PORSCHE SE

Annual Report

2019

Key figures

		2019 IFRS	2018 IFRS	2017 IFRS
Porsche SE Group				
Total assets	€ million	35,592	33,708[1]	31,576
Equity	€ million	35,284	33,416[1]	31,292
Investments accounted for at equity	€ million	34,597	32,518[1]	30,235
Result from investments accounted for at equity	€ million	4,406	3,641[1]	3,357
Revenue	€ million	116	103	34
Personnel expenses	€ million	80	77	31
Financial result	€ million	24	–3	–8
Result before tax	€ million	4,416	3,514[1]	3,299
Result after tax	€ million	4,408	3,491[1]	3,278
Earnings per ordinary share[2]	€	14.39	11.39[1]	10.70
Earnings per preference share[2]	€	14.39	11.40[1]	10.71
Net liquidity	€ million	553	864	937
Employees on 31 December		951	935	823

		2019 HGB	2018 HGB	2017 HGB
Porsche SE				
Net profit	€ million	788	480	235
Net profit available for distribution	€ million	952	676	538
Dividend per ordinary share	€	3.104[3]	2.204	1,754
Dividend per preference share	€	3.110[3]	2.210	1,760

[1] Prior-year figures were adjusted due to the change in a purchase price allocation.
[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: 53.1 %
(Represents a stake of subscribed capital: 31.3 %)

VOLKSWAGEN
AKTIENGESELLSCHAFT

Audi | SEAT | ŠKODA

BENTLEY | BUGATTI | LAMBORGHINI | PORSCHE

DUCATI | Commercial Vehicles | SCANIA | MAN

VOLKSWAGEN FINANCIAL SERVICES
AKTIENGESELLSCHAFT

Further Investments

PTV GROUP

Minority stakes

INRIX | Markforged | SEURAT | AEVA

Status 12 March 2020

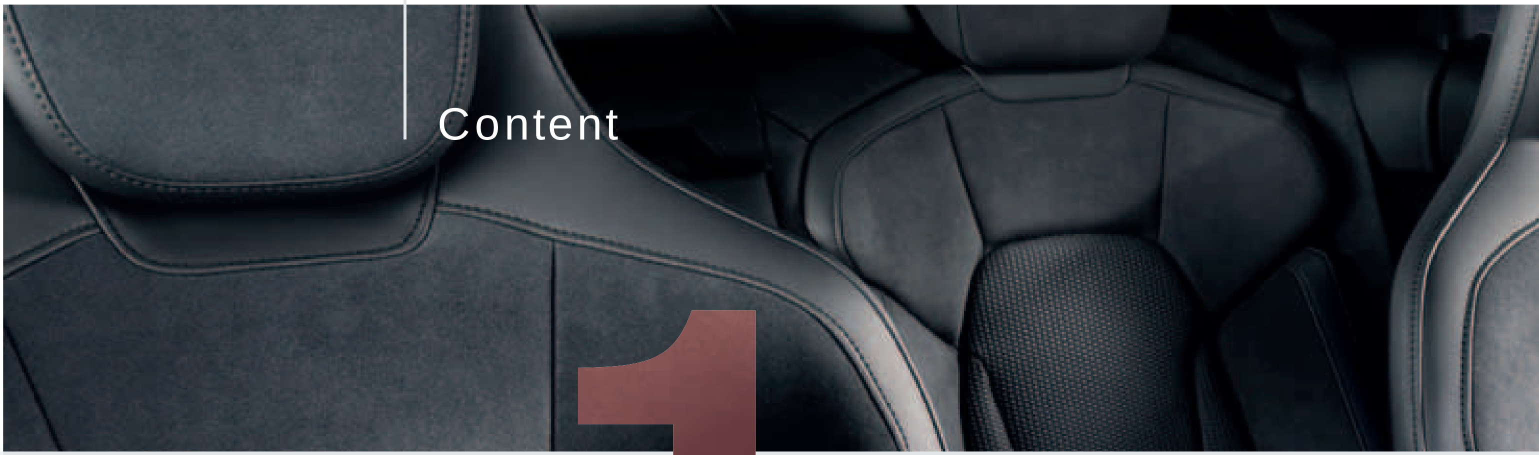
2019


Porsche Taycan Turbo S

2019

“Porsche SE supports Volkswagen AG with its “TOGETHER 2025+” strategy, which entails both the transformation into a digital technology group as well as increasing the company value.”

Hans Dieter Pötsch



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1 To our shareholders


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To our shareholders

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Letter to our shareholders

Dear shareholders,

The automotive industry is undergoing a fundamental change. Electromobility, digital connectivity and autonomous driving will revolutionize our industry. Porsche SE supports Volkswagen AG with its “TOGETHER 2025+” strategy, which entails both the transformation into a digital technology group as well as increasing the company value. In the past fiscal year, we demonstrated by increasing our investment in Volkswagen Group that we at Porsche SE are convinced of the potential for increasing value added. Our 53.1 percent stake in the ordinary shares in Volkswagen guarantees a stable ownership structure.

The past fiscal year was very successful for Porsche SE. The group result after tax rose to 4.4 billion euro, an increase of 26.3 percent compared to the prior year (3.5 billion euro). This development was significantly influenced by the result from the investment accounted for at equity in Volkswagen AG of 4.4 billion euro, after 3.6 billion euro in the prior year. As of 31 December 2019, net liquidity stood at 553 million euro (prior year: 864 million euro). The decrease is primarily attributable to the acquisition of Volkswagen ordinary shares.

Our subsidiary PTV AG also performed encouragingly. Thanks to a strong fourth quarter, revenue increased to 116 million euro in the fiscal year 2019. The bottom line is double digit revenue growth and at PTV level a positive operating result of 5 million euro. The new executive board of PTV has also developed a strategy to align the company more strongly towards cloud-based solutions in the future.

In addition to this, Porsche SE holds minority stakes in four US technology companies. AEVA is working on an innovative LIDAR sensor system, a key technology for advanced driver assistance systems. INRIX is a leading provider of real-time traffic information. The two 3D printing specialists Markforged and Seurat made progress selling and developing their products in 2019.

On the legal side, a case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE in connection with increasing the investment in Volkswagen AG has been

Hans Dieter Pötsch
Chairman of the executive board

pending at the Higher Regional Court of Celle for more than three years. The plaintiffs in this case are claiming overall damages of around 5.4 billion euro. According to a preliminary opinion of the Higher Regional Court of Celle, there is no legal basis for the claims. Porsche SE also shares this opinion.

Porsche SE is still facing investor lawsuits in connection with the diesel issue. A total of 200 proceedings are pending before the Regional Court of Stuttgart, two proceedings before the Higher Regional Court of Stuttgart and 30 other proceedings before the Regional Court of Braunschweig. Claims are being made for damages of around 1.1 billion euro. We regard the lawsuits brought against Porsche SE in connection with the diesel issue to be without merit and in some cases also to be inadmissible.

We are optimistic about the general development of our company. For the fiscal year 2020, Porsche SE expects a group result after tax of between 3.5 billion euro and 4.5 billion euro, which will mainly be shaped by the result of the Volkswagen Group. Net liquidity in the Porsche SE Group is expected to range between 0.4 billion euro and 0.9 billion euro as of 31 December 2020, not taking future investments into account.

The executive board and supervisory board propose that the dividend for the fiscal year 2019 will be increased again. Holders of preference shares are to receive 3.11 euro per share, holders of ordinary shares 3.104 euro per share. This corresponds to a payout of around 952 million euro.

We are convinced that Porsche SE will successfully help shape the fundamental change within the automotive industry. 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
Chairman
Chairman of the supervisory board of
Dr. Ing. h.c. F. Porsche AG

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

Dr. Hans Michel Piëch
Deputy chairman
Supervisory board of Volkswagen AG

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

As of 31 December 2019

● 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. Josef Michael Ahorner
Entrepreneur

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

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

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

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

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

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

Dr. Stefan Piëch
Entrepreneur

Appointments:
- o SEAT S.A., Barcelona

Peter Daniell Porsche
Managing director of
PDP Management Services GmbH

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

Prof. TU Graz e.h. KR Ing. Siegfried Wolf (since 11 April 2019)
Entrepreneur

Appointments:
- ● Continental AG, Hanover
- ● Schaeffler AG, Herzogenaurach
- o Banque Eric Sturdza SA, Geneva
- o MIBA AG, Mitterbauer Beteiligungs AG, Laakirchen (in accordance with Sec. 28a (5) No. 5 Austrian Banking Act a position on the supervisory board)
- o Sberbank Europe AG, Vienna (chairman)

As of 31 December 2019

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

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

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

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

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

Members of the executive board

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

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

As of 31 December 2019

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

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

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

Philipp von Hagen
Investment management
Member of the executive board

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

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 gentlemen,

Porsche SE is a holding company with investments along the automotive value chain. As a core investment, it holds the majority of the ordinary shares in Volkswagen Aktiengesellschaft, Wolfsburg (“Volkswagen AG” or “Volkswagen”), and sees itself as a long-term anchor investor. We remain convinced that the Volkswagen Group has vast potential for increasing value added.

Porsche SE increased its holding of the ordinary shares in Volkswagen AG to 53.1% in the fiscal year 2019, once again demonstrating its clear commitment to Volkswagen. The board of management of Volkswagen AG is realigning the company towards e-mobility, digitally connected cars and autonomous driving. The Volkswagen Group is planning to spend around €60 billion on these new technologies by 2024. At the same time, the board of management of Volkswagen AG is working intensively on the subject of business valuation and the question of how it can increase profitability. The IPO of part of TRATON SE was an important milestone in this connection. Like the executive board, the supervisory board of Porsche SE expressly supports this partial IPO and is fully committed to the strategy of the Volkswagen Group.

As a long-term investor, we support our subsidiary PTV Planung Transport Verkehr AG, Karlsruhe (“PTV”), in its development from being a pure-play software provider to a provider offering platform-based solutions. PTV mainly focuses on software for modeling, planning and controlling traffic flows as well as for fleet and route optimization. Porsche SE is still convinced that PTV – particularly after the re-election of its executive board – can generate significant growth in the coming years.

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

Dr. Wolfgang Porsche
Chairman of the supervisory board

Tasks of the supervisory board

Pursuant to the articles of association, the supervisory board has ten members (shareholder representatives) to be appointed by the annual general meeting. With regard to the composition of the supervisory board, a shareholder initiated a status proceeding in accordance with Sec. 98 German Stock Corporation Act (AktG) with the Regional Court of Stuttgart in November 2018. The court was requested to find that the supervisory board of Porsche SE should, in derogation of its current composition, consist of half shareholder representatives and half employee representatives. The supervisory board is of the opinion that it is duly composed and therefore considers the motion to be without merit. A decision has yet to be reached on the matter.

During the fiscal year 2019, the supervisory board held four ordinary meetings and one extraordinary meeting. The ordinary meetings took place in March, June, October and November, the extraordinary meeting was held on 25 September 2019. The subject matter of the supervisory board’s extraordinary meeting was the indictment by the Braunschweig public prosecutor’s office against Mr. Pötsch, Dr. Diess and Prof. Dr. Winterkorn. The supervisory board resolved to unreservedly stand by Mr. Pötsch in his function as chairman of the executive board of Porsche SE and chairman of the supervisory board of Volkswagen AG and by Dr. Diess as chairman of the board of management of Volkswagen AG, regardless of the indictment by the Braunschweig public prosecutor’s office.

Apart from Mag. Josef Michael Ahorner, who did not attend two supervisory board meetings, and Prof. Dr. Ulrich Lehner, who did not attend one meeting, all other members of the supervisory board were present at all meetings of the supervisory board in 2019.

Within the framework of its control and advisory responsibilities, the supervisory board was kept informed in depth about company performance during the fiscal year 2019 by means of written reports from the executive board as well as verbally in meetings. Reporting focused on Porsche SE’s economic position and its investments (in particular Volkswagen AG), business results, the development of net assets, financial position and results of operations and the risk situation. The supervisory board also monitored the effectiveness of corporate governance. Furthermore, the supervisory board reviewed the annual and consolidated financial statements issued with unqualified auditor's reports as well as the combined management report for the fiscal year 2018, approved these and ratified the annual financial statements for 2018 of Porsche SE. There were also no objections to raise against the dependent company report for 2018. Another focus of the supervisory board's monitoring activities was on obtaining regular reports on the development and status of the various legal disputes (especially the claims for damages, the criminal investigation by the Stuttgart public prosecutor's office against Mr. Pötsch, Prof. Dr. Winterkorn and Mr. Müller as well as rescission proceedings and compulsory information procedures). Central topics were also the actions for damages concerning the stake building of the investment in Volkswagen AG in 2008 as well as those in connection with the diesel issue. The supervisory board obtained reports on the executive board's decision to not make any claims against Volkswagen AG in connection with the diesel issue and expressly approved this decision. In addition, the supervisory board discussed the possibility of existing claims of the company against current or former executive board members in connection with the expansion of the investment in Volkswagen AG and the diesel issue. Supported by various reports by an independent college professor, which the supervisory board reviewed in detail, it came to the conclusion that, as before, no such claims of the company exist and it does not need to pursue these claims.

The supervisory board also discussed the business plan. Furthermore, the supervisory board ensured that the executive board carried out its business in compliance with the regulations. Monitoring also encompassed appropriate measures for risk avoidance and compliance. It checked 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 monitoring system the act requires is functioning effectively to identify any developments jeopardizing the company's ability to continue as a going concern at an early stage. It satisfied itself as to the efficiency of the risk management system, including the internal control system, as well as the activities of internal audit and obtained regular reports on these.

Topics related to the German Act to Implement the Second Shareholder Rights Directive (ARUG II) and the preparation and audit of the non-financial group report for the first time were also discussed.

In addition, a selection procedure within the meaning of Art. 16 (3) Regulation (EU) No 537/2014 was carried out to appoint the future auditor and group auditor for the fiscal year 2020 as well as the auditor for the review of the interim condensed consolidated financial statements and interim group management report as part of the half-yearly financial report as of 30 June 2020 of Porsche SE. This was led by the audit committee. Based on the recommendation by the audit committee, the supervisory board resolved to propose PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft ("PwC") as the new auditor at the annual general meeting.

On account of the right to reserve approval to which it is entitled, the supervisory board also discussed the voting behavior of Porsche SE in the annual general meeting of Volkswagen AG and approved the refinancing of a credit facility of Porsche SE. It also looked at all the appointments and ancillary activities of the executive board members and granted the approvals required.

Committees

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

The executive committee decides in urgent cases on business matters requiring the approval of the supervisory board. It also functions as a personnel committee and makes recommendations to the supervisory board on concluding, amending and terminating contracts of employment for members of the 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 audit committee supports the supervisory board in monitoring management of the company and pays particular attention to reviewing accounting, monitoring the accounting process, the effectiveness of the internal control system, the risk management system and internal audit. Accounting primarily relates to the consolidated financial statements and the combined management report, interim financial information and the separate financial statements prepared in accordance with the German Commercial Code (HGB). The committee also focuses on the non-financial group report and prepares it for review by the supervisory board. Another topic is the audit of the financial statements. In this regard, the audit committee resolved in the past fiscal year to issue a request for proposal for the audit of the financial statements and other audit services in the Porsche SE Group from the fiscal year 2020 onwards. A selection procedure within the meaning of Art. 16 (3) Regulation (EU) No 537/2014 was carried out. The audit committee subsequently also recommended Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft alongside PwC to the supervisory board for the election of the auditor, but expressed and explained a preference for PwC. Before submitting its recommendation regarding election to the supervisory board, the audit committee looked in detail at the independence of the potential new auditor and subjected this criteria to a careful and comprehensive examination. In addition, the audit committee monitors the independence of the auditor. During the required approval process for the auditor's non-audit services engaged by the executive board, there were no indications of grounds for exclusion or disqualification or that endanger the independence of the auditor. The audit committee focuses on the preparation of the auditor, the determination of key audit topics, the key audit matters and the fee agreement. The audit committee consists of three members: Prof. Dr. Ulrich Lehner (chairman, financial expert), Dr. Hans Michel Piëch and Dr. Ferdinand Oliver Porsche.

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

The composition of the individual committees of the supervisory board can be found in the section "Company boards of Porsche Automobil Holding SE and their appointments" of the annual report of Porsche SE.

The tasks and mode of operation of the committees are described in more detail in the corporate governance report, which is combined with the declaration of compliance, published on the company's website.

The executive committee met four times in the fiscal year 2019, the audit committee had five meetings and the nominations committee met once. The chairman of the supervisory board, Dr. Wolfgang Porsche, attended four of the meetings of the audit committee as a guest. The members of the respective committees attended all meetings held in the fiscal year 2019. The full supervisory board was regularly informed about the work of the committees.

Cooperation with the executive board

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 kept directly informed about significant events and developments of significance for the company and the group.

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

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 2019 and made it permanently accessible to shareholders on the company's website at www.porsche-se.com/en/company/corporate-governance/. In December 2019, the executive board and supervisory board also changed the frequency of declarations following suggestions of the Code Commission and submitted another annual declaration of compliance in accordance with Sec. 161 AktG. The current declaration of compliance is reproduced in full in the corporate governance report, which is combined with the declaration of compliance, published on the company's website.

Due to the influence of individual members of the supervisory board of Porsche SE on individual ordinary shareholders of Porsche SE or the fact that individual supervisory board members are also members of the supervisory boards of Porsche SE and Volkswagen AG or

Volkswagen subsidiaries, conflicts of interest can arise for these members of the supervisory board in individual cases.

To the extent that concrete conflicts of interest existed or were feared, the particular conflict of interest was reported to the supervisory board. In the past fiscal year, this related to the resolutions of the company at the annual general meeting of Volkswagen AG regarding the individual exoneration of members of the supervisory board for the fiscal year 2018. 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. In addition, the persons concerned also abstained from voting in the resolution on voting behavior in the annual general meeting of Volkswagen AG regarding their election to the supervisory board of Volkswagen AG.

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

Based on the recommendation from the supervisory board, the annual general meeting on 27 June 2019 elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the auditor of the separate and consolidated financial statements as well as the combined management report for fiscal year 2019. Prior to the supervisory board issuing its recommendation for election to the annual general meeting, the auditor submitted a declaration of independence to the supervisory board, which was reviewed by the supervisory board in accordance with Sec. 107 (3) AktG and No. 7.2.1 of the German Corporate Governance Code (GCGC).

Alongside the key audit matters identified by the auditor in the auditor’s report, the supervisory board set the key topics in consultation with the audit committee as “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 “Accounting treatment of the acquisition of ordinary shares in VW in the consolidated financial statements and combined management report”.

The auditors responsible at Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the separate and consolidated financial statements of Porsche SE as well as the combined management report for fiscal year 2019 and issued an unqualified auditor’s report. They attended both the audit committee meeting and the supervisory board meeting where the separate and consolidated financial statements and the combined management report for the fiscal year 2019 were discussed. The members of the audit committee and supervisory board provided extensive documents and the audit reports of the auditor for preparation. The audit committee examined and discussed all reports made available to it and inquired about them in a critical manner. These were also discussed in great detail in the presence of the auditor. The auditors reported on the results of their audits, also referring to the key audit matters, the respective procedures during the audit, including the conclusions, the additional key topics set by the supervisory board and were available to answer any additional questions or provide information. Furthermore, the auditor confirmed that the risk management system implemented by the executive board is functioning effectively to identify any developments jeopardizing the company's ability to continue as a going concern at an early stage and that no weaknesses were found in the internal control system and risk management system with regard to the accounting process. After its own audit, the audit committee concurred with the result of the audits by the auditor.

The chairman of the audit committee and the auditor reported on the results of their audits in the supervisory board meeting and were available to answer any additional questions or provide information. After its own audit, the supervisory board concurred with the result of the auditor's and audit committee's audits. It determined that it had no objections to raise, approved the financial statements and combined management report prepared by the executive board and thus ratified the financial statements for 2019 of Porsche SE.

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

Audit of the dependent company report

Pursuant to Art. 9 (1) lit. c (ii) SE-VO and Sec. 312 AktG, the executive board prepared a report on related companies (dependent company report) for the fiscal year 2019. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, has audited the dependent company report and rendered the following opinion:

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

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

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

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

Audit of the non-financial group report

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

Composition of the executive board and supervisory board

The composition of Porsche SE's executive board did not change in the fiscal year 2019.

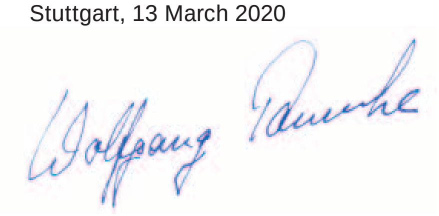
By resolution of Stuttgart local court dated 28 March 2019, Prof. KR Ing. Siegfried Wolf was appointed as member of the supervisory board by court appointment as of 11 April 2019. Pursuant to Sec. 104 (6) AktG, the court appointment applied until a new member of the supervisory board was elected by the annual general meeting.

