PORSCHE SE

Annual Report 2018

Key figures

Porsche SE Group		2018 IFRS	2017 IFRS	2016 IFRS
Total assets	€ million	33,691	31,576[1]	28,365
Equity	€ million	33,399	31,292[1]	27,894
Investments accounted for at equity	€ million	32,501	30,235[1]	26,760
Result from investments accounted for at equity	€ million	3,624	3,357[1]	1,449
Revenue	€ million	103	34	1
Personnel expenses	€ million	77	31	12
Financial result	€ million	–3	–8	–20
Result before tax	€ million	3,497	3,299[1]	1,382
Result for the year	€ million	3,473	3,278[1]	1,374
Earnings per ordinary share[2]	€	11.34	10.70[1]	4.48
Earnings per preference share[2]	€	11.34	10.71[1]	4.49
Net liquidity	€ million	864	937	1,299
Employees on 31 December		935	823	30

Porsche SE		2018 HGB	2017 HGB	2016 HGB
Net profit/loss	€ million	480	235	–70
Net profit available for distribution	€ million	676	538	308
Dividend per ordinary share	€	2.204[3]	1.754	1.004
Dividend per preference share	€	2.210[3]	1.760	1.010

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9 and IFRS 15
[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: 52.42 %
(Represents a stake of subscribed capital: 30.87 %)

VOLKSWAGEN
AKTIENGESELLSCHAFT

Volkswagen | Audi | SEAT | ŠKODA

BENTLEY | BUGATTI | LAMBORGHINI | PORSCHE

DUCATI | Commercial Vehicles | SCANIA | MAN

VOLKSWAGEN FINANCIAL SERVICES
AKTIENGESELLSCHAFT

Further Investments

PTV GROUP

Minority stakes

INRIX | Markforged | SEURAT TECHNOLOGIES

Status 31 December 2018

2018

Porsche 911 Carrera S / Porsche 911 Carrera 4S

2018

"We are convinced that the Volkswagen Group has a vast potential for increasing value added. This is why we have decided to further increase our stake in Volkswagen AG."

Hans Dieter Pötsch

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1 To our shareholders


PORSCHE
S VM 911

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Letter to our shareholders

Dear shareholders,

Porsche Automobil Holding SE considers itself as a long-term oriented anchor shareholder of Volkswagen AG. In the past fiscal year, our company benefited from the positive development of the Volkswagen Group once again. Porsche SE's result for the year increased to 3.5 billion euro, a 6 percent hike compared to the prior-year result of 3.3 billion euro. The result is significantly influenced by the result from the investment accounted for at equity in Volkswagen AG. This amounts to 3.6 billion euro, compared to 3.4 billion euro in the prior year. Porsche SE's net liquidity decreased by 73 million euro to 864 million euro as of 31 December 2018.

We are convinced that the Volkswagen Group has vast potential for increasing value added. This is why we have decided to further increase our stake in Volkswagen AG. Again, it is a clear demonstration of Porsche SE's strong commitment to Volkswagen.

In addition to acquiring further ordinary shares in Volkswagen, we will continue to pursue our current investment strategy with regard to the automotive value chain. This means that we are on the lookout for suitable investment opportunities while at the same time developing our existing investments further. For instance, we are supporting PTV AG in its journey from software provider to a provider of platform-based solutions. We see great potential in this area. Porsche SE is thus investing in mobility management of the future, which is also becoming increasingly relevant for an automotive manufacturer like the Volkswagen Group.

On the legal side, a model case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE in connection with expanding the investment in Volkswagen AG is still pending at the Higher Regional Court of Celle. The initial proceedings concern 40 plaintiffs asserting alleged claims for damages of around 5.4 billion euro. Porsche SE sees its opinion that the lawsuits are without legal basis confirmed by the way the hearing has proceeded thus far.

Porsche SE is also facing investor lawsuits in connection with the diesel issue. A total of 197 proceedings are pending before the Regional Court of Stuttgart and several other proceedings before the Regional Court of Braunschweig. Claims are being made for damages

Hans Dieter Pötsch
Chairman of the
executive board

totaling around 965 million euro. Porsche SE is also a model defendant in a model case at the Higher Regional Court of Braunschweig in connection with the diesel issue. For two lawsuits in which damages of approximately 164 million euro have been claimed, the Regional Court of Stuttgart delivered judgments in October 2018 despite motions for suspension of the proceedings having been filed, and granted these actions in the amount of approximately 47 million euro. Porsche SE has appealed this decision and considers these claims to be without merit.

As for the general business development, we are optimistic: Based on our current group structure, we expect a group profit for the year of between 3.4 billion euro and 4.4 billion euro for the current fiscal year. This forecast is based in particular on the Volkswagen Group's expectations regarding its future operating development, supplemented by the expectations of Porsche SE's executive board, as well as the uncertainty that continues to surround possible special effects in connection with the diesel issue. Furthermore, we aim to achieve positive net liquidity. This is expected to be between 0.3 billion euro and 0.8 billion euro as of 31 December 2019, not taking future investments into account.

Porsche SE's dividend policy remains geared to sustainability. We therefore propose a dividend of 2.21 euro per preference share for the fiscal year 2018. Holders of ordinary shares are to receive 2.204 euro per share. This results in an amount to be distributed of around 676 million euro.

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.

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., Atlanta
- o Porsche Ibérica S.A., Madrid
- o Porsche Italia S.p.A., Padua
- o Schmittenhöhebahn Aktiengesellschaft, Zell am See

Dr. Hans Michel Piëch
Attorney at law
Deputy chairman

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., Atlanta
- o Porsche Ibérica S.A., Madrid
- o Porsche Italia S.p.A., Padua
- o Volksoper Wien GmbH, Vienna
- o Schmittenhöhebahn Aktiengesellschaft, Zell am See

* formerly Volkswagen Truck & Bus GmbH and Volkswagen Truck & Bus AG, respectively; now TRATON SE

As of 31 December 2018 or as of the date of departure from the supervisory board of Porsche Automobil Holding SE.

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

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

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

Mag. Marianne Heiß (since 15 May 2018)
Chief Financial Officer
of BBDO Group Germany GmbH

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

Dr. Ferdinand Oliver Porsche
Investment management

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

Dr. Günther Horvath (since 13 March 2018)
Attorney at law

Mag. Josef Michael Ahorner (since 4 July 2018)
Entrepreneur

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

Peter Daniell Porsche (since 4 July 2018)
Entrepreneur

Appointments:
- o Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg
- o ŠKODA Auto a.s., Mladá Boleslav
- o Porsche Holding Gesellschaft m.b.H., Salzburg
- o Volkswagen Belegschaftsstiftung, Wolfsburg (deputy chairman)
- o Ernst-Michael-Kranich-Stiftung, Flensburg
- o Emil-Molt-Stiftung, Mannheim

Dr. Stefan Piëch (since 4 July 2018)
Entrepreneur

Appointments:
- o SOS-Kinderdörfer weltweit, Hermann-Gmeiner-Fonds Deutschland e.V., Munich
- o SEAT S.A., Barcelona
- o Volkswagen Belegschaftsstiftung, Wolfsburg

Hans-Peter Porsche (until 15 May 2018)
Engineer

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

As of 31 December 2018 or as of the date of departure from the supervisory board of Porsche Automobil Holding SE.

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

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

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

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

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

Members of the 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
- ● TRATON AG, Munich (chairman)*
- ● Autostadt GmbH, Wolfsburg
- ● Wolfsburg AG, Wolfsburg
- ● 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 VfL Wolfsburg-Fußball GmbH, Wolfsburg (deputy chairman)

Dr. Manfred Döss

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

Appointments:
- ● TRATON AG, Munich*

* formerly Volkswagen Truck & Bus GmbH and Volkswagen Truck & Bus AG, respectively; now TRATON SE

As of 31 December 2018 or as of the date of departure from the executive board of Porsche Automobil Holding SE.

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

Philipp von Hagen

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

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

Matthias Müller (until 30 April 2018)

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
- ● TRATON AG, Munich (chairman)*
- o ŠKODA Auto a.s., Mladá Boleslav
- o Volkswagen (China) Investment Company Ltd., Beijing (chairman)

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

Hans Dieter Pötsch
Chairman of the executive board
Finance

Philipp von Hagen
Member of the executive board
Investment management

Report of the supervisory board

Ladies and gentleman,

Porsche SE is a pure investment management holding company with investments along the automotive value chain. As a core investment, it holds the majority of the ordinary shares in Volkswagen AG and sees itself as a long-term anchor investor in Volkswagen AG that acts strategically. We remain convinced that the Volkswagen Group has vast potential for increasing value added. Porsche SE has acquired further ordinary shares in Volkswagen AG. This step is another demonstration of Porsche SE's clear commitment to Volkswagen. In terms of operations, the core investment developed positively in the fiscal year 2018 and, with around 10.8 million vehicles delivered, set a new sales record. In parallel, the board of management of Volkswagen AG pushed ahead with the strategic realignment of the company. Just like the executive board, the supervisory board of Porsche SE stands unequivocally behind the strategy of the Volkswagen Group.

Our new subsidiary PTV Planung Transport Verkehr AG (PTV) also enhanced its technology and product portfolio in the fiscal year 2018. PTV mainly focuses on software for modeling, planning and controlling traffic flows as well as for fleet and route optimization. The company operates worldwide. PTV occupies key functions with its products in the area of networked mobility and plays a leading role here. As a long-term investor, we support PTV in its development from a pure software provider to a provider offering platform-based solutions. We see great potential in this area. Porsche SE is therefore investing in mobility management of the future.

Furthermore, Porsche SE holds non-controlling interests in the US technology company INRIX Inc. (INRIX) as well as in three technology start-ups via its investment companies.

Throughout the whole fiscal year, the supervisory board was occupied with the economic situation and the results of operations, financial position and net assets of the Porsche SE Group and its affiliated companies pursuant to Sec. 15 German Stock Corporation Act (AktG). It also carried out the advisory and control functions for which it is responsible.

Dr. Wolfgang Porsche
Chairman of the supervisory board

During the past fiscal year, the supervisory board held four ordinary meetings. In addition to this, individual resolutions were passed as circular resolutions.

Pursuant to the version of the articles of association valid since 4 July 2018 and in accordance with the resolution of the annual general meeting on 15 May 2018, the supervisory board consists of ten members to be appointed by the annual general meeting (shareholder representatives). The supervisory board currently has nine members elected by the annual general meeting.

A status proceeding regarding the composition of the supervisory board is currently pending before the Regional Court of Stuttgart.

Cooperation between the supervisory board and the executive board

Within the framework of its control and advisory responsibilities, the supervisory board was kept informed in depth about company performance during the fiscal year by means of written reports from the executive board as well as verbally in meetings. Reporting focused in particular on the economic position of Porsche SE and its investments (in particular the investment in Volkswagen AG), business results, business policy, the development of the results of operations, financial position and net assets, the risk situation and development, the status of the various legal disputes as well as the further integration of PTV AG. The supervisory board gave its approval for individual transactions as required.

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 made available to it in appropriate detail and inquired about them in a critical manner. The supervisory board monitored the executive board to ensure that business is conducted in a proper manner. Monitoring also encompassed appropriate measures for risk avoidance 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) AktG in an appropriate form and that the risk early warning system the act requires is functioning effectively.

In addition, the chairman of the supervisory board and the chairman of the audit committee were in regular contact with the executive board to exchange ideas and information, thus ensuring that they were informed directly about significant events and developments of significance for the company.

Main focus of supervisory and advisory activity of the supervisory board in the fiscal year 2018

At the first ordinary meeting for the fiscal year on 9 March 2018, the supervisory board focused in particular on the separate and consolidated financial statements as well as the combined management report for the fiscal year 2017. The acquisition of PTV AG as well as the effects of the diesel issue on the result of the Porsche SE Group as well as the impairment tests performed for the Volkswagen investment and the investments in PTV and INRIX as of 31 December 2017 were outlined and discussed in detail. The executive board also informed the supervisory board on the status of the legal proceedings pending. In addition, the supervisory board acknowledged the business plan of the Porsche SE Group for the fiscal years 2018 to 2020. At this meeting, the supervisory board made decisions about the supervisory board's proposals for resolutions to be made at Porsche SE's annual general meeting on appropriation of the net profit available for distribution, the exoneration of the members of the executive board and supervisory board for the fiscal year 2017 and the election of the auditor. Furthermore, the supervisory board made a decision about the supervisory board's proposals for resolutions to be made at the annual general meeting regarding the amendment of provisions in the articles of association for the composition of the supervisory board and regulations on remuneration for the members of the supervisory board and the election of new members of the supervisory board. The supervisory board approved the application for the court appointment of Dr. Günther Horvath to the supervisory board and passed a resolution to update the declaration of compliance in accordance with the German Corporate Governance Code. Finally, the supervisory board examined the voting behavior of the company at the annual general meeting of Volkswagen AG on 3 May 2018.

Subsequent to Mr. Matthias Müller leaving Volkswagen AG's executive board, Porsche SE's supervisory board dealt with Mr. Matthias Müller leaving Porsche SE's executive board. These resolutions and the resolution to update the declaration on the German Corporate Governance Code were passed as circular resolutions at the end of April 2018.

At its second ordinary meeting on 14 May 2018, the supervisory board focused on the company's annual general meeting the following day. The supervisory board discussed and resolved a change to the proposals for resolutions to the annual general meeting on the election of new members of the supervisory board. Furthermore, the supervisory board discussed the business situation and development of the Volkswagen Group as well as the status of the pending claims for damages in Germany as well as rescission proceedings and compulsory information procedures. The update of the declaration of compliance in accordance with the German Corporate Governance Code was discussed and subsequently passed as a circular resolution.

At its third ordinary meeting on 8 October 2018, the supervisory board focused in particular on the company's business situation and the status of the company's legal proceedings and court cases as well as the targets for the composition of the supervisory board. In light of the enlargement of the supervisory board to ten members, the supervisory board passed a resolution to adjust the targets for the composition of the supervisory board as defined by Sec. 5.4.1 (2) of the German Corporate Governance Code and to increase the number of independent members considered to be appropriate by the supervisory board to two.

At the fourth ordinary meeting of the supervisory board, which convened on 30 November 2018, the supervisory board acknowledged the business plan prepared by the executive board for the Porsche SE Group for the fiscal years 2019 to 2021 and discussed the status of the legal proceedings as well as the company's business situation.

Efficient work of the supervisory board committees

The supervisory board had a total of three committees (executive committee, audit committee and nominations committee) to carry out its duties in the fiscal year 2018.

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

Executive committee

The executive committee decides in urgent cases on business matters requiring the approval of the supervisory board. It also functions as a personnel committee and makes recommendations to the supervisory board on concluding, amending and terminating contracts of employment for members of the executive board. 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, if agreed as such 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 an additional member of the supervisory board. In addition to the chairman of the supervisory board Dr. Wolfgang Porsche as well as his deputy, Dr. Hans Michel Piëch, Dr. Ferdinand Oliver Porsche is also a member of the executive committee.

The executive committee met four times in the fiscal year 2018, 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 about the work of the executive committee.

Audit committee
The audit committee supports the supervisory board in monitoring management of the company and pays particular attention to monitoring accounting and the related processes, the risk management system including the effectiveness of the internal control system and internal audit. Another topic is the audit of the financial statements. In this regard, the audit committee submits to the supervisory board a justified recommendation for the appointment of the auditor, which comprises at least two candidates if the audit engagement is put out to tender. Furthermore, the audit committee looks at the independence of the auditor, the engagement of the auditor, the determination of key audit topics, the key audit matters, the fee agreement and the additional permitted non-audit services rendered by audit firms as well as compliance.

The audit committee consists of three members: Prof. Dr. Ulrich Lehner (chairman) as well as Dr. Hans Michel Piëch and Dr. Ferdinand Oliver Porsche. The audit committee met four times in the fiscal year 2018 and regularly reported to the full supervisory board on its work. The chairman of the supervisory board, Dr. Wolfgang Porsche, attended two of these meetings as a guest.

At its meeting on 7 March 2018, the audit committee focused on the separate and consolidated financial statements for the fiscal year 2017, the combined management report and the executive board's proposal for profit appropriation. The audit committee also examined the impairment tests performed for the Volkswagen investment and the investments in PTV and INRIX as of 31 December 2017. In addition, the audit committee looked at the current risk report, including the internal control system (ICS) as a part of the risk management system. Other items that were handled included the status of internal audit, the status of awarding non-audit services by audit firms and the recommendation for the election of the auditor for the fiscal year 2018.

At the following meeting on 7 May 2018, the audit committee primarily dealt with the group quarterly statement for the first quarter of 2018 and the current risk report. In addition, the audit committee heard reports on the status of legal proceedings and court cases as well as on the investments in PTV and INRIX and approved non-audit services by audit firms. The timing and implementation plan of the upcoming auditor rotation was also a topic discussed by the audit committee.

The meeting on 9 August 2018 centered on the half-yearly financial report for 2018 and the current risk report. The audit committee also obtained information about non-audit services by audit firms and the status of legal proceedings and court cases. It also looked at the content and timing of the procedure for tender. Furthermore, the audit committee decided on the key audit topics for internal audit as well as for the audit of the financial statements for the fiscal year 2018 including the auditor's fees.

At its final meeting of the fiscal year 2018 on 19 November 2018, the audit committee addressed topics such as the group quarterly statement for the third quarter of 2018 and the current risk report. The audit committee also examined the new risk reporting format at the Porsche SE Group. In addition, the audit committee looked at the preselection made during the audit tender for the fiscal year 2020 as well as the status of non-audit services and legal proceedings and court cases.

Nominations committee
The nominations committee met twice in the fiscal year 2018. At its first meeting on 9 March 2018, the duly authorized nominations committee provided the supervisory board with recommendations for proposals concerning the election of supervisory board members to the annual general meeting. At its second meeting on 14 May 2018, the nominations committee amended the proposals concerning the election of supervisory board members made on 9 March 2018.

The nominations committee has three members: the chairman of the supervisory board, Dr. Wolfgang Porsche, as well as Dr. Hans Michel Piëch and Dr. Ferdinand Oliver Porsche.

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 2018 and made it permanently accessible to shareholders on the company's website at www.porsche-se.com/en/company/corporate-governance/. Furthermore, the executive board and supervisory board updated the declaration of compliance in March and May 2018. 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, conflicts of interest can arise for these members of the supervisory board in individual cases.

To the extent that concrete conflicts of interest existed or were feared, the particular conflict of interest was reported to the supervisory board. In the past fiscal year, this related to the resolutions of the company at the annual general meeting of Volkswagen AG regarding the individual exoneration of members of the supervisory board for the fiscal year 2017 and election to the supervisory board. If supervisory board members are also on the supervisory board of

Volkswagen AG, they abstained from voting in the resolutions on voting behavior in the annual general meeting of Volkswagen AG regarding their own exoneration or election to the supervisory board.

Audit of the separate financial statements and consolidated financial statements for the fiscal year 2018

The separate financial statements and the consolidated financial statements authorized for issue by the executive board of Porsche SE for the fiscal year 2018 as well as the combined management report were examined by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The auditor raised no objections concerning the regularity of these financial statements and in keeping with these issued unqualified auditor’s reports.

The result after tax of the Porsche SE Group came to €3,473 million in the fiscal year 2018. The separate financial statements of Porsche SE showed a net profit of €480 million and a net profit available for distribution of €676 million. The net liquidity of the Porsche SE Group amounted to €864 million as of the reporting date of 31 December 2018.

In addition to the key audit matters determined by the auditor – “Assessment of the legal risks and their presentation in the separate and consolidated financial statements“, “Measurement of the investment in Volkswagen AG (including effects of the diesel issue) in the separate and consolidated financial statements” – the supervisory board set the “Audit of the presentation of legal risks in the combined management report”, “Audit of the presentation of the effects of the diesel issue in the combined management report” and “Impairment testing of the goodwill resulting from the acquisition of PTV” as further key topics of the audit of the financial statements in consultation with the audit committee.

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. 315e (1) German Commercial Code (HGB), and that the separate financial statements comply with the legal requirements in all material respects. In the context of the applicable requirements and principles, the separate 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 in all material respects with the separate financial statements or consolidated financial statements, complies with German legal requirements, 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 monitoring system 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 auditor's report 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 its meeting on 7 March 2019, 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 key audit matters as well as the additional key topics defined by the supervisory board. In doing so, the audit committee examined the appropriateness of accounting and whether in preparing the separate financial statements, 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. The auditors responsible for the audit 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. In particular, the auditors responsible for the audit explained the net assets, financial position and results of operations of Porsche SE and were available to the committee to provide additional information. In addition, at its meeting on 7 March 2019 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 Sec. 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 27 June 2019 for election as auditor for the fiscal year 2019.

At its meeting on 8 March 2019, 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 in the audit committee on the discussion of the separate financial statements, the consolidated financial statements and the combined management report. The supervisory board's review related in particular to the key audit matters as well as the additional key topics defined by the supervisory board. The auditors responsible for the audit 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 auditors responsible for the audit explained the net assets, financial position and results of operations of Porsche SE and the group and were available to the supervisory board to provide additional information.

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 2018. The separate financial statements were thus confirmed. 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 2018. The auditors have audited the dependent company report and have rendered the following auditor's report:

"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 7 March 2019 and the supervisory board on 8 March 2019, and in particular checked for their accuracy and completeness. The auditors responsible for the audit 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

Mr. Matthias Müller resigned from his position on the executive board in agreement with Porsche SE's supervisory board effective 30 April 2018. There were no other personnel changes within the company's executive board in the fiscal year 2018.

By resolution of the Local Court of Stuttgart dated 13 March 2018, Dr. Günther Horvath was appointed member of the supervisory board by court appointment effective as of 20 March 2018 as the successor of Hon.-Prof. Dr. Ferdinand K. Piëch, who resigned from his position on the supervisory board effective as of the end of 8 December 2017. Pursuant to Sec. 104 (6) AktG, the court appointment applied until a new member of the supervisory board was elected by the annual general meeting. Mr. Hans-Peter Porsche resigned his position on the supervisory board effective as of the end of the annual general meeting on 15 May 2018.

On 15 May 2018, the annual general meeting of Porsche SE passed a resolution to increase the number of members appointed to the supervisory board by the annual general meeting from six to ten and to adjust the articles of association accordingly. The corresponding change to the articles of association was entered in the commercial register on 4 July 2018. Pursuant to the version of the articles of association valid since 4 July 2018, the supervisory board has ten members (shareholder representatives) to be appointed by the annual general meeting.

On 15 May 2018, the annual general meeting of Porsche SE elected Dr. Günther Horvath and Mag. Marianne Heiß to members of the supervisory board effective as of the end of the annual general meeting. The annual general meeting on 15 May 2018 also elected Mag. Josef Michael Ahorner, Dr. Stefan Piëch and Mr. Peter Daniell Porsche to members of the supervisory board effective upon entry of the change to the articles of association in the commercial register.

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. We would also like to expressly thank Mr. Hans-Peter Porsche, who left the supervisory board in the fiscal year 2018, and Mr. Matthias Müller, who left the executive board, for their many years of service to the company.

Stuttgart, 8 March 2019

Supervisory board
Dr. Wolfgang Porsche
Chairman

Corporate governance report

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

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

Corporate statutes of Porsche Automobil Holding SE
The main basis for the corporate statutes of Porsche SE is formed by the European SE provisions, the German SE Implementation Act (SEAG), the Act on the participation of employees in a European Company (SEBG), the German Stock Corporation Act (AktG) as well as the provisions of the articles of association. 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 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 strategic orientation and management of the company as well as compliance with and monitoring of an efficient risk management system. The activities of the executive board are 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 strategic orientation 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 after it obtained the 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 in two governing bodies (for example, 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 of Porsche SE who is also a member of the Volkswagen AG supervisory board does not, in principle, participate in any resolutions concerning issues relating to Volkswagen AG where there is a conflict of interest.

Sec. 111 (5) AktG requires that the supervisory board of companies that are listed or subject to co-determination specifies a target figure for the percentage of women on the executive board and sets a deadline for meeting this target. In May 2017, the supervisory board raised the target figure for the percentage of women on the executive board from 0% to 25%, setting an implementation deadline of 30 June 2022.

Monitoring of management by the supervisory board

The supervisory board appoints the members of the executive board and advises and monitors the executive board on 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. The members of the supervisory board are not bound by orders from the shareholders and serve solely in the interest of the company.

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.

Due to the influence of individual members of the supervisory board of Porsche SE on 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 individual Volkswagen subsidiaries conflicts of interest can arise for these members of the supervisory board in individual cases. Any conflicts of interest are dealt with appropriately; wherever there is a conflict of interest in individual cases, the respective members do not participate in the vote on the respective subject matter or abstain from the vote.

1

Composition of the supervisory board
The size and composition of the supervisory board are determined according to the European SE provisions, a co-determination agreement entered into with representatives of the European Porsche employees in 2007, amended by agreement dated 1 February 2017 that defines the competencies of the employees, and the provisions of the articles of association.

The supervisory board comprises exclusively members appointed by the general meeting (shareholder representatives). Since the amendment to the articles of association resolved by the 2018 annual general meeting came into effect on 4 July 2018, it comprises ten shareholder representatives according to the articles of association; it had previously comprised six shareholder representatives. The supervisory board currently comprises nine members, who are listed on our website at

https://www.porsche-se.com/en/company/supervisory-board/

Hon.-Prof. Dr. Ferdinand K. Piëch stepped down from his position on the supervisory board effective end of 8 December 2017. Dr. Günther Horvath was appointed by court order as new member of the supervisory board as of 20 March 2018. Dr. Günther Horvath was subsequently reappointed to the supervisory board in the annual general meeting on 15 May 2018. Mag. Marianne Heiß was also appointed member of the supervisory board. Mr. Hans-Peter Porsche stepped down from his position on the supervisory board effective as of the end of the annual general meeting on 15 May 2018. The 2018 annual general meeting appointed new members Mag. Josef Michael Ahorner, Dr. Stefan Piëch und Mr. Peter Daniell Porsche to the supervisory board, which had been enlarged to ten members.

Sec. 111 (5) Sentence 1 and 5 AktG requires that the supervisory board of companies that are listed or subject to co-determination specifies a target figure for the percentage of women on the supervisory board if no statutory quota applies. Pursuant to Sec. 17 (2) Sentence 1 SEAGa statutory quota for companies organized as an SE only applies for a listed SE whose supervisory board comprises equal numbers of shareholder and employee representatives. Although Porsche SE is listed, its supervisory board has not comprised an equal number of shareholder and employee representatives since the 2017 annual general meeting, meaning that there is no statutory quota for Porsche SE. In light of this, in 2017 the supervisory board had set a target figure for the percentage of women on the supervisory board of 0% until 9 October 2022. There has been no change in this target. The appointment of Mag. Marianne Heiß means that there is one female supervisory board member since the 2018 annual general meeting.

Targets for composition and profile of skills and expertise; implementation status

In the reporting year, against the background of the recommendation in Sec. 5.4.1 (2) of the German Corporate Governance Code ("GCGC" or Code"), taking into account the activities of the company as an internationally and capital-market-oriented investment management holding company in the areas of mobility and industry as well as the ownership structure of the company, the supervisory board prepared a profile of skills and expertise for the entire board and also named specific targets for the composition of the board.

According to the profile of skills and expertise of the supervisory board, the entire board is to have skills and expertise that are of material importance for the activities of the company as an international operating and capital-market-oriented investment management holding company in the area of mobility solutions. This includes in particular in-depth knowledge, skills and professional experience in

- monitoring and advising the management of internationally operating and capital-market-oriented companies;
- developing, constructing, manufacturing and selling vehicles and vehicle components on the international market;
- the area of technical and scientific innovations, in particular in the automotive industry and its digitalization, as well as developing smart traffic and mobility concepts;
- the area of company mergers and acquisitions;
- accounting, controlling, risk management as well as legal affairs and compliance in internationally operating and capital-market-oriented companies.

Regardless of the above, at all times at least one member of the supervisory board must have specialist knowledge in the areas of financial reporting or auditing and the members of the supervisory board as a whole must be familiar with the sectors in which the company operates.

According to the targets named by the supervisory board for its composition, which were revised following the enlargement of the board, at least two members of the supervisory board should, in the assessment of the supervisory board, be independent within the meaning of Sec. 5.4.2 GCGC. Furthermore, no more than two former members of the executive board should belong to the supervisory board. All members of the company's supervisory board must ensure that they can devote the amount of time necessary to fulfill the supervisory board mandate properly. Members of the supervisory board should not be members of governing bodies of, or exercise advisory functions at, significant competitors of the company. In November 2018, the supervisory board of Porsche SE resolved to prepare a diversity concept for the supervisory board, whereby the aspects included in the diversity concept for the supervisory board shall also apply as targets for the composition of the supervisory board pursuant to the GCGC applying. For details of the diversity concept, we refer to the corresponding section in the declaration of compliance required by Secs. 289f and 315d HGB. The target figure for female representation on the supervisory board is still at 0%, which is why the declared deviation from Sec. 5.4.1 GCGC remains. Also with regard to the regular limit for the term of office and the regular age limit, the deviation from Sec. 5.4.1 (2) GCGC declared pursuant to Sec. 161 AktG, remains.

The current composition of the entire board corresponds to the profile of skills and expertise as well as the targets for the composition of the board set out above. In the assessment of the supervisory board, Prof. Dr. Ulrich Lehner and Mag. Marianne Heiß are independent members of the supervisory board.

Committees of the supervisory board

The supervisory board has established a total of three committees (executive committee, audit committee and nominations committee) to carry out its duties in 2018.

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.

The executive committee also functions as a personnel committee and in urgent cases decides on matters that require the supervisory boards' consent.

The audit committee supports the supervisory board in monitoring the management of the company and pays particular attention to monitoring accounting and the related processes, the risk management system including the effectiveness of the internal control system and internal audit. Another topic is the audit of the financial statements. In this regard, the audit committee submits to the supervisory board a justified recommendation for the appointment of the auditor, which comprises at least two candidates if the audit engagement is put out to tender. Furthermore, the audit committee looks at the independence of the auditor, the engagement of the auditor, the determination of key audit topics, the key audit matters, the fee agreement and the additional permitted non-audit services rendered by audit firms as well as compliance.

The nominations committee proposes candidates for 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, exercising their voting right should they hold ordinary shares. 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 corporate contracts in particular.

