PORSCHE SE

Annual Report

2016

Key figures

		2016 IFRS	2015 IFRS	2014 IFRS
Porsche SE Group				
Total assets	€ million	28,365	27,591[1]	30,157
Shareholders' equity	€ million	27,894	27,077[1]	29,187
Investments accounted for at equity	€ million	26,760	25,574[1]	27,405
Profit/loss from investments accounted for at equity	€ million	1,449	–471[1]	3,441
Personnel expenses	€ million	12	15	15
Financial result	€ million	–20	19	–76
Profit/loss before tax	€ million	1,382	–491[1]	3,294
Profit/loss for the year	€ million	1,374	–308[1]	3,035
Earnings per ordinary share[2]	€	4.48	–1.01[1]	9.90
Earnings per preference share[2]	€	4.49	–1.00[1]	9.91
Net liquidity on 31 December	€ million	1,299	1,704	2,267
Employees on 31 December		30	32	31

		2016 HGB	2015 HGB	2014 HGB
Porsche SE				
Net loss or profit	€ million	–70	871	193
Net profit available for distribution	€ million	308	436	615
Dividend per ordinary share	€	1.004[3]	1.004	2.004
Dividend per preference share	€	1.010[3]	1.010	2.010

[1] Including retrospective adjustment of the at equity accounting due to new findings regarding the purchase price allocation for additional purchases of investments accounted for at equity

[2] Basic and diluted

[3] Proposal to the annual general meeting of the Porsche SE

Investments of Porsche SE

PORSCHE SE

Core Investment

Stake of ordinary shares: 52.2 %
(Represents a stake of subscribed capital: 30.8 %)

VOLKSWAGEN
AKTIENGESELLSCHAFT

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

VOLKSWAGEN FINANCIAL SERVICES
AKTIENGESELLSCHAFT

Further Investment

Share of total capital: ~ 10 %

INRIX

Status 31 December 2016

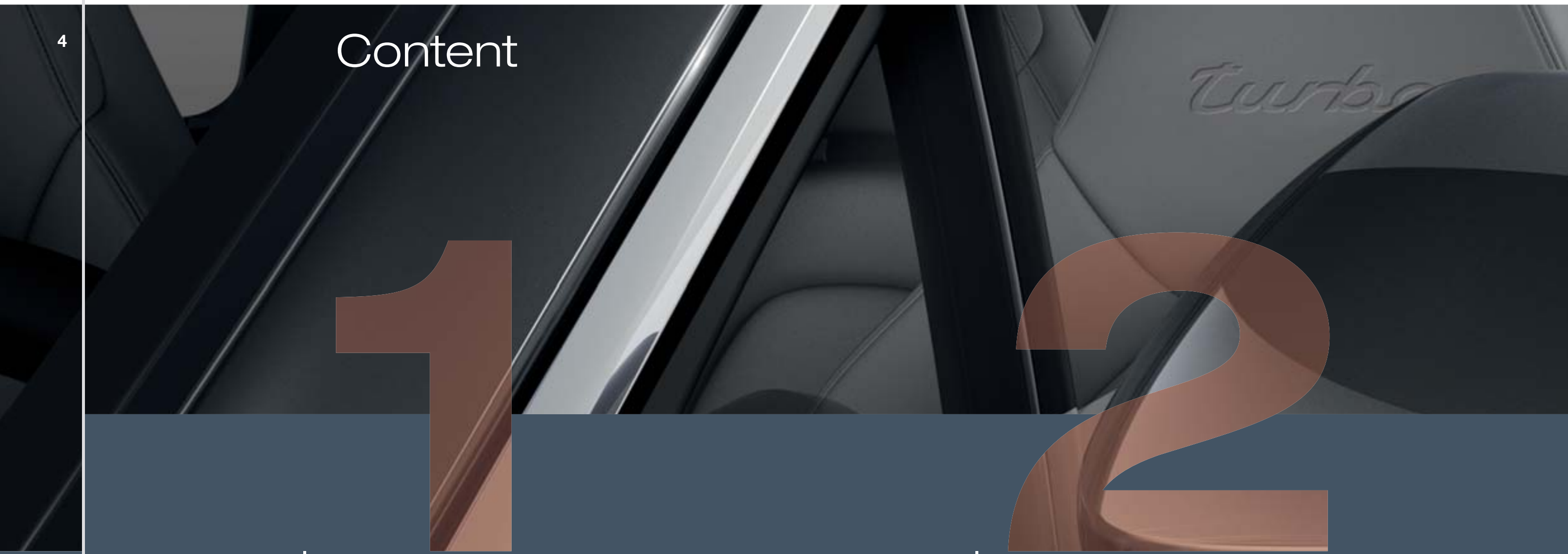
2016

2016

"Porsche SE has proven to be a
reliable financial holding company and
pursues a dividend policy
that is geared to sustainability."

Hans Dieter Pötsch

Content



Porsche Panamera Turbo

1

To our shareholders


turbo
Front
Heck
PORSCHE
Höhen
Tiefen

1

To our shareholders

1

Letter to our shareholders

Dear shareholders,

Almost ten years ago Porsche SE was founded in November 2007 as part of a change in legal form. This has been a period of positive development, despite all the highs and lows. I would like to highlight four central aspects: Porsche SE holds the majority of the ordinary shares in Volkswagen AG and is a stable anchor shareholder for Europe’s largest automotive group. It certainly made sense to contribute Porsche AG to the Volkswagen Group; under the Volkswagen umbrella, the sports car manufacturer has continued to develop both dynamically and successfully. Porsche SE itself has proven to be a reliable financial holding company and pursues a dividend policy that is geared to sustainability. Furthermore, our company has so far been able to successfully defend itself against all accusations of alleged market manipulation lodged by the Stuttgart public prosecutor in connection with the expansion of the investment in Volkswagen AG. Where rulings have been made in this regard in civil lawsuits, these have also been fended off.

2016 marked a return to profit for Porsche SE. Group profit for the year stands at 1.37 billion euro. This includes the profit from the investments accounted for at equity of 1.45 billion euro, with Volkswagen contributing 1.47 billion euro. As of 31 December 2016, the equity of the Porsche SE Group increased to a total of 27.89 billion euro. Net liquidity amounted to 1.30 billion euro at the end of the past fiscal year.

We also continued our search for suitable investment targets in 2016 as we continue to pursue our goal to establish Porsche SE as a financial investor and preferred investment partner in the market. By having a well-balanced risk profile, we wish to generate a sustainable increase in value for our shareholders. With this in mind, we have continued to look hard at which technical possibilities and business models could play a role for the mobility of the future. This has seen us evaluate several companies and further expand our network.

On the legal side, we were very successful on the whole in the past year: In December 2016, the Federal Court of Justice dismissed the appeal filed by our legal opponents against the refusal to appeal on points of law in a lawsuit originally amounting to 1.3 billion euro. After having several

Hans Dieter Pötsch
Chairman of the executive board

actions with lower claims for damages ruled in our favor in prior years, this was the first time that we were able to successfully defend ourselves against an action involving billions of euro. Furthermore, after several months of intensively collecting evidence, the Regional Court of Stuttgart cleared the former members of the executive board of Porsche SE of all allegations of information-based manipulation made against them and dismissed the motion for imposing a fine against Porsche SE. Overall, there are currently still seven civil lawsuits pending against Porsche SE due to alleged market manipulation. Porsche SE is also faced with lawsuits from investors in connection with the diesel issue. We continue to regard all allegations to be without merit and will defend ourselves with all the legal means at our disposal.

Over the past few years, we have always highlighted that Porsche SE's dividend policy is geared to sustainability. And we will continue to abide by this principle. The executive board and supervisory board of Porsche SE therefore propose a dividend of 1.01 euro per preference share for the fiscal year 2016. Holders of ordinary shares will receive 1.004 euro per share. We will present the proposed dividend for decision to the annual general meeting on 30 May 2017 in Stuttgart.

Based on the current group structure, Porsche SE expects a group profit for the year of between 2.1 billion euro and 3.1 billion euro for the fiscal year 2017. This forecast is based in particular on the Volkswagen Group's expectations regarding its future development and the uncertainty that continues to surround possible special effects in connection with the diesel issue. Porsche SE aims to achieve a positive net liquidity. This is expected to be between 1.0 billion euro and 1.5 billion euro as of 31 December 2017, not taking future investments into account.

We are convinced that Porsche SE will continue to develop positively in the future. And we will continue to count on your trust and support in the fiscal year 2017.

Hans Dieter Pötsch

Company boards of Porsche Automobil Holding SE and their appointments

Members of the supervisory board

Dr. Wolfgang Porsche
Diplomkaufmann
Chairman

Appointments:
- ● Dr. Ing. h.c. F. Porsche AG, Stuttgart (chairman)
- ● Volkswagen AG, Wolfsburg
- ● AUDI AG, Ingolstadt
- o Porsche Holding Gesellschaft m.b.H., Salzburg
- o Familie Porsche AG Beteiligungsgesellschaft, Salzburg (chairman)
- o Porsche Cars Great Britain Ltd., Reading
- o Porsche Cars North America Inc., Wilmington
- o Porsche Ibérica S.A., Madrid
- o Porsche Italia S.p.A., Padua
- o Schmittenhöhebahn Aktiengesellschaft, Zell am See

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

Appointments:
- ● Dr. Ing. h.c. F. Porsche AG, Stuttgart (deputy chairman)
- ● Volkswagen AG, Wolfsburg

* Employee representative

As of 31 December 2016; we refer to the explanations of the future composition of the supervisory board in note [26].

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

Berthold Huber*
President IndustriALL Global Union
(until October 2016)

Appointments:
● AUDI AG, Ingolstadt (deputy chairman)

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

Appointments:
● Deutsche Telekom AG, Bonn (chairman)
● E.ON SE, Düsseldorf (deputy chairman)
● thyssenkrupp AG, Essen (chairman)
o Henkel AG & Co. KGaA, Düsseldorf

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

Appointments:
● Volkswagen AG, Wolfsburg
● AUDI AG, Ingolstadt
● Audi Pensionskasse-Altersversorgung der AUTO UNION GmbH, VVaG, Ingolstadt

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

Appointments:
● Autostadt GmbH, Wolfsburg
● Volkswagen AG, Wolfsburg
● Wolfsburg AG, Wolfsburg
o Porsche Holding Gesellschaft m.b.H., Salzburg
o Allianz für die Region GmbH, Braunschweig
o VfL Wolfsburg-Fußball GmbH, Wolfsburg
o Volkswagen Immobilien GmbH, Wolfsburg
o Volkswagen Truck & Bus GmbH, Braunschweig
o SEAT, S.A., Martorell
o ŠKODA Auto a.s., Mladá Boleslav

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

Dr. Hans Michel Piëch
Attorney at law

Appointments:
- ● Dr. Ing. h.c. F. Porsche AG, Stuttgart
- ● Volkswagen AG, Wolfsburg
- ● AUDI AG, Ingolstadt
- o Porsche Holding Gesellschaft m.b.H., Salzburg
- o Porsche Cars Great Britain Ltd., Reading
- o Porsche Cars North America Inc., Wilmington
- o Porsche Ibérica S.A., Madrid
- o Porsche Italia S.p.A., Padua
- o Volksoper Wien GmbH, Vienna
- o Schmittenhöhebahn Aktiengesellschaft, Zell am See

Hans-Peter Porsche
Engineer

Appointments:
- ● Dr. Ing. h.c. F. Porsche AG, Stuttgart
- o FAP Beteiligungen AG, Salzburg (chairman)
- o Familie Porsche AG Beteiligungsgesellschaft, Salzburg (deputy chairman)
- o Porsche Holding Gesellschaft m.b.H., Salzburg

Dr. Ferdinand Oliver Porsche
Investment management

Appointments:
- ● Dr. Ing. h.c. F. Porsche AG, Stuttgart
- ● Volkswagen AG, Wolfsburg
- ● AUDI AG, Ingolstadt
- o Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg
- o Porsche Holding Gesellschaft m.b.H., Salzburg
- o PGA S.A., Paris
- o Volkswagen Truck & Bus GmbH, Braunschweig

Hansjörg Schmierer*
Managing director of IG Metall, Stuttgart

Appointments:
- ● Dr. Ing. h.c. F. Porsche AG, Stuttgart

* Employee representative

As of 31 December 2016; we refer to the explanations of the future composition of the supervisory board in note [26].

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

Werner Weresch*
Member of the SE works council
of Porsche Automobil Holding SE
Member of the group works council and
member of the general works council
of Dr. Ing. h.c. F. Porsche AG
Deputy chairman of the works council
Zuffenhausen / Ludwigsburg / Sachsenheim
Head of shop stewards' committee

Appointments:
- Dr. Ing. h.c. F. Porsche AG, Stuttgart

List of all current committees of the supervisory board of Porsche Automobil Holding SE and their members

Executive committee:
- Dr. Wolfgang Porsche (chairman)
- Uwe Hück (deputy chairman)
- Bernd Osterloh
- Dr. Hans Michel Piëch

Audit committee:
- Prof. Dr. Ulrich Lehner (chairman)
- Uwe Hück (deputy chairman)
- Bernd Osterloh
- Dr. Ferdinand Oliver Porsche

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

Investment committee:
- Dr. Wolfgang Porsche (chairman)
- Uwe Hück (deputy chairman)
- Prof. Dr. Ferdinand K. Piëch
- Bernd Osterloh

Members of the executive board

Hans Dieter Pötsch

Chairman of the executive board
of Porsche Automobil Holding SE
Chief Financial Officer
of Porsche Automobil Holding SE

Chairman of the supervisory board
of Volkswagen AG

Appointments:
- Volkswagen AG, Wolfsburg (chairman)
- Dr. Ing. h.c. F. Porsche AG, Stuttgart
- AUDI AG, Ingolstadt
- Autostadt GmbH, Wolfsburg (chairman)
- Bertelsmann SE & Co. KGaA, Gütersloh
- Bertelsmann Management SE, Gütersloh
- o Porsche Holding Gesellschaft m.b.H., Salzburg (chairman)
- o Porsche Austria Gesellschaft m.b.H., Salzburg (chairman)
- o Porsche Retail GmbH, Salzburg (chairman)
- o Volkswagen Truck & Bus GmbH, Braunschweig
- o VfL Wolfsburg-Fußball GmbH, Wolfsburg (deputy chairman)

Dr. Manfred Döss

Legal affairs and compliance
Member of the executive board
of Porsche Automobil Holding SE

Matthias Müller

Strategy and corporate development
Member of the executive board
of Porsche Automobil Holding SE

Chairman of the board of management
of Volkswagen AG

Appointments:
- ● AUDI AG, Ingolstadt (chairman)
- ● Dr. Ing. h.c. F. Porsche AG, Stuttgart
- o Volkswagen Truck & Bus GmbH, Braunschweig (chairman)
- o ŠKODA Auto a.s., Mladá Boleslav
- o Volkswagen (China) Investment Company Ltd., Beijing (chairman)

Philipp von Hagen

Investment management
Member of the executive board
of Porsche Automobil Holding SE

Appointments:
- o INRIX Inc., Kirkland, Washington

As of 31 December 2016

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

Dr. Manfred Döss
Legal affairs and compliance
Member of the executive board

Matthias Müller
Strategy and
corporate development
Member of the executive board

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

Philipp von Hagen
Investment management
Member of the executive board

Report of the supervisory board

Ladies and gentlemen,

Porsche SE sees itself as an anchor investor in Volkswagen AG that has a long-term mindset and acts strategically. In terms of strategy and operations, our core investment developed positively in the fiscal year 2016. Volkswagen Group was able to push ahead with the strategic realignment of the company and also to increase its deliveries to 10.3 million vehicles. We remain convinced that the Volkswagen Group with its twelve brands has significant upside potential. Ongoing measures to overcome the diesel issue within the Volkswagen Group provide the foundation for focusing the Volkswagen Group’s efforts on realizing this potential.

Porsche SE again achieved further important stage victories in the fiscal year 2016 with regard to the claims for damages filed against it by a number of hedge funds. The complaint against the refusal of leave to appeal filed by a number of hedge funds, whose claims for damages originally involving a total claim of more than €1.3 billion had been dismissed by the Regional Court of Stuttgart as well as the Higher Regional Court of Stuttgart, was dismissed by the Federal Court of Justice by decision dated 15 November 2016. The decision in favor of Porsche SE is final. This was the first time that a claim for billions lodged against Porsche SE had been conclusively dismissed.

In the criminal proceedings too, Porsche SE’s legal opinion was proven correct: On 18 March 2016, the Regional Court of Stuttgart found the former members of the executive board of Porsche SE not guilty concerning market manipulation and dismissed the motion for imposing a fine against Porsche SE. The decision become final in the meantime. The charges brought against a former employee of Porsche SE were withdrawn by the public prosecutor's office.

In the wake of the diesel issue, claims for damages were also asserted against Porsche SE itself. Over the course of the fiscal year 2016, claims for damages were filed with the Regional Court of Stuttgart and with the Regional Court of Braunschweig with a total claim amount of around €900 million. The claims are based on alleged unlawful omission of an ad hoc announcement by Porsche SE in connection with the diesel issue within the Volkswagen Group. Porsche SE considers these claims to be without merit.

Dr. Wolfgang Porsche
Chairman of the supervisory board

Throughout the fiscal year the supervisory board was occupied with the economic situation and the net assets, financial position and results of operations of Porsche SE and its affiliated companies pursuant to Sec. 15 AktG and carried out the advisory and control functions for which it is responsible by law and according to the company's articles of association.

During the fiscal year, the supervisory board held four ordinary and two extraordinary meetings. In addition to this, individual resolutions were passed by as circular resolutions. Supervisory board members who were absent from meetings participated in some resolutions through written votes.

Cooperation between the supervisory board and the executive board

Within the framework of its advisory and control responsibilities the supervisory board was kept informed about company performance during the fiscal year by means of written reports by the executive board as well as verbally in meetings. Reporting focused in particular on Porsche SE's economic position, business results, business policy and the development of net assets, financial position and results of operations as well as the status of the various legal disputes. The supervisory board examined the significant planning and annual financial statement documents submitted to it and satisfied itself as to their accuracy and appropriateness. It examined and discussed all reports and documents made available to it in appropriate detail and inquired about them in a critical manner. In addition, the chairman of the supervisory board was in continuous contact with the executive board throughout the reporting period.

The supervisory board examined fundamental issues of corporate planning, in particular financial, investment and human resources planning. After thorough examination, it agreed to all matters submitted to it by the executive board for resolution or approval as required by the co-determination agreement, the articles of association or the rules of procedure of the executive board. The matters addressed by the supervisory board as a whole included the voting behavior of the company at the annual general meeting of Volkswagen AG in connection with the exoneration of the members of management for the fiscal year 2015 and the election of four members of the supervisory board of Volkswagen AG.

The supervisory board ensured that the executive board carried out its business according to the regulations. Supervision also encompassed appropriate measures for risk prevention and compliance. The supervisory board also ensured that the executive board carried out the measures for which it is responsible in accordance with Sec. 91 (2) German Stock Corporation Act (AktG) in an appropriate form and that the risk monitoring system the act requires is functioning effectively.

Main focus of supervisory and advisory activity of the supervisory board in the fiscal year 2016
On account of the postponement of the authorization for issue of the separate and consolidated financial statements due to the diesel issue within the Volkswagen Group, the first ordinary meeting for the fiscal year was held on 25 April 2016. In March 2016, a resolution was passed by circulation on the required update of the declaration on the German Corporate Governance Code pursuant to Sec. 161 (1) AktG.

At the first ordinary meeting for the fiscal year, the supervisory board focused in particular on the separate and consolidated financial statements as well as the combined management report for the fiscal year 2015 and obtained information on the diesel issue in the Volkswagen Group. Moreover, the executive board reported on the status of the pending claims for damages in Germany as well as on the criminal proceedings in connection with allegations of information-based market manipulation made against former members of Porsche SE's executive board, which came to an end on 18 March 2016 by means of acquittal. Finally, the supervisory board focused on the declaration of compliance under the German Corporate Governance Code.

In the extraordinary meeting on 13 May 2016, the proposals for resolutions to be made at the annual general meeting of Porsche SE on 29 June 2016 were the main points on the agenda.

The next extraordinary meeting was held on 6 June 2016, at which the supervisory board focused on the annual general meeting of Volkswagen AG on 22 June 2016.

At its second ordinary meeting on 28 June 2016, the supervisory board focused on the company's annual general meeting the following day. The supervisory board also focused on the development of the diesel issue within the Volkswagen Group and the status of the pending claims for damages in Germany as well as proceedings for annulment and compulsory information procedures in connection with the company's annual general meeting. Discussions mainly concerned the Federal Court of Justice dismissing the complaint against the refusal of leave to appeal and therefore the ruling made by the Higher Regional Court of Stuttgart on 8 July 2015 in favor of Porsche SE regarding the resolutions of the annual general meeting on 30 April 2013 being final. The supervisory board also focused on the order of reference issued by the Regional Court of Hanover pursuant to the German Act on Model Case Proceedings in Disputes Regarding Capital Market Information (Kapitalanleger-Musterverfahrensgesetz) referring in total 83 of the establishment objectives asserted by the plaintiffs to the Higher Regional Court of Celle in connection with alleged market manipulation and alleged inaccurate information of the capital market in connection with the acquisition of the investment in Volkswagen AG. At its second ordinary meeting on 28 June 2016, the supervisory board also resolved to amend the rules of procedure for the company's executive board.

At its third ordinary meeting on 26 September 2016, the supervisory board discussed the company's business situation and the status of the legal proceedings and court cases. This focused on the claims pending at the Regional Court of Stuttgart and at the Regional Court of Braunschweig on alleged unlawful omission of an ad hoc announcement in connection with the diesel issue. Around 161 claims for damages of around €900 million have been filed. The company considers the claims to be without merit and some to be also inadmissible.

At the fourth ordinary meeting of the supervisory board held on 23 November 2016, the board looked at the corporate planning for the years 2017 to 2019, the status of the pending claims for damages in Germany against Porsche SE and corporate governance.

Efficient work of the supervisory board committees

To carry out its duties, the supervisory board formed a total of four committees during the period covered by this report. These are the executive committee, the audit committee, the nominations committee and the investment committee.

The committees support the supervisory board and prepare supervisory board resolutions as well as topics for discussion by the full supervisory board. Moreover, the decision-making authority of the supervisory board has been transferred to individual committees to the extent permitted by law.

Executive committee

The executive committee decides in urgent cases on business matters requiring the approval of the supervisory board as well as on concluding, amending and terminating contracts of employment for members of the executive board where specification of remuneration or its reduction is not affected. 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 executive board, insofar as such is agreed with Porsche SE. This proposal is submitted to the supervisory board of Porsche SE for decision.

The executive committee comprises the chairman of the supervisory board, his deputy and a shareholder representative and employee representative elected from the supervisory board. In addition to the supervisory board chairman Dr. Wolfgang Porsche and his deputy Mr. Uwe Hück, the members of the executive committee are Dr. Hans Michel Piëch as shareholder representative and Mr. Bernd Osterloh as employee representative. The executive committee met four times in the fiscal year 2016, in each case immediately before the ordinary supervisory board meetings. At these meetings, in addition to personnel matters of the executive board, the respective agenda items of the subsequent supervisory board meeting were addressed. The full supervisory board was regularly informed of the work of the executive committee. The mediation committee did not have to be convened.

Audit committee

The audit committee supports the supervisory board in monitoring management of the company and pays particular attention to monitoring accounting processes, the effectiveness of the internal control system, the risk management system and the internal audit system, the audit of the financial statements, in particular the independence of the auditor and the additional services rendered by the auditor, the issuing of the audit mandate to the auditor, the determination of key audit topics and the fee agreement as well as compliance.

The audit committee has four members: Prof. Dr. Ulrich Lehner (chairman) and Mr. Uwe Hück, Mr. Bernd Osterloh and Dr. Ferdinand Oliver Porsche. The audit committee met four times in the fiscal year 2016 and reported to the full supervisory board regularly on its work.

At its meeting on 25 April 2016, the audit committee examined the main points of the separate and consolidated financial statements for the fiscal year 2015 and the combined management report and the executive board's proposal for profit appropriation. The audit committee also examined the current risk report as well as the report on the company's tax matters and dealt with the internal control system as part of operational risk management, the status of new European and national audit regulations, the status of internal audit and the recommendation for the election of the auditor for the fiscal year 2016. In addition, the audit committee heard a report on the status of legal proceedings and court cases. At the next meeting on 1 June 2016, the audit committee primarily dealt with the group quarterly statement for the first quarter of 2016, the current risk report and the report on the company's tax matters (tax report) for the first quarter. In addition, the audit committee heard a report on the status of the internal audit and of the legal proceedings and court cases. The meeting of 29 July 2016 focused on the 2016 interim report, the current risk report, the tax report for the second quarter as well as the status of the legal disputes and court proceedings. Furthermore, the audit committee decided on the key audit topics of the independent audit of the 2016 financial statements. At its final meeting of the fiscal year 2016 on 9 November 2016, the audit committee addressed topics including the group quarterly statement for the third quarter of 2016, the current risk report, the tax report for the third quarter and the company's accounting organization. The full supervisory board was informed of the work of the audit committee at the next meeting.

Nominations committee
The nominations committee makes recommendations for the supervisory board's proposals to the annual general meeting concerning the election of supervisory board members representing shareholders. The nominations committee is made up of the chairman of the supervisory board, Dr. Wolfgang Porsche, who is also chair of the nominations committee, and three further shareholder representatives: Prof. Dr. Ferdinand K. Piëch, Dr. Hans Michel Piëch and Dr. Ferdinand Oliver Porsche. The nominations committee did not meet in the fiscal year 2016.

Investment committee
The investment committee prepares resolutions of the supervisory board as well as addressing in plenary sessions topics which are required for or conducive to implementing the investment concept decided upon by the executive board and makes recommendations in this regard to the supervisory board. Members of the investment committee, which, however, did not meet in the fiscal year 2016, are, in addition to chairman of the supervisory board Dr. Wolfgang Porsche and his deputy Mr. Uwe Hück, Prof. Dr. Ferdinand K. Piëch as shareholder representative and Mr. Bernd Osterloh as employees' representative.

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Corporate governance
The supervisory board and executive board have repeatedly and intensively discussed the recommendations and suggestions of the German Corporate Governance Code, submitted the annual declaration of compliance in accordance with Sec. 161 AktG in May 2016 and made it permanently accessible to shareholders on the website www.porsche-se.com. Furthermore, the executive board and supervisory board updated the declaration of compliance in March 2016. The current declaration of compliance is reproduced in full in the corporate governance report published in conjunction with the declaration of compliance on the company's website.

In line with the provisions of the German Corporate Governance Code, the supervisory board regularly reviews the efficiency of its activities through self-evaluation.

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 (i.e., all members of the supervisory board except Prof. Dr. Ulrich Lehner) 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 could not be excluded with full certainty, the particular conflict of interest was reported to the supervisory board. In the past fiscal year, this related to the resolution on the voting 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 2015, the shareholder representatives, who are or were also members of the supervisory board of Volkswagen AG, i.e., Dr. Wolfgang Porsche, Prof. Dr. Ferdinand K. Piëch, Dr. Hans Michel Piëch and Dr. Ferdinand Oliver Porsche, abstained from voting in connection with the resolution on voting behavior regarding their own exoneration.

Audit of the separate financial statements and consolidated financial statements for the fiscal year 2016
The separate financial statements and the consolidated financial statements authorized for issue by the executive board of Porsche SE for the fiscal year 2016 were examined together with the bookkeeping system and the combined management report by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The auditor raised no objections and in keeping with this issued unqualified audit opinions. The auditor included the following notes in the audit opinion on the consolidated financial statements for the fiscal year 2016:

"Without qualifying this opinion, in the following we make reference to a special matter that came to our attention during the audit:

As explained by the executive board in the sections "Significant events and developments at the Porsche SE Group", "Significant events and developments at the Volkswagen Group" and "Opportunities and risks of future development" in the combined management report, Porsche Automobil Holding SE, Stuttgart, as the majority shareholder of Volkswagen AG, Wolfsburg, continued to be influenced in the fiscal year 2016 mainly through the profit/loss from investments accounted for at equity by negative special items in connection with the diesel issue that became known at Volkswagen AG in September 2015 and the development of the proportional market capitalization of the preference and ordinary shares.

Negative special items totaling €6.4 billion recognized in Volkswagen AG's operating profit in the consolidated financial statements in the fiscal year 2016 primarily due to legal risks in connection with the diesel issue are based on the information presented. The provisions recognized at the level of the Volkswagen Group for this matter and the contingent liabilities disclosed as well as the other latent legal risks are in some cases subject to substantial estimation risks given the complexity of the individual factors, the ongoing consultations with the authorities and the fact that the independent, comprehensive investigations have not yet been completed.

With regard to the investment in Volkswagen AG, the executive board of Porsche Automobil Holding SE currently sees an increased risk that the diesel issue will continue to have a negative impact on the proportionate profit/loss attributable to it and the uncertainties associated therewith. Such uncertainties relate to the appropriateness of the provisions recognized in the consolidated financial statements of Volkswagen AG or the effects of the diesel issue on the operating business and/or the financing costs of the Volkswagen Group which exceed the extent assumed in the planning. As the impairment test of the investment in Volkswagen AG is based on the current planning of the Volkswagen Group, unexpected additional burdens could also give rise to an impairment loss for the investment in Volkswagen AG.

Legal risks from claims brought against Porsche Automobil Holding SE stemming from this issue can likewise have an effect on Porsche SE's results of operations, financial position and net assets."

The profit/loss before tax of the Porsche SE Group came to €1,382 million in the fiscal year 2016. Profit after tax totaled €1,374 million. The separate financial statements of Porsche SE report a net loss for the year of €70 million, a withdrawal from retained earnings of €378 million and a net profit available for distribution of €308 million.

The key topics of the audit of financial statements set by the supervisory board in consultation with the audit committee were the measurement of the provisions for legal risks of Porsche SE and the presentation of these risks in the notes to the separate and consolidated financial statements as well as the effects of the diesel issue on the carrying amount of the equity/investment of Volkswagen AG at Porsche SE.

In accordance with Sec. 313 AktG, the executive board's dependent company report (Sec. 312 AktG) was also examined in the annual audit.

On the basis of the findings obtained through their examination, the auditor came to the conclusion that the consolidated financial statements met the requirements of the IFRSs as they apply in the EU and the commercial law applicable under Sec. 315a (1) German Commercial Code (HGB), and that the separate financial statements comply with the legal requirements. In the context of the aforementioned regulations, the financial statements give a true and fair view of the group's or company's net assets, financial position and results of operations. The auditor also determined that the combined management report of the company and the group is consistent with the separate financial statements or consolidated financial statements and as a whole provides a suitable view of the position of the company and group and suitably presents the opportunities and risks of future development. In the auditor's opinion, the early warning system for detecting risk at the level of Porsche SE satisfies the statutory requirements of Sec. 91 (2) AktG.

The separate financial statements of Porsche SE, the consolidated financial statements and combined management report of the company and the group, which have been issued with an unqualified audit opinion by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as well as the audit reports of the auditor and the proposal of the executive board on appropriation of the net profit available for distribution were submitted to the supervisory board for review.

At is meeting on 9 March 2017, the audit committee examined the separate financial statements, the consolidated financial statements and the combined management report and discussed significant topics with the auditor, in particular the measurement of the provisions for legal risks of Porsche Automobil Holding SE and the presentation of these risks in the notes to the separate and consolidated financial statements, the effects of the diesel issue on the carrying amount of the equity/investment of Volkswagen AG, the accounting of the investment in INRIX as well as the note of the auditor presented in the audit opinion. In particular, the audit committee dealt with the impairment test for the investment in Volkswagen AG performed by the executive board, including the sensitivity analyses performed and the impairment loss performed for the investment in INRIX. In doing so, the audit committee examined the appropriateness of accounting and whether in preparing the separate financial statements and the consolidated financial statements and the combined management report the legal requirements had been fulfilled, and whether the material presented gives a true and fair view of the company's and group's net assets, financial position and results of operations. Representatives of the auditor attended the meeting of the audit committee when the relevant agenda item was addressed and reported on the significant results of their examination of the separate financial statements and the consolidated financial statements. The representatives of the auditor explained the net assets, financial position and results of operations of Porsche SE and were available to the committee to provide additional information, in particular on the emphasis of the note included in the audit opinion. In addition, at its meeting on 9 March 2017 the audit committee discussed the executive board's proposal for the appropriation of net profit available for distribution.

The audit committee resolved to recommend to the supervisory board to approve the separate financial statements and the consolidated financial statements and to adopt the executive board's proposal for the appropriation of net profit available for distribution. In addition, the declaration of independence of the auditor was obtained in accordance with No. 7.2.1 of the German Corporate Governance Code. The audit committee then resolved to propose to the supervisory board that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, be recommended to the annual general meeting on 30 May 2017 for election as auditor.

At its meeting on 10 March 2017, the supervisory board closely examined and discussed the documents provided to it in accordance with Article 9 (1) lit. c (ii) SE-VO and Sec. 170 (1) and (2) AktG as well as the audit reports of the auditor. In connection with this, the chairman of the audit committee gave a detailed report on the discussion of the separate financial statements, the consolidated financial statements, and the combined management report in the audit committee. The supervisory board's review related in particular to the measurement of the provisions for legal risks of Porsche Automobil Holding SE and the presentation of these risks in the notes to the separate and consolidated financial statements, the effects of the diesel issue on the carrying amount of the equity/investment of Volkswagen AG, the accounting of the investment in INRIX and the note made in the audit opinion. In particular, the supervisory board dealt with the impairment test for the investment in Volkswagen performed by the executive board, including the sensitivity analyses performed and the impairment loss performed for the investment in INRIX. Representatives of the auditor attended the meeting of the supervisory board when the relevant agenda item was addressed and reported on the significant results of their examination of the separate financial statements and the consolidated financial statements. In particular, the representatives of the auditor explained the net assets, financial position and results of operations of Porsche SE and of the group, and were available to the supervisory board to provide additional information, in particular on the emphasis of the note included in the audit opinion.

The supervisory board approved the results of the audit by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. As the final result of its own review, the supervisory board determined that there are no grounds for objection. In compliance with the audit committee’s recommendation, the supervisory board approved the separate financial statements and consolidated financial statements for the fiscal year 2016. The separate financial statements are thus formally approved. The supervisory board declared its agreement with the combined management report. After examining it, the supervisory board endorsed the suggestion of the executive board for the appropriation of net profit available for distribution.

Pursuant to Article 9 (1) lit. c (ii) SE-VO and Sec. 312 AktG, the executive board has prepared a report on related companies (dependent company report) for the fiscal year 2016. The auditors have audited the dependent company report and have rendered the following audit opinion:

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

(1) the 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.”

Together with the auditor’s report, the dependent company report was submitted to the supervisory board in a timely manner. Both reports were thoroughly discussed at the meetings of the audit committee on 9 March 2017 and the supervisory board on 10 March 2017, and in particular checked for their accuracy and completeness. Representatives of the auditor participated in these meetings and reported on the significant results of their audit of the dependent company report and were available to the audit committee or the supervisory board to provide additional information. The supervisory board concurred with the result of the auditor’s audit 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 executive board in the dependent company report.

Composition of the executive board and supervisory board
The supervisory board of Porsche SE appointed Dr. Manfred Döss as member of the executive board of Porsche SE, effective as of 1 January 2016. He is responsible for the newly created legal affairs and compliance business area.

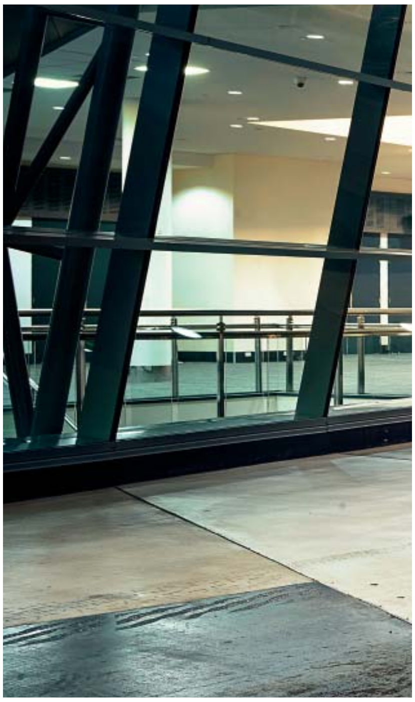
By agreement dated 1 February 2017, Porsche SE and the SE works council agreed that co-determination at Porsche SE be suspended following the end of the 2017 annual general meeting and the supervisory board of Porsche SE shall comprise six shareholder representatives from this point on.

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

Stuttgart, 10 March 2017

Supervisory board
Dr. Wolfgang Porsche
Chairman

Corporate governance report



Responsible, transparent and efficient corporate governance and control is an integral part of corporate culture at Porsche Automobil Holding SE.

Declaration of compliance required by Sec. 289a and Sec. 315 (5) German Commercial Code (HGB)
You can find the declaration of compliance required by Sec. 289a and Sec. 315 (5) HGB on our website at www.porsche-se.com/en/company/corporate-governance/declaration.

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

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

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

Corporate governance takes into consideration conflicts of interest that can exist, among other things, in the event of membership of two governing bodies (one at Porsche SE and one at Volkswagen AG) and addresses these in the interest of Porsche SE. For example, a member of the executive board who is also a member of the Volkswagen AG board of management does, in principle, not participate in any resolutions concerning issues relating to Volkswagen AG where there is a conflict of interest.

In accordance with the provisions of the German Corporate Governance Code, the executive board ensures compliance with legal provisions and internal policies, and works toward ensuring they are observed (compliance). Porsche SE has a dedicated legal affairs and compliance executive board function. The task of Porsche SE's member of the executive board responsible for legal affairs and compliance is to report to the whole executive board on all questions relating to compliance, to introduce preventive measures, manage these and monitor compliance with regulations.

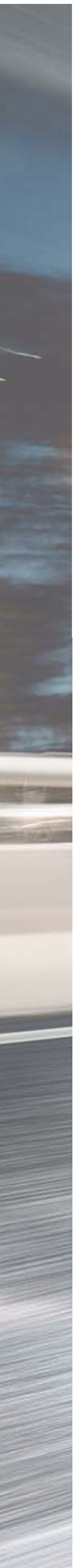
Compliance activities are based on a preventive, proactive strategy.

Monitoring of management by the supervisory board

The supervisory board appoints the members of the executive board and advises and monitors the executive board in its management of the company on a regular basis. The fundamental independence of the supervisory board in controlling the executive board is already structurally guaranteed through the fact that a member of the supervisory board may not simultaneously belong to the executive board and that both boards, including the powers assigned to them, are strictly separated from each other.

In the reporting period, the supervisory board consisted of twelve male members and shareholder and employee representatives were equally represented on the supervisory board.

The size and composition of the supervisory board are determined according to the European SE provisions and a co-determination agreement entered into with representatives of the European Porsche employees in 2007 and last amended by agreement dated 1 February 2017, which defines the competencies of the employees, as well as the relevant rulings in the articles of association. According to the agreement dated 1 February 2017, the supervisory board of Porsche SE will in the future comprise six shareholder representatives;

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co-determination of the employee representatives in the supervisory board of Porsche SE has been suspended. Due to the change in the composition of the supervisory board, Porsche SE initiated status proceedings pursuant to Sec. 97 AktG on 6 February 2017. As a consequence of the status proceedings the terms of office of all serving members of the supervisory board of Porsche SE pursuant to Sec. 97 (2) Sentence 3 AktG end at the close of the 2017 annual general meeting. The 2017 annual general meeting must therefore elect new members of the supervisory board (six shareholder representatives).

No supervisory board elections have taken place since Sec. 17 (2) SEAG came into force on the minimum percentage of women and men on the supervisory board of a listed SE with the same number of shareholder and employee representatives. Existing appointments can be continued until the end stipulated by the relevant legal provisions. As the supervisory board is no longer made up of the same number of shareholder and employee representatives following conclusion of the agreement to suspend co-determination, there will in the future be no legally prescribed minimum percentage of men and women on the supervisory board.

Sec. 111 (5) Sentence 1 AktG requires that the supervisory board of a listed company sets a target figure for the percentage of women on the supervisory board if no statutory quota applies. Accordingly, the supervisory board to be elected at the 2017 annual general meeting will set a target figure for the percentage of women on the supervisory board.

The supervisory board makes decisions on the basis of a simple majority of the members of the supervisory board who participate in the vote. In the case of a tied vote, the supervisory board chairman casts a deciding vote.

To carry out its duties, during the period covered by this report the supervisory board formed a total of four committees which effectively supported and continue to support the work of the full supervisory board. These are the executive committee, the audit committee, the nominations committee and the investment committee.

The executive committee functions as a personnel committee and makes decisions on matters which require approval in urgent cases. The audit committee supports the supervisory board in monitoring management of the company and pays particular attention to monitoring accounting processes, the effectiveness of the internal control system, the risk management system and internal audit, the audit of the financial statements, including the independence of the auditor and the additional services rendered by the auditor, the issuing of the audit mandate to the auditor, the determination of key audit topics and the fee agreement as well as compliance. The nominations committee makes recommendations to the supervisory board for the supervisory board’s proposals to the annual general meeting concerning the election of supervisory board members. The investment committee prepares resolutions of the supervisory board as well as topics to be dealt with in plenary sessions which are required for or conducive to implementing the investment concept decided upon by the executive board and gives recommendations in this regard to the supervisory board.

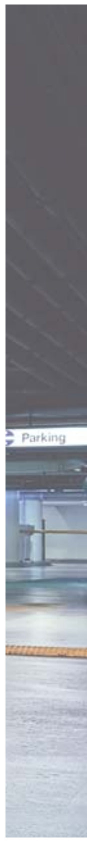
Shareholders’ rights

Porsche SE’s share capital is equally divided into ordinary shares and non-voting preference shares. To the extent provided for in the articles of association, the shareholders exercise their rights before or during the annual general meeting, and, should they hold ordinary shares, exercise their voting right. When passing resolutions, each ordinary share of Porsche SE carries one vote. There are no shares with multiple or preferential voting rights, nor are there maximum voting rights. Every shareholder is entitled to take part in the annual general meeting, to express an opinion on items on the agenda, to table motions and to demand information about company matters if this is needed to properly judge an item on the agenda.

The annual general meeting decides on the appropriation of profits as well as the exoneration of the executive board and supervisory board and elects the members of the supervisory board and the auditor. The annual general meeting also decides on the articles of association and purpose of the company, on amendments to the articles of association and on key corporate measures, such as intercompany agreements in particular.

Financial reporting and annual audit

The Porsche SE Group’s financial reporting is based on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union, as well as the provisions



of German commercial law applicable under Sec. 315a (1) HGB. The separate financial statements of Porsche SE as parent company of the Porsche SE Group are based on the accounting provisions of the German Commercial Code. Both sets of financial statements are audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as independent auditor. In addition, the underlying facts of the compliance declaration in accordance with Sec. 161 (1) AktG are taken into consideration during the annual audit.

Risk management
The Porsche SE Group has a group-wide risk management system which helps management recognize major risks at an early stage, thus enabling them to initiate countermeasures in good time. The risk management system at the Porsche SE Group is continuously tested for efficiency and continually optimized to reflect changed conditions.

For details, please refer to pages 140 et seq. of the annual report.

Communication and transparency
Porsche SE attaches great importance to transparent communication and regularly keeps shareholders, financial analysts, shareholder associations, the media and the general public informed about the situation of the company and its business development. This information can be accessed, in particular, on the website

www.porsche-se.com

which contains all press releases and financial reports as well as the articles of association of Porsche SE and information about the annual general meeting.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Besides the regular reporting, Porsche SE announces in accordance with Art. 17 of the European Market Abuse Regulation insider information, i.e., information of a precise nature, relating directly or indirectly to Porsche SE or the Porsche SE preference share and which, if it were made public, would be likely to have a significant effect on the price of the Porsche SE preference share. These ad hoc announcements are also presented on the website of Porsche SE.

Managers' transactions
According to Art. 19 of the European Market Abuse Regulation, members of the executive board and supervisory board, other persons discharging managerial responsibilities as well as persons closely associated with them must disclose transactions on their own account in Porsche SE shares and related financial instruments. Porsche SE publishes such announcements about transactions of this kind, among other things, on the Porsche SE website.

Declaration on the German Corporate Governance Code

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

Text of the declaration of Porsche Automobil Holding SE in accordance with Sec. 161 (1) AktG in the version of May 2016:

The executive board and supervisory board of Porsche Automobil Holding SE declare in accordance with Sec. 161 (1) AktG that the company has generally complied and complies with the recommendations of the Government Commission on the German Corporate Governance Code (GCGC or Code) announced by the Federal Ministry of Justice in the official part of the German Federal Gazette. This declaration is made with reference to the respective valid version of the Code of 24 June 2014, published in the German Federal Gazette on 30 September 2014, and the version of 5 May 2015, published in the German Federal Gazette 12 June 2015. The following recommendations have not been not complied with since the most recent declaration of compliance in May 2015 or – with reference to Sec. 4.2.3 (2) Sentence 2 GCGC – since the declaration was updated in December 2015 as well as – with reference to Sec. 7.1.2 GCGC – since the declaration was updated in March 2016, and will not – with the exception of the recommendation in Sec. 7.1.2 GCGC – be complied with in the future:

The recommendation in Sec. 4.2.3 (2) Sentence 2 GCGC, according to which the monetary elements of the remuneration of executive board members should comprise both fixed and variable elements, has not been complied with regarding the chairman of the executive board Hans Dieter Pötsch since his contract of employment with Volkswagen AG was annulled in October 2015 in connection with his departure from its board of management and will not be complied with in the future. Mr. Pötsch receives only a fixed basic component from Porsche Automobil Holding SE. Mr. Pötsch no longer receives any variable remuneration calculated on a multi-year basis from Volkswagen AG; instead, as chairman of its supervisory board he receives, in accordance with Sec. 17 (1) of the articles of association of Volkswagen AG, annual variable remuneration, the amount of which depends on the dividend concluded by the annual general meeting of Volkswagen AG. In light of Mr. Pötsch's current role as chairman of the supervisory board of Volkswagen AG, the supervisory board of Porsche Automobil Holding SE considers the current structure of his remuneration without any further variable remuneration to be appropriate.

Dr. Döss, who has been a member of the executive board since 1 January 2016, also only receives fixed remuneration from Porsche Automobil Holding SE. In his additional role as head of the legal department of Volkswagen AG, he also receives fixed and variable remuneration based on a contract of employment with the company; this remuneration contains the usual components for management within the Volkswagen Group. Upon being appointed to the executive board, the supervisory board had not yet made a decision regarding his remuneration. The provisions of Sec. 4.2.3 (2) Sentence 2 GCGC, according to which the monetary elements of the remuneration

of executive board members should comprise fixed and variable elements, was therefore not formally complied with from 1 January 2016 onward. In accordance with the contractual agreement concluded between Volkswagen AG and Dr. Döss on 15 February 2016, Dr. Döss receives fixed and variable remuneration retrospectively for the time as of 1 January 2016; the provisions of Sec. 4.2.3 (2) Sentence 2 GCGC are thus since complied with.

The recommendation in Sec. 4.2.3 (2) Sentence 6 GCGC, according to which the executive board remuneration should be capped, both overall and for the variable compensation components, has not been complied with since 1 January 2016 with regard to Dr. Döss and will also not be complied with in the future. The variable remuneration granted to Dr. Döss, which contains the usual components for management within the Volkswagen Group, is not capped for all components. The same therefore also applies for his compensation on the whole. Based on past experience with the amount of the variable remuneration granted to management within the Volkswagen Group, the supervisory board assumes that the remuneration granted to Dr. Döss is nevertheless appropriate and Dr. Döss is provided with a long-term incentive to act in the interest of the company through the variable remuneration granted to him by Volkswagen AG.

In addition, regarding executive board remuneration paid by Porsche Automobil Holding SE, the recommendation in Sec. 4.2.3 (2) Sentence 6 GCGC has not been and also will not be fully complied with in the future. Based on the judgment of the supervisory board, there are no upper limits of maximum amounts of bonus payments to be made to executive board members for previously agreed targets or a subsequent bonus in recognition of extraordinary performance. The same therefore also applies for compensation on the whole. The supervisory board does not consider this necessary because by exercising its judgment it

can ensure that the requirement of reasonableness of Sec. 87 (1) AktG is complied with.

The recommendation on the target regarding the composition of the supervisory board in Sec. 5.4.1 (2) and (3) GCGC was not complied with and will not be complied with in the future. The supervisory board advocates a balanced composition for the committee as defined in the recommendation in Sec. 5.4.1 (2) and (3) of the Code. Setting concrete targets exceeding the legal requirements continues to be inappropriate in the opinion of the supervisory board since decisions should be taken on the candidates proposed in each individual case in the light of the male or female candidates available at that time.

As regards the recommendation in Sec. 5.4.1 (5) GCGC (in the version of 5 May 2015) regarding the disclosure of certain matters in the supervisory board's election recommendations to the annual general meeting, the requirements of the Code remain indefinite and their boundaries and scope unclear. The supervisory board has endeavored in the past and shall continue to endeavor in the future to meet the requirements of Sec. 5.4.1 (5) of the Code (in the version of 5 May 2015), although, in light of the imprecision, unclear scope and boundaries of the recommendation, it cannot rule out that this recommendation was not fully complied with in the past or will not be fully complied with in the future. As a result, non-compliance has been declared as a precaution.

With regard to the recommendation in Sec. 5.4.2 Sentence 1 GCGC, the supervisory board can no longer – in light of the shareholder structure – maintain its judgment with sufficient legal certainty that due to the membership of Prof. Dr. Ulrich Lehner it has a sufficient number of independent members. As a precaution, it has therefore been declared that the recommendation pursuant to Sec. 5.4.2 Sentence 1 GCGC was not complied with and will not be complied with in the future.