On 27 June 2019, the annual general meeting of Porsche SE elected Prof. KR Ing. Siegfried Wolf to the supervisory board effective as of the end of the annual general meeting.

Acknowledgment

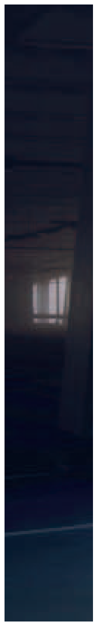
The supervisory board expresses its gratitude to the executive board and all employees in acknowledgment of the work they have done and their unflagging commitment.

Stuttgart, 13 March 2020



The supervisory board
Dr. Wolfgang Porsche
Chairman

Porsche SE share



Stock markets[1]

In the fiscal year 2019, the trade dispute between the US and China was a source of uncertainty on the international financial markets. Negotiations between the European Union and the United Kingdom on the latter's exit from the EU also continued to be a topic among investors and companies. The stock market year 2019 was also shaped by the European Central Bank's low-interest policy.

After having already reached its annual low on 3 January 2019 (10,416.66 points), the German stock exchange index (DAX) developed positively over the year without any significant slump. Towards the end of the stock market year 2019, the German stock exchange index reached its high of 13,407.66 points on 16 December. The index closed the reporting year at 13,249.01 points – an increase of 2,690.05 points or around 25% on the closing price from 30 December 2018 (10,558.96 points).

As of the end of 2019, the Euro Stoxx 50 recorded 3,745.15 points, likewise an increase of around 25% compared to the 2018 closing level (3,001.42 points). The high of 3,782.27 points was reached on 27 December. The annual low of 2,954.66 was reached on 3 January.

The performance of Porsche SE's preference share was also very positive in 2019. The share closed the year at €66.64 – an increase of around 29% on the price as of the end of 2018 (€51.64). The annual low was reached on the second trading day of 2019: On 3 January, the price of the preference share was at €50.28. On 7 November 2019, the share reached its annual high of €70.00.

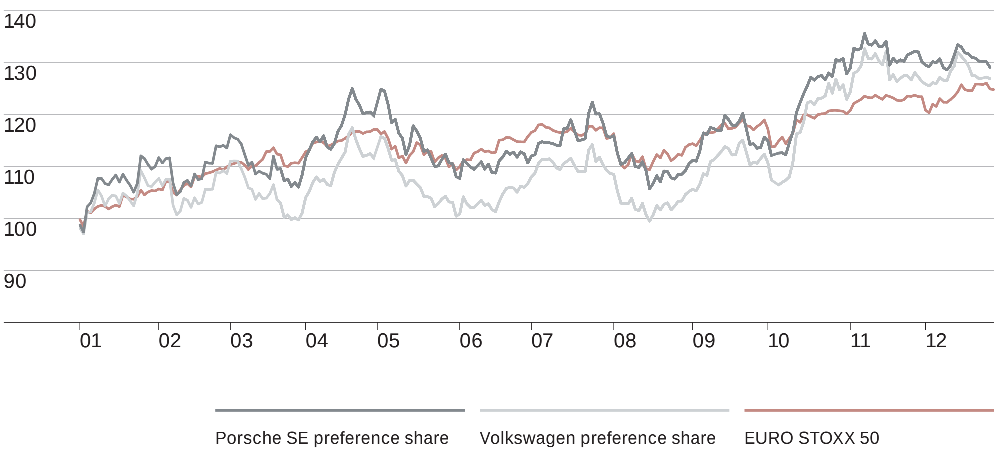
[1] All disclosures with regard to the respective closing price.

2019 annual general meeting

As in prior years, the annual general meeting of Porsche SE was again held in the Porsche-Arena and Hanns-Martin-Schleyer-Halle in Stuttgart in 2019. Some 3,000 shareholders attended. It was resolved to distribute a dividend of €2.210 per preference share (prior year: €1.760) and €2.204 per ordinary share (prior year: €1.754). This corresponds to a payout of around €676 million compared to €538 million in the prior year. The fact that the distribution amount increased once again underlines the fact that Porsche SE's dividend policy is geared to sustainability.

The shareholders exonerated the members of the executive board and those of the supervisory board holding office in the fiscal year 2018.

Development of the Porsche SE preference share price 2019
(indexed to 31 December 2018)



Porsche SE preference share: basic data

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

[1] Of which half as ordinary shares

Shareholder composition

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

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

Porsche SE share key figures

		2019	2018	2017
Closing price[1,2]	€	66.64	51.64	69.78
Annual high[1,2]	€	70.00	78.72	71.59
Annual low[1,2]	€	50.28	50.78	47.61
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]	€	20,408,500,000	15,814,750,000	21,370,125,000
Earnings per ordinary share[4]	€	14.39	11.39[5]	10.70
Earnings per preference share[4]	€	14.39	11.40[5]	10.71
Dividend per ordinary share	€	3.104[6]	2.204	1.754
Dividend per preference share	€	3.110[6]	2.210	1.760

1 Preference share in Xetra trading
2 Based on the closing price
3 Assuming ordinary shares are valued at the market price of the preference shares
4 Basic and diluted
5 Prior-year figures were adjusted due to the change in a purchase price allocation
6 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 investors in the fiscal year 2019. This was made possible with the help of conference calls as well as roadshows in the most importance financial centers.

These measures were supported by participating in capital market conferences in Germany and abroad in order to meet all information needs. The aim of these activities was and is to inform the capital market participants about the latest business developments, investment strategy as well as the status of the legal proceedings.

Volkswagen ID.3

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

2

Group management report and management report of Porsche Automobil Holding SE

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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 2019, the Porsche SE Group had 951 employees (31 December 2018: 935 employees).

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

The business activities of Porsche SE essentially consist in 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 with registered offices in seven European countries: Volkswagen passenger cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen commercial vehicles, Scania and MAN. The collaboration between the MAN and Scania commercial vehicle brands is coordinated in TRATON SE, which has been listed on the stock exchange since mid-2019. In addition to the investment in Volkswagen AG, the Porsche SE Group holds 100% in PTV AG, shares in INRIX as well as shares in three technology start-ups in the USA.

The principal criteria of Porsche SE for the acquisition of 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 securing sufficient liquidity. In line with this corporate goal, the result and liquidity are the core management indicators in the Porsche SE Group.

The result after tax 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 consolidated financial statement reports for the Porsche SE Group as well as risk reports.

Report on economic position

Significant events and developments at the Porsche SE Group

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 Volkswagen Group vehicles with type 2.0 l diesel engines in the USA. In this regard, numerous court and governmental proceedings were subsequently initiated in various countries (“diesel issue”)

As the majority shareholder, Porsche SE continues to be affected by the negative special items in connection with the diesel 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 2019, 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 the diesel issue may also have an effect on the results of operations, financial position and net assets of the Porsche SE Group. In addition, 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. In the period from the beginning of December 2018 and mid-March 2019, Porsche SE acquired a total of 0.9% of the ordinary shares in Volkswagen AG for €397 million in capital market transactions, of which 0.7% or €311 million relates to the period from 1 January to 18 March 2019. As of 31 December 2019, Porsche SE held 53.1% (52.4%) of the ordinary shares in Volkswagen AG. This increase in the investment is another demonstration of the company’s clear commitment to Volkswagen.

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

For several years, Porsche SE has been involved in various legal proceedings. The main developments 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 initiated by an order of reference of the Regional Court of Hanover dated 13 April 2016 is pending with the Higher Regional Court of Celle. Subject of those actions are alleged damage claims based on alleged market manipulation and alleged inaccurate information in connection with Porsche SE's expansion of the shareholding in Volkswagen AG. In part these claims are also based on alleged violations of antitrust regulations. In the six initial proceedings suspended with reference to the model case a total of 40 plaintiffs assert alleged claims for damages of about €5.4 billion (plus interest). Since the beginning of the model case several hearings have already been held before the Higher Regional Court of Celle, in which the court, inter alia, explained its preliminary view on the state of affairs and of the dispute. The next dates for hearings are scheduled beginning in April 2020. Porsche SE is of the opinion that the claims asserted in the suspended initial proceedings are without merit and that the requested establishment objectives in the model case will be rejected. Porsche SE considers its opinion endorsed by the previous development of the oral hearing before the Higher Regional Court of Celle.

In the proceeding pending before the Regional Court of Frankfurt against an incumbent and a former member of the supervisory board of Porsche SE, Porsche SE joined as intervener in support of the defendants. The former member of the supervisory board has passed away in the meantime, which is of no immediate effect for the proceeding. Other than this, there were no new developments during the reporting period. In this proceeding the same alleged claims are asserted that are already subject of a currently suspended action concerning alleged damages of about €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover. Porsche SE considers these claims to be without merit.

Since 2012 Porsche SE and two companies of an investment fund have been in dispute over the existence of alleged claims in the amount of about US$ 195 million and have filed lawsuits in Germany and England respectively. On 6 March 2013, the

English proceedings were suspended at the request of both parties until a final decision had been reached in the proceedings commenced in the Regional Court of Stuttgart concerning the question of which court is the court first seized. A final decision on this issue continues to be outstanding. Currently, the proceeding is pending before the Higher Regional Court of Stuttgart. In both April and October 2019 the Higher Regional Court of Stuttgart rejected a motion for recusal filed by the defendant companies of the investment fund. On 24 January 2020, a further motion for recusal against the expert witness was filed, on which a decision is yet to be made Porsche SE considers the action filed in England to be inadmissible and the asserted claims to be without merit.

Legal proceedings and legal risks in connection with the diesel issue

In connection with the diesel issue (see the description in the combined management report for the fiscal year 2019 in the section “Diesel issue” in the section “Significant events and developments at the Volkswagen Group”), legal proceedings with a total volume of approximately €1.1 billion (plus interest) are pending against Porsche SE before the Regional Court of Stuttgart, the Higher Regional Court of Stuttgart and the Regional Court of Braunschweig. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information respectively alleged incorrect capital market information in connection with the diesel issue. Some of these proceedings are directed against both Porsche SE and Volkswagen AG. In one proceeding, in addition to Porsche SE, Robert Bosch GmbH was made defendant. Porsche SE considers the actions to be inadmissible in part, but in any case to be without merit.

The following significant developments occurred during the reporting period:

Before the Regional Court of Stuttgart 200 actions are currently pending at first instance. After withdrawal of one action by one plaintiff in the amount of around €11 million in February 2020, the actions concern payment of damages, if quantified, in the total amount of approximately €916.6 million (plus interest) and in part establishment of liability for damages. In the majority of the proceedings pending before the Regional Court of Stuttgart, motions for recusal by the plaintiff side are pending. To the extent that decisions have been made so far on these motions for recusal, they have been dismissed. 30 claims for damages against Porsche SE, with a claim volume (according to the current assessment of the partially unclear head of claims) of approximately €9 million (plus interest), are pending before the Regional Court of Braunschweig.

A number of the proceedings pending before the Regional Court of Stuttgart and the Regional Court of Braunschweig are currently suspended with reference to the KapMuG proceedings pending before the Higher Regional Court of Stuttgart and the Higher Regional Court of Braunschweig Porsche SE considers the actions filed against it before the Regional Court of Stuttgart to be without merit. The actions filed against Porsche SE before the Regional Court of Braunschweig are considered by Porsche SE to be inadmissible and to be without merit.

In addition, two further proceedings, in which a total of further approximately €164 million (plus interest) in damages were claimed, are pending before the Higher Regional Court of Stuttgart on appeal. The Regional Court of Stuttgart granted these actions in the amount of approximately €47 million (plus interest) and otherwise dismissed the actions on 24 October 2018. Porsche SE and the respective plaintiffs filed appeals. On 12 September 2019, an oral hearing was held before the Higher Regional Court of Stuttgart. By orders rendered on 29 October 2019, the Higher Regional Court of Stuttgart suspended the appeal proceedings with reference to the KapMuG proceedings pending before the Higher Regional Court of Stuttgart and the Higher Regional Court of Braunschweig. The orders to suspend the proceedings by the Higher Regional Court of Stuttgart were appealed by the respective plaintiffs on points of law. Porsche SE considers these actions filed against it before the Regional Court of Stuttgart to be without merit.

A KapMuG proceeding, initiated by order for reference of the Regional Court of Stuttgart of 28 February 2017, is pending before the Higher Regional Court of Stuttgart. Following a hearing on 6 February 2019, the Higher Regional Court of Stuttgart decided by court order dated 27 March 2019 that the model case proceeding is inadmissible. The appeal on points of law to the Federal Court of Justice was permitted and filed by some plaintiffs of the suspended initial proceedings.

Following corresponding orders to suspend the proceedings by the Regional Court of Braunschweig and the courts of Stuttgart, Porsche SE became a further model case defendant in the model case proceedings before the Higher Regional Court of Braunschweig. Several oral hearings have taken place before the Higher Regional Court of Braunschweig. The next oral hearing is set to take place on 20 April 2020. By order of 23 October 2018, the Higher Regional Court of Braunschweig dismissed applications of joined parties for the extension of the model case before the Higher Regional Court of Braunschweig to include establishment objectives relating exclusively to


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alleged claims against Porsche SE. The appeal on points of law to the Federal Court of Justice was permitted and has been filed by joined parties. By order of 1 October 2019, the Federal Court of Justice dismissed the appeal on points of law filed by the joined parties. On 12 August 2019, the Higher Regional Court of Braunschweig issued a partial model case ruling regarding questions of jurisdiction. This decision was appealed to the Federal Court of Justice by joined parties on points of law.

One person, who originally asserted alleged claims for damages regarding the diesel issue against Porsche SE by means of a conciliatory proceeding, brought an action against Porsche SE in the reporting period. Apart from that, no significant new developments have occurred with regard to claims asserted out of court and not yet brought to court against Porsche SE with a total amount of approximately €63 million and in some case without defined amounts during the reporting period.

Also with regard to the waiver of the statute of limitations defense granted by Porsche SE to the United States of America in December 2018 concerning alleged claims for damages in respect of the alleged acquisition of a total of 40,992 Porsche SE preference shares, there were no new developments in the reporting period.

With respect to the investigation proceedings on suspicion of market manipulation in connection with the diesel issue against Prof. Dr. Martin Winterkorn, Hans Dieter Pötsch and Matthias Müller, which were initiated in 2016, there were likewise no significant new developments in the reporting period. The investigation proceedings are not directed against Porsche SE. Porsche SE considers the allegation made to be without merit.

Shareholder proceedings

In the shareholder proceedings, the Regional Court of Stuttgart had granted the 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 appeal filed by Porsche SE against this decision was dismissed by the Higher Regional Court of Stuttgart on 18 November 2019 and further appeal on points of law has not been allowed. Porsche SE filed a complaint against the refusal of leave to appeal on points of law on 20 December 2019. Porsche SE still considers the action to be without merit.

In addition, the Regional Court of Stuttgart had granted a motion for disclosure of information of the same shareholder regarding questions allegedly asked and allegedly answered insufficiently at the annual general meeting on 29 June 2016 with respect to five questions and dismissed it regarding the remaining 49 questions by decision dated 5 December 2017. The appeal filed by Porsche SE against this decision was dismissed by the Higher Regional Court of Stuttgart on 18 November 2019. The decision is final and binding. Porsche SE provided the shareholder with supplementary information on the five questions that were the subject of the proceedings.

In November 2018, a shareholder initiated a so-called status proceeding at the Regional Court of Stuttgart in accordance with Sec. 98 German Stock Corporation Act (AktG) and applied for a court ruling that, differing from its current composition, the supervisory board of Porsche SE should be composed equally of shareholder representatives and employee representatives. By court order dated 27 January 2020, the Higher Regional Court of Stuttgart dismissed procedural requests by Porsche SE by way of interim decisions. Porsche SE has filed an appeal against these decisions. A decision on the substance of the proceeding has not been rendered yet. Porsche SE is of the opinion that the supervisory board is duly composed and considers the motion to be without merit.

Apart from this, no significant changes occurred during the reporting period. In particular, Porsche SE continues not to have reliable findings or assessments that would lead to a different evaluation of the legal risks.

Significant events and developments at the Volkswagen Group

Diesel issue

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

In the fiscal year 2019, additional special items of €2.3 billion had to be recognized in connection with the diesel issue. Within other operating expenses, there were expenses of €2.6 billion from the administrative order issued by the Stuttgart public prosecutor in May 2019 of €0.5 billion, thereby settling the ongoing misdemeanor proceeding against Dr. Ing. h.c. F. Porsche AG, as well as higher provisions for legal risks. Reversals of provisions for technical measures of €0.3 billion had the opposite effect, which reduced the Volkswagen Group's cost of sales.

Furthermore, there continue to be no conclusive findings or assessments of facts available to the board of management of Volkswagen AG based on the information available and gained that would suggest that a different assessment of the associated risks should have been made.

In Germany, the Verbraucherzentrale Bundesverband e.V. (Federation of Consumer Organizations, vzbv) filed an action in November 2018 with the Braunschweig Higher Regional Court for model declaratory judgment against Volkswagen AG. The action was seeking a ruling to determine certain preconditions for potential consumer claims against Volkswagen AG; however, no specific payment obligations would have resulted from any determinations the court may have made. Individual claims would have had to have been asserted afterwards in thousands of separate proceedings. Oral argument in the consumer action for model declaratory judgment began in September 2019. On 28 February 2020, Volkswagen AG and the vzbv reached an out-of-court settlement that brought the model declaratory judgment to a close. According

to this, Volkswagen AG will offer individual settlements to consumers who have registered claims under the action for model declaratory judgment and who meet the settlement criteria. The volume of such settlements amounts to approximately €830 million. The vzbv will withdraw the model declaratory judgment.

Compensation paid to the non-controlling interest shareholders of MAN SE

In August 2018, the control and profit and loss transfer agreement with MAN SE was terminated by extraordinary notice as of 1 January 2019. Following the announcement that the termination of the control and profit and loss transfer agreement had been recorded in the commercial register, the non-controlling shareholders of MAN SE were entitled under the provisions of the control and profit and loss transfer agreement to tender their shares to Volkswagen within a two-month-period. This resulted in cash outflows of €1.1 billion in 2019 for the acquisition of shares tendered and for compensation payments. The “Put options and compensation rights granted to non-controlling interest shareholders” item reported in the balance sheet was reduced accordingly. The put options granted to non-controlling interest shareholders of MAN SE expired on 4 March 2019. The remaining amount of €0.7 billion was reclassified directly to equity; €0.3 billion of this amount is attributable to non-controlling interests. Commercial vehicle manufacturer TRATON SE (TRATON), a subsidiary of Volkswagen AG, intends to merge MAN into TRATON in order to simplify the overall group structure of the TRATON Group. In connection with this merger, TRATON intends to transfer the shares of the non-controlling interest shareholders from MAN to TRATON in return for appropriate cash compensation (squeeze-out in accordance with merger law).

IPO of TRATON SE

Since June 2019, shares of TRATON SE have been traded on the regulated market of the Frankfurt Stock Exchange and the Nasdaq Stockholm exchange. The offer price was set at €27.00 per share. This led to an increase of €1.4 billion in the Volkswagen Group’s equity, of which €1.2 billion is reported as non-controlling interests. The cash inflow occurred at the beginning of the third quarter of 2019.


WOB TR 451

Acquisition of Navistar ordinary shares

On 30 January 2020, TRATON SE submitted an offer for the complete acquisition of all outstanding ordinary shares of Navistar not yet owned by TRATON SE for a price of US$ 35.00 per share in cash. This corresponds to an offer price of around €2.6 billion. As of 31 December 2019, TRATON SE held 16.8% of the outstanding ordinary shares of Navistar.

Sale of interest in Renk AG

In January 2020, the board of management and supervisory board of Volkswagen AG resolved to sell the Volkswagen Group’s 76% interest in RENK AG. The sale is expected to be completed in the second half of 2020, subject to regulatory approval.

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. 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 2019 with a decrease in momentum: global gross domestic product (GDP) rose by 2.6% (3.2%). Economic momentum weakened compared with the prior year, both in advanced economies and emerging markets. With interest rates remaining comparatively low and prices for energy and other commodities falling year on year on the whole, consumer prices also declined worldwide. Growing upheaval in trade policy at international level and continuing geopolitical tensions led to much greater economic uncertainty and resulted in a wane in the international trade of goods.

Trends in the markets for passenger cars and light commercial vehicles

In fiscal year 2019, the global market volume of passenger cars fell below the prior-year level for the second year in a row, decreasing to 79.6 million vehicles (down 4.0%). While new registrations in Western Europe and in Central and Eastern Europe exceeded the prior-year figure, the overall markets in the Middle East, North America, South America and especially Asia-Pacific recorded a dip in demand.

Global demand for light commercial vehicles in the reporting period was down moderately on the prior year.

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
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 fiscal year 2019 than in the prior year, with 609 thousand new vehicle registrations (up 2.8%).

Demand for buses in the markets that are relevant for the Volkswagen Group was much higher than in the prior year. The markets in Brazil as well as in Western Europe contributed in particular to this growth. Demand in Central and Eastern Europe was moderately higher year on year.