Financial reporting and annual audit
The Porsche SE Group's financial reporting is based on the International Financial Reporting Standards (IFRSs) 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. 315e (1) HGB. The 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 for the fiscal year 2018 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.

Compliance
In accordance with the provisions of the GCGC, the executive board ensures compliance with legal provisions and internal policies, and works toward ensuring compliance ("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 and monitor these and to work towards compliance with regulations. Compliance activities are based on a preventive, proactive strategy.

Porsche SE has set up a Compliance Council which regularly addresses the company's Compliance. It supports the executive board member responsible for Legal Affairs and Compliance in performing his duties, in particular in monitoring compliance with the legal provisions applicable to the company and its employees as well as preventing potential infringements.

Employees were also given the opportunity, among other things, to report any suspected breaches of law within the company anonymously, i.e., the sender cannot be identified, using a Compliance e-mail address.

An internal company directive of Porsche SE keeps a record of the responsible organizational units and decision makers in terms of procedures relating to Compliance.

Risk management and control system

The Porsche SE Group has a group-wide risk management and control system which helps the management to recognize major risks at an early stage, thus enabling them to initiate countermeasures in good time. The risk management and control system at the Porsche SE Group is continuously tested for effectiveness and continually optimized to reflect changed conditions. For details, please refer to pages 90 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

("Porsche SE-Homepage"), 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.

In addition to regular reporting, Porsche SE also provides information in the form of ad hoc announcements about insider information directly affecting Porsche SE according to the provisions of Art. 17 of the European Market Abuse Directive. These ad hoc announcements are also published on the Porsche SE-Homepage.

Managers’ transactions

According to Art. 19 of the European Market Abuse Directive, members of the executive board and supervisory board, other persons that perform management tasks as well as persons closely related to them must disclose managers’ transactions in Porsche SE shares and related financial instruments. Porsche SE publishes announcements about transactions of this kind, among other things, on the Porsche SE-Homepage.

Declaration on the German Corporate Governance Code

Pursuant to Sec. 161 (1) German Stock Corporation Act (AktG), Art. 9 (1) lit. c) ii) SE-VO, the executive and supervisory board of a listed SE 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 GCGC 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. In the event of changes during the year between two regular declarations, the declaration must be updated.

Text of the declaration of Porsche Automobil Holding SE in accordance with Sec. 161 (1) AktG in the version from May 2018:
The executive board and supervisory board of Porsche Automobil Holding SE declare in accordance with Sec. 161 (1) AktG that since the most recent declaration of compliance in May 2017 – as updated by updates to the declaration of compliance in March and May 2018 – the company has complied with and also in the future will comply 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 in the respective valid version of the Code of 7 February 2017, published in the German Federal Gazette on 24 April 2017, with the exception of the following deviations:

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 and will not be complied with in the future. Mr. Pötsch receives only a fixed basic component from Porsche Automobil Holding SE. In light of Mr. Pötsch’s activity and task structure, the supervisory board of Porsche Automobil Holding SE considers the current structure of his remuneration without any variable remuneration to be appropriate.

The recommendation in Sec. 4.2.3 (2) Sentence 6 GCGC was also not complied with in the past with regard to Dr. Döss and Mr. Müller, who has since left the executive board of Porsche Automobil Holding SE. The supervisory board previously considered it appropriate in light of the activity and task structure that Dr. Döss and Mr. Müller did not receive any variable remuneration at the level of Porsche Automobil Holding SE. Due to the activity of Dr. Döss, the supervisory board now considers variable remuneration to be suitable and appropriate. Effective immediately, Dr. Döss receives capped variable remuneration from Porsche Automobil Holding SE.

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. There are no upper limits of maximum amounts of bonus payments to be made at the discretion of the supervisory board to executive board members for previously agreed targets or a subsequent bonus in recognition of extraordinary performance. The same therefore also applies for compensation as a whole. The supervisory board does not consider this necessary because by exercising its discretion it can ensure that the requirement of reasonableness of Sec. 87 (1) AktG is complied with.

With respect to Sec. 4.2.3 (4) GCGC, it is declared that this recommendation was complied with in connection with the departure of Mr. Matthias Müller from the company's executive board. As a precaution, it is declared that Mr. Müller in connection with his departure has been granted benefits that do not constitute payments due to early termination of his board activity within the meaning of this recommendation.

The recommendation contained in Sec. 5.4.1 (2) GCGC on determining an age limit for members of the supervisory board and determining a regular limit for the term of office served on the supervisory board was not complied with, nor will it be in the future until further notice. The supervisory board is still of the opinion that the ability to monitor and advise the executive board in its management of the company does not cease upon reaching a certain age or a certain term of office. A fixed age limit can also come across as discriminatory.

By resolution dated 9 October 2017, the supervisory board set initial concrete objectives regarding its composition and developed a profile of skills and expertise for the entire board pursuant to Sec. 5.4.1 (2) GCGC. For its composition within the framework of the specific situation of the company, it thereby took the international activities of the

company, potential conflicts of interest as well as the number of independent supervisory board members within the meaning of Sec. 5.4.2 GCGC into consideration appropriately. Since then, the recommendations of Sec. 5.4.1 (2) GCGC have been complied with to the extent mentioned above and will be complied with in the future. The targets do not currently include guidance on diversity on the supervisory board, nor will this be the case in the future until further notice. With regard to its composition, the supervisory board also observes the diversity of the board and is open to the respective targets pursued by the Code. However, from today's perspective, specific requirements would make it difficult to provide a board with suitable flexibility, particularly in light of the shareholder structure. In terms of the disclosures on diversity, the recommendation under Sec. 5.4.1 (2) GCGC was not complied with and will not be complied with in the future until such targets have been adopted.

Before the targets for the composition of the supervisory board have been set and the profile of skills and expertise has been prepared, the recommendations of Sec. 5.4.1 (2) GCGC have not been complied with overall. Decisions on proposed candidates should be taken on a case-by-case basis in the light of the male or female candidates available at that time. This should provide the greatest possible flexibility and avoid self-imposed restrictions, all in the best interest of the company.

Due to a previously extensive deviation from the recommendations of Sec. 5.4.1 (2) GCGC, the recommendation of Sec. 5.4.1 (4) Sentence 1 GCGC was also not complied with. Since setting specific targets for the composition of the supervisory board as well as preparing a profile of skills and expertise, Sec. 5.4.1 (4) Sentence 1 GCGC was complied with in particular regarding the supervisory board's election recommendations to the company's 2018 annual general meeting and will also be complied with in the future provided that Sec. 5.4.1 (2) is complied with.

As regards the recommendation under Sec. 5.4.1 (6) GCGC regarding the disclosure of certain matters in the supervisory board's election recommendations to the annual general meeting, non-compliance has been declared as a precaution. The requirements of the Code are imprecise and their boundaries and scope unclear. The supervisory board has endeavored in the past and will continue to endeavor in the future to meet the requirements of Sec. 5.4.1 (6) GCGC, 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 long as the supervisory board of Porsche Automobil Holding SE comprised 12 members (6 shareholder representatives and 6 employee representatives), the supervisory board could not – taking into account the ownership structure – uphold its opinion with sufficient legal certainty that due to the membership of Prof. Dr. Ulrich Lehner it had an appropriate number of independent members. As a precaution, it therefore is declared that the recommendation pursuant to Sec. 5.4.2 Sentence 1 GCGC has not been complied with. Since the supervisory board was reduced to six members as shareholder representatives in June 2017, the recommendation of Sec. 5.4.2 Sentence 1 GCGC has been complied with. The recommendation will also be complied with in the future. This also applies for the period after the resolution passed by the 2018 annual general meeting to enlarge the supervisory board to 10 members comes into effect.

Due to the previous performance-related remuneration of the supervisory board based on the respective preceding fiscal year and the previous three fiscal years, it was declared that the recommendation of Sec. 5.4.6 (2) GCGC on the sustainability of performance-related remuneration had not been complied with. In light 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 2018 annual general meeting resolved to change the remuneration of the supervisory board to purely fixed remuneration and to amend the articles of association accordingly. The amendment is expected to be applicable for the period as of 1 January 2018. When the amendments to the articles of association come into effect, the recommendation of Sec. 5.4.6 (2) GCGC will be complied with in the future without restriction as there will no longer be any performance-related remuneration.

Stuttgart, 8 March 2019
Porsche Automobil Holding SE

The supervisory board The executive board

Porsche SE share

Stock markets[1]

The US trading policy with China and the threat of reciprocal punitive duties fostered uncertainty on the international capital markets. Uncertainty on the part of investors as to the further development of mobility and the imminent vehicle bans in major German cities also played an important role for automotive stocks. Prices were also impacted by the effects of the test procedure for determining pollutant and CO_2 emissions as well as fuel consumption in passenger cars and light commercial vehicles known as the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP). In addition, the capital markets were dealing with economic developments as well as the monetary policy adopted by the major central banks – mainly the US Fed, which raised key interest rates several times. The European Union's negotiations with the United Kingdom about its withdrawal from the EU caused increased uncertainty on the capital markets towards the end of the reporting year.

The German stock exchange index (DAX) peaked shortly after the start of the trading year 2018: the leading German index hit 13,559.60 points on 23 January. This was an increase of more than 641 points on the closing level for 2017 of 12,917.64 points.

However, a downward trend emerged in February that lasted for the whole of 2018. The DAX ultimately closed the reporting year at 10,558.96 points – down 2,358.68 points or around 18% on the closing level for 2017.

As of the end of 2018, the EuroStoxx was also roughly 14% lower than the closing level for 2017 (3,503.96) at 3,001.42 points. Its development is similar to that of the DAX: it also reached its annual high of 3,672.29 in January 2018. The low for the year was recorded on 27 December with 2,937.36 points.

The development of the international capital markets and the assessment of the automotive sector also left their mark on the Porsche SE preference share. The share closed 2017 at 69.78 euro. On 22 January 2018, the share reached its high for the year of 78.72 euro. Its lowest point was recorded on 24 October at 50.78 euro. On the last trading day of 2018, 28 December, the Porsche SE preference share stood at 51.64 euro – around 26% lower than the closing level for 2017.

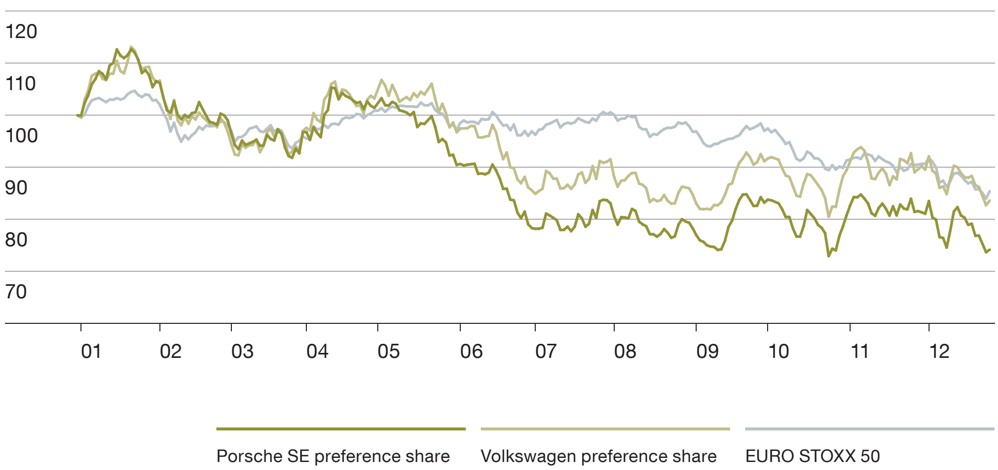
[1] All disclosures with regard to the respective closing price

2018 annual general meeting

The 2018 annual general meeting of Porsche SE was again held in the Porsche-Arena and Hanns-Martin-Schleyer-Halle in Stuttgart. With roughly 3,500 shareholders, attendance at the meeting was high, similar to prior years. It was resolved to distribute a dividend of 1.76 euro per preference share (prior year: 1.01 euro) and 1.754 euro per ordinary share (prior year: 1.004 euro). This corresponds to an amount to be distributed of approximately 538 million euro, compared to 308 million euro in the prior year. The dividend underscores the sustainable dividend policy pursued by Porsche SE.

The shareholders also approved an enlargement of the supervisory board of Porsche SE from six to ten members by means of an amendment to the articles of association. Mag. Josef Michael Ahorner, Mag. Marianne Heiß, Dr. Günther Horvath, Dr. Stefan Piëch and Peter Daniell Porsche were newly elected to the supervisory board. Hans-Peter Porsche retired from his position on the supervisory board effective as of the end of the annual general meeting. The shareholders exonerated the members of the executive board and those of the supervisory board holding office in the fiscal year 2017.

Development of the Porsche SE preference share price 2018
(indexed to 29 December 2017)



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

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.

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

Porsche SE share key figures

		2018	2017	2016
Closing price[1,2,3]	€	51.64	69.78	51.74
Annual high[1,2]	€	78.72	71.59	54.04
Annual low[1,2]	€	50.78	47.61	35.94
Number of ordinary shares issued (31 December)		153,125,000	153,125,000	153,125,000
Number of preference shares issued (31 December)		153,125,000	153,125,000	153,125,000
Market capitalization (31 December)[3,4]	€	15,814,750,000	21,370,125,000	15,845,375,000
Earnings per ordinary share[5]	€	11.34	10.70[6]	4.48
Earnings per preference share[5]	€	11.34	10.71[6]	4.49
Dividend per ordinary share	€	2.204[7]	1.754	1.004
Dividend per preference share	€	2.210[7]	1.760	1.010

1 Preference share in Xetra trading
2 Based on daily closing price
3 On 28 December 2018
4 Assuming ordinary shares are valued at the market price of the preference shares
5 Basic and diluted
6 The prior-year figures were adjusted due to the first-time application of IFRS 9
7 Proposal to the annual general meeting of Porsche SE

Investor relations activities

Beyond the regular corporate reporting in the quarterly and half-yearly financial reports as well as the annual general meeting, the executive board and investor relations team maintained intensive contact with analysts and capital market participants in the fiscal year 2018. This was made possible with the help of conference calls as well as roadshows in the most important financial centers.

These measures were supported by participating in capital market conferences in Germany and abroad in order to meet all information needs. In addition, private investors had the opportunity to gain first-hand insight into the development of Porsche SE and ask questions at information events.

The aim of these activities was and is to inform the capital market participants about the latest business developments, the investment strategy and the legal proceedings.

Following the relaunch of Porsche SE's website (www.porsche-se.com) in 2017, the structure and design were revised further in the fiscal year 2018.

2

Group management report and management report of Porsche Automobil Holding SE

Volkswagen T-Cross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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 2018, the Porsche SE Group had 935 employees (31 December 2017: 823 employees).

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

The business activities of Porsche SE essentially consist in 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 AG, one of the leading automobile manufacturers in the world. The Volkswagen Group comprises twelve brands in seven European countries: Volkswagen passenger cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen commercial vehicles, Scania and MAN. The collaboration between the MAN and Scania commercial vehicle brands is coordinated within the TRATON GROUP. The Porsche SE Group also holds around 100% in PTV Planung Transport Verkehr AG ("PTV AG"), Karlsruhe, shares in INRIX as well as shares in three technology start-ups in the USA.

The principal criteria of Porsche SE for investments are the connection to the automotive value chain, industrial production or the future of mobility. The automotive value chain comprises the entire spectrum from basic technologies and supporting the development and production process through to vehicle- and mobility-related services. The prerequisites for investment by Porsche SE are always the positioning in an attractive market environment and above-average growth potential.

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

Porsche SE is currently focusing its search on companies in the area of autonomous driving, electromobility, transport infrastructure, innovative production/manufacturing methods as well as innovative mobility offerings.

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, the result and liquidity are the core management indicators in the Porsche SE Group.

The result 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. In the planning process, an integrated multi-year plan is derived from the results of operations, financial position and net assets of the Porsche SE Group.

In the course of the year, the development of the indicators is continuously tracked and made available to the 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 of Volkswagen Group with type 2.0 l diesel engines in the USA. This led to authorities in their respective jurisdictions worldwide commencing their own investigations (“diesel issue”).

In the fiscal year 2018, the Volkswagen Group’s operating result was negatively influenced by special items in connection with the diesel issue of minus €3.2 billion. The main reasons for the expenses are the €1.8 billion penalties imposed by the Braunschweig public prosecutor’s office and the Munich II public prosecutor’s office in connection with the diesel issue, higher legal risks and legal defense costs as well as expenses for technical measures. In the years 2015 to 2018, the diesel issue led to total special items of €29.0 billion.

As the majority shareholder, Porsche SE continues to be affected by this issue, in particular with regard to its result from investments accounted for at equity. Furthermore, the proportionate market capitalization of its investment in Volkswagen AG is influenced by the resulting development of the prices of the Volkswagen ordinary and preference shares. As of 31 December 2018, there was no need to recognize an impairment loss on the basis of the earnings forecasts for the investment accounted for at equity in Volkswagen AG. However, particularly a further increase in the costs of mitigating the diesel issue might still lead to an impairment in the value of the investment. There may also still 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 may also have an effect on the results of operations, financial position and net assets of the Porsche SE Group. For details of this matter, please refer to the explanations of the significant events and developments at the Volkswagen Group, the explanations of the results of operations, financial position and net assets, the report on opportunities and risks of the Volkswagen Group and the “Forecast report and outlook” section.

Porsche SE acquires further ordinary shares in Volkswagen AG

Porsche SE holds the majority of the ordinary shares in Volkswagen AG as a core investment, sees itself as a long-term anchor investor that acts strategically and is also still convinced of the Volkswagen Group's potential for increasing value added. Between early December 2018 and 6 March 2019, Porsche acquired a total of 0.7% of the ordinary shares in Volkswagen AG for €309 million via capital market transactions, of which 0.2% or €86 million relates to the period up to the reporting date. As of 31 December 2018 and 6 March 2019, Porsche SE held 52.4% and 52.9% of the ordinary shares in Volkswagen AG, respectively. This step is another demonstration of the company's clear commitment to Volkswagen.

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

For several years, Porsche SE has been involved in various legal proceedings. The main developments of the legal proceedings are described in the following:

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

A model case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE 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. 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 determined by it in the model case before the Higher Regional Court of Celle. 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-based order of reference by additional establishment objectives. The first trial date took place on 12 October 2017. At this date the Higher Regional Court of Celle signalized that it intends to

add further establishment objectives and explained its preliminary view on the state of affairs and of the dispute. By orders of 11 September 2018 and 19 November 2018 the Higher Regional Court of Celle added four further establishment objectives to the KapMuG-based order of reference and revised several establishment objectives. In 2018 several hearings before the Higher Regional Court of Celle were held. The next dates are scheduled from 26 March 2019. Since the start of the model case, a large number of motions to recuse judges have been filed by the parties involved on the plaintiff's side. These motions to recuse judges were dismissed in all cases. Porsche SE is of the opinion that the claims asserted in the suspended initial proceedings are without merit and that the establishment objectives that are subject of the model case will be rejected. Porsche SE considers its opinion endorsed by the previous course of the oral hearing before the Higher Regional Court of Celle.

Furthermore the following proceedings in connection with the expansion of the investment in Volkswagen AG are or were pending:

Based on the same alleged claims that are already subject of a momentarily suspended action concerning alleged damages of around €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover, the same plaintiffs filed an action against two members (one of whom is no longer in office) 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 filed an appeal on points of law to the Federal Court of Justice. By decision dated 13 September 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. The defendant's side filed a motion to recuse judges about which a decision has not yet been made. Porsche SE considers the action filed in England to be inadmissible and the asserted claims to be without merit.

Up to now in aggregate five actions in connection with the expansion of the investment in Volkswagen AG covering asserted damages of originally about €1.36 billion (plus interest) have been dismissed with final effect or withdrawn. In 2016, the former members of the executive board Dr. Wendelin Wiedeking and Holger P. Härter were finally found not guilty concerning all charges of information-based market manipulation and, consequently, the motion for imposing a fine of €807 million against Porsche SE was also dismissed. The investigations against members of the supervisory board were terminated due to a lack of sufficient suspicion of a criminal act.

Legal proceedings and legal risks in connection with the diesel issue

In connection with the diesel issue (for a description see the combined management report for the fiscal year 2018 in the section "Diesel issue" in the section "Significant events and developments at the Volkswagen Group") the following claims in connection with the acquisition of preference shares of Porsche SE or derivatives relating thereto and, in two matters, regarding shares of Volkswagen AG have been asserted against Porsche SE:

Currently, legal proceedings with a total volume of approximately €954 million are pending against Porsche SE before the courts in Stuttgart. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information respectively alleged incorrect capital market information in connection with the diesel issue. A part of these proceedings is directed against both Porsche SE and Volkswagen AG. One action of about €11,500 is directed against both Porsche SE and Robert Bosch GmbH. 197 of these actions are

pending before the Regional Court of Stuttgart at first instance. The actions concern payment of damages, if quantified, in the total amount of approximately €790 million (plus interest) and in part establishment of liability for damages. Two further proceedings in which further approximately €164 million in damages have been claimed are currently in the appeal instance. On 24 October 2018, the Regional Court of Stuttgart granted these actions in the amount of approximately €47 million and dismissed the actions as to the remainder. Porsche SE and the respective plaintiffs have appealed against the decisions of the Regional Court of Stuttgart rendered on 24 October 2018. In December 2018 Porsche SE has filed motions to recuse the single judge conducting the proceedings in some proceedings which have not yet been decided. Porsche SE considers the actions to be without merit.

A part of the plaintiffs of the actions pending before the courts in 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. In addition, on 6 December 2017 the Regional Court of Stuttgart in proceedings against Volkswagen AG adopted a KapMuG-based order of reference concerning questions of local jurisdiction regarding investor lawsuits in connection with the diesel issue. A part of the plaintiffs has filed motions for suspension of the proceedings with reference to the orders of reference of the Regional Court of Stuttgart. A part of the plaintiffs has 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 if and to what extent the actions pending before the Regional Court of Stuttgart will be or will remain suspended with reference to the order of reference issued by the Regional Court of Braunschweig or with reference to the orders of reference issued by the Regional Court of Stuttgart. Currently, 128 actions have been suspended in whole or partially with reference to the order of reference of the Regional Court of Stuttgart dated 28 February 2017. A part of the proceedings has been suspended by the Regional Court of Stuttgart with reference to the order of reference of the Regional Court of Stuttgart of 6 December 2017 relating to questions of local jurisdiction, as well as to the order of reference of the Regional Court of Braunschweig. By indicative court order dated 5 July 2018, the Higher Regional Court of Stuttgart expressed doubts as to the admissibility of the initiation of the model case proceedings by the order of reference dated 28 February 2017. On 6 February 2019, an oral hearing was held before the Higher Regional Court of Stuttgart. A date for the pronouncement of a decision was set for 27 March 2019. Porsche SE considers the actions in the suspended original proceedings to be without merit and the establishment objectives asserted by the plaintiffs of the original proceedings in the model case not to be attainable.

Currently, actions for damages in the amount of approximately €10.6 million are pending against Porsche SE before the Regional Court of Braunschweig. In each of these cases Porsche SE is jointly sued with Volkswagen AG. The actions are based on alleged claims for damages because of alleged nonfeasance of capital market information or alleged incorrect capital market information. The Regional Court of Braunschweig suspended three of the proceedings pending before it with respect to Porsche SE and Volkswagen AG with reference to the KapMuG-based order of reference issued by the Regional Court of Braunschweig as well as the order of reference of the Regional Court of Stuttgart of 6 December 2017 concerning questions of local jurisdiction. Thus, Porsche SE is, in addition to Volkswagen AG, model case defendant in the model case proceedings before the Higher Regional Court of Braunschweig and the model case proceedings before the Higher Regional Court of Stuttgart concerning questions of local jurisdiction which were initiated by the order of reference dated 6 December 2017. A decision on the suspension of the remaining proceedings against Porsche SE which are still pending before the Regional Court of Braunschweig is still outstanding. By order of 23 October 2018, the Higher Regional Court of Braunschweig dismissed applications by the joined parties for the extension of the model case to include establishment objectives which relate exclusively to alleged claims against Porsche SE. The appeal on points of law was granted. Several oral hearings were held before the Higher Regional Court of Braunschweig. The next hearing is scheduled for 25 March 2019. Porsche SE considers these claims to be inadmissible and to be without merit.

Since August 2018, 106 plaintiffs have registered alleged claims for damages against Porsche SE in connection with the diesel issue in the total amount of approximately €62 million before the Higher Regional Court of Braunschweig within the model case proceedings until the end of the registration period.


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11 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. Meanwhile five of the claimants have asserted alleged claims for damages against Porsche SE of about €3.6 million (plus interest) in court.

Since October 2015, 43 persons have made out-of-court claims or initiated conciliatory proceedings against Porsche SE in connection with the diesel issue but have not yet claimed those alleged claims in court. 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 €520,000 (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 these claims.

In a letter dated 30 November 2018, the United States requested Porsche SE to waive the statute of limitations for alleged claims for damages, which are not specified in the terms of amount, in respect of the alleged acquisition of a total of 40,992 Porsche SE preference shares. In a letter of Porsche SE's attorneys dated 6 December 2018 Porsche SE issued a corresponding waiver of limitations to the United States.

Investigation proceedings

The Stuttgart public prosecutor’s office informed on inquiry that in summer 2016 it received a complaint by the German Financial Supervisory Authority (BaFin) against officials of Porsche SE and that, thereupon, the Stuttgart public prosecutor’s office initiated investigation proceedings on suspicion of market manipulation in connection with the diesel

issue. The proceedings are directed against Prof. Dr. Martin Winterkorn, Hans Dieter Pötsch and Matthias Müller. The investigation proceedings are not directed against Porsche SE. Porsche SE considers the allegation made to be without merit.

Proceedings regarding shareholders' actions
A shareholder has 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 action 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. By decision of 28 October 2016 the Regional Court of Stuttgart dismissed the actions. The plaintiff has appealed this decision of the Regional Court of Stuttgart. By order dated 10 September 2018 the Higher Regional Court of Stuttgart indicated that it intends to dismiss the appeal and advised withdrawal of the appeal. On 18 October 2018 the plaintiff withdrew the appeal. The decision of the Regional Court of Stuttgart dated 28 October 2016 has thus become final and binding.

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. By decision dated 19 December 2017 the Regional Court of Stuttgart granted the action. Porsche SE has appealed this decision. 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 and allegedly answered insufficiently at the annual general meeting on 29 June 2016 is demanded. By decision dated 5 December 2017 the Regional Court of Stuttgart accepted the motion with respect to five questions and dismissed it regarding the remaining 49 questions. Porsche SE has appealed this decision. Porsche SE considers the motion to be without merit.

In November 2018 a shareholder initiated a status proceeding according to Sec. 98 German Stock Corporation Act (AktG) before the Regional Court of Stuttgart requesting the court to find that the supervisory board of Porsche SE should, in derogation from its current composition, consist of half shareholder representatives and half employee representatives. Porsche SE is of the opinion that the supervisory board is duly composed and considers the motion to be without merit.

Significant events and developments at the Volkswagen Group

Diesel issue

Irregularities concerning NO_x 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 of Volkswagen Group with type 2.0 l diesel engines in the USA. In this context, Volkswagen AG 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 type EA 189 diesel engines. On 2 November 2015, the EPA issued a notice of violation alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines.

Numerous court and governmental proceedings were subsequently initiated in the USA and the rest of the world. The Volkswagen Group has since succeeded in making substantial progress and ending a great number of these proceedings.

Extensive investigations initiated by the Volkswagen Group
After the first notice of violation was issued, Volkswagen AG immediately initiated its own internal as well as external investigations; both have since been concluded for the most part.

The supervisory board of Volkswagen AG formed a special committee that coordinates this board's activities relating to the diesel issue on its behalf.

Furthermore, in September 2015 Volkswagen AG and AUDI AG filed a criminal complaint in Germany against unknown persons. Volkswagen AG and AUDI AG are cooperating with all relevant authorities.

The regulatory offense proceedings of the Braunschweig public prosecutor's office against Volkswagen AG, which began in April 2016, and the regulatory offense proceedings of the Munich II public prosecutor's office against AUDI AG have both been concluded with administrative fine orders.

Work in respect of the legal proceedings that are still pending in the USA and the rest of the world is ongoing, still requires considerable efforts, and will continue for some time. Volkswagen AG is being advised by a number of external law firms in this connection.

The diesel issue is rooted in a modification of parts of the software of the relevant engine's control units – which, according to Volkswagen AG's legal position, is only unlawful under US law – for the type EA 189 diesel engines that Volkswagen AG was developing at that time. The decision to develop and install this software function was taken in late 2006 below board of management level. None of the members of the board of management had, at that time and for many years to follow, knowledge of the development and implementation of this software function.

In the months following publication of a study by the International Council on Clean Transportation in May 2014, Volkswagen AG's Powertrain Development department checked the test set-ups on which the study was based for plausibility, confirming the unusually high NO_x emissions from certain US vehicles with type EA 189 2.0 l diesel engines. The California Air Resources Board (CARB) – a part of the environmental regulatory authority of California – was informed of this result, and, at the same time, an offer was made to recalibrate the engine control unit software of type EA 189 diesel engines in the USA 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 initiates necessary and appropriate measures to ensure the safety and conformity of Volkswagen AG's products that are placed in the market. There are no findings that an unlawful "defeat device" under US law was disclosed to the APS as the cause of the discrepancies or to the persons responsible for preparing the 2014 annual and consolidated financial statements. Instead, at the time the 2014 annual and consolidated financial statements were being prepared, the persons responsible for preparing the 2014 annual and consolidated financial statements remained under the impression that the issue could be solved with comparatively little effort as part of a service measure.

In the course of the summer of 2015, however, it became successively apparent to individual members of Volkswagen AG's board of management that the cause of the discrepancies in the USA was a modification of parts of the software of the engine control unit, which was later identified as an unlawful "defeat device" as defined by US law. This culminated in the disclosure of a "defeat device" to EPA and CARB on 3 September 2015. According to the assessment at that time of the responsible persons dealing with the matter, the scope of the costs expected by the Volkswagen Group (recall costs, retrofitting costs and financial penalties) was not fundamentally dissimilar to that of previous cases involving other vehicle manufacturers, and, therefore, appeared to be controllable overall with a view to the business activities of the Volkswagen Group. This assessment by the Volkswagen Group was based, among other things, on the advice of a law firm engaged in the USA for approval issues, according to which similar cases in the past were resolved amicably with the US authorities. The publication of the notice of violation by the EPA on 18 September 2015, which, especially at that time, came unexpectedly to the board of management, then presented the situation in an entirely different light.