The recommendation in Sec. 5.4.6 (2) GCGC regarding the orientation of supervisory board compensation toward sustainability has not been complied with nor will it be complied with in the future. In view of the supervisory board's predominantly supervisory activities, which in the shared opinion of the executive board and the

supervisory board give rise to a limited risk of short-term action, the current performance-related compensation includes an adequate sustainability component.

The recommendation in Sec. 6.2 GCGC (in the version of 5 May 2015) to disclose shares held by members of the company's governing bodies has not been complied with and will not be complied with in the future. Notifications regarding the voting rights of our shareholders in accordance with the Securities Trading Act (WpHG) are published by Porsche Automobil Holding SE as required by this Act. Notifications concerning the purchase and sale of Porsche preference shares by members of the executive board and supervisory board in accordance with Sec. 15a WpHG are published as required by this Act. The shares in the company and related financial instruments held by members of the company's governing bodies have not been published in the past and will not be published in the future as we believe our complete compliance with statutory disclosure requirements provides the capital markets and our shareholders in particular with sufficient information.

The provision of Sec. 7.1.2 GCGC, pursuant to which the consolidated financial statements shall be publicly accessible within 90 days of the end of the fiscal year was not complied with for the consolidated financial statements of Porsche Automobil Holding SE for the fiscal year 2015. The preparation of the separate and consolidated financial statements of Porsche Automobil Holding SE was delayed because Volkswagen AG, Wolfsburg, announced that the preparation of the annual financial statements of Volkswagen AG for 2015 had been delayed due to outstanding questions in connection with the consequences of the diesel issue and the measurement matters resulting from this. As a result of Porsche Automobil Holding SE's equity investment in Volkswagen AG, which is currently 30.8%, and the importance of this investment for Porsche Automobil Holding SE, the availability of the consolidated financial statements of Volkswagen AG, the issue for publication of which was likewise delayed, was a prerequisite for the preparation of the separate and consolidated financial statements of Porsche Automobil Holding SE for the fiscal year 2015. For future consolidated financial statements of Porsche Automobil Holding SE, the provision of Sec. 7.1.2 of the code will continue to be complied with.

Stuttgart, 10 March 2017
Porsche Automobil Holding SE

The supervisory board The executive board

Porsche SE share

Stock markets

Economic fears and the monetary policy adopted by central banks continued to shape developments on the global financial markets in the past year. This was exacerbated by political uncertainties such as the decision made by the United Kingdom to leave the European Union, as well as the presidential election in the US.

From the beginning of the year to mid-February 2016, the German stock exchange index (DAX) dropped by 19% to an annual low of around 8,699 points. It reached its annual high of around 11,482 points on 30 December, closing 2016 just short of this at around 11,481 points. This corresponds to an increase of around 6.9% on the end of the prior year. The leading European share index EURO STOXX 50 closed the year with growth of around 0.7%, peaking at around 3,291 points. The index reached its lowest level for the year of around 2,673 points in February.

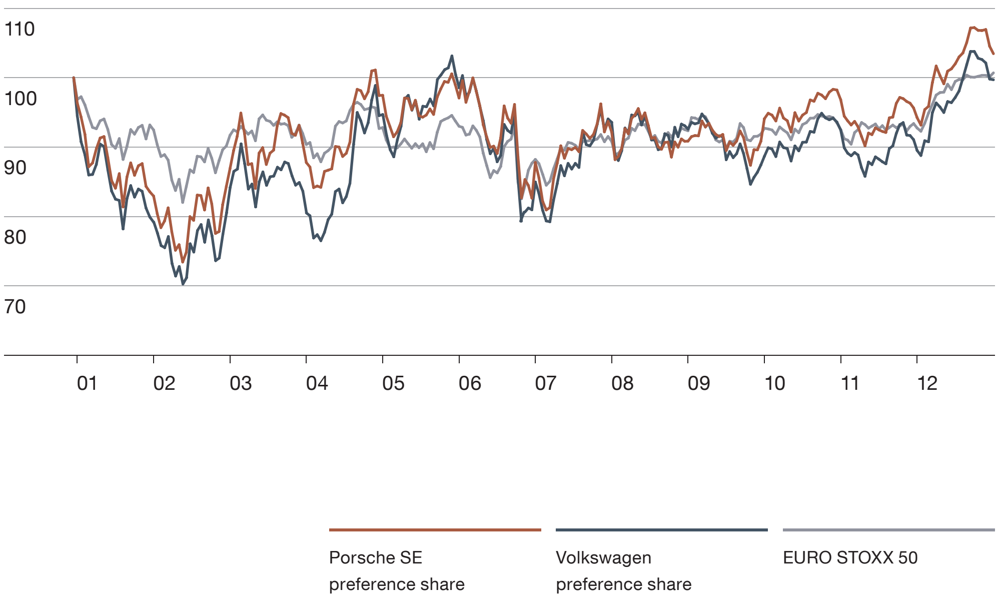
The relatively sharp downward trend of the two stock exchange indices in the first few weeks of the year until mid-February 2016 was also reflected in the development of Porsche SE's preference share: The Porsche SE preference share reached its annual low of 35.94 euro on 11 February. The share hit its annual high of 54.04 euro on 22 December.

In addition to the general market trend, the price of Porsche SE's preference share was significantly shaped by developments at Volkswagen. The Porsche SE share closed the year at 51.74 euro, some 3.5% higher than at the end of the prior-year period.

2016 annual general meeting

The annual general meeting of Porsche SE was held in the Porsche-Arena and Hanns-Martin-Schleyer-Halle in Stuttgart on 29 June 2016. It was attended by around 4,700 shareholders. The dividend approved for the fiscal year 2015 amounted to 1.010 euro per share for holders of preference shares and 1.004 euro per share for holders of ordinary shares. In the prior year, the dividend had been 2.010 euro per preference share and 2.004 euro per ordinary share. The amount distributed for the fiscal year 2015 therefore totaled 308,393,750 euro. The amount distributed for the fiscal year 2014 had amounted to 614,643,750 euro. The executive board and supervisory board were exonerated.

Development of the Porsche SE preference share price 2016
(indexed to 31 December 2014)



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.

According to the information available to Porsche SE, the ordinary shares are indirectly held exclusively by members of the Porsche and Piëch families.

More than half of the preference shares are held by institutional investors – mainly outside Germany. The free float preference shares are distributed between private investors, most of whom are domiciled in Germany.

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 Euro 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

Investor relations activities

In addition to the regular corporate reporting, the executive board and investor relations team maintained intensive contact with analysts and investors in the fiscal year 2016 by holding numerous conference calls. Roadshows were also held in the world's most important financial centers, which helped further intensity contact with institutional investors.

These activities were rounded off by participating in investor conferences worldwide. Private investors were able to gain first-hand insight into developments at Porsche SE at a large number of investor events in Germany.

In addition to communication via regular corporate reporting, Porsche SE also gave analysts and investors the opportunity to inform themselves comprehensively in individual meetings about the investment strategy, legal disputes and latest business developments.

With the aim of making reporting quicker and clearer, the Porsche SE website (www.porsche-se.com) has had a new layout since 1 February 2017. The responsive design of the website means that the content is now automatically adjusted to the fit the device being used. This allows the content of the website from now on to be loaded faster on smartphones or tablets and makes it more accessible thanks to the new layout.

Porsche SE share key figures

		2016	2015	2014
Closing price[1]	€	51.74	50.01	67.16
Annual high[1]	€	54.04	94.56	82.15
Annual low[1]	€	35.94	34.03	57.28
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)[2]	€	15,845,375,000	15,315,562,500	20,567,750,000
Earnings per ordinary share[3]	€	4.48	– 1.01[4]	9.90
Earnings per preference share[3]	€	4.49	– 1.00[4]	9.91
Dividend per ordinary share	€	1.004[5]	1.004	2.004
Dividend per preference share	€	1.010[5]	1.010	2.010

1 Preference share in Xetra trading
2 Assuming ordinary shares are valued at the market price of the preference shares
3 Basic and diluted
4 Including retrospective adjustment of the at equity accounting due to new findings regarding the purchase price allocation for additional purchases of investments accounted for at equity
5 Proposal to the annual general meeting of Porsche SE

Volkswagen Golf R

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Group management report and management report of Porsche Automobil Holding SE

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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 2016, the Porsche SE Group had 30 employees (31 December 2015: 32 employees).

The business activities of the Porsche SE Group essentially consist in holding and managing investments. 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. In particular, it holds the majority of the ordinary shares in Volkswagen Aktiengesellschaft, Wolfsburg ("Volkswagen AG" or "Volkswagen"), one of the leading automobile manufacturers in the world. The Volkswagen Group comprises twelve brands from seven European countries: Volkswagen passenger cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen commercial vehicles, Scania and MAN. In addition, the Porsche SE Group holds shares in the US technology company INRIX Inc., Kirkland, Washington, USA ("INRIX"). INRIX is a world leader in the field of connected-car services and real-time traffic information.

In addition to these investments, Porsche SE plans to acquire further strategic investments. Porsche SE's principal criteria for future investments are the connection to the automotive value chain, and above-average growth potential based on macroeconomic trends and industry-specific trends derived from them.

The automotive value chain comprises the entire spectrum of basic technologies geared to supporting the development and production process through to vehicle- and mobility-related services. The relevant macro trends include, for example, sustainability and conservation of resources, demographic change, urbanization and the increasingly networked automotive world. The industry-specific trends derived from these include new materials and drive concepts, shorter product life cycles and rising customer demands regarding safety and connectivity.

Porsche SE's investment focus is therefore on strategic investments in companies that meet these criteria and contribute to the goal of achieving sustainable value enhancement. New investment opportunities are examined on an ongoing basis.

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 ensuring liquidity. In line with these corporate goals, profit/loss and liquidity are the core management indicators in the Porsche SE Group.

Profit/loss after tax for the year is used as a financial indicator for earnings for 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 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. Within the scope of planning, the costs associated with holding and managing the investments at the level of Porsche SE are budgeted in consultation with all departments, and integrated multi-year planning of the results of operations, financial position and net assets of the Porsche SE Group is derived taking into account the respective planning of the investments held.

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

Report on economic position

Significant events and developments at the Porsche SE Group

Diesel issue at the level 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 vehicles with Volkswagen Group diesel engines. As a result, negative special items totaling €6.4 billion were recognized in the Volkswagen Group's operating profit in the fiscal year 2016, primarily due to legal risks in connection with the diesel issues. As the majority shareholder, Porsche SE continues to be affected by this issue, particularly with regard to its profit/loss from investments accounted for at equity. Furthermore, the proportional market capitalization of its investment in Volkswagen AG is influenced by the resulting development of the price of Volkswagen ordinary and preference shares. Despite the proportional market capitalization being below the carrying amount as of 31 December 2016, there is no need to recognize an impairment loss on the basis of the earnings forecasts, even taking into consideration the new findings, for the investment in Volkswagen AG. However, in particular a further increase in the costs of mitigating the diesel issue might still lead to an impairment in the value of the investment. Ultimately, there could also be subsequent effects on the dividend policy of Volkswagen AG and therefore on the cash inflows at the level of Porsche SE. Legal risks from claims brought against Porsche SE stemming from this issue can likewise have an effect on Porsche SE's results of operations, financial position and net assets. For details of this matter, please refer to the explanations of the significant events and developments at the Volkswagen Group, the explanatory notes on the results of operations, financial position and net assets, to the section "Opportunities and risks of future development" and the "Outlook" section. The executive board of Porsche SE remains committed to the company's role as Volkswagen AG's long-term anchor shareholder and is still convinced of the Volkswagen Group's potential for increasing value added.

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 of the legal proceedings during the fiscal year 2016 are described in the following:

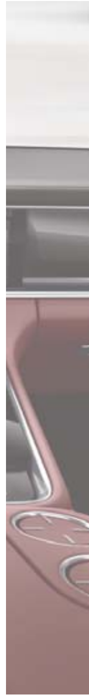
Actions for damages concerning the expansion of the investment in Volkswagen AG
A model case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE is pending with the Higher Regional Court of Celle. Subject of those actions are alleged damage claims based on alleged market manipulation and alleged inaccurate information in connection with Porsche SE's acquisition of the shareholding in Volkswagen AG. In part these claims are also based on alleged violations of antitrust regulations. The model case has been initiated by an order of reference of the Regional Court of Hanover dated 13 April 2016 that followed applications for establishment of a model case by the plaintiffs of four out of six proceedings pending before the Regional Court of Hanover. The Regional Court of Hanover has referred in total 83 of the establishment objectives asserted by the plaintiffs to the Higher Regional Court of Celle. On 11 May 2016 the Regional Court of Hanover suspended all six proceedings pending before it against Porsche SE up until a final decision about the establishment objectives in the model case before the Higher Regional Court of Celle. In one of the proceedings the plaintiffs filed an immediate appeal against the suspension decision. By decision dated 20 February 2017 the Higher Regional Court of Celle dismissed the appeal. Hence, all suspension decisions rendered are final. The suspended proceedings concern six legal actions of a total of 40 plaintiffs asserting alleged claims for damages of about €5.4 billion (plus interest). By decision dated 12 January 2017 the Higher Regional Court of Celle extended the KapMuG-order of reference by 14 additional establishment objectives. Furthermore, the Higher Regional Court of Celle scheduled several trial dates in the time period from September to November 2017. Porsche SE is of the opinion that the plaintiff's establishment objectives, as far as they are or become subject of the model case, are without merit and therefore are rejected.

Furthermore the following proceedings in connection with the alleged market manipulation are or were pending:

In January 2013, an individual had substantiated his claim in the amount of around €130,000 (plus interest) based on allegedly inaccurate information and omission of information, previously asserted by reminder notice. The Regional Court of Braunschweig dismissed the plaintiff's action by decision dated 30 July 2014. The appeal lodged by the plaintiff was dismissed by the Higher Regional Court of Braunschweig by decision of 12 January 2016. The court thus confirmed the dismissal by the Regional Court of Braunschweig. The judgment is final.

On 30 April 2013, a group of plaintiffs filed a complaint against Porsche SE at the Regional Court of Stuttgart and asserted claims for damages based on allegations of market manipulation and inaccurate information in connection with the acquisition of the shareholding in Volkswagen AG in 2008. The Regional Court of Stuttgart dismissed the action by decision of 17 March 2014. The four plaintiffs who did not file appeals originally had asserted claims for damages in the amount of approximately €177 million (plus interest). Hence, the remaining claims for damages asserted in the appellate proceedings amounted to approximately €1.18 billion (plus interest). The Higher Regional Court of Stuttgart dismissed the appeals by decision of 26 March 2015 and thus confirmed the dismissal by the Regional Court of Stuttgart. Leave to appeal on points of law was not permitted. All 19 plaintiffs have lodged a complaint against the refusal of leave to appeal on points of law to the Federal Court of Justice (Bundesgerichtshof). The Federal Court of Justice (Bundesgerichtshof) dismissed the appeal on points of law by decision dated 15 November 2016. Hence, this proceeding is officially closed.

Based on the same alleged claims, that are already subject of a momentarily suspended action concerning alleged damages of €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover, the same plaintiffs filed an action against two members of the supervisory board of Porsche SE before the Regional Court of Frankfurt am Main in September 2013. Porsche SE joined the proceeding as intervener in support of the two supervisory board members. A trial date for hearing the case took place on 30 April 2015. By interim judgment dated 21 May 2015, the court assigned six of the seven plaintiffs to provide a

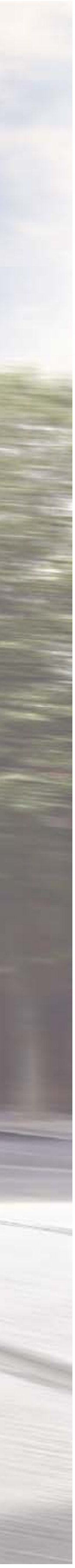


security for costs for the legal procedures. Porsche SE considers these claims to be without merit.

On 7 June 2012, Porsche SE filed an action against two companies of an investment fund for declaratory judgment with the Regional Court of Stuttgart that alleged claims in the amount of around US$195 million do not exist. The investment fund had asserted out-of-court that Porsche SE had made false and misleading statements in connection with its acquisition of a stake in Volkswagen AG during 2008. Therefore the investment fund announced that it intended to file the alleged claim before a court in England. On 18 June 2012, the investment fund filed an action against Porsche SE with the Commercial Court in England. 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 begun at the Regional Court of Stuttgart concerning the question of which court is the court first seized. On 24 July 2013, the Regional Court of Stuttgart decided that the Regional Court of Stuttgart is the court first seized. This decision of the Regional Court of Stuttgart was appealed by way of an immediate appeal by one of the defendants. By decision dated 28 November 2013, the Regional Court of Stuttgart did not allow the appeal and submitted the appeal to the Higher Regional Court of Stuttgart for a decision. By decision dated 30 January 2015, the Higher Regional Court of Stuttgart dismissed the immediate appeal. The defendant has filed an appeal on points of law to the Federal Court of Justice. By decision dated 13 September 2016, served on 16 November 2016, the Federal Court of Justice annulled the Higher Regional Court of Stuttgart's decision of 30 January 2015 and referred the case back to the Higher Regional Court of Stuttgart for reconsideration. Porsche SE considers the action filed in England to be inadmissible and the asserted claims to be without merit.

Investigations and criminal proceedings concerning the expansion of the investment in Volkswagen AG

In December 2012, charges were brought against the former members of the executive board Dr. Wendelin Wiedeking and Holger P. Härter with the chamber of the Regional Court of Stuttgart responsible for economic offenses on suspicion of information-based manipulation of the market in Volkswagen shares in connection with the stake building in Volkswagen AG. By judgment as of 18 March 2016 the Regional Court of Stuttgart found the two former members of the executive board of Porsche SE not guilty concerning all charges, since an information-based manipulation of the market could not be established.



Consequently, the Regional Court of Stuttgart also dismissed the Stuttgart public prosecutor's motion for imposing a fine of €807 million against Porsche SE. The Stuttgart public prosecutor had lodged an appeal on points of law to the Federal Court of Justice but withdrawn it before expiry of the period for substantiation of the appeal. Hence the judgment is final in its entirety.

In February 2013, it became known that the Stuttgart public prosecutor had launched investigations against all members of the supervisory board of Porsche SE from 2008 and a former employee with the allegation of jointly aiding and abetting violation of the prohibition on market manipulation by omission as charged against Dr. Wendelin Wiedeking and Holger P. Härter in the indictment of 17 December 2012. According to a press release of the Stuttgart public prosecutor dated 17 August 2015, the investigations against the members of the supervisory board had been terminated according to Sec. 170 (2) of the German Code of Criminal Procedure (StPO) due to a lack of sufficient suspicion of a criminal act. The charges brought against the former employee were dropped after the final acquittal of the former members of the executive board.

Legal proceedings and legal risks in connection with the diesel issue

In connection with the diesel issue (for a description see section "The diesel issue" in the section "Significant events and developments at the Volkswagen Group") the following claims have been asserted against Porsche SE:

Since April 2016 a total of 156 actions for damages have been served to Porsche SE by the Regional Court of Stuttgart. The actions concern damages in an amount totaling, if and to the extent the claims were quantified, about €899 million (plus interest) and in part establishment of liability for damages. Furthermore, in February 2017 one summary proceedings for a payment order in the amount of about €3.5 million (plus interest) was assigned to the Regional Court of Stuttgart. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information in connection with the diesel issue by Volkswagen AG. A part of the actions are directed against both Porsche SE and Volkswagen AG. Volkswagen AG filed in relation to one of these actions an application with the Higher Regional Court of Braunschweig to determine the Regional Court of Braunschweig as the competent court. A part of the plaintiffs in the proceedings pending before the Regional Court of Stuttgart filed applications for establishment of a model case according to the KapMuG. As a precautionary measure, in case the Regional Court of Stuttgart does not dismiss actions right away, Porsche SE has applied in a total of ten proceedings for the issuance of a KapMuG-based order of reference containing six further specified establishment objectives. The Regional Court of Stuttgart decided on 28 February 2017 with respect to the aforementioned KapMuG motions to refer to the Higher Regional Court of Stuttgart nine of the establishment objectives asserted by the plaintiffs and the aforementioned six establishment objectives asserted by Porsche SE as a precautionary measure. A part of the plaintiffs filed motions for suspension of the proceedings with reference to a KapMuG-based order of reference by the Regional Court of Braunschweig regarding proceedings for damages against Volkswagen AG in connection with the diesel issue. It is currently unclear whether the actions pending before the Regional Court of Stuttgart will be suspended with reference to the order of reference issued by the Regional Court of Braunschweig or with reference to the order of reference issued by the Regional Court of Stuttgart. In a proceeding concerning alleged claims for damages of €5.7 million (plus interest) and a simultaneously filed motion for establishment of a model case an oral hearing was held on 30 September 2016. In the other proceedings trial dates have not been scheduled yet. Porsche SE considers these claims to be without merit.

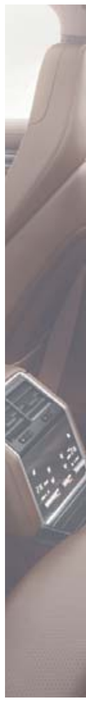
Since September 2016 five actions were filed against Porsche SE before the Regional Court of Braunschweig. The actions are directed against both Porsche SE and Volkswagen AG. The actions are based on alleged claims for damages because of nonfeasance of immediate publication of insider information. The actions aim for claims for damages against Porsche SE in the amount of about €165,000. The plaintiffs in two actions have applied for suspension of the proceeding with reference to the KapMuG-based order of reference issued by the Regional Court of Braunschweig. The plaintiffs in three actions consented to this motion for suspension. By decision dated 1 December 2016 the

Regional Court of Braunschweig suspended one of the proceedings with respect to Volkswagen AG with reference to the order of reference issued by the Regional Court of Braunschweig. The Regional Court of Braunschweig will have to decide whether it considers itself competent for the proceedings with respect to Porsche SE and whether the proceedings with respect to Porsche SE will then have to be suspended with reference to the order of reference issued by the Regional Court of Braunschweig or the order of reference issued by the Regional Court of Stuttgart. Porsche SE considers these claims to be inadmissible and to be without merit.

In October 2015, a minority shareholder of Volkswagen AG filed a (partial) claim against Porsche SE with the Regional Court of Munich II, concerning damage claims in the amount of €10,000 (plus interest) to be paid to Volkswagen AG. Subject of this action are alleged damages incurred by Volkswagen AG and its minority shareholders in connection with the diesel issue which Porsche SE is alleged to have caused. An oral hearing on the admissibility of the action was held on 21 April 2016. On 12 May 2016 the Regional Court of Munich II declared that it does not have jurisdiction for this case and referred the case to the Regional Court of Stuttgart. By brief dated 11 November 2016 the plaintiff withdrew the action. Hence, the proceeding is officially closed.

In November 2015, a purchaser of a Volkswagen and an Audi 3.0 l TDI diesel vehicle filed a class action lawsuit in the US District Court for the Eastern District of Michigan against, among others, Volkswagen AG and Porsche SE. The plaintiff, purporting to represent a nationwide class of US purchasers, alleges that the defendants fraudulently induced customers to purchase Volkswagen, Audi and Porsche 2.0 l TDI and 3.0 l TDI diesel vehicles that contain illegal defeat devices intended to circumvent US emissions standards and do not perform as advertised. Claiming that these vehicles have diminished in

value, the plaintiff seeks unspecified damages on behalf of the class, including punitive damages and treble damages under US law. In addition, the plaintiff seeks, inter alia, injunctive relief in the form of a vehicle buy-back program, recall, and/or reimbursement of the purchase. The action has been transferred to the US District Court for the Northern District of California for consolidated pre-trial proceedings with other actions involving similar allegations. On 22 February 2016 other plaintiffs in the multi-district litigation filed three consolidated amended complaints on behalf of putative classes of owners and lessees (including the plaintiff in the Eastern District of Michigan action against Porsche SE), dealers and reseller dealerships. Porsche SE was not named as a defendant in any of those three complaints. The question whether any claims against Porsche SE have survived after the filing of the consolidated amended complaints has not been decided yet. On 28 June 2016, Volkswagen AG, Audi AG, and Volkswagen Group of America, Inc. reached a class action settlement agreement with plaintiffs in the multi-district litigation to settle the claims of a settlement class of certain owners and lessees, including reseller dealerships, of Volkswagen and Audi 2.0 l TDI diesel engine vehicles in the United States. The US District Court for the Northern District of California granted final approval of the class action settlement on 25 October 2016. As a result, members of the settlement class who did not opt out have released all claims against Volkswagen AG and its affiliates, including Porsche SE, relating to the emissions issue as it pertains to Volkswagen and Audi 2.0 l TDI diesel engine vehicles in the United States. Certain class members have appealed the final approval order, and the appeals are currently pending before the Ninth Circuit Court of Appeals. On 31 January 2017, Volkswagen AG, Audi AG, Volkswagen Group of America, Inc., Dr. Ing. h.c. F. Porsche AG and Porsche Cars North America, Inc. reached an agreement with plaintiffs in the multi-district litigation to settle the claims of a putative class of certain current and former owners and lessees of Volkswagen, Audi and Porsche 3.0 l TDI V6 diesel engine vehicles in the United States. Under the terms of the 3.0 l agreement, which is subject to Court approval, members of the settlement class who do not opt out will release all claims against Volkswagen and its parents and affiliates, including Porsche SE, relating to the emissions issue as it pertains to Volkswagen, Audi and Porsche 3.0 l TDI



V6 diesel engine vehicles in the United States. On 14 February 2017, the court granted preliminary approval of the proposed settlement with private plaintiffs and scheduled a fairness hearing for granting final approval for 11 May 2017. In all events, Porsche SE considers any remaining claims against it to be without merit.

10 court orders for payment have been obtained against Porsche SE concerning alleged claims for damages in connection with the diesel issue in an amount of about €3.7 million (plus interest). Porsche SE considers these claims to be without merit and has filed complaints against those court orders. One of the summary proceedings for a payment order in the amount of about €3.5 million (plus interest) was assigned to the Regional Court of Stuttgart in February 2017.

Since October 2015, 28 persons who have not yet filed a lawsuit have made out-of-court claims or initiated conciliatory proceedings against Porsche SE in connection with the diesel issue. In part, the alleged claims have not yet been quantified. As far as the alleged claims have been quantified by the plaintiffs, the damage claims amount to a total of around €395,000 (without interest). The plaintiffs demand damages caused by alleged inaccurate capital market information or the omission of such information by Porsche SE. Porsche SE considers the claims to be without merit and has rejected them.

Proceedings regarding shareholders' actions
A shareholder filed an action of nullity and for annulment before the Regional Court of Stuttgart regarding the resolutions of the annual general meeting on 30 April 2013 on the exoneration of the executive board and the supervisory board for the fiscal year 2012, the election of five persons as members of the supervisory board as well as the resolution to refuse the motion to vote out the chairman of the general meeting. The Regional Court of Stuttgart dismissed the action by decision of 23 September 2014. The shareholder appealed this decision. By decision dated 8 July 2015, the Higher Regional Court of Stuttgart dismissed the appeal and thus confirmed the dismissal of the action by the Regional Court of Stuttgart. Leave to appeal on points of law was not permitted. The complaint against the refusal of leave to appeal filed by the shareholder was dismissed by the Federal Court of Justice by decision of 31 May 2016. Therefore, the judgment is final.

The same shareholder has also filed an action of nullity and for annulment regarding the resolutions of the annual general meeting on 27 May 2014 as well as a precautionary action for

determination that a shareholders' resolution has been adopted before the Regional Court of Stuttgart. Subject of the actions are the shareholders' resolutions on the exoneration of the executive board and the supervisory board for the fiscal year 2013 as well as the resolution to refuse the motion to vote out the chairman of the general meeting. As a precautionary measure, the shareholder additionally filed an action for determination that a shareholders' resolution has been adopted regarding the motion to vote out the chairman of the general meeting. An oral hearing was held on 22 March 2016 at the Regional Court of Stuttgart. By decision of 28 October 2016 the Regional Court of Stuttgart dismissed the actions. The plaintiff has appealed this decision. Porsche SE considers the action to be partially inadmissible and in any event to be without merit.

Furthermore, the same shareholder claimed a right to information against Porsche SE before the Regional Court of Stuttgart. With this motion, the disclosure of questions asked at the annual general meeting on 27 May 2014 was demanded. An oral hearing was held on 22 March 2016 at the Regional Court of Stuttgart. By order of 28 October 2016 the Regional Court of Stuttgart dismissed the application. Leave to appeal was not permitted. Hence, the decision is final.

Moreover, the same shareholder has also filed an action of nullity and for annulment regarding the resolutions of the annual general meeting on 29 June 2016 on the exoneration of the executive board and the supervisory board for the fiscal year 2015. A date for an oral hearing has not been scheduled yet. Porsche SE considers the action to be without merit.

In addition, the same shareholder claims a right to information against Porsche SE before the Regional Court of Stuttgart. With this motion, the disclosure of questions allegedly asked at the annual general meeting on 29 June 2016 is demanded. Porsche SE considers the motion to be without merit.

Annual general meeting

The annual general meeting of Porsche SE, which was attended by around 4,700 shareholders, was held in the Porsche-Arena in Stuttgart on 29 June 2016. The dividend approved for the fiscal year 2015 amounted to €1.010 per share to holders of preference shares and €1.004 per share to holders of ordinary shares. In the prior year, the dividend had been €2.010 per ordinary share and €2.004 per preference share. The amount distributed for the fiscal year 2015 therefore totaled €308,393,750. The amount distributed for the fiscal year 2014 had amounted to €614,643,750. The executive board and supervisory board were exonerated.

Significant events and developments at the Volkswagen Group

The diesel issue

Irregularities in emissions
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 vehicles with Volkswagen Group diesel engines. Volkswagen admitted to irregularities in this context. In its ad hoc release dated 22 September 2015, the Volkswagen Group announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with certain diesel engines.

On 2 November 2015, the EPA issued another notice of violation alleging that irregularities had also been discovered in the software installed in vehicles with type V6 TDI 3.0 l diesel engines. Audi has confirmed that at least three auxiliary emission control devices (AECDs) were not disclosed in the course of the US approval documentation of vehicles with six-cylinder V6 3.0 l TDI diesel engines.

Extensive investigations by Volkswagen
Volkswagen is working intensively to clarify the issue. To this end, Volkswagen ordered both internal inquiries and external investigations. The external investigation is being conducted with the involvement of external lawyers in Germany and the USA. To facilitate the investigations in the course of clarifying the facts, the Group board of management established a cooperation program in 2015, which was in place for a limited time and was open to all employees covered by collective agreements.

The supervisory board of Volkswagen AG formed a special committee that coordinates all activities relating to the diesel issue for the supervisory board. Volkswagen AG commissioned an external investigation by US law firm Jones Day. This is an independent and comprehensive investigation addressing the diesel issue. Jones Day is updating the company and the Department of Justice (DOJ) on the current results of its investigation on an ongoing basis and supports Volkswagen AG in its cooperation with the judicial authorities. The course of action in clearing up the situation was determined largely by the investigative authorities.

Furthermore, Volkswagen AG filed a criminal complaint in September 2015 with the responsible public prosecutor's office in Braunschweig, which is independently investigating the matter, including allegations of fraud. Searches were carried out in Wolfsburg and elsewhere with the involvement of special agents from the State Office of Criminal Investigation.

Volkswagen is cooperating with all the responsible authorities to clarify these matters completely and transparently.

Investigations were divided into two parts. The group internal audit function, which involved bringing together experts from various group companies to form a task force, focused – as instructed by the supervisory board and board of management – on reviewing relevant processes, reporting and control systems as well as the accompanying infrastructure. This function paid special attention to the processes of software development for the engine control unit. The group internal audit function provided its findings to the external experts from Jones Day. The internationally renowned law firm was engaged by Volkswagen AG to fully clarify the facts and responsibilities in a second investigation. Jones Day has received operational support from the auditing firm Deloitte.

The special investigation has involved conducting interviews with employees and managers who were identified by Jones Day as relevant sources of information in connection with the diesel issue. In addition, Jones Day has evaluated documents and data (such as e-mails).

Employees from affected departments have been dismissed as a further direct consequence of the findings from the internal inquiries and external investigations.

The information that has been viewed so far has helped trace the origin and development of the diesel issue to a large extent. The starting point of the diesel issue at Volkswagen was the strategic decision to launch a large-scale promotion of diesel vehicles in the USA in 2005. To this end, a new diesel powertrain unit featuring high performance and cost-efficient production – the EA 189 type engine – was to be developed.

The US emissions limits for emissions of pollutants are strict. Under the strictest standard in the USA at the time, only 31 mg/km of NO_x were allowed to be emitted, about one sixth of the Euro 5 standard applicable in Europe at that time. When designing state-of-the-art diesel engines, technicians and engineers face the challenge that there is a conflicting objective between the reduction of NO_x and other parameters.

In the ensuing period, in order to resolve this conflicting objective satisfactorily within the time frame and budget of the EA 189 project, a group of persons at levels below the group's board of management in the powertrain development division decided to modify the engine management software. In the engine controller of the vehicles with type EA 189 diesel engines there was a software that recognizes the driving curve of the official type test, regardless of whether the vehicle is on a test bench or on the road. Depending on the recognition of the driving curve the engine controller switches to 2 different modes: mode 1 optimum NO_x for test bench operation or mode 2 optimum particulate matter for road operation.

As things stand, outside the group of persons mentioned above, the then and current board of management of Volkswagen AG had, at any rate, no knowledge of the use of an unlawful defeat device software under US law at the time.

In the months after the International Council on Clean Transportation (ICCT) study was published in May 2014, the test set-ups on which the ICCT study was based were repeated in house at Volkswagen and the unusually high NO_x emissions confirmed. The US environmental authority of California – the California Air Resources Board (CARB) – was informed of this result, and at the same time the offer was made to recalibrate the type EA 189 diesel engines as part of a service measure that was already planned in the USA. This measure was evaluated and adopted by the Ausschuss für Produktsicherheit (APS – product safety committee), which includes, among others, employees from the technical development, quality assurance, sales, production, logistics, procurement and legal departments, as part of the existing processes within the Volkswagen Group. The APS thus plays a central role in the internal control system at Volkswagen AG. There are currently no findings to confirm that an unlawful defeat device software under US law was reported by the APS as the cause of the discrepancies to the persons responsible for authorizing for issue the 2014 annual and consolidated financial statements. Instead, at the time that the annual and consolidated financial

statements were being authorized for issue, this group of people remained under the impression that the issue could be solved with comparatively little effort as part of a field measure. By the summer of 2015, however, it was reliably recognized that the cause of the discrepancies was a software modification, that would qualify as a defeat device as defined by US environmental law. This culminated in the disclosure of the US defeat device to EPA and CARB on 3 September 2015. According to the assessment at that time of the members of the board of management dealing with the matter, the scope of the costs expected as a result by the Volkswagen Group (recall costs, retrofitting costs and financial penalties) was basically not dissimilar to that of previous cases in which other vehicle manufacturers were involved, and therefore appeared to be controllable overall with a view to the business activities of the Volkswagen Group. This appraisal by Volkswagen AG was based on the assessment of a law firm brought in in the USA for approval issues, according to which similar cases in the past were resolved amicably with the US authorities. Publication of a notice of violation by the EPA on 18 September 2015, which came as a surprise to the company, on the facts and possible financial consequences, then presented the situation in a completely different light.

To clarify the issue, Audi set up an internal task force, furnished committees with the necessary resources and launched a program of cooperation for employees covered by collective agreements in 2015. The law firm Jones Day also conducted independent and comprehensive investigations into this matter.

The incumbent members of the board of management of AUDI AG have declared as already in the prior year that prior to their notification by the EPA in November 2015, they had no knowledge of the use of an unlawful defeat device software under US law in the V6 3.0 l TDI engines.

The Volkswagen Group is consistently seeking to realize organizational and procedural potential for improvement that has come to light as a result of the diesel issue.

Also, the publications released by the reporting date, as well as the continued investigations and interviews in connection with the diesel issue, did not provide the group board of management with any new reliable findings or assessments regarding the underlying facts and the assessment of the associated risks (e.g. investor lawsuits).

Affected diesel engines

EU28 and rest of the world

In fiscal year 2016, the German Federal Motor Transport Authority (KBA) issued official approvals needed for modification of the Volkswagen Group vehicles fitted with four-cylinder EA 189 1.2 l, 1.6 l and 2.0 l diesel engines falling within its remit. Only the approval of the technical solutions for 14 thousand vehicles is still outstanding, which is expected to be granted in the first quarter of 2017.

The KBA ascertained for all approved clusters (groups of vehicles) that implementation of the technical solutions would not bring about any unfavorable changes in fuel consumption, engine power, torque and noise emissions. Once the modifications have been made, these vehicles will thus comply with all legal requirements and the emission standards applicable in each case.

The SEAT brand received approvals in principle from its respective type approval authority, the Ministry of Industry in Spain in the fiscal year 2016.

Type approval authority for the ŠKODA brand is the Vehicle Certification Agency in the United Kingdom. The approval process for ŠKODA vehicles is still ongoing.

In some countries outside the EU – among others Switzerland, Australia, South Korea, Taiwan and Turkey – national type approval is based on prior recognition of the EC/ECE type approval. Volkswagen is also in close contact with the authorities in these countries in order to finalize the approval process.

The Volkswagen Group is now working expeditiously to implement the technical solutions in the field. In agreement with the relevant authorities, the owners of the affected vehicles will be notified and can then make an appointment for modification in an authorized workshop.

The implementation of the technical solution for the highest-volume variant – the 2.0 l TDI engine – began already in January 2016. The 1.2 l TDI followed in the course of the year. A software update is being performed for these engine versions. The implementation phase for the recall

of the 1.6 l TDI engine began in November 2016, which provided additional lead time necessary for the hardware modification. In the 1.6 l TDI engines, a flow transformer will be fitted in front of the air mass sensor to improve the sensor's measuring accuracy. Combined with updated software, this will optimize the amount of diesel injected. Based on current planning, implementation of measures will take the 2017 calendar year to complete. Volkswagen guarantees that the solutions will be implemented free of charge for customers.

In addition, Volkswagen AG has, until 31 December 2017, expressly waived citation of the statute of limitations with regard to any claims made in relation to the software installed in vehicles with engines of type EA 189 by vehicle customers outside the United States and Canada.

USA/Canada

On 4 January 2016, the DOJ, on behalf of the EPA, filed a civil complaint against Volkswagen AG, AUDI AG and other companies of the Volkswagen Group. The claims asserted under civil law are based on the alleged use of the defeat device software in violation of the US Clean Air Act. The complaint's allegations relate to both the four-cylinder and the six-cylinder diesel engines. Volkswagen AG held internal development responsibility for the four-cylinder diesel engines within the group, and AUDI AG for the six-cylinder diesel engines.

In the USA and Canada, three variants of certain four-cylinder diesel engines are affected. For the vehicles with six-cylinder diesel engines, the software parameters are being revised so that they can be resubmitted for approval in the USA. Due to these considerably stricter NO_x limits, it is a greater technical challenge to refit the vehicles so that all applicable emissions limits can be met. Volkswagen is in intensive discussions with the EPA and CARB concerning remedial measures. The technical solutions will be implemented as soon as they have been approved by the authorities. The respective US and Canadian companies of the Volkswagen Group have withdrawn all affected new vehicles from sale with pending approval of technical solutions.

In June and December 2016 and January 2017, Volkswagen AG, AUDI AG, Volkswagen Group of America, Inc. and certain affiliates reached settlement agreements in the USA with the DOJ on behalf of the EPA, CARB, and the California Attorney General, the US Federal Trade Commission (FTC), and private plaintiffs represented by a Plaintiffs' Steering Committee (PSC) in the multi-district litigation pending in California.

The settlement agreements will resolve certain civil claims made in relation to affected diesel vehicles in the USA: approximately 475,000 vehicles with four-cylinder diesel engines from the Volkswagen passenger cars and Audi brands and around 83,000 vehicles with six-cylinder diesel engines from the Volkswagen passenger cars, Audi and Porsche brands. In October 2016, the court finally approved the settlement agreements in connection with the four-cylinder diesel engines. A number of class members have filed appeals to an US appellate court from the order approving the settlements in connection with the four-cylinder diesel engines. The court has yet to approve the settlement agreements in relation to the six-cylinder diesel engines, which were lodged with the court on 31 January 2017.

The settlements with respect to the four-cylinder diesel engine vehicles provide affected customers with the option of a buyback or, for leased vehicles, early lease termination, or a free emissions modification of the vehicles, provided that EPA and CARB approve the modification. The settlements with respect to the six-cylinder diesel engine vehicles, which remain subject to court approval, provides for a buyback or, for leased vehicles, early lease termination program, or a free emissions modification provided that EPA and CARB approve the modification, for Generation 1 six-cylinder vehicles, and a free emissions recall and modification program (pending EPA and CARB approval) for Generation 2 six-cylinder vehicles. If modifications are not approved for Generation 2 six-cylinder vehicles, the settlements require Volkswagen to offer a buyback or, for leased vehicles, early lease termination for those vehicles. Volkswagen will also make additional cash payments to affected current owners or lessees as well as certain former owners or lessees.

Volkswagen also agreed to support environmental programs. Volkswagen will pay US$2.7 billion over three years and Audi will make an additional one-time payment in the amount of US$225 million into an environmental trust, managed by a trustee appointed by the court, to offset excess NO_x emissions. Volkswagen will also invest in total US$2.0 billion over ten years in zero emissions vehicle infrastructure as well as corresponding access and awareness initiatives for such technology. In addition, the six-cylinder vehicle settlement, if approved by the court, calls for an additional US$25 million payment to CARB to support the availability of ZEVs in California.

In January 2017, Volkswagen AG agreed with the US government to resolve federal criminal liability relating to the diesel issue. The Volkswagen Group also agreed with the US government to resolve civil penalties and injunctive relief under the Clean Air Act and other civil claims against the company relating to the diesel issue.

The coordinated resolutions involve four settlements, including a plea agreement between Volkswagen AG and the DOJ. The plea agreement is accompanied by a published statement of facts that lays out relevant facts and has been acknowledged by Volkswagen AG.

As part of its plea agreement, Volkswagen AG has agreed to plead guilty to three felony counts under US law: conspiracy, obstruction of justice and using false statements to import cars into the US. The plea agreement, which is subject to US federal court approval, provides for payment of a criminal fine of US$2.8 billion and the appointment of an independent monitor for a period of three years. The independent monitor will assess and oversee the company's compliance with the terms of the resolution. This includes overseeing the implementation of measures to further strengthen compliance, reporting and monitoring systems, including an enhanced ethics program.

Volkswagen AG, AUDI AG and other Volkswagen Group companies have further agreed to pay, subject to court approval, a combined penalty of US$1.45 billion to resolve US federal environmental and customs-related civil claims in the US. Furthermore, Volkswagen AG and Volkswagen Group of America, Inc. have agreed to pay a separate civil penalty of US$50 million to the Civil Division of the DOJ to settle potential claims asserted under the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA). Volkswagen AG and Volkswagen Group of America, Inc. specifically deny any liability and expressly dispute FIRREA claims, which they are settling to avoid the uncertainty and expense of protracted litigation.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By their terms, these agreements resolve liability issues under US law and are not intended to address any liability issues, where such exist, under the laws or regulations of any jurisdiction outside the United States. Volkswagen continues to cooperate in full with investigations by the DOJ into the conduct of individuals.

Furthermore, Volkswagen reached agreements with the attorneys general of 44 US states, the District of Columbia and Puerto Rico to resolve their existing or potential consumer protection and unfair trade practices claims – in connection with vehicles in the USA fitted with four-cylinder and six-cylinder diesel engines – for a settlement amount of US$603 million.

These settlements do not resolve potential state environmental claims related to the affected vehicles or certain other claims. Moreover, investigations by various US regulatory and government authorities, including in areas relating to securities, financing and tax, are ongoing.

In September 2016, Volkswagen announced that it had finalized an agreement to resolve the claims of Volkswagen-branded franchise dealers in the United States relating to the affected vehicles and other matters asserted concerning the value of the franchise. The settlement agreement includes a cash payment of up to US$1.208 billion, and additional benefits to resolve alleged past, current, and future claims of losses in franchise value. The court finally approved the settlement agreement in January 2017. This approval order is subject to appeal before an US appellate court.

In Canada, the NO_x emissions limits for vehicles are the same as in the USA. Civil consumer claims and regulatory investigations have been initiated for vehicles with 2.0 l and 3.0 l diesel engines. In December 2016, Volkswagen AG and other Canadian and US Volkswagen Group companies reached a class action settlement in Canada with consumers relating to 2.0 l diesel vehicles. The settlement provides for cash payments of up to CA$564 million to eligible owners and lessees, and many of these affected customers will also have the option of a free emissions modification of their vehicle if approved by regulators, or a buyback or trade-in or – for leased vehicles – early lease termination. The class settlement is subject to court approval, the hearings for which are scheduled for March 2017. Concurrently with the announcement of the class settlement in December 2016, Volkswagen Group Canada agreed with the Commissioner of Competition in Canada to a civil resolution of its regulatory inquiry into consumer protection issues as to 2.0 l diesel vehicles. This resolution was reached with the benefits in the class settlement, and Volkswagen Group Canada will also pay a CA$15 million civil administrative monetary penalty. Civil consumer claims and the Commissioner of Competition's investigation with respect to 3.0 l diesel vehicles remain pending. Also, criminal enforcement related investigations by the federal environmental regulator and quasi-criminal enforcement related investigations by a provincial environmental regulator are ongoing in Canada related to 2.0 l and 3.0 l diesel vehicles.

Impact of the diesel issue on the Volkswagen Group

Operating profit for 2016

Special items recognized in operating profit relating to the diesel issue amounted to €6.4 billion (prior year: €16.2 billion) in the fiscal year 2016, mainly due to higher provisions for legal risks.

Legal risks

Various legal risks are associated with the diesel issue. The provisions recognized in the consolidated financial statements of the Volkswagen Group for this matter and the contingent liabilities disclosed there as well as the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and the fact that the independent, comprehensive investigations have not yet been completed. The legal risks include:

- Criminal and administrative proceedings worldwide (excluding the USA/Canada)
- Product-related lawsuits worldwide (excluding the USA/Canada)
- Lawsuits filed by investors worldwide (excluding the USA/Canada)
- Proceedings in the USA/Canada

For detailed information we refer to the section “Report on opportunities and risks of the Volkswagen Group”. Should these legal risks materialize, this could result in considerable financial charges.

Further significant events and developments at the Volkswagen Group

New vision: "TOGETHER – Strategy 2025"
The new vision "TOGETHER – Strategy 2025" builds on the "Strategy 2018", creates the framework and lays the building blocks for the evolution of the Volkswagen Group, with its strong brands, its international production sites and its skilled, dedicated workforce. The Code of Collaboration formulated as part of the future program is the foundation on which the Volkswagen Group strategy rests. The Code describes how collaboration is to take place within the Volkswagen Group and between individuals in their day-to-day work. Its core values are encapsulated in the terms "open and honest", "uncomplicated", "without prejudice", "on an equal footing" and "for one another". The change process is complemented by the corresponding strategies of the brands and functional areas.

The new Volkswagen Group strategy comprises a raft of far-reaching strategic decisions and specific initiatives essentially aimed at safeguarding the group's long-term future and generating profitable growth. A total of 16 strategic Volkswagen group initiatives are assigned to the four key building blocks of the program. The latter are: comprehensively transforming the core automotive business; establishing a new mobility solutions business; strengthening the group's innovative power; and secure funding of the investments.

The strategic initiatives describe how Volkswagen intends to achieve the vision of becoming one of the world's leading providers of sustainable mobility. For this purpose, the Volkswagen Group has defined four targets dimensions – excited customers, excellent employer, role model for environment, safety and integrity, and competitive profitability – which are designed to help it grow sustainably.

Although these target dimensions apply throughout the group, the strategic KPIs that it will use to measure how well it has implemented its group strategy will depend on the business model. The business model for its passenger car brands is thus different not only from that of its truck and bus brands, but also from that of power engineering and its services business.

As part of the future program "TOGETHER – Strategy 2025", Volkswagen is setting up a new mobility solutions business with which it will press ahead with its transformation into a global leader in sustainable mobility. Volkswagen will develop and market mobility services independently or in partnership with others. In addition to ride provision via an app (ride hailing), the focus will be on holistic transport solutions that shape personal and public transport more efficiently. The mobility solutions business will be reported on in the financial services segment.

Antitrust proceedings against European truck manufacturers

In 2011, the European Commission opened antitrust proceedings against European truck manufacturers concerning inappropriate exchange of information during the period 1997–2011 and sent a statement of objections to MAN, Scania and the other truck manufacturers concerned in November 2014. With its settlement decision as of 19 July 2016 the European Commission has fined five European truck manufacturers excluding MAN and Scania. MAN was not fined as the company had informed the EU Commission about the cartel as a key witness. With regard to Scania, the antitrust proceedings will be continued. Scania has decided to fully exercise its rights of defense in the ongoing investigation. A provision of €0.4 billion was recognized in the Volkswagen consolidated financial statements in order to cover possible fines.

