated to the different performance obligations of the contract on the basis of relative standalone selling prices. In the automotive division at the level of the Volkswagen Group, non-vehicle-related services are invariably measured at their standalone selling prices for reasons of materiality.

Production- and manufacture-related expenses are recognized upon delivery or utilization of the service, while all other expenses are expensed as incurred. The same applies for development costs not eligible for recognition.

Contingent liabilities and contingent assets

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 reporting company. Contingent liabilities also include present obligations arising from past events which are not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. If it is deemed that an outflow of resources is not remote, the estimated financial impact of contingent liabilities is, where practicable, disclosed in the notes to the financial statements and, where this is not practicable, an explanation of contingent liabilities is provided.

A contingent asset is a possible asset 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 company. Contingent assets are not recognized as an asset, as this would result in the recognition of income that potentially may never be realized. An explanation is provided in the notes if an inflow of economic benefits is probable. However, if the realization of income is virtually certain, it is not recognized as a contingent asset but instead as an asset.

Accounting judgments, estimates and assumptions of the management

The preparation of the consolidated financial statements requires of the board of management judgments, estimates and assumptions that have an effect on the recognition, measurement and presentation of assets, liabilities, income and expenses and the accompanying disclosures, as well as the disclosure of contingent assets and liabilities. Actual results may deviate from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of estimates are recognized prospectively.

A key source of accounting judgments and estimate uncertainties that therefore could have significant effects on the results of operations, financial position and net assets of the Porsche SE Group is the diesel issue, which came to light in September 2015. Porsche SE is directly affected by the diesel issue on account of the claims asserted against it, in particular in the form of proceedings (see note [20] "Legal proceedings and legal risks in connection with the diesel issue and shareholder proceedings"). Provisions have been set up for the expected attorneys' fees and litigation expenses. The outcome of litigation is subject to substantial estimation risks. Beyond the direct effects, the estimation risks at the level of the Volkswagen Group may also have significant indirect effects on the Porsche SE Group. This largely relates to the result from investments accounted for at equity (see note [5]), the carrying amount of the investment in Volkswagen AG accounted for at equity (see note [9]), as well as potential subsequent effects of an amended dividend policy of Volkswagen AG.

Judgments when applying the accounting policies that significantly impact the amounts recognized in the financial statements relate to the matters listed below and are explained in the notes referred to below:

- recognition of provisions and disclosure of contingent liabilities in connection with legal disputes relating to the expansion of the investment in Volkswagen AG (see note [20] "Legal proceedings and legal risks in connection with the expansion of the investment in Volkswagen AG") and the diesel issue (see above) and

- contingent assets from tax matters (see note [21]).

Estimates and assumptions as of 31 December 2020 that can give rise to a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the following matters and are explained in the notes referred to below:

- calculations of recoverable amounts when testing the carrying amounts of investments for impairment and reversal of impairment (see notes [5] and [9])

- acquisition of additional ordinary shares in Volkswagen AG and the resulting income from first-time at equity accounting of newly acquired shares (see note [5])

- impairment testing of goodwill as well as other intangible assets and the significant assumptions that were used to determine the recoverable amount (see note [8])

- the measurement of provisions and contingent liabilities in connection with legal disputes relating to the expansion of the investment in Volkswagen AG (see note [20]) and the diesel issue (see above)

- the measurement of current and deferred tax (see note [7]).

Accounting judgments, estimates and assumptions of the management at the level of the Volkswagen Group

As the contributions to profit or loss made by the investments accounted for at equity have a significant impact on the results of operations and net assets of the Porsche SE Group, matters with significant judgments, estimates and assumptions at the level of the Volkswagen Group are presented below.

Estimates and assumptions by management were based in particular on assumptions relating to the development of the general economic environment, the automotive markets and the legal environment.

The global spread of the SARS-COV-2 virus, the associated restrictions, and the resulting downturn in demand and supply meant that negative growth of 4.0% was recorded for the world economy in 2020 (positive growth of 2.6%). The Volkswagen Group's planning is based on the assumption that global economic output will recover overall in 2021, provided successful, lasting containment of the Covid-19 pandemic is achieved.

The impairment testing of non-financial assets (especially brand names, capitalized development costs and special operational equipment), equity-accounted investments, and investments accounted at cost, as well as the measurement of shares in companies that are not traded in an active market and options on such shares require assumptions about the future cash flows during the planning period, and possibly beyond it, as well as about the discount rate to be applied. The estimates made in order to separate cash flows mainly relate to future market shares, the trend in the respective markets and the profitability of the Volkswagen Group's products. In addition, the recoverability of the leased assets to customers depends in particular on the residual value of the leased vehicles after expiration of the lease term as this constitutes a significant portion of the expected cash flows.

If there are no observable market inputs, the fair values of assets acquired and liabilities assumed in a business combination are measured using recognized valuation techniques, such as the relief-from-royalty method or the residual method.

Impairment testing of financial assets requires estimates about the extent and probability of occurrence of future events. As far as possible, estimates are derived from experience taking into account current market data as well as rating categories and scoring information.

Tax provisions were recognized for potential future retrospective tax payments, while other provisions were recognized for ancillary tax payments arising in this connection. The measurement of the tax provision is based on the most likely exposure resulting for this risk materializing.

Government grants are recognized based on an assessment as to whether there is reasonable assurance that the companies of the Volkswagen Group will fulfill the conditions for awarding the grants and that the grants will in fact be awarded. This assessment is based on the nature of legal entitlement and past experience.

Estimates of the useful life of finite-lived assets are based on experience and are reviewed regularly.

Estimates of lease terms under IFRS 16 are based on the non-cancellable period of the lease and an assessment of whether existing extension and termination options will be exercised. The determination of the lease term and the discount rates used impacts on the amounts to be recognized for right-of-use assets and lease liabilities.

Measuring deferred tax assets requires assumptions regarding future taxable income as well as the timing of the realization of deferred tax assets.

Accounting for provisions is based on estimates of the extent and probability of occurrence of future events as well as estimates of the discount rate. As far as possible, these are also based on experience or external expert opinions. The measurement of pension provisions reflects actuarial assumptions. Warranty claims from sales transactions are calculated on the basis of claims for damages to date, estimated future claims for damages and the policy on ex gratia arrangements. This requires assumptions to be made about the nature and extent of future warranty and ex gratia claims. For provisions recognized in this context related to the diesel issue, assumptions were made in particular about working hours, material costs and hourly wage rates, depending on the series, model year and country concerned. In addition, assumptions are made about future resale prices of repurchased vehicles. These assumptions are based on qualified estimates which are based on external data and also reflect additional information available internally, such as values derived from experience.

Volkswagen AG and the companies in which it is directly or indirectly invested are involved in a substantial number of legal disputes and governmental proceedings in Germany and abroad. In this context, specific estimation of the objectively likely consequences is often possible only to a very limited extent, if at all. This is the case, for example, when it comes to estimating the legal risks from the diesel issue.

On 18 September 2015, the US Environmental Protection Agency (EPA) publicly announced in a notice of violation that irregularities in relation to nitrogen oxide (NOx) emissions had been discovered in emissions tests on certain Volkswagen Group vehicles with 2.0 l diesel engines in the USA. In this context, Volkswagen AG announced that noticeable discrepancies between the figures recorded in testing and those measured in actual road use had been identified in around eleven million vehicles worldwide with type EA 189 diesel engines. On 2 November 2015, the EPA issued a notice of violation alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines. The diesel issue is rooted in a modification of parts of the software of the relevant engine control units – which, according to Volkswagen AG's legal position, is only unlawful under US law – for the type EA 189 diesel engines that Volkswagen AG was developing at that time. The decision to develop and install this software function was taken in late 2006 below board of management level of Volkswagen. No member of the board of management of Volkswagen had, at that time and for many years to follow, knowledge of the development and implementation of this software function.

An amount of around €1.9 billion (€2.9 billion) has been included in the provisions for litigation and legal risks at the level of the Volkswagen Group as of 31 December 2020 to account for the currently known legal risks related to the diesel issue based on presently available information and the current assessments. Where adequately measurable at this stage, contingent liabilities relating to the diesel issue have been disclosed in the consolidated notes of Volkswagen in an aggregate amount of €4.2 billion (€3.7 billion), whereby roughly €3.5 billion (€3.4 billion) of this amount results from lawsuits filed by investors in Germany. The provisions recognized as well as the contingent liabilities disclosed and the other latent legal risks in the context of the diesel issue are in part subject to substantial estimation risks given that the fact-finding efforts have not yet been concluded, the complexity of the individual relevant factors and the ongoing coordination with the authorities. Should these legal or estimation risks materialize, this could result in further substantial financial charges at the level of the Volkswagen Group. In particular, the possibility of adjusting the provisions recognized at the level of the Volkswagen Group in light of knowledge acquired or events occurring in the future and an indirect impact at the level of the Porsche SE Group cannot be ruled out.

Possible effects on the net assets, financial position and results of operations of the Volkswagen Group and thus indirectly on those of the Porsche SE Group may arise in connection with the diesel issue at Volkswagen, in particular in the following legal areas:

1. Criminal and administrative proceedings worldwide (excluding the USA/Canada)

Criminal investigations, regulatory offense proceedings, and/or administrative proceedings have been commenced in some countries. Criminal investigations into the core factual issues are being conducted by the Offices of the Public Prosecutor in Braunschweig and Munich.

In May 2020, the criminal proceedings against the current chairman of the board of management of Volkswagen AG and a former member of its board of management (currently chairman of the supervisory board) regarding alleged market manipulation relating to capital market disclosure obligations in connection with the diesel issue were definitively terminated by the Braunschweig Regional Court against payment in each case of a court-imposed sum of €4.5 million, thereby also terminating to the same extent the proceedings against Volkswagen AG as collateral participant. After permitting the charges against a former chairman of the board of management of Volkswagen AG and the related action against Volkswagen AG to go forward in September 2020, the Braunschweig Regional Court in January 2021 terminated these proceedings – provisionally as regards the indictment which is for the time being still pending against the former chairman of the board of management, but definitively as regards Volkswagen AG.

In September 2020, the Braunschweig Regional Court accepted the indictment of the same former chairman of the board of management of Volkswagen AG and others on charges that include fraud in connection with the diesel issue involving type EA 189 engines and opened the main trial proceedings.

In June 2020, the Munich II Regional Court accepted the substantially unchanged indictment of the Munich II Office of the Public Prosecutor, which also names the former chairman of the board of management of AUDI AG, and opened the main trial proceedings on charges of, among other things, fraud in connection with the diesel issue involving 3.0 l TDI engines. Trial proceedings commenced in September 2020.

In August 2020, the Munich II Office of the Public Prosecutor issued a further indictment charging three former members of the board of management of AUDI AG and others with, among other things, fraud in connection with the diesel issue involving 3.0 l and 4.2 l TDI engines.

In connection with the diesel issue, the Stuttgart Office of the Public Prosecutor is conducting a criminal investigation on suspicion of fraud and illegal advertising; this investigation also involves a member of the board of management of Dr. Ing. h.c. F. Porsche AG.

The respective group companies have appointed renowned law firms to clarify the matters underlying the public prosecutor's accusations. The board of management and supervisory board receive regular updates on the current status.

As the type approval authority of proper jurisdiction, the KBA is moreover continuously testing Audi, Volkswagen, and Porsche brand vehicles for problematic functions. If certain functions are deemed impermissible by the KBA, the affected vehicles are recalled pursuant to a recall order or they are brought back into compliance by means of a voluntary service measure.

Moreover, additional administrative proceedings relating to the diesel issue are ongoing in other jurisdictions.

The companies of the Volkswagen Group are cooperating with the government authorities.

Risks may furthermore result from possible decisions by the European Court of Justice construing EU type approval provisions.

Whether the criminal and administrative proceedings will ultimately result in fines or other consequences for the company, and if so what amounts these may entail, is currently subject to estimation risks. According to Volkswagen's estimates, the likelihood that a sanction will be imposed is 50% or less in the majority of these proceedings. Contingent liabilities have therefore been disclosed by Volkswagen where the amount of such liabilities could be measured and the likelihood of a sanction being imposed was assessed at not less than 10%. Provisions were recognized by Volkswagen to a small extent.

2. Product-related lawsuits worldwide (excluding the USA/Canada)

A general possibility exists that customers in the affected markets will file civil lawsuits or that importers and dealers will assert recourse claims against Volkswagen AG and other Volkswagen Group companies. Besides individual lawsuits, various forms of collective actions (i.e., assertion of individual claims by plaintiffs acting jointly or as representatives of a class) are available in various jurisdictions. Furthermore, in a number of markets it is possible for consumer and/or environmental organizations to bring suit to enforce alleged rights to injunctive relief, declaratory judgment, or damages.