Trends in the markets for financial services
Amid a contraction in the overall market, demand for automotive financial services was again on a high level in 2019 due, among other reasons, to the persistently low key interest rates in the main currency areas. Service products such as maintenance and servicing agreements or insurance were especially popular, as customers in more advanced automotive financial services markets are putting their focus on reducing total cost of ownership. In the fleet segment, more customers elicited the support of automotive financial service providers in order to optimize their entire mobility management beyond mere fleet operation. There was also increased demand from both private and business customers for mobility services centered on vehicle usage rather than on ownership.

Volkswagen Group deliveries
The Volkswagen Group delivered 11.0 million vehicles to customers worldwide in 2019. This exceeded the prior-year figure by 1.3% and set a new record. The Volkswagen commercial vehicles brand has been reported as part of the passenger cars business area since 1 January 2019. The prior-year figures have been adjusted accordingly. 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, Mexico and Poland. The group recorded encouraging growth in many key markets.

During the reporting period, deliveries of passenger cars to Volkswagen Group customers worldwide rose to 10.7 million units amid difficult conditions resulting primarily from mainly declining overall markets. Year on year, the number of deliveries increased by 131 thousand vehicles or 1.2%. The group's new SUV models made a particular contribution to this increase. As the passenger car market as a whole declined by 4.0% over the same period, the Volkswagen Group's share of the global market rose to 12.9% (12.2%). The largest increases in volume in absolute terms were seen in Germany and Brazil. In Argentina and Turkey, among other countries, sales figures were down on the prior year. The Volkswagen passenger cars, SEAT, Porsche and Lamborghini brands each exceeded their record figures from the prior year. The brands that achieved the largest growth in absolute terms were SEAT, Volkswagen passenger cars and Audi; ŠKODA and Volkswagen commercial vehicles both fell slightly short of the prior year's high figures.

Worldwide, the Volkswagen Group delivered a total of 242 thousand mid-sized and heavy trucks, buses and commercial vehicles from the MAN TGE van series in 2019 (up 4.0%). Trucks accounted for 206 thousand units (up 1.7%), buses for 21 thousand units (down 5.0%) and the TGE from MAN for 15 thousand (8 thousand) deliveries.

The following table presents the Volkswagen Group's deliveries by region and by brand.

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

	2019	2018	Change %
Regions			
Europe/Other markets	4,884,406	4,741,021	3.0
North America	951,528	956,705	–0.5
South America	608,560	589,973	3.2
Asia-Pacific	4,530,142	4,546,309	–0.4
Worldwide	**10,974,636**	**10,834,008**	**1.3**
by brands			
Volkswagen passenger cars	6,278,345	6,244,888	0.5
Audi	1,845,573	1,812,485	1.8
ŠKODA	1,242,767	1,253,741	–0.9
SEAT	574,078	517,627	10.9
Bentley	11,006	10,494	4.9
Lamborghini	8,205	5,750	42.7
Porsche	280,800	256,255	9.6
Bugatti	82	76	7.9
Volkswagen commercial vehicles	491,559	499,698	–1.6
Scania	99,457	96,477	3.1
MAN	142,764	136,517	4.6

1 Prior-year deliveries have been updated or amended to reflect subsequent statistical trends and the changed reporting structure. The figures include the Chinese joint ventures.

Volkswagen Group financial services
The financial services division includes the Volkswagen Group's dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings. The division comprises Volkswagen Financial Services and the financial services activities of Scania and Porsche Holding Salzburg. As of 1 January 2019, contracts signed by the international joint ventures are also included; the comparison figures have been adjusted accordingly.

The financial services division's products and services remained very popular in the 2019 fiscal year. The number of new financing, leasing, service and insurance contracts signed was higher than in the prior year at 9.3 million (8.8 million) worldwide. In the reporting period, the ratio of leased or financed vehicles to Volkswagen Group deliveries (penetration rate) in the financial services division's markets was 34.5% (34.2%). As of 31 December 2019, the total number of contracts was 23.7 million, which is 5.7% higher than at the end of 2018. The number of contracts in the customer financing/leasing area climbed 4.7% to 11.8 million, while it increased by 6.7% to 11.9 million in the service/insurance area.

Sales, production and inventories at the Volkswagen Group
The Volkswagen Group's sales to the dealer organization[1] increased by 0.5% to 10,956,499 units (including the Chinese joint ventures) in the reporting year. This was primarily due to higher demand in its home market of Germany as well as continually rising demand in Brazil and an upward trend in the United States.

The Volkswagen Group produced 10,823,378 vehicles worldwide in fiscal year 2019, 1.8% less than in the prior year. In total, its Chinese joint ventures manufactured 4.1% fewer units than in the year before. In Germany, the production declined by 8.3%, mainly due to numerous new vehicle start-ups as well as the transition to electric vehicles. The percentage of the group's total production accounted for by Germany was lower than in 2018, at 19.5% (20.9%).

Global inventories at group companies and in the dealer organization were lower at the end of the reporting period than at year-end 2018.

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

Employees of the Volkswagen Group

The Volkswagen Group's headcount was 671,205 employees (up 1.0%) at the end of the reporting period. This was primarily due to recruitments in the areas of electric mobility, digitalization and new mobility offerings. A total of 297,433 people were employed in Germany (up 1.6%), while 373,772 were employed abroad (up 0.5%).

Results of operations, financial position and net assets

The Porsche SE Group distinguishes between two segments. The first segment, “PSE”, primarily includes Porsche SE holding operations including the investments 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 essentially the sum of the two segments, as the consolidation effects are immaterial.

Since 1 January 2019, the Porsche SE Group has accounted for leases in accordance with the requirements of IFRS 16 using the modified retrospective method. Prior-year periods have therefore not been adjusted. Applying IFRS 16 did not result in any significant impact on the presentation of the results of operations, financial position and net assets; as a result, net liquidity had decreased by €26 million as of 1 January 2019.

Results of operations of the Porsche SE Group

The Porsche SE Group's result after tax for the fiscal year 2019 came to €4.4 billion (€3.5 billion[1]). This was therefore within the corridor forecast for the group result after tax of between €3.4 billion and €4.4 billion. Of the result after tax, €4.4 billion (€3.6 billion[1]) related to the PSE segment. For the ITS segment, a result after tax of minus €6 million was derived (minus €78 million). This includes scheduled effects from the purchase price allocation amounting to minus €9 million (minus €9 million).

The result for the PSE segment was significantly influenced by the result from the investment in Volkswagen AG accounted for at equity of €4.4 billion (€3.6 billion[1]). This contained profit contributions from ongoing equity accounting of €4.2 billion (€3.6 billion) as well as subsequent effects from purchase price allocations of minus €88 million (minus €81 million). This figure also included income from the acquisition of further ordinary shares in Volkswagen of €322 million (€97 million[1]).

Between early December 2018 and mid-March 2019, Porsche SE acquired 0.9% of the ordinary shares in Volkswagen AG for a total of €397 million in a series of capital market transactions. The acquisitions resulted in income from first-time at equity accounting of newly acquired shares totaling €419 million. The income was 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. The purchase price allocation was completed as of 31 December 2019.

Other operating income for the PSE segment primarily contains income from the reversal of provisions in connection with other taxes. Other operating expenses remained unchanged at €39 million and mainly contain legal and consulting fees. Personnel expenses came to €12 million, a decrease of €3 million on the prior year. In the prior-year figure, payments made to a former member of the executive board were included in this item. The increase in the financial result to €25 million (minus €3 million) was largely attributable to interest income from tax refund claims of €16 million (€0 million) as well as profit contributions from financial instruments measured at fair value of €12 million (€0 million).

[1] Prior-year figures were adjusted due to the change in a purchase price allocation.

The income tax expense of €11 million (€25 million) comprises income from current income taxes of €32 million (€0 million) as a result of tax refund claims from prior years and a deferred income tax expense of €43 million (€25 million). The deferred income tax expense is primarily attributable to the increase in the carrying amount of the investment in Volkswagen AG accounted for at equity. This already included the countereffects from the increase in deferred tax assets on loss carryforwards.

In the reporting period, the ITS segment generated revenue of €116 million (€103 million), resulting primarily from maintenance services rendered, the project business, license sales and hosting services. In particular, revenue for recurring services increased by 17.6%. Furthermore, the ITS segment generated income from selling shares in PTV Truckparking B.V. to Volkswagen Financial Services GmbH. With personnel expenses increasing by €6 million year on year, the ITS segment generated a result before tax, amortization and depreciation of €13 million (€3 million). Amortization and depreciation of €21 million (€82 million) related in particular to the subsequent measurement of the hidden reserves identified as intangible assets in the course of the purchase price allocation of €13 million (€13 million) as well as amortization of right-of-use assets due to new requirements on accounting for leases of €4 million (€0 million). The prior-year figure contained amortization of goodwill of €66 million.

Taking income tax into consideration led to a result after tax of minus €6 million (minus €78 million).

Financial position of the Porsche SE Group

The cash flow from operating activities for the fiscal year 2019 came to €722 million (€558 million). This increase is mainly attributable to higher dividends received from the investment in Volkswagen AG of €753 million (€601 million). Other cash outflows during the reporting period of €31 million (€43 million) mainly contain operating holding expenses.

There was a cash outflow from investment activities totaling €318 million in the fiscal year 2019 (€54 million). This largely resulted from payments made for acquiring further ordinary shares in Volkswagen AG of €311 million (€86 million). In the prior year, this mainly contained cash inflows from sales of securities and from time deposits of €39 million.

There was a cash outflow from financing activities of €676 million (€538 million) in the fiscal year 2019, largely due to the dividend payment made to the shareholders of Porsche SE of €681 million (€539 million).

Compared to 31 December 2018, cash and cash equivalents thus decreased by €277 million to €353 million.

Net liquidity of the Porsche SE Group, i.e., cash and cash equivalents, time deposits and securities less financial liabilities, amounted to €553 million as of 31 December 2019. This was therefore within the corridor forecast for net liquidity of between €0.3 billion and €0.8 billion.

Furthermore, Porsche SE has at its disposal a credit facility with a volume of €1 billion and an initial term until July 2024.

Net assets of the Porsche SE Group

The Porsche SE Group's total assets amounted to €35.6 billion as of 31 December 2019 (€33.7 billion[1]).

The Porsche SE Group's non-current assets primarily relate to the carrying amount of the investment in Volkswagen AG accounted for at equity of €34.6 billion (€32.5 billion[1]). Of the increase in the carrying amount, €4.4 billion is attributable to the result of investments accounted for at equity and €311 million to the acquisition of further ordinary shares in Volkswagen AG. This was counterbalanced by other comprehensive income as well as expenses and income recognized in equity of minus €1.9 billion which are largely attributable to changes in the interest rate and the associated actuarial remeasurement of the pension provisions at the level of the Volkswagen Group. Furthermore, dividend payments received of €753 million caused the carrying amount accounted for at equity to decrease.

Intangible assets of the Porsche SE Group of €241 million (€255 million) primarily contain the goodwill of the PTV Group of €147 million (€147 million) as well as the carrying amounts for customer bases, software and brand resulting from the purchase price allocation. Current assets of €684 million (€916 million) mainly consist of cash and cash equivalents, securities and time deposits.

[1] Prior-year figures were adjusted due to the change in a purchase price allocation.

As of 31 December 2019, the equity of the Porsche SE Group increased to a total of €35.3 billion (€33.4 billion[1]) in particular due to the group result after tax; this was counterbalanced by dividend payments made to the shareholders of Porsche SE and other comprehensive income. At 99.1% as of 31 December 2019, the equity ratio remained constant compared to the end of the fiscal year 2018.

Results of operations of the Volkswagen Group

The following statements relate to the original profit/loss figures of the Volkswagen Group in the fiscal year 2019. 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 Volkswagen Group accounts for leases in accordance with IFRS 16, using the modified retrospective method, for the first time as of 1 January 2019. Prior-year periods have therefore not been adjusted. The new approach resulted in a slight increase in the operating result in 2019, because the only items allocated to the operating result are depreciation charges on right-of-use assets. Interest expenses on lease liabilities in the automotive division are recognized in the financial result, with a corresponding negative impact.

Between January and December 2019, the Volkswagen Group generated revenue of €252.6 billion, exceeding the prior-year figure by 7.1%. Particularly mix improvements, higher sales volumes and the healthy business performance of the financial services division had a positive impact; whereas the negative exchange rate trend had an offsetting effect. At 80.6% (81.4%), most of the revenue was generated abroad.

Gross profit (revenue less cost of sales) rose by €2.8 billion to €49.1 billion. The gross margin stood at 19.5% (19.7%). Adjusted for special items recognized here in both periods (positive in the

[1] Prior-year figures were adjusted due to the change in a purchase price allocation.

reporting period due to the reversal of provisions for technical measures in connection with the diesel issue), gross profit amounted to €48.8 billion (€46.6 billion). Excluding special items, the gross margin was 19.3% (19.8%) in fiscal year 2019.

The Volkswagen Group's operating result before special items improved by €2.2 billion to €19.3 billion in the reporting period. The operating return on sales before special items amounted to 7.6% (7.3%). The increase was mainly attributable to positive mix effects, higher volumes, the reversal of impairment losses following the remeasurement of development costs, product cost optimizations, and the fair value measurement of certain derivatives. A rise in fixed costs had a negative impact. Special items in connection with the diesel issue weighed on the operating result, reducing this item by minus €2.3 billion (minus €3.2 billion). The Volkswagen Group's operating result increased to €17.0 billion (€13.9 billion), the operating return on sales rose to 6.7% (5.9%).

The financial result was down by €0.3 billion to €1.4 billion. The interest expenses included in this item rose markedly, driven by the rise in the refinancing volume, the interest expense on provisions, and application of the new IFRS 16. The share of the result of equity-accounted investments was at the same level as in 2018. Measurement effects on the reporting date, especially resulting from net income from securities and funds, were positive compared with the prior-year period. The prior-year figure had also been negatively impacted by the remeasurement of put options and compensation rights in connection with the control and profit and loss transfer agreement with MAN SE.

The Volkswagen Group's result before tax improved by 17.3% to €18.4 billion in fiscal year 2019. The return on sales before tax rose to 7.3% (6.6%). Income taxes resulted in an expense of €4.3 billion (€3.5 billion), which in turn led to a tax rate of 23.6% (22.3%). The result after tax increased by €1.9 billion to €14.0 billion.

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

The following explanations of the results of operations, financial position and net assets relate to the separate financial statements of Porsche SE for the fiscal year 2019.

Results of operations

Porsche SE achieved a net profit of €788 million in the fiscal year 2019 (€480 million). The result after tax amounted to €744 million (€481 million) and was therefore within the mid-triple-digit million euro range forecast for the fiscal year 2019.

Other operating expenses of €39 million (€38 million) mainly contain legal and consulting fees of €26 million (€25 million).

In the fiscal year 2019, Porsche SE received a dividend from its investment in Volkswagen AG of €753 million (€601 million). In the prior-year period, profit and loss transfer agreements resulted in a negative effect on the investment result of €71 million. This was largely attributable to the impairment of a subsidiary recorded on its investment in PTV AG of €65 million.

The interest result for the fiscal year 2019 improved from minus €2 million in the prior year to €10 million. The improvement was primarily due to interest income on tax refund claims recognized for prior years.

Income taxes of €32 million (€0 million) are attributable to tax refund claims for prior years. Income from other taxes of €45 million (minus €1 million) was due to the reversal of provisions for other taxes.

Income statement of Porsche Automobil Holding SE

€ million	**2019**	2018
Revenue	1	1
Other operating income	2	5
Personnel expenses	–16	–15
Other operating expenses	–39	–38
Result from investments	754	530
Interest result	10	–2
Income tax	32	0
Result after tax	**744**	**481**
Other tax	45	–1
Net profit	**788**	**480**
Withdrawals from retained earnings	163	196
Net profit available for distribution	**952**	**676**

Net assets and financial position

Non-current assets primarily contain the investment in Volkswagen AG of €22,431 million (€22,120 million). The increase in the carrying amount of the investment resulted from the acquisition of further ordinary shares in Volkswagen in the fiscal year 2019.

The increase in receivables and other assets was largely attributable to the recognition of receivables from tax refund claims for prior years of €32 million and corresponding receivables from tax interest of €16 million.

Cash and cash equivalents contain bank balances including short-term time deposits. The decrease in cash and cash equivalents was mainly due to the acquisition of ordinary shares in Volkswagen in the first quarter of 2019 of €311 million as well as other operating holding expenses. This was counterbalanced by the surplus of €77 million from dividend payments received of Volkswagen AG over the dividend payments to shareholders of Porsche SE.

Provisions contain provisions for pensions and similar obligations, tax provisions as well as other provisions. The decrease on the prior year is largely attributable to the reversal of provisions for other taxes; on the other hand, an addition was made to the provisions for litigation costs and pensions.

The increase in liabilities was largely due to loan relationships entered into with subsidiaries.

Balance sheet of Porsche Automobil Holding SE

€ million	**31/12/2019**	31/12/2018
Assets		
Non-current assets	22,961	22,640
Receivables and other assets	50	1
Cash and cash equivalents	396	658
Prepaid expenses	1	1
	23,407	**23,300**
Equity and liabilities		
Equity	23,211	23,098
Provisions	93	126
Liabilities	103	76
	23,407	**23,300**

Risks relating to the business development
The risks relating to the development of Porsche SE's business are closely connected to the risks relating to the significant investment in Volkswagen AG and to the development of the actions pending. 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 2019 report a net profit available for distribution of €952 million consisting of a net profit of €788 million and a withdrawal from retained earnings of €163 million. The executive board proposes a resolution for the distribution of a dividend of €3.104 (€2.204) per ordinary share and €3.110 (€2.210) per preference share, i.e., a total distribution of €952 million (€676 million).

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

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

In the 2020 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 €6.50 per ordinary share and €6.56 per preference share and the operating expenses, which are anticipated to remain constant, Porsche SE is expected to generate a result after tax in the upper-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 with regard to the automotive value chain, industrial production or the future of mobility, thereby generating a sustainable increase in the value of net assets.

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

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

Separate non-financial group report

The separate non-financial group report of the Porsche SE Group pursuant to Sec. 315b HGB for the fiscal year 2019 can be accessed at the latest by 30 April 2020 in German at www.porsche-se.com/unternehmen/corporate-governance and in English at www.porsche-se.com/company/corporate-governance.

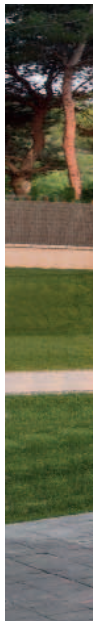

IN RQ 800

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

In the past fiscal year 2019; the results of operations of Porsche SE and the Porsche SE Group were again largely characterized by the development of the Volkswagen Group. The group result after tax as of 31 December 2019 was within the forecast corridor. The result after tax of Porsche SE was therefore within the mid-triple-digit million euro range forecast for the fiscal year 2019.

The financial position was influenced to a large extent by dividends received and paid as well as the acquisition of further ordinary shares in Volkswagen AG. As of 31 December 2019, net liquidity was within the corridor forecast in the prior year of between €0.3 billion and €0.8 billion.

The executive board of Porsche SE still considers the economic situation of the company and its significant investment in Volkswagen AG to be positive. 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 in the fiscal year 2019, the executive board of Porsche SE has made another clear demonstration of its commitment to the company's role as Volkswagen AG's long-term anchor shareholder.



Remuneration report

The remuneration report describes the main features of the remuneration system for members of the executive board and supervisory board of Porsche SE holding office in the fiscal year 2019 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 (GCGC)[1], divided into fixed and variable remuneration. 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.

Remuneration of the executive board

Remuneration principles at Porsche SE

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

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

Dr. Döss and Mr. von Hagen also receive variable remuneration. The amount of variable remuneration is specified by the supervisory board at its discretion, taking into account the business and earnings situation of the company, as well as their performance. If all their targets are fully met, this amounts to €750 thousand (€550 thousand) for Dr. Döss and €300 thousand (€300 thousand) for Mr. von Hagen. 40% of the set variable remuneration is due for payment three months after the fiscal year relevant for the bonus ends (short-term variable remuneration). The remaining 60% is generally due for payment two years after the short-term variable remuneration falls due (long-term variable remuneration).

[1] All of the following references relate to the version of the GCGC dated 7 February 2017 valid in the reporting period from 1 January 2019 to 31 December 2019

For Dr. Döss, payment of long-term variable remuneration is primarily dependent on the Porsche SE Group generating a positive group result before tax in the most recent fiscal year concluded before the long-term variable remuneration falls due.

For Mr. von Hagen, payment of both variable remuneration components is dependent on the Porsche SE Group generating a positive group result before tax in the most recent fiscal year concluded before the variable remuneration falls due. The payment of variable remuneration is also contingent on Porsche SE having positive net liquidity as of the end of the fiscal year before they fall due.

Long-term variable remuneration for both members of the executive board is therefore dependent on the development of the Porsche SE Group over several years.