Settlement with non-controlling interest shareholders of MAN SE

The control and profit and loss transfer agreement between MAN SE, as the controlled company, and Volkswagen Truck & Bus GmbH, a wholly owned subsidiary of Volkswagen AG, as the controlling company, came into force upon its entry in the commercial register on 16 July 2013. The conclusion of the control and profit and loss transfer agreement replaced the group based on the de facto exercise of management control by a "contractual group", permitting considerably more efficient and less bureaucratic cooperation between the MAN Group and the rest of the Volkswagen Group. Non-controlling interest shareholders of MAN SE have the right to tender MAN ordinary and preference shares in Volkswagen Truck & Bus GmbH during and two months after the conclusion of the award proceedings instituted in July 2013 to review the appropriateness of the cash settlement set out in the agreement in accordance with Sec. 305 of the German Stock Corporation Act (AktG) and the cash compensation in accordance with Sec. 304 AktG. The Munich Regional Court ruled in the first instance at the end of July 2015 that the settlement payable to the shareholders should be increased from €80.89 to €90.29 per share. Both Volkswagen and a number of the non-controlling interest shareholders have appealed to the Higher Regional Court in Munich. At the end of December 2016, Volkswagen Truck & Bus GmbH held 75.73% of the ordinary shares and 46.43% of the preference shares of MAN SE.

Offer price for outstanding Scania shares

On 14 March 2014, Volkswagen AG made a voluntary tender offer to Scania's shareholders for all shares not previously held by Volkswagen either directly or indirectly. Following completion of the offer, Volkswagen increased its interest in Scania's share capital to 99.57% at the end of 2014. A squeeze-out was initiated for the Scania shares not tendered in the course of the offer and, on 11 November 2014, the Swedish court of arbitration ruled in the squeeze-out proceedings that all Scania shares outstanding would be transferred to Volkswagen AG. Volkswagen AG has been the indirect and direct legal owner of all Scania shares since 14 January 2015, when the decision became final and unappealable. In its ruling of 30 June 2016, the court of arbitration confirmed that the bid price paid by Volkswagen was an appropriate settlement.

Sale of investment in LeasePlan

Through its 50% interest in the joint venture Global Mobility Holding B.V. (GMH), Amsterdam, the Netherlands, the Volkswagen Group held a 50% indirect stake in the joint venture's subsidiary, LeasePlan Corporation N.V., Amsterdam, the Netherlands (LeasePlan). LeasePlan is a Dutch financial services group whose core business is leasing and fleet management. The final approvals for the sale of LeasePlan to an international consortium of investors were issued by the competent authorities in January 2016. Legal transfer of the LeasePlan shares to the consortium was completed on 21 March 2016. In the reporting period, the transaction had a positive effect of €2.2 billion on investing activities attributable to operating activities and net liquidity and, taking into account the disposal of the equity-accounted investment, resulted in income in €0.2 billion for the Volkswagen Group, which is reported in the financial result.

Business development

The business development of Porsche SE is largely shaped by its investment in Volkswagen AG as well as the development of the actions pending against it. For the business development of Porsche SE, 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, commercial vehicles and financial services business areas at the Volkswagen Group.

General economic development

The moderate growth in the global economy slowed in the fiscal year 2016 to 2.5% (prior year: 2.8%). While economic momentum decelerated in the industrialized countries as a whole, growth rates in emerging economies remained virtually constant year-on-year. Inflation increased as a result of the expansionary monetary policies pursued by many central banks and due to rising energy and commodity prices. In the industrialized nations, economic growth slowed overall, while the growth rate in the emerging economies remained constant compared to the prior year. Inflation increased in connection with the expansive monetary policy of many central banks and rising energy and commodity prices.

Worldwide new passenger car registrations

Worldwide, the number of new passenger car registrations increased to 81.1 million vehicles in the fiscal year 2016, exceeding the prior year’s record level by 5.4%. Demand rose in the Asia-Pacific, Western Europe, North America and Central Europe regions, while new passenger car registrations in South America, Eastern Europe and Africa failed to match the prior-year levels.

Sector-specific environment

The sector-specific environment was influenced significantly by fiscal policy measures, which contributed substantially to the mixed trends in sales volumes in the markets last year. The instruments used were tax cuts or increases, incentive programs and sales incentives, as well as import duties.

In addition, non-tariff trade barriers to protect the respective domestic automotive industry made the free movement of vehicles, parts and components more difficult. Protectionist tendencies were particularly evident where markets were on the decline.

Trends in the markets for commercial vehicles

In 2016, demand for light commercial vehicles was up slightly overall on the prior year: in total, around 9.6 million (prior year: 9.5 million) vehicles were registered worldwide. Global demand for mid-sized and heavy trucks with a gross weight of more than

six tonnes was higher in the fiscal year 2016 than in the prior year, with 2.3 million new vehicle registrations (up 0.9%). Demand for buses in the markets that are relevant for the Volkswagen Group was perceptibly lower than in the prior year.

Passenger car deliveries worldwide

With its passenger car brands, the Volkswagen Group has a presence in all relevant automotive markets around the world. The group's key sales markets currently include Western Europe, China, the USA, Mexico and Brazil. The Volkswagen Group's wide range of attractive and efficient vehicles gives it a strong position in a persistently challenging competitive environment. The Volkswagen Group recorded encouraging growth in many key markets.

Deliveries of passenger cars to customers rose during the reporting year to 9,635,484 units amid continued difficult conditions in relevant markets such as Brazil and Russia. This was an increase of 314,797 vehicles or 3.4% on 2015. The passenger car market as a whole expanded by 5.4% in the fiscal year 2016, which meant that the Volkswagen Group's share of the global market declined slightly to 11.9% (prior year: 12.2%). The group recorded the highest absolute growth in China. The sales figures in Brazil, Russia and other countries were impacted by low demand. The diesel issue affected the individual markets, mainly in the USA and Canada, in different ways during the reporting year, depending on the brand. Nearly all brands surpassed the prior year's delivery figures, with the Volkswagen passenger cars brand recording the strongest growth in absolute terms. Audi, ŠKODA, and Porsche set new records, as did Bentley and Lamborghini.

The Volkswagen Group delivered a total of 661,513 commercial vehicles to customers worldwide in 2016, 8.5% more than in the prior year. Trucks accounted for 165,806 units (up 2.4%) and buses for 17,775 units (up 3.7%). Sales by the Volkswagen commercial vehicles brand were up 10.9% on the prior year, with 477,932 vehicles delivered.

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

	2016	2015	Change %
Regions			
Europe/Other markets	4,617,746	4,505,011	2.5
North America	939,173	931,873	0.8
South America	421,539	558,594	–24.5
Asia-Pacific	4,318,539	3,935,118	9.7
Worldwide	**10,296,997**	**9,930,596**	**3.7**
by brands			
Volkswagen passenger cars	5,980,307	5,823,414	2.7
Audi	1,867,738	1,803,246	3.6
ŠKODA	1,126,477	1,055,501	6.7
SEAT	408,703	400,037	2.2
Bentley	11,023	10,100	9.1
Lamborghini	3,457	3,245	6.5
Porsche	237,778	225,121	5.6
Bugatti	1	23	–95.7
Volkswagen commercial vehicles	477,932	430,874	10.9
Scania	81,346	76,561	6.2
MAN	102,235	102,474	–0.2

1 Deliveries for 2015 have been updated to reflect subsequent statistical trends. Includes the Chinese joint ventures.


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Sales and production of the Volkswagen Group
In the reporting period, the Volkswagen Group's sales to the dealer organization worldwide – including the Chinese joint ventures – amounted to 10,391,113 vehicles, up 3.8% on the prior-year figure. The increase of 4.6% in unit sales outside Germany is primarily attributable to stronger demand in Western Europe and Central Europe, as well as in China. In Germany, the number of vehicles sold decreased by 1.7%.

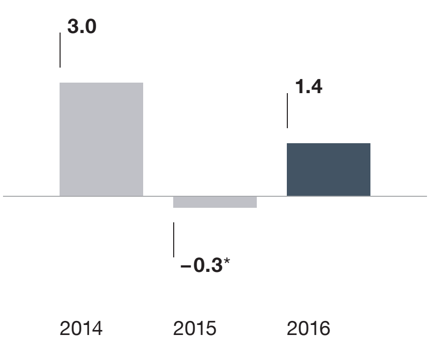
The Volkswagen Group produced 10,405,092 vehicles worldwide in the fiscal year 2016, 3.9% more than in the prior year. In total, the Chinese joint ventures produced 13.9% more units than in the year before. The percentage of the Volkswagen Group's total production accounted for by Germany was lower than in 2015, at 25.8% (prior year: 26.8%).

Headcount of the Volkswagen Group
The Volkswagen Group's headcount was 626,715 employees (up 2.7%) at the end of the reporting period. Significant factors for the increase in employees were the recruitment of specialists, particularly in Germany and China, volume-driven growth outside of Germany and the expansion of the workforce in the new plants in Mexico and Poland. A total of 281,518 people were employed in Germany (up 1.0%), while 345,197 were employed abroad (up 4.2%).

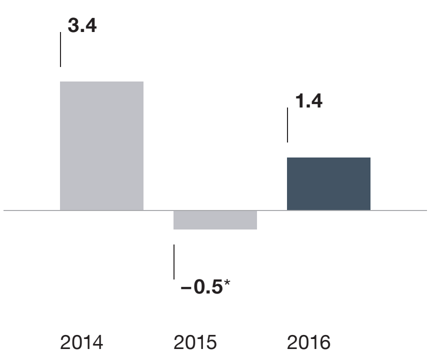
Volkswagen Group financial services
The financial services division combines the Volkswagen Group's dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings. The division comprises Volkswagen financial services and the financial services activities of Scania, Porsche and Porsche Holding Salzburg.

The number of new contracts signed worldwide in the customer financing/leasing and service/insurance areas rose by 13.1% to 7.1 million contracts in 2016. At 17.4 million, the total number of contracts at the end of 2016 exceeded the figure at the prior-year reporting date by 10.0%. The underlying contract types were modified according to their significance. The number of contracts in the customer financing/leasing area was up by 6.8% to 9.5 million, while it increased by 14.1% to 8.0 million contracts in the service/insurance area. The ratio of leased or financed vehicles to group deliveries (penetration rate) in the financial services division's markets rose to 33.3% (prior year: 31.5%) in the reporting period.

Profit/loss for the year (€ billion)



Profit/loss from investments accounted for at equity (€ billion)



* Including retrospective adjustment of the at equity accounting due to new findings regarding the purchase price allocation for additional purchases of investments accounted for at equity.

Results of operations, financial position and net assets

In the following explanations, the results of operations as well as the financial position and net assets of the Porsche SE Group for the fiscal year 2016 are compared to the corresponding comparative figures for the period from 1 January to 31 December 2015 (results of operations and financial position) and as of 31 December 2015 (financial position and net assets).

The purchase price allocation that had to be performed due to the acquisition of 1.5% of the ordinary shares in Volkswagen AG from Suzuki Motor Corporation, Shizuoka, Japan, had not yet been completed when the consolidated financial statements for the fiscal year 2015 were authorized for issue. In particular, new findings at the level of the Volkswagen Group regarding the values of underlying provisions and contingent liabilities from the diesel issue at the time of acquisition resulted in adjustments to the purchase price allocation. As the purchase price allocation was concluded as of 30 September 2016, findings and figures that became known at the level of the Volkswagen Group until this date were taken into account. These resulting adjustments in the comparative information are indicated in each case in the following explanations.

Results of operations of the Porsche SE Group

The Porsche SE Group's profit/loss for the fiscal year 2016 comes to €1,374 million (prior year: minus €308* million, before adjustment: minus €273 million). This result includes the profit/loss from investments accounted for at equity of €1,449 million (prior year: minus €471* million, before adjustment: minus €436 million), of which €1,467 million (prior year: minus €469* million, before adjustment: minus €434 million) was attributable to the investment in Volkswagen AG and minus €18 million (prior year: minus €2 million) to the investment in INRIX.

The profit for the year of between €1.4 billion and €2.4 billion originally forecasted for the fiscal year 2016 was narrowly missed. This is attributable in particular to negative effects on the Volkswagen Group's profit/loss for the year as a result of the diesel issue, which accordingly have an effect on the result from Porsche SE's investments accounted for at equity.

Porsche SE recorded revenue of €1 million in the fiscal year 2016 (prior year: €0 million). This result is largely due to rendering advisory services for the Volkswagen Group.

* Including retrospective adjustment of the at equity accounting due to new findings regarding the purchase price allocation for additional purchases of investments accounted for at equity.

Other operating income decreased in the fiscal year 2016 in comparison to the prior year from €7 million to €1 million. This decrease mainly results from the lower income from the reversal of provisions for litigation costs compared to the prior-year.

Personnel expenses in the Porsche SE Group came to €12 million in the period from 1 January to 31 December 2016 (prior year: €15 million). The decrease is primarily due to a member of the executive board standing down in the prior year and the post-employment benefits paid out in this connection.

Other operating expenses increased from €31 million in the prior year to €37 million in the fiscal year 2016. The increase is attributable to higher legal and consulting fees, which were partly compensated for by lower expenses for other external services and other taxes; in the comparative period this item also contained back payments for contributions for the Chamber of Industry and Commerce.

Profit/loss from investments accounted for at equity increased from minus €471* million in the prior year to €1,449 million. The change is mainly due to two effects. First, the share of profit/loss from investments accounted for at equity attributable to the investment in Volkswagen before purchase price allocations increased from minus €560 million to €1,594 million in particular as a result of the year-on-year lower expenses at the level of the Volkswagen Group for risk provisioning in connection with the diesel issue. Second, the prior-year profit contribution of the Volkswagen Group also included the following effects that resulted from changes in Porsche SE's share in the subscribed capital of Volkswagen AG:

- As a result of the purchase of ordinary shares in Volkswagen AG on 30 September 2015, the share in capital had increased from 31.5% to 32.4% as of that date. The purchase resulted in a book profit without an effect on cash of €411* million in the prior year (before adjustment: €448 million). This resulted from the difference between the equity of the Volkswagen Group attributable to the purchased tranche, which is remeasured as part of a purchase price allocation, and the purchase price for this tranche. The book profit resulted mainly from taking into consideration brands and investments of the Volkswagen Group at their fair values in the purchase price allocation. In addition, negative effects on the share price resulting from the diesel issue and, consequently, on the purchase price did not have to be

* Including retrospective adjustment of the at equity accounting due to new findings regarding the purchase price allocation for additional purchases of investments accounted for at equity.

- accounted for to the same extent in the purchase price allocation. The purchase price allocation required for this acquisition has been completed in the meantime; the book profit was therefore finalized.

- Due to the issue of the new Volkswagen preference shares until the beginning of November 2015 in connection with mandatory convertible bonds issued by Volkswagen, Porsche SE's share in the capital of Volkswagen AG decreased from 32.4% to 30.8%. In the fiscal year 2015, this dilution had a total negative impact of €237* million (before adjustment: €239 million) on the Porsche SE Group, which affected profit but not cash.

In the reporting year, the profit/loss from investments accounted for at equity also includes an amount of €14 million from the impairment of the investment in INRIX.

This item also includes effects resulting from the subsequent measurement of the purchase price allocations for Volkswagen and INRIX. The profit/loss from investments accounted for at equity was reduced by €128 million (prior year: €84 million) in total by the subsequent effects of these purchase price allocations, i.e., the subsequent measurement of hidden reserves and liabilities identified therein.

The financial result came to minus €20 million in the reporting period (prior year: €19 million). The decrease is largely attributable to the fact that

* Including retrospective adjustment of the at equity accounting due to new findings regarding the purchase price allocation for additional purchases of investments accounted for at equity.

this item contained income from tax interest of €59 million in the prior year pertaining to refunds of tax interest paid in the past and interest received on tax refunds for the 2009 assessment period. Expenses for interest on tax back payments of €20 million had the opposite effect in the prior year; in the reporting period, these had an impact of €1 million on the financial result.

Group profit before tax increased from minus €491* million (before adjustment: minus €456 million) to minus €1,382 million. The income tax expenses of €8 million relate to deferred taxes. In the prior year, in addition to income from deferred taxes of €14 million, this item also contained actual income from tax refunds received for the 2009 assessment period of €221 million and expenses from income taxes for prior assessment periods of €52 million. Overall, a group profit for the year of €1,374 million (prior year: minus €308* million) was recorded in the reporting year.

Financial position of the Porsche SE Group
The cash flow from operating activities came to minus €97 million in the fiscal year 2016 (prior year: €599 million). This includes in particular the positive effect from the dividend payment received from Volkswagen AG of €17 million (prior year: €719 million) as a cash inflow. There was a net cash outflow from income taxes paid and received of €45 million (prior year: net cash inflow of €40 million). The other cash outflows of €69 million (prior year: €160 million) are attributable in particular to interest payments (including interest paid on taxes) and operating expenses.

There was a cash inflow from investment activities totaling €341 million in the fiscal year 2016 (prior year: outflow of €255 million). In the reporting period, the decrease in the securities portfolio resulted in a cash inflow totaling €470 million (prior year: cash outflow of €447 million). There was a cash outflow as a result of the €129 million increase in the amount of time deposits with an original term

* Including retrospective adjustment of the at equity accounting due to new findings regarding the purchase price allocation for additional purchases of investments accounted for at equity.

of more than three months (prior year: cash inflow of €739 million). In the prior year, the acquisition of investments in associates resulted as well in a cash outflow of €547 million.

There was a cash outflow from financing activities of €308 million (prior year: €615 million) in the fiscal year 2016. As in the prior year, this exclusively concerned the dividends distributed to shareholders of Porsche SE.

Compared to 31 December 2015, cash funds decreased by €64 million to €648 million.

Gross liquidity, i.e., cash and cash equivalents, time deposits and securities of the Porsche SE Group, decreased from €2,004 million in the prior year to €1,599 million as of 31 December 2016 primarily due to the net cash outflow from dividends received and paid. Taking into account the loan liabilities of €300 million due to the Volkswagen Group, net liquidity – i.e., gross liquidity less financial liabilities – is clearly positive at €1,299 million as of 31 December 2016. The original forecast from the prior year regarding the development of net liquidity in the fiscal year 2016 of between €1.0 billion and €1.5 billion was therefore confirmed. As of 31 December 2015, net liquidity came to €1,704 million.

Liabilities to the Volkswagen Group pertain to a loan of €300 million. This is subject to interest on a quarterly basis at a rate of 6.91% per annum and matures on 18 June 2017.

Net assets of the Porsche SE Group

Porsche SE Group's total assets increased by €774 million from €27,591* million (before adjustment: €27,626 million) as of 31 December 2015 to €28,365 million as of 31 December 2016.

The non-current assets of the Porsche SE Group as of 31 December 2016 totaling €26,761 million (31 December 2015: €25,576* million, before adjustment: €25,611 million) almost exclusively comprise the investments accounted for at equity. These include the carrying amount of the investment in Volkswagen AG accounted for at equity, which increased in comparison to the end of the fiscal year 2015 from €25,536* million (before adjustment: €25,571 million) to €26,739 million. The

profit/loss from investments accounted for at equity resulted in an increase in the carrying amount of the investment accounted for at equity (€1,467 million); this was reduced by dividend payments received (minus €17 million) as well as other effects, which resulted in particular from the change in expenses and income recognized directly in equity (minus €247 million). Despite the proportional market capitalization being below the carrying amount as of 31 December 2016, on the basis of the earnings forecasts for the investment in Volkswagen AG, there was no need to recognize an impairment loss.

The investments accounted for at equity also include the carrying amount of the investment in INRIX, which totaled €21 million as of 31 December 2016 (31 December 2015: €38 million), primarily due to the impairment loss recognized amounting to €14 million.

Non-current assets expressed as a percentage of total assets increased from 92.7% as of 31 December 2015 to 94.3% at the end of the fiscal year 2016.

Current assets come to €1,604 million (31 December 2015: €2,015 million). As of the reporting date, these primarily contained securities (€272 million; 31 December 2015: €742 million), time deposits (€679 million; 31 December 2015: €550 million) and cash and cash equivalents (€648 million; 31 December 2015: €712 million).

As a percentage of total assets, current assets decreased from 7.3% to 5.7% as of 31 December 2016.

As of 31 December 2016, equity of the Porsche SE Group increased to a total of €27,894 million mainly due to the profit for the period (31 December 2015: €27,077* million, before adjustment: €27,112 million). The equity ratio increased from 98.1% in the prior year to 98.3% as of 31 December 2016.

Current and non-current provisions decreased from €174 million as of 31 December 2015 to €123 million. This decrease is mainly attributable to payments in connection with income taxes for the 2009 assessment period.

The current financial liabilities of €300 million relate to a loan due to the Volkswagen Group. This matures on 18 June 2017.

Results of operations of the significant investment

The following statements relate to the original profit/loss figures of the Volkswagen Group in the

* Including retrospective adjustment of the at equity accounting due to new findings regarding the purchase price allocation for additional purchases of investments accounted for at equity.

fiscal year 2016. This means that effects from inclusion 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, as well as from applying uniform group accounting policies, are not taken into consideration.

The Volkswagen Group generated revenue of €217,267 million in the fiscal year 2016, thus surpassing the prior-year figure by €3,975 million. Improvements in the mix and the good business development in the financial services division were offset by negative exchange rate effects and a slight decline in vehicle unit sales, excluding the Chinese joint ventures. At 79.9% (prior year: 80.2%), a large majority of sales revenue was recorded outside of Germany.

At €40,997 million (prior year: €33,911 million), gross profit was up year-on-year. Adjusted for the special items recognized here in both periods, gross profit was on a level with the prior year, at €42.5 billion (prior year: €42.4 billion). The gross margin amounted to 18.9% (prior year: 15.9%); excluding special items it was 19.6% (prior year: 19.9%).

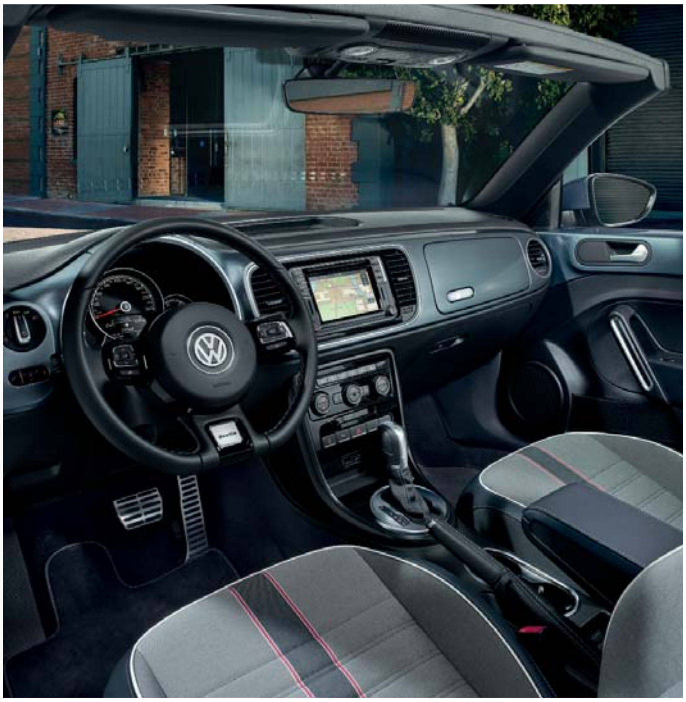
At €14.6 billion (prior year: €12.8 billion), the Volkswagen Group's operating profit before special items was up year-on-year, while the operating return on sales before special items increased to 6.7% (prior year: 6.0%). In addition to optimized product costs, improvements in the mix had a positive effect, while exchange rate effects, the decline in unit sales (excluding the Chinese joint ventures) and higher depreciation and amortization charges had a negative impact. Negative special items of €7.5 billion (prior year: €16.9 billion), particularly for legal risks, weighed on operating profit; of this total, €6.9 billion (prior year: €16.7 billion) was attributable to the passenger cars business area, €0.5 billion (prior year: €0.2 billion) to the commercial vehicles business

area and €0.2 billion to the power engineering business area.

At €7,103 million (prior year: minus €4,069 million), the Volkswagen Group's operating profit was up significantly on the prior year. The operating return on sales rose to 3.3% (prior year: minus 1.9%).

At €189 million, the financial result was €2,578 million lower than in 2015. In the prior year, the income from the sale of the Suzuki shares had a clearly positive effect. The decline was also the result of a year-on-year decrease in income from the equity-accounted Chinese joint ventures, higher finance costs due to interest-related and remeasurement effects as well as higher expenses from derivative financial instruments. The income from the sale of the LeasePlan shares had a positive effect.

At €7,292 million, the Volkswagen Group's profit before tax was €8,593 million higher than in the prior year. The return on sales before tax rose from minus 0.6% to 3.4%. The income tax expense amounted to €1,912 million (prior year: €59 million), resulting in a tax rate of 26.2% in the reporting period. Compared with the prior year, profit after tax grew by €6,740 million year-on-year to €5,379 million.



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 2016.

Results of operations

Porsche SE incurred a net loss of €70 million in the fiscal year 2016 (prior year: net profit of €871 million).

Porsche SE recorded revenue of €1 million in the fiscal year 2016 (prior year: €0 million). This result is largely due to advisory services rendered for the Volkswagen Group.

The decrease in other operating income is mainly attributable to lower income from the reversal of provisions for litigation costs.

Other operating expenses for the fiscal year 2016 mainly contain legal and consulting costs of €22 million (prior year: €12 million) and expenses for other external services of €8 million (prior year: €9 million). In the prior year, this item also contained back payments for contributions for the Chamber of Industry and Commerce of €2 million.

In the fiscal year 2016, Porsche SE received a dividend from its investment in Volkswagen AG of €17 million (prior year: €719 million). Due to the impairment loss recorded at the level of Porsche Beteiligung GmbH on the investment in INRIX, profit and loss transfer agreements resulted in a negative effect on the investment profit/loss of €20 million.

The interest result for the fiscal year 2016 decreased from €23 million in the prior year to minus €21 million. The decrease is largely attributable to the fact that this item contained income from tax interest of €59 million in the prior year pertaining to refunds of tax interest paid in the past and interest received on tax refunds for the 2009 assessment period. In the prior year, expenses for interest on tax back payments of €20 million had the opposite effect; in the reporting period, these had an impact of €1 million on the interest result.

While income tax of €0 million was reported in the fiscal year 2016, in the prior year income of €169 million was reported. This comprised income as a result of tax refunds of €221 million received for the 2009 assessment period and income tax expenses in connection with previous assessment periods of €52 million.

Income statement of Porsche Automobil Holding SE

€ million	**2016**	2015
Revenue	1	0
Other operating income	1	7
Personnel expenses	–11	–16
Other operating expenses	–36	–29
Profit/loss from investments	–3	719
Interest result	–21	23
Income tax	0	169
Profit/loss after tax	**–69**	**873**
Other tax	–1	–2
Net loss or profit	**–70**	**871**
Withdrawals from retained earnings	378	0
Transfer to retained earnings	0	–435
Net profit available for distribution	**308**	**436**

Net assets and financial position

In addition to the investment held in Volkswagen AG with a carrying amount of €22,034 million, the financial assets of Porsche SE comprise the investment of €43 million in Porsche Beteiligung GmbH, which in turn holds the investment in INRIX. Despite the proportional market capitalization being below the carrying amount as of 31 December 2016, on the basis of the earnings forecasts for the investment in Volkswagen AG, there was also no need to recognize an impairment loss in the separate financial statements prepared in accordance with the German Commercial Code. In addition, the financial assets also include securities classified as non-current assets of €200 million, which pertain to shares in an alternative investment fund.

Securities classified as current assets contain asset-backed commercial papers and come to €83 million as of 31 December 2016 (31 December 2015: €558 million).

Cash and cash equivalents increased from €1,250 million on 31 December 2015 to €1,319 million as of 31 December 2016 largely due to the sale of securities classified as current assets; this was counterbalanced primarily by distributions made to the shareholders of Porsche SE of €308 million.

Provisions contain provisions for pensions and similar obligations, tax provisions as well as other provisions. The decrease in provisions from €169 million as of 31 December 2015 to €115 million as of 31 December 2016 is mainly attributable to payments in connection with income taxes for the 2009 assessment period.

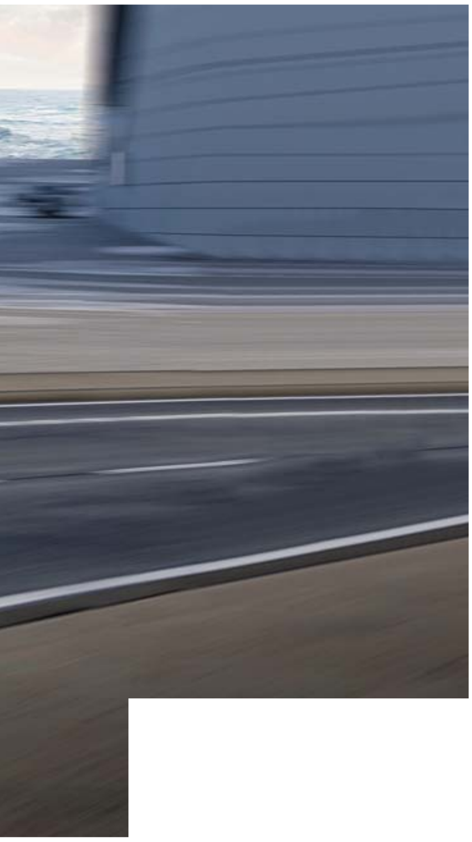
Liabilities pertain in particular to a loan to an affiliated company. The increase in liabilities is mainly due to the increase in Porsche SE's obligations in the reporting period stemming from profit and loss transfer agreements.

Balance sheet of Porsche Automobil Holding SE

€ million	**31/12/2016**	31/12/2015
Assets		
Financial assets	22,277	22,277
Other assets	2	7
Receivables from affiliated companies	1	1
Marketable securities	83	558
Cash and cash equivalents	1,319	1,250
Prepaid expenses	0	1
	23,682	**24,094**
Equity and liabilities		
Equity	23,230	23,608
Provisions	115	169
Liabilities	337	317
	23,682	**24,094**

Risks relating to the business development

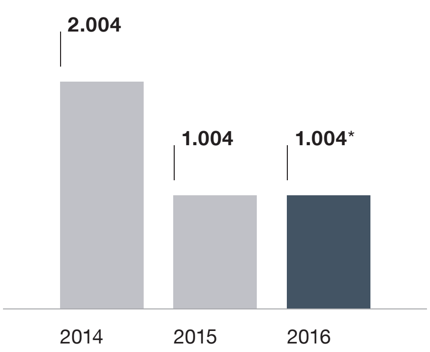
The risks relating to the development of Porsche SE's business as the parent company of the Porsche SE Group are closely connected to the risks relating to the significant investment in Volkswagen AG. Acting as a holding company also entails additional risks. Please refer to the section "Opportunities and risks of future development" for a description of these risks.



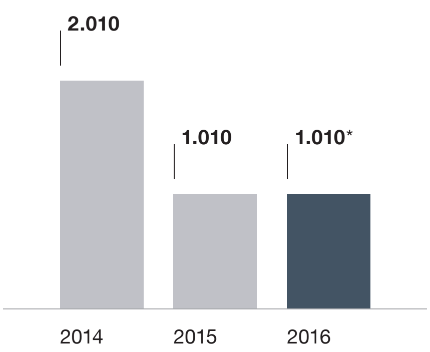
Dividends
Porsche SE's dividend policy is generally geared to sustainability. In view of the continued impact of the diesel issue at the level of the Volkswagen Group in the fiscal year 2016, the executive board of Porsche SE considers it appropriate to distribute a dividend for the fiscal year 2016 that is on a par with the prior year.

The separate financial statements of Porsche SE as of 31 December 2016 report a net profit available for distribution of €308 million consisting of a net loss for the year of €70 million and a withdrawal from retained earnings of €378 million. The executive board proposes a resolution for the distribution of a dividend of €1.004 per ordinary share and €1.010 per preference share, i.e., a total distribution of €308,393,750.

Dividend per ordinary share (€)



Dividend per preference share (€)



* Proposal to the annual general meeting of Porsche SE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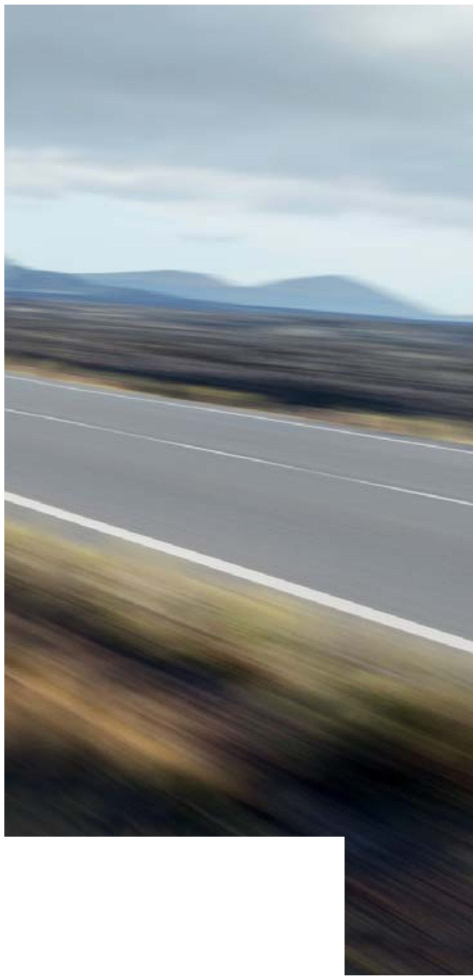
For the fiscal year 2015, the dividend was likewise €1.004 per ordinary share and €1.010 per preference share.

Dependent company report drawn up

As in previous years, in accordance with Sec. 312 AktG, Porsche SE has drawn up a report on relations with companies affiliated with holders of its ordinary shares (dependent company report). The conclusion of this report is as follows: “In accordance with the circumstances known to it when the transactions stated in the report were conducted, Porsche Automobil Holding SE has rendered reasonable service or, as the case may be, received reasonable payment. The company was not disadvantaged by these transactions.”

Outlook

In the 2017 separate financial statements prepared in accordance with the German Commercial Code, based on the dividend proposed by the board of management and supervisory board of Volkswagen AG of €2.00 per ordinary share and €2.06 per preference share and the operating expenses, which are anticipated to remain constant, Porsche SE is expected to generate a net profit in the low triple-digit million euro range.



Sustainable value enhancement in the Porsche SE Group

The investment in Volkswagen AG remains at the center of Porsche SE's investment strategy. Porsche SE's objective is also to acquire additional investments, thereby generating a sustainable increase in the value of net assets.

Porsche SE's network of experts is a key factor for a successful investment strategy. When it comes to identifying, implementing and further developing investment projects, Porsche SE benefits from being integrated into one of the largest automotive networks worldwide, which is in turn based on decades of industrial expertise of its ordinary shareholders. Moreover, Porsche SE expands its network to include experts from industry, banks and consulting Porsche SE's core competencies lie in identifying, reviewing and developing investments, utilizing its entire network. The network plays a particular role in supporting the management teams responsible for investments with the implementation of long-term and sustainable growth strategies.

Sustainable value enhancement in the Volkswagen Group

This section presents the main non-financial key performance indicators of the Volkswagen Group. These value drivers help raise the value of this significant investment held by Porsche SE in the long-term. They include the processes in the areas of research and development, procurement, production, sales and marketing, information technology and quality assurance. Above all, Volkswagen is aware of its responsibility toward its customers, its employees and society.

Sustainability in the Volkswagen Group

The Volkswagen Group is committed to sustainability-driven, transparent and responsible corporate governance. The biggest challenge the Volkswagen Group faces in implementing this at all levels and at every step in the value chain is the complexity of the company, with its twelve brands, more than 626 thousand employees and 120 production locations. In order to tackle this challenge in the best way possible, Volkswagen follows the recommendations of the German Corporate Governance Code and coordinate the sustainability activities across the entire group. Volkswagen has also put in place a forward-looking system of risk management and a clear framework for dealing with environmental issues in a future-oriented manner, employee responsibility and social commitment across our brands and in the regions in which it operates. The remuneration paid to the Volkswagen Group's board of management also takes the company's long-term success into account.

For the Volkswagen Group, sustainability means simultaneously striving for economic, social and environmental goals in a way that gives them equal priority. The Volkswagen Group wants to create enduring value, provide good working conditions and handle the environment and resources with care. In connection with the diesel issue, Volkswagen failed to meet its own standards in several respects. The irregularities in its handling of emissions figures are contrary to everything Volkswagen stands for. Volkswagen is doing everything within its power both to prevent it happening again and to regain lost trust from its stakeholders. Volkswagen sustainability concept is under extensive revision to ensure that it recognizes risks and opportunities in the areas of environment, society and governance at an early stage at every step along the value chain. In this way, Volkswagen Group's corporate social responsibility (CSR) activities will contribute toward enhancing the company's reputation and value in the long term.

Management and coordination
The Volkswagen Group has created a clear management structure to coordinate the group's activities as regards sustainability and CSR. Its highest committee is the group board of management (sustainability board), which is regularly informed by the group sustainability steering group on issues related to sustainability and corporate responsibility. The members of the group sustainability steering group include executives from central board of management business areas and representatives of the group works council and the brands. The steering group's tasks include identifying the key action areas, making decisions on the strategic sustainability goals, monitoring the extent to which these goals are being met by means of indicators and approving the sustainability report.

The sustainability office supports the steering group. Its duties include coordinating all

sustainability activities within the group and the brands. It is also responsible for stakeholder dialog at group level, for example with sustainability-driven analysts and investors. In addition, CSR project teams work across business areas on topics such as reporting, stakeholder management and sustainability in supplier relationships. In parallel, this coordination and working structure is also largely established across the brands and is constantly expanding. Since 2009, the sustainability & CSR coordinators for all brands and regions have come together once a year to promote communication across the group, create uniform structures and learn from one another. This group CSR meeting has proven its worth as an integral part of the group-wide coordination structure.

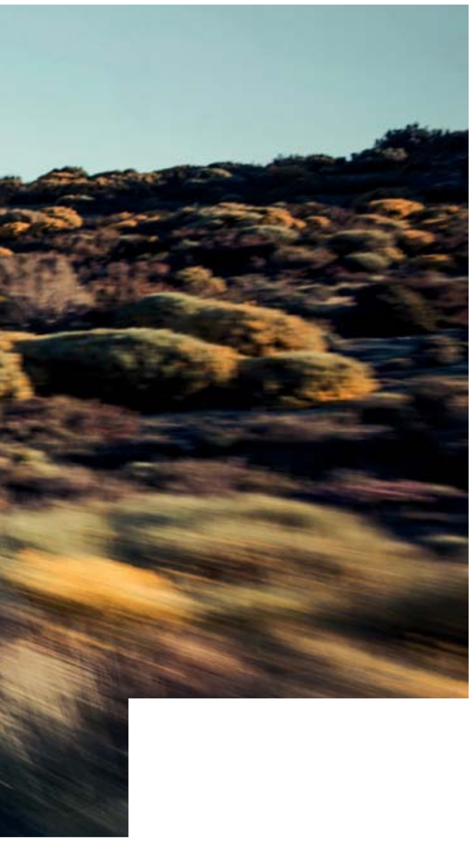
Sustainability council

As part of its efforts to continuously improve and expand its sustainability management, the Volkswagen Group appointed an international sustainability council in 2016 made up of renowned experts from the academic world, politics and society. The members of the council establish their own working methods and areas of focus independently and consult with the board of management, senior managers and the employee representatives regularly. The council's role is to cast a searching, critical eye over developments within the company and in society.

The proven expertise of the council members guarantees a comprehensive approach. The topics addressed are social responsibility and integrity, sustainable mobility and climate protection, and the future of work and digitalization.

The sustainability council is vested with rights of information, consultation and initiative. This involves receiving timely, comprehensive information so that the council can fulfill its consulting mandate. Dialog between the company and the council is ensured through the active offering of consultations. In addition, the council is authorized to proactively propose topics and it or its members can implement projects with the company subject to prior agreement.

The first key issues in 2017 will be not only the challenges thrown up by global CO_2 emissions and the corresponding regulations to be met



post-2025, but also the company's transformation process. The Volkswagen Group is initially providing €20 million in funding for projects proposed and promoted by the sustainability council in its first two years.

Research and development in the Volkswagen Group

An important basis for innovation and thus the success of the business of Volkswagen Group hinges on the early detection of future-oriented developments and trends in the ever-more complex areas of society, politics, technology, the environment and the economy. The Volkswagen Group's research institutes in the world's key automotive markets directly monitor pioneering developments in the local environment, thus gaining important insights that will safeguard the Volkswagen Group's future.

In the reporting period, the Volkswagen Group research activities were focused on designing forward-looking mobility solutions that will safeguard the company's future and on establishing innovative technological expertise to strengthen its competitiveness. Volkswagen Group's development activities focused on expanding its product range and enhancing the functionality, quality, safety and environmental compatibility of its products.

The future program TOGETHER – Strategy 2025 provides the framework for the realignment of the group-wide research and development work: together with the brands, Volkswagen has formulated an R&D strategy for the group and already set in motion its first projects. This enables the brands to focus on developing future trends and systematically strengthening the development network – for example, so as to tap synergies and make efficiency gains even in the early phase of product development.

The Volkswagen Group's Technology Management team is supporting the group's transformation into a provider of sustainable mobility solutions by ensuring that early development activities are aligned with future trends in the automotive sector and by creating links between innovation areas such as service design and more traditional product-related topics. All its mobility concepts are systematically tailored to its customers' needs.

Key R&D figures

In the reporting period, the automotive division's total research and development costs of €13,672 million were 0.4% higher than in the prior year; total research and development expenditure as a percentage of the automotive division's sales revenue (the R&D ratio) came to 7.3% (prior year: 7.4%). Along with new models, the main focus was on the electrification of the vehicle portfolio, a more efficient range of engines, lightweight construction, digitalization and the development of modular toolkits. Development costs of €5,750 million were capitalized (prior year: €5,021 million). The capitalization ratio rose to 42.1% (prior year: 36.9%). Amortization of capitalized development costs in the reporting year 2016 came to €3,587 million compared to €3,263 million in the prior year. Research and development costs recognized in the income statement in accordance with IFRSs decreased to €11,509 million (prior year: €11,853 million).

As of 31 December 2016, the research and development function – including the equity-accounted Chinese joint ventures – employed 48,063 people (minus 1.4%) group-wide or 7.7% of the total headcount.

Procurement in the Volkswagen Group

The main tasks for procurement in the fiscal year 2016 were to cover the company's needs and safeguard its vehicle start-ups as well as to help ensure the competitiveness of its products. Beyond that, procurement calculated opportunities in new markets and shaped the company's future partnerships with its suppliers through the Volkswagen FAST (Future Automotive Supply Tracks) initiative.

Volkswagen FAST – progress and milestones

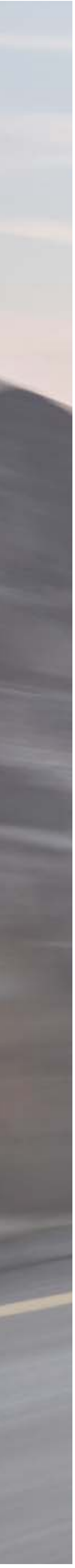
FAST is the central initiative of group procurement, introduced in 2015 with the aim of making the Volkswagen Group and its supply network future-proof. The goal of FAST is to successfully implement the key topics of innovation and globalization by involving suppliers at an earlier stage and more intensively. The FAST initiative enhances the quality and speed of collaboration with the key partners of the Volkswagen Group, and thus enables the Volkswagen Group to coordinate global strategies and points of technological focus even more closely. The common goal is to make impressive technologies available to our customers even more quickly and to implement worldwide vehicle projects more effectively and efficiently.

Key milestones were reached in 2016: Strategic dialogs with 55 suppliers for 61 competencies and agreed on joint targets were held. At the first strategy conference, these selected suppliers talked with members of the board of management and other representatives of the Volkswagen Group and its brands about the key topics and projects of the coming years. After its successful launch, the FAST initiative will now be

expanded to include suppliers for other product groups, e.g. components for vehicle connectivity. The Volkswagen Group carried out an initial review of these strategic partnerships in 2016 and will continuously adapt the group of FAST suppliers where necessary. This means that suppliers who have not yet been selected still have an opportunity to qualify for the initiative.

Digitalization of supply

The Volkswagen Group is striving to develop an entirely digital supply chain, and its partners have a crucial role to play in this. In 2016, the process optimization program, Supplier Interaction Management, provided Volkswagen with additional supplier feedback across all brands and regions of the Volkswagen Group on the potential for efficiency gains and digitalization. Subsequently, the Volkswagen Group used that feedback to come up with ideas and approaches to further optimize and digitalize the points of contact in our collaboration, for example by deploying artificial intelligence when dealing with bottlenecks in the supply of purchase parts and raw materials. The group business platform constituted an important milestone in 2016 in optimizing and digitalizing the collaboration with Volkswagen's suppliers. Thanks to the latest technical developments, the Volkswagen Group will be in a position going forward to make fast, cost-effective use of the most innovative technological trends offered by mobile and Internet-based collaboration. By bringing together internal and external partners on a digital platform, Volkswagen is making it possible for all those involved to communicate with each other in real time.

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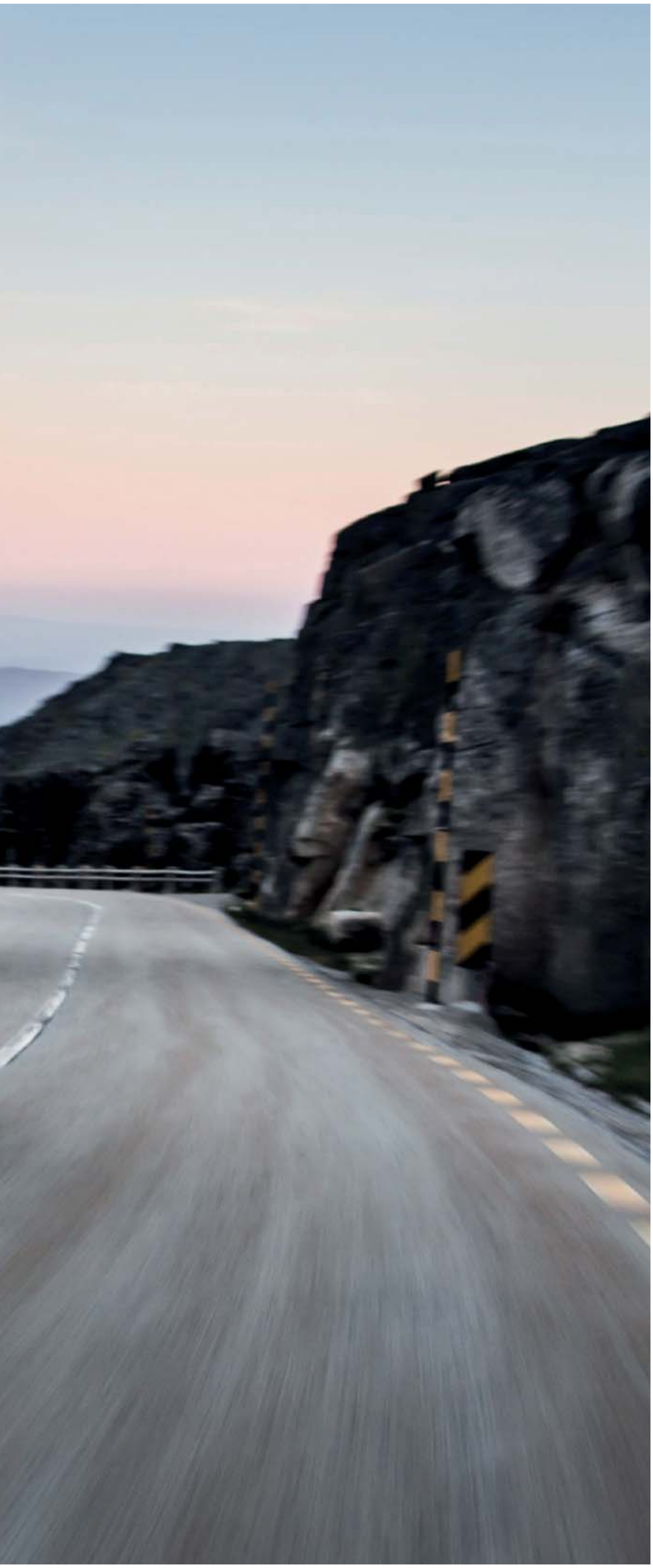


Management of purchase parts and suppliers
At the Volkswagen Group, purchase parts management comprises the technical unit within procurement that is responsible for ensuring the availability of purchase parts by means of an international network of tool and industrialization experts. The experts of purchase parts management assist in taking preventive action before the start of series production in new vehicle and powertrain projects through the inspection of selected purchase parts volumes for the toolmaking process and provide reactive support when problems arise in the supply of purchase parts during series production. Purchase parts management's international network enables its experts to draw on the knowledge and experience of colleagues at various locations during global projects, thus enhancing the efficiency of start-ups. The purchase parts management experts work in close cooperation with their quality assurance colleagues across all divisions in the plants and carry out performance tests of suppliers at the individual milestones in the product development process in order to ensure that the required supplier capacities are available in the right quality for vehicle start-ups.

Production in the Volkswagen Group

Volkswagen is creating and managing a global cross-brand production network. This is designed to safeguard the processes from the supplier to the factory and assembly line, and from the factory to dealers and customers. Enduring efficiency is a prerequisite for the Volkswagen Group's competitiveness. The Volkswagen Group meets challenges of the future with holistic optimizations, pioneering innovations, flexible supply streams and structures, and an agile team. In fiscal year 2016, the global production volume passed the ten-million mark again. Productivity increased by around 4% year-on-year despite the continuing difficult conditions in many markets.



Global production network
With twelve brands and 120 production locations, multibrand projects are an important aspect of the Volkswagen Group’s forward-looking production. The corporate objective is to generate maximum synergies based on the platform strategy and enable several brands to use the same production locations.