Customer class action lawsuits and actions brought by consumer and/or environmental organizations are pending against Volkswagen AG and other Volkswagen Group companies in a number of countries including Australia, Belgium, Brazil, Germany, England and Wales as well as France, Italy, the Netherlands, Portugal, and South Africa. Alleged rights to damages and other relief are asserted in these actions. The pending actions include in particular the following:

In Australia, various class action lawsuits had been pending against Volkswagen AG and other Volkswagen Group companies, including the Australian subsidiaries. In December 2019, Volkswagen AG reached tentative agreements with the Australian class action plaintiffs terminating the litigation; the court approved these agreements in April 2020. Volkswagen AG anticipates that the total cost of settling these actions will be approximately AUD 180 million. Two civil suits filed against Volkswagen AG and other group companies by the Australian Competition and Consumer Commission (ACCC) were settled in the second half of 2019. The settlement is not yet legally final, however, as an appellate court has yet to rule on the amount of the fine. Depending on the appellate court decision, Volkswagen AG continues to anticipate payment of a fine of up to AUD 125 million.

In Belgium, the Belgian consumer organization Test Aankoop VZW has filed a class action to which an opt-out mechanism has been held to apply. Given the opt-out rule, the class action potentially covers all vehicles with type EA 189 engines purchased by consumers on the Belgian market after 1 September 2014, unless the right to opt out is actively exercised. The asserted claims are based on purported violations of unfair competition and consumer protection law as well as on alleged breach of contract.

In Brazil, two consumer protection class actions are pending. The first of these class actions pertains to some 17 thousand Amarok vehicles and the second to roughly 67 thousand later generation Amaroks. In the first class action, an appeals judgment was rendered in May 2019 that only partially upheld the lower court's decision. This judgment initially reduced the damage liability of Volkswagen do Brasil considerably to around BRL 172 million plus interest. This amount can increase as a result of the adjudicated inflation rate and the assertion of individual claims alleging declines in the value of affected Amarok vehicles. The appeals judgment remains non-final since Volkswagen do Brasil has appealed it to a higher court. So far no judgment has been rendered in the second class action proceeding.

In Germany, Volkswagen AG and Verbraucherzentrale Bundesverband e.V. (Federation of Consumer Organizations) entered into an out of court settlement on 28 February 2020 terminating the consumer action for model declaratory judgment. The terms of the settlement require Volkswagen AG to offer individual settlements to consumers who registered claims under the action for model declaratory judgment and meet the settlement criteria. As a result, Volkswagen AG entered into individual settlements in the reporting year with some 245 thousand customers in an aggregate amount of roughly €770 million. The process of settling the consumer action for model declaratory judgment is thus almost complete. Verbraucherzentrale Bundesverband e.V. withdrew the action for model declaratory judgment on 30 April 2020.

In addition, various actions have been brought against companies of the Volkswagen Group in several German Regional Courts by financialright GmbH, which is asserting rights assigned to it by a total of approximately 45 thousand customers in Germany, Slovenia, and Switzerland.

In England and Wales, suits filed in court by various law firms have been joined in a single collective action (group litigation). Because of the opt-in mechanism, not all vehicles with type EA 189 engines are automatically covered by the group litigation; potential claimants must instead take action in order to join. To date, some 90 thousand plaintiffs have registered claims under the group litigation, for which the opt-in period has expired. In these proceedings, the High Court in England and Wales ruled in April 2020 that the switch logic in the EA 189 engine constituted an unlawful defeat device; the court believed that it was also bound by the findings of the KBA (German Federal Motor Transport Authority) in this respect. In August 2020, the Court of Appeal rejected Volkswagen's appeal against the High Court's ruling on these preliminary questions; this decision is final. The question of liability on the part of Volkswagen was not a matter addressed by the High Court's ruling and will be dealt with at a later stage of the proceedings. The main trial proceedings are to begin in January 2023.

In France, the French consumer organization Confédération de la Consommation, du Logement et du Cadre de Vie (CLCV) filed a class action in September 2020 against Volkswagen Group Automotive Retail France and Volkswagen AG for up to 950 thousand French owners and lessees of vehicles with type EA 189 engines. This is an opt-in class action in which the affected consumers are not required to opt into the class action until a legally final judgment is rendered.

In Italy, a class action lawsuit filed by the consumer association Altroconsumo on behalf of Italian customers is pending before the Venice Regional Court. This litigation involves damage claims based on alleged breaches of contract as well as claims based on purported violations of Italian consumer protection law. Some 82 thousand customers have registered for the class action, whereby the validity of the majority of the registrations is still unclear.

In the Netherlands, Stichting Volkswagen Car Claim has brought an opt-out class action seeking declaratory rulings. Any individual claims would then have to be established afterwards in separate proceedings. In November 2019 the Regional Court in Amsterdam held the requests for relief to be inadmissible in part. Proceedings in the matter are presently suspended. Furthermore, in April 2020 an opt-out class action lawsuit seeking monetary damages on behalf of Dutch consumers was served on Volkswagen by the Diesel Emissions Justice Foundation. It is currently unclear whether other consumers in addition to those in the Netherlands may join this class action. The class action relates to vehicles with type EA 189 engines, among others.

In Portugal, a Portuguese consumer organization has filed an opt-out class action. Potentially, up to approximately 139 thousand vehicles with type EA 189 engines are affected in the Portuguese market. The complaint seeks vehicle return and alleges damages as well.

In South Africa, an opt-out class action seeking damages is pending that pertains to some 8 thousand vehicles with V6 and V8 TDI engines in addition to approximately 72 thousand vehicles with type EA 189 engines.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in various countries; most of these lawsuits are seeking damages or rescission of the purchase contract.

In Germany, over 55 thousand individual lawsuits are currently pending. In May 2020, the Bundesgerichtshof (BGH – Federal Court of Justice) handed down its first decision ever in an individual product-related lawsuit in connection with the diesel issue. The BGH held that the buyer, who had purchased a vehicle with a type EA 189 engine prior to public disclosure of the diesel issue, had a claim for damages against Volkswagen AG. While the buyer can require reimbursement of the vehicle's purchase price, he must accept a deduction for the benefit derived from using the vehicle and must return it to Volkswagen AG. The judgment clarified the BGH stance on the fundamental issues underlying a large number of the individual diesel lawsuits then still pending in Germany. On this basis, it has since been possible to conclude settlements and thus significantly reduce the number of individual lawsuits pending. In a series of fundamental judgments rendered in July 2020, the BGH decided further legal issues of major importance for the litigation still pending with regard to vehicles with type EA 189 engines. The BGH held that plaintiffs who purchased their vehicle after the ad hoc announcement of 22 September 2015 have no claim for damages. The court furthermore ruled that purchasers of affected vehicles are not entitled to tort interest under Sec. 849 of the German Civil Code. The COURT also made it clear that a plaintiff's potential damage claim may be completely offset by the benefit derived from using the vehicle.

Volkswagen estimates the likelihood that the plaintiffs will prevail to be 50% or less in the great majority of cases: customer class actions, complaints filed by consumer and/or environmental organizations, and individual lawsuits. Contingent liabilities are disclosed by Volkswagen for these proceedings where the amount of such liabilities can be measured and the chance that the plaintiff will prevail was assessed as not remote. Since most of these actions are still in an early procedural stage, it is in many cases not yet possible for Volkswagen to quantify the realistic risk exposure. Furthermore, provisions were recognized by Volkswagen to the extent necessary based on the current assessment.

At this time, it cannot be estimated by Volkswagen how many customers will choose to file lawsuits in the future in addition to those already pending and what prospect of success such lawsuits might have.

3. Lawsuits filed by investors worldwide (excluding the USA/Canada)

Investors from Germany and abroad have filed claims for damages against Volkswagen AG – in some cases along with Porsche SE as joint and several debtors – based on purported losses due to alleged misconduct in capital market communications in connection with the diesel issue.

The vast majority of these investor lawsuits are currently pending before the Braunschweig Regional Court. In August 2016, the Braunschweig Regional Court issued an order referring common questions of law and fact relevant to the investor lawsuits pending before it to the Higher Regional Court in Braunschweig for binding declaratory rulings pursuant to the Kapitalanleger-Musterverfahrensgesetz (KapMuG – German Capital Investor Model

Declaratory Judgment Act). In this proceeding, common questions of law and fact relevant to these actions are to be adjudicated by the Braunschweig Higher Regional Court in a single consolidated proceeding (model case proceedings). The lawsuits filed with the Braunschweig Regional Court are stayed pending resolution of the common issues, unless the cases can be dismissed for reasons independent of the common issues that are to be adjudicated in the model case proceedings. The resolution in the model case proceedings of the common questions of law and fact will be binding for the pending cases that have been stayed as described. The model case plaintiff is Deka Investment GmbH. Oral argument in the model case proceedings before the Braunschweig Higher Regional Court began in September 2018 and will be continued at subsequent hearings.

Further investor lawsuits have been filed with the Stuttgart Regional Court against Volkswagen AG, in some cases along with Porsche SE as joint and several debtor. A further investor action for model declaratory judgment is pending before the Stuttgart Higher Regional Court against Porsche SE; Volkswagen AG is involved in this action as a third party intervening in support of a party to the dispute. The Wolverhampton City Council, Administrating Authority for the West Midlands Metropolitan Authorities Pension Fund, has been appointed model case plaintiff. The first hearing for oral argument in these proceedings has yet to take place.

Additional investor lawsuits have been filed with various courts in Germany and the Netherlands.

Excluding the United States and Canada, claims in connection with the diesel issue totaling roughly €9.7 billion are currently pending worldwide against Volkswagen AG in the form of investor lawsuits, judicial applications for dunning and conciliation procedures, and claims under the KapMuG. Volkswagen AG remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized by Volkswagen for these investor lawsuits. Volkswagen has disclosed contingent liabilities where the chance of success was estimated to be not less than 10%.

4. Proceedings in the USA/Canada

In the USA and Canada, the matters described in the EPA's notices of violation are the subject of various types of lawsuits and requests for information that have been filed against Volkswagen AG and other Volkswagen Group companies, in particular by customers, investors, salespersons, and various government agencies in Canada and the United States, including the attorneys general of several US states.

The attorneys general of five US states (Illinois, Montana, New Hampshire, Ohio, and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc., and certain affiliates, alleging violations of environmental laws. The claims asserted by Illinois have been dismissed in full, but Illinois has appealed the dismissal of a subset of its claims. Certain claims asserted by Montana, Ohio, Texas, two Texas counties, Hillsborough County (Florida), and Salt Lake County (Utah) have also been dismissed, but these suits are currently proceeding as to other claims. Volkswagen has asked the US Supreme Court to review a decision by the US Court of Appeals for the Ninth Circuit that declined to dismiss certain claims brought by Hillsborough and Salt Lake Counties. A Texas appellate court dismissed claims asserted by Texas against Volkswagen AG and AUDI AG for lack of personal jurisdiction. Texas has indicated that it will seek discretionary review by the Texas Supreme Court of that decision.

In March 2019, the US Securities and Exchange Commission (SEC) filed a lawsuit against, among others, Volkswagen AG, Volkswagen Group of America Finance, LLC, and VW Credit, Inc., asserting claims under US federal securities law based, among other things, on alleged misstatements and omissions in connection with the offer and sale of certain bonds and asset-backed securities. In August 2020, the US District Court for the Northern District of California granted in part and denied in part Volkswagen's motion to dismiss. The claims dismissed by the court included all claims against VW Credit, Inc. related to asset-backed securities. In September 2020, the SEC filed an amended complaint that, among other things, removed the dismissed claims.

Furthermore, in December 2019, the Canadian federal environmental regulator filed charges against Volkswagen AG in respect of 2.0 l and 3.0 l Volkswagen and Audi diesel vehicles at the conclusion of its criminal enforcement-related investigation into the diesel emissions issue. Volkswagen AG cooperated with the investigation and agreed to a plea resolution addressing all of the charges. In January 2020, Volkswagen AG pleaded guilty to the charges and agreed to pay a penalty of CAD 196.5 million, which was approved by the court. Following this approval, the Ontario provincial environmental regulator withdrew its action against Volkswagen AG charging a quasi-criminal enforcement-related offense with respect to certain Volkswagen and Audi 2.0 l diesel vehicles. As to private civil law matters, in an environmental class action lawsuit seeking punitive damages on behalf of the residents of the Province of Quebec, after authorizing the case to proceed as a class, a Quebec court ruled in October 2020 that issues raised as to the viability of plaintiffs' damages theory should be deferred until trial. On that basis, the court denied a motion to dismiss by Volkswagen. The case remains in the early stages. In line with IAS 37.92, no statements have been made by Volkswagen concerning estimates of financial impact or regarding uncertainty as to the amount or maturity of provisions and contingent liabilities in relation to proceedings in the USA/Canada. This is so as to not compromise the results of the proceedings or the interests of the company.