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 themselves received performance-related remuneration.

Moreover, at its discretion, the supervisory board of the company may grant all the members of the executive board of Porsche SE a special bonus for previously agreed targets or a subsequent bonus in recognition of outstanding performance.

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

Porsche SE continues to pay the remuneration to the members of the executive board for 12 months in the event of illness and, in the event of death, for 6 months following the month of death.

Remuneration of the members of the executive board for the fiscal years 2018 and 2019
During the fiscal year 2019, there were no changes in the composition of the executive board.

The remuneration of each member of the executive board of Porsche SE presented below contains the remuneration as defined by the German Commercial Code and the GCGC that each member received for his work as a member of the executive board of Porsche SE. The disclosures on Mr. von Hagen and Dr. Döss also contain the remuneration paid by PTV AG for serving as chairman of its supervisory board and member of the supervisory board respectively. There was no other remuneration for membership on governing bodies from subsidiaries.

The short-term variable remuneration is recognized as benefits granted in the year for which they were granted. 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 is also recognized as benefits 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 benefits granted in the year in which it was resolved. This is not included in the presentation of the maximum remuneration for the benefits granted.

The supervisory board resolved to pay Dr. Döss a bonus of €100 thousand in recognition of his special achievements for the company in the fiscal year 2018.

Hans Dieter Pötsch

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

	Benefits received		Benefits granted			
in €	2018	**2019**	2018	**2019**	**2019 (Min)**	**2019 (Max)**
Fixed compensation	500,000	500,000	500,000	500,000	500,000	500,000
Fringe benefits	374,791	324,196	374,791	324,196	324,196	324,196
Total remuneration (non-performance related)	**874,791[1]**	**824,196[1]**	**874,791**	**824,196**	**824,196**	**824,196**

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

Dr. Manfred Döss

Member of the executive board responsible for legal affairs and compliance (since 1 January 2016)

	Benefits received		Benefits granted			
in €	2018	**2019**	2018	**2019**	**2019 (Min)**	**2019 (Max)**
Fixed compensation	500,000	532,927[2]	500,000	532,927	532,927	532,927
Fringe benefits	82,162	85,647	82,162	85,647	85,647	85,647
Non-performance related components	**582,162[1]**	**618,574[1]**	**582,162**	**618,574**	**618,574**	**618,574**
One-year variable compensation	320,000	260,000	320,000	260,000	0	300,000
Multi-year variable compensation						
LTI Porsche SE (long-term incentives)	0	0	330,000	390,000	0	450,000
Performance related components	**320,000[1]**	**260,000[1]**	**650,000**	**650,000**	**0**	**750,000**
Total	**902,162[1]**	**878,574[1]**	**1,232,162**	**1,268,574**	**618,574**	**1.368,574**
Service cost	506,543	481,838	506,543	481,838	481,838	481,838
Total remuneration	**1,408,705**	**1,360,412**	**1,738,705**	**1,750,412**	**1,100,412**	**1,850,412**

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

2 €2,927 (€0) thereof relates to remuneration of PTV AG, a subsidiary of Porsche SE, for serving as member of the supervisory board.

Philipp von Hagen

Executive board member responsible for investment management (since 1 March 2012)

	Benefits received		Benefits granted			
in €	2018	**2019**	2018	**2019**	**2019 (Min)**	**2019 (Max)**
Fixed compensation	546,150[2]	546,150[2]	546,150	546,150	546,150	546,150
Fringe benefits	87,789	86,603	87,789	86,603	86,603	86,603
Non-performance related components	**633,939[1]**	**632,753[1]**	**633,939**	**632,753**	**632,753**	**632,753**
One-year variable compensation	100,000	100,000	100,000	100,000	0	120,000
Multi-year variable compensation (long-term incentives)						
LTI Porsche SE	150,000	150,000	150,000	150,000	0	180,000
Performance related components	**250,000[1]**	**250,000[1]**	**250,000**	**250,000**	**0**	**300,000**
Total	**883,939[1]**	**882,753[1]**	**883,939**	**882,753**	**632,753**	**932,753**
Service cost	356,819	330,120	356,819	330,120	330,120	330,120
Total remuneration	**1,240,758**	**1,212,873**	**1,240,758**	**1,212,873**	**962,873**	**1,262,873**

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

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

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

Mr. Pötsch does not receive any pension benefits from the company. In addition to retirement benefits and surviving dependents' benefits, Dr. Döss' and Mr. von Hagen's 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 2019, Dr. Döss has a retirement pension entitlement of 29% and Mr. von Hagen of 32%. 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.

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

The service cost pursuant to IFRSs corresponds to the respective pension expense; as a result, we refer to the tables in the section "Remuneration of the members of the executive board for the fiscal years 2018 and 2019". 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 and present values from performance obligations

	Service cost HGB		Present value HGB		Present value IFRS	
in €	**2019**	2018	**2019**	2018	**2019**	2018
Dr. Döss	562,717	436,040	2,848,813	2,214,995	3,652,372	2,713,877
von Hagen	367,816	354,900	2,042,740	1,622,831	3,119,494	2,275,122

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 benefits in kind, may not exceed a maximum of two years' compensation. Under no circumstances may the payments exceed the amount of remuneration due for the remaining term of the employment agreement. The severance payment cap is calculated on the basis of the total compensation for the past full fiscal year and, if appropriate, also the expected total compensation for the current fiscal year.

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

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 variable remuneration 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

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

Remuneration of the supervisory board

The supervisory board received remuneration totaling €1,129 thousand (€919 thousand[1]) for its service at Porsche SE in the fiscal year 2019.

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

Non-performance-related remuneration of the supervisory board

in €	**2019**	2018
Dr. Wolfgang Porsche	200,000	200,000
Dr. Hans Michel Piëch	175,000	175,000
Prof. Dr. Ulrich Lehner	175,000	175,000
Dr. Ferdinand Oliver Porsche	150,000	150,000
Mag. Josef Michael Ahorner	75,000	37,192
Mag. Marianne Heiß	75,000	47,466
Dr. Günther Horvath	75,000	60,411
Dr. Stefan Piëch	75,000	37,192
Peter Daniell Porsche	75,000	37,192
Prof. KR Ing. Siegfried Wolf (11 April 2019 to 31 December 2019)	54,452	n/a
Total	**1,129,452**	**919,452[1]**

[1] Mr. Hans-Peter Porsche left the supervisory board of Porsche SE as of 15 May 2018. He received remuneration of €27,740 for the fiscal year 2018.

Opportunities and risks of future development

Report on opportunities and risks at the Porsche SE Group

Risk management system of the Porsche SE Group

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

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

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

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

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

The second line of defense, "strategic risk management", is responsible for the conceptual design and control of the proper implementation of the entire risk management system. In addition to creating a risk map, deriving generic risk strategies, defining a general process structure for 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", aims to ensure the appropriateness and effectiveness of the risk management system and therefore in particular that the operational and strategic risk management are in line with externally and internally defined standards. Review-based risk management is the responsibility of the internal audit, which, as an objective instance, reviews on the basis of samples whether operational risk management is firmly embedded in all areas and regularly performed, and reports the audit findings to the supervisory board. Furthermore, the strategic level is reviewed to determine whether there is a structured systems approach and whether the

respective controls and reviews are performed in strategic risk management.

Risk management at the level of the significant investments

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

Management of the risks at Volkswagen is located at the level of Volkswagen AG. The task of Volkswagen AG's risk management is to identify, manage and monitor existing risks at the level of the Volkswagen Group. Volkswagen AG has implemented its own group-wide risk management system and is responsible for handling its own risks. At the same time, however, Volkswagen AG is required to ensure that Porsche SE as the holding company – within the scope of the legally permissible exchange of information – is informed at an early stage of any risks potentially jeopardizing the investment's ability to continue as a going concern. This information is provided, inter alia, in management talks and by forwarding risk reports. Volkswagen AG's auditor checks Volkswagen AG's risk early warning system annually for its appropriateness and fundamental 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. Regular management meetings and regular reports on the economic situation aim to ensure that Porsche SE is informed about any significant risks at the level of PTV AG.

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

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

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

documented in process overviews, guidelines and checklists.

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

Opportunities and risks of the Porsche SE Group

Organizational risks

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

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

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

The combined management report is prepared – in accordance with the applicable requirements and regulations – centrally but with the involvement of 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 also defined controls for processes and interfaces of particular relevance and monitor that they are being complied with.

With regard to the management of risks from the risk area “compliance”, Porsche SE has established a compliance organization, and thus a compliance management system, that is specifically tasked with preventing breaches of laws or other provisions and company-internal guidelines and regulations. In this connection, a compliance council was also set up, which comprises executives from the key departments. In addition to the adjustment of internal guidelines, the compliance council’s meetings in the fiscal year 2019 primarily addressed general compliance-relevant regulations.

Risk assessment for organizational risks

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

Entrepreneurial risks

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

Opportunities and risks from investments

In connection with any existing and future investments, Porsche SE generally faces opportunities and risks regarding the effects on its result and/or net liquidity. This includes the risk of a need to recognize impairment losses, with a corresponding negative impact on the result of Porsche SE, the risk of a decrease in dividend inflow as well as the risk of burdens on profits attributed to Porsche SE in the consolidated financial statements. However, there are also corresponding opportunities from positive development in these areas. 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, or otherwise annually. Porsche SE’s valuations are based on a discounted cash flow method and are performed on the basis of the most recent corporate planning prepared by the management of the respective investment, which is adjusted to reflect the current information available, where necessary. A weighted average cost of capital is used to discount cash flows. On occasion, in addition to the discounted cash flow method, valuations are also performed using multiples.

With regard to the investment in Volkswagen AG, there is an increased risk of the result attributable to Porsche SE as part of equity accounting falling short of expectations on account of the Volkswagen Group not developing as planned (referred to below as the risk area "Profit contribution Volkswagen"). According to Volkswagen, the most significant risks at the level of the Volkswagen Group result from a negative trend in markets and unit sales , quality problems as well as the failure to develop products in line with demand and regulations, especially in view of e-mobility and digitalization. Volkswagen has added cyber security and not meeting CO_2-related regulations to this list given their growing importance. The Volkswagen Group is still exposed to risks from 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. Depending on the course of events, the spread of the coronavirus could have a negative impact in 2020 for the Volkswagen Group. The assessment of risks at the level of the Volkswagen AG is based on the risk and opportunity report in the 2019 group management report of Volkswagen AG.

As regards the recoverability of the investment in Volkswagen AG, impairment testing was performed in the fiscal year 2019 due to the proportionate market capitalization being below the carrying amount accounted for at equity. As the impairment test is based on the current planning of the Volkswagen Group, the risks described above of an unexpected development which might lead to an impairment in the value of the investment also exist here. The risk of an impairment loss needing to be recognized through profit or loss is referred to below as the risk area "Impairment Volkswagen". As part of the impairment test, sensitivity analyses regarding key measurement parameters were performed. As the value in use of the investment in Volkswagen AG was significantly higher than the carrying amount in each of the scenarios considered in the sensitivity analysis, the risk of a need to recognize an impairment loss is considered to be unlikely on the basis of the current information.

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

Since fully including the PTV Group into the consolidated financial statements of Porsche SE, 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 for impairment annually and if there is any indication that the goodwill may be impaired. As of 31 December 2019, an impairment test was performed as scheduled. As a result, there was no need to recognize an impairment loss for goodwill. A 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 of counterparties and spreads the investment of liquidity across various counterparties. Further risks from using financial instruments, such as market risks, are currently classified as insignificant for Porsche SE.

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

Legal risks

Porsche SE is involved in legal disputes and administrative proceedings both nationally and internationally. As of 31 December 2019, 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 estimated only to a limited degree, it cannot be ruled out that very serious losses may eventuate that are not covered by the provisions already made, which would result in a correspondingly negative impact on the result and liquidity.

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

Tax opportunities and risks

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

The wage tax field audit for the levy periods 2011 to 2016 was concluded in December 2019. The tax field audit is still being performed for the assessment periods 2009 to 2013. Based on the information available when these consolidated financial statements were authorized for issue, tax refund claims and interest from the taxation authorities were recognized in the fiscal year 2019. New findings of the tax field audit for the periods 2009 to 2013 could result in already recognized reimbursement claims decreasing or tax and interest payments having to be made.

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

payment of the amount by which the tax benefits exceed the tax disadvantages. The amount of tax benefits and tax disadvantages to be taken into account is regulated in the contribution agreement. The risks arising at the level of Porsche SE, for which provisions were recognized in prior years and payments were made, will in some cases lead to tax benefits at the Volkswagen Group that are expected to partly compensate the tax risks of Porsche SE. However, the provisions in the contribution agreement do not cover all matters and thus not all tax risks of Porsche SE from the tax field audits for the assessment periods 2006 to 2009. The existence and amount of a possible reimbursement claim against Volkswagen AG can be reliably determined only following completion of the tax field audit for the assessment period 2009. Based on the findings of the completed tax field audit for the assessment periods 2006 to 2008 and the information available for the assessment period 2009 when these financial statements were authorized for issue, Porsche SE would have a claim for compensation against Volkswagen AG 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 remained unchanged 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 after tax and/or the net liquidity of Porsche SE Group.

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 after tax 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 is made up of the individual risks relating to the significant investments and the specific risks of Porsche SE presented. The risk management system aims to ensure that these risks are addressed adequately. Based on the information currently available, the 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 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 2019 group management report of Volkswagen AG.

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

Only by promptly identifying, accurately assessing and effectively and efficiently managing the risks and opportunities arising from its business activities can the Volkswagen Group ensure its long-term success. The aim of the RMS/ICS is to identify potential risks at an early stage so that suitable countermeasures can be taken to avert the threat of loss to the company, and any risks that might jeopardize its continued existence can be ruled out.

Assessing the likelihood of occurrence and extent of future events and developments is, by its nature, subject to uncertainty. The Volkswagen Group is therefore aware that even the best RMS cannot foresee all potential risks and even the best ICS can never completely prevent irregular acts.

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

Another key element of the RMS/ICS at Volkswagen is the three lines 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.

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

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

First line of defense:
operational risk management

The primary line of defense comprises the operational risk management and internal control systems at the individual group companies and business units. The RMS/ICS is an integral part of the Volkswagen Group's structure and workflows. Events that may give rise to risk are identified and assessed locally in the divisions and at the investees. Countermeasures are introduced immediately, the remaining potential impacts assessed, and the information incorporated into the planning in a timely manner. Material risks are reported to the relevant committees on an ad hoc basis. The results of the operational risk management process are incorporated into budget planning and financial control on an ongoing basis. The targets agreed in the budget planning rounds are continually reviewed in revolving planning updates. At the same time, the results of risk mitigation measures are incorporated into the monthly forecasts regarding 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 risk management and internal control system in operation also includes compliance with the so called Golden Rules in the areas of control unit software development, emission classification and escalation management. These rules are the minimum requirements in the organization, processes and tools & systems categories.

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

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

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

Calculation of risk score

Risk score

= Likelihood of occurence × Potential extent of damage

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

The score for a likelihood of occurrence of more than 50% in the analysis period is classified as high; for a medium classification the likelihood of occurrence is at least 25%. For the criterion of financial loss the score rises with an increasing scale; the highest score of 10 is reached upwards of €1 billion. The criterion of reputational damage can have characteristics ranging from local erosion of confidence and loss of trust at local level to loss of reputation at regional or international level. Criminal relevance is classified based on the influence on the local company, the brand or the group.

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

All group companies and units selected from among the entities in the consolidated group on the basis of materiality and risk criteria were subject to the regular GRC process in fiscal year 2019.

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

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

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

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

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

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

Third line of defense: Review by Group Internal Audit

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

Risk early warning system in line with the KonTraG

The company's risk situation is ascertained, assessed and documented in accordance with the requirements of the German Act on Control and Transparency in Business (KonTraG). The requirements for a risk early warning system are met by means of the RMS/ICS elements described above (first and second 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 German Federal Financial Supervisory Authority (BaFin). As part of the scheduled supervisory process and unscheduled audits, the competent supervisory authority assesses whether the requirements, strategies, processes and mechanisms ensure solid risk management and solid risk cover. Furthermore, the Prüfungsverband deutscher Banken (Auditing Association of German Banks) audits Volkswagen Bank GmbH from time to time.

Volkswagen Financial Services AG operates a risk early warning and management system. 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 the effectiveness of the RMS/ICS, Volkswagen regularly optimizes it as part of its continuous monitoring and improvement processes. In the process, it gives equal consideration to both internal and external requirements. 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 in the context of the financial reporting process

The Volkswagen Group's accounting is essentially organized along decentralized lines. For the most part, accounting duties are performed by the consolidated companies themselves or entrusted to the group's shared service centers. In principle, the audited financial statements of Volkswagen AG and its subsidiaries prepared in accordance with IFRSs

and the Volkswagen IFRS Accounting Manual are transmitted to the Volkswagen Group in encrypted form. A standard market product is used for encryption.

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

Control activities at group level include analyzing and, if necessary, adjusting the data reported in the financial statements presented by the subsidiaries, taking into account the reports submitted by the auditors and the outcome of the meetings on the financial statements with representatives of the individual companies. These discussions address both the 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 group units and companies.

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

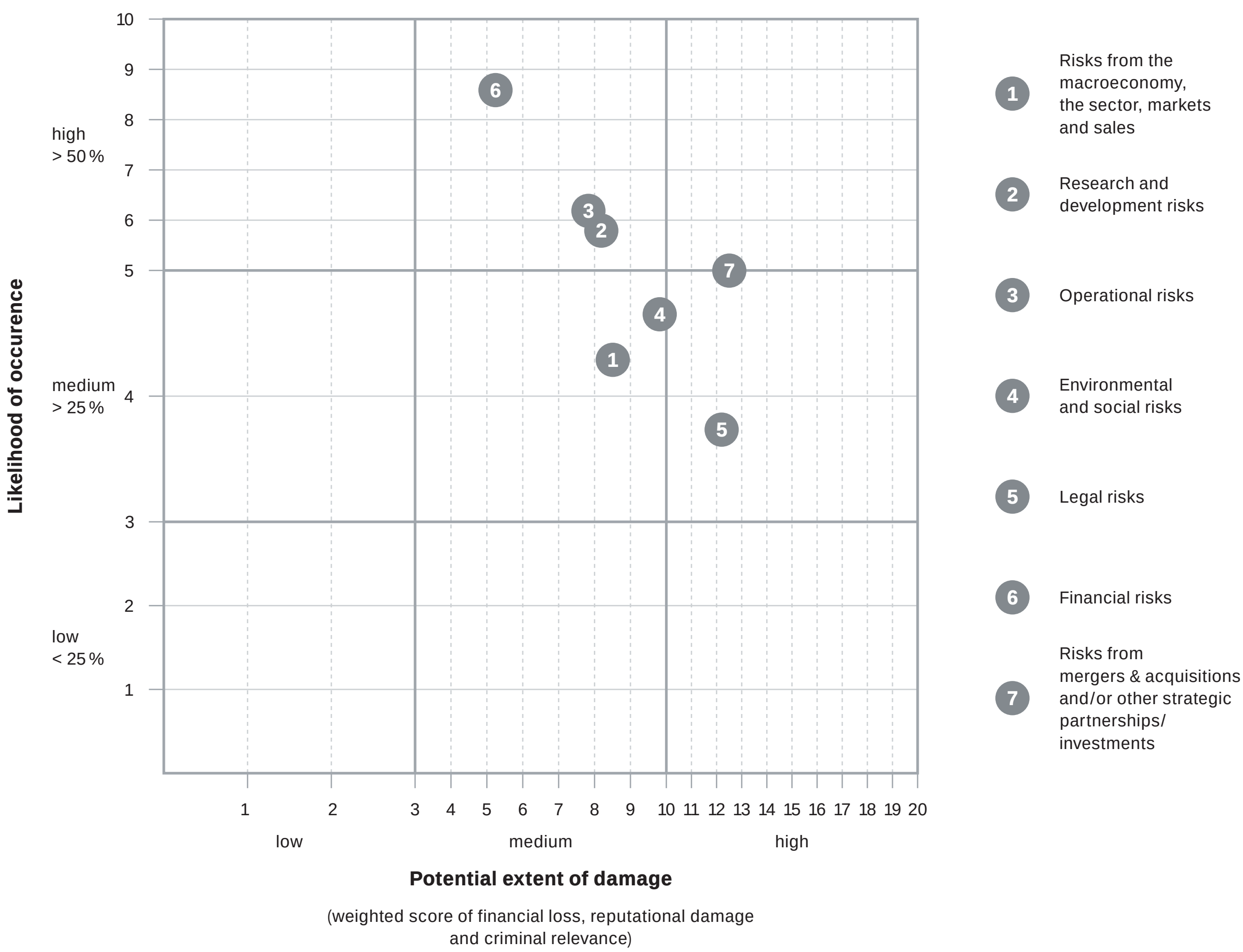
Integrated consolidation and planning system
The Volkswagen consolidation and corporate management system (VoKUs) enables the Volkswagen Group to consolidate and analyze both Financial Reporting’s backward-looking data and Controlling’s budget data. VoKUs offers centralized master data management, uniform reporting, an authorization concept and 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.