The modular platforms and toolkits allow us to design our production sites to be flexible. They generate synergy effects that enable us to reduce capital expenditure and make better use of existing capacities. With these toolkits, the Volkswagen Group has created the conditions for using the production sites for several brands at the same time. Its so-called multibrand locations can respond flexibly to market requirements and further raise the group’s competitiveness. The Bratislava site, for example, produces vehicles for the Volkswagen passenger cars, Audi, Porsche, SEAT and ŠKODA brands. It will be joined by further multibrand locations in the future, including in Tianjin, China. Currently, almost half of the 40 passenger car locations are already multibrand locations.

Another concept for volume flexibility is the “turntable”. This is used, among other things, to compensate for fluctuations in demand or in segment shifts. One such “turntable” is formed by Volkswagen’s sites in Emden (Passat), Zwickau (Passat and Golf) and Wolfsburg (Golf). The Volkswagen Group is aiming to become one of the world’s leading providers of battery-powered electric vehicles by 2025. It will therefore expand the product range and launch a new family of electric cars based on the Modular Electric Toolkit (MEB). Volkswagen is also tackling this challenge in its production processes with the aim of integrating these new vehicles into existing conventional factories as efficiently as possible. In 2016, the Volkswagen Group prepared to adapt the production network to new products and technologies in vehicle and component manufacture.

New technologies and product innovations
Modern, highly efficient car production like that at the Volkswagen Group would be inconceivable without reliable and extensive automation technology. Networking and digitalization in production already played an important role well before the term Industry 4.0 was coined. Volkswagen is exploring new technological solutions in many evaluation and implementation projects, including for identifying and localizing components and equipment, for energy management and predictive maintenance, for data-driven analysis and control of production processes, and for the use of wearables such as smartglasses in logistics processes. The aim is to increase equipment availability, flexibility and productivity, while also reducing the use of resources.

An important topic for the manufacturing of the future is human-robot collaboration (MRK). Volkswagen plans to support employees using

robots equipped with special safety sensor technology, helping them to perform tasks that are physically uncomfortable or particularly monotonous. Assembly and logistics processes present a large potential field of application for MRK. Volkswagen is systematically analyzing the existing tasks in production lines and examining the technical abilities of the new robot systems. As part of a strategic cooperation with a renowned robot manufacturer in 2016, Volkswagen has defined a series of application projects and successfully implemented the first solutions in series production. The results of the pilot projects enable us to verify the expected ergonomic and economic benefits, and to take subsequent decisions on this basis. Volkswagen's approach is to build its own planning expertise for workplaces with MRK.

The design and introduction of new production technologies involve the affected staff in the redesign of workplaces and processes from the very outset. This is an important prerequisite if new technologies and solutions are to find the necessary acceptance.

Sales and marketing in the Volkswagen Group

The Volkswagen Group's unique product portfolio comprises twelve successful brands, including innovative financing services.

E-mobility and digitalization in group sales
The Volkswagen Group plans to launch over 30 new electric vehicles by 2025. Its e-mobility strategy also encompasses the development of customer-oriented products and business models around the vehicle, including arranging customer-specific charging infrastructure solutions. With such innovative products and services and our mobile online services, the Volkswagen Group will evolve from an automotive manufacturer into a mobility provider.

In sales, the Volkswagen Group makes use of the opportunities that increasing digitalization offers. Its actions are guided by a clearly defined strategy that requires extensive cooperation between the brands to achieve the greatest possible synergies.

Digitalization will be decisive in creating a completely new product experience for our customers – one which captivates with seamless customer communications, from the initial interest in purchasing a vehicle to servicing and ultimately to the sale of the used car. At the same time Volkswagen thus opens up new business models and opportunities – relating in particular to mobility and other services – around the connected vehicle. This will increasingly make us an integral part of the customer's digital world of experience. The Volkswagen Group takes great care to make all processes transparent so that customers always retain control of their own data.

The Volkswagen Group also gears its internal processes and structures to the speed of digital innovation. The result is project teams operating across different business areas, new forms of cooperation, a more intensive relationship with the international start-up scene, a consolidation of venture capital expertise as a form of supporting innovative ideas and business models as well as new lean systems and cloud-based IT solutions.

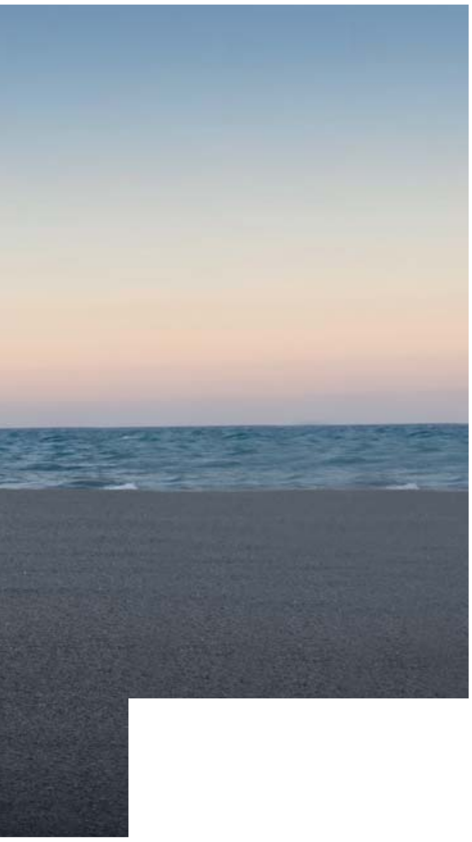
Customer satisfaction and customer loyalty in the Volkswagen Group

The Volkswagen Group's sales activities focus consistently on increasing customer satisfaction – this is the top priority for the group. Aided by the digitalization offensive in sales, the Volkswagen Group is placing even greater emphasis on customer requirements and on service; this offensive will sustainably shape its business.

The group's brands regularly seek to identify customer satisfaction levels, focusing on products and services. They derive new measures from the survey results to achieve even greater customer satisfaction.

The Volkswagen Group's sales structure

The Volkswagen Group's multibrand structure helps to promote the independence of its brands. Nevertheless, Volkswagen uses overarching sales activities to increase sales volumes and market share, cut costs and improve earnings contributions.

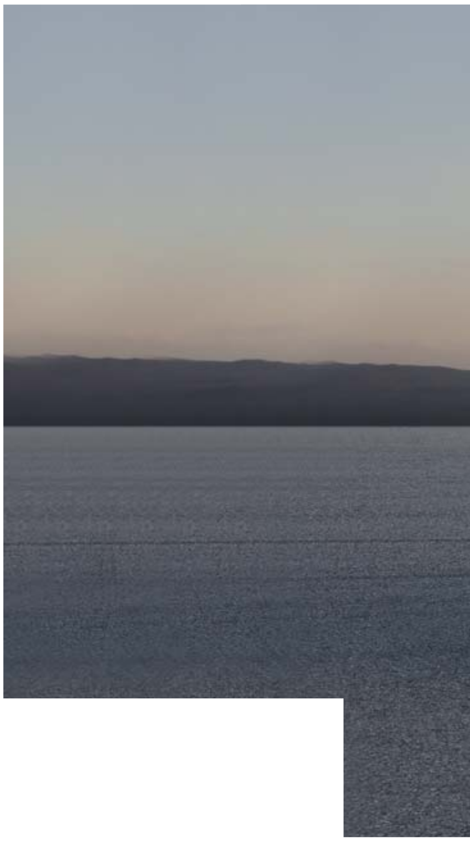


The Volkswagen Group intensified its efforts to improve dealer profitability during the reporting period, increasing the business volume per dealer and putting new cost-cutting programs into action. Here, the focus was always on maintaining a close working relationship with dealers and ensuring their profitability. Volkswagen uses its group companies to manage its wholesale business in over 20 markets. A central department provides transparency and ensures that sales activities are cost effective. By creating synergies between the brands, this is making a major contribution to achieving the aims of its Strategy 2025. This makes it possible for the remaining wholesale companies to learn quickly and efficiently from the group-wide benchmarking process and from the best practices adopted by individual companies. In the reporting period, Volkswagen focused on optimizing structures with a view to further decentralization and improving logistics costs at its sales companies.

The Volkswagen Group's quality assurance

The quality of products and services plays a key role in maintaining customer satisfaction. Customers are particularly satisfied and remain loyal when their expectations of a product or service are met or even exceeded. Appeal, reliability and service determine quality as it is perceived by the customer throughout the entire product experience. The Volkswagen Group's objective is to positively surprise and excite its customers in all areas and thus win them over with its outstanding quality. The Volkswagen Group continued to aspire to this objective in the reporting period. The diesel issue has shown, however, that the Volkswagen Group must broaden its previous understanding of quality. Quality assurance now checks the compliance of its products more intensively.

The Volkswagen Group also places greater emphasis on its quality management system than before, thereby reinforcing the process-driven approach group-wide across all business areas. Quality management in the Volkswagen Group is based on the standard ISO 9001: the requirements of this standard must be met to obtain the type approval for producing and selling its vehicles. Following the revision to the standard in 2015, Volkswagen applied the new requirements to all the group's locations and brands during the reporting period. One key change in content concerns the risk assessment for non-compliance with defined processes. To ensure that these and other new requirements as well as official regulations are implemented and complied with, Volkswagen has developed guidelines, recommendations and tips for quality management consultants, and provides them with support in their everyday work.



As a further step, Volkswagen has reinforced application of the internal control principle – mutual support and control between the divisions – and built up important additional expertise, including in software security. This particularly affects the control mechanisms between technical development and quality assurance before and after the start of production. In product development, for example, the Volkswagen Group has introduced the same principle for the approval of powertrains. At the series production stage, too, Volkswagen is working even harder to carry out conformity checks on it products with the participation of all business units involved and to perform assessments and make decisions on this basis. This applies particularly to exhaust emissions and fuel consumption.

With these and other measures, quality assurance makes sure that the Volkswagen Group not only meets all legal requirements imposed on it as a manufacturer but that its products do as well.

Employees in the Volkswagen Group

As of 31 December 2016, the Volkswagen Group, including the Chinese joint ventures, employed 626,715 people, 2.7% more than at the end of fiscal year 2015. The ratio of group employees in Germany to those abroad remained stable in the reporting period. At the end of 2016, 44.9% (prior year: 45.7%) were employed in Germany.

Alongside training for employees, development of graduates, the advancement of women and a family-friendly human resources policy, as well as preventive healthcare and occupational safety remained the focus of HR work in the fiscal year 2016.

Information technology (IT) in the Volkswagen Group

With digitalization and networking in the ascendant on the whole, all of our business processes must also be supported digitally from end to end. At the same time, the establishment of new locations is posing high demands in terms of networking and coordination. A modern, tailor-made infrastructure and efficient application landscape are essential to meeting these requirements. The centerpiece is the group-wide "Fertigungs-, Informations- und Steuerungssystem" (FIS – Production, Information and Control System). This enables Volkswagen to efficiently produce vehicles at currently 43 plants worldwide – at the right time and with the right equipment. FIS is a key success factor for flexible, cross-brand manufacturing in the global production network.

In 2016, Volkswagen increased the group-wide level of IT standardization for managing its plants to 88% (prior year: 84%). The "digital factory" is an example of an application launched only recently: even before the company breaks ground on the construction of a new plant, its planners are able to take a virtual walk through the building, check their plans and thus ensure production can begin as intended.

The growing convergence of production and IT is opening up new opportunities. Big data processes help analyze faulty machinery and take action at an early stage. Volkswagen is addressing the trend towards digitalization in the group's own IT labs. At these innovation centers, new IT solutions are developed in close cooperation between departments, research institutions and technology partners. The innovation centers act as test laboratories for the group, as advisors on questions concerning the future of information technology and as liaison offices for start-up companies.

The Volkswagen Group's first IT lab, Data:Lab in Munich, is the center of expertise and innovation on topics involving big data, advanced analytics (process for systematic analysis of data in electronic form), machine learning and artificial intelligence.

Another center of innovation opened in Berlin in the reporting period – Digital:Lab. Among other

things, the experts there are working on a digital platform that will enable Volkswagen to provide its customers with mobility services, including information on fuel prices, parking and weather conditions.

The Volkswagen Group established the Smart.Production:Lab at the Wolfsburg location in August 2015. This acts as a center of expertise for Industry 4.0-related topics and is making an important contribution towards progressively turning the Volkswagen Group’s production plants into smart factories. Activities covering the Internet of things, data analytics, human-robot collaboration and wearables aim to comprehensively digitalize production and logistics. At the Smart.Production:Lab, Volkswagen is helping to shape the future of car manufacturing.

It is also constantly increasing its efforts to network employees. Internal communities and the company’s internal Group Connect network are helping to establish new methods, means and ways of working within the group and to put experts in touch with one another.

Volkswagen also actively seeks open discussions with start-ups in order to turn innovative ideas from young entrepreneurs into products suitable for series production. Internal and external hackathons (programming competitions) additionally throw up ideas for new products and services. At the CeBIT, for example, the Volkswagen Group IT and SAP arranged the “InnoJam++” in which around 100 international mathematics, computer science, natural science, and technology students took part.

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

In the fiscal year 2016, the results of operations in the separate financial statements of Porsche SE were largely shaped by the dividend income from the investment in Volkswagen AG which was lower compared to the prior year as a result of the diesel issue.

By contrast, the results of operations of the Porsche SE Group improved in the reporting period on the prior year primarily due to reduced negative impacts on the profit/loss from investments in Volkswagen AG accounted for at equity as a result of the diesel issue. Nevertheless, the economic situation of the Volkswagen Group was again significantly influenced on the whole by special items from the diesel issue in the past fiscal year; the earnings forecast of Porsche SE was therefore narrowly missed in the reporting period. The financial position of the Porsche SE Group was influenced to a large extent by dividends received and paid and by changes in the amount of time deposits and securities. The corridor forecast for net liquidity for 31 December 2016 was met.

Porsche SE remains a financially strong holding company with attractive potential for increasing value added, with clear, sustainable structures and a solid outlook for the future. Despite the effects of the diesel issue, the executive board of Porsche SE continues to expect the Volkswagen Group to maintain its market position in a persistently challenging environment. It remains committed to the company's role as Volkswagen AG's long-term anchor shareholder and is still convinced of the Volkswagen Group's potential for increasing value added.

Remuneration report

The remuneration report describes the main features of the remuneration system for members of the executive board and supervisory board of Porsche SE and explains the basic structure, composition and the individualized amounts of remuneration. In addition, the report includes disclosures on benefits granted or promised to active members of the executive board in the event of termination of their service.

Remuneration of the executive board

Remuneration principles at Porsche SE
At regular intervals the supervisory board addresses remuneration matters concerning the executive board, examining the structure and amount of remuneration of the executive board in the process.

Prof. Dr. Dr. h.c. mult. Martin Winterkorn, who was chairman of the executive board of Porsche SE until the end of the day on 31 October 2015, and Hans Dieter Pötsch (Chief Financial Officer and, since 1 November 2015, also chairman of the executive board) received or receive fixed basic remuneration, which is paid out as a monthly salary, for their work at the company.

Hans Dieter Pötsch left the board of management of Volkswagen AG on 7 October 2015 and was subsequently appointed a member of the supervisory board of Volkswagen AG by court appointment and elected as its chairman by the supervisory board of Volkswagen AG. Finally, in the annual general meeting of Volkswagen AG on 22 June 2016 he was elected to serve a full term on the supervisory board of Volkswagen AG. His contract of employment with Volkswagen AG was annulled in connection with his departure from the board of management of Volkswagen. As a result, Mr. Pötsch also does not receive variable remuneration calculated on a multi-year basis from Volkswagen AG (we refer to the explanations of variable remuneration components in the Volkswagen Group in the section “Remuneration in accordance with the German Corporate Government Code”). This means that since then the recommendation in Sec. 4.2.3 (2) Sentence 2 German Corporate Governance Code (GCGC), according to which the monetary elements of the remuneration of executive board members should comprise fixed and variable elements, has not been complied with as regards Mr. Pötsch. Porsche SE declares non-compliance with this recommendation in this respect.

Dr. Manfred Döss, who was appointed to the executive board of Porsche SE effective 1 January

2016, also receives a fixed basic component from Porsche SE, which is paid out as a monthly salary. He receives variable remuneration components calculated on a multi-year basis exclusively from Volkswagen AG (we refer to the explanations of variable remuneration components in the Volkswagen Group and to the explanation of deviations from recommendations of the German Corporate Governance Code in the section “Remuneration in accordance with the German Corporate Government Code”).

In addition to a fixed basic component paid out in monthly amounts, the member of the executive board Matthias Müller received variable remuneration from the company up to and including the fiscal year 2014. For the period from the fiscal year 2015 onward, Mr. Müller no longer receives a variable component from Porsche SE; Mr. Müller receives or received variable remuneration components for the fiscal year 2015 from Volkswagen AG and Dr. Ing. h.c. F. Porsche AG, Stuttgart (“Porsche AG”; we refer to the explanations in the subsection “Remuneration in accordance with the German Corporate Governance Code”). For the fiscal year 2016, he receives variable remuneration components exclusively from Volkswagen AG. Portions of his variable remuneration from Porsche SE that fall due, up to and including for the fiscal year 2014, will be settled in accordance with the contractual provisions that previously applied.

Philipp von Hagen receives variable remuneration from Porsche SE in addition to a fixed basic component paid out in monthly amounts. The amount of his variable remuneration is specified by the supervisory board at its discretion, taking into account the respective business and earnings situation, as well as his performance.

Variable remuneration was or is measured specifically in terms of the extent to which the individual (in some cases, differently weighted) targets agreed for the respective fiscal year have been achieved. The individual targets for Mr. Müller were and for Mr. von Hagen are based on the business area of the respective executive board function and refer to the parameters presented below for the term of the agreement.

The parameters specified for Mr. Müller were:

- Implementation of the concept for the investment strategy,
- Professional risk management and coordination in connection with legal and administrative proceedings and
- Cost management with regard to the administration of Porsche SE and its investments.

The parameters specified for Mr. von Hagen are:

- Creation of the organizational foundations for professional investment management,
- Further development and operationalization of the investment strategy,
- Positioning Porsche SE on the capital market as a powerful investment platform and
- Profit- and risk-based management of the investment portfolio.

For each fiscal year completed, the executive committee of the supervisory board of Porsche SE draws up a proposal for the individual amount of the variable remuneration, taking into account the respective business and earnings situation and based on the specific performance of the individual member of the executive board. This proposal is submitted to the supervisory board of Porsche SE for decision.

The amounts of variable remuneration paid were capped at an amount of €3,500,000 per annum for Mr. Müller and at €300,000 per annum for Mr. von Hagen.

The timing of payment of the variable remuneration depends on the achievement of short- and long-term targets. The short-term component, amounting to 40% of the variable remuneration, is paid out three months after the end of the fiscal year concerned, on the condition that the Porsche SE Group has reported a group profit before tax for the respective fiscal year. The remaining 60% of the variable remuneration is paid out depending on the development of the company over several years. A payment is made two years after the short-term variable component is due, but only if the Porsche SE Group has reported a group profit before tax for the respective fiscal year, and if the net liquidity of Porsche SE is positive as of 31 December of the last calendar year before payment falls due.

The supervisory board of Porsche SE explicitly reserves the option of also introducing a variable remuneration system for members of the executive board of the company who have not received performance-related remuneration.

Moreover, at its discretion, the supervisory board of the company may grant all the members of the executive board of Porsche SE a special bonus for previously agreed targets or a subsequent bonus in recognition of outstanding performance. As the bonuses of this kind are not capped, Porsche SE has declared non-compliance with the recommendation in Sec. 4.2.3. (2) Sentence 6 GCGC in this respect. The supervisory board does not consider the inclusion of a cap to be necessary as it can ensure compliance with the requirement of appropriateness in Sec. 87 (1) AktG by exercising its discretion in specific cases.

All members of the executive board of Porsche SE receive benefits in kind during their period of active service, in particular in the form of the use of company cars. Porsche SE covers any taxes incurred in connection with these benefits in kind. Furthermore, members of the executive board who also served as members of the Volkswagen AG board of management or who serve as members of the Volkswagen AG supervisory board are also reimbursed for any flight costs for flights between their place of residence and primary workplace; taxation of remuneration in kind is borne by Porsche SE as part of flat-rate taxation. In addition, an agreement was reached with Mr. Pötsch that Porsche SE would make available by means of a loan any personally payable income tax payments incurred until the final tax assessment of the payment of flight costs, if necessary. In the reporting period, loans were initially granted in this regard and repaid in full. Any benefits in kind are included at their tax or actual values in the presentation of the non-performance-related remuneration of the members of the executive board.

The agreements concluded with Mr. Pötsch, Mr. Müller and Dr. Döss provide for continued payment of the fixed basic component for a period of 12 months in the event of illness; Mr. von Hagen's agreement also includes continued payment of his variable remuneration. In the event of death, Mr. Pötsch and Dr. Döss will continue to be paid the fixed basic component for six months following the month of death. The agreements concluded with Messrs. Müller and von Hagen provide for continued payment of the fixed and, if applicable, variable components for a period of six months following the month of death in the event of death.

Remuneration of the executive board

Mr. Hans Dieter Pötsch, as chairman of the executive board, and Matthias Müller, Philipp von Hagen and Dr. Manfred Döss were members of Porsche SE's executive board during the entire fiscal year 2016. In the fiscal year 2015, Mr. Pötsch (from 1 November 2015 onward as chairman of the executive board), Mr. Müller and Mr. von Hagen were members of the board throughout the fiscal year, while Prof. Dr. Winterkorn left with effect as of the end of the day on 31 October 2015.

The remuneration presented below for the individual members of Porsche SE's executive board comprises only the remuneration in accordance with the German Commercial Code (HGB) paid for their service on the executive board of Porsche SE.

Remuneration of the members of the executive board according to Secs. 285 No. 9a, 314 (1) No. 6a German Commercial Code (HGB) in conjunction with Sec. 315a HGB

2016	Non-performance-related components	Performance-related components		Total
in €			thereof long-term incentive[1]	
Hans Dieter Pötsch	831,036	0	0	831,036
Dr. Manfred Döss	558,629	0	0	558,629
Philipp von Hagen	611,295	150,000	150,000	761,295
Matthias Müller	539,706	2,100,000	2,100,000	2,639,706
Porsche SE Group	**2,540,666**	**2,250,000**	**2,250,000**	**4,790,666**

[1] In accordance with the legal requirements and the provisions of German Accounting Standard No. 17 regarding reporting on the remuneration of members of governing bodies, the long-term component amounting to 60% of the variable remuneration is only taken into account when all conditions precedent are met. We refer to the following statements.

2015 in €	Non-performance-related components	Performance-related components	thereof long-term incentive[1]	Total
Prof. Dr. Dr. h.c. mult. Martin Winterkorn	900,231	0	0	900,231
Philipp von Hagen	620,042	0	0	620,042
Matthias Müller	556,372	0	0	556,372
Hans Dieter Pötsch	743,007	0	0	743,007
Porsche SE Group	**2,819,652**	**0**	**0**	**2,819,652**

[1] In accordance with the legal requirements and the provisions of German Accounting Standard No. 17 regarding reporting on the remuneration of members of governing bodies, the long-term component amounting to 60% of the variable remuneration is only taken into account when all conditions precedent are met. We refer to the following statements.

When the consolidated financial statements and the group management report were authorized for issue, no recommendation by the executive committee regarding the variable remuneration components for Mr. von Hagen was available for fiscal year 2016. For the fiscal year 2015, provision was made for a variable component of €200,000 for him. 60% of this variable remuneration is subject to the conditions set forth in the subsection on the remuneration principles and is therefore not included in the above table. The performance-related remuneration components with a long-term incentive for Mr. Müller and Mr. von Hagen for the fiscal year 2016 contain the amounts of the long-term component of the variable remuneration paid for the fiscal year 2014, as its conditions precedent were fulfilled for the first time as of the end of the fiscal year 2016.

The performance-related components for the fiscal year 2015 do not contain any remuneration as not all of the conditions precedent for paying out 40% of the variable remuneration for the fiscal year 2015 had been met for Mr. von Hagen and not all of the conditions precedent for paying out 60% of the variable remuneration for the fiscal year 2013 had been met for Mr. von Hagen and Mr. Müller.

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

Mr. Pötsch and Mr. Müller do not receive any pension benefits from the company. In addition to retirement benefits and surviving dependents' benefits, Mr. von Hagen's and Dr. Döss' pension benefits include benefits in the event of permanent disability. Future benefits are calculated as a percentage of an agreed fixed annual remuneration. Starting at 25%, this percentage increases by one percentage point for each full year of active service on the executive board of Porsche SE. The defined maximum is 40%. As of 31 December 2016, Mr. von Hagen has reached a retirement pension entitlement of 29% of his fixed annual remuneration; Dr. Döss has reached an entitlement of 26% as of the same date. 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 prior to the point in time the payment of the retirement pension falls due in accordance with tax law.

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.

The service cost recognized in the fiscal year 2016 for Mr. von Hagen amounts to €304,039 according to IFRSs (prior year: €337,298), and to €112,463 according to HGB (prior year: €264,059). The present value of the pension obligations for Mr. von Hagen as of 31 December 2016 amounts to €1,811,565 according to IFRSs (31 December 2015: €1,182,745), and to €932,698 according to HGB (31 December 2015: €789,523).

Dr. Döss will also continue to be entitled to a company car upon reaching retirement age. The service cost recognized in the fiscal year 2016 for Dr. Döss totals €426,087 according to IFRSs and €359,508 according to HGB. The present value of the pension obligations for Dr. Döss as of 31 December 2016 amounts to €1,956,528 according to IFRSs and €1,298,743 according to HGB.

Mr. Müller will continue to be entitled to a company car following the date of retirement. The service cost recognized in the fiscal year 2016 amounts to €0 according to IFRSs (prior year: €182,463), and to €0 according to HGB (prior year: €248,436). The present value of this benefit in kind obligation as of 31 December 2016 amounts to €1,082,225 according to IFRSs (31 December 2015: €1,031,654), and to €837,145 according to HGB (31 December 2015: €882,220).

In the fiscal year 2015, Porsche SE paid Prof. Dr. Winterkorn compensation of €1,490,000 as a substitute for all income that he would have received if his agreement had continued beyond 31 October 2015, and as compensation for all disadvantages for him arising as a result of terminating his service.

In the event of early termination of service on the executive board without due cause, a severance payment cap is provided for, according to which any severance payments, including benefits in kind, 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.

In the event of departure from the executive board prior to the date when payment falls due as a result of termination for due cause by Porsche SE, the entitlements to variable components that have not yet been paid out (in full or in part) expire. In the event of departure for other reasons prior to the date when payment falls due, the two executive board members retain their entitlement to payment of their performance-related remuneration. The date when payment falls due is not affected by early departure from the executive board of the company. In the case of Mr. Müller, however, the variable remuneration components still outstanding will be paid only if the Porsche SE Group has reported a group profit before tax for the respective fiscal year and if the net liquidity of Porsche SE is positive as of 31 December of the last calendar year before payment falls due.

Remuneration of former members of the executive board of Porsche SE
Except for the compensation for Prof. Dr. Winterkorn presented in the section above, former executive board members and their surviving dependents received no remuneration from Porsche SE in the fiscal year 2016 or in the fiscal year 2015.

Remuneration of the supervisory board

Principles
The remuneration of Porsche SE's supervisory board is governed by Art. 13 of the company's articles of association. It is composed of a fixed component and an attendance fee for the meetings of the supervisory board and the respective committees. In addition, the supervisory board members receive a performance-related component. This is calculated on the basis of the pre-tax result from ordinary activities from continuing operations recognized in the consolidated financial statements of Porsche SE. For each full €1 million by which this result at group level exceeds the amount of €300 million in the expired fiscal year, the members of the supervisory board receive an amount of €10. For each full €1 million by which this result at group level exceeds the average amount of €300 million during the three fiscal years preceding the expired fiscal year, the members of the supervisory board of Porsche SE receive a further €10. Supervisory board members who have been a member of the supervisory board or one of its committees for only part of a fiscal year receive the remuneration subject to a reduction pro rata temporis.

The chairman of the supervisory board and the chairman of the audit committee receive twice the amount of fixed remuneration and the variable remuneration, and the deputy chairman of the supervisory board and the members of the audit committee receive one-and-a half times the amount of the fixed remuneration and the variable remuneration of a supervisory board member. If a member of the supervisory board holds several appointments at the same time, such member receives remuneration only for the appointment with the highest remuneration.

Remuneration of the supervisory board
The composition of the members of Porsche SE's supervisory board did not change in the fiscal year 2016. His Excellency Sheikh Jassim bin Abdulaziz bin Jassim Al-Thani left the supervisory board effective as of the end of the day on 24 March 2015. His successor, Mr. Hans-Peter Porsche, was appointed by the Stuttgart Local Court on 25 March 2015. The court appointment was followed by his election by the annual general meeting on 13 May 2015.

In accordance with Art. 13 of Porsche SE's articles of association, the supervisory board received remuneration totaling €1,079,795 (prior year: €1,416,745) for its service at Porsche SE in the fiscal year 2016. This amount contains non-performance-related components of €678,500 (prior year: €753,500) and performance-related components of €401,295 (prior year: €663,245).

Beyond this, the supervisory board members did not receive any other remuneration or benefits from Porsche SE in the fiscal year 2016 or in the fiscal year 2015 for any services they provided personally, such as consultancy and referral services.

The remuneration for the individual members of Porsche SE's supervisory board presented below comprises only the remuneration pursuant to HGB paid for their service on the supervisory board of Porsche SE.

Remuneration of the members of the supervisory board according to Secs. 285 No. 9a, 314 (1) No. 6a German Commercial Code (HGB) in conjunction with Sec. 315a HGB

2016 in €	Non-performance-related components	Performance-related components	Total
Dr. Wolfgang Porsche	80,000	51,780	131,780
Uwe Hück[1]	79,500	38,835	118,335
Berthold Huber[1]	43,000	25,890	68,890
Prof. Dr. Ulrich Lehner	77,000	51,780	128,780
Peter Mosch[1]	43,000	25,890	68,890
Bernd Osterloh[1]	67,500	38,835	106,335
Hon.-Prof. Dr. techn. h.c. Ferdinand K. Piëch	43,000	25,890	68,890
Dr. Hans Michel Piëch	55,000	25,890	80,890
Dr. Ferdinand Oliver Porsche	64,500	38,835	103,335
Hansjörg Schmierer[1]	40,000	25,890	65,890
Hans-Peter Porsche	43,000	25,890	68,890
Werner Weresch[1]	43,000	25,890	68,890
Total	**678,500**	**401,295**	**1,079,795**

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

2015 in €	Non-performance-related components	Performance-related components	Total
Dr. Wolfgang Porsche	95,000	85,580	180,580
Uwe Hück[1]	88,500	64,185	152,685
Berthold Huber[1]	46,000	42,790	88,790
Prof. Dr. Ulrich Lehner	83,000	85,580	168,580
Peter Mosch[1]	43,000	42,790	85,790
Bernd Osterloh[1]	76,500	64,185	140,685
Hon.-Prof. Dr. techn. h.c. Ferdinand K. Piëch	55,000	42,790	97,790
Dr. Hans Michel Piëch	64,000	42,790	106,790
Dr. Ferdinand Oliver Porsche	67,500	64,185	131,685
Hansjörg Schmierer[1]	46,000	42,790	88,790
His Excellency Sheikh Jassim bin Abdulaziz bin Jassim Al-Thani (until 24/3/2015)	5,685	9,730	15,415
Hans-Peter Porsche (since 25/3/2015)	37,315	33,060	70,375
Werner Weresch[1]	46,000	42,790	88,790
Total	**753,500**	**663,245**	**1,416,745**

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

We refer to the explanations of future changes in the composition of the supervisory board of Porsche SE in the chapter “Subsequent events”.

Remuneration in accordance with the German Corporate Governance Code

Remuneration of the executive board

General principles
The total remuneration for each member of the executive board is disclosed by name in accordance with the German Corporate Governance Code, divided into fixed and variable remuneration components. The same applies for commitments made to members of the executive board for benefits in the event of premature or statutory termination of the function of an executive board member or that have been changed during the fiscal year.

When defining remuneration, the executive board of Porsche SE takes into account, where appropriate, remunerations of members of the executive board arising from the assumption of board or other functions on the level of majority investments. The following presentation of the remuneration therefore also covers Volkswagen AG as the most important investment of Porsche SE as well as the group companies of Volkswagen AG.

In addition to the remuneration presented in the previous section, the remuneration presented in this section therefore also includes any remuneration, if appropriate, that the members of the executive board of Porsche SE received or receive during the period of their membership of the executive board of Porsche SE due to their concurrent assuming functions as members of boards and other functions at group companies of the Volkswagen Group. Irrespective of this, however, Volkswagen AG as well as its group companies are not group companies of Porsche SE within the meaning of IFRSs.

Until his move to the supervisory board of Volkswagen AG, Mr. Pötsch was also CFO of Volkswagen AG. On 7 October 2015, he was made a member of the supervisory board of Volkswagen AG by court appointment and elected as its chairman by the supervisory board with immediate effect. Finally, at the annual general meeting of Volkswagen AG on 22 June 2016 he was elected to serve a full term on the supervisory board of Volkswagen AG. In addition, he performs various functions in bodies within the Volkswagen Group.

Mr. Müller was appointed a member of the group board of management of Volkswagen AG by the supervisory board of Volkswagen AG with effect as of 1 March 2015; and on 25 September 2015, the supervisory board appointed him CEO of Volkswagen AG with immediate effect. In addition, Mr. Müller was a member of the management of Porsche Holding Stuttgart GmbH until 16 October 2015 and chairman of the executive board of Porsche AG until 30 September 2015. Moreover, he is a member of various other bodies of group companies of the Volkswagen Group.

Mr. von Hagen does not perform any functions as member of boards and other functions at companies of the Volkswagen Group and accordingly does not receive any remuneration from companies of the Volkswagen Group.

Dr. Döss has headed the legal department of Volkswagen AG since 1 January 2016. In this role, he receives fixed and variable remuneration based on a contract of employment with the company; this remuneration contains the usual components for management within the Volkswagen Group. Upon being appointed to the executive board of Porsche SE, the supervisory board had not yet made a decision regarding his remuneration. The provisions of Sec. 4.2.3 (2) Sentence 2 GCGC, according to which the monetary elements of the remuneration of executive board members should comprise both fixed and variable elements, was therefore not formally complied with from 1 January 2016 onward. Upon concluding a contractual agreement between Volkswagen AG and Dr. Döss on 15 February 2016, Dr. Döss received fixed and variable remuneration retrospectively for the time from 1 January 2016. As a result, the provisions of Sec. 4.2.3 (2) Sentence 2 GCGC have been complied with since then.

Prof. Dr. Winterkorn was also chairman of the board of management of Volkswagen AG; he laid down this office on 25 September 2015. In addition, he was a member of various bodies in the Volkswagen Group.

The section below therefore presents the relevant remuneration principles of the Volkswagen Group for Mr. Pötsch, Mr. Müller, Dr. Döss and Prof. Winterkorn.

Remuneration principles for members of the board of management and managers of Volkswagen AG

The level of board of management of Volkswagen AG remuneration should be appropriate and attractive in the context of the company's national and international peer group. Criteria include the tasks of the individual board of management member, their personal performance, the economic situation, the performance of and outlook for the company, as well as how customary the remuneration is when measured against its peer group and the remuneration structure that applies to other areas in the Volkswagen Group. In this context, comparative studies on remuneration are conducted on a regular basis.

The remuneration principles for members of the board of management of Volkswagen AG presented below pertain exclusively to the agreements made with Mr. Pötsch and Prof. Dr. Winterkorn until their respective departures, as well as the agreements made with Mr. Müller in connection with his appointment to the board of management of Volkswagen AG and his appointment as CEO.

The remuneration received by them for their service on the board of management of the Volkswagen Group comprises fixed and variable components. The fixed components of the package ensure firstly a basic level of remuneration enabling the individual members of the board of management to perform their duties in the interests of the company and to fulfill their obligation to act with proper business prudence without needing to focus on merely short-term performance targets. On the other hand, variable components, dependent among other criteria on the financial performance of the company, serve to ensure the long-term impact of behavioral incentives. Upper limits are in place for both the overall remuneration and the variable remuneration components.

The fixed remuneration comprises fixed remuneration and fringe benefits. In addition to the basic level of remuneration, the fixed remuneration also includes differing levels of remuneration for appointments assumed at companies of the Volkswagen Group. The fringe benefits result from the grant of non-cash benefits and include in particular the use of operating assets such as company cars and the payment of insurance premiums. Taxes due on these non-cash benefits are mainly borne by Volkswagen AG. The basic level of remuneration is reviewed regularly and adjusted if necessary.

The variable remuneration comprises a business performance bonus, which relates to business performance in the reporting period and in the preceding year, and, since 2010, a long-term incentive (LTI) plan, which is based on the reporting period and the previous three fiscal years. Both components of variable remuneration are therefore calculated on a multiyear basis and reflect both positive and negative developments. Members of the board of management can also be awarded bonuses that reflect their individual performance.

The supervisory board may cap the variable remuneration components in the event of extraordinary developments.

The bonus rewards the positive business development of the Volkswagen Group and comprises the components bonus and individual performance bonus. The business performance bonus is calculated on the basis of the average operating result, including the proportionate operating result in China, over a period of two years. A calculation floor below which no bonus will be paid is in place. This floor was set at €5.0 billion. In addition, a cap for extraordinary developments is explicitly provided for by limiting the maximum theoretical bonus which, subject to the individual performance-related bonus, is or was at €6.75 million for Mr. Müller and for Prof. Dr. Winterkorn respectively for the period during which they performed the function of chairman of the board of management and is or was at €2.5 million for Mr. Pötsch for Mr. Müller respectively for the period during which they performed the function of a member of the board of management. The system and the cap are regularly reviewed by the supervisory board to establish whether any adjustments are necessary.

Accordingly, the method resolved by Volkswagen's supervisory board in 2013 for calculating the business performance bonus for members of the board of management was changed for fiscal year 2015 and led to the operating result, including the proportionate operating result in China, for fiscal year 2015 that was used to calculate the business performance bonus for fiscal year 2015 being reduced to €0.

In addition, the supervisory board of Volkswagen AG may increase the theoretical business performance bonus, which is calculated on the basis of the average operating result of the Volkswagen Group, by up to 50% by applying individual adjustment factors that are not linked to the theoretical cap so as to reward members of the board of management for extraordinary individual performance (individual performance bonus). This may take into account extraordinary performance in the area of integration, or the successful implementation of special projects, for example.

The amount of the LTI depends on the achievement of the targets laid down in Strategy 2018, which is based on the remuneration system applicable to fiscal year 2016. The target areas are:

- Leader in customer satisfaction, measured using the Customer Satisfaction Index
- Leading employer, measured using the Employee Index
- Unit sales growth, measured using the Growth Index
- Increase in the return on sales, measured using the Return Index.

The Customer Satisfaction Index is calculated using indicators that quantify the overall satisfaction of the Volkswagen Group's customers with the delivering dealers, new vehicles and the service operations based on the previous workshop visit. The Employee Index is determined using the "employment" and "productivity" indicators as well as results of employee surveys. The Growth Index is calculated using the "deliveries to customers" and "market share" indicators. The Return Index is derived from the return on sales and the dividend per ordinary share.

The indices on customer satisfaction, employees and unit sales are aggregated and the result is multiplied by the Return Index. This method ensures that the LTI is only paid out if the Volkswagen Group is also financially successful. If the 1.5% threshold for the return on sales is not exceeded, the Return Index is zero. This would mean that the overall index for the fiscal year concerned is also zero.

The maximum LTI amount was capped at €4.5 million for Mr. Müller and Prof. Dr. Winterkorn respectively for the period during which they performed the function of chairman of the board of management and at €2.0 million for Mr. Pötsch and Mr. Müller for the period during which they performed the function of a member of the board of management and is based on the four-year average of the overall indices, i.e., the reporting period and the three preceding years.

In a statement dated 22 April 2016, Mr. Pötsch waived a portion of his variable remuneration for fiscal year 2015 in the amount of €2.3 million.

An agreement was reached with Prof. Dr. Winterkorn to defer payment of 30% of his variable remuneration for the fiscal year 2015 to 31 December 2016.

Mr. Pötsch and Prof. Dr. Winterkorn were entitled to payment of their normal remuneration from Volkswagen AG for twelve months in the event of illness. Mr. Müller was granted continued payment for six months.

The remuneration for Dr. Döss contains fixed and variable remuneration components. The fixed remuneration comprises fixed remuneration and fringe benefits. Fringe benefits result from non-cash benefits from the provision of accommodation; Dr. Döss is also entitled to use company cars. Taxes due on these non-cash benefits are borne in part by Volkswagen AG.

His variable remuneration comprises a personal performance bonus, a company bonus and an LTI. Based on a 100% level specified at equitable discretion, the individual components are specified taking into account personal performance and achievement of targets, the financial performance and economic situation as well as the achievement of the strategic targets of the Volkswagen Group. The company bonus relates to the business development during the reporting year and the past year, while the LTI is based on the reporting period and the previous three fiscal years. The LTI is capped at 200%; no cap was set for the personal performance bonus and the company bonus; Porsche SE therefore declared non-compliance with the recommendation in Sec. 4.2.3 (2) Sentence 6 GCGC. Based on past experience with the amount of the variable remuneration granted to management within the Volkswagen Group, the supervisory board assumes that the remuneration granted to Dr. Döss is nevertheless appropriate and Dr. Döss is provided with a long-term incentive for the interest of the company through the variable remuneration granted to him by Volkswagen AG. For Dr. Döss, the 100% level was fixed at €133,000 per component. For the first three years, a lower limit of €460,000 was agreed for the variable remuneration.

Withholding of variable remuneration for 2015

At its meeting on 22 April 2016, Volkswagen AG's supervisory board accepted the offer made by Mr. Müller to withhold 30% of his variable remuneration for fiscal year 2015 and to make its disposal subject to future share price performance.

This will be effected by first converting the amount withheld based on the average share price for the 30 trading days preceding 22 April 2016 (initial reference price) into phantom preference shares of Volkswagen AG with a three-year holding period and, at the same time, defining a target reference price corresponding to 125% of the initial reference price. During the holding period, the phantom preference shares will be entitled to a dividend equivalent in the amount of the dividends paid on real preference shares.

Following the expiry of the holding period, the average share price for the 30 trading days preceding the last day of the holding period, i.e. 22 April 2019, will be determined (closing reference price). The difference between the target reference price and the initial reference price will be deducted from the closing reference price and the dividends distributed on one real Volkswagen preference share during the holding period (dividend equivalent) will be added to the closing reference price. This ensures that – excluding any dividend equivalents accrued – the amount withheld is only paid out in full if the initial reference price of the preferred share has increased by at least 25%. Otherwise, the amount is reduced accordingly down to €0. The amount thus calculated will be disbursed to Mr. Müller. The amount disbursed must not be more than twice the amount originally withheld. Where Mr. Müller retires from office before the expiry of the holding period, the disbursement amount will be calculated and paid out proportionately based on the date of termination of employment.

The number of Volkswagen preference shares granted to Mr. Müller on 22 April 2016 based on virtual Volkswagen preference shares for 2015 remained unchanged in the fiscal year 2016.

The table on executive board remuneration in accordance with the GCGC does not contain any entries as the benefits are not received until the three-year holding period has expired or in the event that members retire prematurely from office at that time, and Mr. Müller did not leave the board of management of Volkswagen AG in the fiscal year 2016. Since the benefits based on phantom Volkswagen preference shares were only agreed upon after the end of fiscal year 2015, consideration of the impact of this agreement will be incorporated into the board of management (benefits granted) tables in accordance with the German Corporate Governance Code in the column for fiscal year 2016. The revised amount listed there is the difference between the fair value of the phantom Volkswagen preference shares and the amount withheld on the date they were granted, i.e., on 22 April 2016.

Remuneration principles for members of the supervisory board of Volkswagen AG

The remuneration for Mr. Pötsch as chairman of the supervisory board of Volkswagen AG results from Article 17 of the articles of association of Volkswagen AG. According to this, the members of the supervisory board of Volkswagen AG receive, in addition to reimbursement of their expenses, the following remuneration per fiscal year:

- Fixed remuneration of €6,000 payable at the end of the fiscal year,
- Variable remuneration of €2,500 for each profit share concluded by the annual general meeting of €0.03 per ordinary share in excess of a profit share of €0.15 per ordinary share distributed to the shareholders. This remuneration is payable after the end of the annual general meeting, which decided on the appropriation of profits.

As chairman of the supervisory board, Mr. Pötsch receives three times the amount of the fixed and variable remuneration.

For participating in a meeting of the supervisory board, each member receives an attendance fee of €1,000 in addition to reimbursement of their expenses. The company refunds each supervisory board member for VAT payable on their remuneration.

Remuneration principles at Porsche AG

The remuneration principles of Porsche AG presented below pertain exclusively to agreements made with Mr. Müller.

A new employment agreement was concluded with Mr. Müller in December 2014. This provided for a fixed annual salary and a fixed annual management bonus. In addition, Mr. Müller was to receive variable remuneration components comprising a personal performance bonus, a company bonus and a long-term incentive bonus. The supervisory board of Porsche AG decided on the amount of these components on the basis of the Volkswagen Group's current bonus system. The specification of the individual components was based on the specified 100% level at equitable discretion, taking into account personal performance and achievement of targets, the financial performance and economic situation of Porsche AG as well as the achievement of the strategic targets of the Volkswagen Group. All components were generally limited to 200%. For

Mr. Müller, the 100% level was specified at €750,000 per component.

Up to and including the fiscal year 2015, at its discretion, the supervisory board of Porsche AG could grant Mr. Müller a subsequent bonus in recognition of extraordinary performance.

In addition to this, Mr. Müller received benefits in kind, in particular the use of company cars and leased vehicles as well as provision of insurance cover. Moreover, it was agreed in principle to pay the costs for security services and preventive healthcare. Taxes arising in connection with the benefits in kind were generally borne by Porsche AG.

Mr. Müller has also concluded a direct insurance policy. The annual premium of €1,742 was paid by Porsche AG.

Porsche AG would have continued to pay Mr. Müller's fixed component for a period of twelve months in the event of illness. In the event of death, the remuneration agreed with Mr. Müller would continue to be paid for six months following the month of death; this also applies to the component of the variable remuneration to which Mr. Müller would have had a claim at the time of death.

Prior to his appointment to the board of management of Volkswagen AG and as the chairman of the board of management of Volkswagen AG, Mr. Müller's remuneration for his service on the Porsche AG executive board in the fiscal year 2015 comprised a fixed annual salary and a fixed annual management bonus totaling €1,300,000. In addition, he received a bonus from Porsche AG in the fiscal year 2016 in recognition of extraordinary performance for the fiscal year 2015 amounting to €532,000 (prior year: €200,000).

As a result of his appointment as a member of the board of management and chairman of the board of management of Volkswagen AG, the following provision was made regarding his remuneration at Porsche AG:

- Mr. Müller received fixed remuneration from Porsche AG for the fiscal year 2015 pro rata until his appointment to the group board of management of Volkswagen AG with effect as of 1 March 2015. From this time onward, he received his fixed remuneration based on the provisions of his agreement with Volkswagen AG.
- The pro-rata variable remuneration of Porsche AG to which he was entitled until his departure from the executive board of Porsche AG on 30 September 2015 was included in the measurement of the variable remuneration for his service on the board of management of Volkswagen AG or settled in the form of a top-up payment.

Remuneration of the executive board in the fiscal years 2015 and 2016

The total remuneration of the members of Porsche SE's executive board presented in the table below includes not only remuneration for their service as a member of the company's executive board, but for Mr. Müller additionally remuneration for his service on the board of management Volkswagen AG and on the executive board of Porsche AG as well as for other appointments in the Volkswagen Group for the fiscal years 2015 and 2016, and for Mr. Pötsch and Prof. Dr. Winterkorn additionally remuneration for their service on the board of management and supervisory board of Volkswagen AG respectively and for their other appointments in the Volkswagen Group in the fiscal years 2015 and 2016 (Mr. Pötsch) and 2015 (Prof. Dr. Winterkorn). This does not include components granted to Mr. Pötsch and Prof. Dr. Winterkorn in connection with their departure from the board of management of Volkswagen AG in the fiscal year 2015 (we refer to the explanations in the section "Post-employment benefits in the event of regular or early termination of service").

In addition to Dr. Döss' remuneration as member of the executive board of Porsche SE, his consideration for heading the legal department of Volkswagen AG was taken into account in the fiscal year 2016.