5. Special audit

In a November 2017 ruling, the Higher Regional Court of Celle ordered, upon the request of three US funds, the appointment of a special auditor for Volkswagen AG. The special auditor is to examine whether the members of the board of management and supervisory board of Volkswagen AG breached their duties in connection with the diesel issue from 22 June 2006 onwards and, if so, whether this resulted in damages for Volkswagen AG. The ruling by the Higher Regional Court of Celle is formally unappealable. However, Volkswagen AG has filed a constitutional complaint with the German Federal Constitutional Court alleging infringement of its constitutional rights. Following the formally unappealable ruling from the Higher Regional Court of Celle, the special auditor appointed by the court indicated that he was not available to conduct the special audit on grounds of age. In April 2020, the Celle Higher Regional Court issued a ruling appointing a different special auditor. Volkswagen AG has filed a constitutional complaint with the Federal Constitutional Court contesting this formally unappealable decision as well on grounds of infringement of its constitutional rights and has suggested joinder of this matter with its initial constitutional complaint against the decision to appoint the special auditor. It is currently unclear when the Federal Constitutional Court will rule on the two constitutional complaints. The constitutional complaints have no suspensory effect. In addition, a second motion seeking appointment of a special auditor for Volkswagen AG to examine matters relating to the diesel issue has been filed with the Regional Court of Hanover. This proceeding has been stayed pending a decision by the Federal Constitutional Court in the initial special auditor litigation.

In line with IAS 37.92, no further statements have been made by Volkswagen concerning estimates of financial impact or regarding uncertainty as to the amount or maturity of provisions and contingent liabilities in relation to the diesel issue. This is so as to not compromise the results of the proceedings or the interests of the company.

Changes to underlying premises

The estimates and assumptions are based on premises that are derived from the current information available. In particular, the circumstances given when preparing the consolidated financial statements as to the realistic expectations of future development of the global and industry-specific environment were used to estimate the company's future business performance. Future business performance is associated with uncertainties. Factors which may cause variances from expectations at the level of Porsche SE are in particular additional negative effects of the Covid-19 pandemic, of the diesel issue, the outcome of the tax field audit for the assessment periods 2009 to 2013 and of the outcome of litigation. The Porsche SE Group's planning is based on the assumption that global economic output will recover overall in 2021, provided a successful, lasting containment of the Covid-19 pandemic is achieved. Factors which may cause variances from assumptions and estimates at the level of the Volkswagen Group of the expected future business development include in particular short and medium-term forecast cash flows as well as the discount rates used.

In cases where the actual development differs from the original expectation, the premises, and if necessary the carrying amounts of the assets and liabilities concerned, will be adjusted accordingly. Prior to the date of authorization of the consolidated financial statements by the board of management for submission 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. Judgments and estimates of the management included assumptions relating to the development of the Volkswagen Group, macroeconomic development as well as the development of automotive markets that are described in the forecast report as part of Porsche SE's combined management report.

New accounting standards

a) New or revised standards adopted for the first time in the fiscal year

The accounting policies applied in the consolidated financial statements are in line with the IFRSs adopted by the EU as of 31 December 2020.

In the fiscal year 2020, amendments with regard to IAS 1 and IAS 8, IFRS 3, IFRS 7, IFRS 9 and IAS 39 as well as IFRS 16 had to be adopted for the first time. These did not have any significant impact on the presentation of the Porsche SE Group's results of operations, financial position and net assets.

b) Standards and interpretations not applied (published but whose adoption is not yet mandatory or which are not yet applicable in the EU)

Standard or interpretation		Published by IASB	First-time adoption[1]	Adoption by the EU	Expected effects
IFRS 3	Reference to the conceptual framework	14/5/2020	1/1/2022	No	No material impact
IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39	Interest rate benchmark reform (Phase 2)	27/8/2020	1/1/2021	Yes	No material impact
IFRS 4	Insurance contracts: Deferral of IFRS 9	25/6/2020	1/1/2021	Yes	No impact
IFRS 17	Insurance contracts	18/5/2017[2]	1/1/2023	No	No material impact
IAS 1	Classification of liabilities	23/1/2020	1/1/2023[3]	No	No material impact
IAS 1	Disclosure of accounting policies	12/2/2021	1/1/2023	No	No material impact
IAS 8	Definition of accounting estimates	12/2/2021	1/1/2023	No	No material impact
IAS 16	Property, plant and equipment: Proceeds before intended use	14/5/2020	1/1/2022	No	No material impact
IAS 37	Provisions: Onerous contracts - cost of fulfilling a contract	14/5/2020	1/1/2022	No	No material impact
AIP 2018-2020	Improvements of International Financial Reporting Standards 2020 (IFRS 1, IFRS 9, IFRS 16 and IAS 41)	14/5/2020	1/1/2022	No	No material impact

[1] Mandatory first-time application from the perspective of Porsche SE
[2] On 25 June 2020, the IASB published amendments to IFRS 17 that are to come into force together with the original standard on 1 January 2023.
[3] On 15 July 2020, the IASB decided to postpone the effective date to 1 January 2023.

Early adoption of these amendments is not currently planned.

Notes to the consolidated income statement

[1] Revenue

Revenue almost exclusively relates to the ITS segment (see note [18]) and breaks down by main category as follows:

€ million	**2020**	2019
Maintenance	31	32
Projects	30	32
Licenses	22	31
Hosting	22	19
Others	1	2
	107	**116**

[2] Other operating income

In the prior year, other operating income primarily contained reversals of other provisions in connection with other taxes.

[3] Personnel expenses

€ million	**2020**	2019
Wages and salaries	67	68
Social security contributions	7	7
Pension and other benefit costs	7	6
Government grants	−2	−2
	80	**80**

With regard to the disclosure on the average number of employees during the fiscal year, we refer to note [18].

[4] Other operating expenses

Other operating expenses consist of:

€ million	**2020**	2019
Legal and consulting fees	23	29
Other external services	7	13
Sundry other operating expenses	19	24
	49	**66**

Sundry other operating expenses contain expenses for short-term leases, for leases of low-value assets and for variable lease components of €1 million (€2 million).

[5] Result from investments accounted for at equity

The result from investments accounted for at equity breaks down as follows:

€ million	**2020**	2019
Result from ongoing at equity accounting before purchase price allocations	2,613	4,172
Effects from purchase price allocations	−91	−89
Income from first-time at equity accounting of newly acquired shares	127	322
Result from investments accounted for at equity before impairment	2,649	4,406
Impairment	−8	
	2,641	**4,406**

The result from investments accounted for at equity relates almost exclusively to the profit contribution from the investment in Volkswagen AG.

The change in the result from ongoing at equity accounting is largely attributable to the decrease in the group result after tax of the Volkswagen Group. Please refer to the explanations presented in the section “Results of operations of the Volkswagen Group” in the group management report.

In the period from 17 March 2020 to 20 April 2020, Porsche SE acquired 0.2% of the ordinary shares in Volkswagen AG for €81 million via the capital market. This reflects a capital share of around 0.1%. This increased Porsche SE's shareholding in Volkswagen AG to 53.3% of ordinary shares and 31.4% of subscribed capital.

The acquisitions result overall in income from first-time at equity accounting of €127 million. Income from first-time at equity accounting of newly acquired shares results from the difference between the pro rata revalued equity of the Volkswagen Group and the acquisition cost of the ordinary shares in Volkswagen AG. This is mainly attributable to the fact that the fundamental data for the Volkswagen Group used particularly in the valuation of the brands and the investments accounted for at equity are not fully reflected in the share price and therefore not in the acquisition cost when calculating the pro rata revalued equity. Furthermore, matters negatively affecting the share price only have an impact on the revalued equity to the extent that they satisfy the recognition criteria for accounting purposes.

The brands were valued using the relief from royalty method. When applying the relief from royalty method, the fair value of the brands was calculated using a fictitious royalty as a percentage of revenue relevant for each brand based on the planning of the Volkswagen Group. The royalty rate was calculated using internal studies and data; a sustainable growth rate of 0.5% was assumed for the calculation. The investments accounted for at equity were mainly valued on the basis of the discounted cash flow method. The respective planning of the Volkswagen Group as well as a sustainable growth rate of 0.5% was likewise used as a basis for this. The valuation of the brands and of the investments accounted for at equity was based on country- and asset-specific after-tax cost of capital in the range of between 5.1% and 10.2%. The purchase price allocation has been completed.

Taking into account the identification and subsequent measurement of hidden reserves and liabilities for the shares held by Porsche SE, the Volkswagen Group reports the following figures:

€ million	VW initial tranche (29.88%) 2020	VW acquisition of shares in FY2015 (0.88%) 2020	VW acquisition of shares in FY2018/19 (0.53%) 2020	VW acquisition of shares in FY2020 (0.13%) 2020	VW Total 2020
Revenue	222,884	222,884	222,884	167,830	-
Total comprehensive income	4,652	3,823	−778	−2,405	-
thereof other comprehensive income	−4,016	−4,122	−3,825	−7,133	-
thereof profit from continuing operations	8,668	7,945	3,047	4,728	-
less result attributable to non-controlling interests and hybrid capital investors	−490	−490	−490	−379	-
less effects from additional dividends	−12	−12	−12	−9	-
Result after tax adjusted for at equity accounting	8,165	7,442	2,544	4,339	-
Income from first-time at equity accounting of newly acquired shares				127	-
Result from investment in Volkswagen AG accounted for at equity	**2,439**	**65**	**13**	**133**	**2,651**

€ million	VW initial tranche (29.88%) 2019	VW acquisition of shares in FY2015 (0.88%) 2019	VW acquisition of shares in FY2018/19 (0.53%) 2019	VW Total 2019
Revenue	252,632	252,632	252,632	-
Total comprehensive income	7,052	6,148	1,376	-
thereof other comprehensive income	−6,839	−6,584	−6,059	-
thereof profit from continuing operations	13,891	12,732	7,435	-
less result attributable to non-controlling interests and hybrid capital investors	−683	−683	−683	-
less effects from additional dividends	−12	−12	−12	-
Result after tax adjusted for at equity accounting	13,195	12,037	6,739	-
Income from first-time at equity accounting of newly acquired shares			322	-
Result from investment in Volkswagen AG accounted for at equity	**3,942**	**106**	**358**	**4,405**

[6] Financial result

The financial result primarily contains income from the measurement of financial instruments at fair value of €59 million (€8 million). In the prior year, the financial result also contained income from the recognition of interest on tax refunds of €16 million.

[7] Income tax

The income tax expense (+) and income (–) disclosed breaks down into:

€ million	**2020**	2019
Current tax	2	–29
Deferred tax expense	20	38
thereof related to the origination/reversal of temporary differences	25	54
thereof deferred tax assets on losses	–4	–16
Income tax expense	**23**	**9**

In the reporting year, the income tax expense is largely shaped by the lower year-on-year result from the investment accounted for at equity in Volkswagen AG and as a result the lower deferred income tax expense. In the prior year, the income tax expense also contained compensatory income from tax refunds relating to other periods of €32 million.

Previously unused tax losses for which no deferred tax assets were recognized amounted to €1,708 million (€1,705 million). Thereof an amount of €1,705 million (€1,704 million) does not lapse over time.

Deferred tax assets of €1 million (€1 million) were recognized for companies with a history of losses as, based on the earnings forecast, sufficient taxable profit will be available against which the unused tax losses can be utilized.

The following reconciliation shows the differences between the expected income tax expense calculated at the group parent company's tax rate of 30.5% (30.5%) and the reported income tax expense:

€ million	**2020**	2019
Result before tax	2,646	4,416
Group tax rate	30.5%	30.5%
Expected income tax expense	**807**	**1,347**
Tax rate related differences	0	0
Difference in tax base	−784	−1,295
Recognition and measurement of deferred tax	1	−11
Tax relating to other periods	−2	−32
Other differences	0	0
Reported income tax expense	**23**	**9**

The item "Difference in tax base" mainly relates to the tax exemption or non-deductibility of the result from investments accounted for at equity. In the prior year, the reconciliation item "Recognition and measurement of deferred tax" mainly contained deferred tax recognized on previously unaccounted tax losses from prior years of €12 million. In 2019, the effects relating to other periods primarily resulted from tax refund claims for prior years recognized in the fiscal year 2019.

	Deferred tax assets		Deferred tax liabilities	
€ million	**31/12/2020**	31/12/2019	**31/12/2020**	31/12/2019
Intangible assets	0	0	23	26
Investments accounted for at equity			193	184
Other receivables and assets	6	4	3	3
Unused tax losses	104	100		
Provisions for pensions	10	9		
Other provisions	3	6	0	0
Other liabilities	2	1	3	3
Gross value	125	119	222	217
Offsetting	−122	−117	−122	−117
Carrying amount according to consolidated balance sheet	**3**	**2**	**100**	**100**

The changes in deferred tax assets and liabilities recognized through other comprehensive income can be found in the statement of comprehensive income. In the fiscal year, deferred tax liabilities of €1 million (€3 million) were released directly to equity (recognized). All other changes are recognized through profit or loss.