Extensive inquiries were also conducted at AUDI AG in relation to the potential use of unlawful "defeat devices" under US law in the type V6 3.0 l diesel engines and concluded for the most part.

The AUDI AG board of management members in office back at the relevant time have stated that they had no knowledge of the use of unlawful “defeat device” software under US law in the type V6 3.0 l TDI engines until they were informed by the EPA in November 2015.

Within the Volkswagen Group, Volkswagen AG has development responsibility for the four-cylinder diesel engines such as the type EA 189. AUDI AG has development responsibility for the six- and eight-cylinder diesel engines such as the type V6 3.0 l and V8 diesel engines.

Affected vehicles in the EU/rest of world
With the exception of the USA and Canada, around ten million vehicles with type EA 189 diesel engines were affected worldwide.

In agreement with the respective responsible authorities, the Volkswagen Group is making technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines.

AUDI AG has worked intensively for many months to check all relevant diesel concepts for possible discrepancies and retrofit potentials. The measures proposed by AUDI AG have been adopted and mandated in various recall notices issued by the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) for vehicle models with V6 and V8 TDI engines.

Affected vehicles in the USA/Canada
In the USA and Canada three generations of certain vehicles with 2.0 l TDI engines and two generations of certain vehicles with the type V6 3.0 l TDI engines are affected, which come to a total of approximately 700 thousand vehicles. Due to NO_x limits that are considerably stricter than in the EU and the rest of the world, it is a greater technical challenge here to retrofit the vehicles so that the emission standards defined in the settlement agreements for these vehicles can be achieved.

In the USA, in the fiscal year 2018, the EPA and CARB issued the outstanding official approvals

needed for the technical solutions for the affected vehicles with 2.0 l TDI and with V6 3.0 l TDI engines. In the case of 2.0 l Generation 2 diesel vehicles with manual transmissions, Volkswagen Group of America, Inc. elected to withdraw the approved emissions modification proposal, whereby owners were given the option of a buyback and lessees were given the option of early lease termination.

Legal risks

Various legal risks are associated with the diesel issue. The provisions recognized for the diesel issue and the contingent liabilities disclosed as well as the other latent legal risks are in part subject to substantial estimation risks given that the fact finding efforts have not yet been concluded, the complexity of the individual relevant factors and the ongoing coordination with the authorities. Should these legal or estimation risks materialize, this could result in further considerable financial charges.

There continue to be no conclusive findings or assessments of facts available to the board of management of Volkswagen AG that would suggest that a different assessment of the associated risks (e.g., lawsuits filed by investors) should have been made.

A description of these and other risks arising from the diesel issue can be found in the Report on opportunities and risks of the Volkswagen Group in this group management report.

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 global economy sustained its robust growth in 2018 with a slight decrease in momentum. Economic momentum nearly matched the prior-year level both in advanced economies and emerging markets. With interest rates remaining comparatively low and prices for energy and other commodities rising year on year on the whole, consumer prices continued to increase worldwide. Growing upheaval in trade policy at international level and geopolitical tensions led to much greater uncertainty.

Trends in the passenger car markets
In the fiscal year 2018, the global market volume of passenger cars fell slightly below the prior-year level to 82.8 million vehicles (down 1.2%) after increasing for eight years in a row. In the reporting period, stronger demand in Central and Eastern Europe as well as in South America was offset by declining volumes in the Asia-Pacific, Middle East, North America and Western Europe regions.

Sector-specific environment
The sector-specific environment was influenced significantly by fiscal policy measures, which contributed considerably to the mixed trends in sales volumes in the markets last year. These measures included 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 movement of vehicles, parts and components more difficult.

Trends in the markets for commercial vehicles
Overall demand for light commercial vehicles in the fiscal year 2018 was slightly lower than in the prior year. A total of 9.0 million vehicles (9.2 million vehicles) were registered worldwide. Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets that are relevant for the Volkswagen Group was higher in the fiscal year 2018 than in the prior year, with 591 thousand new vehicle registrations (up 6.6%). Demand for buses in the markets that are relevant for the Volkswagen Group was slightly higher than in the prior year. The markets in Brazil as well as in Central and Eastern Europe contributed in particular to this growth.


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Passenger car and commercial vehicle deliveries worldwide

In the fiscal year 2018, the Volkswagen Group increased its deliveries to customers worldwide by 0.9% year on year and achieved a new record of 10.8 million vehicles. With its passenger car brands, the Volkswagen Group is present in all relevant automotive markets around the world. The key sales markets currently include Western Europe, China, the USA, Brazil, Russia and Mexico. The Volkswagen Group recorded encouraging growth in many key markets.

During the reporting period, deliveries of passenger cars to Volkswagen Group customers worldwide rose to 10.1 million units amid difficult conditions in some countries in Western Europe – mainly as a result of the changeover to the WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) – and in the Chinese market, which was impacted by macroeconomic uncertainty. This was an increase of 63 thousand vehicles or 0.6% on the prior year. The group's new SUV models made a particular contribution to this rise. As the passenger car market as a whole declined by 1.2% in the same period, the Volkswagen Group's share of the global market rose to 12.3% (12.0%). The largest increases in volume in absolute terms were seen in Brazil and Russia. Sales figures were down on the prior year in Germany, the United Kingdom, Mexico and Turkey, among other countries. The Volkswagen passenger cars, ŠKODA, SEAT, Porsche and Lamborghini brands delivered record numbers of vehicles. The brands that experienced the largest growth in absolute terms were ŠKODA and SEAT; Audi and Bentley fell short of the respective prior-year levels.

The Volkswagen Group delivered a total of 733 thousand commercial vehicles to customers worldwide in 2018 (up 4.3%). Trucks accounted for 202 thousand (up 10.4%) units and buses for 23 thousand (up 17.8%) units. Sales of light commercial vehicles increased by 1.5% year on year to 508 thousand units.

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

	2018	2017	Change %
Regions			
Europe/Other markets	4,741,025	4,737,715	0.1
North America	956,695	976,390	−2.0
South America	589,981	521,585	13.1
Asia-Pacific	4,546,311	4,505,844	0.9
Worldwide	**10,834,012**	**10,741,534**	**0.9**
by brands			
Volkswagen passenger cars	6,244,869	6,230,335	0.2
Audi	1,812,485	1,878,105	−3.5
ŠKODA	1,253,741	1,200,535	4.4
SEAT	517,627	468,431	10.5
Bentley	10,494	11,089	−5.4
Lamborghini	5,750	3,815	50.7
Porsche	256,255	246,375	4.0
Bugatti	76	71	7.0
Volkswagen commercial vehicles	499,723	497,862	0.4
Scania	96,475	90,782	6.3
MAN	136,517	114,134	19.6

1 Deliveries for 2017 have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

Sales, production and inventories at the Volkswagen Group
The Volkswagen Group's sales to the dealer organization[1] increased by 1.1% to 10.9 million units (including the Chinese joint ventures) in the reporting year. This was due to higher demand in Brazil, China and Central and Eastern Europe.

The Volkswagen Group produced 11.0 million vehicles worldwide in the fiscal year 2018, 1.3% more than in the prior year. In total, its Chinese joint ventures manufactured 1.9% more units than in the year before. In the German market, the production declined by 10.7%, which was largely WLTP-related. The percentage of the group's total production accounted for by Germany was lower than in 2017, at 20.9% (23.7%).

Global inventories at Group companies and in the dealer organization were higher at the end of the reporting period than at year-end 2017.

Headcount of the Volkswagen Group
The Volkswagen Group's headcount was 664,496 employees (up 3.5%) at the end of the reporting period. The main contributors to this were the volume-related expansion, the recruitment of specialists inside and outside Germany and the expansion of the workforce in the new plants of the Volkswagen Group in China. A total of 292,729 people were employed in Germany (up 1.8%), while 371,767 were employed abroad (up 4.8%).

Financial services of the Volkswagen Group
The activities of the financial services division comprise dealer and customer financing, vehicle leasing, direct banking and insurance activities, as well as fleet management and mobility offerings. The division comprises Volkswagen financial services and the financial services activities of Scania and Porsche Holding Salzburg.

The financial services division's products and services remained very popular in the fiscal year 2018. At 7.6 million (7.3 million), the number of new financing, leasing, service and insurance contracts signed worldwide exceeded the comparable prior-year figure. The ratio of leased or financed vehicles to Group deliveries (penetration rate) in the financial services division's markets was 33.7% (33.4%) in the reporting period. As of 31 December 2018, the total number of contracts was 19.6 million, up 6.4% from the year before. The number of contracts in the customer financing/leasing area climbed 5.4% to 10.6 million, while it increased by 7.6% to 9.0 million in the service/insurance area.

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

Results of operations, financial position and net assets

In the following explanations, the significant results of operations as well as the financial position and net assets of the Porsche SE Group are presented for the fiscal year 2018 and as of 31 December 2018. While the prior-year figures for the results of operations and cash flows relate to the period from 1 January to 31 December 2017, the net assets use figures as of 31 December 2017 as comparative figures. Due to the acquisition of the PTV Group in September 2017, the prior-year figures are only comparable to a limited extent.

Since the full consolidation of the PTV Group, the Porsche SE Group has distinguished between two segments. The first segment, "PSE", primarily represents Porsche SE holding operations including the investments accounted for at equity. The second segment, "Intelligent Transport Systems" ("ITS"), comprises the development of smart software solutions for transport logistics as well as traffic planning and traffic management. The results of operations of the Porsche SE Group are mainly the sum of the two segments, as the reconciliation effects are immaterial. For the ITS segment, only four months were included in the comparative period. For reasons of immateriality and due to a lack of comparability, prior-year figures for the ITS segment were not included.

Results of operations of the Porsche SE Group

The Porsche SE Group's result for the fiscal year 2018 came to €3.5 billion (€3.3[1] billion). As of 31 December 2017, the development of the result in the fiscal year 2018 to between €3.4 billion and €4.4 billion was forecast. In particular due to the special effects arising in the fiscal year 2018 at the level of the Volkswagen Group in connection with the diesel issue, the range for the result for the year was adjusted to between €2.5 billion and €3.5 billion in October 2018. This result fell within this adjusted corridor. Of the result for the year,

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9.

€3.6 billion (€3.3[1] billion) related to the PSE segment and minus €78 million to the ITS segment.

The result for the year for the PSE segment was significantly influenced by the result from the investment in Volkswagen AG accounted for at equity of €3.6 billion (€3.4[1] billion). This contains profit contributions from ongoing at equity accounting of €3.6 billion (€3.4[1] billion), preliminary income from the acquisition of further ordinary shares of €79 million as well as subsequent effects from purchase price allocations of minus €82 million (minus €85[1] million). Other operating expenses amounted to €39 million (€37 million) and mainly contain legal and consulting fees of €25 million (€20 million). Personnel expenses came to €15 million, an increase of €2 million on the prior year. The increase was largely due to payments made to the former member of the executive board Matthias Müller. The financial result of the PSE segment came to minus €3 million in the reporting period (minus €8 million). The improvement was due in particular to lower interest expenses following the repayment of a loan. The PSE segment generated a result before tax of €3.6 billion (€3.3[1] billion). The deferred income tax expense of €25 million (€22 million) is primarily due to the increase in the carrying amount of the investment in Volkswagen AG accounted for at equity as well as the countereffect from the increase in deferred tax assets on loss carryforwards.

In the reporting period, the ITS segment generated revenue of €103 million, resulting from license sales, maintenance and hosting services rendered as well as from the project business. Taking into account cost of materials for purchased services of €16 million, personnel expenses of €61 million and other operating expenses of €27 million, the ITS segment generated a result before tax, amortization and depreciation of minus €3 million. Amortization and depreciation of the segment of €82 million primarily contains an impairment of goodwill of €66 million. Taking income tax into consideration led to a result for the year of minus €78 million.

Financial position of the Porsche SE Group

The cash flow from operating activities for the fiscal year 2018 came to €558 million (€250 million). This increase is primarily attributable to the higher dividend payment received from Volkswagen AG of €601 million compared to the prior year (€308 million). Deducting the dividends payable to the shareholders of Porsche SE left a dividend surplus of €63 million. Other cash outflows during the reporting period of €43 million (€58 million) are mainly attributable to operating holding expenses.

There was a cash outflow from investing activities totaling €54 million in the fiscal year 2018 (cash inflow: €376 million). This includes acquisitions of further ordinary shares in Volkswagen AG of €86 million, which were financed by selling securities of €46 million, and the dividend surplus.

There was a cash outflow from financing activities of €539 million (€609 million) in the fiscal year 2018, largely due to the dividend payment made to the shareholders of Porsche SE of €538 million (€308 million). In the prior year, this also contained cash outflows of €300 million from the repayment of a loan.

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9.

Compared to 31 December 2017, cash and cash equivalents thus decreased by €35 million to €630 million.

Net liquidity of the Porsche SE Group comprises cash and cash equivalents, time deposits and securities less financial liabilities. It decreased from €937 million at the beginning of the year to €864 million. This was within the corridor forecast for net liquidity of between €0.7 billion and €1.2 billion.

Net assets of the Porsche SE Group

The Porsche SE Group's total assets amounted to €33.7 billion as of 31 December 2018 (€31.6[1] billion).

Non-current assets of €32.8 billion (€30.6[1] billion) mainly comprise the investment in Volkswagen AG accounted for at equity of €32.5 billion (€30.2[1] billion). This increase resulted in particular from the positive result from investments accounted for at equity of €3.6 billion. It was counterbalanced by the expenses and income recognized through other comprehensive income as well as other changes in equity of minus €0.8 billion as well as dividend payments received of minus €0.6 billion.

Intangible assets of the Porsche SE Group of €255 million (€333 million) primarily contain the goodwill of the ITS segment of €147 million (€213 million) after impairment losses as well as the carrying amounts for customer bases of €57 million (€64 million), software of €36 million (€41 million) and brand of €13 million (€14 million) resulting from the purchase price allocation.

Current assets of €916 million (€991 million) mainly consist of cash and cash equivalents, time deposits and securities.

As of 31 December 2018, the equity of the Porsche SE Group increased to a total of €33.4 billion (€31.3[1] billion) in particular due to the group result for the year. The equity ratio remained constant compared to the end of the fiscal year 2017 at 99.1%.

Results of operations of the Volkswagen Group

The following statements relate to the original results of the Volkswagen Group in the fiscal year 2018. This means that effects from at equity 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 are not taken into consideration. It should also be noted that the group result of Porsche SE only reflects its capital share in the result of the Volkswagen Group. The mandatory application of IFRS 9 and IFRS 15 resulted in some prior-year figures having to be adjusted.

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9 and IFRS 15.

The Volkswagen Group recorded revenue of €235.8 billion in the fiscal year 2018, thus exceeding the prior-year figure by €6.3 billion. Improvements in volumes and in the mix, and the healthy business performance in the financial services division were offset by negative exchange rate effects. The effects of applying the new International Financial Reporting Standards resulted in an overall increase in revenue. The Volkswagen Group generated 81.4% (80.7%) of its revenue abroad.

Gross profit was up on 2017 at €46.3 billion (€43.5 billion). Adjusted for special items recorded in both periods, gross profit amounted to €46.6 billion (€45.8 billion). The gross margin rose to 19.7% (19.0%); excluding special items it was 19.8% (19.9%).

At €17.1 billion (€17.0 billion), the Volkswagen Group's operating result before special items was on a level with the prior year. The operating return on sales before special items amounted to 7.3% (7.4%). Positive factors included primarily volume improvements, although higher depreciation and amortization charges due to the large volume of capital expenditure, increased research and development costs, and fair value measurement gains and losses on certain derivatives, which have had to be reported here since the beginning of the year, had a negative impact. Special items in connection with the diesel issue weighed on the operating result, reducing this item by minus €3.2 billion (minus €3.2 billion). The Volkswagen Group's operating result was €13.9 billion (€13.8 billion) and the operating return on sales stood at 5.9% (6.0%).

The financial result increased by €1.9 billion to €1.7 billion. Foreign currency measurement, lower interest expenses and lower expenses from the measurement on the reporting date of derivative financial instruments, which are used to hedge financing transactions, had a positive impact. The effect of the remeasurement of put options and

compensation rights in connection with the control and profit and loss transfer agreement with MAN SE was negative. The share of profits of equity-accounted investments decreased year on year, while there was a rise in the profits generated by the Chinese joint ventures. In the prior-year period, the remeasurement of the interest in HERE following the acquisition of shares by additional investors had a positive impact.

The Volkswagen Group's result before tax increased to €15.6 billion (€13.7 billion) in the reporting period; this was 14.4% higher than in the prior year. The return on sales before tax improved to 6.6% (6.0%). Income taxes resulted in an expense of €3.5 billion (€2.2 billion), which in turn led to a tax rate of 22.3% (16.2%) in the fiscal year 2018. In the prior year, the tax reform in the USA passed at the end of 2017 had a non-recurring positive non-cash measurement effect. The result for the year was €12.2 billion, an improvement of €0.7 billion compared with 2017.

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 2018.

Results of operations

Porsche SE achieved a net profit of €480 million in the fiscal year 2018 (€235 million). The result for the year amounted to €481 million and was therefore in the mid-triple-digit million euro range forecast for the fiscal year 2018.

The year-on-year increase in personnel expenses was largely due to payments made to the former member of the executive board Matthias Müller. Other operating expenses of €38 million (€33 million) mainly contained legal and consulting fees of €25 million (€20 million).

In the fiscal year 2018, Porsche SE received a dividend from its investment in Volkswagen AG of €601 million (€308 million). Profit and loss transfer agreements, on the other hand, resulted in a total negative effect on the investment result of €71 million (minus €19 million). This was largely due to the impairment recorded on the investment in PTV AG of €65 million at one of the subsidiaries.

The interest result for the fiscal year 2018 improved from minus €11 million in the prior year to minus €2 million. The improvement was due in particular to lower interest expenses following the repayment of a loan in June 2017.

Income statement of Porsche Automobil Holding SE

€ million	2018	2017
Revenue	1	0
Other operating income	5	5
Personnel expenses	– 15	– 12
Other operating expenses	– 38	– 33
Result from investments	530	289
Interest result	– 2	– 11
Result for the year	**481**	**237**
Other tax	– 1	– 2
Net profit	**480**	**235**
Withdrawals from retained earnings	196	303
Net profit available for distribution	**676**	**538**

Net assets and financial position

Non-current assets primarily contain the investment in Volkswagen AG of €22,120 million (€22,034 million). In the fiscal year 2018, Porsche SE acquired further Volkswagen ordinary shares for a total of €86 million via the capital market. These acquisitions were partly financed by selling shares in an alternative investment fund of €49 million, which had also been recognized under non-current assets.

Cash and cash equivalents contain bank balances including short-term time deposits. Despite the surplus from dividend payments made by Volkswagen AG via dividend payments to Porsche SE of €63 million and cash received from selling shares in the alternative investment, the amount of cash and cash equivalents decreased on the prior year mainly due to the acquisition of Volkswagen ordinary shares, loss compensation obligations for subsidiaries and other operating costs.

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

The increase in liabilities was mainly due to the increase in loss compensation obligations.

Balance sheet of Porsche Automobil Holding SE

€ million	31/12/2018	31/12/2017
Assets		
Non-current assets	22,640	22,600
Receivables and other assets	1	2
Cash and cash equivalents	658	704
Prepaid expenses	1	1
	23,300	**23,308**
Equity and liabilities		
Equity	23,098	23,156
Provisions	126	117
Liabilities	76	35
	23,300	**23,308**

Risks relating to the business development
The risks relating to the development of Porsche SE's business are closely connected to the risks relating to the significant investment in Volkswagen AG as well as to other investments. The risks are described in the section "Opportunities and risks of future development".

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

The separate financial statements of Porsche SE as of 31 December 2018 report a net profit available for distribution of €676 million consisting of a net profit for the year of €480 million and a withdrawal from retained earnings of €196 million. The executive board proposes a resolution for the distribution of a dividend of €2.204 (€1.754) per ordinary share and €2.210 (€1.760) per preference share, i.e., a total distribution of €676 million (€538 million).

Dependent company report
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 SE has rendered or, as the case may be, received reasonable consideration. The company was not disadvantaged by these transactions."

Outlook
Due to Porsche SE's links with the group companies and their significance within the group, we refer to the statements in the section "Anticipated development of the Porsche SE Group", which also in particular reflect the expectations for the parent company.

In the 2019 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 €4.80 per ordinary share and €4.86 per preference share and the operating expenses, which are anticipated to remain constant, Porsche SE is expected to generate a net profit in the mid-triple-digit million-euro range.

Sustainable value enhancement at 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.

When it comes to identifying, implementing and further developing investment projects, Porsche SE benefits from being integrated into one of the largest automotive and industrial networks worldwide, which is also particularly based on decades of 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.

The Porsche SE Group invests in research and has initiated a broad range of software innovations in the area of traffic and transport logistics. Research is being driven by the issues currently dominating discussions surrounding transport policies and transport science. This currently involves climate change, the energy transition and the use of electromobility, demographic change and logistics in megacities, green transportation as well as reliable transport.

The investment in Volkswagen AG is included in Porsche SE's IFRS consolidated financial statements as an associate. The non-financial performance indicators of the Volkswagen Group help raise the value of this significant investment accounted for at equity 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. Volkswagen takes responsibility for customers, employees, the environment and society. Thus, targets and key figures were generally derived for individual processes.


IN Q 8038

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

In the past fiscal year 2018; the results of operations of Porsche SE and the Porsche SE Group were again largely characterized by the development of the Volkswagen Group. As of 31 December 2018, the group result for the year was within the forecast corridor, adjusted mainly due to new developments in the diesel issue in October 2018. The net profit in the mid-triple-digit million-euro range forecast by Porsche SE in the prior year for the fiscal year 2018 was also achieved.

The financial position was influenced to a large extent by dividends received and paid as well as the acquisition of further ordinary shares in Volkswagen AG. Net liquidity was within the corridor forecast in the prior year with a range of between €0.7 billion and €1.2 billion as of 31 December 2018.

The executive board of Porsche SE still considers the economic situation of the company and its significant investment in Volkswagen AG to be positive. Despite the decrease in market capitalization, Porsche SE expects the Volkswagen Group to maintain its market position in a persistently challenging environment under the continued influence of the diesel issue, and is also still convinced of the Volkswagen Group's potential for increasing value added. By acquiring further ordinary shares, the executive board of Porsche SE has made another clear demonstration of the company's role as Volkswagen AG's long-term anchor shareholder.

Remuneration report

The remuneration report describes the main features of the remuneration system for members of the executive board and supervisory board of Porsche SE and explains the basic structure, composition and the individualized amounts of remuneration. The total remuneration for each member of the executive board is disclosed by name in accordance with the provisions of the German Commercial Code and the German Corporate Governance Code, divided into fixed and variable remuneration components. In addition, the report includes disclosures on benefits granted or promised to active members of the executive board in the event of regular or early termination of their service.

The disclosures comprise the remuneration that members of the executive board and supervisory board receive for board activities at the parent company and subsidiaries of the Porsche SE Group. As a result, the disclosures below do not contain any remuneration granted for board activities at the level of the Volkswagen Group. The disclosures on remuneration at the level of the Volkswagen Group made voluntarily in the prior-year remuneration report in the section "Remuneration in accordance with the German Corporate Government Code" have not been made in this report. The prior-year disclosures have been adjusted accordingly.

Remuneration of the executive board

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

Hans Dieter Pötsch receives fixed remuneration, which is paid out as a monthly salary, for his work at the company.

Until the end of the fiscal year 2017, Dr. Manfred Döss received only fixed remuneration from Porsche SE, which was paid out as a monthly salary. With effect as of the beginning of the fiscal year 2018, variable remuneration was also agreed on top of this. As a result, Dr. Manfred Döss receives a maximum annual discretionary bonus of €550 thousand if all targets are met. The targets the supervisory board takes into account in making its discretionary decision are to be set in a target agreement concluded on an annual basis. The supervisory board determines the amount of the bonus at its discretion, taking into account the targets reached in the target agreement as well as the business and earnings situation of Porsche SE. 40% of the discretionary bonus determined by the supervisory board for the past fiscal year is due for payment three months after the fiscal year relevant for the bonus ends. The remaining 60% is generally due for payment two years after the short-term

bonus components fall due. This is subject in particular to the condition that the Porsche SE Group generates a profit for the year in the most recent fiscal year concluded before the long-term bonus components fall due. The long-term component of the variable remuneration is therefore dependent on the development of Porsche SE over several years.

Philipp von Hagen receives variable remuneration from Porsche SE in addition to fixed remuneration paid out as a monthly salary. The amount of his variable remuneration is specified at the discretion of the supervisory board, taking into account the business and earnings situation as well as his performance, and is capped at €300 thousand if all targets are met. Whether or not the targets have been met is measured in particular by the individual targets agreed. 40% of the variable remuneration set by the supervisory board is generally due for payment three months after the fiscal year relevant for the bonus ends. The remaining 60% is generally due for payment two years after the short-term bonus components fall due. The prerequisite for both of these components being paid out is that the Porsche SE Group generates a profit for the year in the fiscal year concluded before they fall due. The payment of the long-term components is also contingent on Porsche SE having positive net liquidity as of the end of the fiscal year before they fall due. The long-term component of the variable remuneration is therefore likewise dependent on the development of Porsche SE over several years.

The former member of the executive board Matthias Müller received a fixed component from Porsche SE paid out as a basic monthly salary.

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 from the company itself.

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.

All members of the executive board of Porsche SE receive non-cash benefits during their period of active service, in particular in the form of the use of company cars. Porsche SE is responsible for any taxes incurred in connection with these non-cash benefits. Furthermore, members of the executive board who also serve as members of the Volkswagen AG supervisory board are also reimbursed for any costs for flights between their place of residence and primary workplace; taxation of non-cash benefits is borne by Porsche SE as part of flat-rate taxation. Any non-cash benefits are included at their tax or actual values in the table presenting the remuneration of the members of the executive board.

The agreements concluded with Mr. Pötsch, Dr. Döss and Mr. von Hagen provide for continued payment of their remuneration in the event of illness or death; the agreement concluded with Mr. Müller had also provided for this.

Composition of the executive board
In the fiscal year 2018, Matthias Müller resigned from his position on the executive board effective 30 April 2018. During the fiscal year 2017, there were no changes in the composition of the executive board.

Remuneration of the members of the executive board for the fiscal years 2017 and 2018
The remuneration of each member of the executive board of Porsche SE for the fiscal years 2017 and 2018 presented below contains the remuneration as defined by the German Commercial Code and the German Corporate Governance Code that each member received for his work as a member of the executive board of Porsche SE. The disclosures on Mr. von Hagen also contain the remuneration paid by PTV AG for serving as chairman of its supervisory board. The other members of the executive board did not receive any remuneration from subsidiaries.

The short-term variable remuneration components are recognized as granted in the year for which they were granted. Provided that the necessary requirements for granting were fulfilled upon conclusion of the respective fiscal year, the components are also recognized as a benefit received in the same year.

The long-term variable remuneration components are also recognized as granted in the year for which they were granted. By contrast, they are recognized as a payment at the end of the year in which all conditions precedent were fulfilled; this is usually two fiscal years after the fiscal year for which they were granted.

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

For his extraordinary performance, Mr. Müller was subsequently granted a bonus of €2.1 million in the fiscal year 2018. For his extraordinary performance in the past fiscal years 2016 and 2017, Dr. Döss was granted bonuses of €550 thousand in each fiscal year 2017 and 2018, which were both resolved in 2017. Furthermore, the supervisory board resolved to pay him a bonus of €100 thousand in recognition of his extraordinary performance for the company in the fiscal year 2018.

	Dr. Döss Legal affairs and compliance since 1 January 2016					
	Benefits received		Benefits granted			
in €	2017	2018	2017	2018	2018 (Min)	2018 (Max)
Fixed compensation	500,000	500,000	500,000	500,000	500,000	500,000
Fringe benefits	74,080	82,162	74,080	82,162	82,162	82,162
Non-performance related components	**574,080[1]**	**582,162[1]**	**574,080**	**582,162**	**582,162**	**582,162**
One-year variable compensation	1,100,000	320,000	1,100,000	320,000	0	220,000
Multi-year variable compensation						
LTI Porsche SE (long-term incentives)	0	0[2]	0	330,000	0	330,000
Performance related components	**1,100,000[1]**	**320,000[1]**	**1,100,000**	**650,000**	**0**	**550,000**
Total	**1,674,080[1]**	**902,162[1]**	**1,674,080**	**1,232,162**	**582,162**	**1,132,162**
Service cost	532,781	506,543	532,781	506,543	506,543	506,543
Total remuneration	**2,206,861**	**1,408,705**	**2,206,861**	**1,738,705**	**1,088,705**	**1,638,705**

1 Remuneration according to Secs. 285 No. 9a, 314 (1) No. 6a German Commercial Code (HGB) in conjunction with Sec. 315e HGB
2 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.