Remuneration of the members of the executive board in accordance with the German Corporate Governance Code for the fiscal years 2015 and 2016 – benefits granted

The tables below present the benefits granted in the respective reporting period pursuant to Sec. 4.2.5, 1st bullet point GCGC:

	Pötsch Chairman of the executive board (since 1/11/2015) Chief Financial Officer (since 25/11/2009)			
in €	2015	**2016**	**2016 (Min)**	**2016 (Max)**
Benefits granted				
Fixed compensation	1,325,933	574,500	574,500	574,500
Fringe benefits	370,563	331,036	331,036	331,036
Total	**1,696,496**	**905,536**	**905,536**	**905,536**
One-year variable compensation	899,481	0	0	n/a[1]
Multi-year variable compensation	3,337,850	0	0	0
Special compensation VW (two-year period)	1,798,961	0	0	0
LTI VW (four-year period)	1,538,889	0	0	0
Total	**5,933,827**	**905,536**	**905,536**	**n/a[1]**
Service cost	0	0	0	0
Total	**5,933,827**	**905,536**	**905,536**	**n/a[1]**

1 The variable remuneration for serving as chairman of the supervisory board is not capped; we refer to the explanations in the section "Remuneration principles for members of the supervisory board of Volkswagen AG".

in €	2015	2016	2016 (Min)	2016 (Max)
				Dr. Döss Legal affairs and compliance since 1/1/2016
Benefits granted				
Fixed compensation	–	827,040	827,040	827,040
Fringe benefits	–	85,629	85,629	85,629
Total	**–**	**912,669**	**912,669**	**912,669**
One-year variable compensation	–	207,300	0[1]	n/a[2]
Multi-year variable compensation	–	252,700	0[1]	n/a[2]
Bonus VW (two-year period)	–	53,200	0[1]	n/a[2]
LTI VW (four-year period)	–	199,500	0[1]	266,000
Total	**–**	**1,372,669**	**1,372,669**[1]	**n/a**[2]
Service cost	–	434,487	434,487	434,487
Total	**–**	**1,807,156**	**1,807,156**	**n/a**[2]

1 There is a lower limit for all variable remuneration components for serving at the level of Volkswagen AG of €460,000.

2 Partly, there is no upper limit for the variable remuneration components for serving at the level of Volkswagen AG; we refer to the explanations in the section “Remuneration principles for members of the board of management and managers of Volkswagen AG”.

in €	2015	2016	2016 (Min)	2016 (Max)
				Müller Strategy and corporate development since 13/10/2010
Benefits granted				
Fixed compensation	1,740,801	2,084,000	2,084,000	2,084,000
Fringe benefits	145,846	218,357	218,357	218,357
Total	**1,886,647**	**2,302,357**	**2,302,357**	**2,302,357**
One-year variable compensation	1,551,615	1,313,200	0	3,375,000
Multi-year variable compensation	5,587,133	6,352,610	0	12,435,912
Bonus Porsche AG (two-year period)	125,000	0	0	0
LTI Porsche AG (four-year period)	125,000	0	0	0
Special compensation VW (two-year period)	3,003,800	3,283,000	0	6,750,000
LTI VW (four-year period)	2,333,333	3,375,000	0	4,500,000
Benefits based on phantom stock (three-year period)	0	−305,390	0	1,185,912
Total	**9,025,395**	**9,968,167**	**2,302,357**	**18,113,269**
Service cost	537,368	526,589	526,589	526,589
Total	**9,562,763**	**10,494,756**	**2,828,946**	**18,639,858**

				von Hagen Investment management since 1/3/2012
in €	2015	**2016**	**2016 (Min)**	**2016 (Max)**
Benefits granted				
Fixed compensation	540,000	540,000	540,000	540,000
Fringe benefits	80,042	71,295	71,295	71,295
Total	**620,042**	**611,295**	**611,295**	**611,295**
One-year variable compensation	120,000	120,000	0	120,000
Multi-year variable compensation	180,000	180,000	0	180,000
LTI Porsche SE (three-year period)	180,000	180,000	0	180,000
Total	**920,042**	**911,295**	**611,295**	**911,295**
Service cost	337,298	304,039	304,039	304,039
Total	**1,257,340**	**1,215,334**	**915,334**	**1,215,334**

				Prof. Dr. Winterkorn Chairman of the executive board 25/11/2009-31/10/2015
in €	2015	**2016**	**2016 (Min)**	**2016 (Max)**
Benefits granted				
Fixed compensation	2,041,810	–	–	–
Fringe benefits	303,762	–	–	–
Total	**2,345,572**	**–**	**–**	**–**
One-year variable compensation	2,317,278	–	–	–
Multi-year variable compensation	7,947,056	–	–	–
Special compensation VW (two-year period)	4,634,556	–	–	–
LTI VW (four-year period)	3,312,500	–	–	–
Total	**12,609,906**	**–**	**–**	**–**
Service cost	0	–	–	–
Total	**12,609,906**	**–**	**–**	**–**

Remuneration of the members of the executive board in accordance with the German Corporate Governance Code for the fiscal years 2015 and 2016 – allocation

The tables below present the allocation in or for the fiscal years 2015 and 2016 respectively pursuant to Sec. 4.2.5, 2nd bullet point GCGC. In contrast to the figures presented in the benefits granted for variable remuneration, the tables below contain the actual value of the variable remuneration allocated in the respective fiscal year.

	Pötsch[1] Chairman of the executive board (since 1/11/2015) Chief Financial Officer (since 25/11/2009)	
in €	2015	**2016**
Allocation		
Fixed compensation	1,325,933	574,500
Fringe benefits	370,563	331,036
Total	**1,696,496**	**905,536**
One-year variable compensation	415,068	511,300
Multi-year variable compensation	1,540,262	0
Special compensation VW (two-year period)	830,137	0
LTI VW (four-year period)	710,125	0
Total	**3,651,826**	**1,416,836**
Service cost	0	0
Total	**3,651,826**	**1,416,836**

[1] Mr. Pötsch has declared to the management board of Volkswagen AG that he waives his claims for all remuneration payments for fiscal year 2016. Such waiver shall apply to the extent that these claims exceed the amount that would be due if the stipulations to be resolved by the Volkswagen AG annual general meeting on 10 May 2017 regarding the remuneration for the supervisory board for the current and future fiscal years were applied to fiscal year 2016.

in €	Dr. Döss Legal affairs and compliance since 1/1/2016 2015	2016
Allocation		
Fixed compensation	–	827,040
Fringe benefits	–	85,629
Total	**–**	**912,669**
One-year variable compensation	–	219,200
Multi-year variable compensation	–	240,800
Bonus VW (two-year period)	–	83,800
LTI VW (four-year period)	–	157,000
Total	**–**	**1,372,669**
Service cost	–	434,487
Total	**–**	**1,807,156**

in €	Müller Strategy and corporate development since 13/10/2010 2015	2016
Allocation		
Fixed compensation	1,740,801	2,084,000
Fringe benefits	145,846	218,357
Total	**1,886,647**	**2,302,357**
One-year variable compensation	1,079,440	1,617,500
Multi-year variable compensation	2,538,938	6,090,000
LTI PSE (three-year period)	0	2,100,000
Bonus Porsche AG (two-year period)	213,750	0
LTI Porsche AG (four-year period)	187,500	0
Special compensation VW (two-year period)	387,688	1,335,000
LTI VW (four-year period)	1,750,000	2,655,000
Total	**5,505,025**	**10,009,857**
Service cost	537,368	526,589
Total	**6,042,393**	**10,536,446**

in €	von Hagen Investment management since 1/3/2012 2015	 **2016**
Allocation		
Fixed compensation	540,000	540,000
Fringe benefits	80,042	71,295
Total	**620,042**	**611,295**
One-year variable compensation	0	0
Multi-year variable compensation	0	150,000
LTI PSE (three-year period)	0	150,000
Total	**620,042**	**761,295**
Service cost	337,298	304,039
Total	**957,340**	**1,065,334**

in €	Prof. Dr. Winterkorn Chairman of the executive board 25/11/2009-31/10/2015 2015	 **2016**
Allocation		
Fixed compensation	2,041,810	–
Fringe benefits	303,762	–
Total	**2,345,572**	**–**
One-year variable compensation	966,661	–
Multi-year variable compensation	4,901,028	–
Special compensation VW (two-year period)	2,416,653	–
LTI VW (four-year period)	2,484,375	–
Total	**8,213,261**	**–**
Service cost	0	–
Total	**8,213,261**	**–**

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

As a result of his departure from the board of management of Volkswagen AG, in the fiscal year 2015 Mr. Pötsch received non-performance-related remuneration of €3,015,800 and performance-related remuneration of €12,283,669 for the period from 8 October 2015 to 31 December 2017. The remuneration was granted taking into account remuneration received as a member of the supervisory board until 31 December 2017.

In the event of regular termination of their service on the board of management of the Volkswagen Group, Mr. Pötsch, Mr. Müller and Prof. Dr. Winterkorn were entitled to a pension, including a surviving dependents' pension as well as the use of company cars for the period in which they receive their pension. The agreed benefits are paid or made available on reaching the age of 63. The retirement pension is calculated as a percentage of the fixed basic salary. Starting at 50%, the individual percentage increased or increases by two percentage points for Mr. Pötsch and Prof. Dr. Winterkorn and by three percentage points for Mr. Müller for each year of service. The supervisory board of Volkswagen AG has defined a maximum of 70%. These benefits are not broken down any further into performance-related components and long-term incentive components. Both Mr. Pötsch and Prof. Dr. Winterkorn had a retirement pension entitlement of 70% when they left the board of management of Volkswagen AG. Mr. Müller had a retirement pension entitlement of 53% of the basic level of remuneration as of the end of 2016. Current pensions for Mr. Pötsch, Mr. Müller and Prof. Dr. Winterkorn are index-linked using the same method as for the highest collectively agreed salary insofar as the application of Sec. 16 German Company Pension Act (BetrAVG) does not lead to a larger increase.

For Prof. Dr. Winterkorn, non-performance-related remuneration of €2,588,241 and performance-related remuneration of €6,691,011 was recognized in the fiscal year 2015 for the period from 26 September 2015 to 31 December 2016 in connection with his departure from the board of management of Volkswagen AG on 25 September 2015.

In the event of disability, they are entitled to the retirement pension. The surviving dependents of Mr. Pötsch, Mr. Müller and Prof. Dr. Winterkorn receive a widows' pension of 66 2/3% and orphans' benefits of 20% of the affected person's pension. The retirement pension to be granted to Mr. Pötsch and Prof. Dr. Winterkorn after leaving Volkswagen AG is payable immediately if their membership of the board of management is not prolonged by Volkswagen AG, and in other cases on reaching the age of 63. Any remuneration received from other sources until the age of 63 is deductible from the benefit entitlement up to a certain fixed amount.

For Mr. Müller, the retirement pension payable following his departure from the company is paid on his reaching the age of 63.

In the event of regular termination of his service on the board of management of the Volkswagen Group, Dr. Döss was entitled to the use of company cars.

In the event of early termination of their service on the board of management, the members of the board of management Mr. Pötsch, Mr. Müller and Prof. Dr. Winterkorn are or were also entitled to a pension, including a surviving dependents' pension as well as the use of company cars for the period in which they receive their pension.

Mr. Pötsch, Mr. Müller and Prof. Dr. Winterkorn are also subject to the following rule for members of the board of management of Volkswagen AG: if membership of the board of management is terminated for cause through no fault of the board of management member, the claims under board of management contracts entered into since 20 November 2009 are limited to a maximum of two years' remuneration, in accordance with the recommendation in No. 4.2.3 (4) of the German Corporate Governance Code (cap on severance payments). For board of management members who are commencing their third or later term of office, existing rights under contracts entered into before 20 November 2009 are grandfathered.

No severance payment is made if membership of the board of management is terminated for a reason for which the board of management member is responsible.

Remuneration of the supervisory board

The remuneration of the members of Porsche SE's supervisory board presented below includes not only remuneration for their service on the company's supervisory board but additionally remuneration for their membership on the supervisory boards and other control bodies within the meaning of Sec. 125 (1) Sentence 5 AktG of the Volkswagen Group. The remuneration paid is based on the respective articles of association of the companies and in each case is composed of a fixed component and remuneration based on the amount of the respective dividends paid (we refer to the explanations in the section "Remuneration principles for members of the supervisory board of Volkswagen AG").

Beyond this, the supervisory board members of Porsche SE did not receive any other remuneration or benefits from the Porsche SE Group or from the Volkswagen Group in the fiscal years 2015 and 2016 for any services they provided personally, such as consultancy and referral services.

Remuneration of the members of the supervisory board in accordance with the German Corporate Governance Code for the fiscal year 2016[1]

2016 in €	Non-performance-related components	Performance-related components	Total
Dr. Wolfgang Porsche[3]	188,500	384,513	573,013
Uwe Hück[2,3]	160,000	193,002	353,002
Berthold Huber[2]	63,500	74,690	138,190
Prof. Dr. Ulrich Lehner	77,000	51,780	128,780
Peter Mosch[2,3]	77,000	293,740	370,740
Bernd Osterloh[2,3]	87,500	270,085	357,585
Hon.-Prof. Dr. techn. h.c. Ferdinand K. Piëch	43,000	25,890	68,890
Dr. Hans Michel Piëch[3]	135,375	212,251	347,626
Dr. Ferdinand Oliver Porsche[3]	137,500	383,768	521,268
Hansjörg Schmierer[2]	67,000	25,890	92,890
Hans-Peter Porsche	55,000	25,890	80,890
Werner Weresch[2]	70,000	25,890	95,890
Total	**1,161,375**	**1,967,389**	**3,128,764**

1 The figures in the table above take into account the remuneration received by entities belonging to the Volkswagen Group that are not group companies of Porsche SE as defined by IFRSs.

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

3 These members of the supervisory board have declared to the management board of Volkswagen AG that they waive their claims for all remuneration payments for fiscal year 2016. Such waiver shall apply to the extent that these claims exceed the amount that would be due if the stipulations to be resolved by the Volkswagen AG annual general meeting on 10 May 2017 regarding the remuneration for the supervisory board for the current and future fiscal years were applied to fiscal year 2016.

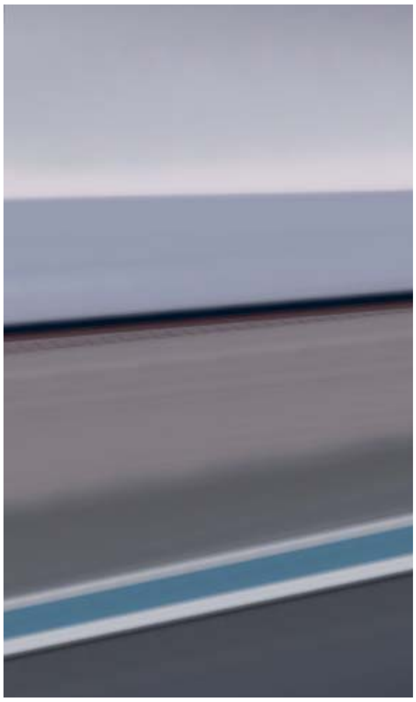
Remuneration of the members of the supervisory board in accordance with the German Corporate Governance Code for the fiscal year 2015[1]

2015 in €	Non-performance-related components	Performance-related components	Total
Dr. Wolfgang Porsche	204,200	85,580	289,780
Uwe Hück[2]	164,000	64,185	228,185
Berthold Huber[2]	83,133	42,790	125,923
Prof. Dr. Ulrich Lehner	83,000	85,580	168,580
Peter Mosch[2]	76,000	42,790	118,790
Bernd Osterloh[2]	93,500	64,185	157,685
Hon.-Prof. Dr. techn. h.c. Ferdinand K. Piëch	99,801	59,002	158,803
Dr. Hans Michel Piëch	147,500	42,790	190,290
Dr. Ferdinand Oliver Porsche	133,000	64,185	197,185
Hansjörg Schmierer[2]	101,000	42,790	143,790
His Excellency Sheikh Jassim bin Abdulaziz bin Jassim Al-Thani (until 24/3/2015)	5,685	9,730	15,415
Hans-Peter Porsche (since 25/3/2015)	65,630	33,060	98,690
Werner Weresch[2]	101,000	42,790	143,790
Total	**1,357,449**	**679,457**	**2,036,906**

1 The figures in the table above take into account the remuneration received by entities belonging to the Volkswagen Group that are not group companies of Porsche SE as defined by IFRSs.

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

Opportunities and risks of future development



Report on opportunities and risks at Porsche SE

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.

In principle, 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 a (conscious) entrepreneurial decision (“entrepreneurial risks”). The second type of risk comprises risks resulting from the lack of a definition or insufficient compliance with processes (“organizational risks”).

In its risk management system, Porsche SE focuses on potential negative effects of risks. However, on occasion potential opportunities are also analyzed and presented. There are no material risks which the Porsche SE Group does not in principle identify in its risk management system.

Overall, the design of the risk management system guarantees that the management of Porsche SE is always informed of significant risk drivers and able to assess the potential impact of the identified risks so as to take suitable countermeasures at an early stage.

Porsche SE’s risk management system is updated on an ongoing basis and adapted to the company’s requirements.

The audit of Porsche SE’s consolidated financial statements includes the review of the implementation and general effectiveness of the early warning system for the detection of risk.

Structure of the risk management system
The Porsche SE Group'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. Each individual department within Porsche SE is responsible for independently identifying, evaluating, managing, reviewing 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 operational 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 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, this includes deriving generic risk strategies, defining a general process structure for operational management of risks and allocating risk areas to their respective risk owners, in particular also control of the operation, effectiveness and documentation of operational and strategic risk management by the executive board and the supervisory board of Porsche SE.

The third line of defense, “review-based risk management”, ensures the appropriateness of the risk management system and therefore in particular that the operational and strategic 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. 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.

The risks arising from the investment in Volkswagen AG are addressed at the level of operational risk management and continuously monitored by Porsche SE. As a result of the investment structure, the risks affect Porsche SE in the form of valuation, consolidation, dividend and liability risks. In addition, there continue to be risks from the basic agreement to create an integrated automotive group between Porsche and Volkswagen ("basic agreement") and the related corporate restructuring.

Risk management at the level of Volkswagen AG
Management of the risks at Volkswagen is located at the level of Volkswagen AG (we refer to the subsection "Report on opportunities and risks of the Volkswagen Group"). 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 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.

Internal control system including internal control system 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 organizational risks can be classified in the risk areas "business operations", "compliance" and "accounting/ financial reporting".

The internal control system generally prescribes the same measures for each of the three risk areas mentioned. On the basis of a comprehensive process map, the respective process owner derives the individual process steps, responsibilities and interfaces for the key processes, and a suitable structure is derived for the company as a whole. Controls for all three risk areas 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.

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

With regard to 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 regulations and company-internal guidelines and rules. 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 2016 primarily addressed general compliance-relevant regulations.

As regards the risk area “accounting/financial reporting”, the aim of the internal control system is to ensure recording, preparation and assessment of business matters in accounting and financial reporting that is accurate and in compliance with the law. This ensures complete, correct and timely transmission of the information required for authorizing for issue the financial statements of Porsche SE and the Porsche SE Group, as well as the combined management report for the group and Porsche SE.

The subsidiaries Porsche Beteiligung GmbH, Porsche Zweite Beteiligung GmbH, Porsche Dritte Beteiligung GmbH and Porsche Vierte Beteiligung GmbH as well as the alternative investment fund are included in the systems implemented within the Porsche SE Group.

The IFRS accounting manual of Porsche SE and formal instructions ensure uniform recognition and measurement based on the accounting policies applicable at Porsche SE. The components of the formal reporting packages required to be prepared for Porsche SE are set out in detail and updated regularly. The reporting dates that are relevant for the reporting units are set out in a reporting calendar.

In the course of preparation of the consolidated financial statements, the reporting packages are analyzed in detail and tested for plausibility.

The reporting packages are processed in a consolidation system, which is based on standard software and to which access and rights are restricted by the existing authorization and access rules.

A risk management and internal control system that is relevant for the financial reporting process is also implemented in the Volkswagen Group. Details of its scope are presented in the “Report on opportunities and risks of the Volkswagen Group” subsection.

The internal control system is also applied during the preparation of the separate financial statements of Porsche SE. At Porsche SE, the accounting for provisions and accruals and deferrals as well as testing the company’s equity investments included in the balance sheet for impairment are determined in cooperation with the departments responsible. The accounting processes implemented at Porsche SE ensure that matters arising from agreements that are relevant in terms of accounting and subject to disclosure requirements are identified in full and presented appropriately in the financial statements.

Opportunities and risks at Porsche SE

Porsche SE mainly faces financial, legal and tax opportunities and risks.

Liquidity risks
In the course of business activities, for example in connection with existing liabilities, there is generally the risk of Porsche SE not being in a position to meet its payment obligations. Net liquidity therefore represents a significant risk indicator that is included in the regular reporting.

As of the reporting date, Porsche SE has significantly positive net liquidity. In addition, Porsche SE has at its disposal a credit facility with a volume of €1.0 billion and a term until 9 October 2019. Collateral is provided in the form of ordinary shares of Volkswagen AG only in the event of the credit facility being drawn.

Considering the financial situation of the company and the amount of the ongoing operating expenses, the executive board assesses the liquidity risk as currently negligible.

Opportunities and risks arising from the use of financial instruments
In its business activities Porsche SE is exposed to risks arising from the use of financial instruments.

The financial instruments currently used in the Porsche SE Group in particular comprise cash and cash equivalents, time deposits, securities and

non-derivative financial liabilities. Furthermore, funds of the alternative investment fund in place within the scope of liquidity management are also invested in derivative financial instruments by various asset managers.

As a result of the investment of its liquidity and as a result of a guarantee which Porsche SE made to the Volkswagen Group in connection with the creation of the integrated automotive group, there are counterparty risks. Counterparty risks from guarantees were reduced in the fiscal year 2016 due to the decrease in the guaranteed volume. To mitigate the counterparty risks, Porsche SE monitors the creditworthiness and spreads the investment of liquidity across various counterparties.

The use of fixed-interest financial liabilities results in the risk of the fair value of these liabilities changing due to changes in market interest rates. Moreover, the financial instruments held by the alternative investment fund are exposed to market price risks. In the event of a change in the market interest rates or the market prices, the fair value can decrease as well as increase; as a result the risks described consequently also include corresponding opportunities. This also applies similarly with regard to liquidity invested by Porsche SE at a fixed interest rate, although the risk is mitigated considerably by the short-term nature of the investment.

The market price risks relating to the alternative investment fund are reduced by spreading the funds across various asset managers and strategies, and are limited by using an investment policy that specifies not only products and currencies, but also a risk budget. The risk budget is allocated for the year and is in the low single-digit percentage range. Furthermore, the alternative investment fund is monitored and managed by an investment committee.

Porsche SE's executive board assesses the risks arising from the use of financial instruments to be low overall.

Opportunities and risks of investments
In connection with the investments in Volkswagen AG and INRIX as well as any future investments, there is uncertainty for Porsche SE regarding the development of the value of the investments and the amount of cash inflows from these investments. This entails the risk of a need to recognize an impairment loss, with a corresponding negative impact on the profit of Porsche SE and the Porsche SE Group, the risk of a decrease in dividend inflows and/or the risk of burdens on profits attributed to Porsche SE in the consolidated financial statements. However, there are also corresponding opportunities from positive development in these areas.

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 INRIX and, if necessary, monitors assessments made by analysts. Porsche SE carries out impairment testing if there is any indication that these assets may be impaired. 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, measurements are also performed using multipliers.

With regard to the investment in Volkswagen AG, there is an increased risk of the profit/loss attributable to Porsche SE as part of equity accounting and the future dividend inflow being subject to further burdens as a result of the diesel issue (we refer to the explanations in the section "Significant events and developments at the Volkswagen Group"). These burdens may result in particular from new findings regarding the amount of the risk provisioning recognized (we refer to the explanations in the section "Report on opportunities and risks of the Volkswagen Group") or from effects of the diesel issue on the operating business and/or

the financing costs of the Volkswagen Group that exceed the extent assumed in the planning.

As regards the recoverability of the investment in Volkswagen AG, impairment testing was performed in the fiscal year 2016 due to the proportional market capitalization being below the carrying amount. As the impairment test is based on the current planning of the Volkswagen Group, and in particular also takes into consideration the risk provisioning recognized in connection with the diesel issue at the level of the Volkswagen Group, the risks of unexpected additional burdens described above also exist in this context. 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 low on the basis of the current information.

As regards the investment in INRIX, there were indications of a need to recognize an impairment loss in the fiscal year 2016, as the company did not develop as planned in the past fiscal year in several important key figures. The impairment test resulted in a need to recognize an impairment loss of €14 million in the consolidated financial statements of Porsche SE. Furthermore, with regard to the profit/loss attributable to Porsche SE as part of equity accounting and with respect to the future recoverability of the investment, the risk underlying the value of the investment is to be considered elevated due to INRIX's ambitious growth plans. However, the potential effects on the Porsche SE Group's results of operations, financial position and net assets would be correspondingly manageable owing to the relatively low carrying amount of the investment of €21 million.

Litigation risk

Porsche SE is involved in legal disputes and administrative proceedings both nationally and internationally. As of 31 December 2016, 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 in connection with the diesel issue. Where such risks are foreseeable, adequate provisions are recognized 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 does not believe, therefore, that these risks have had a sustained effect on the economic position of the group so far.

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 recognized, which would result in a correspondingly negative impact on profit/loss and liquidity.

For the status of the legal proceedings and for current developments, we refer 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. Porsche SE’s executive board therefore considers the tax risk from the contribution to be extremely low.

In the fiscal year 2012, a tax field audit commenced for the assessment periods 2006 to 2008, which was completed in the fiscal year 2014. In addition, a tax field audit for the assessment periods 2009 to 2013 started at the end of 2015. 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. Based on the findings of the completed tax field audit and the information available when the financial statements were being prepared, payments were already made and provisions recognized in prior years for these assessment periods. New findings of the tax field audit for the assessment periods 2009 to 2013 could result in an increase or decrease in the tax and interest payments due or any payments already made could be partially refunded.

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 during the reporting period, will in some cases lead to tax benefits in the Volkswagen Group that are expected, according to the existing regulations, 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 authorized for issue, Porsche SE would have a claim for compensation in the low triple-digit million euro range. Newer findings in the future from the tax field audit that started at the end of 2015 for the assessment period 2009 may lead to an increase or decrease in the possible compensation claim.

A wage tax field audit for the years 2011 to 2014 was also started in the fiscal year 2015. To date, no findings of the wage tax field audit are available.

As the tax field audit for the assessment periods 2009 to 2013 had not yet been completed, it cannot currently be ruled out that there will be significant changes to the currently calculated figures due to the findings of the tax field audit, which could result in a correspondingly negative impact on profit/loss and liquidity. The same applies to the wage tax field audit started in the fiscal year 2015 for the assessment periods 2011 to 2014.

Report on opportunities and risks of the Volkswagen Group

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 sustainable 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 probability 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). In the reporting period, Volkswagen again pursued a holistic, integrated approach that combines a risk management system, an internal control system and a compliance management system (CMS) within a single management strategy (governance, risk and compliance strategy). Structuring the RMS/ICS in accordance with the COSO framework for enterprise risk management ensures that potential risks are covered in full; opportunities are not recorded. Uniform group principles are used as the basis for managing risks in a consistent manner.

In addition to fulfilling legal requirements, particularly with regard to the financial reporting process, this approach enables die Volkswagen Group to manage significant risks to the group holistically, i.e., by incorporating both tangible and intangible criteria.

Volkswagen further enhanced its RMS/ICS in the reporting period. In addition to the ad hoc and annual risk assessment, the board of management of Volkswagen also receives quarterly risk reports. This additional reporting on the current risk situation raises awareness of risks in the company and encourages an open approach to dealing with them. Volkswagen continued to reinforce the internal control system in the area of product compliance in 2016.

Another key element of the RMS/ICS at Volkswagen is the three lines of defense model, a basic element required, among others, by the

European Confederation of Institutes of Internal Auditing (ECIIA). In line with this model, the Volkswagen Group's RMS/ICS has three lines of defense that are designed to protect the company from significant risks occurring.

First line of defense: operational risk management

The primary line of defense comprises the operational risk management and internal control systems at the individual Volkswagen 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, their effects are assessed and the information is incorporated into the planning in a timely manner. 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 that have already been taken are incorporated into the monthly forecasts on further business development without delay. This means that the board of management has access to an overall picture of the current risk situation via the documented reporting channels during the year as well.

The minimum requirements for the operational risk management and internal control system are set out for the entire group in uniform guidelines. These also include a process for the timely reporting of material risks.

Second line of defense: identifying systemic risks using the regular governance, risk and compliance process

In addition to the units' ongoing operational risk management, the group governance, risk and compliance (GRC) department each year sends standardized surveys on the risk situation and the effectiveness of the RMS/ICS to the material Volkswagen group companies and units worldwide (standard GRC process). The feedback is used to update the overall picture of the potential risk situation and assess the effectiveness of the system.

Each systemic risk reported is assessed using the expected likelihood of occurrence and various risk criteria (financial and nonfinancial). In addition, the measures taken to manage and control risk are documented at management level. This means that risks are assessed in the context of any risk management measures initiated, i.e., in a net analysis. 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 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 the fiscal year 2016.

The Scania brand had not yet been included in the Volkswagen Group's risk management system due to various provisions of Swedish company law. Scania was integrated into quarterly risk reporting in 2016. In future, it will also be included in the regular GRC process. According to Scania's corporate governance report, risk management and risk assessment are integral parts of corporate management. Risk areas at Scania are evaluated by the controlling department and reflected in the financial reporting.

The RMS was expanded in the reporting period to include quarterly risk reporting. The aim is to raise awareness of significant risks currently faced by the Volkswagen Group and to encourage

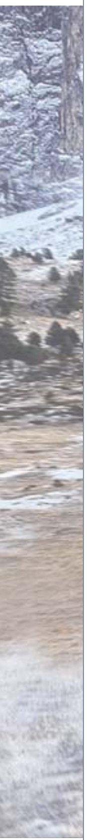
these to be dealt with openly. All group brands are included in this new process along with Volkswagen Financial Services AG.

Third line of defense: checks by group internal audit
Group internal audit helps the board of management to monitor the various divisions and corporate units within the Volkswagen Group. It regularly checks the risk early warning system and the structure and implementation of the RMS/ICS and the 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 through the elements of the RMS/ICS described above (first and second lines of defense). 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 on a random basis in detailed interviews with the divisions and companies concerned that also involve the external auditors. The latter assessed the Volkswagen Group's risk early warning system based on this volume of data and established that the risks identified were presented and communicated accurately. The risk early warning system therefore meets the requirements of the KonTraG.

In addition, the financial services division is subject both to scheduled examinations as part of the audit of the annual financial statements and to also unscheduled audits, in particular by the Banking Supervision Committee of the European Central Bank (ECB-SSM, Single Supervisory Mechanism) and by the German Federal Financial Supervisory Authority (BaFin) within the meaning of Sec. 44 of the German Banking Act (KWG), as well as examinations by the Auditing Association of German Banks (Prüfungsverband deutscher Banken).



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

To ensure its effectiveness, the RMS/ICS is regularly optimized as part of the continuous monitoring and improvement processes. In the process, equal consideration is given to both internal and external requirements. External experts assist in the continuous enhancement of our 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.

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

The accounting-related part of the RMS/ICS that is relevant for the financial statements of Volkswagen AG and the Volkswagen Group comprises measures that are intended to ensure the complete, accurate and timely transmission of the information required for the authorization for issue of the financial statements of Volkswagen AG, the consolidated financial statements and the combined group management report. These measures are designed to minimize the risk of material misstatement in the accounts and in the external reporting.

Main features of the risk management and integrated internal control system relevant for 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 Volkswagen 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 group in encrypted form. A standard market product is used for encryption.

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

Control activities at group level include analyzing and, if necessary, adjusting the data reported in the financial statements presented by the Volkswagen 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 reasonableness of the single-entity financial statements and specific significant issues at the subsidiaries. Alongside reasonableness reviews, 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 dual control principle.

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

In addition, the accounting-related internal control system is independently reviewed by the group internal audit function 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 maximum 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.

Risks and opportunities of the Volkswagen Group

The Volkswagen Group uses competitive and environmental analyses and market studies to identify not only risks but also opportunities with 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 the Volkswagen Group expects to occur are already reflected in the medium-term planning and the forecast.

The business activities of the Volkswagen Group generally give rise to the following risks and opportunities generally: macroeconomic risks and opportunities, sector-specific risks and market opportunities, research and development risks, opportunities arising from the Modular Transverse Toolkit, risks and opportunities from procurement, production risk, risks from long-term production, risks arising from changes in demand, risks due to reliance on fleet business, quality risk, personnel risk, IT risk, risks due to environmental protection regulations, opportunities relating to CO_2 certificates, litigation risks, financial risks, risks arising from financial instruments, residual value risks arising from financial service business, and risks from other factors.

On the one hand the diesel issue results in additional risks for the Volkswagen Group, and on the other the diesel issue has an impact on the risks listed which are described below.

Risks from the diesel issue

The Volkswagen Group has recognized provisions arising from the diesel issue, in particular for the upcoming service campaigns, recalls and customer-related measures as well as for legal risks, but also for residual value risks.

Due to existing estimation risks particularly from legal risks, criminal and administrative proceedings, higher expenses for technical solutions, lower market prices, repurchase obligations and customer-related measures, further significant financial liabilities may emerge.

Demand may decrease – possibly exacerbated by a loss of reputation or insufficient communication. Other potential consequences include lower margins in the new and used car businesses and a temporary increase in funds tied up in working capital.

The funding needed to cover the risks may lead to assets having to be sold due to the situation

and equivalent proceeds for them not being achieved as a result.

As a result of the diesel issue the ability to use refinancing instruments may possibly be restricted or precluded for the Volkswagen Group. A downgrade of the company's rating could adversely affect the terms associated with the Volkswagen Group's borrowings.

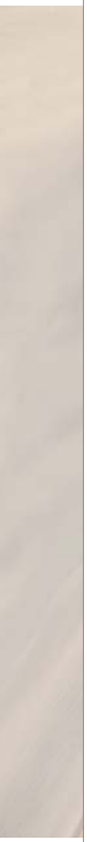
Volkswagen is cooperating with all the responsible authorities to clarify these matters completely and transparently.

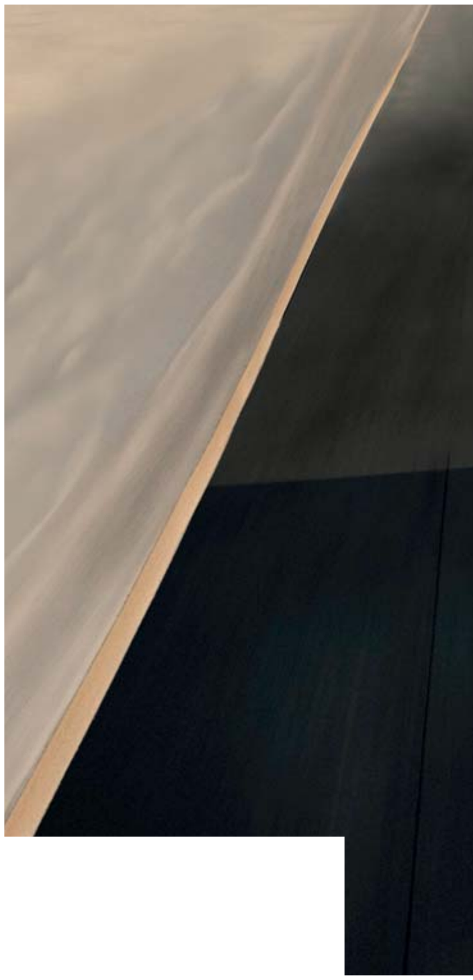
Effects of the diesel issue on legal risks

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 vehicles with Volkswagen Group diesel engines. It has been alleged that Volkswagen had used undisclosed engine management software installed in certain four-cylinder diesel engines used in certain 2009 to 2015 model year vehicles to circumvent NO_x emissions testing regulations in the United States of America in order to comply with certification requirements. The US environmental authority of California – the California Air Resources Board (CARB) – announced its own enforcement investigation in this context.

Volkswagen admitted to irregularities in this context. In its ad hoc release dated 22 September 2015, the Volkswagen Group announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with certain diesel engines. The vast majority of these engines are Type EA 189 Euro 5 engines. On 2 November 2015, the EPA issued another notice of violation alleging that irregularities had also been discovered in the software installed in vehicles with type V6 TDI 3.0 l diesel engines. CARB also issued a letter announcing its own enforcement investigation in this context. Audi has confirmed that at least three auxiliary emission control devices were inadequately disclosed in the course of the US approval documentation. Around 113 thousand vehicles from the 2009 to 2016 model years with certain six-cylinder diesel engines are affected in the US and Canada, where regulations governing NO_x emissions limits for vehicles are stricter than those in other parts of the world.

On 4 January 2016, the US Department of Justice (DOJ), on behalf of the EPA, filed a civil complaint against Volkswagen AG, AUDI AG and other companies of the Volkswagen Group. The





claims asserted under civil law are founded on the alleged use of illegal (Defeat Device) software in violation of the American Clean Air Act. The complaint's allegations relate to both the four-cylinder and the six-cylinder diesel engines. On 12 January 2016, it was announced that CARB intends to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations.

In addition to internal inquiries, Volkswagen AG commissioned an external investigation by US law firm Jones Day. This is an independent and comprehensive investigation addressing the diesel issue. The supervisory board of Volkswagen AG is ensuring that Jones Day can carry out its clarification work independently. Jones Day is updating the company and the DOJ on the current results of its investigation on an ongoing basis and supports Volkswagen AG in its cooperation with the judicial authorities.

The supervisory board of Volkswagen AG has formed a special committee to coordinate all activities in this context for the supervisory board.

Based on decisions dated 15 October 2015, the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) ordered the Volkswagen passenger cars, Volkswagen commercial vehicles and SEAT brands to recall all of the diesel vehicles that had been issued with vehicle type approval by the KBA from among the 11 million affected. The recall concerns the member states of the European Union (EU28). On 10 December 2015 a similar decision was issued regarding Audi vehicles with the EA 189 engine. The timetable and action plan forming the basis for the recall order correspond to the proposals presented in advance by Volkswagen. Depending on the technical complexity of the remedial actions, this means that the Volkswagen Group has been recalling the affected vehicles, of which there are around 8.5 million in total in the EU28 countries, to the service workshops since January 2016. The remedial actions differ in scope depending on the engine variant. The technical solutions cover software and in some cases hardware modifications, depending on the series and model year. The details of the remedial actions for the Volkswagen Group vehicles falling within its jurisdiction have been agreed in close cooperation with the KBA which had to approve all fixes in advance. Only the approval of the technical solution for 14 thousand vehicles is still outstanding.

The SEAT brand received approvals in principle from its respective type approval authority, the Ministry of Industry in Spain in the fiscal year 2016.

Type approval authority for the ŠKODA brand is the Vehicle Certification Agency in the United Kingdom. The approval process for ŠKODA vehicles is still ongoing. In some countries outside the EU – among others Switzerland, Australia, South Korea, Taiwan and Turkey – national type approval is based on prior recognition of the EC/ECE type approval. Volkswagen is also in close contact with the

authorities in these countries in order to finalize the approval process. In addition, there is an intensive exchange of information with the authorities in the USA and Canada, where Volkswagen's planned actions in relation to the four-cylinder and the six-cylinder diesel engines will also have to be approved. Due to considerably stricter NO_x limits in the USA and Canada, it is a greater technical challenge to refit the vehicles so that all applicable emissions limits can be met.

Potential consequences for Volkswagen Group's results of operations, financial position and net assets could emerge primarily in the following legal areas:

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

In addition to the described approval processes with the responsible registration authorities, in some countries criminal investigations/misdemeanor proceedings (for example, by the public prosecutor's office in Braunschweig, Germany) and/or administrative proceedings (for example, by the BaFin) have been opened. The public prosecutor's office in Braunschweig is investigating the core issue of the criminal investigations. Whether this will result in fines for the Volkswagen Group, and if so what their amount might be, is currently subject to estimation risks. According to Volkswagen's estimates so far, the likelihood for the majority of these proceedings to be successful is less than 50%. Contingent liabilities have therefore been disclosed in the consolidated financial statements in cases where they can be assessed and for which the likelihood for the imposition of fines was deemed not lower than 10%.

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

In principle, it is possible that customers in the affected markets will file civil lawsuits against Volkswagen AG and other Volkswagen Group companies. In addition, it is possible that importers and dealers could assert claims against Volkswagen AG and other Volkswagen Group companies, e.g. through recourse claims. As well as individual lawsuits, class action lawsuits are possible in various jurisdictions (albeit not in Germany).

In this context, various lawsuits are pending against Volkswagen AG and other Volkswagen Group companies at present.

Class action proceedings against Volkswagen AG and other Volkswagen Group companies are pending in various countries such as Argentina, Australia, Belgium, Brazil, Israel, Italy, United Kingdom, Mexico, Poland, Portugal and Taiwan. The class action proceedings are lawsuits aimed among other things at asserting damages. The amount of these damages cannot yet be quantified due to the early stage of the proceedings. Volkswagen does not estimate the litigants' prospect of success to be more than 50% in any of the aforementioned proceedings aimed at monetary relief. In South Korea various mass proceedings are pending (in some of these individual lawsuits several hundred litigants have been aggregated). These lawsuits are filed to assert damages and to rescind the purchase contract including repayment of the purchase price. Due to special circumstances in the market and specific characteristics of the South Korean legal system, Volkswagen estimates the litigants' prospects of success in the South Korean mass proceedings mentioned above to be inherently higher as in other jurisdictions outside the USA and Canada. Contingent liabilities have been disclosed in the consolidated financial statements of Volkswagen AG for pending class action proceedings that can be assessed and for which the chance of success was deemed not implausible. Provisions were recognized to a small extent.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in numerous countries. In Germany around 1,300 individual law suits, in Italy and Spain law suits in the low three digit range and in France, Ireland and Austria individual lawsuits in the two-digit range are pending, most of which are aimed at asserting damages or rescinding the purchase contract. According to Volkswagen's estimates so far, the litigants' prospect of success is below 50% in the vast majority of the individual lawsuits. Contingent liabilities have therefore been disclosed for those

lawsuits that can be assessed and for which the chance of success was deemed not implausible.

It is too early to estimate how many customers will take advantage of the option to file lawsuits in the future, beyond the existing lawsuits, or what their prospects of success will be.

Meanwhile, except for 14 thousand vehicles, the KBA has ascertained for all approved clusters (groups of vehicles) that implementation of the technical solutions would not bring about any unfavorable changes in fuel consumption, engine power, torque and noise emissions. The Volkswagen Group is now working expeditiously to implement the technical solutions in the field. The implementation of the technical modifications already started in January 2016.

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

Investors from Germany and abroad have filed claims for damages against Volkswagen AG 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 at the District Court (Landgericht) in Braunschweig. On 5 August 2016, the District Court in Braunschweig ordered that common questions of law and fact relevant to the lawsuits pending at the District Court in Braunschweig be referred to the Higher Regional Court (Oberlandesgericht) in Braunschweig for a binding declaratory decision pursuant to the German Act on Model Case Proceedings in Disputes Regarding Capital Market Information (Kapitalanleger-Musterverfahrensgesetz). In this proceeding, common questions of law and fact relevant to these actions shall be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig. All lawsuits at the District Court in Braunschweig will be stayed pending up until resolution of the common issues, unless they can be dismissed for reasons independent of the common issues that are adjudicated in the model case proceedings. The resolution of the common issues in the model case proceedings will be binding on all pending cases in the stayed lawsuits.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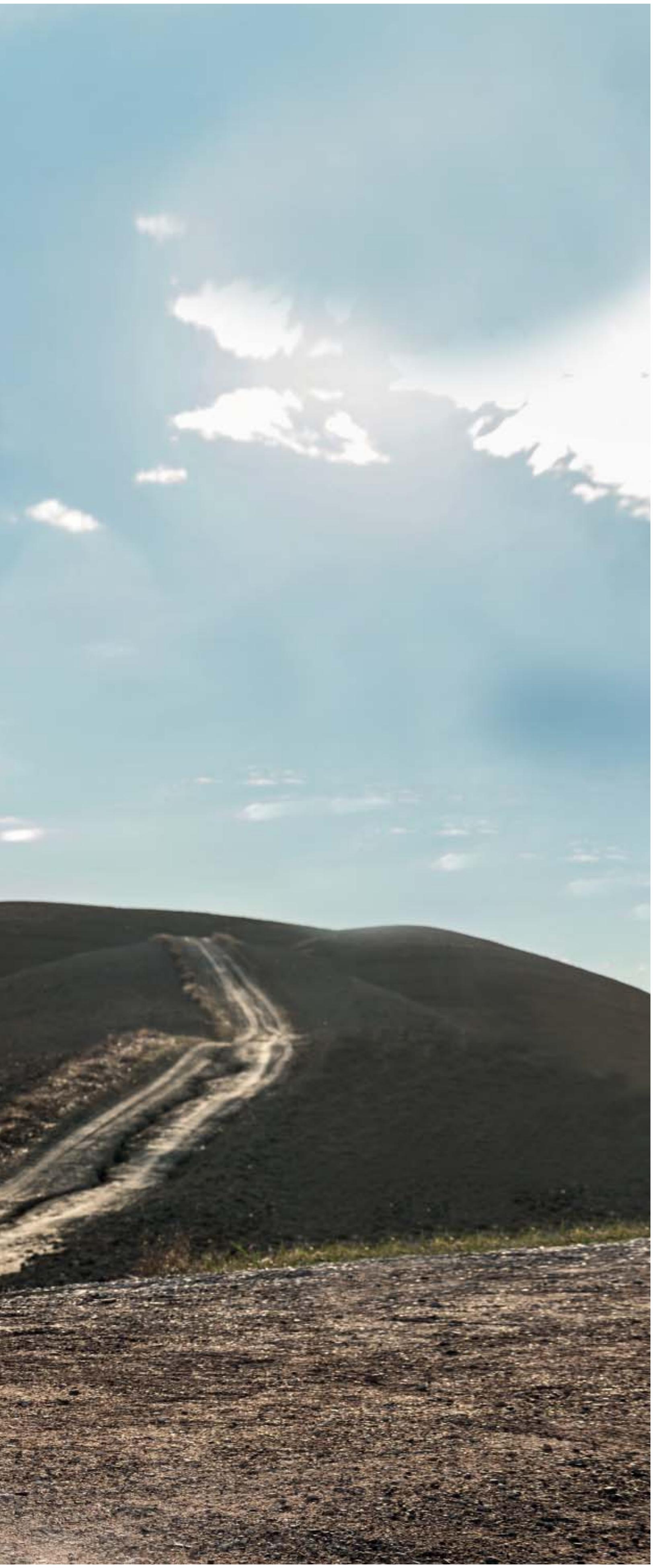


At the District Court in Stuttgart further lawsuits have been filed against Volkswagen AG and Porsche Automobil Holding SE as joint and several debtors. It is currently unclear whether model case proceedings will be initiated in respect of these lawsuits and whether they will take place at the Higher Regional Court in Stuttgart or referred to the Higher Regional Court in Braunschweig.

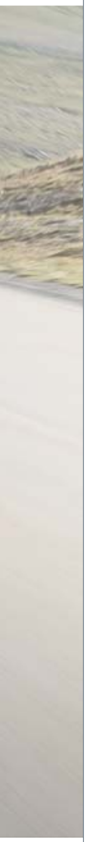
Further investor lawsuits have been filed at various courts in Germany as well as in Austria and the Netherlands.

Altogether, Volkswagen has so far been served with investor lawsuits, judicial applications for dunning procedures and conciliation proceedings with claims amounting to approximately €9 billion. Volkswagen remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits. Insofar as the chance of success was estimated at not lower than 10%, contingent liabilities have been disclosed.

4. Proceedings in the USA/Canada

Following the publication of the EPA's notices of violation, Volkswagen AG and other Volkswagen Group companies have been the subject of intense scrutiny, ongoing investigations (civil and criminal) and civil litigation. Volkswagen AG and other Volkswagen Group companies have received subpoenas and inquiries from state attorneys general and other governmental authorities and are responding to such investigations and inquiries.

In addition, Volkswagen AG and other Volkswagen Group companies in the USA/Canada are facing litigation on a number of different fronts relating to the matters described in the EPA's notices of violation.



A large number of putative class action lawsuits by affected customers and dealers have been filed in US federal courts and consolidated for pretrial coordination purposes in the federal multidistrict litigation proceeding in the State of California.

On 4 January 2016, the DOJ, Civil Division, on behalf of the EPA, initiated a civil complaint against Volkswagen AG, AUDI AG and certain other Volkswagen Group companies. The action seeks statutory penalties under the US Clean Air Act, as well as certain injunctive relief, and has been consolidated for pretrial coordination purposes in the California multidistrict litigation.

On 12 January 2016, it was announced that CARB intends to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations.

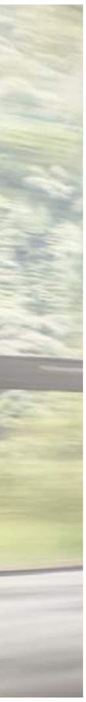
In June 2016, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates reached settlement agreements with the DOJ on behalf of the EPA, CARB and the California Attorney General; private plaintiffs represented by a Plaintiffs' Steering Committee (PSC) in the multi-district litigation pending in California and the US Federal Trade Commission (FTC). These settlement agreements will resolve certain civil claims made in relation to affected diesel vehicles with 2.0 l TDI engines from the Volkswagen passenger cars and Audi brands in the USA. Volkswagen AG and certain affiliates also entered into a first partial consent decree with the DOJ, EPA, CARB and the California Attorney General, which was lodged with the court on 28 June 2016. On 18 October 2016, a fairness hearing on whether final approval should be granted was held, and on 25 October 2016, the court granted final approval of the settlement agreements and the partial consent order. A number of class members have filed appeals to a US appellate court from the order approving the settlements.

The settlements provide affected customers with the option of a buyback or, for leased vehicles, early lease termination, or a free emissions modification of the vehicles, provided that EPA and CARB approve the modification. Volkswagen will also make additional cash payments to affected current owners or lessees as well as certain former owners or lessees.

Volkswagen also agreed to support environmental programs. The company will pay US$2.7 billion over three years into an environmental trust, managed by a trustee appointed by the court, to offset excess nitrogen oxide (NO_x) emissions. Volkswagen will also invest in total US$2.0 billion over ten years in zero emissions vehicle infrastructure as well as corresponding access and awareness initiatives.

Volkswagen AG and certain affiliates also entered into a separate partial consent decree with CARB and the California Attorney General resolving certain claims under California unfair competition, false advertising, and consumer protection laws related to both the 2.0 l and 3.0 l TDI vehicles, which was lodged with the court on 7 July 2016. Under the terms of the agreement, Volkswagen agreed to pay California US$86 million. The court entered judgment on the partial consent decree on 1 September 2016 and the US$86 million payment was made on 28 September 2016.