Notes to the consolidated balance sheet

[8] Intangible assets and property, plant and equipment

€ million	Goodwill	Capitalized software development costs	Customer base	Brand	Other intangible assets	Intangible assets total	Property, plant and equipment
Historical cost							
As of 1 January 2020	213	49	67	14	6	349	51
Additions		0			0	1	4
Exchange differences					0	0	0
Disposals					0	0	−2
As of 31 December 2020	**213**	**50**	**67**	**14**	**6**	**349**	**53**
Amortization and depreciation							
As of 1 January 2020	66	18	18	2	4	107	14
Additions		6	8	1	1	15	7
Exchange differences					0	0	0
Disposals							−2
As of 31 December 2020	**66**	**23**	**25**	**3**	**5**	**122**	**19**
Carrying amount as of 31 December 2020	**147**	**27**	**41**	**11**	**1**	**227**	**34**

Right-of-use assets in connection with land and buildings as well as leased furniture and fixtures are recognized under property, plant and equipment.

€ million	Land and buildings	Furniture and fixtures	Total
Carrying amount			
As of 1 January 2020	25	2	28
Additions	2	1	3
Disposals	−1	0	−1
Depreciation amount in the fiscal year	−3	−1	−5
Exchange differences	0	0	0
As of 31 December 2020	**23**	**2**	**25**

€ million	Goodwill	Capitalized software development costs	Customer base	Brand	Other intangible assets	Intangible assets total	Property, plant and equipment
Historical cost							
As of 1 January 2019	213	49	67	14	5	348	15
Additions IFRS 16							25
Additions		1			1	2	12
Exchange differences					0	0	0
Disposals due to deconsolidation							0
Disposals		−1			0	−1	−2
As of 31 December 2019	**213**	**49**	**67**	**14**	**6**	**349**	**51**
Amortization and depreciation							
As of 1 January 2019	66	13	10	1	4	93	8
Additions		5	8	1	1	15	7
Exchange differences					0	0	0
Reclassifications		0			0		
Disposals due to deconsolidation							0
Disposals		−1			0	−1	−1
As of 31 December 2019	**66**	**18**	**18**	**2**	**4**	**107**	**14**
Carrying amount as of 31 December 2019	**147**	**32**	**49**	**12**	**2**	**241**	**37**

Right-of-use assets in connection with land and buildings as well as leased furniture and fixtures were recognized under property, plant and equipment.

€ million	Land and buildings	Furniture and fixtures	Total
Carrying amount			
IFRS 16 effect of first-time adoption as of 1 January 2019	24	2	25
Additions	5	2	7
Disposals	0	0	−1
Depreciation amount in the fiscal year	−3	−1	−4
Exchange differences	0	0	0
As of 31 December 2019	**25**	**2**	**28**

Research and non-capitalized development costs amounted to €2 million (€3 million).

Intangible assets with indefinite useful lives are tested for impairment at least once a year. Impairment tests are also conducted if there are indications of the carrying amount being impaired. The same applies for assets with a finite useful life. The test is performed on the level of the cash generating unit.

The recoverable amount, which is compared to the carrying amount of the cash-generating unit including goodwill, is the value in use determined on the basis of a discounted cash flow method. The ITS segment corresponds to the cash-generating unit.

The calculation of the value in use as of 31 December 2020 was based on the current planning by the management of the PTV Group, which was prepared based on the bottom-up planning of the group companies with uniform group-wide conditions for 2021. As in the prior year, the detailed planning phase comprised five years.

The planning reflects the implementation of the strategic realignment of the PTV Group commenced in 2020. Growth of the PTV Group is to be promoted by means of platform-supported business models and continuously enhancing the existing product portfolio. This largely involves transferring the existing offering to internet-based cloud applications and introducing new billing models. Effects from the Covid-19 pandemic were taken into account based on the information available at the time of preparing the planning. Against the background of these challenges, the planning of the management of PTV Group was supplemented by the expectations of Porsche SE at the time these consolidated financial statements were prepared. The planning was based on the assumption that, following the Covid-19-related decline in 2020, PTV will exceed the pre-crisis level in the 2021 fiscal year and will be able to significantly increase its revenue and EBIT margin in the planning period.

A sustainable annual growth rate of 1.0% (2.0%) was used to extrapolate the cash flow beyond the detailed planning phase. To discount cash flows, a weighted average after-tax cost of capital of 6.5% (7.4%) was derived based on a peer group analysis. The corresponding weighted average pre-tax cost of capital is 8.5% (9.4%).

The impairment test also included a sensitivity analysis of potential changes in the main measurement parameters, considered possible. This involved analyzing whether an isolated reduction in the sustainable operating return on sales by 10%, an isolated reduction of the sustainable annual growth rate by one percentage point or an isolated increase in the average weighted cost of capital by one percentage point would lead to an impairment of goodwill.

The value in use determined in the impairment test is significantly higher than the carrying amount of the cash-generating unit including goodwill. The sensitivity analysis also yielded a value in use that was higher than the carrying amount in all of the scenarios considered. As a result, there was no need to recognize an impairment loss as of 31 December 2020.

[9] Investments accounted for at equity

The market value of Porsche SE's investment in Volkswagen AG amounts to €26,789 million as of 31 December 2020 (€27,169 million). In the fiscal year, Porsche SE received a dividend from Volkswagen AG of €756 million (€753 million).

The ordinary shares in Volkswagen AG held by Porsche SE serve as collateral equivalent to 150% of the amount drawn if the existing credit facility (with a volume of €1 billion and term until July 2025) is drawn. No financial covenants have been agreed.

Taking into account the identification and subsequent measurement of hidden reserves and liabilities for the shares held by Porsche SE, the Volkswagen Group reports the following figures:

	VW initial tranche (29.88%)	VW acquisition of shares in FY2015 (0.88%)	VW acquisition of shares in FY2018/19 (0.53%)	VW acquisition of shares in FY2020 (0.13%)	VW Total
€ million	**31/12/2020**	**31/12/2020**	**31/12/2020**	**31/12/2020**	**31/12/2020**
Non-current assets	300,731	324,444	351,564	351,564	-
Current assets	194,956	194,944	194,944	194,944	-
Non-current liabilities	201,850	209,394	214,778	214,778	-
Current liabilities	165,410	165,410	165,410	165,410	-
Equity	128,427	144,585	166,321	166,321	-
less non-controlling interests and hybrid capital investors	–17,447	–17,447	–17,447	–17,447	-
less effects from additional dividends	–12	–12	–12	–9	-
Equity adjusted for at equity accounting	110,968	127,126	148,861	148,864	-
Carrying amount of the investment in Volkswagen AG accounted for at equity	**33,152**	**1,115**	**790**	**200**	**35,257**

€ million	VW initial tranche (29.88%) 31/12/2019	VW acquisition of shares in FY2015 (0.88%) 31/12/2019	VW acquisition of shares in FY2018/19 (0.53%) 31/12/2019	VW Total 31/12/2019
Non-current assets	300,099	325,621	357,863	-
Current assets	187,479	187,463	187,463	-
Non-current liabilities	195,762	204,282	210,240	-
Current liabilities	167,924	167,924	167,924	-
Equity	123,892	140,879	167,162	-
less non-controlling interests and hybrid capital investors	–14,533	–14,533	–14,533	-
less effects from additional dividends	–12	–12	–12	-
Equity adjusted for at equity accounting	109,346	126,333	152,617	-
Carrying amount of the investment in Volkswagen AG accounted for at equity	**32,668**	**1,108**	**810**	**34,585**

The impairment test for the investment in Volkswagen AG was performed by determining the value in use on the basis of a discounted cash flow method, as the stock market capitalization of the investment as of the reporting date was below the carrying amount of the at equity investment.

As in the prior year, the most recent five-year plan approved by the board of management of Volkswagen AG was used as a basis for determining the value in use. The overall development of the operating result assumed for the fiscal year 2021 in the impairment test corresponds to the range specified by Volkswagen in its forecast report, which reports an operating return on sales of between 5.0% and 6.5% with a significant year-on-year increase in revenue for the group. With regard to the entire five-year period, the assumed average annual revenue growth, on the basis of 2020, is in the high single-digit percentage range.

The planned revenue growth is based on the assumption that global economic output and, consequently, trends in the automotive market will recover overall in 2021, provided successful, lasting containment of the Covid-19 pandemic is achieved. Volkswagen believes that this growth will most likely be sufficient for the economy to recover to approximately its pre-pandemic level. Volkswagen continues to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts. Both the advanced economies and the emerging markets are expected to experience positive momentum.

Development of the regional automotive markets is expected to be mixed in 2021. Overall, the volume of demand worldwide for new vehicles is expected to be noticeably up on the reporting year, provided successful containment of the Covid-19 pandemic is achieved; however, it will not recover to its pre-pandemic level. Growing demand for passenger cars worldwide is expected in the period from 2022 to 2025. Thanks to its brand diversity, its presence in all major world markets, its broad and selectively expanded product range, and its technologies and services the Volkswagen Group is in a good competitive position worldwide so that it can be assumed it will gain moderate market shares in the planning period.

In the planning period, the planned ratio of capex to revenue in the automotive division of the level of the long-term target of around 6%. The investments in plants and models as well as in the development of electrified drives and modular systems create the prerequisites for Volkswagen's profitable and sustainable growth. As regards operating return on sales, a positive development over the course of the planning years is assumed, which is based on the long-term target of the Volkswagen Group of a return on sales of between 7% and 8% by 2025.

An annual growth rate of 1.0% (1.0%) was used to extrapolate the cash flows beyond the detailed planning phase. The sustainable operating return on sales was therefore determined taking into account the operating return on sales generated over the last five fiscal years (before special items), excluding the fiscal year 2020 because of the Covid-19 pandemic. A weighted average cost of capital of 6.6% (6.9%) for the investment in Volkswagen AG was used to discount cash flows. This was derived from a peer group analysis and therefore reflects a return on capital that is customary for the industry and commensurate with the risk involved.

The impairment test included a sensitivity analysis of the critical assumptions. This involved analyzing whether an isolated reduction in the sustainable operating return on sales by one percentage point, an isolated reduction of the sustainable annual growth rate to 0% or an isolated increase in the average weighted cost of capital by one percentage point would lead to an impairment of the investment in Volkswagen AG.

The value in use determined in the impairment test is significantly higher than the carrying amount of the investment in Volkswagen AG accounted for at equity. The sensitivity analysis also yielded a value in use that was considerably higher than the carrying amount in all of the scenarios considered. As in the prior year, there was therefore no need to recognize an impairment loss as of 31 December 2020.

The carrying amount of other investments accounted for at equity comes to €2 million (€11 million). In the fiscal year, impairment losses of €8 million (€0 million) were recognized on other investments accounted for at equity.

[10] Other financial assets

€ million	31/12/2020			31/12/2019		
	current	non-current	Total	current	non-current	Total
Other financial assets		88	88		27	27
Derivative financial instruments				0		0
Sundry other financial assets	4	0	5	4	0	5
	4	**88**	**93**	**5**	**28**	**32**

The increase in other financial assets is primarily due to the fair value measurement of the investments in technology companies.

[11] Other assets

Other assets break down as follows as of the reporting date:

€ million	31/12/2020			31/12/2019		
	current	non-current	Total	current	non-current	Total
Receivables from tax interest	0		0	16		16
Contract assets	4		4	4		4
Deferrals	3	1	5	3	2	5
Sundry other assets	1	1	3	2	1	3
	8	**2**	**11**	**25**	**3**	**28**

The contract assets result from the project business of the ITS segment. Immaterial impairment losses were recognized on these as of the reporting date. The receivables from tax interest capitalized in the prior year have been collected in the meantime.

[12] Equity

The development of equity is presented in the consolidated statement of changes in equity and in the consolidated statement of comprehensive income.

Subscribed capital

Unchanged from the figure at the end of the prior year, Porsche SE's subscribed capital totals €306.25 million and continues to be divided into 153,125,000 ordinary shares and around 153,125,000 non-voting preference shares which have been fully paid in. Each share represents a €1 notional amount of the subscribed 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 and a corresponding resolution on a distribution.

Capital reserves

The capital reserves contain additions from share premiums reduced by the transaction costs incurred.

Retained earnings

Retained earnings contain current profits and those earned by the group companies in prior years and not yet distributed as well as part of the equity recognized on a pro rata basis as part of at equity accounting.

Other reserves (OCI)

Other reserves are divided into items to be reclassified to profit or loss in subsequent periods (reclassifiable items) and items that are not to be reclassified to profit or loss in subsequent periods (non-reclassifiable items). Key components of the two items are the accumulated reclassifiable or accumulated non-reclassifiable other comprehensive income in connection with the investments accounted for at equity since their acquisition. The non-reclassifiable items also contain the actuarial losses of the Porsche SE Group from pensions of €24 million (€20 million) as well as the corresponding deferred tax assets of €7 million (€6 million). As in the prior year, the foreign currency translation reserve as a component of reclassifiable items was immaterial as of 31 December 2020. Furthermore, the reclassifiable and non-reclassifiable items contain deferred tax in connection with investments in associates. In the fiscal year, a net amount of €28 million (€52 million) resulting from the accumulated expenses from investments accounted for at equity was reclassified to profit or loss.