Opportunities and risks of the Volkswagen Group

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

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

Average scores of the risk categories

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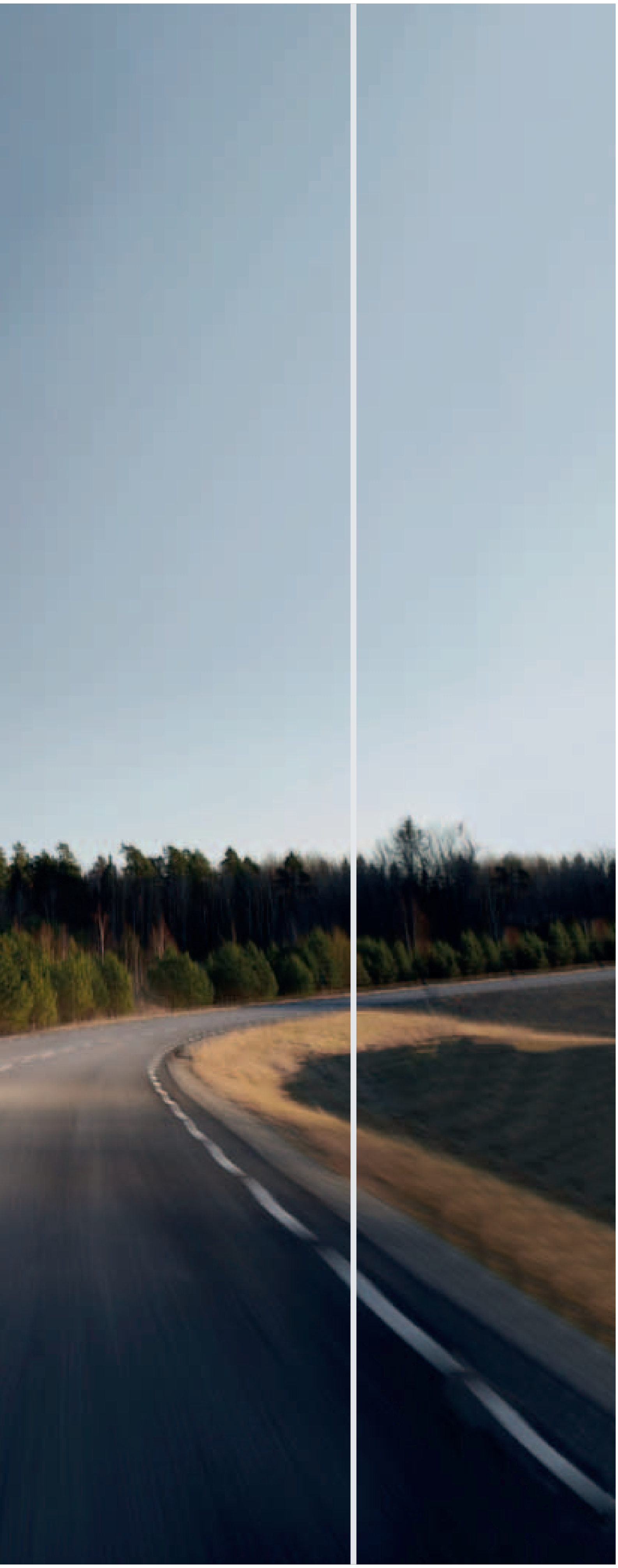


Volkswagen uses analyses of the competition and the competitive environment in addition to market studies to identify not only risks but also opportunities that have a positive impact on the design of its products, the efficiency with which they are produced, their success in the market and its cost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

Risk categories at the Volkswagen Group
The category “Risks and opportunities from the macroeconomy, the sector, markets and sales” summarizes macroeconomic risks and opportunities, sector-specific risks and market opportunities/potential, sales risks as well as other factors. From the Volkswagen Group’s perspective, the most significant risks from the regular GRC process and the QRP in this category lie in restrictions on trade and increasingly protectionist tendencies resulting in a negative trend in markets and unit sales.

The category “Research and development risks” contains research and development risks as well as risks and opportunities from the modular toolkit strategy. The most significant risks from the regular GRC process and QRP result from the failure to develop products in line with demand and regulations, especially in view of e-mobility and digitalization.

“Operational risks and opportunities” summarizes procurement risks and opportunities, production risks, risks arising from long-term production, quality risks, IT risks and risks from media impact. The most significant risks from the regular GRC process and QRP lie particularly in the

area of cyber security and new regulatory requirements for IT, in quality problems as well as in volatile commodity markets.

The risk category “Environmental and social risks” include personnel risks as well as risks from environmental protection regulations. The most significant risks from the regular GRC process and QRP arise from not meeting CO_2-related regulations.

Risks from litigations and legal risks in connection with the diesel issue as well as tax risks are subsumed under “Legal risks”. The most significant risks from the regular GRC process and QRP are associated with the diesel issue.

In the category “Financial risks”, the Volkswagen Group includes financial risks, risks arising from financial instruments, liquidity risks as well as risks in the financial services business. The most significant risks from the regular GRC process and QRP result from volatile foreign exchange markets.

Under “Opportunities and risks from mergers and acquisitions and/or other strategic partnerships/investments”, the Volkswagen Group summarizes opportunities and risks from partnerships, risks arising from the recoverability of goodwill or brand names as well as risks from the disposal of equity investments. The most significant risks from the regular GRC process and QRP are linked to the cooperation with other partners.

Risk assessment of Volkswagen AG regarding the diesel issue

An amount of around €2.9 billion (€2.4 billion) was included in the Volkswagen Group’s provisions for litigation and legal risks as of 31 December 2019 to protect against the legal risks related to the diesel issue known to the Volkswagen Group at the time its management report was authorized for issue based on Volkswagen’s 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 €3.7 billion (€5.4 billion), whereby €3.4 billion (€3.4 billion) of this amount results from lawsuits filed by investors in Germany. In the Volkswagen Group, the provisions recognized and the contingent liabilities disclosed as well as the other latent legal risks in the context of the diesel issue are in part subject to substantial estimation risks given that the fact-finding efforts have not yet been concluded, the complexity of the individual relevant factors and the ongoing coordination with the authorities. Should these legal or estimation risks materialize, this could result in further substantial financial charges. In particular, the possibility cannot be ruled out that the provisions recognized by Volkswagen may have to be adjusted in light of knowledge acquired or events occurring in the future.

Based on the information as it exists and has been established there continue to be no conclusive findings or assessments available to the board of management of Volkswagen AG regarding the described facts, that would suggest that a different assessment of the associated risks should have been made.

In line with IAS 37.92, Volkswagen has made no further statements 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 shown above. Volkswagen has put in place a comprehensive risk management system to ensure that these risks are controlled. The most significant risks to the Volkswagen Group across all risk categories result from a negative trend in markets and unit sales, quality problems, and the failure to develop products in line with demand and regulations, especially in view of e-mobility and digitalization. Volkswagen has added cyber security and not meeting CO_2-related regulations to this list given their growing importance. The Volkswagen Group is still exposed to risks from the diesel issue. Depending on the course of events, the spread of the coronavirus could have a negative impact on 2020. Taking into account all the information known to the Volkswagen Group at the time of authorizing its management report for issue, no risks exist which could pose a threat to the continued existence of significant group companies or the Volkswagen Group.

Publication of the declaration of compliance and corporate governance report

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

Subsequent events

On 30 January 2020, TRATON SE, a subsidiary of Volkswagen AG, submitted an offer for the complete acquisition of all outstanding ordinary shares of Navistar International Corporation not yet owned by TRATON SE for a price of US$ 35.00 per share in cash. This corresponds to an offer price of around €2.6 billion. As of 31 December 2019, TRATON SE held 16.8% of the outstanding ordinary shares of Navistar.

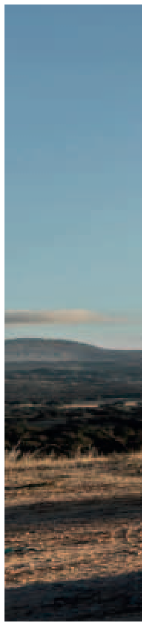
At the level of the Volkswagen Group, ongoing restrictions stemming from the coronavirus may have a negative impact on its results of operations, financial position and net assets in 2020.

On 28 February 2020, Volkswagen AG and the vzbv reached an out-of-court settlement that brought the model declaratory judgment to a close. According to this, Volkswagen AG will offer individual settlements to consumers who have registered claims under the action for model declaratory judgment and who meet the settlement criteria. The volume of such settlements amounts to approximately €830 million. The vzbv will withdraw the model declaratory judgment.

It is not possible to estimate the effects on the results of operations, financial position and net assets. All effects at the level of the Volkswagen Group impact the Porsche SE Group in an amount proportionate to Porsche SE’s share in capital of Volkswagen AG.

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

Forecast report and outlook



Developments in the global economy

Our forecasts are based on the assumption that global economic growth in 2020 will be at the same level as in the preceding year. Porsche SE still believes that risks arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. Growth prospects are also negatively impacted by geopolitical tension and conflicts as well as cross-country and cross-regional epidemics, such as the current spread of the coronavirus. We anticipate that momentum in both the advanced economies and the emerging markets will be similar to that seen in 2019. We expect to see the strongest rates of expansion in Asia’s emerging economies.

Trends in the markets for passenger cars and light commercial vehicles

Trends in the markets for passenger cars in the individual regions are expected to be mixed in 2020. Overall, the volume of global demand for new vehicles will probably match the 2019 level.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2020; on the whole, a slight dip in demand in 2020 is anticipated.

Trends in the markets for commercial vehicles

For 2020, new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes are expected to be distinctly lower than the 2019 level in markets that are relevant for the commercial vehicles business area. A slight year-on-year increase in overall demand for 2020 is likely in the bus markets relevant for the Volkswagen Group.

Trends in the markets for financial services

Automotive financial services are also expected to be very important for vehicle sales worldwide in 2020. Volkswagen expects demand to continue rising in emerging markets where market penetration has so far been low. Regions with already developed automotive financial services markets will see a continuation of the trend towards enabling mobility at the lowest possible total cost. Integrated end-to-end solutions, which include mobility-related service modules such as insurance and innovative packages of services, will become increasingly important for this. Additionally, Volkswagen expects demand to increase for new forms of mobility, such as rental services, and for integrated mobility services, for example parking, refueling and charging.

Interest rate trends

Interest rates remained comparatively low with a few exceptions in fiscal year 2019 due to the continuation of expansionary monetary policies worldwide and the challenging overall economic environment. In the major Western industrialized nations, key interest rates persisted at a low level on the whole. The US Federal Reserve changed course in the summer in an effort to shore up the economy, cutting its key interest rate again after several years of successive increases. The European Central Bank continued its expansionary monetary policy. In the light of further expansionary monetary policy measures, Volkswagen currently therefore does not expect interest rates in the USA and the eurozone to rise in 2020.

Future organizational structure of the Volkswagen Group

Plans are based on the Volkswagen Group's current structures. They do not include a possible sale of RENK AG or the possible acquisition of all outstanding ordinary shares of Navistar International Corporation. The effects of such transactions on the results of operations, financial position and net assets of the Volkswagen Group and the corresponding impact on the Porsche SE Group are not taken into account in the forecast.

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 automotive markets. Its brand diversity, presence in all major world markets, broad and selectively expanded product range, and technologies and services put the Volkswagen Group in a good competitive position worldwide. As part of the transformation of its core business, Volkswagen is positioning its group brands with an even stronger focus on their individual characteristics and optimizing the vehicle and drive portfolio. The focus 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 leverage the advantages of its multibrand group even more effectively with the ongoing development of new technologies and the enhancement of its toolkits.

The Volkswagen Group expects deliveries to customers in 2020 to be in line with the prior year amid market conditions that continue to be demanding.

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

Volkswagen expects the revenue of the Volkswagen Group to grow by up to 4% in 2020 and the revenue of the passenger cars business area to be moderately higher than in the prior 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 to 7.5% in 2020. For the commercial vehicles business area, it anticipates an operating return on sales of 4.0 to 5.0% amid a moderate decrease in revenue. In the power engineering business area, Volkswagen expects that revenue will match that of the prior year and that the operating loss will become smaller. For the financial services division, it is forecasting that revenue and the operating result will be in line with the prior year.

Anticipated development of the Porsche SE Group

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

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

The expectations of the Volkswagen Group regarding future development were therefore expanded on by the 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 and the Volkswagen Group. Effects from any other future investments of the Porsche SE Group or from future organizational changes at the level of the Volkswagen Group are not taken into account. 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 result after tax of between €3.5 billion and €4.5 billion for the fiscal year 2020.

As of 31 December 2019, the Porsche SE Group had net liquidity of €553 million. The goal of the Porsche SE Group to achieve positive net liquidity remains unchanged as of 31 December 2020. This is expected to be between €0.4 billion and €0.9 billion, not taking future investments into account.

Stuttgart, 11 March 2020

Porsche Automobil Holding SE
The executive board

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.

Audi e-tron Sportback

3 | Financials

3

Financials

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Consolidated income statement of Porsche Automobil Holding SE for the period from 1 January to 31 December 2019

€ million	Note	2019	2018
Revenue	[1]	116	103
Changes in inventories		0	0
Own work capitalized		1	1
Other operating income	[2]	54	13
Cost of materials		–17	–16
Personnel expenses	[3]	–80	–77
Amortization and depreciation	[8]	–21	–83
Other operating expenses	[4]	–66	–66
Result from investments accounted for at equity	[5]	4,406	3,641[1]
Result before financial result		**4,393**	**3,517**
Finance costs		–4	–3
Other financial result		28	0
Financial result	**[6]**	**24**	**–3**
Result before tax		**4,416**	**3,514**
Income tax	[7]	–9	–24[1]
Result after tax		**4,408**	**3,491**
thereof attributable to shareholders of Porsche Automobil Holding SE		4,407	3,490[1]
non-controlling interests		0	0
Earnings per ordinary share (basic and diluted)		14.39	11.39[1]
Earnings per preference share (basic and diluted)		14.39	11.40[1]

1 Prior-year figures were adjusted due to the change in a purchase price allocation (see note [5]).

Consolidated statement of comprehensive income of Porsche Automobil Holding SE for the period from 1 January to 31 December 2019

€ million	**2019**	2018
Result after tax	**4,408**	**3,491**[1]
Remeasurement of pensions	–8	3
Deferred tax on remeasurements of pensions	3	–1
Other comprehensive income not to be reclassified to profit or loss in subsequent periods from investments accounted for at equity (before tax)	–2,508	–24
Deferred tax on other comprehensive income not to be reclassified to profit or loss in subsequent periods from investments accounted for at equity	758	–21
Deferred tax on investments accounted for at equity	27	1
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods	–1,729	–42
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)	–649	–1,132
Deferred tax on other comprehensive income to be reclassified to profit or loss in subsequent periods from investments accounted for at equity	269	306
Deferred tax on investments accounted for at equity	6	13
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	–375	–814
Other comprehensive income after tax	**–2,104**	**–856**
Total comprehensive income	**2,304**	**2,634**
thereof attributable to shareholders of Porsche Automobil Holding SE	2,303	2,634[1]
non-controlling interests	0	0

[1] Prior-year figures were adjusted due to the change in a purchase price allocation (see note [5]).

Consolidated balance sheet of Porsche Automobil Holding SE as of 31 December 2019

€ million	Note	**31/12/2019**	31/12/2018
Assets			
Intangible assets	[8]	241	255
Property, plant and equipment	[8]	37	7
Investments accounted for at equity	[9]	34,597	32,518[1]
Other financial assets	[10], [19]	28	10
Other assets	[11]	3	1
Deferred tax assets	[7]	2	1
Non-current assets		**34,908**	**32,792**
Inventories		4	3
Trade receivables	[19]	24	21
Other financial assets	[10], [19]	5	4
Other assets	[11]	25	10
Income tax receivables	[7]	34	2
Securities	[19]	147	138
Time deposits	[19]	93	108
Cash and cash equivalents	[19]	353	630
Current assets		**684**	**916**
		35,592	**33,708**
Equity and liabilities			
Subscribed capital	[12]	306	306
Capital reserves	[12]	4,884	4,884
Retained earnings	[12]	34,492	30,601[1]
Other reserves (OCI)	[12]	–4,399	–2,376
Equity attributable to shareholders of Porsche SE		35,283	33,415
Non-controlling interests		1	1
Equity		**35,284**	**33,416**
Provisions for pensions and similar obligations	[13]	45	35
Other provisions	[14]	27	20
Financial liabilities	[15], [19]	35	12
Other financial liabilities	[19]	0	0
Other liabilities	[16]	0	0
Deferred tax liabilities	[7]	100	93[1]
Non-current liabilities		**206**	**160**
Provisions for pensions and similar obligations	[13]	1	0
Other provisions	[14]	38	78
Trade payables	[19]	4	3
Financial liabilities	[15], [19]	5	1
Other financial liabilities	[19]	13	12
Other liabilities	[16]	40	38
Income tax liabilities		1	1
Current liabilities		**102**	**133**
		35,592	**33,708**

[1] Prior-year figures were adjusted due to the change in a purchase price allocation (see note [5]).

Consolidated statement of changes in equity of Porsche Automobil Holding SE for the period from 1 January to 31 December 2019

€ million	Equity attributable to the shareholders of Porsche SE						
	Subscribed capital	Capital reserves	Retained earnings	Other reserves (OCI)	Total	Non-controlling interests	Total equity
As of 1 January 2018	306	4,884	27,652	–1,552	31,291	1	31,292
Result after tax			3,490[1]		3,490	0	3,491
Other comprehensive income after tax				–856	–856	0	–856
Total comprehensive income			3,490	–856	2,634	0	2,634
Dividend payment			–538		–538	0	–538
Reclassifications			–32[2]	32[2]	0	0	
Other changes in equity arising at the level of investments accounted for at equity			28	0	28		28
As of 31 December 2018	**306**	**4,884**	**30,601**	**–2,376**	**33,415**	**1**	**33,416**
As of 1 January 2019	306	4,884	30,601	–2,376	33,415	1	33,416
Result after tax			4,407		4,407	0	4,408
Other comprehensive income after tax				–2,104	–2,104	0	–2,104
Total comprehensive income			4,407	–2,104	2,303	0	2,304
Dividends			–676		–676	0	–676
Reclassifications and transactions with non-controlling interests			7	–8	–1	0	–2
Other changes in equity arising from the level of investments accounted for at equity			153	89	242		242
As of 31 December 2019	**306**	**4,884**	**34,492**	**–4,399**	**35,283**	**1**	**35,284**

1 The prior-year figure was adjusted due to the change in a purchase price allocation (see note [5]).

2 Reclassifications in the prior year contain changes both in the presentation of OCI components from at equity accounting of INRIX and in the presentation of deferred tax 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 [12].

Consolidated statement of cash flows of Porsche Automobil Holding SE for the period from 1 January to 31 December 2019

€ million	**2019**	2018
1. Operating activities		
Result after tax	4,408	3,491[1]
Result from investments accounted for at equity	–4,406	–3,641[1]
Amortization and depreciation	21	83
Gains (-) / losses (+) from the disposal of intangible assets and property, plant and equipment	-3	0
Interest expenses	4	3
Interest income	-16	0
Income tax expense	9	24[1]
Other non-cash expenses (+) and income (-)	-56	-5
Change in other assets	-5	-2
Change in provisions for pensions	-1	2
Change in other provisions	12	-1
Change in other liabilities	8	6
Dividends received	753	601
Interest paid	-3	-1
Interest received	0	1
Income tax paid	-5	-4
Income tax received	2	2
Cash flow from operating activities	**722**	**558**
2. Investing activities		
Cash paid for the acquisition of intangible assets and property, plant and equipment	-6	-4
Cash received from the disposal of intangible assets and property, plant and equipment	1	0
Cash paid for the acquisition of shares of non-controlling interests	-2	
Cash received from the disposal of subsidiaries	3	
Cash paid for the acquisition of shares in investments accounted for at equity	-311	-86
Cash paid for the acquisition of other shares in entities	-11	-2
Change in investments in securities	-8	46
Change in investments in time deposits	15	-8
Cash flow from investing activities	**-318**	**-54**
3. Financing activities		
Dividends paid to shareholders of Porsche SE	-676	-538
Dividends paid to non-controlling interests	0	0
Cash paid for settlement of financial liabilities	-5	-1
Cash flow from financing activities	**-681**	**-539**
4. Cash and cash equivalents		
Change in cash and cash equivalents (subtotal of 1 to 3)	-277	-35
Cash and cash equivalents as of 1 January	630	664
Cash and cash equivalents as of 31 December	**353**	**630**

1 Prior-year figures were adjusted due to the change in a purchase price allocation (see note [5]).

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

Notes to the consolidated financial statements of Porsche Automobil Holding SE for the fiscal year 2019

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 comparative prior-year figures are presented in parentheses alongside the figures for the current reporting period.