	Müller Strategy and corporate development 13 October 2010 to 30 April 2018					
	Benefits received		Benefits granted			
in €	2017	2018	2017	2018	2018 (Min)	2018 (Max)
Fixed compensation	500,000	166,667	500,000	166,667	166,667	166,667
Fringe benefits	41,334	13,898	41,334	13,898	13,898	13,898
Non-performance related components	**541,334[1]**	**180,565[1]**	**541,334**	**180,565**	**180,565**	**180,565**
One-year variable compensation	0	2,100,000[2]	0	2,100,000[2]	0	n/a
Performance related components	**0[1]**	**2,100,000[1]**	**0**	**2,100,000**	**0**	**n/a**
Total remuneration	**541,334[1]**	**2,280,565[1]**	**541,334**	**2,280,565**	**180,565**	**n/a**

1 Remuneration according to Secs. 285 No. 9a, 314 (1) No. 6a German Commercial Code (HGB) in conjunction with Sec. 315e HGB
2 €2.1 million was subsequently granted for extraordinary performance.

	von Hagen Investment management since 1 March 2012					
	Benefits received		Benefits granted			
in €	2017	2018	2017	2018	2018 (Min)	2018 (Max)
Fixed compensation	541,971[2]	546,150[2]	541,971[2]	546,150	546,150	546,150
Fringe benefits	90,989	87,789	90,989	87,789	87,789	87,789
Non-performance related components	**632,960[1]**	**633,939[1]**	**632,960**	**633,939**	**633,939**	**633,939**
One-year variable compensation	200,000[3]	100,000	100,000	100,000	0	120,000
Multi-year variable compensation (long-term incentives)						
LTI Porsche SE	120,000[4]	150,000[4]	150,000	150,000	0	180,000
Performance related components	**320,000[1]**	**250,000[1]**	**250,000**	**250,000**	**0**	**300,000**
Total	**952,960[1]**	**883,939[1]**	**882,960**	**883,939**	**633,939**	**933,939**
Service cost	369,067	356,819	369,067	356,819	356,819	356,819
Total remuneration	**1,322,027**	**1,240,758**	**1,252,027**	**1,240,758**	**990,758**	**1,290,758**

1 Remuneration according to Secs. 285 No. 9a, 314 (1) No. 6a German Commercial Code (HGB) (taking into consideration footnote 2) in conjunction with Sec. 315e HGB

2 €6,150 (€1,971) thereof relates to remuneration of PTV AG, a subsidiary of Porsche SE, for serving as chairman of the supervisory board.

3 This contains short-term variable remuneration components of €100 thousand, which were subsequently granted for performance in the fiscal year 2016.

4 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.

	Pötsch Chairman of the executive board (since 1 November 2015) Chief Financial Officer (since 25 November 2009)					
	Benefits received		Benefits granted			
in €	2017	2018	2017	2018	2018 (Min)	2018 (Max)
Fixed compensation	500.000	500.000	500.000	500.000	500.000	500.000
Fringe benefits	341.835	374.791	341.835	374.791	374.791	374.791
Total remuneration (non-performance related)	**841.835[1]**	**874.791[1]**	**841.835**	**874.791**	**874.791**	**874.791**

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

Benefits in connection with departure during the fiscal year

In connection with the departure of Mr. Müller, it was agreed that the benefits to which he is entitled under his contract of employment will be honored in full until the end of the term of the contract. As a result, he received a one-off payment of €833,333 as compensation for the salary claims he is entitled to until the scheduled end of his contract.

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

Mr. Pötsch and Mr. Müller do not and did 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 pensionable income. 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 2018, Mr. von Hagen and Dr. Döss have a retirement pension entitlement of 31% and 28%, respectively. Immediate vesting was agreed for both gentlemen.

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

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

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

The service cost pursuant to IFRSs corresponds to the respective pension expense; as a result, we refer to the tables in the section "Remuneration of the members of the executive board for the fiscal years 2017 and 2018". The tables below contain the service cost pursuant to HGB and the present values from each performance obligation pursuant to HGB or IFRSs:

	Service cost HGB	
in €	2018	2017
Dr. Döss	436,040	364,990
Müller[1]	8,422	0
von Hagen	354,900	252,828

	Present value HGB	
in €	2018	2017
Dr. Döss	2,214,995	1,715,813
Müller[1]	879,065	839,741
von Hagen	1,622,831	1,222,927

[1] departed in the fiscal year 2018

in €	Present value IFRS 2018	2017
Dr. Döss	2,713,877	2,384,889
Müller[1]	1,002,113	1,035,739
von Hagen	2,275,122	2,105,444

[1] departed in the fiscal year 2018

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

In the event of departure from the executive board as a result of termination for due cause by Porsche SE, the entitlements to variable components that are not yet due (in full or in part) expire.

In the event of departure for other reasons prior to the date when payment falls due, the entitlement to payment of their performance-related remuneration is generally retained. For Dr. Döss, however, in these cases the discretionary bonus for the current fiscal year is reduced pro rata temporis. The date when payment falls due is not affected by early departure from the executive board of the company.

Remuneration of the supervisory board

Principles

The remuneration of Porsche SE's supervisory board is governed by Art. 13 of the current version of the company's articles of association. The remuneration of the members of the supervisory board was primarily amended such that variable remuneration is no longer provided for. As of the fiscal year 2018, each member of the supervisory board receives fixed remuneration of €75 thousand for the past fiscal year. The chairman of the supervisory board receives €150 thousand and his deputy €100 thousand. Each member of a committee of the supervisory board (with the exception of the nominations committee and investment committee) also receives fixed remuneration of €25 thousand for each fiscal year concluded and the chairman of a committee receives additional fixed remuneration of €50 thousand. Members of the audit committee receive additional annual fixed remuneration of €50 thousand. The chairman of the audit committee receives additional annual fixed remuneration of €100 thousand. If a member of the supervisory board is a member of several committees at the same time, such member receives remuneration only for the two appointments with the highest remuneration. Supervisory board members who have been a member of the supervisory board or one of its committees for only part of a fiscal year or chair the committee receive the remuneration pro rata temporis.

Until the fiscal year 2017, remuneration of the members of the supervisory board comprised a fixed component and an attendance fee for the meetings of the supervisory board and the respective committees. In addition, the supervisory board members received a performance-related component. This was 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 exceeded the amount of €300 million in the expired fiscal year, the members of the supervisory board received an amount of €10. For each full €1 million by which this result at group level exceeded 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 received 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 received the remuneration pro rata temporis. The chairman of the supervisory board and the chairman of the audit committee received twice the amount of the fixed and 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 and variable remuneration of a supervisory board member. If a member of the supervisory board held several appointments at the same time, such member received remuneration only for the appointment with the highest remuneration.

Remuneration of the supervisory board

The supervisory board received remuneration totaling €947 thousand (prior year: €1,061) for its service at Porsche SE in the fiscal year 2018. This amount does not contain any performance-related components, while the prior-year figure contained performance-related components of €482 thousand.

The remuneration for the current and former individual members of Porsche SE's supervisory board presented below comprises only the remuneration paid for their service on the supervisory board of Porsche SE.

	2018	2017		
in €	Non-performance related components	Non-performance related components	Performance related components	Total remuneration
Dr. Wolfgang Porsche	200,000	92,000	83,120	175,120
Dr. Hans Michel Piëch	175,000	80,363	53,800	134,163
Prof. Dr. Ulrich Lehner	175,000	86,000	83,120	169,120
Dr. Ferdinand Oliver Porsche	150,000	76,500	62,340	138,840
Mag. Marianne Heiß (15/5/2018-31/12/2018)	47,466	0	0	0
Dr. Günther Horvath (13/3/2018-31/12/2018)	60,411	0	0	0
Mag. Josef Michael Ahorner (4/7/2018-31/12/2018)	37,192	0	0	0
Dr. Stefan Piëch (4/7/2018-31/12/2018)	37,192	0	0	0
Peter Daniell Porsche (4/7/2018-31/12/2018)	37,192	0	0	0
Hans-Peter Porsche (1/1/2017-15/5/2018)	27,740	46,000	41,560	87,560
Uwe Hück (1/1/2017-30/5/2017)[1]	0	42,411	25,618	68,029
Berthold Huber (1/1/2017-30/5/2017)[1]	0	22,274	17,079	39,353
Peter Mosch (1/1/2017-30/5/2017)[1]	0	19,274	17,079	36,353
Bernd Osterloh (1/1/2017-30/5/2017)[1]	0	21,411	25,618	47,029
Hon.-Prof. Dr. techn. h.c. Ferdinand K. Piëch (1/1/2017-8/12/2017)[1]	0	47,425	38,940	86,365
Hansjörg Schmierer (1/1/2017-30/5/2017)[1]	0	22,274	17,079	39,353
Werner Weresch (1/1/2017-30/5/2017)[1]	0	22,274	17,079	39,353
Total	**947,192**	**578,205**	**482,433**	**1,060,638**

[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).

Opportunities and risks of future development

Report on opportunities and risks at the Porsche SE Group

Risk management system of the Porsche SE Group

Overview of the risk management system
The risk management system of the Porsche SE Group was set up to identify at an early stage any potential risks to the ability of the group to continue as a going concern as well as any risks that could have a significant and long-term negative impact on the results of operations, financial position and net assets of the group and to avoid these by means of suitable countermeasures that allow the group to avoid any risks to its ability to continue as a going concern.

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

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

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 in order to take suitable countermeasures at an early stage.

The Porsche SE Group's risk management system is continuously updated and adapted to the company's requirements. Porsche SE's auditor annually reviews Porsche SE's risk early warning system for its appropriateness and general suitability for recognizing any risks that could jeopardize the company's ability to continue as a going concern at an early stage. Assessing the probability and extent of future events and developments is, by its nature, subject to uncertainty. Even the best risk management system cannot foresee all potential risks and can never completely prevent irregular acts.

Risk management system of Porsche SE
Porsche SE's risk management system is subdivided into three lines of defense: "operational risk management", "strategic risk management" and "review-based risk management".

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

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

The third line of defense, "review-based risk management", ensures the appropriateness and effectiveness of the risk management system and therefore in particular that the operational and strategic risk management are in line with externally and internally defined standards. Review-based risk management is the responsibility of the internal audit, which, as an objective instance, conducts

sample-based reviews whether operational risk management is firmly embedded in all areas and regularly performed, and reports the audit findings to the supervisory board. Furthermore, the strategic level is reviewed to determine whether there is a structured systems approach and whether the respective controls and reviews are performed in strategic risk management.

Risk management at the level of the significant investments

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

Management of the risks at Volkswagen is located at the level of Volkswagen AG. The task of Volkswagen AG's risk management is to identify, manage and monitor existing risks at the level of the Volkswagen Group. Volkswagen AG has implemented its own group-wide risk management system and is responsible for handling its own risks. At the same time, however, Volkswagen AG is required to ensure that Porsche SE as the holding company – within the scope of the legally permissible exchange of information – is informed at an early stage of any risks potentially jeopardizing the investment's ability to continue as a going concern. This information is provided, inter alia, in management talks and by forwarding risk reports. Volkswagen AG's auditor annually reviews Volkswagen AG's risk early warning system for its appropriateness and general suitability for recognizing any risks that could jeopardize the company's ability to continue as a going concern at an early stage. For additional information on the structure of the risk management system at the level of Volkswagen AG, we refer to the explanations in the section "Risk management system of the Volkswagen Group".

PTV AG is responsible for handling its own risks via an independent group-wide risk management system. The implementation of an integrated risk management system was at an advanced stage as of the reporting date, but not yet completed. Regular management meetings and regular reports on the economic situation ensure that Porsche SE is informed about any significant risks at the level of PTV AG.

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

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

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

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

Opportunities and risks of the Porsche SE Group

Organizational risks

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

With regard to the risk area “financial reporting/accounting”, the IFRS accounting manual of Porsche SE ensures uniform recognition and measurement based on the accounting policies applicable at the Porsche SE Group. Issuing formal instructions such as a uniform chart of accounts, a group-wide time schedule as well as regularly updated data entry masks ensures the timely and uniform reporting of the units included in the consolidated financial statements. The components of the reporting packages required to be prepared for the Porsche SE Group are set out in detail and updated regularly.

The financial statements of the associates and fully consolidated companies are prepared using standard software. The reporting packages are processed in a certified consolidation system. Before being uploaded to the consolidation system, the reporting packages are subjected to an extensive analysis and plausibility check. Extensive checks performed manually and by the system ensure the completeness and reliability of the information processed in the consolidated financial statements. For all accounting-related processes, the principle of dual control forms the basis of the internal control system. Furthermore, the consolidated financial statements as well as the figures and information reported by the group entities are subjected to variance analyses and analyses of the composition of individual items. Suitable selection processes and regular training measures ensure that employees involved in the accounting process are qualified.

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

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

With regard to the management of risks from the risk area “compliance”, Porsche SE has established a compliance organization, and thus a compliance management system, that is specifically tasked with preventing breaches of laws or other provisions and company-internal guidelines and regulations. In connection with this, 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 2018 primarily addressed general compliance-relevant regulations.

Risk assessment for organizational risks

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

Entrepreneurial risks

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

Opportunities and risks from investments

In connection with any existing and future investments, Porsche SE generally faces opportunities and risks regarding the effects on its result and/or net liquidity. This includes the risk of a need to recognize impairment losses, with a corresponding negative impact on the result of Porsche SE, the risk of a decrease in dividend inflow as well as the risk of burdens on results attributed to Porsche SE in the consolidated financial statements. However, there are also corresponding opportunities from a positive development in these areas. Porsche SE is currently exposed to significant risks from the investments in Volkswagen AG and PTV AG. The risks from further

investments of Porsche SE are currently negligible in terms of their materiality.

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

With regard to the investment in Volkswagen AG, there is an increased risk of the result attributable to Porsche SE based on the at-equity-valuation falling short of expectations because of the Volkswagen Group not developing as planned (referred to below as the risk area "Result contribution Volkswagen"). According to Volkswagen, the greatest risks at the level of the Volkswagen Group are 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 regulations as well as from quality

problems. There is also the risk of Volkswagen's earnings development being hampered further because of the diesel issue. These burdens could result in particular from new findings regarding the amount of the risk provisioning recognized or the effects of the diesel issue on the operating business and/or the financing costs of the Volkswagen Group which may exceed the extent assumed in the planning. The assessment of risks at the level of the Volkswagen AG is based on the risk and opportunity report in the 2018 group management report of Volkswagen AG.

As regards the recoverability of the investment in Volkswagen AG, impairment testing was performed in the fiscal year 2018 due to the proportionate market capitalization being below the carrying amount accounted for at equity. As the impairment test is based on the current planning of the Volkswagen Group, the risks described above of an unexpected development which might lead to an impairment in the value of the investment also exist here. The risk of an impairment loss needed to be recognized through profit or loss is referred to below as the risk area "Impairment risk Volkswagen". As part of the impairment test, sensitivity analyses regarding key measurement parameters were performed. As the value in use of the investment in Volkswagen AG was significantly higher than the carrying amount in each of the scenarios considered in the sensitivity analysis, the risk of a need to recognize an impairment loss is considered unlikely based on the current information.

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

Since fully including the PTV Group into the consolidated financial statements of Porsche SE in September 2017, generally there is the risk of the goodwill identified in the course of the purchase price allocation being impaired through profit or loss (referred to below as the risk area "Impairment risk PTV"). The goodwill is tested annually for impairment and in case there is any indication that the goodwill may be impaired. As of 31 December 2018, an impairment test was performed as scheduled and based on the development of key performance indicators which was lower than planned. As a result, there was a need to recognize an impairment loss for goodwill of €66 million in the consolidated financial statements of Porsche SE as of 31 December 2018. An additional need to recognize an impairment loss for goodwill cannot be ruled out in the future if the company's development falls short of expectations.

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

The use of financial instruments as part of liquidity management gives rise to counterparty risks. To mitigate the counterparty risks, Porsche SE monitors the creditworthiness and spreads the investment of liquidity across various counterparties. Additional risks from using financial instruments, such as market risks, are currently classified as negligible in terms of their materiality for Porsche SE.

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

Legal risks

Porsche SE is involved in legal disputes and administrative proceedings both nationally and internationally. As of 31 December 2018, this primarily relates to actions for damages concerning the stake building of the investment in Volkswagen AG and the allegation of market manipulation as well as legal proceedings because of alleged nonfeasance of capital market information or alleged incorrect capital market information in connection with the diesel issue. Where such risks are foreseeable, adequate provisions are made in order to account for any ensuing risks. The amount of the provisions for legal risks recognized in the reporting year corresponds to the attorneys' fees and litigation expenses anticipated for the ongoing proceedings. The company believes that thus far these risks not have had a sustained effect on the economic position of the group. However, due to the fact that the outcome of litigation can be


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estimated only to a limited degree, it cannot be ruled out that very serious losses may eventuate that are not covered by the provisions already made, which would result in a correspondingly negative impact on the result and liquidity.

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

Tax opportunities and risks

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

A tax field audit is currently being performed for the assessment periods 2009 to 2013. The wage tax field audit for the levy periods 2011 to 2016 was concluded following the closing meeting in September 2018. Payments and obligations were already recognized based on the outcome of the closing meeting and the information available when these financial statements were being prepared. New findings of the tax field audit for the 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.

During the assessment periods 2006 to 2009, Porsche SE was initially the legal successor of Porsche AG and later the ultimate tax parent and thus liable for tax payments. As part of the contribution of the business operations, Volkswagen AG agreed to refund to Porsche SE any tax benefits

– for example, in the form of a refund, tax reduction or tax saving, a reversal of tax liabilities or provisions or an increase in tax losses – of Porsche Holding Stuttgart GmbH, Porsche AG and its legal predecessors and subsidiaries which pertain to assessment periods up to 31 July 2009. In return, under certain conditions, Porsche SE indemnifies Porsche Holding Stuttgart GmbH, Porsche AG and their legal predecessors from tax disadvantages that exceed the obligations from periods up until and including 31 July 2009 recognized at the level of these entities. If the total tax benefits exceed the total tax disadvantages, Porsche SE has a claim against Volkswagen AG to payment of the amount by which the tax benefits exceed the tax disadvantages. The amount of tax benefits and tax disadvantages to be taken into account is regulated in the contribution agreement. The risks arising at the level of Porsche SE, for which provisions were recognized in prior years and payments were made, will in some cases lead to tax benefits at the Volkswagen Group that are expected to partly compensate the tax risks of Porsche SE. However, the provisions in the contribution agreement do not cover all matters and thus not all tax risks of Porsche SE from the tax field audits for the assessment periods 2006 to 2009. The existence and amount of a possible reimbursement claim against Volkswagen AG can be reliably determined only following completion of the tax field audit for the assessment period 2009. Based on the findings of the completed tax field audit for the assessment periods 2006 to 2008 and the information available for the assessment period 2009 when these consolidated financial statements were authorized for issue, Porsche SE would have a claim for compensation in the low triple-digit million-euro range. Future findings arising from the tax field audit for the assessment period 2009 may lead to an increase or decrease in the possible compensation claim.

Risk assessment for entrepreneurial risks

The methodology for regularly assessing entrepreneurial risks was further developed and defined in the past fiscal year. For each of the significant entrepreneurial risks of the Porsche SE Group, a risk assessment is performed using risk categories. This involves assessing the risk of falling short of the forecast range communicated for the result for the year and/or the net liquidity of Porsche SE.

The risk assessment of a risk area includes the potential impact of the risk area as well as its likelihood of occurrence. A risk area under examination is allocated to one of the categories low, moderate or high based on its potential impact. The category it is allocated to is generally based on

the potential impact that a risk area under examination can have on the result for the year and/or the net liquidity of the Porsche SE Group in terms of whether it negatively deviates from the corresponding forecast value. The likelihood of occurrence was allocated using the categories unlikely, moderately likely and highly likely.

The risk assessment of the significant entrepreneurial risks of the Porsche SE Group using the risk categories low, moderate and high is as follows as of the reporting date:

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

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

Likelihood of occurrence

Category low risk

Category moderate risk

Category high risk

Overall statement on the risks faced by the Porsche SE Group

The overall risk exposure of the Porsche SE Group results from the described individual risks relating to the significant investments and the specific risks of Porsche SE. The risk management system ensures that these risks are addressed adequately. 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.

Report on opportunities and risks of the Volkswagen Group

Risk management system of the Volkswagen Group

In this section, the objective and structure of the Volkswagen Group's risk management system (RMS) and internal control system (ICS) are explained and its systems are described with regard to the financial reporting process. Volkswagen AG has implemented its own group-wide risk management system and is responsible for handling its own risks. The following is based on extracts from the Report on Risks and Opportunities in the 2018 group management report of Volkswagen AG.

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

Only by promptly identifying, accurately assessing and effectively and efficiently managing the risks and opportunities arising from its business activities can the Volkswagen Group ensure its sustainable success. The aim of the Volkswagen Group's RMS and 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). Structuring the RMS/ICS in accordance with the COSO framework for enterprise risk management ensures that potential risk areas are covered in full. Uniform group principles are used as the basis for managing risks in a standardized manner. Opportunities are not recorded.

Another key element of the RMS/ICS at Volkswagen is the three lines of defense model, a basic element required, among other bodies, 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 assessed, and the information 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 in a timely manner. This means that the board of management also has access to an overall picture of the current risk situation via the documented reporting channels during the year.

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

Operational risk management also includes compliance with the golden rules in the areas of control unit software development, emission classification and escalation management. These rules are the minimum requirements in the organization, processes and tools & systems categories. The Volkswagen Group continued to reinforce the internal control system in the area of product compliance in 2018.

Second line of defense: identifying and reporting systemic and current risks using group-wide processes

In addition to the ongoing operational risk management, the Volkswagen Group's risk management department each year sends standardized surveys on the risk situation and the effectiveness of the RMS/ICS to the significant Volkswagen Group companies and units worldwide (Governance, Risk & Compliance (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 Volkswagen Group companies and units selected from among the entities in the consolidated group on the basis of materiality and risk criteria were subject to the regular GRC process in the fiscal year 2018.

In addition to the ad hoc and annual risk assessment, the board of management also receives quarterly risk reports. Similar to the annual standard GRC process, the assessment takes risk-minimizing control measures into account (net assessment). All Volkswagen group brands are included in this process along with Porsche Holding Salzburg, Volkswagen Financial Services AG and Volkswagen Bank GmbH.

Information on relevant systemic and current risks is regularly reported to the group's board of management and the audit committee of the supervisory board of Volkswagen AG.

In addition, Volkswagen set up the group board of management committee for risk management in 2017. This met quarterly in the reporting year. The committee has the following tasks, among others:

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

The Scania brand was incorporated into the standard GRC process in 2018. The brand has already been included in the Volkswagen Group's quarterly risk reporting since 2016.

Third line of defense:
checks by group internal audit

Group internal audit helps the Volkswagen AG's 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 compliance management system (CMS) as part of its independent audit procedures.

Risk early warning system in line with the KonTraG at Volkswagen

The company's risk situation is ascertained, assessed and documented in accordance with the requirements of the Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (KonTraG – German Act on Control and Transparency in Business). The requirements for a risk early warning system are met by means of the RMS/ICS elements 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 ascertained that the risks identified were presented and communicated accurately. The risk early warning system meets the requirements of the KonTraG.

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

Volkswagen Financial Services AG, which is responsible for the leasing, insurance, services and mobility business and the lending business outside

Europe, operates a risk early warning and management system. This system ensures that the locally applicable regulatory requirements are adhered to and at the same time enables appropriate and effective risk management at group level. Important components of it are regularly reviewed as part of the audit of the annual financial statements.

Monitoring the effectiveness of the risk management system and the internal control system
To ensure 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. On a case-by-case basis, external experts assist in the continuous enhancement of the RMS/ICS. The results culminate in both regular and event-driven reporting to the board of management and supervisory board of Volkswagen AG.

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

The accounting-related part of the RMS/ICS that is relevant for the financial statements of Volkswagen AG and the Volkswagen Group as well as its subsidiaries comprises measures intended to ensure that the information required for the preparation of the financial statements of Volkswagen AG, the consolidated financial statements and the combined management report of the Volkswagen Group and Volkswagen AG is complete, accurate and transmitted in a timely manner. These measures are designed to minimize the risk of material misstatement in the accounts and in 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 Volkswagen 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 and assessment 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 the level of the Volkswagen Group include analyzing and, if necessary, adjusting the data reported in the financial statements presented by the subsidiaries, taking into account the reports submitted by the auditors and the outcome of the meetings on the financial statements with representatives of the individual companies. These discussions address both the reasonableness of the single-entity financial statements and specific significant issues at the subsidiaries. Alongside reasonableness reviews, other control mechanisms applied during the preparation of the single-entity and consolidated financial statements of Volkswagen AG include the clear delineation of areas of responsibility and the application of the dual control principle.

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


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Opportunities and risks 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 following therefore reports on internal and external developments as risks and opportunities that may result in a negative or positive deviation from its forecast.

The business activities of the Volkswagen Group generally give rise to the following risks and opportunities: macroeconomic risks and opportunities, sector-specific risks and market opportunities/potential, research and development risks, risks and opportunities from the modular toolkit strategy, opportunities and risks from partnerships, procurement risks and opportunities, production risk, risks arising from long-term production, risks arising from changes in demand, risks due to dependence on customer business, quality risk, personnel risk, IT risks, risks due to environmental protection regulations, litigation risk, financial risk, risks arising from financial instruments, liquidity risk, residual value risk in the financial services business, reputational risk and risks from other factors.

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

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

Further significant financial liabilities may emerge due to existing estimation risks particularly from legal risks, such as criminal, administrative and civil proceedings, technical solutions, lower market prices, repurchase obligations, customer-related measures and possible official or statutory requirements for diesel vehicles.

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.

The Volkswagen Group is cooperating with all the responsible authorities to clarify these matters completely and transparently. Below you can find the Volkswagen Group's assessment of the legal risks arising from the diesel issue at the level of the Volkswagen Group. You can find further information on the individual legal disputes of the Volkswagen Group in the section "Estimates and accounting judgments by management" in the notes to the consolidated financial statements of Porsche SE.

Volkswagen AG's assessment regarding legal risks from the diesel issue

An amount of around €2.4 billion has been included in the provisions for litigation and legal risks as of 31 December 2018 to protect against the currently known legal risks related to the diesel issue based on existing information and current assessments. Insofar as these can be adequately measured at this stage, contingent liabilities relating to the diesel issue were disclosed in the notes in an aggregate amount of €5.4 billion (€4.3 billion), whereby approximately €3.4 billion (€3.4 billion) of this amount results from lawsuits filed by investors in Germany. The provisions recognized and the contingent liabilities disclosed as well as the other latent legal risks in the context of diesel issue at the Volkswagen Group are in part subject to substantial estimation risks given that the fact finding efforts

have not yet been concluded, the complexity of the individual relevant factors and the ongoing coordination with the authorities. Should these legal or estimation risks materialize, this could result in further considerable financial charges.

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

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

The Volkswagen Group's overall risk and opportunity position results from the specific risks and opportunities mentioned above. In order to ensure that these risks are controlled, the Volkswagen Group has put into place a comprehensive risk management system. According to Volkswagen, the most significant risks to the 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 regulations as well as from quality problems. Risks relating to the diesel issue still remain for the Volkswagen Group which, when aggregated, are among the most significant risks. Based on the level of information available to the Volkswagen Group at the time of preparing its management report, according to Volkswagen, no risks exist which could pose a threat to the continued existence of significant Volkswagen Group companies or the Volkswagen Group.

Publication of the declaration of compliance

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

Subsequent events

With the exception of the litigation developments and explanations of the acquisition of new ordinary shares in Volkswagen AG presented in the section “Significant events and developments at the Porsche SE Group”, there were no reportable events after the reporting date.

Forecast report and outlook

General economic development

According to the International Monetary Fund (IMF), the global economy will lose some of its momentum in 2019 compared to the prior year. According to the January update on the world economic outlook, the IMF expects growth of 3.5% in 2019 after global economic growth of 3.7% in the past year. According to the IMF, the slowing pace of growth is primarily attributable to continuing uncertainty regarding a potential trade conflict between the USA and China as well as the still open outcome of the United Kingdom's negotiations when it comes to reaching a deal for its departure from the European Union ("Brexit"). Moreover, the outlook is somewhat cloudier for the euro zone as well as for the developing and emerging economies compared to the prior year.

Due to the political uncertainty in France and Italy as well as a slowing industrial order intake in Germany, the IMF anticipates growth of 1.6% for the euro zone after having forecast an increase of 1.9% in an earlier outlook. The ongoing Brexit negotiations have also led to further economic uncertainty.

According to the IMF, the German economy will grow by 1.3% in 2019. Growth will be primarily hampered by a fall in domestic demand, a decrease in the production of automobiles in response the introduction of the WLTP standard as well as slowing demand for industrial goods.

The International Monetary Fund also expects growth for the developing and emerging economies to slow slightly to 4.5%. While accelerated development is expected in Latin America and India, the trade conflict with the USA will have a negative impact on China. For China, the IMF anticipates growth of 6.2% in 2019. India may see a 7.5% increase in its economic output in 2019.

For the USA, the IMF anticipates growth of 2.5% for 2019 following 2.9% growth in economic output in 2018. The slowdown is primarily due to the diminishing effect of incentives from the US tax reform's fiscal policy as well as the consequences of the government shutdown.

Exchange rate trends

The global economy continued its robust growth in 2018 with declining momentum. Average prices for energy and other commodities were up year on year but remained at a relatively low level. As the year went on, the euro lost ground against the US dollar. By contrast, the euro/sterling exchange rate remained virtually unchanged in spite of the uncertainty surrounding the outcome of the Brexit negotiations and the question of what form the relationship between the United Kingdom and the EU will take in the future. The currencies of major emerging markets lost further ground against the euro in the reporting period. For 2019, the euro is forecast to strengthen against the US dollar, sterling and the Chinese renminbi. The expectation

is that the Russian ruble, Brazilian real and Indian rupee will remain relatively weak.

Interest rate trends

Interest rates remained low with a few exceptions in the fiscal year 2018 due to the continuation of the prevailing expansionary monetary policy worldwide and the challenging overall economic environment. In the major Western industrialized nations, key interest rates persisted at an historic low level on the whole. 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 eurozone, we therefore expect no more than a slight rise in interest rates in 2019. In the United States of America, it is possible that the key interest rate will be raised again, depending on the future development of the economy.

Trends in the markets for passenger cars and light commercial vehicles

The Volkswagen Group expects trends in the markets for passenger cars in the individual regions to be mixed in 2019. Overall, global demand for new vehicles will probably be at the 2018 level. Trends in the markets for light commercial vehicles in the individual regions will be mixed again in 2019; on the whole, Volkswagen anticipates a slight dip in demand in 2019.