Proposal for the appropriation of profit

The separate financial statements of Porsche SE as of 31 December 2020 show a net profit of €703 million (€788 million) and transfers of €27 million to retained earnings (withdrawals from retained earnings of €163 million), therefore coming to a net profit available for distribution of €676 million (€952 million). The board of management proposes a resolution for the distribution of a dividend of €2.204 per ordinary share and €2.210 per preference share, i.e., a total distribution of €676 million for the fiscal year 2020. Dividends paid out in the fiscal year 2020 amounted to €2.204 (€2.204) per ordinary share and €2.210 (€2.210) per preference share, in total €676 million (€676 million).

Capital management

The target of capital management at Porsche SE is the continuous increase in enterprise value, securing its liquidity and a return on investment that is commensurate with the risk involved with a view to sustainably protecting the interests of the shareholders and employees and other stakeholders. By means of a systematic investment and financial management system, Porsche SE continually ensures that costs 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	**31/12/2020**	31/12/2019
Equity	35,946	35,284
Share of total capital	100%	100%
Non-current financial liabilities	23	35
Current financial liabilities	14	5
Total financial liabilities	37	40
Share of total capital	0%	0%
Total capital	**35,983**	**35,323**

Earnings per share

Basic earnings per share are calculated by dividing earnings attributable to Porsche SE shareholders by the weighted average number of ordinary and preference shares outstanding during the fiscal year. Taking into account the additional dividend for holders of preference shares results in a difference of 0.6 cents between the earnings per ordinary share and earnings per preference share. Since there were no transactions in 2020 and 2019 that had a dilutive effect on the number of shares, diluted earnings per share correspond to the basic earnings per share.

[13] 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 personnel expenses of the period concerned and amount to €4 million (€4 million).

The Porsche SE Group's pension plans comprise defined benefit plans funded by provisions as well as funded by plan assets.

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 beneficiary 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:
Pension obligations are calculated using actuarial methods based on a discount rate of 0.8% (1.2%) as well as a wage and salary increase of 3.0%, career progress of 0.5%, a pension increase of 1.7% and turnover of 3.0%, all of them unchanged on the prior year. The most recent 2018 G Heubeck mortality tables were used for the calculation.

The carrying amount of pension provisions is derived as follows:

€ million	**2020**	2019
Present value (funded)	6	6
Present value (unfunded)	48	41
Total present value	53	47
Fair value of plan assets	–1	–1
Provisions for pensions as of 31 December	**52**	**45**

As in the prior year, the fair value of plan assets primarily relates to interest-bearing investments in the ITS segment.

Changes in the present value of pension obligations:

€ million	**2020**	2019
As of 1 January	47	37
Current service cost	3	2
Past service cost	0	
Interest expenses	1	1
Subtotal pension expense recognized through profit or loss	3	3
Actuarial gains (–) and losses (+) arising from changes in demographic assumptions		0
Actuarial gains (–) and losses (+) arising from changes in financial assumptions	4	7
Actuarial gains (–) and losses (+) arising from experience adjustments	0	2
Subtotal pension expense recognized in other comprehensive income	4	8
Pension payments	– 1	– 1
Transfers from other companies		– 1
Contributions of the employee	0	0
As of 31 December	**53**	**47**

In the course of sensitivity analyses, changes in individual parameters were assumed with otherwise no change to the assumptions. The discount rate and future salary increases were each increased/decreased by 0.5% and future pension increases and turnover increased/decreased by 0.25%. The effects on the pension provisions ranged from minus €5 million to €6 million (minus €4 million to €5 million) in the reporting period.

The weighted average duration of pension obligations is 21 years (20 years). The cash outflow of pension provisions is expected to amount to €1 million (€1 million) within the next year, €5 million (€4 million) in a period of between one and five years and €48 million (€42 million) in a period of more than five years.

[14] Other provisions

€ million	31/12/2020 current	31/12/2020 non-current	31/12/2020 Total	31/12/2019 current	31/12/2019 non-current	31/12/2019 Total
Provisions for bonuses and personnel costs	7	1	8	6	1	7
Provisions for costs of litigation	15	22	37	16	24	40
Sundry other provisions	13	2	15	16	2	18
	34	**25**	**59**	**38**	**27**	**64**

The amount reported for provisions for costs of litigation represents the expected amount to be paid for all litigation in which Porsche SE is involved directly or indirectly. They have been set up at the amount of attorneys' fees and litigation expenses (reference is made to the description of the litigation underlying these provisions in note [20]). The provision amounts and timing of the outflows are based on estimations that are continuously rolled forward and adjusted when needed.

Sundry other provisions primarily contain provisions for takeover obligations in connection with the contribution of the holding business operations of Porsche SE to Volkswagen AG in the fiscal year 2012 (reference is made to the explanations in note [22]).

The cash outflow for all non-current other provisions is expected within a period of between one and five years.

Other provisions developed as follows:

€ million	As of 1/1/2020	Reclassification to liabilities	Additions	Utilization	Reversal	**As of 31/12/2020**
Provisions for bonuses and personnel costs	7		7	–6	–1	8
Provisions for costs of litigation	40	–1	15	–16		37
Sundry other provisions	18	0	5	–6	–2	15
	64	**–1**	**27**	**–28**	**–2**	**59**

The effects of unwinding the discount on provisions were immaterial in the fiscal year 2020 as they had been in the prior year.

[15] Financial liabilities

Financial liabilities are measured at amortized cost and break down as follows:

€ million	31/12/2020			31/12/2019		
	current	non-current	Total	current	non-current	Total
Lease liabilities	4	22	26	4	24	28
Liabilities to banks	11	1	11	1	11	12
	14	**23**	**37**	**5**	**35**	**40**

There may be future cash outflows from existing extension and termination options of €33 million (€31 million) that are not reflected in the measurement of lease liabilities.

[16] Other liabilities

As of the reporting date, other liabilities break down as follows:

€ million	31/12/2020			31/12/2019		
	current	non-current	Total	current	non-current	Total
Advance payments received on account of orders	4		4	4		4
Contract liabilities	21		21	20		20
Sundry other liabilities	12	0	12	17	0	17
	37	**0**	**37**	**40**	**0**	**40**

Other notes

[17] Notes to the consolidated statement of cash flows

In the statement of cash flows, cash flows are divided into cash inflows and outflows from operating, investing and financial activities, regardless of how the balance sheet is presented.

Cash inflows and outflows from operating activities are derived indirectly, starting from the result after tax. Therefore, all non-cash expenses and income, mainly the result from investments accounted for at equity are eliminated from the result after tax and adjusted for changes in other operating assets and liabilities. Interest paid and received as well as income taxes are disclosed separately. Cash inflows from dividends are also a component of the cash inflows from operating activities. In connection with the capitalized refund claims from tax field audits for the assessment periods 2009 to 2013 as well as the related interest on tax refunds, income taxes of €32 million (€0 million) as well as interest of €17 million (€0 million) were recognized with cash effect in the reporting period. While the non-cash income in the prior year was primarily attributable to the reversal of provisions for other taxes, in the fiscal year 2020 it largely includes income from the measurement of financial instruments at fair value through profit or loss.

As in the prior year, in addition to changes in investments in time deposits and securities, cash outflows from investing activities primarily relate to cash paid for the acquisition of ordinary shares in Volkswagen AG.

As in the prior year, the cash outflows from financing activities in particular concern cash outflows from dividend payments.

The financial liabilities from financing activities developed as follows:

€ million	As of 1/1/2020	Changes in cash	Non-cash changes	**As of 31/12/2020**
Financial liabilities	40	−4	2	37

€ million	As of 1/1/2019	Changes in cash	Non-cash changes	As of 31/12/2019
Financial liabilities	38	−5	6	40

Cash and cash equivalents according to the statement of cash flows comprise cash and cash equivalents with an original term of up to three months and correspond to the cash and cash equivalents presented in the balance sheet.

The statement of cash flows contains €5 million in total (€6 million) for the total cash outflows from leases.

[18] Segment reporting

The Porsche SE Group distinguishes between two segments. The first segment, “PSE”, contains Porsche SE’s holding operations including the investments accounted for at equity, other investments in technology companies as well as the assets and liabilities of the fully consolidated alternative investment fund. The second segment, “Intelligent Transport Systems” (“ITS”), comprises the development of smart software solutions for transport logistics, traffic planning and traffic management. The board of management of Porsche SE monitors the result after tax of the segments and, on this basis, decides on how to allocate resources and assesses their earnings power.

As the two segments exceed the quantitative thresholds prescribed by IFRS 8, they are subject to separate reporting. Combining the two segments pursuant to IFRS 8.12 is not possible due to a lack of comparable economic characteristics.

Reporting segments 2020:

€ million	PSE	ITS	Total segments	Reconciliation	**Group 31/12/2020**
Revenue from external third parties	0	107	107	0	107
Amortization and depreciation	–1	–21	–22		–22
Result from investments accounted for at equity[1]	2,642	–1	2,641		2,641
Segment result (operating result)	2,600	–8	2,592		2,592
Finance costs	–3	–1	–4		–4
Other financial result	57	0	57		57
Result before tax	2,655	–8	2,646		2,646
Income tax	–24	2	–23		–23
Result after tax	2,630	–7	2,624		2,624
Non-cash expenses (–) and income (+)	2,701	2	2,703		2,703
Segment assets	36,229	334	36,562	–312	36,250
thereof from investments accounted for at equity	35,259	0	35,259		35,259
thereof additions to non-current assets[2]	0	4	5		5
Segment liabilities	189	115	305		305

1 The result accounted for at equity contains impairment losses of €7 million (PSE) and €1 million (ITS).
2 With the exception of financial instruments, deferred tax assets, assets from defined benefit plans and rights from insurance contracts.

Reporting segments 2019:

€ million	PSE	ITS	Total segments	Reconciliation	Group 31/12/2019
Revenue from external third parties	1	116	116	0	116
Amortization and depreciation	−1	−21	−21		−21
Result from investments accounted for at equity	4,405	1	4,406		4,406
Segment result (operating result)	4,400	−7	4,393		4,393
Finance costs	−3	−1	−4		−4
Other financial result	28	0	28		28
Result before tax	4,425	−8	4,416		4,416
Income tax	−11	2	−9		−9
Result after tax	4,414	−6	4,408		4,408
Non-cash expenses (–) and income (+)	4,457	7	4,464		4,464
Segment assets	35,556	349	35,904	−312	35,592
thereof from investments accounted for at equity	34,596	1	34,597		34,597
thereof additions to non-current assets[1]	2	38	39		39
Segment liabilities	185	124	309	0	308

[1] With the exception of financial instruments, deferred tax assets, assets from defined benefit plans and rights from insurance contracts.

The methods mentioned in the “Accounting policies” section apply to the segment reporting. The reconciliation column therefore only contains consolidation effects.

By region 2020:

€ million	Germany	Rest of Europe	North America	Asia	Other markets	**Total 31/12/2020**
Revenue from external third parties	39	47	7	12	2	107
Non-current assets[1]	35,517	5	0	1	0	35,522
Employees[2]	660	194	20	43	11	927

[1] With the exception of financial instruments within the scope of IFRS 9, deferred tax assets, assets from defined benefit plans and rights from insurance contracts.
[2] Average number of employees pursuant to Sec. 314 (1) No. 4 HGB

By region 2019:

€ million	Germany	Rest of Europe	North America	Asia	Other markets	Total 31/12/2019
Revenue from external third parties	42	45	9	17	2	116
Non-current assets[1]	34,871	5	1	1	0	34,878
Employees[2]	667	199	21	51	10	948

[1] With the exception of financial instruments within the scope of IFRS 9, deferred tax assets, assets from defined benefit plans and rights from insurance contracts.
[2] Average number of employees pursuant to Sec. 314 (1) No. 4 HGB

Revenue is allocated based on the registered offices of the customers while non-current assets are allocated based on the entities' country of domicile and employees on where they are employed.

[19] Financial risk management and financial instruments

1 Financial risk management principles

The principles and responsibilities for managing the risks are generally defined by the board of management and monitored by the supervisory board. The same applies in particular to risks that could arise from financial instruments. As part of operational risk management, processes were defined in particular to govern ongoing monitoring of the liquidity situation of the Porsche SE Group, of the enterprise value of Volkswagen AG, the PTV Group, the technology companies, of the cash investments and of the developments on the capital markets. This also includes monitoring any concentrations of risk within the Porsche SE Group. The risks are identified, evaluated, managed, monitored and documented using suitable information systems. The guidelines and the supporting systems are checked regularly and brought into line with current market developments.

For further details on risk management and on risks relating to financial instruments, 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 carrying amounts recognized.