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

The consolidated financial statements and the combined management report were authorized for submission to the supervisory board by the executive board by resolution dated 11 March 2020. 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 2019

	Share in capital as of 31/12/2019	Currency	FX rate 1 €=	Equity in local currency	Result in local currency
	%			€ thousand	€ thousand
Fully consolidated entities					
Germany					
Porsche Beteiligung GmbH, Stuttgart	100.0	EUR	-	42,786	0[1]
Porsche Zweite Beteiligung GmbH, Stuttgart	100.0	EUR	-	315,025	0[1]
Porsche Dritte Beteiligung GmbH, Stuttgart	100.0	EUR	-	20,824	0[1]
Porsche Vierte Beteiligung GmbH, Stuttgart	100.0	EUR	-	24	0[1]
PTV Planung Transport Verkehr AG, Karlsruhe	100.0	EUR	-	31,581	3,466
DDS Digital Data Services GmbH, Karlsruhe	100.0	EUR	-	106	–17
PTV Transport Consult GmbH, Karlsruhe	100.0	EUR	-	3,700	962
Transport Technologie-Consult Karlsruhe GmbH, Karlsruhe	51.0	EUR	-	1,177	243
PTV Deutschland GmbH, Karlsruhe	100.0	EUR	-	21	–4
International					
Locatienet B.V., Utrecht	92.2	EUR	-	158	3
PTV Africa (Pty) Ltd., Johannesburg	100.0	ZAR	15.7647	1,921	1,671
PTV America Holding Inc., Arlington, Virginia	100.0	USD	1.1228	–2,468	–103
PTV America Inc., Arlington, Virginia	100.0	USD	1.1228	–3,070	–461
PTV América Latina, S.A. de C.V., Mexico City	100.0	MXN	21.2434	–9,375	–2,102
PTV Asia-Pacific Pte, Ltd., Singapore	100.0	SGD	1.5105	1,753	185
PTV Asia-Pacific Pty, Ltd., Sydney	100.0	AUD	1.6008	–1,055	–393
PTV Austria Planung Transport Verkehr GmbH, Vienna	100.0	EUR	-	565	311
PTV België B.V.B.A., Ypern	99.9	EUR	-	68	0
PTV CEE Sp. z.o.o., Warsaw	100.0	PLN	4.2597	956	647
PTV Distribution Planning Software Ltd., Halesowen	100.0	GBP	0.8500	–38	–149
PTV do Brasil Ltda., São Paulo	100.0	BRL	4.5135	–128	–421
PTV France SAS, Paris	100.0	EUR	-	2,084	558
PTV Italia Logistics S.r.l., Perugia	100.0	EUR	-	861	293
PTV Japan Ltd., Tokyo	100.0	JPY	121.8950	–14,666	17,242
PTV MENA Region DMCC, Dubai	100.0	AED	4.1244	–20,747	–9,147
PTV MENA Region WLL, Doha	49.0	QAR	4.0883	4,666	2,799
PTV MENA Region Transport Technology Solution L.L.C, Abu Dhabi	49.0	AED	4.1244	–453	–99
PTV Nederland B.V., Utrecht	100.0	EUR	-	2,003	1,974
PTV Nordics AB, Gothenburg	100.0	SEK	10.4451	3,230	1,602
PTV Software Technology (Shanghai) Co., Ltd., Shanghai	100.0	CNY	7.8147	4,933	4,501
PTV Traffic Technology (Shanghai) Co., Ltd., Shanghai	100.0	CNY	7.8147	1,916	–72

	Share in capital as of 31/12/2019	Currency	FX rate 1 €=	Equity in local currency	Result in local currency
	%			€ thousand	€ thousand
Fully consolidated entities					
International					
PTV Traffic and Transportation Software, S.L., Barcelona	100.0	EUR	-	–69	–25
PTV Transworld Holding B.V., Utrecht	100.0	EUR	-	1,947	1,961
PTV UK Ltd., Halesowen	100.0	GBP	0.8500	448	357
PTV UK Holding Ltd., Halesowen	100.0	GBP	0.8500	341	–46
SISTeMA Soluzioni per l´Ingegneria dei Sistemi di Trasporto e l´infoMobilitÀ S.r.l., Rome	98.0	EUR	-	851	–445
Associates					
Germany					
Volkswagen AG, Wolfsburg	31.3[2]	EUR	-	35,629,216	4,958,025
European Center for Information and Communication Technologies - EICT GmbH, Berlin	20.0	EUR	-	1,398	58
International					
INRIX Inc., Kirkland, Washington[3]	11.7	USD	1.1228	–44,633	–12,138
Mygistics Inc., Kansas City, Missouri[4]	30.0	USD	1.1228		
PTV Truckparking B.V., Utrecht	21.3	EUR	-	–1,774	1,589

1 Profit and loss transfer agreement with Porsche SE
2 Diverging from the capital share, the share in voting rights is 53.1% as of the reporting date.
3 Consolidated figures taken from the 2018 consolidated financial statements
4 Currently no business activities

An alternative investment fund is also fully consolidated.

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

Changes in the reporting period

In the period from the beginning of December 2018 and mid-March 2019, Porsche SE acquired 0.9% of the ordinary shares in Volkswagen AG for €397 million in capital market transactions, of which 0.7% or €311 million relates to the period from 1 January to 18 March 2019. This increased Porsche SE’s shareholding in the ordinary share capital of Volkswagen AG to 53.1% (52.4%). The share held in the subscribed capital of Volkswagen AG increased to 31.3% (30.9%).

Full consolidation and at equity accounting

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

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

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

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.

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 (excluding goodwill).

Any difference arising upon acquisition of additional shares or sale of shares after initial consolidation without loss of control in a subsidiary that has already been fully consolidated is recognized 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. 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 generally recognized at cost, including acquisition-related costs, as of the date of initial recognition. In the event of partial sale or loss of control of previously fully consolidated subsidiaries, 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 included in the carrying amount of the investment and is neither amortized nor individually tested for impairment. Income from first-time at equity accounting is recognized through profit or loss at the date when the investment is initially accounted for.

In subsequent periods, the carrying amount is subsequently measured to reflect the Porsche SE Group’s share of changes in net assets of the associate (at equity method). The group’s share in the result after tax less the share of the result of non-controlling interests and hybrid investors of the investment is recognized in the income statement within the item “result from investments accounted for at equity”. 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 recognized in the amount of its share of equity. Dividends received lead to a reduction of the investment’s carrying amount with no effect on the result.

When additional interests are acquired without a change in status, each tranche is generally accounted for separately using the equity method, i.e., the difference between the pro rata remeasured equity of the investee and the acquisition cost of the interest is calculated for the new interests and accounted for individually in subsequent periods or a negative difference is recognized through profit or loss at the time of acquisition.

An impairment test is carried out whenever there is objective evidence that the entire carrying amount of the investment is impaired. If the carrying amount of the investment exceeds its recoverable amount, a difference is recognized as an impairment loss 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 expenses and income recognized directly in equity. Any resulting exchange rate differences are recognized with no effect on profit or loss 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 table.

		Balance sheet Closing rate		Income statement Average rate	
	€1=	**31/12/2019**	31/12/2018	**2019**	2018
Argentina	ARS	67.2363	43.1569	53.7808	32.8936
Australia	AUD	1.6008	1.6224	1.6107	1.5802
Brazil	BRL	4.5135	4.4449	4.4149	4.3073
Canada	CAD	1.4621	1.5593	1.4860	1.5303
China	CNY	7.8147	7.8773	7.7344	7.8077
Czech Republic	CZK	25.4065	25.7245	25.6698	25.6431
India	INR	80.1545	79.9065	78.8640	80.7147
Japan	JPY	121.8950	125.9100	122.0865	130.4016
Mexico	MXN	21.2434	22.5204	21.5633	22.7150
Poland	PLN	4.2597	4.2978	4.2978	4.2610
Qatar	QAR	4.0883	4.1697	4.0939	4.3023
Republic of Korea	KRW	1,296.3500	1,276.9000	1,304.8927	1,299.4138
Russia	RUB	69.8469	79.8377	72.4671	74.0821
Singapore	SGD	1.5105	1.5594	1.5285	1.5930
South Africa	ZAR	15.7647	16.4669	16.1772	15.6224
Sweden	SEK	10.4451	10.2507	10.5859	10.2583
United Arab Emirates	AED	4.1244	4.2067	4.1165	4.3400
United Kingdom	GBP	0.8500	0.8969	0.8774	0.8848
USA	USD	1.1228	1.1453	1.1197	1.1816

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 investments accounted for at equity, financial instruments at fair value through profit or loss 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 do not contain any assets with indefinite useful lives.

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

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

Depreciation is based on the following useful lives:

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

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

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

Leases

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

If the group acts as lessee, it generally recognizes a right-of-use asset and a lease liability in its balance sheet for all leases. The lease liability is measured at the amount of the outstanding lease payments discounted using the incremental borrowing rate, while the right-of-use asset is generally measured at the amount of the lease liability plus any initial direct costs. During the lease term, the right-of-use asset is depreciated over the term of the lease. Options to extend or terminate the lease are taken into account when determining the lease term if it is reasonably certain that the options will be exercised or not. The lease liability is subsequently measured using the effective interest method and taking into account the lease payments. Right-of-use assets recognized in the balance sheet are presented in the balance sheet item under which the assets underlying the lease would have been recognized had they been owned by the group. The group acts exclusively as lessee, in particular for buildings and vehicles. The right-of-use assets are recognized as non-current assets under property, plant and equipment and the lease liabilities as financial liabilities.

The exemptions for short-term leases and leases for low-value assets are used. No right-of-use asset or liability is recognized for such leases and the lease payments are recognized as an expense in the income statement.

The accounting treatment for leases for which associates act a lessor is based on them being classified as operating leases and finance leases. They are classified based on the allocation of the opportunities and risks incidental to ownership of the leased asset. While the principal opportunities and risks remain with the lessor for operating leases, they are transferred to the lessee in the case of finance leases. Leased vehicles are recognized at cost in the case of operating leases and depreciated to their estimated residual value using the straight-line method over the term of the lease. Pursuant to IAS 36, impairment losses are recognized in the case of impairment. The forecast residual values are adjusted to include constantly updated internal and external information on residual values, depending on specific local factors and the experiences gained in the marketing of used cars. This requires making assumptions in particular about vehicle supply and demand in the future, as well as about vehicle price trends. Such assumptions are based either on qualified estimates or on data published by 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 current sales data.

Under a finance lease, the material opportunities and risks are transferred to the lessee. The leased asset is derecognized from the fixed assets of the associate and instead a receivable is recognized in the amount of the net investment in the lease.

Borrowing costs

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

Impairment test

An impairment test is performed at least once a year for goodwill, capitalized development costs for products not yet ready for use and intangible assets with an indefinite useful live. For intangible assets with finite useful lives, property, plant and equipment as well as investments accounted for at equity an impairment test is only performed when there is objective evidence that the asset may be impaired. At the end of each reporting period, the group assesses whether there is any indication of impairment. With respect to the procedure for impairment testing of investments accounted for at equity, reference is made to the section “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 components) or financial liability is at fair value plus, in the case of financial instruments not measured at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at transaction price.

Subsequent measurement of financial assets

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

- Financial assets (debt instruments) at amortized cost (FAAC)
- Financial assets (debt instruments) at fair value with 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 based on the business model used and 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 financial 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.

An FVOCI debt instrument is recognized at fair value with changes in value through other comprehensive income 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 tax 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 is reclassified to profit or loss.

Upon initial recognition of an equity instrument, an entity can elect to irrevocably recognize subsequent fair value changes through other comprehensive income. These instruments must meet the definition of equity under IAS 32 and 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 reclassified 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 and investments in technology start-ups. 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 trade 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. Potential impairments are not only assumed if indicators exist such as 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 for 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 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 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 exchange differences are recognized in the income statement. 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 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. Hedge accounting is applied only at the level of associates.

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 underlying.

Any gains or losses on hedging instruments and hedged transactions or items are recognized through profit or loss. At the level of associates, in addition to the regulations of IFRS 9, the regulations of IAS 39 on portfolio hedges are also applied for hedges concerning the interest rate risk for financial services companies.

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. The effects are only recognized through profit or loss when the hedged transaction is realized; the ineffective portion of a cash flow hedge is recognized through profit or loss immediately.

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 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 are also taken into account 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 in account the pension payments and vested benefits known on 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 refund claims from third parties. Refund claims are recognized separately in other assets or other financial assets if it is virtually certain that the Porsche SE Group will receive the refund when it settles the obligation.

Government grants

Government grants 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. This is the case for license sales where the license is transferred to the customer.

For sales of new and used vehicles and original parts of associates, 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 is 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 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 material.

Income from customer financing and finance leases is recognized as 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 a period of 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 the 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 refunded 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. For extended warranties that each customer is granted for a particular model, a provision is generally recognized in the same way as for statutory warranties. If the guarantee is optional for the customer or it contains an additional service, the revenue is deferred and realized over the warranty period.

Revenue from the disposal of assets for which an associate 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 (e.g., commission based on revenue), 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. Refund provisions primarily result from dealer bonuses.

For multiple-element arrangements, the transaction price is allocated to the various performance obligations of the contract based on relative stand-alone selling prices. In the automotive division at the level of associates, non-vehicle services are regularly recognized at their stand-alone selling price on the grounds of immateriality. 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 presented 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 and invoiced in advance on an annual or quarterly basis. User charges on a temporal basis are recognized on a straight-line basis over the term of the agreement. Deferred maintenance agreements, software maintenance and support agreements are recognized as a contract liability and realized over the term of the agreement. Advisory services generally relate to customer-specific orders that are received for a particular period using the cost-to-cost method in accordance with the regulations of IFRS 15. Invoices are always issued with terms of payment.

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 judgments, estimates and assumptions of the management

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

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

- recognition of provisions and disclosure of contingent liabilities in connection with increasing the investment in Volkswagen AG (see note [20]) and the diesel issue (see below) and
- contingent assets from tax matters (see note [21]).

Estimates and assumptions as of 31 December 2019 that can give rise to a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the following matters and are explained in the notes referred to below:

- calculations of recoverable amounts when testing of the carrying amounts of investments for impairment and reversal of impairment (see notes [5] and [9])
- acquisition of additional ordinary shares in Volkswagen AG and the resulting income from first-time at equity accounting of newly acquired shares (see note [5])
- impairment testing of goodwill as well as other intangible assets and the significant assumptions that were used to determine the recoverable amount (see note [8])
- the measurement of provisions and contingent liabilities in connection with increasing the investment in Volkswagen AG (see note [20]) and the diesel issue (see below)
- the measurement of current and deferred tax (see note [7])

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

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

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

Such matters include the impairment test of non-financial assets (in particular goodwill, brands, capitalized development costs and special tools) as well as investments accounted for at equity or investments accounted at cost and the measurement of options on shares in companies that are not traded in an active market. This requires making estimates of future cash flows during the planning period, and possibly beyond it, of the discount rate applied as well as the demarcation of cash-generating units. The recoverability of the leased assets depends in particular on the residual value of the leased vehicles after expiration of the lease term as this constitutes a significant part of the expected cash flows.

Provided that there are no observable market inputs, the fair value of acquired assets and liabilities in a business combination is determined using accepted valuation methods such as the relief-from-royalty method or the residual method.

Determining the recoverability of financial assets requires estimates regarding the extent and probability of occurrence of future events.

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

The recognition of government grants is based on the assessment whether there is reasonable assurance that the entity will fulfill the attached conditions and that the grant will be awarded. This estimate is based on the type of legal entitlement as well as past experience.

The estimate of the useful life for fixed assets subject to depletion is based on past experience and subject to regular review.

The estimation of the term of leases pursuant to IFRS 16 is based on the non-cancellable period of the lease as well as the assessment of whether existing extension and termination will be exercised. Determining the term as well as the discount rates applied has an impact on the amount of the right-of-use assets and the lease liabilities.

Measuring deferred tax assets requires assumptions to be make regarding future taxable income as well as the date of realization of deferred tax assets.

Accounting for provisions is based on estimates of the extent and probability of occurrence of future events as well as the estimates of the discount rate. Warranty claims from sales transactions are calculated on the basis of losses to date, estimated future losses and the policy on ex gratia arrangements. This requires assumptions to be made regarding the nature and extent of future warranty and ex gratia claims. Furthermore, actuarial assumptions are made to measure pension provisions.

For the provisions recognized in connection with the diesel issue, assumptions regarding working hours, material costs and hourly wage rates were largely made depending on the series, model year and country concerned. In addition, assumptions are made about future resale prices of repurchased vehicles. These assumptions are based on qualified estimates relating to external data taking into account any additional information available internally, such as values derived from experience.

An amount of around €2.9 billion (€2.4 billion) has been recognized in the provisions for litigation and legal risks at the level of the Volkswagen Group as of 31 December 2019 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 consolidated notes of Volkswagen in an aggregate amount of €3.7 billion (€5.4 billion), whereby €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 the diesel issue are in part subject to substantial estimation risks given that the fact-finding efforts have not yet been concluded, the complexity of the individual relevant factors and the ongoing coordination with the authorities. Should these legal or estimation risks materialize, this could result in further substantial financial charges at the level of the Volkswagen Group. In particular, the possibility cannot be ruled out that the provisions recognized may have to be adjusted in light of knowledge acquired or events occurring in the future.

There continue to be no conclusive findings or assessments of facts available to the board of management of Volkswagen AG based on the information available and gained that would suggest that a different assessment of the associated risks should have been made. Potential consequences for the Volkswagen Group’s results of operations, financial position and net assets could emerge primarily in the following legal areas:

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

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

In April 2019, the Braunschweig Office of the Public Prosecutor issued indictments, including one against a former chairman of the board of management of Volkswagen AG, charging, among other things, fraud relating to Type EA 189 engines in connection with the diesel issue.

In September 2019, the Braunschweig Office of the Public Prosecutor furthermore indicted the current and a former chairman of the board of management of Volkswagen AG as well as a former member of its board of management (currently chairman of the supervisory board) on charges of market manipulation relating to capital market disclosure obligations in connection with the diesel issue. The Public Prosecutor's Office also requested that the court name Volkswagen AG as a collateral participant in the proceedings.

In July 2019, the Munich II Office of the Public Prosecutor issued indictments, including one against the former chairman of the board of management of AUDI AG, charging, among other things, fraud relating to 3.0 TDI engines in connection with the diesel issue.

Based on the information available at the present time, no change in the risk situation of the Volkswagen Group results from these indictments.

The Stuttgart Office of the Public Prosecutor is conducting a criminal investigation relating to the diesel issue on suspicion of fraud and illegal advertising that also involves a member of the board of management of Dr. Ing. h.c. F. Porsche AG.

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

In an administrative fine order issued on 7 May 2019, the Stuttgart Office of the Public Prosecutor terminated the regulatory offense proceeding conducted against Dr. Ing. h.c. F. Porsche AG in connection with the diesel issue by finding a negligent breach of the obligation to supervise occurring in the organizational unit "Prüffeld Entwicklung Gesamtfahrzeug/Qualität" (Overall Vehicle Development/Quality - Testing Facility). The administrative order imposes a total fine of €535 million, consisting of a penalty payment of €4 million and the forfeiture of economic benefits in the amount of €531 million. After thorough examination, Dr. Ing. h.c. F. Porsche AG accepted the fine and paid it in full, rendering the administrative fine order legally final. Further sanctions against or forfeitures by Dr. Ing. h.c. F. Porsche AG are therefore not to be expected in Europe in connection with the unitary factual situation underlying the administrative fine order.

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

Furthermore, additional administrative actions relating to the diesel issue are ongoing in other jurisdictions.

The companies of the Volkswagen Group continue to cooperate with the government authorities.

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

2. 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 organizations are pending against Volkswagen AG and other Volkswagen Group companies in a number of countries including Australia, Belgium, Brazil, Germany, Italy, the Netherlands, Portugal, South Africa, and the United Kingdom. Alleged rights to damages and other relief are asserted in these actions. The pending actions include in particular the following:

In Australia, various class action lawsuits with opt-out provisions are currently pending against Volkswagen AG and other Volkswagen Group companies, including the Australian subsidiaries. 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. In December 2019 Volkswagen AG reached agreements with the Australian class action plaintiffs that would terminate the litigation. The court must still approve the settlement. Depending on the number of claims filed under the class action settlement, Volkswagen AG anticipates payment of an amount of up to AUD 127.1 million plus litigation costs to settle the class action lawsuits. Two civil suits filed against Volkswagen AG and other group companies by the Australian Competition and Consumer Commission (ACCC) were settled in the second half of 2019. The settlement is not yet legally final, however, as an appellate court has yet to rule on the amount of the fine. Depending on the appellate court decision, Volkswagen AG anticipates payment of a fine of up to AUD 125 million plus litigation costs.

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.