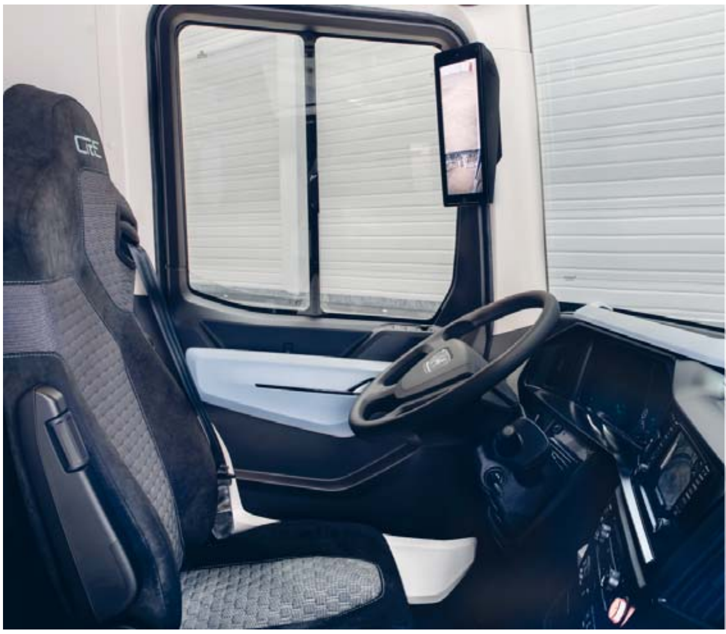
Anticipated development of the Volkswagen Group

The Volkswagen Group is well prepared overall for the future challenges pertaining to the automobility business and the mixed developments in regional vehicle markets. Its brand diversity, presence in all major world markets, broad and selectively expanded product range, and pioneering technologies and services put the Volkswagen Group in a good competitive position worldwide. As part of the transformation of its core business, Volkswagen is positioning its group brands with a stronger focus on their individual characteristics and optimizing the vehicle and drive portfolio. The focus hereby is primarily on its vehicle fleet's carbon footprint and on the most attractive and fastest-growing market segments. In addition, the Volkswagen Group is working to make even more focused use of the advantages of its multibrand group by continuously developing new technologies and its toolkits.

The Volkswagen Group expects that deliveries to customers in 2019 will slightly exceed the prior-year figure amid continuously challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, exchange rate volatility and more stringent WLTP requirements.

Volkswagen expects the revenue of the Volkswagen Group and its passenger cars and commercial vehicles business areas to grow by as much as 5% year on year. In terms of the operating result for the group and the passenger cars business area, the Volkswagen Group forecasts an operating return on sales in the range of 6.5 – 7.5% in 2019. For the commercial vehicles business area, it anticipates an operating return on sales of between 6.0% and 7.0%. In the power engineering business area, Volkswagen expects a loss around the prior-year level amid a slight rise in revenue. For the financial services division, it is forecasting a moderate increase in revenue and an operating result at the prior-year level.



Anticipated development of the Porsche SE Group

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

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

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

The following earnings forecast is based on the current structure of the Porsche SE Group. Effects from any other future investments of the Porsche SE Group are not taken into account.

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, the Porsche SE Group expects a group profit for the year of between €3.4 billion and €4.4 billion for the fiscal year 2019.

As of 31 December 2018, the Porsche SE Group had net liquidity of €864 million. The goal of the Porsche SE Group to achieve positive net liquidity remains unchanged. This is expected to be between €0.3 billion and €0.8 billion as of 31 December 2019, not taking future investments into account.

Stuttgart, 6 March 2019

Porsche Automobil Holding SE
The executive board

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Glossary

Selected terms at a glance

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

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

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

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

Tax ratio
The tax ratio is the ratio of income taxes to profit before tax expressed as a percentage. The tax ratio shows the share payable as tax from the profit generated.

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

3 Financials

Audi e-tron

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Consolidated income statement of Porsche Automobil Holding SE for the period from 1 January to 31 December 2018

€ million	Note	2018	2017
Revenue	[1]	103	34
Changes in inventories		0	0
Other operating income		13	6
Cost of materials		–16	–4
Personnel expenses	[2]	–77	–31
Amortization and depreciation	[6]	–83	–6
Other operating expenses	[3]	–66	–48
Result from investments accounted for at equity	[4]	3,624	3,357[1]
Result before financial result		3,500	3,307
Finance costs		–3	–12
Other financial result		0	4
Financial result		**–3**	**–8**
Result before tax		**3,497**	**3,299**
Income taxes	[5]	–23	–21
Result for the year		**3,473**	**3,278**
thereof attributable to			
shareholders of Porsche Automobil Holding SE		3,473	3,278[1]
non-controlling interests		0	0
Earnings per ordinary share (basic and diluted)		11.34	10.70[1]
Earnings per preference share (basic and diluted)		11.34	10.71[1]

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9 (see section “New accounting standards”).

Consolidated statement of comprehensive income of Porsche Automobil Holding SE for the period from 1 January to 31 December 2018

€ million	2018	2017
Result for the year	**3,473**	**3,278**[1]
Remeasurements of pensions recognized in equity	3	1
Deferred tax on remeasurements of pensions recognized in equity	–1	0
Other comprehensive income not to be reclassified to profit or loss in subsequent periods from investments accounted for at equity (before tax)	–24	292
Deferred tax on other comprehensive income not to be reclassified to profit or loss in subsequent periods from investments accounted for at equity	–21	–67
Deferred tax on investments accounted for at equity	1	
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods	–42	226
Currency translation	0	0
Other comprehensive income to be reclassified to profit or loss in subsequent periods from investments accounted for at equity (before tax)	–1,132	857[1]
Deferred tax on other comprehensive income to be reclassified to profit or loss in subsequent periods from investments accounted for at equity	306	–516[1]
Deferred tax on investments accounted for at equity	13	
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	–814	341
Other comprehensive income after tax	**–856**	**567**
Total comprehensive income	**2,617**	**3,845**
thereof attributable to		
shareholders of Porsche Automobil Holding SE	2,617	3,845
non-controlling interests	0	0

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9 (see section “New accounting standards”).

Consolidated balance sheet of Porsche Automobil Holding SE as of 31 December 2018

€ million	Note	31/12/2018	31/12/2017
Assets			
Intangible assets	[6]	255	333
Property, plant and equipment	[6]	7	7
Investments accounted for at equity	[7]	32,501	30,235[1]
Other financial assets	[8]	10	7
Other assets	[9]	1	2
Deferred tax assets	[5]	1	1
Non-current assets		**32,775**	**30,586**
Inventories		3	3
Trade receivables	[19]	21	18
Other financial assets	[8]	4	4
Other assets	[9]	10	12
Income tax receivables		2	2
Securities	[19]	138	185
Time deposits	[19]	108	101
Cash and cash equivalents	[19]	630	664
Current assets		**916**	**991**
		33,691	**31,576**
Equity and liabilities			
Subscribed capital	[10]	306	306
Capital reserves	[10]	4,884	4,884
Retained earnings	[10]	30,583	27,652[1]
Other reserves (OCI)	[10]	–2,376	–1,552[1]
Equity attributable to shareholders of Porsche SE		33,398	31,291
Non-controlling interests	[10]	1	1
Equity		**33,399**	**31,292**
Provisions for pensions and similar obligations	[11]	35	36
Other provisions	[12]	20	19
Financial liabilities	[13]	12	12
Other financial liabilities	[14]	0	5
Other liabilities	[15]	0	0
Deferred tax liabilities	[5]	92	83[1]
Non-current liabilities		**159**	**154**
Provisions for pensions and similar obligations	[11]	0	0
Other provisions	[12]	78	80
Trade payables		3	5
Financial liabilities	[13]	1	1
Other financial liabilities	[14]	12	19
Other liabilities	[15]	38	24
Income tax liabilities		1	1
Current liabilities		**133**	**130**
		33,691	**31,576**

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9 and IFRS 15 (see section “New accounting standards”).

Consolidated statement of changes in equity of Porsche Automobil Holding SE for the period from 1 January to 31 December 2018

€ million	Equity attributable to the shareholders of Porsche SE						
	Subscribed capital	Capital reserves	Retained earnings	Other reserves (OCI)	Total	Non-controlling interests	Total equity
As of 31 December 2017 after reclassifications	306	4,884	27,704	–1,485	31,410	1	31,410
Elimination of adjustment due to IFRS 9 from prior period			36[1]	–36[1]			
As of 1 January 2018 (before adjustment due to IFRS 9 and IFRS 15)	306	4,884	27,739	–1,520	31,410	1	31,410
Adjustment due to IFRS 9 and IFRS 15			–86[1]	–32[1]	–119		–119
As of 1 January 2018 after adjustment	306	4,884	27,652	–1,552	31,291	1	31,292
Result for the year			3,473		3,473	0	3,473
Other comprehensive income after tax				–856	–856	0	–856
Total comprehensive income			3,473	–856	2,617	0	2,617
Dividend payment			–538		–538	0	–538
Reclassifications			–32[2]	32[2]	0	0	
Other changes in equity arising from the level of investments accounted for at equity			28	0	28		28
As of 31 December 2018	**306**	**4,884**	**30,583**	**–2,376**	**33,398**	**1**	**33,399**

[1] With regard to the adjustments due to IFRS 9 and IFRS 15, we refer to the explanations in the section "New accounting standards".

[2] Reclassifications contain changes in both the presentation of OCI components from the equity accounting of INRIX and in the presentation of deferred taxes on outside basis differences arising from the investment in Volkswagen accounted for at equity as well as gains and losses from the remeasurement of defined benefit obligations pursuant to IAS 19.

Equity is explained in note [10].

Consolidated statement of changes in equity of Porsche Automobil Holding SE for the period from 1 January to 31 December 2017

€ million	Equity attributable to the shareholders of Porsche SE							
	Subscribed capital	Capital reserves	Retained earnings			Total	Non-controlling interests	Total equity
			Others[3]	Investments accounted for at equity	Other reserves (OCI)			
As of 1 January 2017	306	4,884	24,737	–2,033		27,894		27,894
Adjustment due to IFRS 9			18[1]	–18[1]				
As of 1 January 2017 after adjustment	306	4,884	24,755	–2,051		27,894		27,894
Result for the year			3,278[1]			3,278	0	3,278
Other comprehensive income after tax			1	566[1]		567	0	567
Total comprehensive income			3,278	566		3,845	0	3,845
Dividend payment			–308			–308		–308
Additions from business combinations							1	1
Other changes in equity arising from the level of investments accounted for at equity			–21			–21		–21
As of 31 December 2017	306	4,884	27,705	–1,485		31,410	1	31,410
Reclassifications			0[2]	1,485[2]	–1,485[2]			
As of 31 December 2017 after reclassifications	**306**	**4,884**	**27,704**	**0**	**–1,485**	**31,410**	**1**	**31,410**

1 With regard to the adjustments due to IFRS 9 and IFRS 15, we refer to the explanations in the section "New accounting standards".

2 The presentation of retained earnings was adjusted as of 31 December 2017. The reserve for investments accounted for at equity as well as the foreign currency translation reserve are disclosed under other reserves (OCI).

3 Retained earnings primarily contain cumulative gains. This item also contains gains and losses from the remeasurement of defined benefit obligations pursuant to IAS 19. These amount to €10 million after tax as of 31 December 2017.

Consolidated statement of cash flows of Porsche Automobil Holding SE for the period from 1 January to 31 December 2018

€ million	2018	2017
1. Operating activities		
Result for the year	3,473	3,278[1]
Result from investments accounted for at equity	–3,624	–3,357[1]
Amortization and depreciation	83	6
Gains (-) / losses (+) from the disposal of intangible assets and property, plant and equipment	0	0
Interest expenses	3	12
Interest income	0	–1
Income tax expense	23	21
Other non-cash expenses (+) and income (-)	–5	–1
Change in other assets	–2	–7
Change in provisions for pensions	2	3
Change in other provisions	–1	0
Change in other liabilities	6	–1
Dividends received	601	308
Interest paid	–1	–13
Interest received	1	3
Income tax paid	–4	–1
Income tax received	2	1
Cash flow from operating activities	**558**	**250**
2. Investing activities		
Cash paid for the acquisition of intangible assets and property, plant and equipment	–4	–2
Cash received from the disposal of intangible assets and property, plant and equipment	0	0
Cash paid for the acquisition of subsidiaries	0	–283
Cash paid for the acquisition of shares in investments accounted for at equity	–86	
Cash paid for the acquisition of other shares in entities	–2	–7
Change in investments in securities	46	88
Change in investments in time deposits	–8	579
Cash flow from investing activities	**–54**	**376**
3. Financing activities		
Dividends paid to shareholders of Porsche SE	–538	–308
Cash paid to minority interests	0	0
Cash paid for settlement of financial liabilities	–1	–301
Cash flow from financing activities	**–539**	**–609**
4. Cash and cash equivalents		
Change in cash and cash equivalents (subtotal of 1 to 3)	–35	17
Cash and cash equivalents as of 1 January	664	648
Cash and cash equivalents as of 31 December	**630**	**664**

1 The prior-year figures were adjusted due to the first-time application of IFRS 9 (see section “New accounting standards”).

Notes to the consolidated financial statements of Porsche Automobil Holding SE for the fiscal year 2018

Basis of presentation

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

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

In particular, Porsche SE holds the majority of the ordinary shares in Volkswagen Aktiengesellschaft, Wolfsburg (“Volkswagen AG” or “Volkswagen”). It also indirectly holds shares in PTV Planung Transport Verkehr AG, Karlsruhe (“PTV AG” or “PTV Group”), and the US technology company INRIX Inc., Kirkland, Washington, USA (“INRIX”).

The principal criteria of Porsche SE for investments are the connection to the automotive value chain, industrial production or the future of mobility. The automotive value chain comprises the entire spectrum from basic technologies and supporting the development and production process through to vehicle- and mobility-related services. The prerequisite for investment by Porsche SE is always the positioning in an attractive market environment and above-average growth potential.

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

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

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

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

The consolidated financial statements and the combined management report were authorized for submission to the supervisory board by the executive board by resolution dated 6 March 2019. The period subsequent to the reporting date for which adjusting events can be disclosed ends on that date.

List of shareholdings of the group as of 31 December 2018

	Share in capital as of 31/12/2018	Currency	FX rate 1 € =	Equity in local currency	Result in local currency
	%			thousand	thousand
Fully consolidated entities					
Germany					
Porsche Beteiligung GmbH, Stuttgart	100.0	EUR	-	42,785	0[1]
Porsche Zweite Beteiligung GmbH, Stuttgart	100.0	EUR	-	315,024	0[1]
Porsche Dritte Beteiligung GmbH, Stuttgart	100.0	EUR	-	9,824	0[1]
Porsche Vierte Beteiligung GmbH, Stuttgart	100.0	EUR	-	24	0[1]
PTV Planung Transport Verkehr AG, Karlsruhe	99.9	EUR	-	28,553	−356
DDS Digital Data Services GmbH, Karlsruhe	100.0	EUR	-	413	257
PTV Transport Consult GmbH, Karlsruhe	100.0	EUR	-	3,775	338
Transport Technologie-Consult Karlsruhe GmbH, Karlsruhe	51.0	EUR	-	934	110
International					
Locatienet B.V., Utrecht	92.2	EUR	-	155	86
PTV Africa (Pty) Ltd., Johannesburg	100.0	ZAR	16.4669	251	534
PTV America Holding Inc., Portland, Oregon	100.0	USD	1.1453	−2,365	−203
PTV America Inc., Portland, Oregon	100.0	USD	1.1453	−2,609	−1,008
PTV América Latina, S.A. de C.V., Mexico City	99.0	MXN	22.5204	−7,273	−2,231
PTV Asia-Pacific Pte, Ltd., Singapore	100.0	SGD	1.5594	1,568	−90
PTV Asia-Pacific Pty, Ltd., Sydney	100.0	AUD	1.6224	−662	−232
PTV Austria Planung Transport Verkehr GmbH, Vienna	100.0	EUR	-	805	370
PTV België B.V.B.A., Ypern	100.0	EUR	-	68	12
PTV CEE Sp. z.o.o., Warsaw	100.0	PLN	4.2978	310	1,071
PTV do Brasil Ltda., São Paulo	100.0	BRL	4.4449	293	5
PTV France Sàrl, Strasbourg	100.0	EUR	-	570	237
PTV Italia Logistics S.r.l., Perugia	51.0	EUR	-	853	280
PTV Japan Ltd., Tokyo	100.0	JPY	125.9100	−31,908	−48,774
PTV Loxane SAS, Cergy	100.0	EUR	-	1,155	454
PTV MENA Region DMCC, Dubai	100.0	AED	4.2067	−11,600	−10,382
PTV MENA Region WLL, Doha	49.0	QAR	4.1697	−353	−80
PTV MENA Region Transport Technology Solution L.L.C, Abu Dhabi	49.0	AED	4.2067	1,867	119
PTV Nederland B.V., Utrecht	100.0	EUR	-	1,529	1,269
PTV Nordics AB, Göteborg	100.0	SEK	10.2507	1,629	598
PTV Software Technology (Shanghai) Co., Ltd., Shanghai	100.0	CNY	7.8773	3,472	1,637
PTV Traffic Technology (Shanghai) Co., Ltd., Shanghai	100.0	CNY	7.8773	5,857	282
PTV Traffic and Transportation Software, S.L., Barcelona	100.0	EUR	-	−44	9

	Share in capital as of 31/12/2018	Currency	FX rate 1 € =	Equity in local currency	Result in local currency
	%			thousand	thousand
Fully consolidated entities					
PTV Transworld Holding B.V., Utrecht	100.0	EUR	-	–15	–13
PTV Truckparking B.V., Utrecht	100.0	EUR	-	–782	–112
PTV Truckparking LLC, Arlington, Virginia	100.0	USD	1.1453	–80	–40
PTV UK Ltd., Birmingham	100.0	GBP	0.8969	392	–109
PTV UK Holding Ltd., Halesowen	100.0	GBP	0.8969	815	316
PTV Distribution Planning Software Ltd., Halesowen	100.0	GBP	0.8969	111	–12
SISTeMA Soluzioni per l´Ingegneria dei Sistemi di Trasporto e l´infoMobilitÀ S.r.l., Rome	98.0	EUR	-	2,364	430
Associates					
Germany					
Volkswagen Aktiengesellschaft, Wolfsburg	30.9[2]	EUR	-	33,089,781	4,619,628
VIB Verkehrsinformationsagentur Bayern GmbH i.L., Munich[5,6]	49.0	EUR	-	137	–95
European Center for Information and Communication Technologies - EICT GmbH, Berlin[6]	20.0	EUR	-	1,259	–3
International					
INRIX Inc., Kirkland, Washington[3]	11.7	USD	1.1453	–32,568	–18,858
Mygistics Inc., Kansas City, Missouri	30.0	USD	1.1453	[4]	[4]

1 Profit and loss transfer agreement with Porsche SE
2 Diverging from the capital share, the share in voting rights is 52.4% as of the reporting date
3 Consolidated figures taken from the 2017 consolidated financial statements
4 No data available
5 Diverging fiscal year
6 Figures taken from the 2016 financial statements

An alternative investment fund is also fully consolidated.

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

Changes in the reporting period

In the period from the beginning of December and the reporting date, Porsche SE acquired a total of 0.2% of the ordinary shares in Volkswagen AG via the capital market, increasing Porsche SE's shareholding in the ordinary share capital of Volkswagen AG to 52.4% (prior year: 52.2%). The share held in the subscribed capital of Volkswagen AG increased to 30.9% (prior year: 30.8%). For information on the acquisition of further ordinary shares in Volkswagen AG after the reporting date, reference is made to note [25].

Full consolidation and at equity accounting

The consolidated financial statements of Porsche SE generally include all entities controlled by Porsche SE by means of full consolidation. An entity is controlled when the parent company has decision-making power over the subsidiary due to voting or other rights, it is exposed to, or has rights to, returns from the subsidiary and has the ability to affect those returns through its power over the investee. 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.

Companies where Porsche SE is able, directly or indirectly, to significantly influence financial and operating policy decisions (associates) are accounted for at equity.

When holding 20% or more of the voting rights, there is a rebuttable presumption that significant influence is given. Conversely, when holding less than 20% of the voting rights, it is presumed that there is no significant influence unless there is clear evidence of such significant influence.

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 significantly influence its financial and operating policy decisions through participation rights granted on the board of directors and related committees.

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

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

Investments in associates

Volkswagen AG, 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 2018, the market value of the investment in Volkswagen AG amounts to €21,527 million (prior year: €26,007 million). In the fiscal year, Porsche SE received a dividend of €601 million from Volkswagen AG (prior year: €308 million).

Taking into account the identification and subsequent effects of hidden reserves and liabilities for the shares held 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 or FY2018 (29.88%) 31/12/2018	VW acquisition of shares in FY2015 (0.88%) 31/12/2018	VW acquisition of shares in FY2018 (0.12%) 31/12/2018	VW Total 31/12/2018
Non-current assets	274,161	302,695	320,384	-
Current assets	183,566	183,536	186,436	-
Non-current liabilities	172,172	182,786	186,286	-
Current liabilities	167,968	167,968	167,968	-
Equity	117,587	135,477	152,566	-
thereof non-controlling interests and hybrid capital investors	–12,895	–12,821	–12,821	-
Effects from additional dividends	–93	–38	0	-
Equity adjusted for at equity accounting	104,599	122,618	139,745	-
Carrying amount of the investment in Volkswagen AG accounted for at equity	**31,250**	**1,076**	**166**	**32,491**

€ million	VW without acquisition in FY2015 (29.88%) 31/12/2017	VW acquisition of shares in FY2015 (0.88%) 31/12/2017	VW Total 31/12/2017
Non-current assets	262,692[1]	293,605[1]	-
Current assets	160,047[1]	160,016[1]	-
Non-current liabilities	152,981[1]	164,417[1]	-
Current liabilities	160,578[1]	160,578[1]	-
Equity	109,179[1]	128,626[1]	-
thereof non-controlling interests and hybrid capital investors	–11,391[1]	–11,317[1]	-
Effects from additional dividends	–80	–26	-
Equity adjusted for at equity accounting	97,708[1]	117,283[1]	-
Carrying amount of the investment in Volkswagen AG accounted for at equity	**29,191[1]**	**1,029[1]**	**30,219**

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9 and IFRS 15 (see section “New accounting standards”).

€ million	VW without acquisition in FY2015 or FY2018 (29.88%) 2018	VW acquisition of shares in FY2015 (0.88%) 2018	VW acquisition of shares in FY2018 (0.12%) 2018	VW Total 2018
Revenue	235,849	235,849	0	-
Total comprehensive income	9,207	7,651	0	-
thereof other comprehensive income	–2,715	–3,078	0	-
thereof profit from continuing operations	11,922	10,729	0	-
Result attributable to non-controlling interests and hybrid capital investors	–326	–326	0	-
Effects from additional dividends	–12	–12	0	-
Result for the year adjusted for at equity accounting	11,584	10,390	0	-
Income from first-time valuation at equity of newly acquired shares	0	0	79	-
Result from investment in Volkswagen AG accounted for at equity	**3,461**	**91**	**79**	**3,631**

€ million	VW without acquisition in FY2015 (29.88%) 2017	VW acquisition of shares in FY2015 (0.88%) 2017	VW Total 2017
Revenue	229,550[1]	229,550[1]	-
Total comprehensive income	13,080	11,010	-
thereof other comprehensive income	1,850[1]	197[1]	-
thereof profit from continuing operations	11,230[1]	10,813[1]	-
Result attributable to non-controlling interests and hybrid capital investors	–284	–284	-
Effects from additional dividends	–12	–12	-
Result for the year adjusted for at equity accounting	10,934[1]	10,517[1]	-
Result from investment in Volkswagen AG accounted for at equity	**3,267[1]**	**92[1]**	**3,359**

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9 and IFRS 15 (see section “New accounting standards”).

The carrying amount of other investments accounted for at equity comes to €10 million (prior year: €15 million). The result from other investments accounted for at equity breaks down as follows:

€ million	2018	2017
Result from continued operations	–7	–2
Other comprehensive income	2	–4
Total comprehensive income	**–5**	**–6**

Consolidation principles

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

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

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

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets.

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.

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

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

Equity accounting
When investments in associates are acquired, they are recognized at cost, including acquisition-related costs, as of the date of initial recognition. In the event of partial sale or loss of control of previously fully consolidated subsidiaries, they are recognized at fair value as of the date when control is lost. Any excess of the cost of the acquisition over the acquired share in the fair value of the identifiable assets, liabilities and contingent liabilities is recognized as goodwill. Goodwill is a component of the carrying amount of the investment and is not tested separately for impairment. Any negative difference is recognized through profit or loss at the date when the investment is initially accounted for.

In subsequent periods, the carrying amount is remeasured to reflect the Porsche SE Group's share of changes in net assets of the associate (at equity method). The group's share in the result for the year and after non-controlling interests of the investment is recognized in the income statement within the item "result from investments accounted for at equity". Changes in the other comprehensive income of these investments are recognized in the other comprehensive income of the group. Furthermore, changes by the group recognized directly in the equity of the associate are recorded in the amount of its share of equity. Dividends received lead to a reduction of the investment's carrying amount with no effect on net income.

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, it is recognized through profit or loss.

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

Currency translation

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

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

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

		Balance sheet Closing rate	
		Porsche SE Group	Porsche SE Group
	1€=	**31/12/2018**	31/12/2017
Argentina	ARS	43.1569	22.9920
Australia	AUD	1.6224	1.5329
Brazil	BRL	4.4449	3.9707
Canada	CAD	1.5593	1.5026
China	CNY	7.8773	7.8009
Czech Republic	CZK	25.7245	25.5790
India	INR	79.9065	76.5670
Japan	JPY	125.9100	134.8700
Mexico	MXN	22.5204	23.6142
Poland	PLN	4.2978	4.1749
Qatar	QAR	4.1697	4.3647
Republic of Korea	KRW	1,276.9000	1,278.2200
Russia	RUB	79.8377	69.3352
Singapore	SGD	1.5594	1.6014
South Africa	ZAR	16.4669	14.7572
Sweden	SEK	10.2507	9.8314
United Arab Emirates	AED	4.2067	4.4032
United Kingdom	GBP	0.8969	0.8873
USA	USD	1.1453	1.1988

		Income statement Average rate	
		Porsche SE Group	Porsche SE Group
	1€=	2018	2017
Argentina	ARS	32.8936	18.7264
Australia	AUD	1.5802	1.4730
Brazil	BRL	4.3073	3.6047
Canada	CAD	1.5303	1.4644
China	CNY	7.8077	7.6269
Czech Republic	CZK	25.6431	26.3292
India	INR	80.7147	73.5015
Japan	JPY	130.4016	126.6676
Mexico	MXN	22.7150	21.3318
Poland	PLN	4.2610	4.2573
Qatar	QAR	4.3023	4.3223
Republic of Korea	KRW	1,299.4138	1,275.9497
Russia	RUB	74.0821	65.8888
Singapore	SGD	1.5930	1.6029
South Africa	ZAR	15.6224	15.0454
Sweden	SEK	10.2583	9.6370
United Arab Emirates	AED	4.3400	4.3604
United Kingdom	GBP	0.8848	0.8763
USA	USD	1.1816	1.1293

Accounting policies

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

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

Measurement principles

With the exception of certain items, for example 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

Goodwill

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

Research and development

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

Other intangible assets

Other intangible assets acquired by the group with finite useful lives are recognized at cost less accumulated amortization and any accumulated impairment losses.

Amortization is charged over the useful life using the straight-line method. Useful lives mainly range from three to 15 years. Other intangible assets in the balance sheet do not contain any assets with indefinite useful lives.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation over their economic useful life as well as any accumulated impairment losses. Self-constructed items of property, plant and equipment are recognized at cost. Cost is determined on the basis of the direct and the proportionate indirect production-related costs. Grants for assets are generally deducted from cost.

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

Depreciation is based on the following useful lives:

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

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

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

Leases

The determination of whether an arrangement contains a lease is based on the substance of the arrangement at the inception date.

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 at the level of associates 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 vehicle offer and 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, lease or rental payments are recognized directly 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, at the present value of the minimum lease payments. 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.

Borrowing costs

Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset are recognized as part of the cost of that qualifying asset.

Impairment test

An impairment test is performed at least once a year for goodwill, capitalized development costs for products not yet ready for use and intangible assets with an indefinite useful live. For intangible assets with finite useful lives, property, plant and equipment as well as investments accounted for at equity an impairment test is only performed when there is an indication that the asset may be impaired. At the end of each reporting period, the group assesses whether there is any indication of impairment. With respect to the procedure for impairment testing of investments accounted for at equity, reference is made to the section “Equity accounting” under “Consolidation principles” above.

The recoverable amount is determined in the course of impairment testing. The recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is determined on the basis of the estimated future cash flows expected to arise from the continuing use of the asset and its disposal using a discounted cash flow method or capitalized earnings method.

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

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

Investment property

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

Inventories

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

Production cost is recognized based on directly attributable costs and overheads. Borrowing costs are not capitalized. Inventories of a similar nature are generally measured using the weighted average cost method.

Financial instruments

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.

Initial recognition of financial instruments

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

Subsequent measurement of financial assets

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

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

The classification and measurement of financial assets is determined using the business model used to control them as well as the structure of the cash flows.

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

A debt instrument is recognized at fair value with changes in value through other comprehensive income (FVOCI debt instruments) if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. No financial assets are currently allocated to this category at the level of Porsche SE and its subsidiaries. At the level of associates, changes in the fair value of FVOCI debt instruments are generally recognized through other comprehensive income taking deferred taxes into account. Interest income, remeasurements of currency translation gains and losses as well as impairment losses or reversals of impairment losses are recognized through profit or loss and calculated in the same way as financial assets measured at amortized cost. The remaining changes in fair value are recognized through other comprehensive income. Upon derecognition, cumulative gains or losses from changes in fair value recognized through other comprehensive income are recycled to profit or loss.

Upon initial recognition of an equity instrument, an entity can elect to irrevocably recognize subsequent fair value changes in the investment through other comprehensive income. These instruments must meet the definition of equity under IAS 32 and must not be held for trading. Dividends are generally recognized through profit or loss for these instruments. Other net gains or losses are recognized through other comprehensive income and never recycled to profit or loss. This option can be exercised on an investment-by-investment basis. FVOCI equity instruments are not tested for impairment. This option is not currently exercised at the Porsche SE Group. At the level of associates, this option is generally exercised for investments.

All financial assets that are not measured at amortized cost or at fair value with changes in value through other comprehensive income (FVOCI) are measured at fair value with changes in value through profit or loss (FVtPL). These instruments primarily provide for the recognition of contractual cash flows in the course of sales. Net gains and losses, including any interest or dividend income, are recognized through profit or loss. At the Porsche SE Group, this category primarily includes securities and derivatives that were not designated as effective hedging instruments. The fair value option for financial assets is not applied. At the level of associates, this category is largely made up of derivatives outside of hedge accounting and shares in investment funds.