On 20 December 2016, Volkswagen entered into a second partial consent decree, subject to court approval, with the DOJ, EPA, CARB and the California Attorney General that resolved claims for injunctive relief under the Clean Air Act and California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. Under the terms of this consent decree, Volkswagen agreed to implement a buyback and lease termination program for Generation 1 3.0 l TDI vehicles and a free emissions recall and modification program for Generation 2 3.0 l TDI vehicles (if the modification program for Generation 2 vehicles is not approved by the EPA and CARB, Volkswagen will be required to offer a buyback and lease termination program for those vehicles); and pay US$225 million into the environmental mitigation trust that will be established pursuant to the first partial consent decree. The second partial consent decree was lodged with the court on 20 December 2016 and is currently in its notice and comment period.



In addition, on 20 December 2016, Volkswagen entered into an additional, concurrent second partial consent decree, subject to court approval, with CARB and the California Attorney General that resolved claims for injunctive relief under California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. Under the terms of this consent decree, Volkswagen agreed to provide additional injunctive relief to California, including the implementation of a “Green City” initiative and the introduction of three new Battery Electric Vehicle (BEV) models in California by 2020, as well as a US$25 million payment to CARB to support the availability of BEVs in California.

On 11 January 2017, Volkswagen entered into a third partial consent decree, subject to court approval, with the DOJ and EPA that resolved claims for civil penalties and injunctive relief under the Clean Air Act related to the 2.0 l and 3.0 l TDI vehicles. Volkswagen agreed to pay US$1.45 billion (plus any accrued interest) to resolve the civil penalty and injunctive relief claims under the Clean Air Act, as well as the customs claims of the US Customs and Border Protection. Under the third partial consent decree, the injunctive relief includes monitoring, auditing and compliance obligations. This consent decree, which is subject to public comment, was lodged with the court on 11 January 2017. Also on 11 January 2017, Volkswagen entered into a settlement agreement with the DOJ to resolve any claims under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and agreed to pay US$50 million (plus any accrued interest), specifically denying any liability and expressly disputing any claims.

The DOJ also opened a criminal investigation focusing on allegations that various federal law criminal offenses were committed. On 11 January 2017, Volkswagen AG agreed to plead guilty to three federal criminal felony counts, and to pay a US$2.8 billion criminal penalty. Pursuant to the terms of this agreement, Volkswagen will be on probation for three years and will work with an independent monitor for three years. The independent monitor will assess and oversee the company’s compliance with the terms of the resolution. This includes overseeing the implementation of measures to further strengthen compliance, reporting and monitoring systems,

including an enhanced ethics program. Volkswagen will also continue to cooperate with the DOJ's ongoing investigation of individual employees or former employees who may be responsible for criminal violations.

Moreover, investigations by various US regulatory and government authorities, including in areas relating to securities, financing and tax, are ongoing.

On 31 January 2017, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates entered into a settlement agreement with private plaintiffs represented by the PSC in the multidistrict litigation pending in California and a consent order with the FTC. These agreements will resolve certain civil claims made in relation to affected diesel vehicles with 3.0 l TDI engines from the Volkswagen, Audi and Porsche brands in the USA. On 14 February 2017, the court preliminarily approved the settlement agreement with private plaintiffs and scheduled a fairness hearing on whether final approval should be granted for 11 May 2017. The agreement with the FTC will also be subject to court approval.

Under the settlements, consumers' options and compensation will depend on whether their vehicles are classified as Generation 1 or Generation 2. Generation 1 (model years 2009-2012) consumers will have the option of a buyback, early lease termination, trade-in, or a free emissions modification, provided that EPA and CARB approve the modification. Additionally, Generation 1 owners and lessees, as well as certain former owners and lessees, will be eligible to receive cash payments.

Generation 2 (model years 2013-2016) consumers will receive a free emissions compliant repair to bring the vehicles into compliance with the emissions standards to which they were originally certified – provided that EPA and CARB grant approval – as well as cash payments. If Volkswagen ultimately cannot obtain EPA and CARB approval for emissions compliant repairs within the time limits set out in the settlement agreement, Generation 2 consumers will be offered the options for buyback, lease termination, trade-in or – if approved by EPA and CARB – an emissions modification that reduces the amount of emissions but does not bring the vehicles into compliance with original certification standards, in addition to cash payments. Volkswagen will also make cash payments to certain former Generation 2 owners or lessees.

In September 2016, Volkswagen announced that it had finalized an agreement to resolve the claims of Volkswagen branded franchise dealers in

the United States relating to TDI vehicles and other matters asserted concerning the value of the franchise. The settlement agreement includes a cash payment of up to US$1.208 billion, and additional benefits to resolve alleged past, current, and future claims of losses in franchise value. On 18 January 2017, a fairness hearing on whether final approval should be granted was held, and on 23 January 2017, the court granted final approval of the settlement agreement. Certain members of the class may appeal to a US appellate court the decision to finally approve the settlement; the deadline to do so has not yet expired.

Additionally, in the USA, some putative class actions, some individual customers' lawsuits and some state or municipal claims have been filed in state courts.

Volkswagen reached separate agreements with the attorneys general of 44 US states, the District of Columbia and Puerto Rico, to resolve their existing or potential consumer protection and unfair trade practices claims – in connection with both 2.0 l TDI and 3.0 l TDI vehicles in the USA – for a settlement amount of US$603 million. Six states did not join these settlements and still have consumer claims outstanding: Arizona, New Jersey, New Mexico, Oklahoma, Vermont and West Virginia. The attorneys general of eighteen US states (Alabama, Illinois, Maine, Maryland, Massachusetts, Minnesota, Missouri, Montana, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Tennessee, Texas, Vermont and Wyoming) and some municipalities have also filed suits in state and federal courts – and the state of Washington has asserted a penalty claim through administrative proceedings – against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates seeking civil penalties and injunctive relief for alleged violations of environmental laws. Alabama, Illinois, Maine, Maryland, Massachusetts, Minnesota, Missouri, Montana, New Hampshire, New York, Ohio, Pennsylvania, Tennessee, Texas, Washington and Wyoming participated in the state settlements described above with respect to consumer protection and unfair trade practices claims, but those settlements did not include claims for environmental penalties. In addition, although it has not yet filed an action, Delaware has entered into an agreement to toll the statute of limitations for its environmental claims through the end of February 2017. Two other states – Oregon and Wisconsin – signed agreements tolling the statute of limitations for their environmental claims through the end of 2016, but they have not requested an extension or filed actions. Another state (Connecticut) has expressed its intention to participate in environmental settlement discussions without filing suit.

In addition to lawsuits described above, for which provisions have been recognized, a putative class action has been filed on behalf of purchasers of Volkswagen AG American Depositary Receipts, alleging a drop in price purportedly resulting from the matters described in the EPA's notices of violation. A putative class action has also been filed

on behalf of purchasers of certain US$-denominated Volkswagen bonds, alleging that these bonds were trading at artificially inflated prices due to Volkswagen's alleged misstatements and that the value of these bonds declined after the EPA issued its notices of violation.

These lawsuits have also been consolidated in the federal multidistrict litigation proceeding in the State of California described above. Volkswagen is of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized. In addition, contingent liabilities have not been disclosed in the consolidated financial statements of Volkswagen AG as they currently cannot be measured.

In Canada, civil consumer claims and regulatory investigations have been initiated for vehicles with 2.0 l and 3.0 l engines. On 19 December 2016, Volkswagen AG and other Canadian and US Volkswagen Group companies reached a class action settlement in Canada with consumers relating to 2.0 l diesel vehicles. Also on 19 December 2016, Volkswagen Group Canada agreed with the Commissioner of Competition in Canada to a civil resolution of its regulatory inquiry into consumer protection issues as to those vehicles. Civil consumer claims and the Commissioner's investigation with respect to 3.0 l diesel vehicles remain pending. Also, criminal enforcement related investigations by the federal environmental regulator and quasi-criminal enforcement related investigations by a provincial environmental regulator are ongoing in Canada related to 2.0 l and 3.0 l diesel vehicles. Provisions have been recognized in the consolidated financial statements of Volkswagen AG for possible obligations stemming from pending lawsuits in Canada.

5. Risk assessment regarding the diesel issue at the level of the Volkswagen Group

To protect against the currently known legal risks, including suitable expenses for defense and legal advice related to the diesel issue, existing information and assessments at the time indicated the need to recognize expenses in the reporting year to the amount of €5.1 billion (prior year: €7.0 billion). Prior-year provisions for legal risks in an amount of €0.4 billion had to be reversed through profit or loss. In addition, in relation to the diesel issue – in so far as these can be adequately measured at this stage – especially the contingent liabilities in conjunction with lawsuits filed by investors of €3.1 billion (prior year: €1.0 billion) were disclosed in the consolidated financial statements of Volkswagen AG. The provisions recognized, the contingent liabilities disclosed as well as the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and the fact that the independent, comprehensive investigations have not yet been completed.

Overall statement on the risks faced by the Volkswagen Group

The Volkswagen Group's overall opportunity and risk position results from the specific opportunities and risks shown above. The Volkswagen Group has put in place a comprehensive risk management system to ensure that these risks are controlled. The most significant risks to the Volkswagen Group may result from a negative trend in unit sales of, and markets for, vehicles and genuine parts, from the failure to develop and produce products in line with demand and from quality problems. Risks relating to the diesel issue still remain for the Volkswagen Group which, when aggregated, are among the most significant risks. Taking into account all the information known at present, no risks exist which could pose a threat to the continued existence of significant Volkswagen group companies or the Volkswagen Group.

Overall statement on the risks faced by the Porsche SE Group

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

Publication of the declaration of compliance

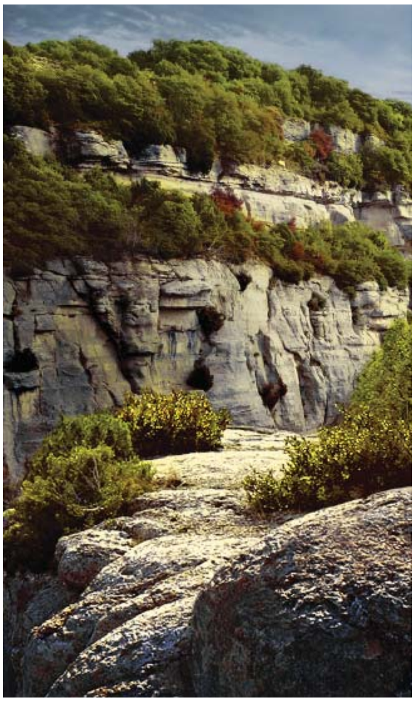
Porsche SE has issued the declaration of compliance as required by Sec. 289a and Sec. 315 (5) HGB. It can be viewed at www.porsche-se.com/en/company/corporate-governance/declaration.

Subsequent events

The size and composition of the supervisory board of Porsche SE are determined according to the European SE provisions and a co-determination agreement entered into with representatives of the European Porsche employees in 2007 and last amended on 1 February 2017. This agreement defines the competencies of the employees as well as the relevant rulings in the articles of association. According to the agreement dated 1 February 2017, the supervisory board of Porsche SE will in the future comprise six shareholder representatives and co-determination of the employee representative in the supervisory board of Porsche Automobil Holding SE is being suspended. Due to the change in the composition of the supervisory board, Porsche Automobil Holding SE initiated status proceedings pursuant to Sec. 97 AktG on 6 February 2017. The status proceedings end the terms of office of all serving members of the supervisory board of Porsche Automobil Holding SE pursuant to Sec. 97 (2) Sentence 3 AktG with the close of the 2017 annual general meeting. The 2017 annual general meeting must therefore elect new members of the supervisory board (six shareholder representatives).

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

Forecast report and outlook



General economic development

According to the International Monetary Fund (IMF), global growth prospects for 2017 and 2018 have improved on the whole. The IMF was again somewhat more optimistic in its outlook for the global economy than before and put growth for 2017 at 3.4%, following growth of 3.1% in the global economy in the past year. However, the estimate for 2017 made in the last IMF forecast of October 2016 was upheld. According to this, the improved growth expectations were largely attributable to the increasing signs of recovery in emerging and developing countries. Growth prospects had also improved in the USA as well as Europe and China. By contrast, the outlook for Latin America had worsened.

In its update on the World Economic Outlook, the organization makes reference to the fact, however, that development was still shaped by major uncertainty regarding the economic policy of the new US government.

Nevertheless, the IMF expects higher government spending and lower taxes to deliver a short-term stimulus to the US economy and has therefore raised its growth forecast for the country. According to the forecast, the US economy was expected to grow by 2.3% in 2017. This would be 0.1 percentage points up on the previous forecast in October 2016.

For Germany, the IMF raised its forecast by 0.1 percentage points compared to the estimate from fall 2016 and now expects growth of 1.5%. For the euro zone in total, the IMF expects an increase of 1.6%.

For China, the IMF adjusted its forecast upward and now anticipates economic growth of 6.5% for 2017. The forecast is thus 0.3 percentage points higher than in October owing to the fact the economy has stabilized over the past few months. Nevertheless, the IMF at the same time sees new risks in the world’s second-largest economy.

For Latin America, the IMF adjusted its growth forecast significantly downward. The fact that the economic recovery in Argentina and Brazil has fallen short of expectations was now compounded by further uncertainties in light of the shift in policy announced by the new US government regarding Latin America in general and Mexico in particular.

Exchange rate trends

The global economy lost a little of its momentum in 2016. Energy and commodity prices recovered as the reporting period went on, albeit at a relatively low level. Confidence in the economic stability of crisis-hit emerging markets partially returned and led to a gradual appreciation of the currencies of these countries. The euro lost ground slightly against the US dollar, but gained ground slightly against the Chinese renminbi. In the wake of the United Kingdom's Brexit referendum in June 2016, the sterling slumped against the European single currency. The Russian ruble and the Brazilian real turned around their preceding downtrend at the beginning of the reporting period and have since recorded significant price gains. For 2017, we are forecasting that the euro will gain some strength against the US dollar, Chinese renminbi, sterling and other key currencies. The expectation is that the Russian ruble and Brazilian real will remain relatively weak.

Interest rate trends

Interest rates remained extremely low in the fiscal year 2016 due to the continuation of expansionary monetary policy and the challenging overall economic environment. In the major Western industrialized nations, key interest rates persisted at an historic low. While it became apparent in the USA that the extremely loose monetary policy was gradually drawing to an end, the European Central Bank continued to pursue this course. In light of further expansionary monetary policy measures in the euro zone, we therefore consider it unlikely that interest rates will rise in 2017. In the USA, however, a moderate increase in interest rates is expected.

Commodity price trends

Political and economic uncertainty in different forms caused the prices for many raw and input materials, such as crude oil, steel and rare earths, to move sideways or upwards in 2016 amid high volatility in some cases. In light of these individual factors, we expect mixed developments in the commodity markets in 2017 with an increase in most commodity prices.

Prospects on the automotive markets
We expect trends in the passenger car markets in the individual regions to be mixed in 2017. Overall, the increase in global demand for new vehicles will probably be slower than in the reporting period.

Anticipated development of the Volkswagen Group

The Volkswagen Group is well positioned to deal with the mixed developments in automotive markets around the world. Its broad, selectively expanded product range featuring the latest generation of engines as well as a variety of alternative drives puts Volkswagen in a good position globally compared with its competitors. The group's further strengths include in particular its unique brand portfolio, its steadily growing presence in all major world markets and its wide selection of financial services. The Volkswagen Group's range of models covers almost all key segments, with offerings from small cars to super sports cars in the passenger car segment, and from pickups to heavy trucks and buses in the commercial vehicles segment, as well as motorcycles. The Volkswagen Group brands will further optimize their vehicle and drivetrain portfolio in 2017 to concentrate on the most attractive and fastest-growing market segments. Its goal is to offer all customers the mobility and innovations they need, sustainably strengthening its competitive position in the process.

The Volkswagen Group expects that deliveries to customers in 2017 will moderately exceed the prior-year volume amid persistently challenging market conditions.

Challenges will arise particularly from the economic situation, intense competition in the market, exchange rate volatility and the diesel issue.

Volkswagen expects the sales revenues of the passenger cars business area and commercial vehicles business area to grow by up to 4% year-on-year in 2017. In terms of the Volkswagen Group's operating result, Volkswagen anticipates an operating return on sales of between 6.0% and 7.0% in 2017. In the passenger cars business area, the Volkswagen Group expects an operating return on sales in the range of 6.5-7.5%. For the commercial vehicles business area, Volkswagen

anticipates an operating return on sales of between 3.0 and 5.0%. In the power engineering business area, Volkswagen expects a substantial year-on-year decline in sales revenue but also a lower operating loss. For the financial services division, Volkswagen is forecasting sales revenue and the operating result at the prior-year level.

Anticipated development of the Porsche SE Group

The Porsche SE Group's profit/loss will be largely dependent on the results of operations of the Volkswagen Group and therefore on the profit/loss of the investment in it accounted for at equity that is attributable to Porsche SE. The forecast is therefore largely based on the expectations of the Volkswagen Group regarding the future development of its operating profit, supplemented in particular by expectations of the executive board of Porsche SE regarding developments of the financial result, including the profit contributions from investments.

As Porsche SE's forecast cannot be based exclusively on the operating profits forecast by the Volkswagen Group, effects that influence profit/loss may impact the respective forecast key figures of the two groups to a different extent. For example effects in the financial result of the Volkswagen Group do not impact the forecast operating profits in the Volkswagen Group, while these effects impact the Porsche SE Group's forecast profit/loss for the year.

The following forecast is based on the current structure of the Porsche SE Group. Effects from future investments of the company are not taken into account as it is not possible to make statements regarding their future effects on the results of operations, financial position and net assets of the group.

Based on the current group structure, in particular on the basis of the Volkswagen Group's expectations regarding its future development and the ongoing existing uncertainties with regard to possible special items in connection with the diesel issue, Porsche SE expects a group profit for the year of between €2.1 billion and €3.1 billion for the fiscal year 2017.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As of 31 December 2016, Porsche SE had net liquidity of €1,299 million. Both Porsche SE and the Porsche SE Group aim to achieve positive net liquidity. This is expected to be between €1.0 billion and €1.5 billion as of 31 December 2017, not taking future investments into account.

Stuttgart, 6 March 2017

Porsche Automobil Holding SE
The executive board

Audi R8 Spyder

3 Financials

3

Financials

Consolidated income statement of Porsche Automobil Holding SE for the period from 1 January to 31 December 2016

€ million	Note	**2016**	2015
Revenue	[1]	1	0
Other operating income	[2]	1	7
Personnel expenses	[3]	–12	–15
Other operating expenses	[4]	–37	–31
Profit/loss from investments accounted for at equity	[5]	1,449	–471[1]
Profit/loss before financial result		1,402	–510[1]
Finance costs	[6]	–24	–43
Other financial result	[7]	4	62
Financial result		**–20**	**19**
Profit/loss before tax		**1,382**	**–491**[1]
Income tax	[8]	–8	183
Profit/loss for the year		**1,374**	**–308**[1]
thereof attributable to shareholders of Porsche Automobil Holding SE		1,374	–308[1]
Earnings per ordinary share (basic)	[9]	4.48	–1.01[1]
Earnings per preference share (basic)	[9]	4.49	–1.00[1]
Earnings per ordinary share (diluted)	[9]	4.48	–1.01[1]
Earnings per preference share (diluted)	[9]	4.49	–1.00[1]

[1] Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section "Adjustment of prior-year figures".

Consolidated statement of comprehensive income of Porsche Automobil Holding SE for the period from 1 January to 31 December 2016

€ million	**2016**	2015
Profit/loss for the year	**1,374**	**–308**[1]
Remeasurements of pensions recognized in equity	–3	0
Other comprehensive income not reclassified subsequently to profit or loss from investments accounted for at equity (after tax)	–1,123	541
Total other comprehensive income not reclassified subsequently to profit or loss	–1,126	541
Other comprehensive income reclassified subsequently to profit or loss from investments accounted for at equity (after tax)	884	–643
Total other comprehensive income reclassified subsequently to profit or loss	884	–643
Other comprehensive income after tax	**–242**	**–102**
Total comprehensive income	**1,132**	**–410**[1]
thereof attributable to		
shareholders of Porsche Automobil Holding SE	1,132	–410[1]

[1] Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section “Adjustment of prior-year figures”.

A breakdown of individual components of the statement of comprehensive income is given in note [17].

Consolidated balance sheet of Porsche Automobil Holding SE as of 31 December 2016

€ million	Note	**31/12/2016**	31/12/2015
Assets			
Investments accounted for at equity	[11]	26,760	25,574[1]
Other receivables and assets	[12]	1	2
Non-current assets		**26,761**	**25,576[1]**
Other receivables and assets	[12]	4	6
Income tax receivables	[13]	1	5
Securities	[14]	272	742
Time deposits	[15]	679	550
Cash and cash equivalents	[16]	648	712
Current assets		**1,604**	**2,015**
		28,365	**27,591[1]**
Equity and liabilities			
Subscribed capital	[17]	306	306
Capital reserves	[17]	4,884	4,884
Retained earnings	[17]	22,704	21,887[1]
Equity		**27,894**	**27,077[1]**
Provisions for pensions and similar obligations	[18]	30	24
Other provisions	[19]	18	13
Deferred tax liabilities	[8]	28	22
Financial liabilities	[21]	0	300
Non-current liabilities		**76**	**359**
Income tax provisions	[19]	0	49
Other provisions	[19]	75	88
Trade payables	[20]	2	1
Financial liabilities	[21]	300	0
Other liabilities	[21]	18	17
Current liabilities		**395**	**155**
		28,365	**27,591[1]**

[1] Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section "Adjustment of prior-year figures".

Consolidated statement of cash flows of Porsche Automobil Holding SE for the period from 1 January to 31 December 2016

€ million	**2016**	2015
1. Operating activities		
Profit/loss for the year	1,374	–308[1]
Change in provisions for pensions	3	3
Change in other provisions	–8	–135
Current income tax	0	–169
Change in deferred tax	8	–14
Income tax paid	–53	–384
Income tax received	8	424
Non-cash expenses and income	–1,450	471[1]
Dividends received	17	719
Change in other receivables and other assets	7	3
Change in trade payables and other liabilities (excluding tax provisions and other provisions)	–3	–11
Cash flow from operating activities	**–97**	**599**
2. Investing activities		
Cash paid for the acquisition of investments in associates	0	–547
Change in investments in securities	470	–447
Change in investments in time deposits	–129	739
Cash flow from investing activities	**341**	**–255**
3. Financing activities		
Dividends paid to shareholders of Porsche SE	–308	–615
Cash flow from financing activities	**–308**	**–615**
4. Cash funds		
Change in cash funds (subtotal of 1 to 3)	–64	–271
Cash funds as of 1 January	712	983
Cash funds as of 31 December	**648**	**712**

[1] Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section "Adjustment or restatement of prior-year figures".

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

Consolidated statement of changes in equity of Porsche Automobil Holding SE for the period from 1 January to 31 December 2016

€ million	Subscribed capital	Capital reserves	Retained earnings: Accumulated profit	Retained earnings: Investments accounted for at equity[4]	Equity
As of 1 January 2015	306	4,884	25,817	–1,820	29,187
Profit/loss for the year			–308[1]		–308[1]
Other comprehensive income after tax			0	–102	–102
Total comprehensive income for the period	0	0	–308[1]	–102	–410[1]
Dividend payment			–615[2]		–615
Transfer of other comprehensive income not reclassified subsequently due to the dilution of share in capital of investments accounted for at equity			–128	128	0
Reclassification through profit or loss due to the dilution of the share in capital of investments accounted for at equity			–1,079		–1,079
Other changes in equity arising from the level of investments accounted for at equity			–6		–6
As of 31 December 2015	**306**	**4,884**	**23,681[1]**	**–1,794**	**27,077[1]**
As of 1 January 2016 before adjustment	306	4,884	23,716	–1,794	27,112
Adjustment			–35		–35
As of 1 January 2016	306	4,884	23,681	–1,794	27,077
Profit/loss for the year			1,374		1,374
Other comprehensive income after tax			–3	–239	–242
Total comprehensive income for the period	0	0	1,371	–239	1,132
Dividend payment			–308[3]		–308
Other changes in equity arising from the level of investments accounted for at equity			–7		–7
As of 31 December 2016	**306**	**4,884**	**24,737**	**–2,033**	**27,894**

1 Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section "Adjustment of prior-year figures".
2 Distribution of a dividend of €2.004 per ordinary share; total €306,862,500
Distribution of a dividend of €2.01 per preference share; total €307,781,250
3 Distribution of a dividend of €1.004 per ordinary share; total €153,737,500
Distribution of a dividend of €1.01 per preference share; total €154,656,250
4 Income and expenses recognized directly in equity from investments accounted for at equity

Equity is explained in note [17].

Notes to the consolidated financial statements of Porsche Automobil Holding SE for the fiscal year 2016

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 business purpose of the company comprises the management of companies and the administration of investments in companies active in the following business fields or parts thereof:

- The development, design, manufacture and distribution of vehicles, engines of all kinds and other technical or chemical products as well as of parts and assemblies thereof;
- The provision of advice in the area of development and production, especially in the area of vehicle and engine construction;
- The provision of advice on and development of data processing as well as the creation and distribution of data processing products;
- The marketing of products using trademark rights;
- The provision of financial and mobility services;
- The exploitation, procurement, processing and distribution of raw materials used in the automobile industry;
- The generation and procurement of energy, especially of renewable energies, as well as the trading of energy;
- The acquisition, holding and administration as well as the disposal of real estate.

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

The company may also be active itself in the business areas specified. This does not apply to banking transactions and financial services requiring approval. The company may limit its activities to parts of the business fields specified above.

The company may engage in all kinds of business and take all measures that are related to the business purpose or that it deems directly or indirectly useful for achieving that purpose. To this end, it may also establish branches, in Germany and abroad, establish and purchase other companies or acquire interests in such companies.

The consolidated financial statements of Porsche SE as of 31 December 2016 were prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union. The standards published by the International Accounting Standards Board (IASB), London, that have been endorsed as part of the comitology procedure and are applicable as of the reporting date as well as the interpretations issued by the IFRS Interpretations Committee (IFRS IC) that are valid for the fiscal year have been taken into account. The requirements of the standards and interpretations applied were satisfied in full. In addition, all applicable requirements of German commercial law and the provisions of the German Corporate Governance Code were observed in preparing the consolidated financial statements. 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 (HGB). The financial statements give a true and fair view of the results of operations, financial position and net assets of the Porsche SE Group.

These consolidated financial statements comply with the requirements of Sec. 315a HGB. This regulation represents the legal basis for group accounting according to International Financial Reporting Standards in Germany in conjunction with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the adoption of international accounting standards.

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).

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

As of the reporting date, the business activities of the Porsche SE Group are essentially limited to holding and managing investments, in particular in Volkswagen Aktiengesellschaft, Wolfsburg (“Volkswagen AG” or “VW”; reference is made to the explanations in the section “Full consolidation and at equity accounting”). The prerequisites for the application of segment reporting pursuant to IFRS 8 were therefore not satisfied.

The consolidated financial statements and combined management report of the company and the group were authorized for issue to the supervisory board by the executive board by resolution dated 6 March 2017. The period subsequent to the reporting date for which adjusting events are disclosed ends on that date.

List of shareholdings of the group as of 31 December 2016

	Share in capital as of 31/12/2016 %	Currency	FX rate 1 € =	Equity € thousand	Profit/loss € thousand
Fully consolidated entities					
Germany					
Porsche Beteiligung GmbH, Stuttgart	100.0	€	–	42,785	0[2]
Porsche Zweite Beteiligung GmbH, Stuttgart	100.0	€	–	24	0[2]
Porsche Dritte Beteiligung GmbH, Stuttgart	100.0	€	–	24	0[2]
Porsche Vierte Beteiligung GmbH, Stuttgart	100.0	€	–	24	0[2]
Associates accounted for at equity					
Germany					
Volkswagen Aktiengesellschaft, Wolfsburg	30.8[1]	€	–	27,099,524	2,798,979
International					
INRIX Inc., Kirkland, Washington	11.8	US$	1.0541	36,399[3]	–14,834[3]

[1] Diverging from the capital share, the share in voting rights is 52.2% as of the reporting date
[2] Profit and loss transfer agreement with Porsche SE
[3] Figures taken from the 2015 financial statements

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 comparative period
Porsche Zweite Beteiligung GmbH, Porsche Dritte Beteiligung GmbH and Porsche Vierte Beteiligung GmbH, all domiciled in Stuttgart, Germany, were established in February 2015. Porsche SE holds 100% of the share capital in each of these shelf companies. In addition, an alternative investment fund for cash investments was established on 1 April 2015. This fund is included in the consolidated financial statements of Porsche SE by way of full consolidation.

At the end of September 2015, Porsche SE reached an agreement with Suzuki Motor Corporation, Shizuoka, Japan, to acquire a 1.5% stake in the ordinary shares of Volkswagen AG in an off-market transaction. This increased Porsche SE's shareholding in the ordinary share capital of Volkswagen AG from 50.7% to 52.2%. The share held in the subscribed capital of Volkswagen AG increased to 32.4% as of the date of acquisition. Due to the issue of preference shares until 9 November 2015 in connection with the mandatory convertible bonds issued by Volkswagen AG, Porsche SE's share in the subscribed capital of Volkswagen AG decreased to 30.8%.

Full consolidation and at equity accounting

The consolidated financial statements of Porsche SE include by means of full consolidation all entities controlled by Porsche SE, i.e., where Porsche SE is exposed, or has rights, to variable returns from its involvement and has the ability to use power over the investee to affect the amount of such returns. Initial consolidation by way of 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.

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

Despite the fact that the Porsche SE Group holds less than 20% of the voting rights in INRIX, the group considers it to be an associate because it has the power to participate in its financial and operating policy decisions through participation rights granted on the board of directors and related committees.

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

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 exercised by Porsche SE, however, its investment in Volkswagen AG is accounted for in the consolidated financial statements of Porsche SE at equity.

The number of entities included in the consolidated financial statements of Porsche SE as of the reporting date (including an alternative investment fund) is shown in the following table:

	31/12/2016	31/12/2015
Fully consolidated subsidiaries		
Germany	4	4
Fully consolidated alternative investment fund		
Germany	1	1
Associates		
Germany	1	1
International	1	1
	7	**7**

Investments in associates

Volkswagen AG, being one of the world's leading automobile manufacturers and Porsche SE's most important investment, is included in the consolidated financial statements of Porsche SE as an associate. As of 31 December 2016, the market value of the investment in Volkswagen AG amounted to €21,081 million (31 December 2015: €21,937 million). In the fiscal year, Porsche SE received a dividend of €17 million from Volkswagen AG (prior year: €719 million).

Taking into account the identification and subsequent effects of hidden reserves and liabilities for the shares already held before the end of September 2015 and the additional shares acquired at the end of September 2015 in connection with the accounting at equity at the level of Porsche SE, the Volkswagen Group reports the following figures:

€ million	VW without acquisition in FY2015 31/12/2016	VW acquisition of shares in FY2015 31/12/2016	VW Total 31/12/2016
Non-current assets	254,452	287,608	–
Current assets	155,766	155,722	–
Non–current liabilities	138,440	150,030	–
Current liabilities	177,515	177,515	–
Equity	94,263	115,785	–
thereof non-controlling interests and hybrid capital investors	–7,863	–7,789	–
Effects from preference shares	–68	–14	–
Equity adjusted for at equity accounting	86,332	107,982	–
Carrying amount of the investment in Volkswagen AG accounted for at equity	**25,792**	**947**	**26,739**

€ million	VW without acquisition in FY2015 31/12/2015	VW acquisition of shares in FY2015 31/12/2015	VW Total 31/12/2015
Non-current assets	239,198	278,376[1]	–
Current assets	145,426	145,160[1]	–
Non–current liabilities	145,821	162,990[1]	–
Current liabilities	148,489	148,489[1]	–
Equity	90,314	112,057[1]	–
thereof non-controlling interests and hybrid capital investors	–7,845	–7,770	–
Effects from preference shares	–57	–3	–
Equity adjusted for at equity accounting	82,412	104,284[1]	–
Carrying amount of the investment in Volkswagen AG accounted for at equity	**24,621**	**915[1]**	**25,536[1]**

[1] Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section “Adjustment of prior-year figures”.

€ million	VW without acquisition in FY2015 2016	VW acquisition of shares in FY2015 2016	VW Total 2016
Revenue	217,266	217,266	–
Total comprehensive income	4,239	4,018	–
thereof other comprehensive income	–717	–3,054	–
thereof profit/loss from continuing operations	4,956	7,072	–
Profit/loss attributable to non-controlling interests and hybrid capital investors	–235	–235	–
Effects from additional dividends	–11	–11	–
Profit/loss adjusted for at equity accounting	4,710	6,826	–
Profit/loss from investment in Volkswagen AG accounted for at equity	**1,407**	**60**	**1,467**

€ million	VW without acquisition in FY2015 2015	VW acquisition of shares in FY2015 2015	VW Total 2015
Revenue	213,292	53,029	–
Profit/loss after tax (discontinued operations)	0		–
Total comprehensive income	–1,684	746	–
thereof other comprehensive income	77	–324	–
thereof profit/loss from continuing operations	–1,761	1,070	–
Profit/loss attributable to non-controlling interests and hybrid capital investors	–221	–58	–
Effects from additional dividends	–11	–3	–
Effects from change in share in capital during the year	–190	46	–
Profit/loss for the year adjusted for at equity valuations	–2,183	1,055	–
Profit/loss for the year attributable to Porsche SE Group	–652	9	–643
Income from first-time valuation at equity of newly acquired shares	0	411[1]	411[1]
Effects from dilution of share in capital	–219	–18[1]	–237[1]
Profit/loss from investment in Volkswagen AG accounted for at equity	**–871**	**402[1]**	**–469[1]**

[1] Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section “Adjustment of prior-year figures”.

The carrying amount of other investments accounted for at equity comes to €21 million (31 December 2015: €38 million). The profit or loss from other investments accounted for at equity breaks down as follows:

€ million	**2016**	2015
Profit/loss from continuing operations	–4	–2
Impairment	–14	0
Other comprehensive income	1	–1
Total comprehensive income	–17	–3

Consolidation principles

Since the accounting at equity has a significant influence on the results of operations and net assets of the Porsche SE Group, the consolidation principles applicable only within the Volkswagen Group and the INRIX Group (INRIX Inc. and its subsidiaries) are also included in the explanations below.

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.

Business combinations are accounted for by applying the acquisition method pursuant to IFRS 3.

The cost of a business combination is measured in accordance with IFRS 3 as the aggregate of the consideration transferred as of the acquisition date, measured at acquisition-date fair value, and the non-controlling interests in the entity. The non-controlling interests can be measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed and therefore do not constitute a component of cost. Contingent consideration is measured at the fair value on the acquisition date. Subsequent changes in value do not generally lead to an adjustment in the measurement as of the acquisition date.

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

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

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

Expenses and income, receivables, liabilities and provisions as well as cash flows between fully consolidated companies are eliminated. Intercompany profits from the sale of assets within the group which have not yet been resold to third parties are eliminated. Deferred taxes are recognized for intragroup transactions that affect income tax, with tax assets and tax liabilities being offset if the tax creditor is identical and the maturities match. In addition, guarantees and warranties assumed by Porsche SE or one of its consolidated subsidiaries in favor of other consolidated subsidiaries are eliminated.

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

When deconsolidating a previous subsidiary, the difference between the consideration received (upon disposal) or the fair value of the investment retained (upon partial sales or loss of control for other reasons) and the net assets disposed of at the date when control is lost (including any goodwill disposed of in the course of acquisition accounting) and the carrying amount of the non-controlling interests disposed of as of the date of loss of control is recognized in profit or loss. Income and expenses recognized directly in the previous subsidiary's equity and investments accounted for at equity's equity for foreign currency effects, securities marked to market as well as cash flow hedges are also derecognized through profit or loss at the date of loss of control. Actuarial gains and losses from pension plans recognized in equity are however transferred to accumulated profits without effect on profit or loss. Any revaluation reserve recognized in accordance with IFRS 3 (rev. 2004) is likewise not derecognized through profit or loss at the date of deconsolidation but reclassified to accumulated profits within equity.

Equity accounting

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

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

Changes in income and expenses recognized directly in equity at the level of the associate or joint venture are recognized in a separate item within Porsche SE's group equity. Distributions received lead to a reduction of the investment's carrying amount. Other changes in equity at the level of investments accounted for at equity include the proportionate changes in the non-controlling interests within the respective group of investments accounted for at equity attributable to Porsche SE which do not lead to a change in control and are therefore recognized in equity in their consolidated financial statements. Other changes in equity at the level of the investee recognized directly in equity are also recognized in equity in Porsche SE's consolidated financial statements, provided they do not dilute the capital share.

When additional interests are acquired without a change in status, each tranche is generally accounted for at equity separately, i.e., the difference between the pro rata remeasured equity of the investee and the acquisition costs of the interests is calculated for the new interests and accounted for individually in subsequent periods or, if there is a negative difference, they are recognized in profit or loss. Interests already held are not remeasured.

An impairment test is carried out whenever there is any indication in accordance with IAS 39 that the entire carrying amount of the investment is impaired. Where the carrying amount of the investment exceeds its recoverable amount determined in accordance with IAS 36, an impairment loss is recognized in profit or loss to account for the difference. Value in use is determined on the basis of the estimated future cash flows expected to be generated by the investment accounted for at equity in accordance with IAS 28.33a. Stock market prices and, on occasion, valuations using multipliers are used as the fair value less costs of disposal. Where 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

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

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

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

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

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

		Balance sheet Closing rate			
		Porsche SE Group	VW Group[1]	Porsche SE Group	VW Group[1]
	1€=	**31/12/2016**	**31/12/2016**	31/12/2015	31/12/2015
Argentina	ARS	N/A	16.8010	N/A	14.1351
Australia	AUD	N/A	1.4615	N/A	1.4897
Brazil	BRL	N/A	3.4372	N/A	4.3117
Canada	CAD	N/A	1.4228	N/A	1.5116
China	CNY	N/A	7.3332	N/A	7.0608
Czech Republic	CZK	N/A	27.0240	N/A	27.0230
India	INR	N/A	71.6550	N/A	72.0215
Japan	JPY	N/A	123.5000	N/A	131.0700
Mexico	MXN	N/A	21.8480	N/A	18.9145
Poland	PLN	N/A	4.4153	N/A	4.2639
Republic of Korea	KRW	N/A	1,269.1100	N/A	1,280.7800
Russia	RUB	N/A	64.6755	N/A	80.6736
South Africa	ZAR	N/A	14.4848	N/A	16.9530
Sweden	SEK	N/A	9.5672	N/A	9.1895
United Kingdom	GBP	N/A	0.8585	N/A	0.7340
USA	USD	1.0541	1.0560	1.0887	1.0887

[1] Accounted for at equity.

		Income statement Average rate			
		Porsche SE Group	VW Group[1]	Porsche SE Group	VW Group[1]
	1€=	**2016**	**2016**	2015	2015
Argentina	ARS	N/A	16.3321	N/A	10.26074
Australia	AUD	N/A	1.4888	N/A	1.4765
Brazil	BRL	N/A	3.8622	N/A	3.6916
Canada	CAD	N/A	1.4666	N/A	1.4176
China	CNY	N/A	7.3507	N/A	6.9730
Czech Republic	CZK	N/A	27.0343	N/A	27.2850
India	INR	N/A	74.3706	N/A	71.1752
Japan	JPY	N/A	120.3166	N/A	134.2865
Mexico	MXN	N/A	20.6654	N/A	17.5998
Poland	PLN	N/A	4.3642	N/A	4.1828
Republic of Korea	KRW	N/A	1,284.7954	N/A	1,255.7406
Russia	RUB	N/A	74.2344	N/A	68.0068
South Africa	ZAR	N/A	16.2834	N/A	14.1528
Sweden	SEK	N/A	9.4671	N/A	9.3545
United Kingdom	GBP	N/A	0.8190	N/A	0.726
USA	USD	1.1066	1.1068	1.1095	1.1096

[1] Accounted for at equity.

Accounting policies

The assets and liabilities of Porsche SE and the consolidated German and foreign subsidiaries included are accounted for using uniform accounting policies applicable within the Porsche SE Group. The same accounting policies are also used at the level of the associates and joint ventures of Porsche SE. Where necessary, adjustments are made.

Since 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, those accounting policies applicable at the Porsche SE Group only within the Volkswagen Group and the INRIX Group are also included in the explanations below.

Measurement principles

With the exception of certain items, such as the financial instruments at fair value through profit or loss, investments accounted for at equity 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

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

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

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

Intangible assets with indefinite useful lives and intangible assets that are not yet ready for use are not amortized. These include goodwill and brands from business combinations as well as capitalized development costs not yet subject to amortization. The useful lives of brands often arise from the continued use and maintenance of a brand and are therefore considered indefinite based on the assessment that the inflow of economic benefits from these assets cannot be attributed to a specific period. Each asset or cash-generating unit is tested at least once a year for impairment. Intangible assets with indefinite useful lives are reviewed once a year to determine whether the indefinite life assessment continues to be supportable. If this is no longer the case, the change in the useful life assessment from indefinite to determinable is made prospectively.

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

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

Property, plant and equipment is 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

Residual values, depreciation methods and useful lives are regularly reviewed, and adjusted prospectively as changes in estimates if appropriate.

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

Leases

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

Operating leases

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

Most of the assets leased to third parties under operating leases are vehicles leased from the group's leasing companies. Leased vehicles are recognized at cost and depreciated on a straight-line basis over the term of the lease to the calculated residual value. Depending on the local circumstances and past experience from used car marketing, continuously updated internal and external information about the development of residual value is incorporated in the residual value forecast. This primarily involves making assumptions regarding the future product portfolio and vehicle demand as well as the development of vehicle prices. These assumptions are based either on qualified estimates or publications by expert third parties. Qualified estimates relate, where available, to external data taking into account any additional information that is available internally, such as historical values based on past experience and up-to-date sales figures.

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

Finance leases

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

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

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

Borrowing costs

Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset are recognized as part of the cost of that asset. A qualifying asset is an asset that necessarily takes one year or more to get ready for its intended use or sale. The Porsche SE Group did not capitalize any borrowing costs either in the fiscal year 2016 or in the fiscal year 2015.

Impairment test

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

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

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

If the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recognized to account for the difference. It is reviewed on an annual basis whether the reasons for any previously recognized impairment loss still exist. If such reasons 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.

Any impairment losses or reversals of impairment losses are, where appropriate, recognized through profit or loss in the item amortization of intangible assets and depreciation of property, plant and equipment, leased assets and investment property.

Investment property

Investment property held to generate rental income is accounted for at depreciated cost. The underlying useful lives and depreciation methods used in subsequent measurement correspond to those applied for items of property, plant and equipment used by the group.

Inventories

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

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

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

If the carrying amounts are no longer realizable as of the reporting date due to a decrease in prices in the sales market, inventories are written down accordingly.

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

Financial instruments

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

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

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

Fair value corresponds to the market price provided the financial instruments measured are traded on an active market. If there is no active market for a financial instrument, fair value is calculated using appropriate valuation techniques (such as generally accepted option price models or discounting future cash flows with the market interest rate, or by referring to the most recent business transactions between knowledgeable, willing and independent business partners for one and the same financial instrument), where appropriate, checked by confirmations of banks processing the transactions. In the course of the valuation process, the necessary publicly available market data are collected and, where appropriate, updated. In particular, the assumptions underlying the fair values calculated by discounting the future cash flows are validated, if necessary. The carrying amount of current financial assets and liabilities not at fair value through profit or loss provides a reasonable approximation of their fair value.

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, minus any reduction for impairment or uncollectibility, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. The amortized cost of current receivables and liabilities generally corresponds to the nominal value or settlement amount.

Financial instruments are recognized as soon as the Porsche SE Group becomes a party to the contractual provisions of the financial instrument. Financial assets are generally derecognized when the contractual right to the cash flows expires or this right is transferred to a third party. Financial liabilities are derecognized when the obligation underlying the liability has been fulfilled, canceled or extinguished.

Non-derivative financial instruments

Financial instruments accounted for at fair value include financial instruments held for trading and financial assets classified as at fair value through profit or loss upon initial recognition. Gains and losses from subsequent measurement are recognized through profit or loss in the other financial result; interest and dividend income are recognized separately from these within financial revenue. In the Porsche SE Group, financial instruments in the category held for trading include derivative financial instruments. Bonds and investment fund shares have been classified at fair value through profit or loss in the Porsche SE Group, provided they are managed at fair value in accordance with the internal requirements for the investment strategy and risk management.

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

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

Loans and receivables, held-to-maturity financial instruments and financial liabilities are measured at amortized cost unless they are related to hedging instruments. As of the reporting date, they include in particular time deposits and cash and cash equivalents, asset-backed commercial papers, other financial receivables, financial guarantees, trade payables, financial liabilities and other financial liabilities.

With regard to financial guarantees, the Porsche SE Group is required to make specified payments if a debtor fails to make payment when due. Financial guarantees are presented on a net basis. The compensation paid for assumption of the liability is not recognized before it is due. It is presented as other receivables and assets or other liabilities. Liabilities are not recognized until the utilization of a financial guarantee becomes probable. No liability had to be recognized in the fiscal year 2016 or in the prior year.

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

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

Bad debt allowances are generally recognized in separate allowance accounts.

An impairment test is performed on the carrying amount of available-for-sale financial assets if there is objective evidence of permanent impairment. In the case of equity instruments, evidence of impairment is considered to exist, among other things, if the fair value decreases significantly (more than 20%) below cost or the decrease in fair value is prolonged (more than 10% of the average market prices over the course of a year). Where there is evidence of impairment, the cumulative loss of available-for-sale financial instruments – measured as the difference between cost and their current fair value, less any impairment loss previously recognized on that financial instrument in the income statement – is derecognized from other comprehensive income and recognized in the income statement. Any increase in the value of debt securities at a later date is accounted for as a reversal of the impairment loss recognized in profit or loss. In the case of equity instruments, reversals of impairment losses are recognized directly in equity.

Derivative financial instruments

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

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

A fair value hedge hedges the exposure to changes in fair value of a recognized asset, a recognized liability or an unrecognized firm commitment. Gains or losses arising from marking hedging instruments to market and the secured portion of the risk of the hedged transaction are recognized in profit or loss. If the fair value hedge ends, the adjustment of the carrying amount arising from fair value hedge accounting for financial instruments measured at amortized cost as hedged transaction is released to profit or loss over the remaining term of the hedged transaction. In the case of portfolio-based fair value hedges, any changes in fair value are accounted for in the same way as fair value hedges based on an individual contract. Any gains or losses on hedging instruments and hedged transactions or items are recognized in the income statement.

A cash flow hedge is used to hedge exposures from highly probable future cash flows. Hedges are only included in hedge accounting to the extent that they offset changes in the value of the cash flows of the hedged transaction. The ineffective portion is immediately recognized in profit or loss. When included in cash flow hedge accounting, changes in value are recorded directly in equity, taking deferred tax into account. When the hedged transaction occurs, the change in value is reclassified to profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognized directly in equity is reclassified to profit or loss.

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 net or by realizing the liability together with the asset.

Time deposits

The time deposits represent cash deposits with an original term of more than three months.

Cash and cash equivalents

Cash and cash equivalents include checks, cash on hand and cash at banks with an original term of up to three months. This item may also include cash and cash equivalents that are not freely available for use by the Porsche SE Group.

Deferred tax

Deferred tax assets are generally recognized for deductible temporary differences between the tax base and carrying amounts in the consolidated balance sheet (taking into account temporary differences arising from consolidation) as well as on unused tax losses and tax credits if it is probable that they will be used. Deferred tax liabilities have to be recorded for all temporary differences between the carrying amounts in the tax accounts and the consolidated balance sheet (temporary concept). Deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures are not recognized if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Valuation allowances are recorded on deferred tax assets whose realization in the foreseeable future is not likely. 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 referring to items recognized directly in equity is presented in equity. 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 tax

Current income tax assets and liabilities for the current and 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 or substantively enacted by the reporting date. Adequate provisions were recognized for any identifiable potential tax liabilities relating to prior periods considering a large number of factors such as findings from tax field audits, interpretations, commentaries and jurisdiction on the pertinent tax legislation as well as past experience.

Current tax relating to items recognized directly in equity is likewise recognized directly in equity.

Provisions for pensions and similar obligations
In accordance with IAS 19, the actuarial measurement of pension obligations arising from defined benefit plans is based on the projected unit credit method. This method considers not only the pension payments and the future claims known on the reporting date but also future anticipated increases in salaries and pensions. The calculation of pension obligations is based on actuarial expert opinions taking into account biometric assumptions. The interest rate used to discount provisions is determined on the basis of the return on long-term high-quality corporate bonds at the reporting date. Remeasurements are recognized as other comprehensive income in retained earnings taking into account deferred taxes.

If pension obligations are funded by plan assets, the obligation and the assets are offset. The company uses the defined benefit obligation to measure the pension obligations and determine the pension cost. Actuarial gains and losses from the plan are recognized directly in equity, taking deferred taxes into account. Past service cost is recognized immediately in profit or loss. Service cost is presented as personnel expense while the net interest expense from additions to provisions and return on plan assets are presented in finance costs.

Other provisions
Other provisions are recognized if a past event has led to a current legal or constructive obligation to third parties which is expected to lead to a future outflow of resources that can be estimated reliably. Provisions are generally measured at the expected settlement amount taking into account all identifiable risks. The settlement amount is calculated on the basis of the best estimates and also includes estimated cost increases.