In Brazil two class actions are pending. One of these pertains to approximately 17 thousand vehicles. In this litigation, an appeals judgment was rendered in May 2019 that only partially upheld the lower court's decision. This judgment initially reduced the damage liability of Volkswagen do Brasil considerably to around BRL 172 million plus interest. This amount can increase as a result of the adjudicated inflation rate and the assertion of individual claims alleging declines in the value of affected Amarok vehicles. The judgment remains non-final. In the second class action, compensation claims are made based on purported breaches of environmental regulations.

In Germany, the Verbraucherzentrale Bundesverband e.V. (Federation of Consumer Organizations, vzbv) filed an action in November 2018 with the Braunschweig Higher Regional Court for model declaratory judgment against Volkswagen AG. The action was seeking a ruling to determine certain preconditions for potential consumer claims against Volkswagen AG; however, no specific payment obligations would have resulted from any determinations the court may have made. Individual claims would have had to have been assserted afterwards in thousands of separate proceedings. Oral argument in the consumer action for model declaratory judgment began in September 2019. On 28 February 2020, Volkswagen AG and the vzbv reached an out-of-court settlement that brought the model declaratory judgment to a close. According to this, Volkswagen AG will offer individual settlements to consumers who have registered claims under the action for model declaratory judgment and who meet the settlement criteria. The volume of such settlements amounts to approximately €830 million. The vzbv will withdraw the model declaratory judgment.

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

In England and Wales, suits filed in court by various law firms have been joined in a single collective action (group litigation). Because of the opt-in mechanism, not all vehicles with type EA 189 engines are automatically covered by the group litigation; potential claimants must instead take action in order to join. To date, some 90 thousand plaintiffs have registered claims under the group litigation. The group litigation opt-in period has expired.

In Italy, a class action lawsuit filed by the consumer association Altroconsumo on behalf of Italian customers is pending before the Venice Regional Court. This litigation involves damage claims based on alleged breach of contract as well as claims based on purported violations of Italian consumer protection law. Some 82 thousand customers have registered for the class action, whereby the validity of roughly half of the registrations is still unclear. In Italy, the court decision dismissing the class action filed by the consumer association Codacons as inadmissible also became legally final in the reporting year.

In the Netherlands, Stichting Volkswagen Car Claim has brought an opt-out class action seeking declaratory rulings. Any individual claims would then have to be established afterwards in separate proceedings. In November 2019 the Regional Court in Amsterdam held the requests for relief to be inadmissible in part. Oral argument on the merits of the class action will take place in 2020.

A Portuguese consumer organization has filed a class action with opt-out mechanism in Portugal. There are potentially up to approximately 139 thousand vehicles affected in the Portuguese market. The complaint seeks vehicle return and alleges damages as well.

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

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen group companies in various countries, most of which are seeking damages or rescission of the purchase contract. In Germany, there are over 70 thousand such individual lawsuits. Volkswagen estimates the likelihood that the plaintiffs will prevail to be 50% or less in the great majority of customer class actions, complaints filed by consumer and/or environmental organizations, and individual lawsuits. Contingent liabilities are disclosed for these proceedings where the amount of such liabilities can be measured and the chance that the plaintiff will prevail was assessed as not implausible. 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. In addition, provisions were recognized to the extent necessary at the level of the Volkswagen Group 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 consumer action for model declaratory judgment in Germany, among other things, and what their prospect of success will be.

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

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

The vast majority of these investor lawsuits are currently pending at the Regional Court in Braunschweig. In 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 in Braunschweig for binding declaratory rulings pursuant to the Kapitalanleger-Musterverfahrensgesetz (KapMuG – German Act on Model Case Proceedings in Disputes Regarding Capital Market Information). 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. Oral argument in the model case proceedings before the Braunschweig Higher Regional Court began in September 2018 and will be continued at subsequent hearings.

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. Holding that the factual situation at issue is by and large already covered by the model case proceedings being heard by the Braunschweig Higher Regional Court and that these proceedings, being paramount in this regard, preclude further such actions, the Stuttgart Higher Regional Court in March 2019 refused to proceed with further capital investor model case proceedings (which include Porsche SE) that had been referred to it by the Stuttgart Regional Court. The plaintiff side has appealed one of these decisions to the Federal Court of Justice.

Further investor lawsuits have been filed at various courts in Germany and the Netherlands. 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. Insofar as the chance of success was estimated at not lower than 10%, contingent liabilities have been disclosed.

4. Proceedings in the USA/Canada

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

In the fiscal year, Volkswagen AG and certain affiliates settled the consumer protection claims asserted by the Attorney General of the US state of New Mexico, the last remaining state asserting consumer protection claims.

The attorneys general of five US states (Illinois, Montana, New Hampshire, Ohio, and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, alleging violations of environmental laws. In the fiscal year, the environmental claims of two US states – Alabama and Tennessee – were dismissed in full by trial or appellate courts as preempted by federal law with no possibility of further appeal, and the New Mexico Attorney General voluntarily dismissed its environmental claims. The claims asserted by Illinois, Hillsborough County (Florida), and Salt Lake County (Utah) have been dismissed in full, but those dismissals have been appealed. Certain of the claims asserted by Ohio, Texas, and two Texas counties have also been dismissed, but those suits are currently proceeding as to other claims.

In March 2019 the US Securities and Exchange Commission filed a lawsuit against Volkswagen AG, Volkswagen Group of America Finance, LLC, VW Credit, Inc. and a former chairman of the board of management of Volkswagen AG, asserting claims under US federal securities law based among other things on alleged misstatements and omissions in connection with the offer and sale of certain bonds and asset-backed securities.

Furthermore, in December 2019, the Canadian federal environmental regulator filed charges against Volkswagen AG in respect of 2.0 l and 3.0 l Volkswagen and Audi diesel vehicles at the conclusion of its criminal enforcement-related investigation into the diesel emissions issue. Volkswagen AG cooperated with the investigation and agreed to a plea resolution addressing all of the charges. In January 2020, Volkswagen AG pleaded guilty to the charges and agreed to pay a penalty of CAD 196.5 million, which was approved by the court. Following this approval, the Ontario provincial environmental regulator withdrew its action against Volkswagen AG charging a quasi-criminal enforcement-related offense with respect to certain Volkswagen and Audi 2.0 l diesel vehicles. Additionally, a certified environmental class action is pending on behalf of residents in Quebec. This action was authorized on the sole issue of whether punitive damages could be recovered. The appeals filed by Volkswagen were denied. The case remains in the early stages.

5. 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 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. In June 2019, the Hanover Regional Court denied the motion filed by the US funds to replace the special auditor. The opposing side has appealed this denial to the Celle Higher Regional Court; this appeal is still pending.

In addition, a second motion seeking appointment of a special auditor for Volkswagen AG to examine matters relating to the diesel issue has been filed with the Regional Court of Hanover. This proceeding has been stayed pending a decision by the Federal Constitutional Court in the initial special auditor litigation.

Changes to underlying premises

The estimates and assumptions are based on premises that are derived from the current information available. In particular, the circumstances given when preparing the consolidated financial statements as to the realistic expectations of future development of the global and industry-specific environment were used to estimate the company's future business performance. Future business performance is associated with uncertainties. Factors which may cause variances from expectations at the level of Porsche SE are in particular additional negative effects of the 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.

In cases where the actual development differs from the expectation, the premises, and if necessary the carrying amounts of the assets and liabilities concerned, will be adjusted accordingly. Prior to the date of authorization of the 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. Judgments and estimates 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 combined management report.

New accounting standards

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

The accounting policies applied in the consolidated financial statements are in line with the IFRSs adopted by the EU as of 31 December 2019. Furthermore, the amendments of IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform - were early adopted on a voluntary basis. This did not have any effect on the results of operations, financial position and net assets of Porsche SE.

Porsche SE applied IFRS 16 for the first time as of 1 January 2019. A number of additional new standards were also mandatory for the first time as of 1 January 2019. However, these did not have any significant impact on the presentation of the Porsche SE Group's results of operations, financial position and net assets.

In the course of the first-time adoption of IFRS 16 as of 1 January 2019, the Porsche SE Group has accounted for leases using the modified retrospective method. The prior-year period has not been adjusted. According to this method, the lease liability is recognized at the present value of the outstanding lease payments at the time of transition. The present value is therefore determined using incremental borrowing rates from 1 January 2019. The average weighted incremental borrowing rate for this amounted to 2.5% at the Porsche SE Group. At the time of first-time adoption, leases with terms ending before 1 January 2020 were classified as short-term leases regardless of when the lease agreement started. Furthermore, a reassessment was not performed at the time of first-time adoption for contracts already in place as to whether they constitute a lease or not using the criteria of IFRS 16.

The first-time recognition of the right-of-use assets and lease liabilities resulted in the following effects at the level of Porsche SE and its subsidiaries as of 1 January 2019:

- Right-of-use assets of €25 million were recognized under property, plant and equipment in the opening balance sheet.
- Lease liabilities of €26 million were recognized in the opening balance sheet under non-current and current financial liabilities. As of 31 December 2018, the difference to the value of capitalized right-of-use assets had already been recorded within other financial liabilities under finance leases in accordance with IAS 17. The recognition of lease liabilities as financial liabilities resulted in a corresponding decrease in the net liquidity of the Porsche SE Group. There were no equity effects from first-time application.

The table below shows the reconciliation of the obligations from operating leases stated as of 31 December 2018 and the liabilities from finance leases already recognized under IAS 17 to the lease liabilities recognized under IFRS 16 as of 1 January 2019:

€ million	1/1/2019
Lease liabilities recorded in the balance sheet as of 31 December 2018	0
Obligations from operating leases stated as of 31 December 2018	38
Effect of discounting obligations from operating leases	–10
Leases of assets with a remaining term < 1 year recorded as lease expense	–2
Leases of assets with value < 5,000 $ recorded as lease expense	0
Contracts now classified as service agreements	0
Lease liabilities recorded in the balance sheet as of 1 January 2019	**26**

At the level of the Volkswagen Group, the following effects arose as of 1 January 2019:

- Right-of-use assets of €5.5 billion were recognized in the opening balance sheet (of which €5.4 billion under property, plant and equipment and €0.1 billion under investment property). Of the right-of-use assets recognized, €0.4 billion had already been recognized under finance leases as of 31 December 2018.

- Lease liabilities of €5.6 billion were recognized in the opening balance sheet under non-current and current financial liabilities. Of the lease liabilities recognized, €0.4 billion had already been recognized under finance leases as of 31 December 2018.
- There were no equity effects from first-time application.
- While expenses for operating leases were recognized fully in the operating result according to the method previously used, the new regulations stipulate that only the depreciation charges on right-of-use assets be recognized there. Interest expenses arising from unwinding the discount on lease liabilities are recognized in the financial result. This results in a positive effect on the operating result of €0.2 billion in the fiscal year 2019.

The resulting effects on the results of operations and net assets influence 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.

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
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	Yes	No material impact
IFRS 3	Business combinations: Definition of a Business	22/10/2018	1/1/2020	No	No material impact
Diverse	Amendments to References to the Conceptual Framework in IFRS Standards	29/3/2018	1/1/2020	Yes	No material impact
IFRS 17	Insurance contracts	18/5/2017	1/1/2021[2]	No	No material impact
IAS 1	Classification of liabilities	23/1/2020	1/1/2022	No	No material impact

[1] Mandatory first-time application from the perspective of Porsche SE.
[2] The IASB has proposed that the effective date be postponed to 1 January 2022.

Early adoption of these amendments is not currently planned.

Notes to the consolidated income statement

[1] Revenue

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

€ million	**2019**	2018
Maintenance	32	28
Projects	32	29
Licenses	31	29
Hosting	19	16
Others	2	1
	116	**103**

[2] Other operating income

Other operating income primarily contains reversals of other provisions in connection with other taxes.

[3] Personnel expenses

€ million	**2019**	2018
Wages and salaries	68	65
Social security contributions	7	7
Pension and other benefit costs	6	6
Government grants	–2	–2
	80	**77**
Employees (annual average)		
Employees with personnel responsibility	44	44
Employees	904	876
Employees according to Sec. 314 (1) No. 4 HGB	**948**	**920**
Others	69	59
Total	**1,017**	**979**

[4] Other operating expenses

Other operating expenses consist of:

€ million	**2019**	2018
Legal and consulting fees	29	27
Other external services	13	13
Rental/leasing	2	7
Sundry other operating expenses	22	19
	66	**66**

In the reporting year, the item rental/leasing exclusively contains expenses for short-term leases, for leases of low-value assets and for variable lease components.

[5] Result from investments accounted for at equity

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

€ million	**2019**	2018
Income from first-time at equity accounting of newly acquired shares	322	97[1]
Result from ongoing at equity accounting before purchase price allocations	4,172	3,632
Effects from purchase price allocations	–89	–82
Result from ongoing at equity accounting	4,406	3,646
Impairment		–5
	4,406	**3,641**

1 The prior-year figure was adjusted due to the change in a purchase price allocation.

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

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

€ million	VW without acquisition in FY2015 or FY2018/19 (29.88%) 2019	VW acquisition of shares in FY2015 (0.88%) 2019	VW acquisition of shares in FY2018/19 (0.53%) 2019	VW Total 2019
Revenue	252,632	252,632	252,632	-
Total comprehensive income	7,052	6,148	1,376	-
thereof other comprehensive income	–6,839	–6,584	–6,059	-
thereof profit from continuing operations	13,891	12,732	7,435	-
less result attributable to non-controlling interests and hybrid capital investors	–683	–683	–683	-
less effects from additional dividends	–12	–12	–12	-
Result after tax adjusted for at equity accounting	13,195	12,037	6,739	-
Income from first-time at equity accounting of newly acquired shares			322	-
Result from investment in Volkswagen AG accounted for at equity	**3,942**	**106**	**358**	**4,405**

€ 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		-
Total comprehensive income	9,207	7,651		-
thereof other comprehensive income	–2,715	–3,078		-
thereof profit from continuing operations	11,922	10,729		-
less result attributable to non-controlling interests and hybrid capital investors	–326	–326		-
less effects from additional dividends	–12	–12		-
Result after tax adjusted for at equity accounting	11,584	10,390		-
Income from first-time at equity accounting of newly acquired shares			97[1]	-
Result from investment in Volkswagen AG accounted for at equity	**3,461**	**91**	**97**	**3,649**

1 The prior-year figure was adjusted due to the change in a purchase price allocation.

In the period from the beginning of December 2018 and mid-March 2019, Porsche SE acquired 0.9% of the ordinary shares in Volkswagen AG for €397 million in capital market transactions. This reflects a capital share of around 0.5%. This increased Porsche SE's shareholding in Volkswagen AG to 53.1% of ordinary shares and 31.3% of subscribed capital.

The acquisition results overall in income from first-time at equity accounting of €419 million, of which €97 million relates to transactions performed by the end of the fiscal year 2018 and €322 million to transactions performed in the fiscal year 2019. Income from first-time at equity accounting of newly acquired shares results from the difference between the pro rata revalued equity of the Volkswagen Group and the acquisition cost of the ordinary shares in Volkswagen AG. This is mainly attributable to the fact that the fundamental data for the Volkswagen Group used particularly in the valuation of the brands and the investments accounted for at equity are not fully reflected in the share price and therefore not in the acquisition cost when calculating the pro rata revalued equity. 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 brands were valued using the relief from royalty method. When applying the relief from royalty method, the fair value of the brands was calculated using a fictitious royalty as a percentage of revenue relevant for each brand based on the planning of the Volkswagen Group. The royalty rate was calculated using internal studies and data; a sustainable growth rate of

0.5% was assumed for the calculation. The investments accounted for at equity were mainly valued on the basis of the discounted cash flow method. The respective planning of the Volkswagen Group as well as a sustainable growth rate of 0.5% was likewise used as a basis for this. The valuation of the brands and of the investments accounted for at equity was based on country- and asset-specific after-tax cost of capital rates in the range of between 4.5% and 9.7%.

For the ordinary shares acquired in December 2018, preliminary income from first-time at equity accounting of €79 million was recognized in the fiscal year 2018. New findings from the purchase price allocation, in particular with regard to the valuation of the property, plant and equipment, brands and investments caused this income to increase by €18 million to €97 million.

The effect of these adjustments on the consolidated balance sheet was as follows:

€ million	Before adjustment	Change in purchase price allocation	After adjustment
31/12/2018			
Consolidated balance sheet			
Investments accounted for at equity	32,501	18	32,518
Retained earnings	30,583	17	30,601
Deferred tax liabilities	92	0	93

The purchase price allocation was completed as of 31 December 2019.

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

€ million	**2019**	2018
Result from continued operations	0	–7
Other comprehensive income	0	2
Total comprehensive income	**1**	**–5**

[6] Financial result

The financial result primarily contains income from the recognition of interest on tax refunds of €16 million (€0 million) as well as from the measurement of financial instruments at fair value of €8 million (€0 million).

[7] Income tax

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

€ million	**2019**	2018
Current tax income/expense	–29	2
thereof tax income/expenses relating to other periods	–32	1
Deferred tax expense	38	21[1]
Income tax expense	**9**	**24**

1 The prior-year figure was adjusted due to the change in a purchase price allocation (see note [5]).

A tax field audit is currently being performed for the assessment periods 2009 to 2013. Based on the information currently available, income tax receivables for prior years of €32 million were recognized in the fiscal year 2019. New findings of the tax field audit for the assessment periods 2009 to 2013 could result in already recognized refund claims decreasing or tax and interest payments having to be made.

Previously unused tax losses for which no deferred tax assets were recognized amounted to €1,705 million (€1,833 million).

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

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

€ million	**2019**	2018
Result before tax	4,416	3,514[1]
Group tax rate	30.5%	30.5%
Expected income tax expense	**1,347**	**1,072**
Tax rate related differences	0	1
Difference in tax base	–1,295	–1,035[1]
Recognition and measurement of deferred tax	–11	–15[1]
Tax relating to other periods	–32	1
Other differences	0	0
Reported income tax expense	**9**	**24**

1 Prior-year figures were adjusted due to the change in a purchase price allocation (see note [5]).

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 €12 million (€15 million). The effects relating to other periods primarily result from tax refund claims for prior years recognized in the fiscal year 2019.

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

	Deferred tax assets		Deferred tax liabilities	
€ million	**31/12/2019**	31/12/2018	**31/12/2019**	31/12/2018
Intangible assets	0	0	26	30
Investments accounted for at equity			184	158[1]
Other receivables and assets	4	3	3	1
Unused tax losses	100	85[1]		
Provisions for pensions	9	6		
Other provisions	6	5	0	
Other liabilities	1	1	3	2
Gross value	119	100	217	191
Offsetting	–117	–98[1]	–117	–98[1]
Balance according to consolidated balance sheet	**2**	**1**	**100**	**93**

[1] Prior-year figures were adjusted due to the change in a purchase price allocation (see note [5]).

The changes in deferred tax assets and liabilities recognized through other comprehensive income can be found in the statement of comprehensive income. In the fiscal year, deferred tax liabilities of €3 million (€0 million) were recognized directly in equity. All other changes are recognized through profit or loss.

Notes to the consolidated balance sheet

[8] Intangible assets and property, plant and equipment

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

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

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

€ 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**

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

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

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

The calculation of the value in use as of 31 December 2019 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. As in the prior year, the detailed planning phase comprises five years. For the planning of revenue as well as the EBITDA margin, it was assumed that the PTV Group would continue on its positive growth path from the fiscal year 2019 in the planning period and generate significant margin improvements.

A sustainable annual growth rate of 2.0% (2.0%) was used to extrapolate the cash flow beyond the detailed planning phase. To discount cash flows, a weighted average after-tax cost of capital of 7.4% (8.0%) was derived based on a peer group analysis. The corresponding weighted average pre-tax cost of capital is 9.4% (10.0%).

Since the value in use determined in the impairment test as of 31 December 2019 is higher than the carrying amount of the cash-generating unit including goodwill at an amount in the low double-digit million-euro range, there was no need for impairment as of reporting date.

The impairment test also included a sensitivity analysis with regard to changes in main parameters considered possible. It was determined that an isolated 3.8% reduction in the sustainable EBITDA margin, an isolated reduction of the sustainable annual growth rate by 0.3 percentage points or an isolated increase in the average weighted cost of capital by 0.2 percentage points would lead to the recoverable amount corresponding to the carrying amount.

The impairment test as of the prior-year reporting date resulted in a recoverable amount of €221 million and the need to recognize an impairment loss of €66 million. This impairment loss from the prior year was allocated in full to the goodwill of the ITS segment.

[9] Investments accounted for at equity

The market value of Porsche SE's investment in Volkswagen AG amounts to €27,169 million as of 31 December 2019 (€21,527 million). In the fiscal year, Porsche SE received a dividend from Volkswagen AG of €753 million (€601 million).