Impairment of financial instruments

Financial assets are subject to default risks that are taken into account by recognizing risk provisions or, for losses that have already been incurred, by recognizing an impairment loss. Loss allowances on receivables are generally recognized applying a simplified approach taking into account historical loss rates as well as using specific loss allowances. The default risk of receivables and loans within the financial services business at the level of the associates is accounted for by recognizing specific loss allowances and portfolio-based allowances.

Applying uniform group guidelines, a risk provision is recognized for financial receivables that is measured at an amount equivalent to the expected loss. This risk provision is then used to measure the actual specific loss allowances of the losses incurred. Indicators of a potential impairment not only 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, but also receivables that are not past due.

At the level of associates, portfolio-based loss allowances are recognized by grouping together non-significant receivables and significant individual receivables for which there is no indication of impairment into homogeneous portfolios on the basis of comparable credit risk features and allocating them by risk class. Average historical probabilities of default combined with forward-looking parameters of the respective portfolio are used to determine the amount of impairment. Loss allowances on trade receivables are generally recognized in separate allowance accounts.

Subsequent measurement of financial liabilities

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

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

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

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

Fair value of financial instruments

Fair value corresponds to the market or stock price, provided the financial instruments measured are traded on an active market. If there is no active market for a financial instrument, fair value is calculated using appropriate valuation techniques such as generally accepted option 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. The carrying amount of current financial assets and liabilities not measured at fair value through profit or loss provides an approximation of their fair value.

Derecognition of financial instruments

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

Derivative financial instruments

Derivative financial instruments are measured at fair value in subsequent periods.

The way in which fair value changes for the hedging instruments are accounted for depends on the type of hedging relationship. In the case of fair value hedges, both the hedging instrument and the secured portion of the risk of the hedged transaction are recognized at fair value. If necessary, several portions of the risk of the hedged transaction are combined into one portfolio. In the case of a portfolio-based fair value hedge, 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 through profit or loss. It was decided not to continue to apply the hedge accounting requirements of IAS 39 in full. As of the beginning of the fiscal year 2018, only the requirements on portfolio hedges concerning the interest risk for financial services companies pursuant to IAS 39 are still relevant in addition to the regulations of IFRS 9 at the level of associates.

Cash flow hedges are also measured at fair value. At the level of the associates, the designated effective portion of the hedging instrument is recognized through other comprehensive income as is the non-designated effective portion of the hedging instrument. Only when the hedged transaction is realized are the effects recognized through profit or loss; the ineffective portion of a cash flow hedge is immediately recognized through 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 on a net basis or by realizing the liability together with the related asset.

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 loss carryforwards and tax credits if it is probable that they will be used. Deferred tax liabilities are generally recognized 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 recognized on deferred tax assets whose realization in the foreseeable future is no longer 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 relating to items recognized through other comprehensive income or directly in equity is also recognized through other comprehensive income or directly 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 at 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 through other comprehensive income or directly in equity is likewise also recognized through other comprehensive income or directly in equity.

Provisions for pensions and similar obligations

The obligations for defined benefit plans are measured using the projected unit credit method in accordance with IAS 19. This method not only the takes into account the pension payments and vested benefits known at the reporting date, but also future anticipated increases in salaries and pensions as well as experience-based fluctuation rates. Remeasurements are recognized through other comprehensive income after deferred tax has been taken into account.

If pension obligations are funded by plan assets, the obligation and the assets are offset. Service cost is presented as personnel expense while 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 that 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.

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

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

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

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

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

For sales of new and used vehicles and original parts, the service is regularly rendered by the company upon delivery, as control has thus been transferred as well as the inventory risk and, in the case of delivery to a dealer, also regularly the pricing. Revenue is reported net of sales deductions (discounts, price concessions, customer bonuses and rebates). Sales deductions and other variable consideration are measured on the basis of past experience and also taking into account the respective current conditions. Vehicles are generally sold with terms of payment. A trade receivable is recognized between the vehicle being delivered and the license being handed over to the customer and receipt of payment. A financing component contained therein is only accrued if the period between performance and consideration is longer than one year and the amount to be accrued is significant.

Income from customer financing and finance leases is recognized under revenue using the effective interest method. Where vehicle financing bears no or low interest 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.

For contracts under which the service is rendered over time, revenue is recognized either on the basis of progress towards complete satisfaction of the service or, as a practical expedient, on a straight-line basis depending on the type of service rendered. The latter option, however, only applies if straight-line revenue recognition does not deviate significantly from recognition based on progress. As a rule, the progress is measured using costs incurred by the reporting date as a percentage of the total expected contract costs (cost-to-cost method). The contract costs incurred are regularly the best indicator for measuring to what degree the performance obligations have been satisfied. If the result from a performance obligation rendered over time cannot yet be estimated reliably, but the company expects to at least have its costs reimbursed by the customer, revenue is only recognized at the amount of the contract costs incurred (zero-profit-margin method). If the anticipated costs exceed anticipated revenue, the anticipated loss is immediately expensed by writing down any related assets recognized and, if necessary, also recognizing provisions. As long-term construction contracts regularly involve conditional receivables due from the customer until completion or until the customer has paid, contract assets are recognized accordingly. A trade receivable is recognized as soon as the company has rendered the service in full.

If a contract contains several identifiable components (multiple-element arrangements), they are realized separately in line with the above principles.

If services have already been sold together with the vehicle and the customer has paid in advance, the group recognizes a corresponding contract liability until the service has been rendered. Examples of services that the customer pays for in advance include inspection agreements, maintenance agreements, certain guarantee agreements and mobile online services.

Revenue from the disposal of assets for which a group entity has a buyback obligation are not 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 price and present value of the repurchase price is recognized as income ratably over the term of the contract. Until that date, the assets are recognized under inventories if the term of the agreement is short, or under leased assets in case of long-term agreements.

Revenue is generally measured at the contract price. If the consideration in the contract includes a variable amount, revenue is generally estimated using the expected value method on account of the large number of contracts. In exceptional cases, the most likely amount method is also used. After estimating the anticipated revenue, it is checked once more whether any uncertainties exist that would reduce the amount of revenue initially recognized so as to nearly rule out the risk of a negative correction being subsequently made to revenue.

For multiple-element arrangements, the transaction price is allocated to the various performance obligations of the contract. For contracts in the automotive division at the level of associates in which non-vehicle services are immaterial in value compared to the vehicle itself, the residual method continues to be applied. In this way, the circumstances and conditions that apply in each individual contract are taken into account. Compared to the allocation of the transaction price based on stand-alone selling prices, this approach only leads to insignificant differences in revenue recognition. In other business divisions and for contracts with two or more performance obligations each with similar values, the transaction price is allocated to the performance obligations based on relative stand-alone selling prices.

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

Interest income and expenses for financial instruments measured at amortized cost are determined using the effective interest method.

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

Production and manufacture-related expenses are recognized upon delivery or utilization of the service, while all other expenses are expensed as incurred. The same applies for development costs not eligible for recognition 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 (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 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 has to be recognized as an asset. An explanation is provided in the notes if an inflow of economic benefits is probable.

Accounting estimates and judgments of the management

The preparation of the consolidated financial statements requires certain estimates and judgments that have an effect on recognition, measurement and presentation of assets, liabilities, income and expenses as well as contingent assets and contingent liabilities. These judgments and estimates reflect all the information available.

The main matters affected by estimates and judgments at the level of the investees and which thus influence the result 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, leased assets, investments accounted for at equity or investments measured at cost. 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 of non-controlling interests recognized in liabilities, the measurement of provisions for pensions as well as the accounting and measurement of warranty provisions and other provisions.

Additional key sources of estimation at the level of Porsche SE in particular include the testing of the carrying amounts of investments for impairment and reversal of impairment (see note [7]) and intangible assets (see note [6]), the preliminary realization of a negative difference from the acquisition of further shares in Volkswagen AG, the measurement of income tax liabilities and other provisions as well as contingent liabilities (particular reference is made to the descriptions of legal matters in dispute asserted by plaintiffs in note [20]).

Key sources of judgment are identifying indicators of an impairment of associates and intangible assets, the reversal of deferrals as well as recognizing current taxes (reference is made to note [5]), provisions and contingent liabilities (particular reference is made to the descriptions of legal matters in dispute in note [20]).

Another key source of estimate 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: on the one hand, the effects at the level of the Volkswagen Group indirectly via its investment in Volkswagen AG and, on the other, directly on account of the claims asserted against Porsche SE itself.

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

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 of Volkswagen Group with type 2.0 l diesel engines in the USA. In this context, Volkswagen AG 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 type EA 189 diesel engines. On 2 November 2015, the EPA issued a notice of violation alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines. Numerous court and governmental proceedings against the Volkswagen Group were subsequently initiated in the USA and the rest of the world.

In the fiscal year 2018, special items of €3.2 billion were recognized at the level of the Volkswagen Group. The main reasons for the expenses are the €1.8 billion penalties imposed by the Braunschweig public prosecutor's office and the Munich II public prosecutor's office in connection with the diesel issue, higher legal risks and legal defense costs as well as expenses for technical measures. The diesel issue led to total special items of minus €29.0 billion in the years 2015 to 2018.

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

Further significant financial liabilities may emerge for the Volkswagen Group due to existing estimation risks particularly from legal risks, such as criminal, administrative and civil proceedings, technical solutions, lower market prices, repurchase obligations, customer-related measures and possible official or statutory requirements for diesel vehicles.

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 Volkswagen's rating could adversely affect the terms associated with the Volkswagen Group's borrowings.

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

1. Coordination with the authorities on technical measures worldwide

In agreement with the respective responsible authorities, the Volkswagen Group is making technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines.

Within its area of responsibility, the German Federal Motor Transport Authority (Kraftfahrt-Bundesamt or KBA) ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO_2 emission figures, engine power, maximum torque, and noise emissions.

AUDI AG has worked intensively for many months to check all relevant diesel concepts for possible discrepancies and retrofit potentials. The measures proposed by AUDI AG have been adopted and mandated in various recall notices issued by the KBA for vehicle models with V6 and V8 TDI engines.

Currently, AUDI AG assumes that the total cost, including the amount based on recalls, of the ongoing largely software-based retrofit program that began in July 2017 will be manageable and has recognized corresponding balance-sheet risk provisions. The measures submitted by AUDI AG are being examined by the KBA and can only be made available to customers after corresponding approval by the KBA.

The Ministry of Environment in South Korea qualified certain emissions strategies in the engine control software of various diesel vehicles with V6 or V8-TDI engines meeting the Euro 6 emission standard as an unlawful defeat device and ordered a recall on 4 April 2018; the same applies to the Dynamic Shift Program (DSP) in the transmission control of a number of Audi models.

In the USA, in the fiscal year 2018, the EPA and CARB issued the outstanding official approvals needed for the technical solutions for the affected vehicles with 2.0 l TDI and with V6 3.0 l TDI engines. In the case of 2.0 l Generation 2 diesel vehicles with manual transmissions, Volkswagen Group of America, Inc. elected to withdraw the approved emissions modification proposal, whereby owners were given the option of a buyback and lessees were given the option of early lease termination.

On 31 October 2018, after discussions with DOJ, EPA, and CARB, the parties agreed to modify the First and Second Partial Consent Decrees to clarify that Volkswagen may repair certain technical issues with approved emissions modifications through an "AEM Correction" (Approved Emissions Modifications).

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

Criminal investigations, regulatory offense proceedings, and/or administrative proceedings (in Germany for example by the Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin – Federal Financial Supervisory Authority) have been opened in some countries. The public prosecutor's offices in Braunschweig and Munich are investigating the core issues of the criminal investigations.

The Braunschweig public prosecutor's office is investigating approximately 40 (current and former) employees and a former member of the board of management for possible fraud, among other things. The investigations are ongoing. The defendants and Volkswagen AG were permitted to inspect the investigation files.

The regulatory offense proceeding that was opened against Volkswagen AG in this connection in April 2016 has been terminated by the administrative fine order issued against Volkswagen AG by the Braunschweig public prosecutor's office on 13 June 2018. The administrative fine order is based on a negligent breach in the Powertrain Development department of the obligation to supervise, relating to the period from mid-2007 to 2015 and a total of 10.7 million vehicles with diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. The administrative order imposes a total fine of €1.0 billion, consisting of a penalty payment of €5 million and the forfeiture of economic benefits in the amount of €995 million. After thorough examination, the fine has been accepted and paid in full by Volkswagen AG, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against Volkswagen AG. Further sanctions against or forfeitures by Volkswagen AG and its group companies are therefore not expected in Germany in connection with the unitary factual situation covered by the administrative order concerning diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. As a result, Volkswagen expects that the conclusion of this proceeding will have a substantially positive impact on other governmental proceedings being conducted in Europe against Volkswagen AG and its group companies.

The Braunschweig public prosecutor's office is conducting another proceeding against three (current or former) members of the board of management for alleged market manipulation with respect to capital market disclosure obligations in connection with the diesel issue. In this context, the public prosecutor's office has been conducting a regulatory offense proceeding against Volkswagen AG under Sec. 30 OWiG (German Regulatory Offenses Act) since 30 July 2018. Volkswagen AG has since been permitted to inspect the public prosecutor's investigation files several times. The investigations are ongoing.

The Munich II public prosecutor's office is conducting investigations against 24 persons, including the former chairman of the board of management of AUDI AG (who is also a former member of the board of management of Volkswagen AG) and another active member of the board of management of AUDI AG. The investigations are ongoing. AUDI AG has appointed two renowned major law firms to clarify the matters underlying the public prosecutor's accusations. The board of management and supervisory board of AUDI AG are being regularly updated on the current state of affairs.

The administrative fine order issued on 16 October 2018 by the Munich II public prosecutor's office terminates the regulatory offense proceeding conducted against AUDI AG in this connection. The administrative fine order is based on a negligent breach of the obligation to supervise occurring in the organizational unit “Emissions Service/Engine Type Approval”. The administrative order imposes a total fine of €800 million, consisting of a penalty payment of €5 million and the forfeiture of economic benefits in the amount of €795 million. After thorough examination, the fine has been accepted and paid in full by AUDI AG, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against AUDI AG. Further sanctions against or forfeitures by AUDI AG are therefore not to be expected in Europe in connection with the unitary factual situation underlying the administrative fine order.

The Stuttgart public prosecutor's office has commenced a criminal investigation relating to the diesel issue against one board member, one employee, and one former employee of Dr. Ing. h.c. F. Porsche AG on suspicion of fraud and illegal advertising as well as an analogous regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG under Sec. 30 OWiG. Dr. Ing. h.c. F. Porsche AG has appointed two renowned major law firms to clarify the matter underlying the public prosecutor’s accusations. The board of management and supervisory board of Dr. Ing. h.c. F. Porsche AG are being regularly updated on the current state of affairs.

On 6 July 2018, the Federal Constitutional Court rendered its decision on the constitutional complaints filed in connection with the search of the premises of the law firm Jones Day, holding that the lower court ruling affirming the provisional seizure of client engagement documents and data of Volkswagen AG did not violate constitutional law. The companies of the Volkswagen Group will continue to cooperate with the German government authorities with due regard for the ruling of the German Federal Constitutional Court.

Whether the criminal and administrative proceedings will ultimately result in fines for the company, and if so in what amount, is currently subject to estimation risks. According to Volkswagen’s estimates so far, the likelihood that a sanction will be imposed is not more than 50% in the majority of these proceedings. Provisions were recognized to a small extent.

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

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

Customer class action lawsuits and actions brought by consumer and/or environmental associations are pending against Volkswagen AG and other companies of the Volkswagen Group in various countries including Argentina, Austria, Australia, Belgium, Brazil, Chile, China, the Czech Republic, Germany, Israel, Italy, Mexico, the Netherlands, Poland, Portugal, Spain, South Africa, South Korea, Switzerland, Taiwan, and the United Kingdom. Alleged rights to damages and other relief are asserted in these actions.

The actions pending in the aforementioned countries include in particular the following:

Various class action lawsuits with opt-out mechanism, one individual lawsuit, and two civil suits by the Australian Competition and Consumer Commission are currently pending in Australia against Volkswagen AG and other group companies, including the Australian subsidiaries. These proceedings have been joined with each other. Given the opt-out rule, the class actions have the potential to automatically cover all vehicles with type EA 189 engines unless the right to opt out is actively exercised. In all, approximately 100 thousand vehicles in the Australian market with type EA 189 engines are affected. An initial court hearing lasting several weeks was held in March 2018 on technical questions; further issues are to be argued in September 2019.

In Belgium, the Belgian consumer organization Test Aankoop VZW has filed a class action to which an opt-out mechanism has been held to apply. The class action pertains to vehicles purchased by consumers on the Belgian market after 1 September 2014. The asserted claims are based on purported violations of unfair competition and consumer protection law as well as on alleged breach of contract. An initial hearing for oral argument has yet to take place in this matter. The court has extended the statutorily mandated negotiation phase until 8 July 2019.

In Brazil two class actions are pending. One of them pertains to approximately 17 thousand vehicles. In this proceeding, a judgment, which is not yet final, has been rendered holding Volkswagen do Brasil liable in an amount of €0.3 billion plus interest. The judgment has been appealed. In the second class action alleged compensation claims are made based on purported breaches of environmental regulations.

In Germany, the Verbraucherzentrale Bundesverband e. V. (Federation of Consumer Organizations) filed an action on 1 November 2018 with the Braunschweig Higher Regional Court for model declaratory judgment against Volkswagen AG. The complaint is seeking a ruling that certain preconditions for potential consumer claims against Volkswagen AG are met; however, no specific payment obligations would result from any determinations the court may make. Individual claims then would have to be enforced afterwards in subsequent separate proceedings.

In addition, various actions have been brought against companies of the Volkswagen Group in several German Regional Courts (Landgericht) by financialright GmbH, which is asserting rights assigned to it by a total of approximately 46 thousand customers in Germany, Slovenia, and Switzerland.

In England and Wales, suits filed in court by various law firms have been joined in a single collective action (group litigation). Roughly 117 thousand claimants joined the group litigation prior to expiration of the opt-in deadline on 19 December 2018; around 40 thousand additional plaintiffs not currently covered by the group litigation could still be added. Because of the opt-in mechanism, not all vehicles with type EA 189 engines are automatically covered by the group litigation; potential claimants must instead take action in order to join. A judicial case management conference is scheduled for March 2019. No oral argument on the substantive merits of the claims has as yet taken place.

In Italy, two class action lawsuits have been filed with the Venice Regional Court by two consumer associations (Altroconsumo and Codacons) acting on behalf of Italian customers. Damage claims based on alleged breach of contract as well as claims based on purported violations of Italian consumer protection law are being asserted in these proceedings. In the Codacons proceeding, the court dismissed the class action as inadmissible on 18 December 2018. In the Altroconsumo proceeding, the deadline for the filing of claims has passed and those filed are currently being tabulated by an appointed expert.

In the Netherlands, Stichting Volkswagen Car Claim has brought an opt-in class action seeking declaratory rulings. Any individual claims would then have to be reduced to judgment afterwards in a separate proceeding.

Several lawsuits filed by the Austrian consumer protection organization (VKI Verein für Konsumentenschutz) and by the Cobin Claims platform are pending in Austria. In these actions, damage claims assigned for collection to VKI or to the Cobin Claims platform are being asserted on behalf of roughly 10 thousand customers.

A Portuguese consumer organization has filed a class action with opt-out mechanism in Portugal. There are approximately 126 thousand affected vehicles in the Portuguese market. The complaint seeks vehicle return and alleges damages as well.

Volkswagen estimates the likelihood that the plaintiffs will prevail to be 50% or less for the majority of the customer class actions and the complaints filed by consumer and/or environmental organizations. Since most of these proceedings are still in an early stage, it is in many cases not yet possible to quantify the realistic risk exposure. Provisions were recognized to a small extent at the level of the Volkswagen Group.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in various countries, most of which are seeking damages or rescission of the purchase contract. In Germany, there are around 46 thousand such individual lawsuits. A total of approximately one thousand additional individual lawsuits are pending in other countries. According to Volkswagen's estimates, the likelihood that the plaintiffs will prevail is 50% or less in the vast majority of the individual lawsuits. In addition, provisions were recognized at the level of the Volkswagen Group to the extent necessary based on the current assessment.

At this time it cannot be estimated how many customers will choose to file lawsuits in the future in addition to those already pending given the action for model declaratory judgment in Germany, among other things, and what their prospect of success will be.

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

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

The vast majority of these investor lawsuits are currently pending at the Regional Court in Braunschweig. On 5 August 2016, the Regional Court in Braunschweig ordered that common questions of law and fact relevant to the lawsuits pending at the Regional Court in Braunschweig be referred to the Higher Regional Court (Oberlandesgericht) in Braunschweig for binding declaratory rulings pursuant to the German Act on Model Case Proceedings in Disputes Regarding Capital Market Information (Kapitalanleger-Musterverfahrensgesetz – KapMuG). In this proceeding, common questions of law and fact relevant to these actions are to be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig (model case proceedings). All lawsuits at the Regional Court in Braunschweig will be stayed pending resolution of the common issues, unless the cases can be dismissed for reasons independent of the common issues that are to be adjudicated in the model case proceedings. The resolution in the model case proceedings of the common questions of law and fact will be binding for all pending cases that have been stayed in the described manner. In the model case action, hearing for oral argument before the Braunschweig Higher Regional Court began on 10 September 2018 and was continued in subsequent sessions. Tracking the objects of declaratory judgment, the Court gave indications as to its preliminary assessment. Oral argument is to continue in 2019.

At the Regional Court in Stuttgart, further investor lawsuits have been filed against Volkswagen AG, in some cases along with Porsche SE as joint and several debtor. On 6 December 2017, the Regional Court in Stuttgart issued an order for reference to the Higher Regional Court in Stuttgart in relation to procedural issues, particularly for clarification of jurisdiction. An action for model declaratory judgment concerning the diesel issue is also pending against Porsche SE before the Stuttgart Higher Regional Court; as the case currently stands, Volkswagen AG is model case defendant in this action as well.

Further investor lawsuits have been filed at various courts in Germany and the Netherlands. In Austria, the first-instance dismissal of the last investor complaint pending in connection with the diesel issue became binding in the reporting period.

Worldwide (excluding USA and Canada), investor lawsuits, judicial applications for dunning procedures and conciliation proceedings, and claims under the KapMuG are currently pending against Volkswagen AG in connection with the diesel issue, with the claims totaling roughly €9.6 billion. Volkswagen AG remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits.

5. 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.

Volkswagen AG and other Volkswagen Group companies are facing litigation in the USA/Canada on a number of different fronts relating to the matters described in the EPA's notices of violation. In that respect, investigations by various US and Canadian regulatory and government authorities are ongoing, particularly in areas relating to securities, financing and tax. Additionally, in the USA and Canada, certain putative class actions by customers, investors, salespersons and dealers; individual customers' lawsuits and claims by state, provincial or municipal authorities have been filed in various courts, including state and provincial courts. A large number of these putative class action lawsuits have been filed in US federal courts and consolidated for pretrial coordination purposes in the federal multidistrict litigation proceeding in the State of California.

In the USA, Volkswagen has reached separate agreements with the attorneys general of 49 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. New Mexico still has consumer protection claims outstanding. Volkswagen has also reached separate agreements with the attorneys general of thirteen US states (California, Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Vermont, and Washington) to resolve their existing or potential future claims for civil penalties and injunctive relief for alleged violations of environmental laws. The attorneys general of eight other US states (Alabama, Illinois, Montana, New Hampshire, New Mexico, Ohio, Tennessee, and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, alleging violations of environmental laws. The environmental claims of eight states – Alabama, Illinois, Missouri, Minnesota, Ohio, Tennessee, Texas, and Wyoming – as well as Hillsborough County (Florida), Salt Lake County (Utah), and two Texas counties, have been dismissed in full or in part by trial or appellate courts as preempted by federal law. Alabama, Illinois, Ohio, Tennessee, Hillsborough County, and Salt Lake County have appealed or may still appeal the dismissal of their claims.

The U.S. Securities and Exchange Commission (the “SEC”) has requested information from Volkswagen regarding potential violations of securities laws in connection with issuances of bonds and asset-backed securities, as a result of nondisclosure of certain Volkswagen diesel vehicles’ noncompliance with US emission standards. The SEC informed Volkswagen that it had issued a formal order of investigation in January 2017; this investigation is ongoing. The SEC Staff subsequently informed Volkswagen that the SEC might bring an enforcement action against Volkswagen arising out of this investigation.

On 28 August 2018, Volkswagen AG and a putative class of purchasers of Volkswagen AG American Depositary Receipts agreed to settle the class’ claims alleging a drop in price purportedly resulting from the matters described in the EPA’s notices of violation in exchange for a cash payment of US$ 48 million. The proposed settlement was granted preliminary approval by the court in November 2018.

On 21 December 2017, Volkswagen announced an agreement in principle on a proposed consumer settlement in Canada involving 3.0 l diesel vehicles that was approved by the courts in Ontario and Quebec in April 2018. Also in Canada, a criminal enforcement-related investigation related to 2.0 l and 3.0 l diesel vehicles by the federal environmental regulator is ongoing, and a quasi-criminal enforcement-related offense has been charged by the Ontario provincial environmental regulator related to 2.0 l diesel vehicles. Additionally, in Quebec, a certified environmental class action on behalf of residents is pending. This environmental class action was authorized on the sole issue of whether punitive damages could be recovered. Volkswagen is seeking leave to appeal this authorization ruling. Class action and joinder lawsuits have also been filed in Canada, including alleged consumer protection and securities claims asserting damages among other things.

6. Additional proceedings

With its ruling of 8 November 2017, the Higher Regional Court of Celle ordered, upon the request of three US funds, the appointment of a special auditor for Volkswagen AG. The special auditor is to examine whether there was a breach of duties on the part of the members of the board of management and supervisory board of Volkswagen AG in connection with the diesel issue on or after 22 June 2006 and, if so, whether this resulted in damages for Volkswagen AG. The ruling by the Higher Regional Court of Celle is formally unappealable. However, Volkswagen AG has filed a constitutional complaint with the German Federal Constitutional Court alleging infringement of its constitutionally guaranteed rights. It is currently unclear when the German Federal Constitutional Court will reach a decision on this matter. Following the formally unappealable ruling from the Higher Regional Court of Celle, the special auditor appointed by the court indicated that he was not available to conduct the special audit on grounds of age. The US funds then applied to the Regional Court of Hanover to appoint another special auditor. Volkswagen AG is of the opinion that replacing the court-appointed special auditor in this manner is impermissible and has requested that the application for the appointment of a new special auditor be denied. A decision by the Regional Court of Hanover is expected in the course of 2019.

In addition, a second motion seeking appointment of a special auditor for Volkswagen AG to examine matters relating to the diesel issue has been filed with the Regional Court of Hanover. This proceeding has been suspended until the German Federal Constitutional Court renders its decision in the first special auditor litigation.

7. Risk assessment regarding the diesel issue

An amount of around €2.4 billion has been included in the provisions for litigation and legal risks as of 31 December 2018 to protect against the currently known legal risks related to the diesel issue based on existing information and current assessments. Insofar as these can be adequately measured at this stage, contingent liabilities relating to the diesel issue were disclosed in the notes in an aggregate amount of €5.4 billion (prior year: €4.3 billion), whereby approximately €3.4 billion (prior year: €3.4 billion) of this amount results from lawsuits filed by investors in Germany. The provisions recognized and the contingent liabilities disclosed as well as the other latent legal risks in the context of the diesel issue at the Volkswagen Group are in part subject to substantial estimation risks given that the fact finding efforts have not yet been concluded, the complexity of the individual relevant factors and the ongoing coordination with the authorities. Should these legal or estimation risks materialize, this could result in further considerable financial charges at the level of the Volkswagen Group.

Direct effects of the diesel issue on Porsche SE

Porsche SE is directly affected by the diesel issue on account of the claims asserted against it, in particular in the form of proceedings (reference is made to the descriptions of contingent liabilities in the section “Legal proceedings and legal risks in connection with the diesel issue” in note [20]). Provisions have been set up for the expected attorneys’ fees and litigation expenses. The outcome of litigation is subject to substantial estimation risks.

Indirect effects of the diesel issue on the consolidated financial statements of Porsche SE

Beyond the direct effects, the estimation risks at the level of the Volkswagen Group described above may also have significant indirect effects on the Porsche SE Group. This largely relates to the result from investments accounted for at equity (reference is made to note [4]), the carrying amount of the investment in Volkswagen AG accounted for at equity (reference is made to the explanations on the impairment test performed in note [7]), as well as subsequent effects of an amended dividend policy of Volkswagen AG.

Tax matters

Taxes constitute another key source of estimates and judgments. A tax field audit is currently being performed for the assessment periods 2009 to 2013. 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.

During the assessment periods 2006 to 2009, Porsche SE was initially the legal successor of Porsche AG and later the ultimate tax parent and thus liable for tax payments. In the course of the contribution of the business operations in the fiscal year 2012, the tax obligations of Porsche SE and its subsidiaries for the period to until 31 July 2009 were not transferred to Volkswagen AG. Any offsetting tax relief at a later stage at the level of Porsche Holding Stuttgart GmbH, Porsche AG or the subsidiaries concerned at the Porsche AG Group cannot be recognized in the consolidated financial statements of Porsche SE, as these companies no longer belong to the group of fully consolidated subsidiaries of the Porsche SE Group in accordance with IFRS regulations. These incur instead at the level of the Volkswagen Group. In connection with the business contribution, Volkswagen AG agreed in principle to refund to Porsche SE tax benefits – for example in the form of a refund, tax reduction or tax saving, a reversal of tax liabilities or provisions or an increase in tax losses – of Porsche Holding Stuttgart GmbH, Porsche AG and its legal predecessors and subsidiaries which pertain to assessment periods up until 31 July 2009. In return, under certain circumstances Porsche SE holds Porsche Holding Stuttgart GmbH, Porsche AG and their legal predecessors harmless from tax disadvantages that exceed the obligations from periods up until and including 31 July 2009 recognized at the level of these entities. If the total tax benefits exceed the total tax disadvantages, Porsche SE has a claim against Volkswagen AG to payment of the amount by which the tax benefits exceed the tax disadvantages. The amount of tax benefits and tax disadvantages to be taken into account is regulated in the contribution agreement. The risks arising at the level of Porsche SE, for which provisions were recognized in prior years and payments were made, will in some cases lead to tax benefits at the Volkswagen Group that are expected to partly compensate the tax risks of Porsche SE. However, the provisions in the contribution agreement do not cover all matters and thus not all tax risks of Porsche SE from the tax field audits for the assessment periods 2006 to 2009. It will therefore not be possible to reasonably determine any potential 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 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 realistic expectations of future development of the global and industry-specific environment were used to estimate the company's future business performance. Future business performance is associated with uncertainties. Factors which may cause variances from expectations at the level of Porsche SE are in particular additional negative effects of the diesel issue, the outcome of the tax field audit for the assessment periods 2009 to 2013 and of the litigations. 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 cases where the actual development differs from the expectation, 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 submission to the supervisory board, there were no indications that the carrying amounts of the assets and liabilities presented in the consolidated balance sheet would require any significant adjustment. Estimates and judgments of the 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.