Cash and cash equivalents, time deposits, securities and, if necessary, derivative financial instruments are invested with different counterparties in Germany and abroad in order to spread risk. Furthermore, various measures are taken as needed, such as obtaining hold harmless agreements.

There is also a credit risk in operating activities, primarily resulting from customers' potential inability to pay and the related bad debts in the ITS segment (PTV Group). Before agreements are signed with potential customers, the PTV Group reviews the creditworthiness of the contractual partners and agrees on individual payment conditions adjusted for risk. Furthermore, the PTV Group has a receivables management system in place with an integrated dunning function which continuously monitors the receivables balances and implements the necessary measures in the event that payment is delayed.

At the Porsche SE Group, the expected credit loss model under IFRS 9 is generally applied consistently to all financial assets and other risk exposure. In particular, all financial assets measured at amortized cost are subject to the general approach provided there is no objective evidence of impairment upon initial recognition. The general approach divides the financial assets into three risk provisioning levels. Level 1 comprises financial assets that are recognized for the first time or do not show any significant increase in the probability of default. This level involves calculating anticipated bad debts for the next twelve months. Level 2 comprises financial assets that show a significant increase in the probability of default. Level 3 comprises financial assets that already show objective evidence of default. These levels involve calculating anticipated bad debt for the entire term.

At the Porsche SE Group, risk provisioning for trade receivables and contract assets pursuant to IFRS 15 is determined consistently on the basis of the simplified approach. In applying the simplified approach, the anticipated default is calculated consistently over the entire term of the asset.

At the Porsche SE Group, the impairment model pursuant to IFRS 9 applies to assets with a total carrying amount of €578 million (€478 million).

Financial assets measured at amortized cost at the Porsche SE Group largely comprise cash and cash equivalents, securities and time deposits. Most time deposits have a remaining term of less than three months. These financial instruments are allocated to risk provisioning level 1.

As in the prior year, impairment recognized so far is immaterial at all levels.

3 Liquidity risk

The Porsche SE Group needs sufficient liquidity to meet its financial obligations.

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 credit lines amount to €1,026 million as of the reporting date (€1,026 million), of which €11 million (€12 million) had been used as financial liabilities and €2 million (€3 million) as guarantees as of the reporting date.

The following overview shows the contractual undiscounted cash outflows from financial liabilities:

	Remaining contractual maturities			
€ million	within 1 year	in 1 to 5 years	more than 5 years	Total
31/12/2020				
Non-current financial liabilities (without lease liabilities)	0	1		1
Non-current financial liabilities (only lease liabilities)	0	11	14	25
Non-current other financial liabilities		0	0	0
Trade payables	5			5
Current financial liabilities (without lease liabilities)	11			11
Current financial liabilities (only lease liabilities)	4			4
Current other financial liabilities (without derivatives)	12			12
	33	**11**	**14**	**58**
31/12/2019				
Non-current financial liabilities (without lease liabilities)	0	11	0	11
Non-current financial liabilities (only lease liabilities)		12	16	28
Non-current other financial liabilities		0		0
Trade payables	4			4
Current financial liabilities (without lease liabilities)	1			1
Current financial liabilities (only lease liabilities)	5			5
Current other financial liabilities (without derivatives)	13			13
Current other financial liabilities (only derivatives)	11			11
	33	**23**	**16**	**72**

In the prior year, cash outflows of €4 million in the year after for derivatives recognized under other current financial assets were disclosed. As of 31 December 2020, there are no derivatives at the Porsche SE Group.

In the prior year, collateral customary for the industry was provided for obligations of €4 million arising from derivatives transactions. There are no significant concentrations of risk that are not evident from the notes to the financial statements and management report.

4 Market risk

The Porsche SE Group is exposed to interest rate, stock price and currency risks in the course of its general business activities. There are no significant concentrations of risk that are not evident from the notes to the financial statements and management report.

4.1 Interest rate and stock price risks

Interest rate risks generally result from changes in market interest rates and affect the fair value of fixed-interest time deposits and securities, financial receivables and liabilities as well as the interest of floating-rate assets and liabilities. Stock price risks arise from fluctuations in market prices.

Effects of the interest rate and stock price risk on the result or on equity result in particular from bonds measured at fair value that are held in the alternative investment fund as well as from investments whose equity instruments are listed or whose fair value is derived from listed securities, the development of which in turn depends exclusively on these equity instruments.

For investments whose equity instruments are listed or whose fair value is derived from listed securities, the share prices observable on the market are monitored and regularly marked to market. Changes in market values owing to the volatility of share prices fully affect the group result of Porsche SE as a result of accounting for equity instruments through profit or loss.

With regard to securities held in the alternative investment fund, the risk from these financial instruments is generally diversified by spreading the fund’s resources across different asset managers and strategies. In addition, the resulting risks are limited by using investment policies that specify not only counterparties, products and currencies, but in particular also a risk budget. The risk budget is allocated for the year and is in the low single-digit percentage range. For controlling purposes, a target return is also defined for the long-term performance depending on the residual risk budget.

In addition, with regard to securities held within the alternative investment fund, interest rate and share price risks are measured by means of value at risk based on a historical simulation in order to present market risks for these financial instruments. The value-at-risk calculation indicates the magnitude of a possible loss of the entire portfolio that with a probability of 99% will not be exceeded over a period of ten days. As a rule, the historical market data used in the value-at-risk calculation cover the 250 most recent trade days. As of the reporting date, the total value at risk for these financial instruments came to €0 million (€1 million).

There are also interest rate risks in the ITS segment regarding the amount of future interest payments from a floating-rate loan valued unchanged on the prior year at €10 million as of the reporting date. The effects on the pre-tax result of a change in the market interest level of +100 / -100 basis points are immaterial. There would not be any other effects on equity.

4.2 Foreign currency risk

At the level of the ITS segment, the Porsche SE Group is exposed to risks from exchange rate fluctuations in its operating activities. In the ITS segment, some contracts are concluded in foreign currency. Exchange rate fluctuations from these contractual relationships have an effect on earnings and liquidity unless there are opposing transactions in the same foreign currency. This currency risk is monitored centrally by PTV AG and mitigated by hedges where appropriate. No hedges had been concluded as of the reporting date.

The foreign currency items in the ITS segment as of the reporting date are immaterial for the Porsche SE Group. A 10% change in the significant exchange rates would result in each case in effects on the pre-tax result of under €1 million.

5 Measurement of financial instruments

The following table shows the reconciliation of the items of the balance sheet to the classes of financial instruments corresponding to the measurement categories at the Porsche SE Group, broken down by the carrying amount and fair value of the financial instruments:

	31/12/2020				
	Measured at fair value through profit or loss	Measured at amortized cost		Not assigned to any measurement category	Balance sheet item
€ million	Carrying amount	Carrying amount	Fair value	Carrying amount	
Non-current assets					
Investments accounted for at equity	n/a	n/a	n/a	35,259	35,259
Other financial assets	88	0	0	n/a	88
Current assets					
Trade receivables	n/a	18	18	n/a	18
Other financial assets	n/a	4	4	n/a	4
Securities	48	95	95	n/a	143
Time deposits	n/a	197	197	n/a	197
Cash and cash equivalents	n/a	259	259	n/a	259
Non-current liabilities					
Financial liabilities	n/a	1	1	22	23
Other financial liabilities	n/a	0	0	n/a	0
Current liabilities					
Trade payables	n/a	5	5	n/a	5
Financial liabilities	n/a	11	11	4	14
Other financial liabilities	n/a	12	12	n/a	12

€ million	31/12/2019				
	Measured at fair value through profit or loss	Measured at amortized cost		Not assigned to any measurement category	Balance sheet item
	Carrying amount	Carrying amount	Fair value	Carrying amount	
Non-current assets					
Investments accounted for at equity	n/a	n/a	n/a	34,597	34,597
Other financial assets	27	0	0	n/a	28
Current assets					
Trade receivables	n/a	24	24	n/a	24
Other financial assets	0	4	4	n/a	5
Securities	147	n/a	n/a	n/a	147
Time deposits	n/a	93	93	n/a	93
Cash and cash equivalents	n/a	353	353	n/a	353
Non-current liabilities					
Financial liabilities	n/a	11	11	24	35
Other financial liabilities	n/a	0	0	n/a	0
Current liabilities					
Trade payables	n/a	4	4	n/a	4
Financial liabilities	n/a	1	1	4	5
Other financial liabilities	0	13	13	n/a	13

The allocation of fair value to the various levels is based on the availability of observable market data on an active market. Level 1 presents the fair values of financial instruments where a market price on active markets can be determined. Level 2 presents the fair value of financial instruments for which market data are directly or indirectly observable. In particular, yield curves, index and currency rates or market prices of listed securities whose performance depends exclusively on the financial instrument being valued are used as significant parameters. The presented fair values of the assets are determined using pricing methods, present value methods or the net asset value approach. Fair values of financial instruments in level 3 are determined using inputs that are not based on observable market data. The reported fair values of the non-current liabilities measured at amortized cost are calculated using observable parameters by means of discounted cash flow calculations and therefore represent measurements according to level 2. The carrying amount of current financial assets and liabilities not measured at fair value through profit or loss provides a reasonable approximation of their fair value. Transfers between the levels are taken into account on the respective reporting dates.

The following overview contains the breakdown of the financial instruments measured at fair value by level:

€ million	**31/12/2020**	Level 1	Level 2	Level 3
Financial instruments measured at fair value				
Non-current other financial assets	88		72	16
Securities	48	32	16	

€ million	31/12/2019	Level 1	Level 2	Level 3
Financial instruments measured at fair value				
Non-current other financial assets	27			27
Current other financial assets	0	0	0	
Securities	147	62	85	
Current other financial liabilities	0	0	0	0

In the non-current other financial assets, reclassifications of €72 million (€0 million) were made from level 3 to level 2 as of the reporting date due to the existence of observable parameters of comparable assets.

As of the end of the reporting period, an amount of €3 million (€2 million) was transferred from level 2 to level 1 for securities recognized at fair value through profit or loss on account of the transition of the measurement logic from observable market data to market prices; this was counterbalanced by transfers from level 1 to level 2 of €1 million (€9 million).

Non-current other financial assets contain investments in technology companies. The fair value of these assets is based on information derived from recently performed financing measures or market prices of listed securities whose performance depends exclusively on the financial instrument being valued.

The table below shows a reconciliation of the fair value of the non-current financial assets allocated to level 3 in the fiscal year:

€ million	**2020**	2019
Fair value as of 1 January	27	9
Profit recognized through profit or loss	59	8
Acquisitions	2	10
Repayments		0
Reclassifications	−72	
Fair value as of 31 December	**16**	**27**

The gains of €59 million (€8 million) recognized through profit or loss from the measurement at fair value were recorded in the other financial result.

The net gains or losses of the respective measurement categories are as follows:

€ million	**2020**	2019
Financial assets measured at fair value through profit or loss (FVtPL)	57	12
Liabilities measured at fair value through profit or loss (FVtPL)	0	0
Financial assets measured at amortized cost (FAAC)	−2	0
Financial liabilities measured at amortized cost (FLAC)	−1	−1
	54	**10**

Net gains or losses from financial assets measured at fair value through profit or loss primarily result from the measurement of investments in technology companies at fair value. Furthermore, the assets and liabilities measured at fair value comprise the earnings from the measurement of securities and derivatives at fair value.

The table below contains the notional amounts of the derivative financial instruments in the prior year both on the assets and the liabilities side, all of which were due in less than one year:

	Notional amount total
€ million	31/12/2019
Interest rate derivatives with positive carrying amount	19
Other derivatives with positive carrying amount	12
Interest rate derivatives with negative carrying amount	7
Other derivatives with negative carrying amount	11
	49

[20] Contingent liabilities from legal disputes

For several years, Porsche SE has been involved in various legal proceedings. The assessment of Porsche SE regarding the actions pending as of 31 December 2020 is presented below. For all proceedings, provisions had so far been recognized exclusively for the expected attorneys' fees and litigation expenses but not for the underlying matters in dispute as the litigants' prospect of success is below 50%. Due to the complexity of the underlying matters and legal issues, the financial impact presented below is done so in the amount of the claims for damages asserted.

Legal proceedings and legal risks in connection with the expansion of the investment in Volkswagen AG

A model case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE initiated by an order of reference of the Regional Court of Hanover dated 13 April 2016 is pending with the Higher Regional Court of Celle. Subject of those actions are alleged damage claims based on alleged market manipulation and alleged inaccurate information in connection with Porsche SE's expansion of the investment in Volkswagen AG. In part these claims are also based on alleged violations of antitrust regulations. In the six initial proceedings suspended with reference to the model case a total of 40 plaintiffs assert alleged claims for damages of about €5.4 billion (plus interest). Since the beginning of the model case several hearings have already been held before the Higher Regional Court of Celle, in which the court, inter alia, explained its preliminary view on the state of affairs and of the dispute. The next dates for hearings are scheduled to begin on 21 April 2021. Porsche SE is of the opinion that the claims asserted in the suspended initial proceedings are without merit and that the requested establishment objectives in the model case will be rejected. Porsche SE considers its opinion endorsed by the previous development of the oral hearing before the Higher Regional Court of Celle.