Insurance agreements are accounted for in accordance with the provisions of IFRS 4. Reinsurance acceptances are accounted for without any time delay in the year in which they arise; provisions are generally recognized based on the cedant’s contractual duties. Estimation techniques based on assumptions about future changes in claims are used to calculate the claims provision.

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

Interest on tax liabilities is recognized separately in other provisions or other liabilities at the best estimate based on the tax liability calculated or at the amount of the payment obligation arising from the tax notices.

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

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

Accruals are not presented under provisions, but under trade payables or other liabilities, depending on their nature.

Liabilities

Non-current liabilities are recognized at amortized cost. Differences between their historical cost and their repayment amount are accounted for using the effective interest method. Current liabilities are recognized at their repayment or settlement value.

Government grants

Government grants for assets are deducted from the carrying amount and recognized in 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 earlier periods is recognized through profit or loss. Government grants that compensate the group for expenses incurred are recognized in profit or loss in the period and in the items where the expenses to be compensated were incurred. The Porsche SE Group did not recognize any government grants in the fiscal years 2016 or 2015.

Revenue and expenses

Revenue is generally recognized to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured.

Revenue from the sale of products is generally not recognized until the point in time when the significant opportunities and risks associated with ownership of the goods and products being sold are transferred to the buyer, the amount of the revenue can be determined reliably and its settlement can be assumed. Revenue is reported net of sales deductions (discounts, price discounts, customer bonuses and rebates). Revenue from customer financing and financial leasing is recognized under revenue using the effective interest method. Where vehicle financing bears no interest or interest below market rates, the interest incentives granted are deducted from revenue. Revenue from operating leases is earned on a straight-line basis over the term of the lease agreement. Revenue from extended guarantees or maintenance agreements is recognized upon delivery of the goods or rendering of the services. In the event of advance payments, deferred revenue is recognized in proportion to the expected costs to be incurred based on past experience. Where there is insufficient past experience, revenue is spread over the term of the agreement on a straight-line basis. Losses are recognized for the respective agreements wherever the anticipated costs exceed deferred revenue.

Income from assets for which a group entity has a buyback obligation cannot be realized until the assets have definitely left the group. If a fixed repurchase price was agreed when the contract was concluded, the difference between the selling and repurchase price is recognized as income ratably over the term of the contract. Up until that date, the assets are recognized under inventories if the term of the agreement is short, or under leased assets in the event of long-term agreements.

Revenue is generally recorded separately for each business transaction. If two or more transactions are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole, the criteria for revenue recognition are applied to these transactions as a whole.

Construction contracts are recognized in accordance with the percentage-of-completion (PoC) method. According to this method, pro rata revenue and costs are recognized according to the stage of completion as of the reporting date. The contract revenue agreed with the customer and the expected contract costs form the basis. As a rule, the percentage of completion is calculated from the costs incurred by the reporting date as a percentage of the total expected contract costs (cost-to-cost method). In individual cases, in particular for novel and complex contracts, the percentage of completion is determined using contractually agreed milestones (milestone method). If the result of a customer-specific construction contract cannot yet be estimated reliably, income is only recognized at the amount of the contract costs incurred (zero-profit-margin method). After deducting advance payments received, parts of contracts recognized as revenue using the PoC method are accounted for under trade receivables in the balance sheet. Anticipated losses from customer-specific construction contracts are taken into account in full as an expense by impairing any assets recognized and, if necessary, recognizing provisions.

Interest income and expenses are determined using the effective interest method for financial instruments measured at amortized cost and interest-bearing securities held for sale.

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

Production-related expenses are recognized upon delivery or utilization of the service, while all other expenses are recognized as an expense as incurred. The same applies for development costs not eligible for recognition as part of the cost of an asset.

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. A contingent liability may also be a present obligation that arises from past events but is not recognized because an outflow of resources is less than 50% likely or the amount of the obligation cannot be measured with sufficient reliability. The amount of contingent liabilities is only stated in cases where they can be measured and where the probability of an outflow of resources is not classified as remote (i.e., less than 10%) by management. A verbal explanation of the contingent liabilities is provided in cases where they cannot be measured and where the probability of an outflow of resources is not classified as remote (i.e., less than 10%) by management.

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. If the realization of income is virtually certain, however, the asset in question is no longer regarded as a contingent asset and recognition as an asset is appropriate. An explanation is provided in the notes if an inflow of economic benefits is probable.

Significant accounting judgments and estimates

The preparation of consolidated financial statements requires certain judgments and estimates that have an effect on recognition, measurement, presentation and disclosure of assets, liabilities, income and expenses as well as contingent assets and contingent liabilities. These judgments and estimates reflect the current information available.

The main matters affected by estimates at the level of the investees and which thus influence the profit/loss attributable to the Porsche SE Group from investments accounted for at equity are the measurement of options to company shares not traded on an active market, the determination of fair value for the assets and liabilities in the course of purchase price allocations for which there are no observable market inputs, and the impairment test of financial and non-financial assets such as goodwill, brands, capitalized development costs, special tools, receivables from financial services, leased assets or investments accounted for at equity. Other areas at this level that are subject to estimation uncertainties include legal disputes, legal risks associated with the diesel issue, useful lives, government grants, deferred tax assets, put options or compensation claims recognized in liabilities, the measurement of provisions for pensions, warranty provisions and other provisions.

Additional key sources of estimations at the level of Porsche SE in particular include the testing of the carrying amounts of investments for impairment (reference is made to note [11]), the determination of fair value for the assets and liabilities in the course of purchase price allocations for additionally purchased investments accounted for at equity (reference is made to note [5]), the assessment of unused tax losses, the measurement of provisions for taxes and other provisions as well as contingent liabilities (particular reference is made to notes [8] and [19] as well as to the description of litigation in note [25]).

The carrying amounts of the assets and liabilities affected by estimates can be seen in the breakdowns of the individual balance sheet items.

Key sources of judgment are deciding which indicators are indicative of an impairment of associates as well as recognizing current and deferred tax assets (reference is made to notes [8] and [19]), provisions and contingent liabilities (reference is made in particular to note [25] on litigation). At the level of the investees, further key sources of judgment include the parameters on which the measurement of options not traded on an active market and on which impairment testing of individual types of assets are based as well as the recognition of provisions.

Another key source of estimates and judgment uncertainties that therefore could have a significant adverse effect 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. The impact of the diesel issue on Porsche SE is two-fold: firstly, indirectly on account of the effects at the level of the Volkswagen Group via its investment in Volkswagen AG and secondly, directly on account of the litigation claims asserted against it. In addition, tax matters at Porsche SE are subject to estimation and judgment uncertainties.

Effects of the diesel issue at the level of the Volkswagen Group

In the fiscal year 2015, the Volkswagen Group recognized expenses directly in connection with the diesel issue of €16.2 billion in operating profit. This was largely done by recognizing provisions for the performance of field measures (service measures and recalls) and repurchases of €7.8 billion as well as €7.0 billion for legal risks. In the fiscal year 2016, additional expenses of €6.4 billion were recognized in this connection in Volkswagen's consolidated financial statements. Of these expenses, €5.1 billion results from the increase in expenses from legal risks, €0.4 billion from higher warranty costs, €0.5 billion from specific sales programs as well as impairment losses on inventories of €0.3 billion and on intangible assets and property, plant and equipment of €0.3 billion, which are offset by impairment reversals of non-current and current lease assets in the amount of €0.1 billion. The impairment losses recognized on non-current assets resulted primarily from the lower values in use of various products in the passenger vehicle segment due to the expected decreases in volume. In addition, provisions of €0.3 billion were recognized for the investments totaling US$2.0 billion over ten years in zero emissions vehicle infrastructure as well as corresponding access and awareness initiatives for these technologies to which the Volkswagen Group had committed itself in the settlement agreement. Unutilized provisions for legal risks and sales-related measures amounting to a total of €0.5 billion had an offsetting effect. The Volkswagen Group has started entering into exchange rate hedges relating to the outstanding obligations denominated in foreign currencies. The translation at the reporting date of provisions denominated in foreign currencies resulted in expenses of €0.2 billion after hedging.

The significant legal risks described below resulting from the diesel issue may have a particular influence on estimates and judgment uncertainties at the level of the Volkswagen Group.

On 18 September 2015, the U.S. 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 vehicles with Volkswagen Group diesel engines. It has been alleged that Volkswagen had used undisclosed engine management software installed in certain four-cylinder diesel engines used in certain 2009 to 2015 model year vehicles to circumvent NO_x emissions testing regulations in the United States of America in order to comply with certification requirements. The US environmental authority of California – the California Air Resources Board (CARB) – announced its own enforcement investigation in this context.

Volkswagen admitted to irregularities in this context. In its ad hoc release dated 22 September 2015, the Volkswagen Group announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with certain diesel engines. The vast majority of these engines are Type EA 189 Euro 5 engines. On 2 November 2015, the EPA issued another notice of violation alleging that irregularities had also been discovered in the software installed in vehicles with type V6 TDI 3.0 l diesel engines. CARB also issued a letter announcing its own enforcement investigation in this context. Audi has confirmed that at least three auxiliary emission control devices were inadequately disclosed in the course of the US approval documentation. Around 113 thousand vehicles from the 2009 to 2016 model years with certain six-cylinder diesel engines are affected in the U.S. and Canada, where regulations governing NO_x emissions limits for vehicles are stricter than those in other parts of the world.

On 4 January 2016, the U.S. Department of Justice (DOJ), on behalf of the EPA, filed a civil complaint against Volkswagen AG, AUDI AG and other companies of the Volkswagen Group. The claims asserted under civil law are founded on the alleged use of illegal (defeat device) software in violation of the American Clean Air Act. The complaint's allegations relate to both the four-cylinder and the six-cylinder diesel engines. On 12 January 2016, CARB announced that it intends to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations.

In addition to internal inquiries, Volkswagen AG commissioned an external investigation by US law firm Jones Day. This is an independent and comprehensive investigation addressing the diesel issue. The supervisory board of Volkswagen AG is ensuring that Jones Day can carry out its clarification work independently. Jones Day is updating the company and the DOJ on the current results of its investigation on an ongoing basis and supports Volkswagen AG in its cooperation with the judicial authorities.

The supervisory board of Volkswagen AG has formed a special committee to coordinate all activities in this context for the supervisory board.

Based on decisions dated 15 October 2015, the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) ordered the Volkswagen passenger cars, Volkswagen commercial vehicles and SEAT brands to recall all of the diesel vehicles that had been issued with vehicle type approval by the KBA from among the 11 million affected. The recall concerns the member states of the European Union (EU28). On 10 December 2015 a similar decision was issued regarding Audi vehicles with the EA 189 engine. The timetable and action plan forming the basis for the recall order correspond to the proposals presented in advance by Volkswagen. Depending on the technical complexity of the remedial actions, this means that the Volkswagen Group has been recalling the affected vehicles, of which there are around 8.5 million in total in the EU28 countries, to the service workshops since January 2016. The remedial actions differ in scope depending on the engine variant. The technical solutions cover software and in some cases hardware modifications, depending on the series and model year. The details of the remedial actions for the Volkswagen Group vehicles falling within its jurisdiction have been agreed in close cooperation with the KBA which had to approve all fixes in advance. Only the approval of the technical solution for 14 thousand vehicles is still outstanding.

The SEAT brand received approvals in principle from its respective type approval authority, the Ministry of Industry in Spain in the fiscal year 2016.

Type approval authority for the ŠKODA brand is the Vehicle Certification Agency in the United Kingdom. The approval process for ŠKODA vehicles is still ongoing. In some countries outside the EU – among others Switzerland, Australia, South Korea, Taiwan and Turkey – national type approval is based on prior recognition of the EC/ECE type approval. Volkswagen is also in close contact with the authorities in these countries in order to finalize the approval process. In addition, there is an intensive exchange of information with the authorities in the USA and Canada, where Volkswagen's planned actions in relation to the four-cylinder and the six-cylinder diesel engines will also have to be approved. Due to considerably stricter NO_x limits in the USA and Canada, it is a greater technical challenge to refit the vehicles so that all applicable emissions limits can be met.

Potential consequences for Volkswagen's results of operations, financial position and net assets could emerge primarily in the following legal areas:

1. Criminal and administrative proceedings all over the world (excluding the USA/Canada)

In addition to the described approval processes with the responsible registration authorities, in some countries criminal investigations/misdemeanor proceedings (for example, by the public prosecutor's office in Braunschweig, Germany) and/or administrative proceedings (for example, by the Bundesanstalt für Finanzdienstleistungsaufsicht BaFin – the German Federal Financial Supervisory Authority) have been opened. The public prosecutor's office in Braunschweig is investigating the core issue of the criminal investigations. Whether this will result in fines for the Volkswagen Group, and if so what their amount might be, is currently subject to estimation risks. According to Volkswagen's estimates so far, the likelihood for the majority of these proceedings to be successful is less than 50%. Contingent liabilities have therefore been disclosed in the consolidated financial statements in cases where they can be assessed and for which the likelihood for the imposition of fines was deemed not lower than 10%.

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

In principle, it is possible that customers in the affected markets will file civil lawsuits against Volkswagen AG and other Volkswagen Group companies. In addition, it is possible that importers and dealers could assert claims against Volkswagen AG and other Volkswagen Group companies, e.g. through recourse claims. As well as individual lawsuits, class action lawsuits are possible in various jurisdictions (albeit not in Germany).

In this context, various lawsuits are pending against Volkswagen AG and other Volkswagen Group companies at present.

Class action proceedings against Volkswagen AG and other Volkswagen Group companies are pending in various countries such as Argentina, Australia, Belgium, Brazil, Israel, Italy, United Kingdom, Mexico, Poland, Portugal and Taiwan. The class action proceedings are lawsuits aimed among other things at asserting damages. The amount of these damages cannot yet be quantified due to the early stage of the proceedings. Volkswagen does not estimate the litigants' prospect of success to be more than 50% in any of the aforementioned proceedings aimed at monetary relief. In South Korea various mass proceedings are pending (in some of these individual lawsuits several hundred litigants have been aggregated). These lawsuits are filed to assert damages and to rescind the purchase contract including repayment of the purchase price. Due to special circumstances in the market and specific characteristics of the South Korean legal system, Volkswagen estimates the litigants‘ prospects of success in the South Korean mass proceedings mentioned above to be inherently higher as in other jurisdictions outside the US and Canada. Contingent liabilities have been disclosed in the consolidated financial statements of Volkswagen AG for pending class action proceedings that can be assessed and for which the chance of success was deemed not implausible. Provisions were recognized to a small extent.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in numerous countries. In Germany around 1,300 individual law suits, in Italy and Spain law suits in the low three digit range and in France, Ireland and Austria individual lawsuits in the two-digit range are pending, most of which are aimed at asserting damages or rescinding the purchase contract. According to Volkswagen’s estimates so far, the litigants’ prospect of success is below 50% in the vast majority of the individual lawsuits. Contingent liabilities have therefore been disclosed for those lawsuits that can be assessed and for which the chance of success was deemed not implausible.

It is too early to estimate how many customers will take advantage of the option to file lawsuits in the future, beyond the existing lawsuits, or what their prospects of success will be.

Meanwhile, except for 14 thousand vehicles, the KBA has ascertained for all approved clusters (groups of vehicles) that implementation of the technical solutions would not bring about any unfavorable changes in fuel consumption, engine power, torque and noise emissions. The Volkswagen Group is now working expeditiously to implement the technical solutions in the field. The implementation of the technical modifications already started in January 2016.

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

Investors from Germany and abroad have filed claims for damages against Volkswagen AG 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 at the District Court (Landgericht) in Braunschweig. On 5 August 2016, the District Court in Braunschweig ordered that common questions of law and fact relevant to the lawsuits pending at the District Court in Braunschweig be referred to the Higher Regional Court (Oberlandesgericht) in Braunschweig for a binding declaratory decision pursuant to the German Act on Model Case Proceedings in Disputes Regarding Capital Market Information (Kapitalanleger-Musterverfahrensgesetz). In this proceeding, common questions of law and fact relevant to these actions shall be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig. All lawsuits at the District Court in Braunschweig will be stayed pending up until resolution of the common issues, unless they can be dismissed for reasons independent of the common issues that are adjudicated in the model case proceedings. The resolution of the common issues in the model case proceedings will be binding on all pending cases in the stayed lawsuits.

At the District Court in Stuttgart further lawsuits have been filed against Volkswagen AG and Porsche Automobil Holding SE as joint and several debtors. It is currently unclear whether model case proceedings will be initiated in respect of these lawsuits and whether they will take place at the Higher Regional Court in Stuttgart or referred to the Higher Regional Court in Braunschweig.

Further investor lawsuits have been filed at various courts in Germany as well as in Austria and the Netherlands.

Altogether, Volkswagen has so far been served with investor lawsuits, judicial applications for dunning procedures and conciliation proceedings with claims amounting to approximately €9 billion. Volkswagen remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits. Insofar as the chance of success was estimated at not lower than 10%, contingent liabilities have been disclosed.

4. Proceedings in the USA/Canada

Following the publication of the EPA's notices of violation, Volkswagen AG and other Volkswagen Group companies have been the subject of intense scrutiny, ongoing investigations (civil and criminal) and civil litigation. Volkswagen AG and other Volkswagen Group companies have received subpoenas and inquiries from state attorneys general and other governmental authorities and are responding to such investigations and inquiries.

In addition, Volkswagen AG and other Volkswagen Group companies in the USA/Canada are facing litigation on a number of different fronts relating to the matters described in the EPA's notices of violation.

A large number of putative class action lawsuits by affected customers and dealers have been filed in US federal courts and consolidated for pretrial coordination purposes in the federal multidistrict litigation proceeding in the State of California.

On 4 January 2016, the DOJ, Civil Division, on behalf of the EPA, initiated a civil complaint against Volkswagen AG, AUDI AG and certain other Volkswagen Group companies. The action seeks statutory penalties under the US Clean Air Act, as well as certain injunctive relief, and has been consolidated for pretrial coordination purposes in the California multidistrict litigation.

On 12 January 2016, CARB announced that it intends to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations.

In June 2016, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates reached settlement agreements with the DOJ on behalf of the EPA, CARB and the California Attorney General; private plaintiffs represented by a Plaintiffs' Steering Committee (PSC) in the Multi-District Litigation pending in California and the U.S. Federal Trade Commission (FTC) These settlement agreements will resolve certain civil claims made in relation to affected diesel vehicles with 2.0 l TDI engines from the Volkswagen passenger cars and Audi brands in the USA. Volkswagen AG and certain affiliates also entered into a first partial consent decree with the DOJ, EPA, CARB and the California Attorney General, which was lodged with the court on 28 June 2016. On 18 October 2016, a fairness hearing on whether final approval should be granted was held, and on 25 October 2016, the court granted final approval of the settlement agreements and the partial consent order. A number of class members have filed appeals to a U.S. appellate court from the order approving the settlements.

The settlements provide affected customers with the option of a buyback or, for leased vehicles, early lease termination, or a free emissions modification of the vehicles, provided that EPA and CARB approve the modification. Volkswagen will also make additional cash payments to affected current owners or lessees as well as certain former owners or lessees.

Volkswagen also agreed to support environmental programs. The company will pay US$2.7 billion over three years into an environmental trust, managed by a trustee appointed by the court, to offset excess nitrogen oxide (NO_x) emissions. Volkswagen will also invest in total US$2.0 billion over ten years in zero emissions vehicle infrastructure as well as corresponding access and awareness initiatives.

Volkswagen AG and certain affiliates also entered into a separate partial consent decree with CARB and the California Attorney General resolving certain claims under California unfair competition, false advertising, and consumer protection laws related to both the 2.0 l and 3.0 l TDI vehicles, which was lodged with the court on 7 July 2016. Under the terms of the agreement, Volkswagen agreed to pay California US$86 million. The court entered judgment on the partial consent decree on 1 September 2016 and the US$86 million payment was made on 28 September 2016.

On 20 December 2016, Volkswagen entered into a second partial consent decree, subject to court approval, with the DOJ, EPA, CARB and the California Attorney General that resolved claims for injunctive relief under the Clean Air Act and California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. Under the terms of this consent decree, Volkswagen agreed to implement a buyback and lease termination program for Generation 1 3.0 l TDI vehicles and a free emissions recall and modification program for Generation 2 3.0 l TDI vehicles (if the modification program for Generation 2 vehicles is not approved by the EPA and CARB, Volkswagen will be required to offer a buyback and lease termination program for those vehicles); and pay US$225 million into the environmental mitigation trust that will be established pursuant to the first partial consent decree. The second partial consent decree was lodged with the court on 20 December 2016 and is currently in its notice and comment period.

In addition, on 20 December 2016, Volkswagen entered into an additional, concurrent second partial consent decree, subject to court approval, with CARB and the California Attorney General that resolved claims for injunctive relief under California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. Under the terms of this consent decree, Volkswagen agreed to provide additional injunctive relief to California, including the implementation of a “Green City” initiative and the introduction of three new Battery Electric Vehicle (BEV) models in California by 2020, as well as a US$25 million payment to CARB to support the availability of BEVs in California.

On 11 January 2017, Volkswagen entered into a third partial consent decree, subject to court approval, with the DOJ and EPA that resolved claims for civil penalties and injunctive relief under the Clean Air Act related to the 2.0 l and 3.0 l TDI vehicles. Volkswagen agreed to pay US$1.45 billion (plus any accrued interest) to resolve the civil penalty and injunctive relief claims under the Clean Air Act, as well as the customs claims of the US Customs and Border Protection. Under the third partial consent decree, the injunctive relief includes monitoring, auditing and compliance obligations. This consent decree, which is subject to public comment, was lodged with the court on 11 January 2017. Also on 11 January 2017, Volkswagen entered into a settlement agreement with the DOJ to resolve any claims under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and agreed to pay US$50 million (plus any accrued interest), specifically denying any liability and expressly disputing any claims.

The DOJ also opened a criminal investigation focusing on allegations that various federal law criminal offenses were committed. On 11 January 2017, Volkswagen AG agreed to plead guilty to three federal criminal felony counts, and to pay a US$2.8 billion criminal penalty. Pursuant to the terms of this agreement, Volkswagen will be on probation for three years and will work with an independent monitor for three years. The independent monitor will assess and oversee the company's compliance with the terms of the resolution. This includes overseeing the implementation of measures to further strengthen compliance, reporting and monitoring systems, including an enhanced ethics program. Volkswagen will also continue to cooperate with the DOJ's ongoing investigation of individual employees or former employees who may be responsible for criminal violations.

Moreover, investigations by various U.S. regulatory and government authorities, including in areas relating to securities, financing and tax, are ongoing.

On 31 January 2017, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates entered into a settlement agreement with private plaintiffs represented by the PSC in the multidistrict litigation pending in California and a consent order with the FTC. These agreements will resolve certain civil claims made in relation to affected diesel vehicles with 3.0 l TDI engines from the Volkswagen, Audi and Porsche brands in the USA. On 14 February 2017, the court preliminarily approved the settlement agreement with private plaintiffs and scheduled a fairness hearing on whether final approval should be granted for 11 May 2017. The agreement with the FTC will also be subject to court approval.

Under the settlements, consumers' options and compensation will depend on whether their vehicles are classified as Generation 1 or Generation 2. Generation 1 (model years 2009-2012) consumers will have the option of a buyback, early lease termination, trade-in, or a free emissions modification, provided that EPA and CARB approve the modification. Additionally, Generation 1 owners and lessees, as well as certain former owners and lessees, will be eligible to receive cash payments.

Generation 2 (model years 2013-2016) consumers will receive a free emissions compliant repair to bring the vehicles into compliance with the emissions standards to which they were originally certified – provided that EPA and CARB grant approval – as well as cash payments. If Volkswagen ultimately cannot obtain EPA and CARB approval for emissions compliant repairs within the time limits set out in the settlement agreement, Generation 2 consumers will be offered the options for buyback, lease termination, trade-in or – if approved by EPA and CARB – an emissions modification that reduces the amount of emissions but does not bring the vehicles into compliance with original certification standards, in addition to cash payments. Volkswagen will also make cash payments to certain former Generation 2 owners or lessees.

In September 2016, Volkswagen announced that it had finalized an agreement to resolve the claims of Volkswagen branded franchise dealers in the United States relating to TDI vehicles and other matters asserted concerning the value of the franchise. The settlement agreement includes a cash payment of up to US$1.208 billion, and additional benefits to resolve alleged past, current, and future claims of losses in franchise value. On 18 January 2017, a fairness hearing on whether final approval should be granted was held, and on 23 January 2017, the court granted final approval of the settlement agreement. Certain members of the class may appeal to a U.S. appellate court the decision to finally approve the settlement; the deadline to do so has not yet expired.

Additionally, in the USA, some putative class actions, some individual customers' lawsuits and some state or municipal claims have been filed in state courts.

Volkswagen reached separate agreements with the attorneys general of 44 US states, the District of Columbia and Puerto Rico, to resolve their existing or potential consumer protection and unfair trade practices claims – in connection with both 2.0 l TDI and 3.0 l TDI vehicles in the USA – for a settlement amount of US$603 million. Six states did not join these settlements and still have consumer claims outstanding: Arizona, New Jersey, New Mexico, Oklahoma, Vermont and West Virginia. The attorneys general of eighteen US states (Alabama, Illinois, Maine, Maryland, Massachusetts, Minnesota, Missouri, Montana, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Tennessee, Texas, Vermont and Wyoming) and some municipalities have also filed suits in state and federal courts – and the state of Washington has asserted a penalty claim through administrative proceedings – against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates seeking civil penalties and injunctive relief for alleged violations of environmental laws. Alabama, Illinois, Maine, Maryland, Massachusetts, Minnesota, Missouri, Montana, New Hampshire, New York, Ohio, Pennsylvania, Tennessee, Texas, Washington and Wyoming participated in the state settlements described above with respect to consumer protection and unfair trade practices claims, but those settlements did not include claims for environmental penalties. In addition, although it has not yet filed an action, Delaware has entered into an agreement to toll the statute of limitations for its environmental claims through the end of February 2017. Two other states – Oregon and Wisconsin – signed agreements tolling the statute of limitations for their environmental claims through the end of 2016, but they have not requested an extension or filed actions. Another state (Connecticut) has expressed its intention to participate in environmental settlement discussions without filing suit.

In addition to lawsuits described above, for which provisions have been recognized, a putative class action has been filed on behalf of purchasers of Volkswagen AG American Depositary Receipts, alleging a drop in price purportedly resulting from the matters described in the EPA's notices of violation. A putative class action has also been filed on behalf of purchasers of certain US$-denominated Volkswagen bonds, alleging that these bonds were trading at artificially inflated prices due to Volkswagen's alleged misstatements and that the value of these bonds declined after the EPA issued its notices of violation.

These lawsuits have also been consolidated in the federal multidistrict litigation proceeding in the State of California described above. Volkswagen is of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized. In addition, contingent liabilities have not been disclosed in the consolidated financial statements of Volkswagen AG as they currently cannot be measured.

In Canada, civil consumer claims and regulatory investigations have been initiated for vehicles with 2.0 l and 3.0 l engines. On 19 December 2016, Volkswagen AG and other Canadian and U.S. Volkswagen Group companies reached a class action settlement in Canada with consumers relating to 2.0 l diesel vehicles. Also on 19 December 2016, Volkswagen Group Canada agreed with the Commissioner of Competition in Canada to a civil resolution of its regulatory inquiry into consumer protection issues as to those vehicles. Civil consumer claims and the Commissioner's investigation with respect to 3.0 l diesel vehicles remain pending. Also, criminal enforcement related investigations by the federal environmental regulator and quasi-criminal enforcement related investigations by a provincial environmental regulator are ongoing in Canada related to 2.0 l and 3.0 l diesel vehicles. Provisions have been recognized in the consolidated financial statements of Volkswagen AG for possible obligations stemming from pending lawsuits in Canada.

5. Risk assessment regarding the diesel issue at the level of the Volkswagen Group

To protect against the currently known legal risks, including suitable expenses for defense and legal advice related to the diesel issue, existing information and assessments at the time indicated the need to recognize expenses in the reporting year to the amount of €5.1 billion (prior year: €7.0 billion) in the consolidated financial statements of Volkswagen AG. Prior-year provisions for legal risks in an amount of €0.4 billion had to be reversed through profit or loss. In addition, in relation to the diesel issue – in so far as these can be adequately measured at this stage – especially the contingent liabilities in conjunction with lawsuits filed by investors of €3.1 billion (prior year: €1.0 billion) were disclosed in the consolidated financial statements of Volkswagen AG. The provisions recognized, the contingent liabilities disclosed as well as the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and the fact that the independent, comprehensive investigations have not yet been completed.

Direct effects of the diesel issue on Porsche SE

Porsche SE is directly affected by the diesel issue on account of the litigation claims asserted against it, in particular in the form of lawsuits (we refer to the explanations on contingent liabilities in the section "Legal proceedings and legal risks in connection with the diesel issue" in note [25]). Provisions have been set up for the expected attorneys' fees and litigation expenses. The outcome of litigation is subject to substantial estimation risks.

Effects of the estimation risks from the diesel issue on the consolidated financial statements of Porsche SE

The estimation risks from the diesel issue described above could give rise to corresponding significant effects on the Porsche SE Group. This largely relates to profit/loss from investments accounted for at equity (we refer to note [5]), the carrying amount of the investment in Volkswagen AG accounted for at equity (we refer to the explanations on the impairment test performed in note [11]), the amount of the provisions (we refer to note [18]) as well as subsequent effects of an amended dividend policy of Volkswagen AG.

Tax matters

Taxes constitute another key source of estimates and judgment. In the fiscal year 2012, a tax field audit commenced for the assessment periods 2006 to 2008. This was completed in the fiscal year 2014. In addition, a tax field audit for the assessment periods 2009 to 2013 started at the end of 2015. 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. Based on the findings of the completed tax field audit and the information available when the financial statements were authorized for issue, payments were already made and, in prior years, provisions recognized for these assessment periods (reference is made to notes [8] and [19]). New findings of the tax field audit for the assessment periods 2009 to 2013 could result in an increase or decrease in the tax and interest payments due or any payments already made could be partially refunded.

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 in 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 during the reporting period, will in some cases lead to tax benefits in the Volkswagen Group that are expected, according to the existing regulations, 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 reimbursement 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 prepared, Porsche SE would have a claim for compensation in the low triple-digit million euro range. Future findings arising from the tax field audit that commenced at the end of 2015 for the assessment period 2009 may lead to an increase or decrease in the possible compensation claim.

Changes to underlying assumptions

The judgments and estimates are based on assumptions that are derived from the current information available. In particular, the circumstances given when preparing the consolidated financial statements and assumptions as to the expected future development of the global and industry environment were used to estimate the company's future business performance. 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 diesel issue, the outcome of the tax field audit for the assessment periods 2009 to 2013, and litigation. Factors which may cause variances from assumptions and estimates at the level of associates of the expected future business development include in particular short and medium-term forecast cash flows as well as the discount rates used and expectations regarding the global and industry-specific environment.

In such cases, the assumptions, and if necessary the carrying amounts of the assets and liabilities concerned, will be adjusted accordingly. Prior to the date of authorization of the financial statements by the executive board for issue to the supervisory board, there were no indications that the carrying amounts of the assets and liabilities presented in the consolidated balance sheet would require any significant adjustment in the following reporting period. Judgments and estimates by management included assumptions relating to the development of the Volkswagen Group, macroeconomic development, the development of automotive markets as well as the legal environment that are described in the forecast report as part of Porsche SE's group management report for the 2016 reporting period.

New accounting standards

a) New or revised standards adopted for the first time in the fiscal year
The new or revised standards adopted for the first time in the fiscal year 2016 in accordance with the respective transitional provisions are presented below. None of these were early adopted on a voluntary basis.

2010-2012 Annual Improvements Cycle

The 2010-2012 Annual Improvements Cycle led to the following changes:

- IFRS 2: Amendment of regulations on performance and vesting conditions for transactions where services are rendered,
- IFRS 3, IFRS 9 and IAS 37: Clarification of regulations on contingent consideration,
- IFRS 8: Amendment of general segment information and reconciliations,
- IAS 16 and IAS 38: Amendment of the regulations on the revaluation model, and
- IAS 24: Clarification on rendering services in the area of management in key positions.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments provide guidelines as to which methods can be applied for the depreciation of property, plant and equipment and amortization of intangible assets; for revenue-based depreciation and amortization methods, there is the opinion for property, plant and equipment and the (rebuttable) presumption for intangible assets that these are not appropriate.

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

This amendment clarifies the accounting for acquisitions of interests in joint operations that comprise a business as defined by IFRS 3. Entities must apply the principles on business combinations accounting in IFRS 3 except for those principles that conflict with the guidance in IFRS 11.

Amendment to IAS 1: Disclosure Initiative

These amendments primarily relate to clarifications regarding:

- the assessment of the materiality of disclosures in the financial statements,
- the presentation of additional line items in the balance sheet and the statement of comprehensive income,
- the presentation of other comprehensive income allocated to associates and joint ventures accounted for at equity,
- the structure of notes to the financial statements, and
- the presentation of significant accounting policies.

2012-2014 Annual Improvements Cycle

The changes affect the following standards:

- IFRS 5: Changes of a disposal plan or distribution plan to owners,
- IFRS 7 and IFRS 1: Disclosure requirements for continuing involvement,
- IAS 19: Order of the underlying securities for determining the discount rate, and
- IAS 34: Amendments to the localization of certain information in the interim financial statements.

Amendments to IAS 19: Defined Contribution Plans: Employee Contributions

Based on this amendment, companies are now permitted to recognize employee contributions or contributions by third parties as a reduction in current service cost in the period in which the related service is rendered. The prerequisite is that the contributions are independent of the number of years of service. This is the case, for example, if the contribution is a fixed percentage of salary. There is no independence, for example, if the percentage share of salary increases as the years of service increase. In such a case the payments resulting from the employee contributions or contributions by third parties must be distributed over the period of service.

The amendments presented did not have any or no significant effects on the presentation of the Porsche SE Group's results of operations, financial position and net assets for the 2016 reporting period.

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

Amendments to IAS 7: Disclosures in the notes on liabilities from financing activities

At the core of the amendments made to IAS 7 are rules for additional disclosures in the notes that should allow users of financial statements to assess the changes in liabilities from an entity's financing activities. The amendments are applicable for the first time for reporting periods beginning on or after 1 January 2017. Comparative information from the prior periods does not have to be reported as part of first-time adoption. With the exception of potential additional explanations, this change will have no effects on the presentation of the group's results of operations, financial position and net assets.

Amendments to IAS 12: Recognition of deferred tax assets for unrealized losses

The amendments are intended to address various questions relating to the recognition of deferred tax assets for unrealized losses arising from changes in the fair value of debt instruments and that are recognized in other comprehensive income. The amendment is applicable for the first time for reporting periods beginning on or after 1 January 2017. Porsche SE does not expect this change to have any material effect on the group's results of operations, financial position and net assets.

IFRS 9 "Financial Instruments"

IFRS 9 sets out rules on the classification, measurement and impairment of financial instruments as well as hedge accounting.

The classification and measurement of financial assets are determined using the existing business model as well as the structure of the cash flows. Upon initial recognition, a financial asset is classified as either "at amortized cost", "at fair value with changes in value recognized directly in equity in other comprehensive income" or as "at fair value with changes in value recognized in the income statement". The model used to determine impairment losses and to recognize risk provisions changes from the incurred loss model to the expected credit loss model. Hedge accounting results in both expansions of designation possibilities and more complex measurement methods as well as simplified effectiveness reviews.

The standard becomes effective for fiscal years beginning on or after 1 January 2018. At the level of Porsche SE and its subsidiaries, this does not have any significant impact on the group's results of operations, financial position and net assets. At the level of the associates, no significant effects on the classification and measurement of financial assets are expected, while changing the model used to determine impairment is expected to increase the amount of recognized loss allowances as a general trend. At this level, depending on market trends, there is an expectation that operating profit/loss will be affected by hedging transactions to a greater extent. The resulting effects on the results of operations and net assets will impact the equity accounting within the consolidated financial statements of Porsche SE in an amount equivalent to Porsche SE's share in capital of its associates.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 sets forth rules about when and in what amount revenue is recognized. In addition, it requires more extensive disclosures on revenue recognition than before. IFRS 15 replaces IAS 11, IAS 18 and a number of interpretations relating to revenue. The standard becomes effective for fiscal years beginning on or after 1 January 2018. At the level of Porsche SE and its subsidiaries, this does not have any impact on the group's results of operations, financial position and net assets. At the level of the associates, this change is expected to cause minor shifts in the realization of revenue from warranty and license agreement as well as individual minimal effects for customer-specific construction contracts. No significant further-reaching adjustments are expected, in particular in the case for multiple-deliverable arrangements. The resulting effects on the results of operations and net assets will impact the equity accounting within the consolidated financial statements of Porsche SE in an amount equivalent to Porsche SE's share in capital of its associates.

Amendments to IFRS 15: Clarifications

The amendment clarifies the following issues in IFRS 15:

- Identification of performance obligations (distinction in the context of the contract),
- Principal/agent relationships (principles for distinguishing between principal and agent),
- Licensing (determining the type of license granted and for sales-based and usage-based royalties), and
- Transitional provisions (simplifications for retrospective application of IFRS 15).

The proposed amendments are to be applied by companies at the same time as IFRS 15. The amendment is therefore applicable for the first time for reporting periods beginning on or after 1 January 2018. Porsche SE does not expect this change to have any material effect on the group's results of operations, financial position and net assets.

IFRS 16: Leases
The standard replaces IAS 17, SIC-15 and SIC-27. For all leases, lessees will generally have to recognize a right-of-use asset for the underlying asset and a corresponding lease liability for the payment obligations entered into. Exemptions are allowed for low-value leased assets and short-term leases. IFRS 16 is applicable for the first time for reporting periods beginning on or after 1 January 2019. At the level of Porsche SE and its subsidiaries, this does not have any significant impact on the group's results of operations, financial position and net assets. At the level of the associates, the new accounting treatment as lessees will tend to increase non-current assets and non-current liabilities; in the income statement, it is expected to improve the operating result and reduce the financial result. The resulting effects on the results of operations and net assets will impact the equity accounting within the consolidated financial statements of Porsche SE in an amount equivalent to Porsche SE's share in capital of its associates.

Amendment to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture, and postponement of the date of first-time adoption of this amendment
This amendment removes an inconsistency existing between IFRS 10 and IAS 28. It clarifies the recognition of unrealized gains and losses from transactions between an investor and an associate or joint venture. Where the transaction relates to a business as defined by IFRS 3, the investor is required to recognize all gains and losses. Where the transaction relates only to the sale of assets that do not constitute a business, the investor has to partially recognize the gains and losses. The date of first-time adoption of this amendment has been postponed indefinitely; early adoption on a voluntary basis is possible. This change is not expected to have any material effect on the results of operations, financial position and net assets.

Amendments to IFRS 2: Clarifications of accounting of share-based payment transactions
The clarifications relate to the following topics:

- Consideration of market-related and non-market-related vesting conditions for the measurement of cash-settled commitments,
- Modifications of commitments to be settled in cash with change in classification to commitments settled in equity instruments, and
- Commitments settled in equity instruments with net settlement agreements

The amendments are applicable for fiscal years beginning on or after 1 January 2018. Porsche SE does not expect this change to have any effect on the group's results of operations, financial position and net assets.

Amendment to IFRS 4: Amendments due to the implementation of IFRS 9

The amendments result from the implementation of IFRS 9. They contain two optional approaches:

- Overlay approach: Entities that issue insurance agreements may recognize the volatility arising from the application of IFRS 9, before applying the new insurance standard, in OCI instead of in the income statement.
- Deferral approach: Entities whose activities are predominantly associated with insurance may defer the application of IFRS 9 until 2021 and continue to use IAS 39.

The amendments supplement the options already available in IFRS 4 to addressing temporary volatilities. The amendments are applicable for fiscal years beginning on or after 1 January 2018. This change is not expected to have any material effect on the results of operations, financial position and net assets.

Amendment to IAS 40: Investment property under construction or in development

The amendment clarifies that the standards on classification as investment properties contained in IAS 40 regarding a particular change in use also apply with regard to properties not completed. This amendment is effective for fiscal years beginning on or after 1 January 2018. Porsche SE does not expect this change to have any material effect on the group's results of operations, financial position and net assets.

2014-2016 Annual Improvements Cycle

The changes affect the following standards:

- IFRS 1: Elimination of short-term exemptions,
- IFRS 12: Clarification that shares held for sale and discontinued operations pursuant to IFRS 5 also fall within the scope of IFRS 12, and
- IAS 28: Clarification that venture capital organizations, open investment funds, investment companies or similar companies can decide for themselves for each individual investment in associates or joint ventures as to whether the option for accounting for financial instruments at fair value through profit or loss is exercised pursuant to IFRS 9.

This amendment applies for fiscal years beginning on or after 1 January 2017 (amendment to IFRS 12) or 1 January 2018 (amendments to IFRS 1 and IAS 28). Porsche SE does not expect this change to have any material effect on the group's results of operations, financial position and net assets.

IFRIC Interpretation 22: Currency translation and prepayments

This interpretation applies to the accounting for business transactions that contain prepayments received or made. It clarifies that, to determine the transaction rate, the underlying date is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the prepayment. This interpretation is effective for the first time for fiscal years beginning on or after 1 January 2018. At the level of Porsche SE and its subsidiaries, this does not have any impact on the group’s results of operations, financial position and net assets. The effects at the level of the associates are still being analyzed.

Voluntary early adoption of the amendments before they become mandatory under the transitional provisions of the IASB is not planned.

Adjustment of prior-year figures

In September 2015, Porsche SE reached an agreement with Suzuki Motor Corporation, Shizuoka, Japan, to acquire a 1.5% stake in the ordinary shares of Volkswagen AG in an off-market transaction. This acquisition meant that a purchase price allocation had to be performed, which involved revaluing the pro rata net assets acquired and therefore determining the fair values of the assets and liabilities of the Volkswagen Group. The purchase price allocation had not yet been completed when the consolidated financial statements for the fiscal year 2015 were authorized for issue. The income from the first-time equity accounting of newly acquired shares that resulted from this in the second half of 2015 was thus regarded as provisional.

In particular, new findings at the level of the Volkswagen Group regarding the values underlying provisions and contingent liabilities from the diesel issue at the time of the acquisition date resulted in adjustments to the purchase price allocation. As the purchase price allocation was finalized as of 30 September 2016, findings and figures totaling €3,998 million that became known at the level of the Volkswagen Group until this date were taken into account.

This resulted in the following adjustments at the level of the Porsche SE Group:

€ million	Before adjustment	Adjustment	After adjustment
1.1.2016			
Consolidated balance sheet			
Investments accounted for at equity	25,609	–35	25,574
Retained earnings	21,922	–35	21,887

€ million	Before adjustment	Adjustment	After adjustment
2015			
Consolidated statement of comprehensive income			
Profit/loss for the year	–273	–35	–308
Total comprehensive income	–375	–35	–410
Consolidated income statement			
Profit/loss before tax	–456	–35	–491
thereof profit/loss from investments accounted for at equity	–436	–35	–471
Profit/loss for the year	–273	–35	–308
thereof profit/loss attributable to shareholders of Porsche Automobil Holding SE	–273	–35	–308
Earnings per ordinary share (basic and diluted)	–0.90	–0.11	–1.01
Earnings per preference share (basic and diluted)	–0.89	–0.11	–1.00

Notes to the consolidated income statement and consolidated statement of cash flows

[1] Revenue

The revenue disclosed largely stems from advisory services rendered for the Volkswagen Group.

[2] Other operating income

Other operating income in the prior year mainly results from the reversal of provisions for litigation costs.

[3] Personnel expenses

€ million	**2016**	2015
Wages and salaries	10	13
Social security contribution	0	0
Pension and other benefit costs	2	2
	12	**15**
Employees (annual average)		
Salaried staff	30	33
Employees according to Sec. 314 (1) No. 4 HGB	**30**	**33**
Other	2	1
Total	**32**	**34**

[4] Other operating expenses

Other operating expenses consist of:

€ million	2016	2015
Legal and consulting fees	22	12
Other external services	8	9
Other tax	1	2
Sundry other operating expenses	6	8
	37	**31**

Other external services principally contain expenses relating to the organization of Porsche SE's annual general meetings.

Sundry other operating expenses primarily include expenses for leasing and insurance, travel expenses as well as, in the prior year, back payments for contributions for the Chamber of Industry and Commerce (IHK).

[5] Profit/loss from investments accounted for at equity

The profit/loss from investments accounted for at equity breaks down as follows:

€ million	2016	2015
Income from first-time at equity accounting of newly acquired shares	0	411[1]
Profit/loss from ongoing equity accounting before purchase price allocations	1,591	–561
Effects from purchase price allocations	–128	–84
Profit/loss from ongoing equity accounting	1,463	–234[1]
Effects from dilution of share in capital	0	–237[1]
Impairment	–14	0
	1,449	**–471**[1]

Profit/loss from ongoing equity accounting relates almost exclusively to the earnings contribution from the investment in Volkswagen AG.

1 Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section "Adjustment of prior-year figures".

Income from first-time at equity accounting of newly acquired shares in the prior year results from the difference between the pro rata revalued equity of the Volkswagen Group, taking into account effects from the purchase price allocation performed for this purpose, and the cost of the 1.5% of the ordinary shares in Volkswagen AG which Porsche SE had acquired from the Suzuki Motor Corporation at the end of September 2015. The price of the acquired shares was based on the stock market price, which as of the acquisition date was heavily influenced by the uncertainties regarding the financial effects of the diesel issue in the Volkswagen Group.

The purchase price allocation was completed as of 30 September 2016. The income in the prior year is mainly attributable to the fact that the fundamental data for the Volkswagen Group used, for example, particularly in the valuation of the brands and the investments accounted for at equity, are not fully reflected in the acquisition costs when calculating the pro rata revalued equity of the Volkswagen Group. In addition, negative effects on the stock market price and therefore on the purchase price arising from the diesel issue did not have to be accounted for to the same extent in the purchase price allocation. The risk provisioning announced and taken into account at the level of the Volkswagen Group as of 30 September 2016 including contingent liabilities (we refer to the explanations of effects of the diesel issue at the level of the Volkswagen Group in the section “Significant accounting judgments and estimates”) were taken into account as hidden liabilities in the purchase price allocation, if they were considered to have the character of an adjusting event from the perspective of the acquisition date.

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 the brand based on the respective planning of the Volkswagen Group. The royalty rate was calculated using internal studies and data, taking into consideration the expected effects of the diesel issue; a sustainable growth rate of 1.0% was assumed for the calculation. The investments accounted for at equity were mainly valued on the basis of the discounted cash flow method (“DCF”). The respective planning of the Volkswagen Group as well as a sustainable growth rate of 1.0% 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 rates in the range of between 6.1% and 12.4%.

The effects from the dilution of the share in capital in the prior year of minus €237[1] million resulted from the issue of preference shares in connection with the mandatory convertible bonds issued by Volkswagen AG. The effects comprise the difference between the prior-year reclassification of other changes in equity formally recognized in other comprehensive income at the level of the investment accounted for at equity (reference is made to the explanations in note [17]) and the proportionate disposal of the carrying amount at equity totaling minus €258[1] million as well as the proportionate derecognition of reclassifiable other comprehensive income of €21 million.

[1] Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section “Adjustment of prior-year figures”.

The impairment was recorded on the shares in INRIX accounted for at equity (we refer to the explanations in note [11]).

[6] Finance costs

€ million	2016	2015
Interest expenses from loans issued by associates	21	21
Interest on tax back payments	1	20
Other interest and similar expenses	2	2
	24	**43**

The interest on tax back payments includes interest payments made. In the prior year, additions were also made to provisions for expected interest on tax back payments.

Finance costs contain interest expenses of €22 million (prior year: €23 million) from financial instruments that are not measured at fair value through profit or loss.

[7] Other financial result

€ million	2016	2015
Income from tax interest	0	59
Income from bonds and investment fund shares	1	0
Expenses from bonds and investment fund shares	0	–1
Income from derivative financial instruments	5	6
Expenses from derivative financial instruments	–4	–9
Other interest and similar income	2	7
	4	**62**

In the prior year, income from tax interest related to refunds of tax interest paid in the past and interest received on tax refunds.

Financial income contains interest income of €2 million (prior year: €7 million) from financial instruments that are not measured at fair value through profit or loss.

[8] Income tax

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

€ million	**2016**	2015
Current tax income/expense	0	– 169
thereof income/expenses relating to other periods	0	– 169
Deferred tax income/expense	8	– 14
Income tax	**8**	**– 183**

All income taxes were incurred in Germany.

The tax field audit for the assessment periods 2009 to 2013 began in the prior year.

In the fiscal year 2014 and at the beginning of the fiscal year 2015, Porsche SE made payments in connection with tax notices for the 2009 assessment period in order to avoid interest on tax back payments. These notices diverged in some respects from the Porsche SE's legal opinion on taxability and were therefore appealed. As a result of a decision of the tax authorities regarding the appeal, Porsche SE received amended tax notices for the assessment period 2009 at the end of the fiscal year 2015. In the prior year, these resulted in a tax refund of €221 million plus interest of €59 million. The assessment notices are subject to subsequent review. Furthermore, there were expenses in connection with previous assessment periods of €52 million in the prior year.

The overall income tax rate for the German entities was 30.5% (prior year: 30.5%).

Previously unused tax losses for which no deferred tax assets were recognized amounted to €1,913 million (prior year: €1,891 million).

Deductible temporary differences on which no deferred tax was recognized amount to €29 million in the reporting period (prior year: €21 million).