New accounting standards

a) New or revised standards adopted for the first time in the fiscal year
The accounting policies applied in the consolidated financial statements are in line with the IFRSs adopted by the EU as of 31 December 2018.

The new or revised standards adopted for the first time in the fiscal year 2018 in accordance with the respective transitional provisions and which have an effect on the results of operations, financial position and net assets of the Porsche SE Group are presented below. None of these were early adopted on a voluntary basis.

IFRS 9 "Financial Instruments"
IFRS 9 changes the accounting regulations on the classification, measurement and impairment of financial instruments as well as on hedge accounting.

The model used to determine impairment losses and to recognize loss allowances switches from the incurred loss model to the expected credit loss model.

In the case of hedge accounting, there are both extensions of designation options as well as the need to implement more complex recognition and measurement methods. IFRS 9 also eliminates the quantitative limits for effectiveness testing.

Due to the retrospective application of the guidance on designating options at the level of the associates, the prior-year figures were adjusted. This resulted in a negative effect on the result from the investments accounted for at equity of €54 million in the fiscal year 2017; other comprehensive income increased accordingly. 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.

There were no changes regarding the classification and measurement of the group's financial liabilities. The reconciliation of the measurement categories and carrying amounts of the financial assets from IAS 39 to IFRS 9 is presented as follows:

€ million	Measurement category under IAS 39	Measurement category under IFRS 9	31/12/2017 Carrying amount under IAS 39	1/1/2018 Carrying amount under IFRS 9
Financial assets				
Other non-current financial assets	AfS	FVtPL	7	7
Other non-current financial assets	LaR	FAAC	0	0
Trade receivables	LaR	FAAC	18	18
Other current financial assets	LaR	FAAC	4	4
Other current financial assets	FVtPL	FVtPL	1	1
Securities	FVtPL	FVtPL	185	185
Time deposits	LaR	FAAC	101	101
Cash and cash equivalents	LaR	FAAC	664	664

AfS: Available-for-sale financial assets
LaR: Loans and receivables
FVtPL: Financial instruments at fair value through profit or loss
FAAC: Financial assets at amortized cost

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 sets forth regulations about when and in what amount revenue is recognized. In addition, it requires more extensive disclosures on revenue recognition than before. 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 as of 1 January 2018.

At the level of the associates, there are also no significant transition effects as of 1 January 2018 as the previous procedure was already to a large extent in line with the new regulations. The effects mainly result in an increase in total assets as well as in changes to the presentation in the income statement. As a result, there are no significant transition effects on the at equity accounting within the consolidated financial statements of Porsche SE.

The table below shows the significant effects of the new accounting requirements from IFRS 9 and IFRS 15 on the consolidated balance sheet.

€ million	Before adjustment	Adjustment due to IFRS 9	After adjustment
1/1/2017			
Consolidated balance sheet			
Other retained earnings	24,737	18	24,755
Reserve for investments accounted for at equity	−2,033	−18	−2,051

€ million	Before adjustment	Adjustment due to IFRS 9 and IFRS 15	After adjustment
1/1/2018			
Consolidated balance sheet			
Investments accounted for at equity	30,354	−119	30,235
Retained earnings	27,739	−86	27,652
Other reserves (OCI)	−1,520	−32	−1,552
Deferred tax liabilities	84	−1	83

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

Standard or interpretation		Published by IASB	First-time adoption[1]	Adoption by the EU	Expected effects
IFRS 3	Business combinations: Definition of a business	22/10/2018	1/1/2020	No	No material impact
IFRS 9	Financial instruments: Prepayment features with negative compensation	12/10/2017	1/1/2019	Yes	None
IFRS 10 and IAS 28	Consolidated financial statements and Investments in Associates and Joint Ventures: Sales or contributions of assets between an investor and its associate or joint venture	11/9/2014	postponed[3]	_	None
IFRS 16	Leases	13/1/2016	1/1/2019	Yes	Description follows
IFRS 17	Insurance contracts	18/5/2017	1/1/2021	No	No material impact
IAS 1 and IAS 8	Presentation of financial statements as well as Accounting policies, changes in accounting estimates and errors: Definition of material	31/10/2018	1/1/2020	No	No material impact
IAS 19	Employee benefits: Plan amendment, curtailment or settlement	7/2/2018	1/1/2019	No	No material impact
IAS 28	Investments in associates and joint ventures: Longterm interests in associates and joint ventures	12/10/2017	1/1/2019	Yes	None
AIP 2015-2017	Annual improvements of International Financial Reporting Standards 2015-2017 Cycle[2]	12/12/2017	1/1/2019	No	No material impact
IFRIC 23	Uncertainty over income tax treatments	7/6/2017	1/1/2019	Yes	No material impact

[1] Mandatory first-time application from the perspective of Porsche SE.
[2] Minor amendments to a number of IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23).
[3] On 15 December 2015, the IASB decided to postpone the effective date indefinitely.

Early adoption of these amendments is not currently planned.

IFRS 16: Leases

This 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. At the level of Porsche SE and its subsidiaries, it will result in an increase in non-current assets and non-current liabilities. Total assets will increase accordingly in the low double-digit millions.

At the level of the associates, the new accounting treatment as lessees will tend to increase non-current assets and non-current liabilities. Total assets will most likely increase by 1%. The increase in financial liabilities has a negative effect on the net liquidity of the associates. No significant effects on equity are expected. In the income statement, a positive impact on the operating result is expected in the low triple-digit millions. 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.

Notes to the consolidated income statement

[1] Revenue

Revenue primarily relates almost exclusively to the ITS segment (see note [17]) and break down by main category as follows:

€ million	2018	2017
Licenses	29	9
Maintenance	28	7
Projects	29	12
Hosting	16	6
Others	1	0
	103	**34**

[2] Personnel expenses

€ million	2018	2017
Wages and salaries	65	25
Social security contributions	7	3
Pension and other benefit costs	6	3
Government grants	–2	0
	77	**31**
Employees (annual average)		
Executive employees	44	53
Employees	876	230
Employees according to Sec. 314 (1) No. 4 HGB	**920**	**283**
Others	59	17
Total	**979**	**300**

In the comparative period, the employees of the PTV Group were only included in calculating the average for the year as of the acquisition date at the beginning of September 2017.

[3] Other operating expenses

Other operating expenses consist of:

€ million	2018	2017
Legal and consulting fees	27	22
Other external services	13	7
Rental/leasing	7	4
Sundry other operating expenses	19	15
	66	**48**

[4] Result from investments accounted for at equity

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

€ million	2018	2017
Income from first-time equity at accounting of newly acquired shares	79	
Result from ongoing at equity accounting before purchase price allocations	3,632	3,442[1]
Effects from purchase price allocations	–82	–85[1]
Result from ongoing at equity accounting	3,629	3,357
Impairment	–5	
	3,624	**3,357**

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9 (see section “New accounting standards”).

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

In the period from the beginning of December and the reporting date, Porsche SE acquired a total of 0.2% of the ordinary shares in Volkswagen AG for €86 million via the capital market. As of the reporting date, these acquisitions were included in the accounting for the investment in Volkswagen AG at equity as separate tranches. As of the reporting date, Porsche SE held 52.4% of the ordinary shares in Volkswagen AG, with its share in capital amounting to 30.9%. For information on the acquisition of further ordinary shares in Volkswagen AG after the reporting date, reference is made to note [25].

The acquisitions up until the reporting date resulted in preliminary income from first-time at equity accounting of €79 million, which was recognized in the result from investments accounted for at equity. The income is mainly attributable to the fact that the fundamental data for the Volkswagen Group used particularly in the valuation of the brands and the investments accounted for at equity are not fully reflected in the share price and therefore the acquisition costs when calculating the pro rata revalued equity. In addition, negative effects on the share price and purchase price arising from the diesel issue did not have to be accounted for to the same extent.

The income disclosed is based partly on valuations from a purchase price allocation in the past and is thus regarded as provisional. For the shares acquired, purchase price allocations are to be performed as of the date of acquisition. The purchase price allocations had not yet begun when the consolidated financial statements were being prepared. New findings from performing these purchase price allocations, in particular from the valuation of the brands, investments accounted for at equity at the level of Volkswagen and contingent liabilities, may lead to future adjustments.

[5] Income taxes

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

€ million	2018	2017
Current tax expense/income	2	0
thereof tax income/expenses relating to other periods	1	0
Deferred tax expense/income	21	20
Income tax expense	**23**	**21**

Previously unused tax losses for which no deferred tax assets were recognized amounted to €1,833 million (prior year: €1,881 million[1]).

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

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9 and IFRS 15 (see section “New accounting standards”).

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

€ million	2018	2017
Result before tax	3,497	3,299[1]
Group tax rate	30.5%	30.5%
Expected income tax expense	**1,066**	**1,006**
Tax rate related differences	1	0
Difference in tax base	–1,030	–965[1]
Recognition and measurement of deferred tax	–14	–20
Tax relating to other periods	1	0
Other differences	0	0
Reported income tax expense	**23**	**21**

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9 and IFRS 15 (see section "New accounting standards").

The item "Difference in tax base" mainly relates to the tax exemption or non-deductibility of the result from investments accounted for at equity. The reconciliation item "Recognition and measurement of deferred tax" mainly contains deferred tax recognized on previously unaccounted unused tax losses from prior years of €15 million (prior year: €12 million).

Taxable temporary differences from investments in subsidiaries, for which no deferred tax was recognized in the balance sheet, amount to €2 million (prior year: €1 million).

The deferred tax assets and liabilities break down by balance sheet item as follows:

	Deferred tax assets		Deferred tax liabilities	
€ million	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Intangible assets	0	0	30	34
Investments accounted for at equity			158	124[1]
Other receivables and assets	3	0	1	1
Unused tax losses	85	64[1]		
Provisions for pensions	6	6		
Other provisions	5	7		
Other liabilities	1	0	2	0
Gross value	100	77	191	159
Offsetting	–98	–76[1]	–98	–76[1]
Balance according to consolidated balance sheet	**1**	**1**	**92**	**83**

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9 and IFRS 15 (see section “New accounting standards”).

The changes in deferred tax assets and liabilities recognized through other comprehensive income can be found in the statement of comprehensive income. All other changes are recognized through profit or loss.

Notes to the consolidated balance sheet

[6] Intangible assets and property, plant and equipment

€ million	Goodwill	Capitalized software development costs	Customer base	Brand	Other intangible assets	Intangible assets total	Property, plant and equipment
Historical cost							
As of 1 January 2018	213	49	67	14	4	346	13
Additions		1			1	2	2
Exchange differences					0	0	0
Reclassifications		0			0		
Disposals					0	0	–1
As of 31 December 2018	**213**	**49**	**67**	**14**	**5**	**348**	**15**
Amortization and depreciation							
As of 1 January 2018		8	3	0	3	13	6
Additions		5	8	1	1	15	2
Exchange differences					0	0	0
Impairments	66					66	
Reclassifications		0			0		
Disposals					0	0	0
As of 31 December 2018	**66**	**13**	**10**	**1**	**4**	**93**	**8**
Carrying amount as of 31 December 2018	**147**	**36**	**57**	**13**	**2**	**255**	**7**

€ million	Goodwill	Capitalized software development costs	Customer base	Brand	Other intangible assets	Intangible assets total	Property, plant and equipment
Historical cost							
As of 1 January 2017					0	0	0
Additions through business combinations[1]	213	49	67	14	4	346	12
Additions		0			1	1	1
Exchange differences					0	0	0
Disposals					0	0	0
As of 31 December 2017	**213**	**49**	**67**	**14**	**4**	**346**	**13**
Amortization and depreciation							
As of 1 January 2017					0	0	0
Additions through business combinations[1]		6			3	8	5
Additions		2	3	0	0	5	1
Exchange differences					0	0	0
Disposals					0	0	0
As of 31 December 2017		**8**	**3**	**0**	**3**	**13**	**6**
Carrying amount as of 31 December 2017	**213**	**41**	**64**	**14**	**2**	**333**	**7**

[1] The presentation of additions through business combinations was adjusted.

Research and non-capitalized development costs amounted to €3 million (prior year: €1 million).

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

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

The calculation of the value in use as of 31 December 2018 is based on the corporate planning for the PTV Group prepared as part of the acquisition by Porsche SE as well as the current planning by the management of the PTV Group, which was prepared based on bottom-up planning of the group companies with uniform group-wide conditions. This plan was adjusted for developments in the past fiscal year. The detailed planning phase comprises the period from 2019 to 2023. For the planning of revenue as well as the EBITDA margin, it was assumed that the PTV Group would return to its original growth path over the course of the planning period and generate significant margin improvements.

A sustainable annual growth rate of 2.0% (prior year: 2.0%) was used to extrapolate the cash flow beyond this corporate planning. To discount cash flows, a weighted average after-tax cost of capital of 8.0% (prior year: 9.0%) was derived based on a peer group analysis. The corresponding weighted average pre-tax cost of capital is 10.0% (prior year: 11.7%).

The impairment test as of 31 December 2018 resulted in a recoverable amount of €221 million, thus leading to the need to recognize an impairment loss of €66 million based on the carrying amount of the cash-generating unit of €287 million. This impairment loss was fully allocated to the goodwill of the ITS segment. This was due in particular to the delay in market growth in the growth regions of the Middle East and America compared to the original planning, as well as delays in the development of new business areas.

Due to the impairment recorded in the fiscal year, each negative change in the measurement parameters would result in a further need to recognize an impairment loss.

[7] Investments accounted for at equity

Of the investments accounted for at equity, an amount of €32,491 million (prior year: €30,219[1] million) relates to the carrying amount of the investment in Volkswagen AG.

Porsche SE has at its disposal a credit facility with a volume of €1 billion 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.

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

1 The prior-year figures were adjusted due to the first-time application of IFRS 9 and IFRS 15 (see section “New accounting standards”).

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. The overall development of the operating result assumed for the fiscal year 2019 in the impairment test corresponds approximately to the lower limit specified by Volkswagen in its forecast report, which reports an operating return on sales of between 6.5% and 7.5% with an increase in revenue of up to 5% for the group. With 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 growth of the global economy will continue in the coming years. For 2019, growth is expected to slow somewhat. Growth prospects are negatively impacted by geopolitical tension and conflicts. 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 and global demand for new vehicles is expected to be on a par with 2018 on the whole in 2019. Its brand diversity, the presence in all major world markets, broad and selectively expanded product range, and pioneering technologies and services mean the Volkswagen Group is in a good position compared to the competition. Moderate gains in market share are therefore expected during the planning period.

The planned ratio of capex to revenue in the automotive division in the fiscal year 2019 is within Volkswagen's expected corridor of between 6.5% and 7.0% of revenue and will fall in the planning period to the level of the long-term target rate of around 6%. 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 relatively constant development, which is at the lower end of the long-term target of the Volkswagen Group of between 7% and 8% by 2025 and therefore at the level of the operating return on sales before special items generated in the fiscal year 2018.

A growth rate of 1.0% (prior year: 1.0%) 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 7.1% (prior year: 7.9%) for the investment in Volkswagen AG was used to discount cash flows. This was derived from a peer group analysis and therefore reflects a return on capital that is customary for the industry and commensurate with the risk involved.

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

The value in use determined in the impairment test is significantly higher than the carrying amount of the investment in Volkswagen AG accounted for at equity. The sensitivity analysis also yielded a value in use that was considerably higher than the carrying amount in all of the scenarios considered. As a result, there was no need to recognize an impairment loss as of 31 December 2018.

The investment in INRIX was tested to identify any need to record impairments or reversals of impairment in the consolidated financial statements of Porsche SE as of 31 December 2018. The test resulted in a need to recognize an impairment loss of €5 million in the consolidated financial statements of Porsche SE.

[8] Other financial assets

€ million	31/12/2018			31/12/2017		
	current	non-current	Total	current	non-current	Total
Other financial assets		9	9		7	7
Derivative financial instruments	1		1	1		1
Interest receivables	0		0	1		1
Sundry other financial assets	3	0	3	2	0	2
	4	**10**	**14**	**4**	**7**	**11**

Collateral customary for the industry has been provided for obligations of €4 million (prior year: €8 million) arising from derivatives transactions.

[9] Other assets

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

€ million	31/12/2018			31/12/2017		
	current	non-current	Total	current	non-current	Total
Contract assets	5		5	7		7
Deferrals	3	0	3	2	1	3
Sundry other assets	2	1	3	3	1	4
	10	**1**	**11**	**12**	**2**	**14**

The contract assets contain contingent receivables from customer-specific construction contracts recognized according to the percentage of completion. Immaterial impairment losses were recognized on these as of the reporting date.

[10] 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 reduced by the transaction costs incurred.

Retained earnings

Retained earnings contain current profits and those earned by the group companies in prior years and not yet distributed, the actuarial gains and losses from pensions taking deferred taxes into account as well as part of the equity recognized on a pro rata basis as part of equity accounting.

As of 31 December 2018, actuarial gains and losses from pensions amounted to €11 million (prior year: €14 million); the allocable deferred tax amounted to €3 million as of 31 December 2018 (prior year: €4 million).

Other reserves (OCI)

Other reserves are divided into items to be reclassified to profit or loss in subsequent periods and those that are not to be reclassified to profit or loss in subsequent periods. Key components of the two items are the accumulated reclassifiable and non-reclassifiable other comprehensive income of the investments accounted for at equity since their acquisition. Furthermore, the reclassifiable and non-reclassifiable items contain deferred tax in connection with investments in associates. As in the prior year, the foreign currency translation reserve as a component of reclassifiable items was immaterial as of 31 December 2018.

Proposal for the appropriation of profit

The separate financial statements of Porsche SE as of 31 December 2018 show a result for the year of €480 million (prior year: €235 million) and withdrawals of €196 million (prior year: €303 million) from retained earnings, therefore coming to a net profit available for distribution of €676 million (prior year: €538 million). The executive board proposes a resolution for the distribution of a dividend of €2.204 per ordinary share and €2.210 per preference share, i.e., a total distribution of €676 million for the fiscal year 2018. Dividends paid out in the fiscal year 2018 amounted to €1.754 (prior year: €1.004) per ordinary share and €1.760 (prior year: €1.010) per preference share, totaling €538 million (prior year: €308 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	31/12/2018	31/12/2017
Equity	33,399	31,292[1]
Share of total capital	100%	100%
Non-current financial liabilities	12	12
Current financial liabilities	1	1
Total financial liabilities	12	13
Share of total capital	0%	0%
Total capital	**33,411**	**31,305**

[1] The prior-year figures were adjusted due to the first-time application of IFRS 9 and IFRS 15 (see section "New accounting standards").

[11] Provisions for pensions and similar obligations

The Porsche SE Group provides both defined contribution and defined benefit plans.

In the case of defined contribution plans, the company makes contributions to state or private pension schemes based on legal or contractual requirements, or on a voluntary basis. Once the contributions have been paid, there are no further obligations for the company. Contributions are recognized as personnel expenses of the period concerned and amounted to €4 million (prior year: €2 million).

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

Provisions for pensions and similar obligations are recognized for benefits in the form of retirement, invalidity and dependents' benefits payable under pension plans. The benefits generally depend on the length of service, remuneration and working hours arrangements of the beneficiaries. 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 based on a discount rate of 2.0% (prior year: 1.75%) as well as a wage and salary increase of 3%, career progress of 0.5%, a pension increase of 1.7% as well as turnover of 3.0%, all of them unchanged on the prior year. The most recent 2018 G Heubeck mortality tables were used for the calculation.

The carrying amount of pension provisions is derived as follows:

€ million	2018	2017
Present value (funded)	5	5
Present value (unfunded)	32	32
Total present value	37	37
Fair value of plan assets	–1	–1
Provisions for pensions as of 31 December	**35**	**36**

The fair value of plan assets primarily relates to interest-bearing investments of the PTV Group.

Changes in the present value of pension obligations:

€ million	2018	2017
As of 1 January	37	30
Current service cost	2	3
Interest expenses	1	1
Subtotal pension expense recognized through profit/loss	3	3
Actuarial gains (–) and losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–) and losses (+) arising from changes in financial assumptions	–2	–1
Actuarial gains (–) and losses (+) arising from experience adjustments	–2	0
Subtotal pension expense recognized in other comprehensive income	–3	–1
Pension payments	0	0
Effects from changes in scope of consolidation		5
Transfers from other companies	0	
Contributions of the employer	0	0
Contributions of the employee	0	0
Other changes		0
As of 31 December	**37**	**37**

In the course of sensitivity analyses, individual parameters were assumed with otherwise no change to the assumptions. The discount rate and future salary increases were each increased / decreased by 0.5% and future pension increases and turnover increased / decreased by 0.25%. The effects on the pension provisions ranged from minus €3 million to €4 million in both the reporting period and the prior year.

The weighted average duration of pension obligations is 20 years (prior year: 20 years). Estimated contributions for the fiscal year 2019 amounted to €0 million (prior year: €1 million). The cash outflow of pension provisions is expected to amount to €3 million (prior year: €2 million) in a period of up to five years and €33 million (prior year: €33 million) in a period of more than five years.

[12] Other provisions

€ million	31/12/2018 current	31/12/2018 non-current	31/12/2018 Total	31/12/2017 current	31/12/2017 non-current	31/12/2017 Total
Provisions for bonuses and personnel costs	5	0	6	5	0	5
Provisions for costs of litigation	15	18	33	10	17	27
Sundry other provisions	58	2	60	65	2	67
	78	**20**	**98**	**80**	**19**	**98**

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

Sundry other provisions mainly comprise provisions for other tax.

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

Other provisions developed as follows:

€ million	As of 1/1/2018	Reclassification to liabilities	Additions	Utilization	Reversal	As of 31/12/2018
Provisions for bonuses and personnel costs	5	0	6	–5	–1	6
Provisions for costs of litigation	27	–1	19	–11	–1	33
Sundry other provisions	66	–5	6	–8	0	60
	98	**–6**	**31**	**–23**	**–2**	**98**

The effects of unwinding the discount on provisions were immaterial in the fiscal year 2018 as they had been in the prior year.

[13] Financial liabilities

Financial liabilities are measured at amortized cost and as of the reporting date contain a promissory note of €10 million (prior year: €10 million) and liabilities to banks of €2 million (prior year: €3 million).

[14] Other financial liabilities

Other financial liabilities break down as follows:

	31/12/2018			31/12/2017		
€ million	current	non-current	Total	current	non-current	Total
Liabilities to associates	4		4	14		14
Liabilities from business combination					3	3
Liabilities from derivatives	0		0	1		1
Sundry other financial liabilities	8	0	8	4	2	6
	12	**0**	**12**	**19**	**5**	**24**

[15] Other liabilities

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

	31/12/2018			31/12/2017		
€ million	current	non-current	Total	current	non-current	Total
Advance payments received on account of orders	4		4	4		4
Contract liabilities	17		17	11		11
Sundry other liabilities	17	0	17	9	0	9
	38	**0**	**38**	**24**	**0**	**24**

Other notes

[16] Notes to the consolidated statement of cash flows

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

Cash inflows and outflows from investing activities during the reporting period primarily relate to cash paid for the acquisition of ordinary shares in Volkswagen AG, which was financed by selling securities of €46 million and the remaining dividend surplus. In the comparative period, this primarily included net cash outflows from the acquisition of shares in the PTV Group.

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

The financial liabilities from financing activities developed as follows:

€ million	As of 1/1/2018	Changes in cash	Non-cash changes	As of 31/12/2018
Financial liabilities	13	–1		12
Financial liabilities from financing activities	**13**	**–1**		**12**

€ million	As of 1/1/2017	Changes in cash	Non-cash changes	As of 31/12/2017
Financial liabilities	300	–300	13	13
Financial liabilities from financing activities	**300**	**–300**	**13**	**13**

Non-cash changes in the comparative period relate exclusively to effects from changes in the scope of consolidation.

The cash inflow and outflow from operating activities is derived indirectly, starting from the result for the year. Therefore, all non-cash expenses and income, mainly the result from investments accounted for at equity are eliminated from the result 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.

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

[17] Segment reporting

Since the acquisition of the PTV Group, the Porsche SE Group has distinguished between two segments. The first segment, “PSE”, comprises Porsche SE’s holding operations and contains the investments in VW and INRIX accounted for at equity as well as the fully consolidated special fund and additional investments. The second segment, “Intelligent Transport Systems” (“ITS”), comprises the development of smart software solutions for transport logistics as well as traffic planning and traffic management. The entire executive board of the Porsche SE Group monitors the result for the year of the segments and, on this basis, decides on how to allocate resources and assesses their earnings power.

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

Reporting segments 2018:

€ million	PSE	ITS	Total segments	Reconciliation	Group 31/12/2018
Revenue from external third parties	1	103	103	0	103
Amortization and depreciation	0	–82[2]	–83		–83
Result from investments accounted for at equity	3,624[3]		3,624		3,624
Segment result (operating result)	3,579	–79	3,500		3,500
Finance costs	–3	0	–3		–3
Other financial result	0	0	0		0
Result before tax	3,576	–80	3,497		3,497
Income taxes	–25	2	–23		–23
Result for the year	3,551	–77.78	3,473		3,473
Non-cash expenses (–) and income (+)	3,630	–67	3,563		3,563
Segment assets	33,678	325	34,003	–312	33,691
thereof from investments accounted for at equity	32,501		32,501		32,501
thereof additions to non-current assets[1]	89	4	93		93
Segment liabilities	200	92	292	0	292

[1] With the exception of financial instruments, deferred tax assets, post-employment benefits and rights from insurance contracts

[2] Amortization and depreciation contains impairment of goodwill

[3] The result from investments accounted for at equity contains impairment of €5 million

Reporting segments 2017:

€ million	PSE	ITS	Total segments	Reconciliation	Group 31/12/2017
Revenue from external third parties	0	34	34	0	34
Amortization and depreciation	0	−6	−6		−6
Result from investments accounted for at equity	3,357[3]		3,357		3,357
Segment result (operating result)	3,309[3]	−2	3,307		3,307
Finance costs	−12	0	−12		−12
Other financial result	4	0	4		4
Result before tax	3,301	−2	3,299		3,299
Income taxes	−22	1	−21		−21
Result for the year	3,279	−1	3,278		3,278
Non-cash expenses (–) and income (+)	3,358[3]	0	3,358		3,358
Segment assets	31,488[3]	400	31,887	−312	31,576
thereof from investments accounted for at equity	30,235[3]		30,235		30,235
thereof additions to non-current assets[1,2]	0	347	347		347
Segment liabilities	197	89	285	0	285

[1] incl. additions through business combinations

[2] With the exception of financial instruments, deferred tax assets, post-employment benefits and rights from insurance contracts

[3] The prior-year figures were adjusted due to the first-time application of IFRS 9 and IFRS 15 (see section “New accounting standards”).

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

By region 2018:

€ million	Germany	Rest of Europe	North America	Asia	Other markets	Total 31/12/2018
Revenue from external third parties	40	44	6	12	1	103
Non-current assets[1]	32,761	2	0	0	0	32,764

[1] With the exception of financial instruments, deferred tax assets, post-employment benefits and rights from insurance contracts.

By region 2017:

€ million	Germany	Rest of Europe	North America	Asia	Other markets	Total 31/12/2017
Revenue from external third parties	14	14	2	2	3	34
Non-current assets[1]	30,573[2]	4	0	0	0	30,578

[1] With the exception of financial instruments, deferred tax assets, post-employment benefits and rights from insurance contracts.
[2] The prior-year figures were adjusted due to the first-time application of IFRS 9 and IFRS 15 (see section "New accounting standards").

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

[18] Other financial obligations

€ million			Due	**Total**
	2019	2020 – 2023	2024 et seq.	**31/12/2018**
Obligations from rental and lease contracts	5	12	21	38
Sundry other financial obligations	3	0		3
	8	**12**	**21**	**41**

€ million			Due	Total
	2018	2019 – 2022	2023 et seq.	31/12/2017
Obligations from rental and lease contracts	5	10	22	37
Sundry other financial obligations	2	0		2
	6	**10**	**22**	**38**

[19] Financial risk management and financial instruments

1 Financial risk management principles

The principles and responsibilities for managing the risks are generally defined by the 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, the PTV Group, INRIX, the venture capital investments, 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 carrying amounts recognized.

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. Furthermore, various measures are taken as needed, such as obtaining hold harmless agreements.

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

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

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

At the Porsche SE Group, the impairment model pursuant to IFRS 9 applies to assets with a total carrying amount of €767 million.

Financial assets measured at amortized cost at the Porsche Group largely comprise cash and cash equivalents and time deposits. The time deposits primarily have an original maturity of under three months. These financial instruments are allocated to risk provisioning level 1. Impairment recognized so far is immaterial.

Impairments developed as follows in the fiscal year and relate exclusively to trade receivables and contract assets.

€ million	2018	2017
As of 1 January	1	0
Effects from changes in scope of consolidation		2
Additions	2	0
Utilization	0	–1
Reversal	0	–1
Exchange differences and other changes	0	0
As of 31 December	**3**	**1**

3 Liquidity risk

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

The solvency and liquidity of the Porsche SE Group is continuously monitored by means of liquidity planning. Solvency and liquidity are additionally secured by a cash liquidity reserve and guaranteed credit lines. The lines of credit amount to €1,026 million as of the reporting date, of which €12 million had been used as financial liabilities and €3 million as guarantees as of the reporting date. In the prior year, undrawn credit lines amounted to €1,010 million.