In a proceeding pending before the Regional Court of Frankfurt against an incumbent and a former, meanwhile deceased, member of the supervisory board of Porsche SE, Porsche SE joined as intervener in support of the defendants. In this proceeding the same alleged claims are asserted that are already subject of a currently suspended action concerning alleged damages of about €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover. No new developments occurred in this proceeding during the reporting period. Porsche SE considers these claims to be without merit.

Since 2012, Porsche SE and two companies of an investment fund have been in dispute over the existence of alleged claims in the amount of about US$195 million and have filed lawsuits in Germany and England respectively. On 6 March 2013, the English proceedings were suspended at the request of both parties until a final decision had been reached in the proceedings commenced in the Regional Court of Stuttgart concerning the question of which court is the court first seized. A final decision on this issue continues to be outstanding. Currently, the proceedings are pending before the Higher Regional Court of Stuttgart. Porsche SE considers the action filed in England to be inadmissible and the asserted claims to be without merit.

Legal proceedings and legal risks in connection with the diesel issue and shareholder proceedings

In connection with the diesel issue, legal proceedings with a total volume of approximately €1.1 billion (plus interest) are pending against Porsche SE before the Regional Court of Stuttgart, the Higher Regional Court of Stuttgart and the Regional Court of Braunschweig. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information or alleged incorrect capital market information in connection with the diesel issue. Some of these proceedings are directed against both Porsche SE and Volkswagen AG. Porsche SE considers the actions to be inadmissible in part, but in any case to be without merit.

Before the Regional Court of Stuttgart 199 actions are currently pending at first instance. After withdrawal of a few lawsuits, the actions concern payment of damages, if quantified, in the total amount of approximately €914.4 million (plus interest) and in part establishment of liability for damages. In the majority of the proceedings pending before the Regional Court of Stuttgart, the plaintiff side had filed motions for recusal. To the extent that decisions have been made so far on these motions for recusal, they have been dismissed. The remaining motions for recusal have become inadmissible because of a change in the composition of the chamber. 30 claims for damages against Porsche SE, with a claim volume (according to the current assessment of the partially unclear head of claims) of approximately €9 million (plus interest), are pending before the Regional Court of Braunschweig. A number of the proceedings pending before the Regional Court of Stuttgart and the Regional Court of Braunschweig are currently suspended with reference to the KapMuG proceedings pending before the Higher Regional Court of Stuttgart and the Higher Regional Court of Braunschweig. Porsche SE considers the actions filed against it before the Regional Court of Stuttgart to be without merit. The actions filed against Porsche SE before the Regional Court of Braunschweig are considered by Porsche SE to be inadmissible and to be without merit.

In addition, two further proceedings, in which a total of a further approximately €164 million (plus interest) in damages was claimed, are pending before the Higher Regional Court of Stuttgart on appeal. The Regional Court of Stuttgart granted these actions in the amount of approximately €47 million (plus interest) and otherwise dismissed the actions on 24 October 2018. Porsche SE and the respective plaintiffs filed appeals. The appeal proceedings had been suspended with reference to the KapMuG proceedings pending before the Higher Regional Court of Stuttgart and the Higher Regional Court of Braunschweig. The orders to suspend the proceedings by the Higher Regional Court of Stuttgart were appealed by the respective plaintiffs on points of law. In one proceeding, the appeal on points of law against the order to suspend the proceeding has meanwhile been withdrawn. In the other proceeding, the Federal Court of Justice, by court order dated 16 June 2020, set aside the order to suspend the proceeding by the Higher Regional Court of Stuttgart and ordered that the proceeding be resumed. Porsche SE considers these actions filed against it before the Regional Court of Stuttgart to be without merit.

A KapMuG proceeding, initiated by order for reference of the Regional Court of Stuttgart of 28 February 2017, is pending before the Higher Regional Court of Stuttgart. The Higher Regional Court of Stuttgart decided by court order dated 27 March 2019 that the model case proceeding is inadmissible. Against this decision an appeal on points of law was filed with the Federal Court of Justice. By court order dated 16 June 2020, the Federal Court of Justice set aside the court order of the Higher Regional Court of Stuttgart and referred the case back to the Higher Regional Court of Stuttgart. On 22 October 2020, the Higher Regional Court of Stuttgart appointed a model case plaintiff.

Following corresponding orders to suspend the proceedings by the Regional Court of Braunschweig and the courts of Stuttgart, Porsche SE became a further model case defendant in the model case proceedings before the Higher Regional Court of Braunschweig. Several oral hearings have taken place before the Higher Regional Court of Braunschweig. The next oral hearing is set to take place on 19 April 2021. With regard to the partial model case ruling of the Higher Regional Court of Braunschweig regarding questions of jurisdiction, an appeal on points of law was filed with the Federal Court of Justice. By court order dated 21 July 2020, the Federal Court of Justice dismissed the appeal on points of law.

During the reporting period, no significant new developments have occurred with regard to claims asserted out of court and not yet brought to court against Porsche SE with a total amount of approximately €63 million and in some cases without defined amounts as well as with regard to the waiver of the statute of limitations defense granted by Porsche SE to the United States of America for alleged claims for damages in relation to the alleged acquisition of in total 40,992 Porsche SE preference shares.

The investigation proceedings on suspicion of market manipulation against Matthias Müller, Hans Dieter Pötsch and Prof. Dr. Martin Winterkorn, have meanwhile been terminated. After a thorough examination and consideration, the Porsche SE supervisory board has argued that Porsche SE will assume a fine imposed in this regard on Hans Dieter Pötsch amounting to €1.5 million. The regulatory fining proceedings against Porsche SE pursuant to Sec. 30, 130 Regulatory Offences Act (OWiG) continue to be pending. Porsche SE considers the allegation made to be without merit.

In the shareholder proceedings, the so-called status proceeding in accordance with Sec. 98 German Stock Corporation Act (AktG) was closed due to the withdrawal of all motions. Also closed is the proceeding for annulment regarding the resolutions of the annual general meeting on 29 June 2016 on the exoneration of the board of management and the supervisory board for the fiscal year 2015. The appeal against the refusal of leave to appeal on points of law filed by Porsche SE has been rejected.

There were no other significant changes in the reporting period. In particular, Porsche SE continues not to have reliable findings or assessments that would lead to a different evaluation of the legal risks.

[21] Contingent assets

During the assessment periods 2006 to 2009, Porsche SE was initially the legal successor of Porsche AG and later the ultimate tax parent and thus liable for tax payments. In the course of the contribution of the business operations in the fiscal year 2012, the tax obligations of Porsche SE and its subsidiaries for the period to until 31 July 2009 were not transferred to Volkswagen AG. Any offsetting tax relief at a later stage at the level of Porsche Holding Stuttgart GmbH, Porsche AG or the subsidiaries concerned at the Porsche AG Group cannot be recognized in the consolidated financial statements of Porsche SE, as these companies no longer belong to the group of fully consolidated subsidiaries of the Porsche SE Group in accordance with IFRS regulations. These incur instead at the level of the Volkswagen Group. In connection with the business contribution, Volkswagen AG agreed in principle to refund to Porsche SE tax benefits – for example in the form of a refund, tax reduction or tax saving, a reversal of tax liabilities or provisions or an increase in tax losses – of Porsche Holding Stuttgart GmbH, Porsche AG and its legal predecessors and subsidiaries which pertain to assessment periods up until 31 July 2009. In return, under certain circumstances Porsche SE holds Porsche Holding Stuttgart GmbH, Porsche AG and their legal predecessors harmless from tax disadvantages that exceed the obligations from periods up until and including 31 July 2009 recognized at the level of these entities. If the total tax benefits exceed the total tax disadvantages, Porsche SE has a claim against Volkswagen AG to payment of the amount by which the tax benefits exceed the tax disadvantages. The amount of tax benefits and tax disadvantages to be taken into account is regulated in the contribution agreement. The risks arising at the level of Porsche SE, for which provisions were recognized in prior years and payments were made, will in some cases lead to tax benefits at the Volkswagen Group that are expected to partly compensate the tax risks of Porsche SE. However, the provisions in the contribution agreement do not cover all matters and thus not all tax risks of Porsche SE from the tax field audits for the assessment periods 2006 to 2009. It will therefore not be possible to reasonably determine any potential refund claim until the tax field audit has been completed for the 2009 assessment period, and accordingly no claims were recognized as assets in the consolidated financial statements. Based on the findings of the completed tax field audit for the assessment periods 2006 to 2008 and the information available for the assessment period 2009 when these consolidated financial statements were issued for publication, it is estimated that Porsche SE has a claim for compensation against Volkswagen AG in the low triple-digit million-euro range. Future findings may lead to an increase or decrease in the possible compensation claim.

[22] Related parties

In accordance with IAS 24, transactions and relationships with third parties which are in control of or controlled by the Porsche SE Group must be disclosed. Pursuant to a consortium agreement, the Porsche and Piëch families have direct and indirect control respectively of the parent company Porsche SE.

The disclosure requirements under IAS 24 also extend to persons 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 the fiscal year 2020 and in the comparative period, this concerns members of the supervisory board and the board of management of Porsche SE as well as their close family members.

The disclosure requirements pursuant to IAS 24 also include persons and entities over which the Porsche SE Group can exercise a significant influence. In the reporting period and the comparative period, Porsche SE exercised in particular significant influence over the Volkswagen Group.

The table below contains the receivables and liabilities contained in the balance sheet as of the reporting date as well as the supplies and services rendered and received and other income and expenses for the fiscal year resulting from business transactions between the Porsche SE Group and its related parties:

	Supplies and services rendered and other income		Supplies and services received and other expenses	
€ million	**2020**	2019	**2020**	2019
Porsche and Piëch families	0			
Associates	756	758	5	7
	757	**758**	**5**	**7**

	Receivables		Liabilities	
€ million	**31/12/2020**	31/12/2019	**31/12/2020**	31/12/2019
Porsche and Piëch families	0			
Associates	0	0	13	12
	0	**0**	**13**	**12**

As in the prior year, service transactions were primarily with the Volkswagen Group in the reporting year. In addition to dividends received from Volkswagen AG totaling €756 million (€753 million), supplies and services rendered and other income primarily contain income from the software and consulting sector. In the prior year, this item also contained income from selling shares in PTV Truckparking B.V. to Volkswagen Financial Services GmbH. Supplies and services received and other expenses in the reporting period mainly consisted of services and software as well as the provision of vehicles. Liabilities mainly comprise obligations in connection with the contribution of the holding business operations of Porsche SE to Volkswagen AG in the fiscal year 2012 (hereinafter also referred to as “contribution” or “business contribution”).

The following agreements were entered into by Porsche SE, Volkswagen AG and entities of the Porsche Holding Stuttgart GmbH Group in connection with the contribution and the basic agreement prior to that as well as the associated agreements implementing it, which continued to be valid:

Volkswagen AG has agreed to hold Porsche SE harmless for internal purposes from any claims of the German Deposit Protection Fund 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 Protection Fund harmless from any losses incurred as a result of its actions in favor of a majority-owned bank.

Under the contribution agreement, Porsche SE in certain circumstances holds Porsche Holding Stuttgart GmbH, Porsche AG and their legal predecessors harmless from tax disadvantages that exceed the obligations from periods up until and including 31 July 2009 recognized at the level of these entities. In turn, Volkswagen AG has generally undertaken to transfer any tax advantages of Porsche Holding Stuttgart GmbH, Porsche AG or their legal predecessors and subsidiaries for assessment periods up until and including 31 July 2009 to Porsche SE (reference is made to the section “Contingent assets”).

Within the scope of the basic agreement, Porsche SE and Volkswagen AG had granted each other put and call options relating to the 50.1% share in Porsche Holding Stuttgart GmbH remaining at Porsche SE prior to the contribution of its holding business operations to Volkswagen AG. Both 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) had both agreed to bear any tax expenses arising from exercising the options and from any downstream measures with respect to the investments in Porsche Holding Stuttgart GmbH (e.g., from back taxes on the 2007 and/or 2009 spin-off). If Volkswagen AG, Porsche Holding Stuttgart GmbH, Porsche AG or their respective subsidiaries had enjoyed tax benefits as a result of subsequent taxation of the 2007 and/or 2009 spin-off, the purchase price payable by Volkswagen AG for the transfer of the remaining 50.1% share in Porsche Holding Stuttgart GmbH would have increased by the present value of the tax benefits if Porsche SE had exercised its put options. This rule was taken over in the course of the contribution agreement to the extent that Porsche SE has a payment claim against Volkswagen AG equivalent to the present value of the recoverable tax benefits as a result of back tax payments on the 2007 spin-off owing to the contribution. In connection with the contribution it was also agreed that Porsche SE would release Volkswagen AG, Porsche Holding Stuttgart GmbH and its subsidiaries from any tax liability with respect to subsequent taxation in 2012 resulting from any action or omission by Porsche SE upon or subsequent to the execution of the contribution. Also in that event, Porsche SE has a payment claim against Volkswagen AG in the amount of the present value of the recoverable tax benefits resulting from such a transaction at the level of Volkswagen AG or one of its subsidiaries.