The following reconciliation shows the differences between the expected income tax expense calculated at the theoretical group tax rate of 30.5% (prior year: 30.5%) and the reported income tax expense:

€ million	2016	2015
Profit/loss before tax	1,382	–491[1]
Group tax rate	30.5 %	30.5 %
Expected income tax expense	**422**	**–150[1]**
Tax rate related differences	0	0
Difference in tax base	–423	109[1]
Recognition and measurement of deferred tax	9	27
Effects relating to other periods	0	–169
Reported income tax expense	**8**	**–183**

The item "Difference in tax base" mainly relates to the tax exemption or non-deductibility of profit/loss from investments accounted for at equity or the non-deductibility of interest on tax back payments and the additions to the provision for interest on tax back payments in the prior year. The reconciliation item "Recognition and measurement of deferred tax" mainly contains unrecognized deferred tax assets on unused tax losses of €7 million (prior year: unrecognized deferred tax or reversed deferred tax assets on unused tax losses of €25 million). The effects relating to other periods in the prior year stem from the described tax payments for prior periods received in the fiscal year 2015 as well as the additions to provisions made in connection with tax notices issued for the 2009 assessment period.

The deferred tax assets and liabilities break down by item in the balance sheet as follows:

	Deferred tax assets		Deferred tax liabilities	
€ million	**31/12/2016**	31/12/2015	**31/12/2016**	31/12/2015
Investments accounted for at equity	0	0	71	53
Other receivables and assets	0	0	0	1
Unused tax losses	39	29	0	0
Provisions for pensions and similar obligations	4	3	0	0
Other provisions	0	0	0	0
Other liabilities	0	0	0	0
Valuation allowances on deferred tax assets	0	0	0	0
Reversal of an impairment loss on deferred tax assets	0	0	0	0
Gross value	43	32	71	54
Offsetting	–43	–32	–43	–32
Balance according to consolidated balance sheet	**0**	**0**	**28**	**22**

1 Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section "Adjustment of prior-year figures".

With the exception of the deferred taxes on pension provisions, all the changes presented in deferred tax assets and liabilities are recognized in profit or loss.

[9] Earnings per share

		2016	2015
Profit/loss for the year	€ million	1,374	–308[1]
Thereof profit/loss attributable to shareholders of Porsche SE	€ million	1,374	–308[1]
Profit/loss attributable to ordinary shares (basic)	€ million	686.5	–154.5[1]
Profit/loss attributable to preference shares (basic)	€ million	687.5	–153.5[1]
Profit/loss attributable to ordinary shares (diluted)	€ million	686.5	–154.5[1]
Profit/loss attributable to preference shares (diluted)	€ million	687.5	–153.5[1]
Average number of ordinary shares outstanding	Number	153,125,000	153,125,000
Average number of preference shares outstanding	Number	153,125,000	153,125,000
Earnings per ordinary share (basic)	€	4.48	–1.01[1]
Earnings per preference share (basic)	€	4.49	–1.00[1]
Earnings per ordinary share (diluted)	€	4.48	–1.01[1]
Earnings per preference share (diluted)	€	4.49	–1.00[1]

Earnings per share are calculated by dividing the profit or loss attributable to the shareholders of Porsche SE by the total average number of shares outstanding in the reporting period. The additional dividend of 0.6 cents per share to which the preference shares are entitled was deducted when calculating earnings per share for ordinary shares. This gave rise to the difference in earnings per share between ordinary and preference shares.

There were no dilutive effects.

1 Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section "Adjustment of prior-year figures".

[10] Notes to the consolidated statement of cash flows

The statement of cash flows shows how the cash funds of the Porsche SE Group have changed during the reporting year as a result of cash inflows and outflows. For this purpose, the cash flows in the statement of cash flows are categorized by operating activities, investing activities, and financing activities. Cash inflows and outflows from investing and financing activities are presented using the direct method.

Cash inflows and outflows from investing activities relate to payments for the acquisition of investments in associates and to changes in investments in time deposits and securities.

The cash outflow from financing activities exclusively concerns cash outflows from dividend payments.

In contrast, the cash inflow and outflow from operating activities is derived indirectly, starting from profit/loss for the year. Therefore, all non-cash expenses and income – mainly changes in provisions and non-cash income as well as the profit/loss from investments accounted for at equity contained in non-cash income and expenses – are eliminated from profit/loss for the year and adjusted for changes in operating assets and liabilities. Cash inflows from dividends are also a component of the cash inflow from operating activities.

The cash inflow from operating activities includes:

€ million	**2016**	2015
Interest paid for financial instruments	–22	–22
Interest received from financial instruments	3	5

Cash funds 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.

Notes to the consolidated balance sheet

[11] Investments accounted for at equity

Of the investments accounted for at equity, €26,739 million relates to the carrying amount of the investment in Volkswagen AG.

At the end of September 2015, Porsche SE reached an agreement with Suzuki Motor Corporation, Shizuoka, Japan, to acquire a 1.5% stake in the ordinary shares of Volkswagen AG in an off-market transaction. This increased Porsche SE's shareholding in the ordinary share capital of Volkswagen AG from 50.7% to 52.2%. The share held in the subscribed capital of Volkswagen AG increased to 32.4% as of the date of acquisition. Due to the issue of preference shares until 9 November 2015 in connection with the mandatory convertible bonds issued by Volkswagen AG, Porsche SE's share in the subscribed capital of Volkswagen AG decreased to 30.8%. In the prior year, this dilution decreased the carrying amount of the investment accounted for at equity by €1,337[1] million. The countereffect from the capital increase was recognized in other comprehensive income in earlier reporting periods and reclassified to profit/loss from investments accounted for at equity in the prior year (reference is made to note [17]).

Porsche SE has at its disposal a credit facility with a volume of €1,000 million and a term until October 2019. If the credit facility is drawn, Volkswagen AG ordinary shares worth 150% of the amount drawn must be provided as collateral. No other financial covenants have to be complied with.

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 investment accounted for at equity in the consolidated financial statements of Porsche SE.

The most recent five-year plan (prior year: five-year plan) approved by the board of management of Volkswagen AG was used as a basis for determining the value in use. In addition to the remaining portion of the risk provisioning totaling €16.2 billion recognized in the fiscal year 2015 at the level of the Volkswagen Group for the effects of the diesel issue, the negative effects from special items in the fiscal year 2016 – mainly due to higher expenses arising from recognizing provisions for legal risks – of €6.4 billion were taken into account when determining the cash flows. The total amount of the cash outflows taken into account essentially concurs with current estimates of the analysts of the Volkswagen share.

The overall development of the operating result assumed for the fiscal year 2017 in the impairment test corresponds to the lower limit specified by Volkswagen in its forecast report. This includes an operating return on sales of between 6% and 7%. With regard to revenue development, an increase of up to 4% is forecasted compared to the fiscal year 2016. With

[1] Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section "Adjustment of prior-year figures".

regard to the entire five-year period, the assumed average annual revenue growth is in the mid-single-digit percentage range.

The assumed revenue growth is based on the expectation that the moderately positive growth of the global economy will continue in the coming years. As a result, global economic growth for 2017 is expected to be up slightly on 2016, but will continue to be negatively impacted by geopolitical tension and conflicts. The majority of emerging economies are expected to report stronger growth than in the prior year. The highest growth is anticipated in the emerging economies in Asia. As regards the automobile markets, growth is expected to vary between the various regions. As a result of its broad, selectively expanded model range featuring the latest generation of engines as well as a variety of alternative drives, the Volkswagen Group is generally in a good position in relation to the competition. Moderate gains in market share are therefore expected during the planning period.

Planned investing activities in the automotive division amount to €18 billion in the fiscal year 2017 and will increase moderately in the planning period. The investments in plants and models as well as in the development of alternative drives and modular systems create the prerequisites for Volkswagen's profitable and sustainable growth.

As regards operating return on sales, Porsche SE assumes a moderate increase over the course of the planning years, which is based on the long-term target of the Volkswagen Group of a return on sales before tax of between 7% and 8% by 2025. Far-reaching measures geared to achieving this target have already been initiated within the Volkswagen Group. This relates in particular to efficiency increases from measures in the future program "TOGETHER – Strategy 2025". This involves the product portfolio of the group focusing on profitability taking into account regional market and customer needs. The modular toolkits are being revised and streamlined to reduce their complexity in development and production and simultaneously increase efficiency. The Volkswagen brand also signed a pact for the future with the General Works Council for greater economic viability and a more secure future at the company's German locations. Among other things, this envisages losses of up to 23,000 jobs in Germany. Accordingly, the impairment test includes an increase in the operating return on sales of the Volkswagen brand.

An annual growth rate of 1% (prior year: 1%) was used to extrapolate the cash flow 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). A weighted average cost of capital of 7.4% (prior year: 7.3%) for the investment in Volkswagen AG was used to discount cash flows. This was derived from a peer group 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 the extent to which an isolated 20% reduction in the sustainable operating return on sales, an isolated reduction of the growth rate to 0% or an isolated 20% increase in the average weighted cost of capital 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 about of the investment in Volkswagen AG. The sensitivity analyses also yielded a value in use that was considerably higher than the carrying amount in all of the scenarios considered. As a result, there was no need to record an impairment loss as of 31 December 2016.

With regard to the investment in INRIX, an impairment test was also performed as the company did not develop as planned in important key figures in the past fiscal year. The impairment test resulted in a need to recognize an impairment loss of €14 million in the consolidated financial statements of Porsche SE. The remaining carrying amount as of 31 December 2016 amounts to €21 million.

[12] Non-current and current other receivables and assets

€ million	**31/12/2016**	31/12/2015
Other receivables and assets from associates	1	0
Sundry other receivables and assets	4	8
	5	**8**
thereof non-current	1	2
thereof current	4	6

Valuation allowances are recognized to take account of any default risks. The maximum default risk corresponds to the carrying amounts of the other receivables and assets. The current other receivables and assets are non-interest-bearing.

The carrying amount of other receivables and assets comprises financial receivables with a carrying amount of €3 million (prior year: €5 million) and other non-financial receivables and assets with a carrying amount of €2 million (prior year: €3 million). The non-financial other receivables and assets mainly contain deferrals. The non-financial other receivables and assets contain derivative financial instruments whose carrying amount is immaterial as of the reporting date.

[13] Income tax receivables

Income tax receivables comprise tax refund claims for tax on investment income.

[14] Securities

Securities consist of:

€ million	**31/12/2016**	31/12/2015
Bonds and investment fund shares	189	192
Asset-backed commercial papers	83	550
	272	**742**

For the bonds and investment fund shares, the option for accounting for financial instruments at fair value through profit or loss is exercised. In the prior year, this item included bonds of €9 million that were issued by an associate. Collateral customary for the industry has been provided for obligations arising from derivatives transactions of €8 million (prior year: €4 million).

[15] Time deposits

Time deposits include cash deposits with an original term of more than three months. An amount of €100 million of the time deposits was invested at an associate as of the reporting date of the prior year. The maximum default risk corresponds to the carrying amount.

[16] Cash and cash equivalents

Cash and cash equivalents include cash and cash equivalents with an original term of up to three months almost exclusively in euro. The maximum default risk corresponds to the carrying amount.

[17] Equity

The development of equity is presented in the Porsche SE Group's 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 153,125,000 non-voting preference shares which have been fully paid in. Each share represents a €1 notional value 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, taking into consideration transaction costs incurred.

Retained earnings
The retained earnings include the reserve for investments accounted for at equity and the reserve for accumulated profits. Expenses and income from investments accounted for at equity recognized directly in equity are presented in the separate reserve for investments accounted for at equity. Due to the dilution of Porsche SE's share in capital of Volkswagen AG, reclassifiable after-tax income and expenses previously recognized in equity totaling €21 million were transferred to profit or loss in the prior year. In addition, non-reclassifiable expenses of €181 million were transferred to retained earnings in the prior year as a result of the dilution; the corresponding income from deferred taxes amounted to €53 million.

The reserve for accumulated profits includes the profits of Porsche SE and its consolidated subsidiaries earned in prior years and the reporting period that have not yet been distributed. In addition, this item includes any reclassified revaluation reserves of deconsolidated subsidiaries, non-reclassifiable expenses and income reclassified due to dilution of the share in capital of associates, and the reserve for remeasurements from pensions taking into account the allocable deferred tax.

As of 31 December 2016, actuarial losses from pensions came to €15 million (31 December 2015: €11 million); the allocable, opposing deferred tax came to €4 million as of 31 December 2016 (31 December 2015: €3 million).

In the prior year, the reclassification through profit or loss as a result of the dilution of the share in capital of investments accounted for at equity presented in the consolidated statement of changes in equity includes the amount of €1,079 million reclassified through profit or loss from capital increases in the past at the level of the Volkswagen Group, which resulted in a dilution of Porsche SE's share in the capital of Volkswagen AG.

Other changes in equity at the level of investments accounted for at equity in the consolidated statement of changes in equity contain in particular amounts that did not lead to a change in control in the consolidated financial statements of associates and therefore had to be recognized directly in equity at this level.

The separate financial statements of Porsche SE as of 31 December 2016 disclose a net loss for the year of €70 million (prior year: net profit of €871 million), a withdrawal from retained earnings of €378 million (prior year: transfers to retained earnings of €435 million) and therefore a net profit available for distribution of €308 million (prior year: €436 million). The executive board proposes a resolution for the distribution of a dividend of €1.004 per ordinary share and €1.010 per preference share, i.e., a total distribution of €308 million for the fiscal year 2016. For the fiscal year 2015, the dividend was also €1.004 per ordinary share and €1.010 per preference share.

The reclassifiable expenses and income recognized directly in equity which arose from investments accounted for at equity include the following: income before tax from currency translation of €933 million (prior year: €924 million), income before tax from marking securities to market of €1 million (prior year: expenses of €6 million), expenses before tax from cash flow hedges of €181 million (prior year: €1,660 million), income after tax recognized directly in equity arising from investments accounted for at equity of €607 million (prior year: €781 million) and tax income of €48 million (prior year: €484 million). In the prior year, expenses recognized directly in equity of €8 million were released to the income statement; the corresponding income from tax amounted to €29 million. A pre-tax expense of €4,862 million (prior year: €3,250 million) was recognized in equity as of the reporting date for the non-reclassifiable actuarial gains and losses from pensions; the corresponding income from tax amounts to €1,422 million as of the reporting date (prior year: €934 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. These goals aim to sustainably protect 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 considering its function as a holding company.

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	**31/12/2016**	31/12/2015
Equity	27,894	27,077[1]
Share of total capital	99%	99%
Non-current financial liabilities	0	300
Current financial liabilities	300	0
Total financial liabilities	300	300
Share of total capital	1%	1%
Total capital	**28,194**	**27,377[1]**

[18] Provisions for pensions and similar obligations

The Porsche SE Group provides both defined contribution and defined benefit plans.

In the case of defined contribution plans, the company makes contributions to state or private pension schemes based on legal or contractual requirements, or on a voluntary basis. Once the contributions have been paid, there are no further obligations for the company. Contributions are recognized as expenses of the period concerned and were immaterial.

The Porsche SE Group's pension plans are unfunded defined benefit plans. The obligations for defined benefit plans are measured using the projected unit credit method in accordance with IAS 19. The defined benefit obligations are recognized at the present value of vested benefits as of the measurement date taking probable future increases in pensions and salaries into account. The defined benefit obligation for active employees increases annually by the interest cost plus the present value of the new benefit entitlements earned in the current period. Actuarial gains or losses result from changes in the composition of the plan and deviations of actual parameters (for example, increases in income and pensions or changes in interest rates) compared to the assumptions made in the valuation.

[1] Including retrospective adjustment of the accounting for the Volkswagen Group at equity; reference is made to the section "Adjustment of prior-year figures".

Provisions for pensions and similar obligations are recognized for benefits in the form of retirement, invalidity and dependents' benefits payable under pension plans. The benefits generally depend on the length of service, remuneration and working hours arrangements of the employees. The direct and indirect obligations include both current pension obligations and future pension and retirement benefit obligations. In addition, personal retirement capital is accumulated in Germany by way of employee contributions to Porsche VarioRente.

Actuarial assumptions:
The defined benefit obligations are calculated using actuarial methods. These include assumptions concerning future wage and salary developments and pension trends. The measurement is based on the following assumptions:

	Germany	
%	**2016**	2015
Discount rate	1.70	2.25
Increase in wages and salaries	3.00	3.00
Career progress	0.50	0.50
Increase in pensions	1.70	1.80

Changes in the present value of pension obligations:

€ million	**2016**	2015
As of 1 January	24	20
Current service cost	2	2
Interest expenses	1	1
Actuarial gains (–) and losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–) and losses (+) arising from changes in financial assumptions	4	–1
Actuarial gains (–) and losses (+) arising from experience adjustments	0	1
Other changes	–1	1
As of 31 December	**30**	**24**

The amounts recognized through profit or loss relate to current service cost of €2 million (prior year: €2 million) as well as interest expenses of €1 million (prior year: €1 million).

The present value of pension obligations funded by provisions corresponds to the net obligation and thus also the amounts recognized as liabilities. An increase in the discount rate of 50 base points would lead to a drop of €3 million (prior year: €3 million) in the present value of pension obligations. A decrease in the discount rate of 50 base points would lead to an increase of €3 million (prior year: €2 million) in the present value of pension obligations. A comparable increase or decrease in other actuarial assumptions would not lead to an adjustment of more than €1 million (prior year: no adjustment of more than €1 million).

The weighted average term of pension obligations is 21 years (prior year: 20 years). The cash outflow of pension provisions is expected to amount to €2 million (prior year: €2 million) in a period of between one and five years and €28 million (prior year: €22 million) in a period of more than five years.

[19] Non-current and current income tax provisions and other provisions

€ million	31/12/2016		31/12/2015	
		thereof due within one year		thereof due within one year
Income tax provisions	0	0	49	49
Other provisions	93	75	101	88
Provisions for bonuses and personnel costs	5	4	5	4
Provisions for costs of litigation	26	9	23	11
Provisions for interest on tax back payments	0	0	13	13
Sundry other provisions	62	62	60	60

The decrease in income tax provisions and provisions for interest on tax back payments as of 31 December 2016 compared to 31 December 2015 is attributable to payments made for the assessment period 2009.

Provisions for bonuses and personnel costs are, among others, recognized for bonuses, long-service awards and similar obligations.

The amount reported for provisions for costs of litigation represents the expected settlement amount for all litigation in which Porsche SE is involved directly or indirectly. They have been set up at the amount of the respective expected attorneys' fees and litigation fees (reference is made to the description of the litigation underlying these provisions in note [25]).

Sundry other provisions mainly comprise provisions for other tax.

81% of the other provisions are expected to result in cash outflow in the following year and 19% in between one and five years.

Other provisions developed as follows:

€ million	As of 1/1/2016	Additions	Utilization	Reversal	**As of 31/12/2016**
Provisions for bonuses and personnel costs	5	4	4	0	5
Provisions for costs of litigation	23	10	7	0	26
Provisions for interest on tax back payments	13	0	13	0	0
Sundry other provisions	60	9	7	0	62
	101	**23**	**31**	**0**	**93**

The effects of unwinding the discount on provisions were immaterial in the fiscal year 2016 and in the fiscal year 2015.

[20] Trade payables

The trade payables disclosed, amounting to €2 million (prior year: €1 million), are mainly liabilities for legal and consulting services.

[21] Financial liabilities

Financial liabilities are due entirely to associates and are recognized at amortized cost. They are due for repayment on 18 June 2017.

[22] Non-current and current other liabilities

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

€ million	**31/12/2016**	31/12/2015
Liabilities to associates	16	15
Sundry other liabilities	2	2
	18	**17**
thereof non-current	0	0
thereof current	18	17

Of the carrying amount totaling €18 million (prior year: €17 million) an amount of €17 million (prior year: €17 million) relates to other financial liabilities and €1 million (prior year: €0 million) to other non-financial liabilities. The other financial liabilities contain derivative financial instruments whose carrying amount is immaterial as of the reporting date.

Other notes

[23] Other financial obligations

Minimum lease payments from non-cancellable operating leases of €1 million (prior year: €1 million) will be incurred in the Porsche SE Group in the coming years.

[24] Financial risk management and financial instruments

1 Financial risk management principles

The principles and responsibilities for managing the risks are generally defined by the executive board 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 and of INRIX, 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 development.

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 positive fair values of claims against each individual contracting partner. In addition, there is a credit and default risk at the amount of financial guarantees issued. The default risk of financial assets is generally taken into account through adequate valuation allowances considering collateral that has been provided. Various measures are taken into account as needed to reduce the default risk for non-derivative financial instruments, such as monitoring the credit rating of counterparties or requesting hold harmless agreements. Moreover, cash and cash equivalents, time deposits and securities are invested with different counterparties in order to spread risk. The contracting partners for monetary investments, capital investments and, if necessary, derivative financial instruments are domestic and international counterparties.

There are no significant concentrations of risk that are not evident from the notes to the financial statements and management report.

The table below shows the credit and default risk of financial assets by gross carrying amount:

€ million	Neither past due nor impaired
31/12/2016	
Other financial receivables	3
Securities	272
Time deposits	679
Cash and cash equivalents	648
	1,602
31/12/2015	
Other financial receivables	5
Securities	742
Time deposits	550
Cash and cash equivalents	712
	2,009

There are no past due or impaired financial assets in the Porsche SE Group.

The credit ratings of the gross carrying amounts of financial assets that are neither past due nor impaired were as follows:

€ million	Risk class 1	Risk class 2	Total
31/12/2016			
Other financial receivables	3	0	3
Securities	272	0	272
Time deposits	679	0	679
Cash and cash equivalents	648	0	648
	1,602	**0**	**1,602**
31/12/2015			
Other financial receivables	5	0	5
Securities	742	0	742
Time deposits	550	0	550
Cash and cash equivalents	712	0	712
	2,009	**0**	**2,009**

The receivables rated as good are allocated to risk class 1. Receivables from customers whose credit rating is not good, but have not yet defaulted, are allocated to risk class 2. Allocation to the risk classes is based on external ratings.

3 Liquidity risk

The solvency and liquidity of the Porsche SE Group is continuously monitored by means of liquidity planning. Solvency and liquidity are additionally secured by a cash liquidity reserve and a guaranteed credit line. Porsche SE's line of credit amounts to €1,000 million as of the reporting date (prior year: €1,000 million), and had not been drawn down either as of the end of the reporting period or as of the cut-off date in the prior year. Reference is also made to explanations on the management of liquidity risks at the level of the Porsche SE Group presented in the risk report as part of the group management report.

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

	Remaining contractual maturities		
€ million	within 1 year	in 1 to 5 years	Total
31/12/2016			
Financial liabilities	313	0	313
Trade payables	2	0	2
Other financial liabilities	14	0	14
Derivative financial instruments	21	0	21
Financial guarantees	251	0	251
	601	**0**	**601**
31/12/2015			
Financial liabilities	21	313	334
Trade payables	1	0	1
Other financial liabilities	14	0	14
Derivative financial instruments	19	0	19
Financial guarantees	1,351	0	1,351
	1,406	**313**	**1,719**

The financial guarantees were issued for financial liabilities of the Volkswagen Group. Volkswagen AG has issued a hold harmless agreement for 100% of these financial guarantees.

There are no significant concentrations of risk that are not evident from the notes to the financial statements and management report.

4 Market risk

In Porsche SE, market risk stems in particular from interest rate and stock price risk. Interest rate risk essentially results from changes in market interest rates and affects the market prices of fixed-interest time deposits and securities as well as other receivables and liabilities. Stock price risk arises from fluctuations in market prices.

There are no significant concentrations of risk that are not evident from the notes to the financial statements and management report.

Effects of the market risk on profit or loss or on equity in the Porsche SE Group result exclusively from the bonds, investment fund shares and derivative financial instruments held in the alternative investment fund at fair value.

The risk from these financial instruments is a generally diversified by spreading the funds across different asset managers and strategies. In addition, the resulting risks are limited by using an investment policy which specifies 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 management purposes, a target return is also defined for the long-term performance depending on the residual risk budget.

The interest risk and stock price risk are measured by means of value at risk on the basis of a historical simulation in order to present market risks for these financial instruments. The value-at-risk calculation yields the magnitude of a possible loss of the entire portfolio that will not be exceeded over a period of ten days with a probability of 99%. As a rule, the historical market data used in the value-at-risk calculation cover the 250 most recent trade days. The total value at risk for these financial instruments came to €2 million (31 December 2015: €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, as well as the comparison of carrying amount and fair value:

€ million	Measurement category under IAS 39	**31/12/2016** Carrying amount	**31/12/2016** Fair value	31/12/2015 Carrying amount	31/12/2015 Fair value
Assets					
Other financial receivables and assets	LaR[1]	3	3	5	5
Securities	LaR[1]	83	83	559	559
Securities	FVtPL[2]	189	189	183	183
Time deposits	LaR[1]	679	679	550	550
Cash and cash equivalents	LaR[1]	648	648	712	712
Equity and liabilities					
Financial liabilities	FLAC[3]	300	312	300	329
Trade payables	FLAC[3]	2	2	1	1
Other financial liabilities	FLAC[3]	17	17	17	17

1 LaR: Loans and receivables
2 FVtPL: Fair value through profit or loss
3 FLAC: Financial liabilities at cost

The allocation of fair value to the various levels is based on the availability of observable market data on an active market. Level 1 shows the fair values of financial instruments where a price is quoted on active markets for identical financial instruments. Level 2 presents the fair value of financial instruments for which market data are directly or indirectly observable. In particular, interest rate curves, index values and exchange rates are used as key parameters. The reported fair values of the financial liabilities are determined using these parameters by means of a discounted cash flow calculation. The fair value of financial instruments in level 3 is calculated using inputs that are not based on observable market data. The carrying amount of current financial assets and liabilities not at fair value through profit or loss provides a reasonable approximation of their fair value.

Financial instruments at fair value through profit or loss comprise non-derivative financial instruments designated as at fair value as well as derivative financial instruments for which hedge accounting is not applied.

The following overview contains the assets accounted for at fair value:

€ million	**31/12/2016**	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Securities	189	0	189	0

€ million	31/12/2015	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Securities	183	0	183	0

The carrying amounts of financial assets and liabilities are allocated to the measurement categories in accordance with IAS 39 as follows:

€ million	**31/12/2016**	31/12/2015
Financial instruments at fair value through profit/loss	189	183
thereof held for trading (HfT)	0	0
Loans and receivables (LaR)	1,413	1,826
Financial liabilities at cost (FLAC)	319	318

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

€ million	**2016**	2015
Financial instruments at fair value through profit or loss	2	−4
thereof held for trading (HfT)	1	−3
Loans and receivables (LaR)	1	2
Financial liabilities at cost (FLAC)	−21	−18

The net gains or losses from the category “Financial instruments at fair value through profit or loss” include income and expenses from derivative financial instruments allocable to the category “held for trading” as well as from the remeasurement of bonds and investment fund shares designated as at fair value.

The net gains or losses from the loans and receivables category include income from the cash investment.

The net gains or losses from financial liabilities at amortized cost essentially comprise interest expenses.

The table below contains the notional amounts of the derivative financial instruments both on the assets and the liabilities side:

€ million	Notional amount			Total notional amount
	Due within 1 year	Due in 1 to 5 years	Due in more than 5 years	
31/12/2016				
Interest rate hedge with a positive carrying amount	22	0	0	22
Stock price derivatives with positive carrying amount	8	0	0	8
Commodity futures contract with positive carrying amount	5	0	0	5
Interest rate hedge with a negative fair value	77	0	0	77
Stock price derivatives with negative carrying amount	19	0	0	19
Commodity futures contract with negative carrying amount	5	0	0	5
	136	**0**	**0**	**136**

€ million	Notional amount			Total notional amount
	Due within 1 year	Due in 1 to 5 years	Due in more than 5 years	
31/12/2015				
Interest rate hedge with a positive carrying amount	11	0	0	11
Stock price derivatives with positive carrying amount	2	0	0	2
Interest rate hedge with a negative fair value	14	0	0	14
Commodity futures contract	10	0	0	10
	37	**0**	**0**	**37**

[25] Contingent liabilities from legal disputes

For several years, Porsche SE has been involved in various legal proceedings. The risk assessment of Porsche SE regarding the actions pending as of 31 December 2016 is presented below. For all proceedings, provisions had previously been recognized exclusively for the expected attorneys' fees and litigation expenses but not for the underlying matters in dispute as the litigants' probability of success is below 50%. Due to the complexity of the underlying circumstances and legal issues, the financial effect regarding the amount in dispute is disclosed below. The development of all pending legal proceedings and legal risks in the fiscal year 2016 is presented in the group management report and management report of Porsche SE in the section "Significant events and developments at the Porsche SE Group".

Actions for damages concerning the expansion of the investment in Volkswagen AG
A model case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE 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 acquisition of the shareholding in Volkswagen AG. In part these claims are also based on alleged violations of antitrust regulations. The model case has been initiated by an order of reference of the Regional Court of Hanover dated 13 April 2016 that followed applications for establishment of a model case by the plaintiffs of four out of six proceedings pending before the Regional Court of Hanover. The Regional Court of Hanover has referred in total 83 of the establishment objectives asserted by the plaintiffs to the Higher Regional Court of Celle. On 11 May 2016 the Regional Court of Hanover suspended all six proceedings pending before it against Porsche SE up until a final decision about the establishment objectives in the model case before the Higher Regional Court of Celle. In one of the proceedings the plaintiffs filed an immediate appeal against the suspension decision. By decision dated 20 February 2017 the Higher Regional Court of Celle dismissed the appeal. Hence, all suspension decisions rendered are final. The suspended proceedings concern six legal actions of a total of 40 plaintiffs asserting alleged claims for damages of about €5.4 billion (plus interest). By decision dated 12 January 2017 the Higher Regional Court of Celle extended the KapMuG-order of reference by 14 additional establishment objectives. Furthermore, the Higher Regional Court of Celle scheduled several trial dates in the time period from September to November 2017. Porsche SE is of the opinion that the plaintiff's establishment objectives, as far as they are or become subject of the model case, are without merit and therefore are rejected.

Furthermore the following proceedings in connection with the alleged market manipulation are or were pending:

Based on the same alleged claims, that are already subject of a momentarily suspended action concerning alleged damages of €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover, the same plaintiffs filed an action against two members of the supervisory board of Porsche SE before the Regional Court of Frankfurt am Main in September 2013. Porsche SE joined the proceeding as intervener in support of the two supervisory board members. A trial date for hearing the case took place on 30 April 2015. By interim judgment dated 21 May 2015, the court assigned six of the seven plaintiffs to provide a security for costs for the legal procedures. Porsche SE considers these claims to be without merit.

On 7 June 2012, Porsche SE filed an action against two companies of an investment fund for declaratory judgment with the Regional Court of Stuttgart that alleged claims in the amount of around US$195 million do not exist. The investment fund had asserted out-of-court that Porsche SE had made false and misleading statements in connection with its acquisition of a stake in Volkswagen AG during 2008. Therefore the investment fund announced that it intended to file the alleged claim before a court in England. On 18 June 2012, the investment fund filed an action against Porsche SE with the Commercial Court in England. 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 begun at the Regional Court of Stuttgart concerning the question of which court is the court first seized. On 24 July 2013, the Regional Court of Stuttgart decided that the Regional Court of Stuttgart is the court first seized. This decision of the Regional Court of Stuttgart was appealed by way of an immediate appeal by one of the defendants. By decision dated 28 November 2013, the Regional Court of Stuttgart did not allow the appeal and submitted the appeal to the Higher Regional Court of Stuttgart for a decision. By decision dated 30 January 2015, the Higher Regional Court of Stuttgart dismissed the immediate appeal. The defendant has filed an appeal on points of law to the Federal Court of Justice. By decision dated 13 September 2016, served on 16 November 2016, the Federal Court of Justice annulled the Higher Regional Court of Stuttgart's decision of 30 January 2015 and referred the case back to the Higher Regional Court of Stuttgart for reconsideration. 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

In connection with the diesel issue (for a description see section “Significant accounting judgments and estimates”) the following claims have been asserted against Porsche SE:

Since April 2016 a total of 156 actions for damages have been served to Porsche SE by the Regional Court of Stuttgart. The actions concern damages in an amount totaling, if and to the extent the claims were quantified, about €899 million (plus interest) and in part establishment of liability for damages. Furthermore, in February 2017 one summary proceedings for a payment order in the amount of about €3.5 million (plus interest) was assigned to the Regional Court of Stuttgart. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information in connection with the diesel issue by Volkswagen AG. A part of the actions are directed against both Porsche SE and Volkswagen AG. Volkswagen AG filed in relation to one of these actions an application with the Higher Regional Court of Braunschweig to determine the Regional Court of Braunschweig as the competent court. A part of the plaintiffs in the proceedings pending before the Regional Court of Stuttgart filed applications for establishment of a model case according to the KapMuG. As a precautionary measure, in case the Regional Court of Stuttgart does not dismiss actions right away, Porsche SE has applied in a total of ten proceedings for the issuance of a KapMuG-based order of reference containing six further specified establishment objectives. The Regional Court of Stuttgart decided on 28 February 2017 with respect to the aforementioned KapMuG motions to refer to the Higher Regional Court of Stuttgart nine of the establishment objectives asserted by the plaintiffs and the aforementioned six establishment objectives asserted by Porsche SE as a precautionary measure. A part of the plaintiffs filed motions for suspension of the proceedings with reference to a KapMuG-based order of reference by the Regional Court of Braunschweig regarding proceedings for damages against Volkswagen AG in connection with the diesel issue. It is currently unclear whether the actions pending before the Regional Court of Stuttgart will be suspended with reference to the order of reference issued by the Regional Court of Braunschweig or with reference to the order of reference issued by the Regional Court of Stuttgart. In a proceeding concerning alleged claims for damages of €5.7 million (plus interest) and a simultaneously filed motion for establishment of a model case an oral hearing was held on 30 September 2016. In the other proceedings trial dates have not been scheduled yet. Porsche SE considers these claims to be without merit.

Since September 2016 five actions were filed against Porsche SE before the Regional Court of Braunschweig. The actions are directed against both Porsche SE and Volkswagen AG. The actions are based on alleged claims for damages because of nonfeasance of immediate publication of insider information. The actions aim for claims for damages against Porsche SE in the amount of about €165,000. The plaintiffs in two actions have applied for suspension of the proceeding with reference to the KapMuG-based order of reference issued by the Regional Court of Braunschweig. The plaintiffs in three actions consented to this motion for suspension. By decision dated 1 December 2016 the Regional Court of Braunschweig suspended one of the proceedings with respect to Volkswagen AG with reference to the order of reference issued by the Regional Court of Braunschweig. The Regional Court of Braunschweig will have to decide whether it considers itself competent for the proceedings with respect to Porsche SE and whether the proceedings with respect to Porsche SE will then have to be suspended with reference to the order of reference issued by the Regional Court of Braunschweig or the order of reference issued by the Regional Court of Stuttgart. Porsche SE considers these claims to be inadmissible and to be without merit.

In November 2015, a purchaser of a Volkswagen and an Audi 3.0 l TDI diesel vehicle filed a class action lawsuit in the U.S. District Court for the Eastern District of Michigan against, among others, Volkswagen AG and Porsche SE. The plaintiff, purporting to represent a nationwide class of U.S. purchasers, alleges that the defendants fraudulently induced customers to purchase Volkswagen, Audi and Porsche 2.0 l TDI and 3.0 l TDI diesel vehicles that contain illegal defeat devices intended to circumvent U.S. emissions standards and do not perform as advertised. Claiming that these vehicles have diminished in value, the plaintiff seeks unspecified damages on behalf of the class, including punitive damages and treble damages under U.S. law. In addition, the plaintiff seeks, inter alia, injunctive relief in the form of a vehicle buy-back program, recall, and/or reimbursement of the purchase. The action has been transferred to the U.S. District Court for the Northern District of California for consolidated pre-trial proceedings with other actions involving similar allegations. On 22 February 2016 other plaintiffs in the multi-district litigation filed three consolidated amended complaints on behalf of putative classes of owners and lessees (including the plaintiff in the Eastern District of Michigan action against Porsche SE), dealers and reseller dealerships. Porsche SE was not named as a defendant in any of those three complaints. The question whether any claims against Porsche SE have survived after the filing of the consolidated amended complaints has not been decided yet. On 28 June 2016, Volkswagen AG, AUDI AG, and Volkswagen Group of America, Inc. reached a class action settlement agreement with plaintiffs in the multi-district litigation to settle the claims of a settlement class of certain owners and lessees, including reseller dealerships, of Volkswagen and Audi 2.0 l TDI diesel engine vehicles in the United States. The U.S. District Court for the Northern District of California granted final approval of the class action settlement on 25 October 2016. As a result, members of the settlement class who did not opt out have released all claims against Volkswagen AG and its affiliates, including Porsche SE, relating to the emissions issue as it pertains to Volkswagen and Audi 2.0 l TDI diesel engine vehicles in the United States. Certain class members have appealed the final approval order, and the appeals are currently pending before the Ninth Circuit Court of Appeals. On 31 January 2017, Volkswagen AG, AUDI AG, Volkswagen Group of America, Inc., Dr. Ing. h.c. F. Porsche AG and Porsche Cars North America, Inc. reached an agreement with plaintiffs in the multi-district litigation to settle the claims of a putative class of certain current and former owners and lessees of Volkswagen, Audi and Porsche 3.0 l TDI V6 diesel engine vehicles in the United States. Under the terms of the 3.0 l agreement, which is subject to Court approval, members of the settlement class who do not opt out will release all claims against Volkswagen and its parents and affiliates, including Porsche SE, relating to the emissions issue as it pertains to Volkswagen, Audi and Porsche 3.0 l TDI V6 diesel engine vehicles in the United States. On 14 February 2017, the court granted preliminary approval of the proposed settlement with private plaintiffs and scheduled a fairness hearing for granting final approval for 11 May 2017. In all events, Porsche SE considers any remaining claims against it to be without merit.

10 court orders for payment have been obtained against Porsche SE concerning alleged claims for damages in connection with the diesel issue in an amount of about €3.7 million (plus interest). Porsche SE considers these claims to be without merit and has filed complaints against those court orders. One of the summary proceedings for a payment order in the amount of about €3.5 million (plus interest) was assigned to the Regional Court of Stuttgart in February 2017.

Since October 2015, 28 persons who have not yet filed a lawsuit have made out-of-court claims or initiated conciliatory proceedings against Porsche SE in connection with the diesel issue. In part, the alleged claims have not yet been quantified. As far as the alleged claims have been quantified by the plaintiffs, the damage claims amount to a total of around €395,000 (without interest). The plaintiffs demand damages caused by alleged inaccurate capital market information or the omission of such information by Porsche SE. Porsche SE considers the claims to be without merit and has rejected them.

[26] Subsequent events

The size and composition of the supervisory board of Porsche SE are determined according to the European SE provisions and a co-determination agreement entered into with representatives of the European Porsche employees in 2007 and last amended on 1 February 2017. This agreement defines the competencies of the employees as well as the relevant rulings in the articles of association. According to the agreement dated 1 February 2017, the supervisory board of Porsche Automobil Holding SE will in future comprise six shareholder representatives; the co-determination of the employee representative in the supervisory board of Porsche Automobil Holding SE has been suspended. Due to the change in the composition of the supervisory board, Porsche Automobil Holding SE initiated status proceedings pursuant to Sec. 97 AktG (German Stock Corporation Act) on 6 February 2017. The status proceedings end the terms of office of all serving members of the supervisory board of Porsche Automobil Holding SE pursuant to Sec. 97 (2) Sentence 3 AktG at the close of the 2017 annual general meeting. The 2017 annual general meeting must therefore elect new members of the supervisory board (six shareholder representatives).

With the exception of the developments presented in note [25] “Contingent liabilities from legal disputes”, there were otherwise no reportable events after the reporting date.

[27] Related parties

In accordance with IAS 24, persons or entities 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.

There were immaterial service transactions between the Porsche SE Group and the Porsche and Piëch families and their affiliates (prior year: no service transactions).

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 2016 and in the comparative period, this concerns members of the supervisory board and the executive board of Porsche SE as well as their close family members. As in the prior year, no transactions were conducted by entities of the Porsche SE Group with members of the supervisory board or executive board as key management personnel and their close family members or with any other entities having these persons on their executive or supervisory board and over which Porsche SE has no significant influence or does not exercise joint control.

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 significant influence over the Volkswagen Group and the INRIX Group.

All relationships to the respective parent companies and subsidiaries of both of these groups are presented. Supplies and services rendered include dividends received from Volkswagen AG totaling €17 million (prior year: €719 million). Direct obligations resulting from the contribution of the holding business operations of Porsche SE to Volkswagen AG in the fiscal year 2012 (hereinafter also: “contribution of business operations” or “contribution”) are reported within liabilities at an amount of €12 million (prior year: €12 million).

In addition, financial and other guarantees with a nominal volume of €250 million (prior year: €1,310 million) plus interest were issued to entities of the Volkswagen Group. The probability of claims being made based on the guarantees is considered very low and Volkswagen AG has signed a hold harmless agreement for 100%.

Porsche SE and the Volkswagen Group also have a relationship in the financial services sector. This led to financial revenue of €2 million (prior year: €5 million), which was counterbalanced by finance costs and other expenses of €22 million (prior year: €21 million). In connection with this relationship, receivables came to €109 million in the prior year and liabilities to €303 million (prior year: €303 million).

In addition, services were transacted in the fiscal year 2016 that led to the recognition of services rendered totaling €1 million (prior year: €0 million) and goods and services received totaling €3 million (prior year: €6 million). In connection with this relationship, liabilities came to €1 million (prior year: €0 million). The goods and services received resulting from these relationships resulted in receivables of €1 million in the fiscal year 2016 (prior year: €0 million).

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 of the holding business operations of Porsche SE to Volkswagen AG and the basic agreement prior to that as well as the associated agreements implementing it, which continued to be valid:

- Volkswagen AG holds Porsche SE harmless from certain financial guarantees issued by Porsche SE to creditors of entities in the Porsche Holding Stuttgart GmbH Group (reference is made to note [24]). The hold harmless agreement also extends to financial guarantees given by Porsche SE to the bond creditors of Porsche Holding Finance plc, Dublin, Ireland, with respect to the interest payment and redemption of bonds with a total volume of €250 million. Under the contribution of the holding business operations of Porsche SE to Volkswagen AG, Volkswagen AG undertook to assume a liability compensation as is customary in the market for guarantees issued vis-à-vis external creditors, while holding Porsche SE harmless for internal purposes.
- 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. 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 “Significant accounting judgments and estimates”).
- Porsche SE granted Volkswagen AG various guarantees relating to Porsche Holding Stuttgart GmbH, Porsche AG and its other investments transferred. These concern amongst other things the proper issue and complete payment of shares and/or contributions and/or the ownership of the shares in Porsche Holding Stuttgart GmbH and Porsche AG.
- Under the contribution of its holding business operations, Porsche SE also granted Volkswagen AG guarantees for other assets and liabilities transferred. Under these guarantees, Porsche SE assures that these are not pledged and are unencumbered by third-party rights prior up to the execution date of the contribution.
- As part of the contribution agreement, Porsche SE’s liability for these guarantees is limited to the consideration from Volkswagen AG.
- Porsche SE under certain circumstances holds its subsidiaries transferred under the contribution agreement, Porsche Holding Stuttgart GmbH and Porsche AG, 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.
- Porsche SE holds Porsche Holding Stuttgart GmbH and Porsche AG harmless from obligations resulting from certain litigation, including the cost of appropriate legal counsel.

- In addition, Porsche SE holds Volkswagen AG harmless from half of the amount of the tax (with the exception of income tax) of Porsche Holding Stuttgart GmbH, Porsche AG and their subsidiaries 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.
- 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 a measure taken or omitted 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.
- Volkswagen AG has agreed to hold Porsche SE harmless for internal purposes from any claims of the deposit guarantee fund agency after Porsche SE issued a hold harmless declaration to the deposit guarantee fund agency as required by the Association of German Banks in August 2009. In addition, Volkswagen AG has undertaken to hold the deposit guarantee fund agency harmless from any losses incurred as a result of its measures in favor of a bank in which it holds the majority.

The table below shows the supplies and services rendered and received between the Porsche SE Group and its related parties as well as existing receivables and liabilities.

€ million	Supplies and services rendered		Supplies and services received	
	2016	2015	**2016**	2015
Associates	20	724	25	27
	20	**724**	**25**	**27**

€ million	Receivables		Liabilities	
	31/12/2016	31/12/2015	**31/12/2016**	31/12/2015
Associates	1	109	316	315
	1	**109**	**316**	**315**

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

€ million	**2016**	2015
Short-term employee benefits	3.7	4.2
Other long-term benefits	0.9	0.8
Post-employment benefits	0.7	0.5
Termination benefits	0.0	1.5

Members of the executive board who also served as members of the Volkswagen AG board of management or who serve as members of the Volkswagen AG supervisory board are also reimbursed for any flight costs for flights between their place of residence and primary workplace; taxation of remuneration in kind is borne by Porsche SE as part of flat-rate taxation. In addition, an agreement was reached with Mr. Pötsch that Porsche SE would make available by means of a loan any personally payable income tax payments incurred until the final tax assessment of the payment of flight costs, if necessary. In the reporting period, Porsche SE granted him a loan of €499 thousand in this regard at the beginning of January; this was repaid in full at the beginning of March with a payment of €502 thousand taking into account accrued interest.

Other long-term benefits concern the addition to provisions for the long-term component of the variable incentive of the members of the executive board of Porsche SE. The expenses for post-employment benefits contain the addition to the pension provisions.

As of the end of the fiscal year, the outstanding balances for remuneration of members of Porsche SE's executive board and supervisory board amounted to €8.1 million (prior year: €4.8 million).

[28] Remuneration of the supervisory board and the executive board

The total remuneration of members of Porsche SE's executive board amounted to €4.8 million in fiscal year 2016 (prior year: €2.8 million). Benefits of €1.5 million were paid to former members of Porsche SE's executive board in the fiscal year 2015.

The total remuneration of the supervisory board for the fiscal year 2016 amounts to €1.1 million (prior year: €1.4 million).

Individual information on the remuneration of the executive board 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 for the group and for Porsche SE.

[29] Auditor's fees

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

€ thousand	**2016**	2015
Audit of financial statements	291	335
Other assurance services	44	43
Tax advisory services	557	732
Other services	23	68
	915	**1,178**

The item for the audit of financial statements contains the entire fee for the audit of the separate financial statements of Porsche SE and a subsidiary as well as for the audit of the consolidated financial statements.

[30] Declaration on the German Corporate Governance Code

The executive board and supervisory board of Porsche SE issued the declaration required by Sec. 161 AktG in May 2016 and made it permanently accessible to the shareholders of Porsche SE on the website www.porsche-se.com.

Stuttgart, 6 March 2017

Porsche Automobil Holding SE
The executive board

Hans Dieter Pötsch Dr. Manfred Döss Matthias Müller Philipp von Hagen

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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, 6 March 2017

Porsche Automobil Holding SE
The executive board

Hans Dieter Pötsch   Dr. Manfred Döss   Matthias Müller   Philipp von Hagen

Auditors’ report of the group auditor

We have audited the consolidated financial statements prepared by Porsche Automobil Holding SE, Stuttgart, comprising the income statement, the statement of comprehensive income, the balance sheet, the statement of cash flows, the statement of changes in equity as well as the notes to the financial statements, together with the combined management report for the fiscal year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [“Handelsgesetzbuch”: German Commercial Code] is the responsibility of the company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the group’s position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, in the following we make reference to a special matter that came to our attention during the audit:

As explained by the executive board in the sections “Significant events and developments at the Porsche SE Group”, “Significant events and developments at the Volkswagen Group” and “Opportunities and risks of future development” in the combined management report, Porsche

Automobil Holding SE, Stuttgart, as the majority shareholder of Volkswagen AG, Wolfsburg, continued to be influenced in the fiscal year 2016 mainly through the proportionate profit/loss from investments accounted for at equity by negative special items in connection with the diesel issue that became known at Volkswagen AG in September 2015 and the development of the proportional market capitalization of the preference and ordinary shares.

Negative special items totaling € 6.4 billion recognized in operating profit in Volkswagen AG's consolidated financial statements in the fiscal year 2016 primarily due to legal risks in connection with the diesel issue are based on the information presented. The provisions recognized and the contingent liabilities disclosed at the level of the Volkswagen Group for this matter as well as the other latent legal risks are in some cases subject to substantial estimation risks given the complexity of the individual factors, the ongoing consultations with the authorities and the fact that the independent, comprehensive investigations have not yet been completed.

With regard to the investment in Volkswagen AG, the executive board of Porsche Automobil Holding SE currently sees an increased risk that the diesel issue will continue to have a negative impact on the proportionate profit/loss attributable to it and the uncertainties associated therewith. Such uncertainties relate to the appropriateness of the provisions recognized in the consolidated financial statements of Volkswagen AG or the effects of the diesel issue on the operating business and/or the financing costs of the Volkswagen Group which exceed the extent assumed in the planning. As the impairment test of the investment in Volkswagen AG is based on the current planning of the Volkswagen Group, unexpected additional burdens could also result in an impairment loss for the investment in Volkswagen AG.

Legal risks from claims brought against Porsche Automobil Holding SE in connection with the diesel issue may also have an effect on Porsche Automobil Holding SE's results of operations, financial position and net assets.

Stuttgart, 6 March 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Wollmert	Matischiok
Wirtschaftsprüfer	Wirtschaftsprüfer
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In case of doubt the German version is binding.

Financial calendar

21 March 2017
Annual press and analyst conference

15 May 2017
Group quarterly statement 1st Quarter 2017

30 May 2017
Annual general meeting

31 July 2017
Half-yearly financial report 2017

7 November 2017
Group quarterly statement 3rd Quarter 2017

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