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

	Remaining contractual maturities			
€ million	within 1 year	in 1 to 5 years	more than 5 years	Total
31/12/2018				
Non-current financial liabilities	0	12		12
Non-current other financial liabilities		0	0	0
Trade payables	3			3
Current financial liabilities	1			1
Current other financial liabilities (without derivatives)	11			11
Current other financial liabilities (only derivatives)	1			1
	16	**12**	**0**	**28**
31/12/2017				
Non-current financial liabilities	0	13		13
Non-current other financial liabilities		5	0	5
Trade payables	5			5
Current financial liabilities	1			1
Current other financial liabilities (without derivatives)	18			18
Current other financial liabilities (only derivatives)	19			19
	43	**17**	**0**	**61**

Furthermore, derivatives recognized under other current financial assets result in additional cash outflows of €27 million (prior year: €6 million) in the year after.

There are no significant concentrations of risk that are not evident from the notes to the financial statements and management report.

4 Market risk

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

4.1 Interest rate and stock price risks

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

Effects of the interest rate and stock price risk on the result or on equity result in particular from bonds, investment fund shares and derivative financial instruments held in the alternative investment fund and measured at fair value.

The risk from these financial instruments is generally diversified by spreading the funds across different asset managers and strategies. In addition, the resulting risks are limited by using investment policies that specify not only counterparties, products and currencies, but in particular also a risk budget. The risk budget is allocated for the year and is in the low single-digit percentage range. For controlling purposes, a target return is also defined for the long-term performance depending on the allocated 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. As of the reporting date, the total value at risk for these financial instruments came to €1 million (prior year: €1 million).

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

4.2 Foreign currency risk

Since the acquisition of the PTV Group, the Porsche SE Group is exposed to operational risks due to exchange rate fluctuations. Contracts of the PTV Group are partly concluded in foreign currency. Exchange rate fluctuations from these contractual relationships have an effect on earnings and liquidity unless there are opposing transactions in the same foreign currency. This currency risk is monitored centrally by PTV AG and mitigated by hedges where appropriate. No hedges had been concluded as of the reporting date.

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

5 Measurement of financial instruments

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

	31/12/2018				
	Measured at fair value through profit or loss	Measured at amortized cost		Not under the scope of IFRS 7	Balance sheet item
€ million	Carrying amount	Carrying amount	Fair value	Carrying amount	
Non-current assets					
Investments accounted for at equity	n/a	n/a	n/a	32,501	32,501
Other financial assets	9	0	0	n/a	10
Current assets					
Trade receivables	n/a	21	21	n/a	21
Other financial assets	1	3	3	n/a	4
Securities	138	n/a	n/a	n/a	138
Time deposits	n/a	108	108	n/a	108
Cash and cash equivalents	n/a	630	630	n/a	630
Non-current liabilities					
Financial liabilities	n/a	12	12	n/a	12
Other financial liabilities	0	0	0	n/a	0
Current liabilities					
Trade payables	n/a	3	3	n/a	3
Financial liabilities	n/a	1	1	n/a	1
Other financial liabilities	0	11	11	n/a	12

	31/12/2017				
	Measured at fair value through profit or loss	Measured at amortized cost		Not under the scope of IFRS 7	Balance sheet item
€ million	Carrying amount	Carrying amount	Fair value	Carrying amount	
Non-current assets					
Investments accounted for at equity	n/a	n/a	n/a	30,235	30,235
Other financial assets	7	0	0	n/a	7
Current assets					
Trade receivables	n/a	18	18	n/a	18
Other financial assets	1	4	4	n/a	4
Securities	185	n/a	n/a	n/a	185
Time deposits	n/a	101	101	n/a	101
Cash and cash equivalents	n/a	664	664	n/a	664
Non-current liabilities					
Financial liabilities	n/a	12	12	n/a	12
Other financial liabilities	3	2	2	n/a	5
Current liabilities					
Trade payables	n/a	5	5	n/a	5
Financial liabilities	n/a	1	1	n/a	1
Other financial liabilities	1	18	18	n/a	19

The measurement categories under IAS 39 as of 31 December 2017 result from the table below:

€ million	31/12/2017
Financial assets measured at fair value through profit or loss	186
Loans and receivables	787
Financial assets available-for-sale	7
Financial liabilities measured at amortized cost	38
Financial liabilities measured at fair value through profit or loss	4

The allocation of fair value to the various levels is based on the availability of observable market data on an active market. Level 1 presents the fair values of financial instruments where a market price on active markets can be determined. Level 2 presents the fair value of financial instruments for which market data are directly or indirectly observable. In particular, interest rate curves, index values and exchange rates are used as key parameters. The presented fair values of the assets are determined using pricing methods, present value methods or the net asset value approach. Fair values of financial instruments in level 3 are calculated using inputs that are not based on observable market data. The reported fair values of the non-current liabilities measured at amortized cost are calculated using observable parameters by means of discounted cash flow calculations and therefore represent measurements according to level 2. Other non-current financial liabilities measured at fair value are calculated using Black-Scholes models and therefore represent measurements according to level 3.

The carrying amount of current financial assets and liabilities not measured at fair value through profit or loss provides a reasonable approximation of their fair value. Transfers between the levels are taken into account on the respective reporting dates.

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

€ million	31/12/2018	Level 1	Level 2	Level 3
Financial instruments at fair value through profit/loss				
Non-current other financial assets	9			9
Current other financial assets	1	0	1	
Securities	138	60	79	
Non-current other financial liabilities	0			0
Current other financial liabilities	0	0	0	

€ million	31/12/2017	Level 1	Level 2	Level 3
Financial instruments at fair value through profit/loss				
Non-current other financial assets	7			7
Current other financial assets	1	0	0	
Securities	185	72	113	
Non-current other financial liabilities	3			3
Current other financial liabilities	1	0	0	

In the fiscal year 2018, a transfer from level 2 to level 1 of €16 million (prior year: €56 million) was performed for securities on account of the transfer of measurement logic from observable market data to market prices; this was counterbalanced by transfers from level 1 to level 2 of €7 million (prior year: €0 million).

Other non-current financial assets contain investments in venture capital companies.

The fair value of other financial liabilities, which was allocated to level 3, is due to an earn-out obligation which was recognized as contingent consideration as part of the acquisition of the PTV Group.

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

Net gains or losses from financial instruments by measurement category pursuant to IFRS 9 in 2018

€ million	2018
Financial assets measured at fair value through profit or loss (FVtPL)	–1
Financial assets measured at amortized cost (FAAC)	–1
Financial liabilities measured at amortized cost (FLAC)	–1
	–3

Net gains or losses from financial instruments by measurement category pursuant to IAS 39 in 2017

€ million	2017
Financial instruments at fair value through profit or loss	3
Loans and receivables	1
Contingent consideration at fair value through profit or loss	0
Financial liabilities measured at amortized cost	–11
	–7

Net gains or losses from financial assets and financial liabilities measured at fair value through profit or loss comprise the measurement of securities and derivatives at fair value.

Net gains or losses from the category “financial assets measured at amortized cost” contain impairment losses of €2 million as well as offsetting interest income and insignificant effects from currency translation.

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, all due in less than one year:

	Notional amount total	
€ million	31/12/2018	31/12/2017
Interest rate hedge with a positive carrying amount	105	52
Stock options with a positive carrying amount		8
Commodity futures contract with a positive carrying amount	7	9
Interest rate hedge with a negative carrying amount	56	62
Stock options with a negative carrying amount	0	31
Commodity futures contract with a negative carrying amount	7	9
	174	**171**

[20] Contingent liabilities from legal disputes

For several years, Porsche SE has been involved in various legal proceedings. The assessment of Porsche SE regarding the actions pending as of 31 December 2018 is presented below. For all proceedings, provisions had so far been recognized exclusively for the expected attorneys’ fees and litigation expenses but not for the underlying matters in dispute as the litigants’ prospect of success is below 50%. Due to the complexity of the underlying matters and legal issues, the financial impact presented below is done so in the amount of the claims for damages asserted. The development of all pending legal proceedings and legal risks in the fiscal year 2018 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”.

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

A model case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE 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. 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 determined by it in the model case before the Higher Regional Court of Celle. 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-based order of reference by additional establishment objectives. The first trial date took place on 12 October 2017. At this date the Higher Regional Court of Celle signalized that it intends to add further establishment objectives and explained its preliminary view on the state of affairs and of the dispute. By orders of 11 September 2018 and 19 November 2018 the Higher Regional Court of Celle added four further establishment objectives to the KapMuG-based order of reference and revised several establishment objectives. In 2018 several hearings before the Higher Regional Court of Celle were held. The next dates are scheduled from 26 March 2019. Since the start of the model case, a large number of motions to recuse judges have been filed by the parties involved on the plaintiff's side. These motions to recuse judges were dismissed in all cases. Porsche SE is of the opinion that the claims asserted in the suspended initial proceedings are without merit and that the establishment objectives that are subject of the model case will be rejected. Porsche SE considers its opinion endorsed by the previous course of the oral hearing before the Higher Regional Court of Celle.

Furthermore the following proceedings in connection with the expansion of the investment in Volkswagen AG are or were pending:

Based on the same alleged claims that are already subject of a momentarily suspended action concerning alleged damages of around €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover, the same plaintiffs filed an action against two members (one of whom is no longer in office) 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 filed an appeal on points of law to the Federal Court of Justice. By decision dated 13 September 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. The defendant's side filed a motion to recuse judges about which a decision has not yet been made. Porsche SE considers the action filed in England to be inadmissible and the asserted claims to be without merit.

Up to now in aggregate five actions in connection with the expansion of the investment in Volkswagen AG covering asserted damages of originally about €1.36 billion (plus interest) have been dismissed with final effect or withdrawn. In 2016, the former members of the executive board Dr. Wendelin Wiedeking and Holger P. Härter were finally found not guilty concerning all charges of information-based market manipulation and, consequently, the motion for imposing a fine of €807 million against Porsche SE was also dismissed. The investigations against members of the supervisory board were terminated due to a lack of sufficient suspicion of a criminal act.

Legal proceedings and legal risks in connection with the diesel issue
In connection with the diesel issue (for a description see the combined management report for the fiscal year 2018 in the section “Diesel issue” in the section “Significant events and developments at the Volkswagen Group”) the following claims in connection with the acquisition of preference shares of Porsche SE or derivatives relating thereto and, in two matters, regarding shares of Volkswagen AG have been asserted against Porsche SE:

Currently, legal proceedings with a total volume of approximately €954 million are pending against Porsche SE before the courts in Stuttgart. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information respectively alleged incorrect capital market information in connection with the diesel issue. A part of these proceedings is directed against both Porsche SE and Volkswagen AG. One action of about €11,500 is directed against both Porsche SE and Robert Bosch GmbH. 197 of these actions are pending before the Regional Court of Stuttgart at first instance. The actions concern payment of damages, if quantified, in the total amount of approximately €790 million (plus interest) and in part establishment of liability for damages. Two further proceedings in which further approximately €164 million in damages have been claimed are currently in the appeal instance. On 24 October 2018, the Regional Court of Stuttgart granted these actions in the amount of approximately €47 million and dismissed the actions as to the remainder. Porsche SE and the respective plaintiffs have appealed against the decisions of the Regional Court of Stuttgart rendered on 24 October 2018. In December 2018 Porsche SE has filed motions to recuse the single judge conducting the proceedings in some proceedings which have not yet been decided. Porsche SE considers the actions to be without merit.

A part of the plaintiffs of the actions pending before the courts in 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. In addition, on 6 December 2017 the Regional Court of Stuttgart in proceedings against Volkswagen AG adopted a KapMuG-based order of reference concerning questions of local jurisdiction regarding investor lawsuits in connection with the diesel issue. A part of the plaintiffs has filed motions for suspension of the proceedings with reference to the orders of reference of the Regional Court of Stuttgart. A part of the plaintiffs has 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 if and to what extent the actions pending before the Regional Court of Stuttgart will be or will remain suspended with reference to the order of reference issued by the Regional Court of Braunschweig or with reference to the orders of reference issued by the Regional Court of Stuttgart. Currently, 128 actions have been suspended in whole or partially with reference to the order of reference of the Regional Court of Stuttgart dated 28 February 2017. A part of the proceedings has been suspended by the Regional Court of Stuttgart with reference to the order of reference of the Regional Court of Stuttgart of 6 December 2017 relating to questions of local jurisdiction, as well as to the order of reference of the Regional Court of Braunschweig. By indicative court order dated 5 July 2018, the Higher Regional Court of Stuttgart expressed doubts as to the admissibility of the initiation of the model case proceedings by the order of reference dated 28 February 2017. On 6 February 2019, an oral hearing was held before the Higher Regional Court of Stuttgart. A date for the pronouncement of a decision was set for 27 March 2019. Porsche SE considers the actions in the suspended original proceedings to be without merit and the establishment objectives asserted by the plaintiffs of the original proceedings in the model case not to be attainable.

Currently, actions for damages in the amount of approximately €10.6 million are pending against Porsche SE before the Regional Court of Braunschweig. In each of these cases Porsche SE is jointly sued with Volkswagen AG. The actions are based on alleged claims for damages because of alleged nonfeasance of capital market information or alleged incorrect capital market information. The Regional Court of Braunschweig suspended three of the proceedings pending before it with respect to Porsche SE and Volkswagen AG with reference to the KapMuG-based order of reference issued by the Regional Court of Braunschweig as well as the order of reference of the Regional Court of Stuttgart of 6 December 2017 concerning questions of local jurisdiction. Thus, Porsche SE is, in addition to Volkswagen AG, model case defendant in the model case proceedings before the Higher Regional Court of Braunschweig and the model case proceedings before the Higher Regional Court of Stuttgart concerning questions of local jurisdiction which were initiated by the order of reference dated 6 December 2017. A decision on the suspension of the remaining proceedings against Porsche SE which are still pending before the Regional Court of Braunschweig is still outstanding. By order of 23 October 2018, the Higher Regional Court of Braunschweig dismissed applications by the joined parties for the extension of the model case to include establishment objectives which relate exclusively to alleged claims against Porsche SE. The appeal on points of law was granted. Several oral hearings were held before the Higher Regional Court of Braunschweig. The next hearing is scheduled for 25 March 2019. Porsche SE considers these claims to be inadmissible and to be without merit.

Since August 2018, 106 plaintiffs have registered alleged claims for damages against Porsche SE in connection with the diesel issue in the total amount of approximately €62 million before the Higher Regional Court of Braunschweig within the model case proceedings until the end of the registration period.

11 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. Meanwhile five of the claimants have asserted alleged claims for damages against Porsche SE of about €3.6 million (plus interest) in court.

Since October 2015, 43 persons have made out-of-court claims or initiated conciliatory proceedings against Porsche SE in connection with the diesel issue but have not yet claimed those alleged claims in court. 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 €520,000 (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 these claims.

In a letter dated 30 November 2018, the United States requested Porsche SE to waive the statute of limitations for alleged claims for damages, which are not specified in the terms of amount, in respect of the alleged acquisition of a total of 40,992 Porsche SE preference shares. In a letter of Porsche SE's attorneys dated 6 December 2018 Porsche SE issued a corresponding waiver of limitations to the United States.

Investigation proceedings

The Stuttgart public prosecutor’s office informed on inquiry that in summer 2016 it received a complaint by the German Financial Supervisory Authority (BaFin) against officials of Porsche SE and that, thereupon, the Stuttgart public prosecutor’s office initiated investigation proceedings on suspicion of market manipulation in connection with the diesel issue. The proceedings are directed against Prof. Dr. Martin Winterkorn, Hans Dieter Pötsch and Matthias Müller. The investigation proceedings are not directed against Porsche SE. Porsche SE considers the allegation made to be without merit.

Proceedings regarding shareholders’ actions

A shareholder has 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 action 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. By decision of 28 October 2016 the Regional Court of Stuttgart dismissed the actions. The plaintiff has appealed this decision of the Regional Court of Stuttgart. By order dated 10 September 2018 the Higher Regional Court of Stuttgart indicated that it intends to dismiss the appeal and advised withdrawal of the appeal. On 18 October 2018 the plaintiff withdrew the appeal. The decision of the Regional Court of Stuttgart dated 28 October 2016 has thus become final and binding.

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. By decision dated 19 December 2017 the Regional Court of Stuttgart granted the action. Porsche SE has appealed this decision. 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 and allegedly answered insufficiently at the annual general meeting on 29 June 2016 is demanded. By decision dated 5 December 2017 the Regional Court of Stuttgart accepted the motion with respect to five questions and dismissed it regarding the remaining 49 questions. Porsche SE has appealed this decision. Porsche SE considers the motion to be without merit.

In November 2018 a shareholder initiated a status proceeding according to Sec. 98 German Stock Corporation Act (AktG) before the Regional Court of Stuttgart requesting the court to find that the supervisory board of Porsche SE should, in derogation from its current composition, consist of half shareholder representatives and half employee representatives. Porsche SE is of the opinion that the supervisory board is duly composed and considers the motion to be without merit.

[21] Related parties

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

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 2018 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.

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

As in the prior year, service transactions were primarily with the Volkswagen Group in the reporting year. Income includes dividends received from Volkswagen AG totaling €601 million (prior year: €308 million) as well as income from the reversal of liabilities and income from the software and consulting segment. Expenses in the reporting period primarily comprised services rendered and from providing vehicles. In the prior year, this also included loan interest of €11 million. Liabilities mainly comprise obligations in connection with the contribution of the holding business operations of Porsche SE to Volkswagen AG in the fiscal year 2012 (hereinafter also referred to as “contribution” or “business contribution”).

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

Volkswagen AG has agreed to hold Porsche SE harmless for internal purposes from any claims of the 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.

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

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.

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

- Porsche SE under certain circumstances holds its subsidiaries transferred under the contribution agreement, Porsche Holding Stuttgart GmbH and Porsche AG and its subsidiaries, harmless from certain obligations towards Porsche SE pertaining to the period up to and including 31 December 2011 and that go beyond the obligations recognized for these entities for this period.
- 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, Porsche Holding Stuttgart GmbH, Porsche AG and their subsidiaries harmless from half of the amount of the tax (with the exception of income tax) arising at their respective levels in connection with the contribution and that would not have been incurred had the call options been exercised for the shares in Porsche Holding Stuttgart GmbH remaining at Porsche SE prior to the contribution. Accordingly, Volkswagen AG holds Porsche SE harmless for half the amount of such tax incurred there. In addition, Porsche Holding Stuttgart GmbH will be held harmless for half of the amount of the real estate transfer tax and other costs triggered as a result of the merger.
- It was also agreed to allocate based on causation any subsequent VAT receivables and/or VAT liabilities from transactions up to 31 December 2009 between Porsche SE and Porsche AG.
- Various information, conduct and cooperation duties were agreed in the contribution agreement between Porsche SE and the Volkswagen Group.

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

€ million	Income		Expenses	
	2018	2017	2018	2017
Porsche and Piëch families	0	0		
Associates	608	309	4	15
	608	**309**	**4**	**15**

€ million	Receivables		Liabilities	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Porsche and Piëch families	0	0		
Associates	1	0	13	14
	1	**0**	**13**	**14**

The following benefits and compensations were recorded for the board work of the members of the executive board and the supervisory board of Porsche SE.

€ million	2018	2017
Short-term employee benefits	6	5
Post-employment benefits	1	1
Other long-term benefits	0	0
Termination benefits	1	0
	8	**6**

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. Termination benefits include a payment made to Mr. Müller in connection with his departure from the executive board.

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

[22] Remuneration of the supervisory board and the executive board[1]

The total remuneration of members of Porsche SE's executive board amounted to €5 million in the fiscal year 2018 (prior year: €4 million).

Remuneration for a former executive board member amounted to €1 million in the reporting period. The provision for post-employment benefits recognized for this former member amounted to €1 million as of the reporting date.

The total remuneration of the supervisory board for the fiscal year 2018 amounts to €1 million (prior year: €1 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.

[23] 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	2018	2017
Audit of financial statements	591	758
Other assurance services	72	45
Tax advisory services	409	368
Other services	108	261
	1,180	**1,432**

The item for the audit of financial statements contains the fee for the audit of the separate financial statements of Porsche SE and its German subsidiaries as well as for the audit of the consolidated financial statements. This also includes fees for voluntary audits of financial statements. The other assurance services contain fees for the review of the half-yearly financial report. Other services primarily include fees for translation services. In the prior year these largely related to services in connection with carrying out due diligence reviews.

[1] Disclosure pursuant to Secs. 314 (1) No. 6 HGB in conjunction with Sec. 315e HGB

[24] 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 2018 and made it permanently accessible to the shareholders of Porsche SE on the website www.porsche-se.com.

[25] Subsequent events

In the period from the beginning of December 2018 and 6 March 2019, Porsche SE acquired a total of 0.7% of the ordinary shares in Volkswagen AG for €309 million via capital market transactions, of which 0.2% or €86 million relates to the period up to the reporting date. As of 31 December 2018 and 6 March 2019, Porsche SE held 52.4% and 52.9% of the ordinary shares in Volkswagen AG, respectively.

Furthermore, with the exception of the developments presented in note [20] "Contingent liabilities from legal disputes", there were no other reportable events after the reporting date.

Stuttgart, 6 March 2019

Porsche Automobil Holding SE
The executive board

Hans Dieter Pötsch Dr. Manfred Döss Philipp von Hagen

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Independent auditor's report

On completion of our audit, we issued the following unqualified auditor's report dated 7 March 2019. This report was originally prepared in German. In case of ambiguities the German version takes precedence:

To Porsche Automobil Holding SE

Report on the audit of the consolidated financial statements and of the combined management report

Opinions
We have audited the consolidated financial statements of Porsche Automobil Holding SE, Stuttgart ("Porsche SE" or the "company"), and its subsidiaries (the group), which comprise the consolidated income statement as well as the consolidated statement of comprehensive income for the fiscal year from 1 January 2018 to 31 December 2018, the consolidated balance sheet as of 31 December 2018, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January 2018 to 31 December 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we audited the group management report of Porsche SE, which is combined with the management report of the company ("combined management report"), for the fiscal year from 1 January 2018 to 31 December 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the group as of 31 December 2018 and its financial performance for the fiscal year from 1 January to 31 December 2018, and
- the accompanying combined management report as a whole provides an appropriate view of the group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the opinions
We conducted our audit of the consolidated financial statements and the combined management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der

Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the combined management report" section of our auditor's report. We are independent of the group companies in accordance with European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Emphasis of matter paragraph - diesel issue

We refer to the information presented by the executive board in the combined management report sections "Significant events and developments at the Porsche SE Group", "Significant events and developments at the Volkswagen Group" and "Opportunities and risks of the Volkswagen Group", among others, which explain that Porsche SE, Stuttgart, as the majority shareholder of Volkswagen AG, Wolfsburg ("VW AG"), continues to be affected by the diesel issue, mainly through its result from investments accounted for at equity as well as due to the development of the proportional market capitalization of the preference and ordinary shares.

With regard to the investment in VW AG, the executive board of Porsche SE sees the increased risk that due to the diesel issue the company will be subject to further burdens on the proportionate result attributable to it as part of equity accounting. These burdens could result in particular from new findings regarding the amount of the risk provisioning recognized in the consolidated financial statements of VW AG, Wolfsburg, 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 VW AG is based on the current planning of the Volkswagen Group, unexpected additional burdens incurred to mitigate the diesel issue could result in an impairment loss for the investment in VW AG.

The provisions for risks in connection with the diesel issue recognized in the consolidated financial statements of VW AG as of 31 December 2018 are based on the information of the executive directors of VW AG as presented. Due to the uncertainties necessarily associated with pending and expected litigation, it cannot be ruled out that the risk estimation by the executive directors of VW AG could change in the future.

Legal risks from claims brought against Porsche SE in connection with the diesel issue may also have an effect on Porsche SE's financial performance, financial position and assets and liabilities.

Our opinions on the consolidated financial statements and on the combined management report have not been modified in this regard.

Key audit matters in the audit of the consolidated financial statements
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Measurement of the investment in Volkswagen AG (incl. effects of the diesel issue)

Reasons why the matter was determined to be a key audit matter
The investment in VW AG is a major asset of Porsche SE and, due to it being accounted for using the equity method through the proportionate result attributable to Porsche SE, has a significant influence on the Porsche SE Group's financial performance, financial position and assets and liabilities.

The estimates of the executive directors of Porsche SE regarding the recoverability of the shares in VW AG accounted for at equity are subject to high estimation and judgment uncertainties with regard to key measurement parameters as well as the assumptions made in the business plan. The provisions and contingent liabilities disclosed within the Volkswagen Group in connection with the diesel issue that became known in September 2015 are subject to considerable estimation and judgment uncertainties by the executive directors of VW AG on account of the ongoing extensive investigations and proceedings as well as the complexity of the various negotiations and ongoing official approvals as well as the development of market conditions. Due to the significance of the risk provisioning as well as the scope of the assumptions and accounting judgments of the executive directors of VW AG and the resulting effects on the result of Porsche SE, this matter was deemed to be a key audit matter.

Auditor's response
To assess the estimation of the recoverability of the investment in VW AG made by the executive directors of Porsche SE, we initially examined the underlying process and its suitability for assessing the recoverability of the investment. We included our valuation specialists in the audit to assess the valuation model and the calculation inputs used in terms of calculation and method used. We also assessed the business plan approved by the board of management and supervisory board of VW AG and compared key planning assumptions with external analysts' estimates. We also compared the business forecasts prepared in previous periods with the

actual results in order to analyze the accuracy of the forecasts. We also verified how the risk-adjusted capitalization interest rate was determined by analyzing the peer group, comparing market data with external evidence and examining the mathematical accuracy. In order to estimate any impairment risk associated with a reasonably possible change in one of the significant assumptions, we assessed the company's sensitivity analyses.

With regard to the effects of the diesel issue on the result of VW AG and thus on the measurement of the result at Porsche SE accounted for at equity recorded during the current fiscal year following additional special items, we accompanied the audit of Volkswagen's consolidated financial statements by its group auditor. In this regard, we sent audit instructions to the group auditor of VW AG, in which we provided guidelines on risk classification and the audit procedure, in particular in connection with risks regarding the diesel issue. Furthermore, we regularly obtain information about the current status of the audit in personal meetings and inspected the working papers of the group auditor.

Our audit procedures did not lead to any reservations concerning the measurement of the investment in VW AG.

Reference to related disclosures

The accounting policies applied for the investment in VW AG and the associated disclosures on judgments of the board of management regarding the estimation of the recoverability of the investment in VW AG are included in the notes to the consolidated financial statements in the sections "Accounting policies" and "[7] Investments accounted for at equity" and in the group management report in the sections "Significant events and developments at the Porsche SE Group" and "Opportunities and risks of the Porsche SE Group".

2. Assessment of legal risks and their presentation in the consolidated financial statements

Reasons why the matter was determined to be a key audit matter

As an investment management holding company, Porsche SE primarily holds the investment in VW AG. In connection with the expansion of the investment in VW AG and the diesel issue that VW AG became aware of in September 2015, the company is exposed to legal risks in the form of lawsuits filed directly against Porsche SE, which may lead to significant expenses and cash outflows for the company in the event of a negative outcome of the litigation.

The estimation regarding the likelihood of these legal risks occurring at the level of Porsche SE is subject to estimation and judgment uncertainties to a high degree.

In light of this, the assessment of these legal risks was a key audit matter.

Auditor's response

To assess the estimation of the legal risks carried out by the executive directors we first obtained an understanding of the process in order to identify which controls the company's executive directors have implemented to recognize and assess risks at an early stage.

To assess the estimation of the likelihood of legal risks occurring made by the executive directors of Porsche SE, we discussed the risks and the pending proceedings, taking into account the current developments in the reporting period, through discussions with the legal department, the member of the executive board responsible for legal affairs and compliance as well as representative of the law firms overseeing the proceedings. We involved legal experts in our audit and also obtained external letters of confirmation from attorneys. Furthermore, we assessed the company's explanations in the notes to the financial statements.

There were no reservations concerning the assessment of the legal risks and their presentation in the consolidated financial statements.

Reference to related disclosures

The assessment of the legal risks by the executive directors is included in the notes to the consolidated financial statements in the sections "Accounting policies" and "[20] Contingent liabilities from legal disputes" and in the combined management report in the sections "Significant events and developments at the Porsche SE Group" and "Opportunities and risks of the Porsche SE Group".

Other information

The supervisory board is responsible for the report of the supervisory board pursuant to Sec. 171 (2) AktG and the supervisory board's declaration of compliance on the German Corporate Governance Code pursuant to Sec. 161 AktG. In all other respects, the executive directors are responsible for other information. Other information comprises the components of the annual report, with the exception of the audited consolidated financial statements and the combined management report as well as our independent auditor's report, especially the "Responsibility statement" pursuant to Sec. 297 (2) Sentence 4 HGB, the "Report of the supervisory board" pursuant to Sec. 171 (2) AktG, the section "To our shareholders", the "Corporate governance report", the section "Porsche SE share" as well as the statement on corporate governance. We received a copy of this 'Other information' by the time this auditor's report was issued.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the combined management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the group's position and is, in all material respects, consistent with the consolidated financial statements and the knowledge obtained in the audit, and complies with the German legal requirements and appropriately presents the opportunities and risks of future development, and to issue an auditor's report that includes our opinions on the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

Throughout the audit and the examination, we exercise professional judgment and maintain professional skepticism. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit and examination procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk that material misstatements are not detected is higher for fraud than for error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the examination of the combined management report in order to design audit and examination procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the businesses or business activities within the group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further Information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 15 May 2018 and are thus group auditor pursuant to Sec. 318 (2) HGB as no other auditor was appointed. We were engaged by the supervisory board on 18 December 2018. We have been the auditor of Porsche SE without interruption since fiscal year 1983/84.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The auditor responsible for the audit is Marco Koch.

Stuttgart, 7 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Meyer	Koch
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Responsibility statement

We assure to the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report, which has been combined with the management report of Porsche SE, includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Stuttgart, 6 March 2019

Porsche Automobil Holding SE
The executive board

Hans Dieter Pötsch   Dr. Manfred Döss   Philipp von Hagen

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This annual report is available in German and English. In case of doubt the german version is binding.

Financial calendar

19 March 2019
Annual press and analyst conference in Stuttgart

17 May 2019
Group quarterly statement 1st Quarter 2019

27 June 2019
Annual general meeting in Stuttgart

7 August 2019
Half-yearly financial report 2019

12 November 2019
Group quarterly statement 3rd Quarter 2019