In connection with the contribution of the holding business operations of Porsche SE to Volkswagen AG, additional agreements were concluded and declarations submitted, which primarily include:

- Porsche SE under certain circumstances holds its subsidiaries transferred under the contribution agreement, Porsche Holding Stuttgart GmbH and Porsche AG and its subsidiaries, harmless from certain obligations towards Porsche SE pertaining to the period up to and including 31 December 2011 and that go beyond the obligations recognized for these entities for this period.

- In addition, Porsche SE holds Volkswagen AG, Porsche Holding Stuttgart GmbH, Porsche AG and their subsidiaries harmless from half of the amount of the tax (with the exception of income tax) arising at their respective levels in connection with the contribution and that would not have been incurred had the call options been exercised for the shares in Porsche Holding Stuttgart GmbH remaining at Porsche SE prior to the contribution. Accordingly, Volkswagen AG holds Porsche SE harmless for half the amount of such tax incurred there. In addition, Porsche Holding Stuttgart GmbH will be held harmless for half of the amount of the real estate transfer tax and other costs triggered as a result of the merger.

- It was also agreed to allocate based on causation any subsequent VAT receivables and/or VAT liabilities from transactions up to 31 December 2009 between Porsche SE and Porsche AG.

- Various information, conduct and cooperation duties were agreed in the contribution agreement between Porsche SE and the Volkswagen Group.

The following benefits and payments were recorded for the board work of the members of the board of management and the supervisory board of Porsche SE:

€ million	**2020**	2019
Short-term employee benefits	4	4
Post-employment benefits	1	1
Other long-term benefits	1	0
	6	**5**

Post-employment benefits contain additions to the pension provisions. Other long-term benefits concern the addition to provisions for the long-term component of the variable incentive of the members of the board of management of Porsche SE.

As of the end of the fiscal year, the outstanding balances for the remuneration of active members of Porsche SE's board of management and supervisory board amounted to €7 million (€9 million).

[23] Remuneration of the board of management and the supervisory board[1]

The total remuneration of members of Porsche SE's board of management amount to €4 million in the fiscal year 2020 (€3 million).

Remuneration for former board of management members amounted to €1 million (€0 million).

The provisions for post-employment benefits recognized for former members of the board of management amounted to €5 million (€1 million) as of the reporting date.

The total remuneration of the supervisory board for fiscal year 2020 amounts to €1 million (€1 million).

Individual information on the remuneration of the board of management and of the supervisory board of Porsche SE as well as a breakdown into individual components are contained in the remuneration report which is included in the combined management report of Porsche SE.

[1] Disclosures pursuant to Sec. 314 (1) No. 6a Sentence 1 to 4, Sec. 6b HGB in conjunction with Sec. 315e HGB

[24] Auditor's fees

The auditor's fees charged by the auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, for the fiscal year in accordance with Sec. 314 (1) No. 9 HGB break down as follows:

€ thousand	**2020**	2019
Audit of financial statements services	676	846
Other assurance services		8
Tax advisory services		231
Other services		125
	676	**1,210**

The prior-year figure relates to the fees of the auditor for the fiscal year 2019, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart.

[25] Subsequent events

On 26 January 2021, the boards of management of MAN SE and MAN Truck & Bus SE and the employee representatives signed an agreement covering the key points of a comprehensive realignment of MAN Truck & Bus SE. The agreement reached concerns the restructuring of all areas of the MAN Truck & Bus business. The planned measures include a restructuring of the development and production network with a strong focus on future technologies as well as around 3,500 job cuts in Germany by the end of 2022 across all business divisions. In total, the restructuring measures (including the measures in connection with the production network, which are still to be resolved) are currently expected to cost an amount in the high triple-digit millions spread over the entire restructuring period. The vast majority of the expenses will be for personnel measures. Through the at equity accounting of the Volkswagen Group in the consolidated financial statements of Porsche SE, the restructuring expense will also have a proportionate impact on the group result of Porsche SE.

The shareholders of the US truck manufacturer Navistar approved the takeover by TRATON at their annual general meeting on 2 March 2021. Under this agreement, TRATON will acquire all outstanding shares in Navistar not already owned by TRATON in return for cash payment at a price of US$44.50 per share (total: approximately US$3.7 billion). The transaction is still subject to regulatory approval. Navistar continues to assume that the takeover will be completed mid-2021.

With the exception of the developments presented in note [20], there were no other reportable events after the reporting date.

[26] Declaration on the German Corporate Governance Code

The board of management and supervisory board of Porsche SE submitted the annual declaration of compliance in accordance with Sec. 161 AktG in December 2020 and made it permanently accessible to shareholders on the company's website at www.porsche-se.com/en/company/corporate-governance/.

Stuttgart, 10 March 2021

Porsche Automobil Holding SE
The board of management

Hans Dieter Pötsch Dr. Manfred Döss Lutz Meschke

The following copy of the auditor's report also includes a "Report on the audit of the electronic renderings of the financial statements and the management report prepared for disclosure purposes in accordance with Sec. 317 (3b) HGB" ("Separate report on ESEF conformity"). The subject matter (ESEF documents) to which the Separate report on ESEF conformity relates is not attached. The audited ESEF documents can be inspected in or retrieved from the Federal Gazette.

Independent auditor's report

On completion of our audit, we issued an unqualified auditor's report dated 10 March 2021 in German language. The following text is a translation of this auditor's report. The German text is authoritative:

To Porsche Automobil Holding SE, Stuttgart

Report on the audit of the consolidated financial statements and of the group management report

Audit Opinions

We have audited the consolidated financial statements of Porsche Automobil Holding SE, Stuttgart, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Porsche Automobil Holding SE, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Measurement of the investment in Volkswagen AG (including effects of diesel issue)

❷ Assessment of legal risks and their presentation in the consolidated financial statements

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

❶ **Measurement of the investment in Volkswagen AG (including effects of diesel issue)**

① In the consolidated financial statements of the Company, the investment in the associated Company Volkswagen AG is reported under the balance sheet line item "Investments accounted for at equity" at an amount of € 35.3 billion (97 % of total assets).

The investment in Volkswagen AG is the major asset of Porsche SE and, due to it being accounted for using the equity method through the proportionate result attributable to Porsche SE, has a significant influence on the Porsche SE Group's financial performance, financial position and assets and liabilities.

The assessment of the executive directors of Porsche SE regarding the recoverability of the shares in Volkswagen AG accounted for at equity are subject to high estimation and judgment uncertainties with regard to key measurement parameters as well as the assumptions made in the business plan.

The provisions recognized in the consolidated financial statements of Volkswagen AG as at 31 December 2020 for risks relating to the diesel issue are based on the knowledge of the executive directors of Volkswagen AG as presented. The provisions recognized in the Volkswagen Group for the diesel issue as well as the contingent liabilities disclosed and the other latent legal risks are in part subject to substantial estimation and judgement risks by the executive directors of Volkswagen AG given that the fact finding efforts have not yet been concluded, the complexity of the individual relevant factors and the ongoing coordination with the authorities.

Any lasting decreases in the profit stemming from the Covid-19 pandemic as well as a further unexpected increase in the cost of mitigating the diesel issue might lead to an impairment in the value of the investment in Volkswagen AG.

Due to the significance of the risk provisioning at the level of Volkswagen AG as well as the scope of the assumptions and judgment decisions of the executive directors of Volkswagen AG and the resulting effects on the result of Porsche SE, this matter was of particular significance during our audit.

② As part of our audit, for the evaluation of the assessment of the recoverability of the carrying amount of the investment in Volkswagen AG made by the executive directors of Porsche SE, we initially examined the underlying process and its suitability for assessing the recoverability of the investment in Volkswagen AG. We included our valuation specialists in the audit to assess the valuation model and the valuation parameters used in terms of calculation and method used. We also assessed the business plan approved by the board of management and supervisory board of Volkswagen AG and compared key planning assumptions with external analysts' estimates. In this context, we have also evaluated the effects of the Covid-19 pandemic on the business plan. We also compared the business forecasts prepared in previous periods with the actual results in order to analyze the accuracy of the forecasts. We also assessed the determination of the risk-adjusted capitalization interest rate by analyzing the peer group, comparing market data with external evidence and examining the mathematical accuracy. In order to estimate any impairment risk associated with a reasonably possible change in one of the significant assumptions, we assessed the Company's sensitivity analyses.

With regard to the effects of the diesel issue and the Covid-19 pandemic on the result of Volkswagen AG and thus on the measurement of the result at Porsche SE accounted for at equity recorded during the current financial year, we accompanied the audit of Volkswagen's consolidated financial statements by its group auditor. In this regard, we sent audit instructions to the group auditor of Volkswagen AG, in which we provided guidelines on risk classification and the audit procedure, in particular in connection with risks regarding the diesel issue. Furthermore, we regularly obtained information about the current status of the audit in personal meetings and inspected the working papers of the group auditor.

In our view, the assessments made by the executive directors are sufficiently documented and substantiated and represent an appropriate basis for the measurement of the investment in Volkswagen AG, taking into account the information available.

③ The accounting and measurement policies applied for the investment in Volkswagen AG and the associated disclosures on judgments of the executive directors regarding the assessment of the recoverability of the investment in Volkswagen AG are included in the notes to the consolidated financial statements in the sections "Accounting policies" and "[9] Investments accounted for at equity" and in the group management report in the sections "Significant events and developments at the Porsche SE Group" and "Opportunities and risks of the Porsche SE Group".

❷ Assessment of legal risks and their presentation in the consolidated financial statements

① As an investment management holding Company, Porsche SE primarily holds the investment in Volkswagen AG. In connection with the expansion of the investment in Volkswagen AG and the diesel issue that became known at Volkswagen AG in September 2015, the Company is exposed to legal risks in the form of lawsuits filed directly against Porsche SE, which may lead to significant expenses and cash outflows for the Company in the event of negative outcome of the litigation.

The assessment of the likelihood of these legal risks occurring at the level of Porsche SE is subject to estimation and judgment uncertainties to a high degree.

Against this background, the assessment of these legal risks and their presentation in the consolidated financial statements was of particular significance during our audit.

② In evaluating the assessment of the legal risks carried out by the executive directors we first obtained an understanding of the process in order to identify which controls the Company's executive directors have implemented to recognize and asses risks at an early stage. In order to evaluate the assessment of the likelihood of legal risks occurring carried out by the executive directors of Porsche SE, we discussed the risks and the pending proceedings, taking into account the current developments in the reporting period, through discussions with the legal department, the member of the executive board responsible for legal affairs and compliance as well as representative of the law firms overseeing the proceedings. In this context, we involved legal experts in our audit and also obtained external letters of confirmation from attorneys. Furthermore, we assessed the Company's explanations in the notes to the consolidated financial statements.

We were able to follow the executive directors' assessment of the legal risks and consider their presentation in the consolidated financial statements to be appropriate.

③ The assessment of the legal risks by the executive directors is included in the notes to the consolidated financial statements in the sections "Accounting policies" and "[20] Contingent liabilities from legal disputes" and in the management report in the sections "Significant events and developments at Porsche SE Group" and "Opportunities and risks of the Porsche SE Group".

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Publication of the declaration of compliance" of the group management report

- the separate non-financial group report pursuant to § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Assurance Report in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes

Reasonable Assurance Conclusion

We have performed an assurance engagement in accordance with § 317 Abs. 3b HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file Porsche_SE_KA+KLB_ESEF-2020-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above.

Basis for the Reasonable Assurance Conclusion

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in the "Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group Auditor’s Responsibilities for the Assurance Engagement on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.

- Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as at the balance sheet date on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 2 October 2020. We were engaged by the supervisory board on 3 December 2020. We have been the group auditor of the Porsche Automobil Holding SE, Stuttgart, without interruption since the financial year 2020.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Jürgen Berghaus.

Stuttgart, 10 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Harald Kayser
Wirtschaftsprüfer
(German Public Auditor)

Jürgen Berghaus
Wirtschaftsprüfer
(German Public Auditor)

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, 10 March 2021

Porsche Automobil Holding SE
The board of management

Hans Dieter Pötsch | Dr. Manfred Döss | Lutz Meschke

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This annual report is available in German and English.
In case of doubt the German version is binding.

Financial calendar

19 May 2021
Group quarterly statement 1st Quarter 2021

10 August 2021
Half-yearly financial report 2021

9 November 2021
Group quarterly statement 3rd Quarter 2021

To be announced: Annual general meeting

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