Taking into account the identification and subsequent effects of hidden reserves and liabilities, the Volkswagen Group reports the following figures:

€ million	VW without acquisition in FY2015 or FY2018/19 (29.88%) 31/12/2019	VW acquisition of shares in FY2015 (0.88%) 31/12/2019	VW acquisition of shares in FY2018/19 (0.53%) 31/12/2019	VW Total 31/12/2019
Non-current assets	300,099	325,621	357,863	-
Current assets	187,479	187,463	187,463	-
Non-current liabilities	195,762	204,282	210,240	-
Current liabilities	167,924	167,924	167,924	-
Equity	123,892	140,879	167,162	-
less non-controlling interests and hybrid capital investors	–14,533	–14,533	–14,533	-
less effects from additional dividends	–12	–12	–12	-
Equity adjusted for at equity accounting	109,346	126,333	152,617	-
Carrying amount of the investment in Volkswagen AG accounted for at equity	**32,668**	**1,108**	**810**	**34,585**

€ 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	341,755[1]	-
Current assets	183,566	183,536	188,005[1]	-
Non-current liabilities	172,172	182,786	194,427[1]	-
Current liabilities	167,968	167,968	167,968	-
Equity	117,587	135,477	167,364	-
less non-controlling interests and hybrid capital investors	–12,895	–12,821	–12,821	-
less effects from additional dividends	–93	–38	0	-
Equity adjusted for at equity accounting	104,599	122,618	154,543	-
Carrying amount of the investment in Volkswagen AG accounted for at equity	**31,250**	**1,076**	**183[1]**	**32,508**

1 Prior-year figures were adjusted due to the change in a purchase price allocation (see note [5]).

The carrying amount of other investments accounted for at equity comes to €11 million (€10 million).

Porsche SE has at its disposal a credit facility with a volume of €1 billion and an initial term until July 2024. 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.

The most recent five-year plan (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 2020 in the impairment test corresponds approximately to the mid-range 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 4% 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 2020 and in the coming years. Growth prospects are negatively impacted by geopolitical tension and conflicts as well as cross-country and cross-regional epidemics, such as the current spread of the coronavirus. The highest growth rates are anticipated in the emerging economies in Asia. As regards the automobile markets, growth is expected to be heterogeneous between the various regions and global demand for new vehicles is expected to be on a par with 2019 on the whole in 2020. Its brand diversity, the presence in all major world markets, broad and selectively expanded product range, and its technologies and services put the Volkswagen Group in a good competitive position worldwide. 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 2020 is within Volkswagen’s expected corridor of between 6.0% and 6.5% of revenue and is in the planning period on the level of the long-term target rate of around 6%. The investments in plants and models as well as in the development of electrified drives and modular systems create the prerequisites for Volkswagen’s profitable and sustainable growth.

As regards operating return on sales, a relatively constant development is assumed, which is at the low to medium range 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 2019.

An annual growth rate of 1.0% (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 6.9% (7.1%) 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 in the prior year, there was therefore no need to recognize an impairment loss as of 31 December 2019.

The investment in INRIX was tested to identify any need to recognize impairments or reversals of impairment in the consolidated financial statements of Porsche SE as of 31 December 2019; this was found not to be the case. In the prior year, the test resulted in a need to recognize an impairment loss of €5 million in the consolidated financial statements of Porsche SE.

[10] Other financial assets

€ million	31/12/2019 current	31/12/2019 non-current	31/12/2019 Total	31/12/2018 current	31/12/2018 non-current	31/12/2018 Total
Other financial assets		27	27		9	9
Derivative financial instruments	0		0	1		1
Sundry other financial assets	4	0	5	3	0	3
	5	**28**	**32**	**4**	**10**	**14**

The increase in other financial assets is attributable to investments acquired in the course of new financing rounds and the resulting remeasurements of investments already held in technology start-ups.

[11] Other assets

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

€ million	31/12/2019 current	31/12/2019 non-current	31/12/2019 Total	31/12/2018 current	31/12/2018 non-current	31/12/2018 Total
Receivables from tax interest	16		16	0		0
Contract assets	4		4	5		5
Deferrals	3	2	5	3	0	3
Sundry other assets	2	1	3	2	1	3
	25	**3**	**12**	**10**	**1**	**11**

Receivables from tax interest were recognized based on findings of the tax field audit for the assessment periods 2009 to 2013. The contract assets contain conditional receivables from customer-specific construction contracts determined according to the percentage of completion. Immaterial impairment losses were recognized on these as of the reporting date.

[12] 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 around 153,125,000 non-voting preference shares which have been fully paid in. Each share represents a €1 notional amount of the subscribed capital. The preference shares carry an additional dividend of 0.6 cents per share in the event of there being net profit available for distribution and a corresponding resolution on a distribution.

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

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

Other reserves (OCI)
Other reserves are divided into items to be reclassified to profit or loss in subsequent periods (reclassifiable items) and items that are not to be reclassified to profit or loss in subsequent periods (non-reclassifiable items). Key components of the two items are the accumulated reclassifiable and non-reclassifiable other comprehensive income of the investments accounted for at equity since their acquisition. The non-reclassifiable items also contain the actuarial losses of the Porsche SE Group from pensions of €20 million (€11 million) as well as the corresponding deferred tax assets of €6 million (€3 million). In the prior year, these were recognized under retained earnings. As in the prior year, the foreign currency translation reserve as a component of reclassifiable items was immaterial as of 31 December 2019. Furthermore, the reclassifiable and non-reclassifiable items contain deferred tax in connection with investments in associates.

Proposal for the appropriation of profit
The separate financial statements of Porsche SE as of 31 December 2019 show a result after tax of €788 million (€480 million) and withdrawals of €163 million (€196 million) from retained earnings, therefore coming to a net profit available for distribution of €952 million (€676 million). The executive board proposes a resolution for the distribution of a dividend of €3.104 per

ordinary share and €3.110 per preference share, i.e., a total distribution of €952 million for the fiscal year 2019. Dividends paid out in the fiscal year 2019 amounted to €2.204 (€1.754) per ordinary share and €2.210 (€1.760) per preference share, in total €676 million (€538 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.

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	**31/12/2019**	31/12/2018
Equity	35,284	33,416[1]
Share of total capital	100%	100%
Non-current financial liabilities	35	12
Current financial liabilities	5	1
Total financial liabilities	40	12
Share of total capital	0%	0%
Total capital	**35,323**	**33,428**

1 The prior-year figure was adjusted due to the change in a purchase price allocation (see note [5]).

[13] Provisions for pensions and similar obligations

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

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

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

Provisions for pensions and similar obligations are recognized for benefits in the form of retirement, invalidity and dependents’ benefits payable under pension plans. The benefits generally depend on the length of service, remuneration and working hours arrangements of the beneficiary employees. The direct and indirect obligations include both current pension obligations and future pension and retirement benefit obligations. In addition, personal retirement capital is accumulated in Germany by way of employee contributions to Porsche VarioRente.

Actuarial assumptions:
The defined benefit obligations are calculated using actuarial methods based on a discount rate of 1.2% (2.0%) as well as a wage and salary increase of 3.0%, 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	**2019**	2018
Present value (funded)	6	5
Present value (unfunded)	41	32
Total present value	47	37
Fair value of plan assets	–1	–1
Provisions for pensions as of 31 December	**45**	**35**

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	**2019**	2018
As of 1 January	37	37
Current service cost	2	2
Interest expenses	1	1
Subtotal pension expense recognized through profit or loss	3	3
Actuarial gains (–) and losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–) and losses (+) arising from changes in financial assumptions	7	-2
Actuarial gains (–) and losses (+) arising from experience adjustments	2	-2
Subtotal pension expense recognized in other comprehensive income	8	-3
Pension payments	-1	0
Transfers from other companies	-1	0
Contributions of the employer		0
Contributions of the employee	0	0
As of 31 December	**47**	**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 €4 million to €5 million (minus €3 million to €4 million) in the reporting period.

The weighted average duration of pension obligations is 20 years (20 years). The cash outflow of pension provisions is expected to amount to €1 million (€1 million) within the next year, €4 million (€3 million) in a period of between one and five years and €42 million (€33 million) in a period of more than five years.

[14] Other provisions

€ million	31/12/2019 current	31/12/2019 non-current	31/12/2019 Total	31/12/2018 current	31/12/2018 non-current	31/12/2018 Total
Provisions for bonuses and personnel costs	6	1	7	5	0	6
Provisions for costs of litigation	16	24	40	15	18	33
Sundry other provisions	16	2	18	58	2	60
	38	**27**	**64**	**78**	**20**	**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 estimations that are continuously rolled forward and adjusted when needed.

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

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 1/1/2019	Reclassification to liabilities	Additions	Utilization	Reversal	**As of 31/12/2019**
Provisions for bonuses and personnel costs	6		7	–5	–1	7
Provisions for costs of litigation	33	–1	20	–12	–1	40
Sundry other provisions	60		5	–1	–46	18
	98	**–1**	**32**	**–18**	**–47**	**64**

The effects of unwinding the discount on provisions were immaterial in the fiscal year 2019 as they had been in the prior year.

[15] Financial liabilities

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

€ million	31/12/2019 current	31/12/2019 non-current	31/12/2019 Total	31/12/2018 current	31/12/2018 non-current	31/12/2018 Total
Lease liabilities	4	24	28			
Liabilities to banks	1	11	12	1	12	12
	5	**35**	**40**	**1**	**12**	**12**

In the prior year, lease liabilities were recognized under other financial liabilities.

There may be future cash outflows from existing extension and termination options of €31 million and variable lease payments of €2 million that are not reflected in the measurement of lease liabilities.

[16] Other liabilities

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

€ million	31/12/2019 current	31/12/2019 non-current	31/12/2019 Total	31/12/2018 current	31/12/2018 non-current	31/12/2018 Total
Advance payments received on account of orders	4		4	4		4
Contract liabilities	20		20	17		17
Sundry other liabilities	17	0	17	17	0	17
	40	**0**	**40**	**38**	**0**	**38**

Other notes

[17] Notes to the consolidated statement of cash flows

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

Cash inflows and outflows from operating activities are derived indirectly, starting from the result after tax. Therefore, all non-cash expenses and income, mainly the result from investments accounted for at equity are eliminated from the result after tax and adjusted for changes in other operating assets and liabilities. Cash inflows from dividends are also a component of the cash inflows from operating activities. The year-on-year increase in non-cash income is primarily attributable to the reversal of provisions for other taxes.

Cash outflows from investing activities during the reporting and prior-year period primarily relate to cash paid for the acquisition of ordinary shares in Volkswagen AG.

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

The financial liabilities from financing activities developed as follows:

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

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

[1] The increase in financial liabilities from 31 December 2018 to 1 January 2019 is attributable to the first-time application of IFRS 16.

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

The statement of cash flows contains €6 million in total (€7 million) for the total cash outflows from leases.

[18] Segment reporting

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

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

Reporting segments 2019:

€ million	PSE	ITS	Total segments	Reconciliation	**Group 31/12/2019**
Revenue from external third parties	1	116	116	0	116
Amortization and depreciation	–1	–21	–21		–21
Result from investments accounted for at equity	4,405	1	4,406		4,406
Segment result (operating result)	4,400	–7	4,393		4,393
Finance costs	–3	–1	–4		–4
Other financial result	28	0	28		28
Result before tax	4,425	–8	4,416		4,416
Income taxes	–11	2	–9		–9
Result after tax	4,414	–6	4,408		4,408
Non-cash expenses (–) and income (+)	4.457	7	4.464		4.464
Segment assets	35.556	349	35.904	-312	35.592
thereof from investments accounted for at equity	34.596	1	34.597		34.597
thereof additions to non-current assets[1]	2	38	39		39
Segment liabilities	185	124	309	0	308

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

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	3,641[3,4]		3,641		3,641
Segment result (operating result)	3,597[4]	– 79	3,517		3,517
Finance costs	– 3	0	– 3		– 3
Other financial result	0	0	0		0
Result before tax	3,594	– 80	3,514		3,514
Income taxes	– 25[4]	2	– 24		– 24
Result after tax	3,568	– 78	3,491		3,491
Non-cash expenses (–) and income (+)	3.648[4]	-67	3.581		3.581
Segment assets	33.695[4]	325	34.020	-312	33.708
thereof from investments accounted for at equity	32.518[4]		32.518		32.518
thereof additions to non-current assets[1]	0	4	4		4
Segment liabilities	201[4]	92	293	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.
[4] Prior-year figures were adjusted due to the change in a purchase price allocation (see note [5]).

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

By region 2019:

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

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

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]	32,779[2]	2	0	0	0	32,781

[1] With the exception of financial instruments, deferred tax assets, post-employment benefits and rights from insurance contracts.
[2] The prior-year figure was adjusted due to the change in a purchase price allocation (see note [5]).

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

[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 technology start-ups, 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.

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

At the Porsche SE Group, the expected credit loss model under IFRS 9 is generally applied consistently to all financial assets and other risk exposure. In particular, all financial assets measured at amortized cost are subject to the general approach provided there is no objective evidence of impairment upon initial recognition. The general approach divides the financial assets into three risk provisioning levels. Level 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 12 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 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 €478 million (€767 million).

Financial assets measured at amortized cost at the Porsche SE 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	**2019**	2018
As of 1 January	3	1
Additions	1	2
Utilization	–1	0
Reversal	–1	0
Exchange differences	0	0
As of 31 December	**2**	**3**

3 Liquidity risk

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

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

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

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

Furthermore, derivatives recognized under other current financial assets result in additional cash outflows of €4 million (€27 million) in the year after.

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

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

4 Market risk

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

4.1 Interest rate and stock price risks

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

Effects of the interest rate and stock price risk on the result or on equity result in particular from bonds, 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 residual risk budget.

The interest risk and stock price risk are measured by means of value at risk on the basis of a historical simulation in order to present market risks for these financial instruments. The value-at-risk calculation yields the magnitude of a possible loss of the entire portfolio that will not be exceeded over a period of ten days with a probability of 99%. As a rule, the historical market data used in the value-at-risk calculation cover the 250 most recent trade days. As of the reporting date, the total value at risk for these financial instruments came to €1 million (€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 pre-tax result 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

At the level 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 currency items 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 fair value of the financial instruments:

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

€ million	31/12/2018				
	Measured at fair value through profit or loss	Measured at amortized cost		Not assigned to any measurement category	Balance sheet item
	Carrying amount	Carrying amount	Fair value	Carrying amount	
Non-current assets					
Investments accounted for at equity	n/a	n/a	n/a	32,518[1]	32,518[1]
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

[1] The prior-year figure was adjusted due to the change in a purchase price allocation (see note [5]).

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

€ million	31/12/2018	Level 1	Level 2	Level 3
Financial instruments at fair value				
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	

In the fiscal year 2019, a transfer from level 2 to level 1 of €2 million (€16 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 €9 million (€7 million).

Other non-current financial assets contain investments in technology start-ups. The fair value of these assets is based on information derived from recently performed financing measures.

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 table below shows a reconciliation of the fair value of the non-current financial assets allocated to level 3 from 1 January 2019 to 31 December 2019:

€ million	**2019**
Fair value as of 1 January 2019	9
Profit recognized in profit or loss	8
Acquisitions	10
Repayments	0
Fair value as of 31 December 2019	**27**

The gains from measurement at fair value of €8 million (€0 million) recognized through profit or loss were recognized in the other financial result.

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

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

€ 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 assets measured at fair value through profit or loss primarily result from the remeasurement of investments already held in technology start-ups. Furthermore, the assets and liabilities measured at fair value comprise the earnings from 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 €1 million (€2 million) as well as offsetting interest income and insignificant effects from currency translation.

Net gains or losses from “financial liabilities measured 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	**31/12/2019**	31.12.2018
Interest rate derivatives with positive carrying amount	19	105
Other derivatives with positive carrying amount	12	7
Interest rate derivatives with negative carrying amount	7	56
Other derivatives with negative carrying amount	11	7
	49	**174**

[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 2019 is presented below. For all proceedings, provisions had so far been recognized exclusively for the expected attorneys’ fees and litigation expenses but not for the underlying matters in dispute as the litigants’ prospect of success is below 50%. Due to the complexity of the underlying matters and legal issues, the financial impact presented below is done so in the amount of the claims for damages asserted.

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

A model case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE initiated by an order of reference of the Regional Court of Hanover dated 13 April 2016 is pending with the Higher Regional Court of Celle. Subject of those actions are alleged damage claims based on alleged market manipulation and alleged inaccurate information in connection with Porsche SE’s expansion of the shareholding in Volkswagen AG. In part these claims are also based on alleged violations of antitrust regulations. In the six initial proceedings suspended with reference to the model case a total of 40 plaintiffs assert alleged claims for damages of about €5.4 billion (plus interest). Since the beginning of the model case several hearings have already been held before the Higher Regional Court of Celle, in which the court, inter alia, explained its preliminary view on the state of affairs and of the dispute. The next dates for hearings are scheduled beginning in April 2020. Porsche SE is of the opinion that the claims asserted in the suspended initial proceedings are without merit and that the requested establishment objectives in the model case will be rejected. Porsche SE considers its opinion endorsed by the previous development of the oral hearing before the Higher Regional Court of Celle.

In the proceeding pending before the Regional Court of Frankfurt against an incumbent and a former member of the supervisory board of Porsche SE, Porsche SE joined as intervener in support of the defendants. The former member of the supervisory board has passed away in the meantime, which is of no immediate effect for the proceeding. Other than this, there were no new developments during the reporting period. In this proceeding the same alleged claims are asserted that are already subject of a currently suspended action concerning alleged damages of about €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover. Porsche SE considers these claims to be without merit.

Since 2012 Porsche SE and two companies of an investment fund have been in dispute over the existence of alleged claims in the amount of about US$195 million and have filed lawsuits in Germany and England respectively. On 6 March 2013, the English proceedings were suspended at the request of both parties until a final decision had been reached in the proceedings commenced in the Regional Court of Stuttgart concerning the question of which court is the court first seized. A final decision on this issue continues to be outstanding. Currently, the proceeding is pending before the Higher Regional Court of Stuttgart. In both April and October 2019 the Higher Regional Court of Stuttgart rejected a motion for recusal filed by the defendant companies of the investment fund. On 24 January 2020, a further motion for recusal against the expert witness was filed, on which a decision is yet to be made Porsche SE considers the action filed in England to be inadmissible and the asserted claims to be without merit.

Legal proceedings and legal risks in connection with the diesel issue

In connection with the diesel issue (see the description in the combined management report for the fiscal year 2019 in the section “Diesel issue” in the section “Significant events and developments at the Volkswagen Group”), legal proceedings with a total volume of approximately €1.1 billion (plus interest) are pending against Porsche SE before the Regional Court of Stuttgart, the Higher Regional Court of Stuttgart and the Regional Court of Braunschweig. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information respectively alleged incorrect capital market information in connection with the diesel issue. Some of these proceedings are directed against both Porsche SE and Volkswagen AG. In one proceeding, in addition to Porsche SE, Robert Bosch GmbH was made defendant. Porsche SE considers the actions to be inadmissible in part, but in any case to be without merit.

The following significant developments occurred during the reporting period:

Before the Regional Court of Stuttgart 200 actions are currently pending at first instance. After withdrawal of one action by one plaintiff in the amount of around €11 million in February 2020, the actions concern payment of damages, if quantified, in the total amount of approximately €916.6 million (plus interest) and in part establishment of liability for damages. In the majority of the proceedings pending before the Regional Court of Stuttgart, motions for recusal by the plaintiff side are pending. To the extent that decisions have been made so far on these motions for recusal, they have been dismissed. 30 claims for damages against Porsche SE, with a claim volume (according to the current assessment of the partially unclear head of claims) of approximately €9 million (plus interest), are pending before the Regional Court of Braunschweig. A number of the proceedings pending before the Regional Court of Stuttgart and the Regional Court of Braunschweig are currently suspended with reference to the KapMuG proceedings pending before the Higher Regional Court of Stuttgart and the Higher Regional Court of Braunschweig. Porsche SE considers the actions filed against it before the Regional Court of Stuttgart to be without merit. The actions filed against Porsche SE before the Regional Court of Braunschweig are considered by Porsche SE to be inadmissible and to be without merit.

In addition, two further proceedings, in which a total of further approximately €164 million (plus interest) in damages were claimed, are pending before the Higher Regional Court of Stuttgart on appeal. The Regional Court of Stuttgart granted these actions in the amount of approximately €47 million (plus interest) and otherwise dismissed the actions on 24 October 2018. Porsche SE and the respective plaintiffs filed appeals. On 12 September 2019, an oral hearing was held before the Higher Regional Court of Stuttgart. By orders rendered on 29 October 2019, the Higher Regional Court of Stuttgart suspended the appeal proceedings with reference to the KapMuG proceedings pending before the Higher Regional Court of Stuttgart and the Higher Regional Court of Braunschweig. The orders to suspend the proceedings by the Higher Regional Court of Stuttgart were appealed by the respective plaintiffs on points of law. Porsche SE considers these actions filed against it before the Regional Court of Stuttgart to be without merit.

A KapMuG proceeding, initiated by order for reference of the Regional Court of Stuttgart of 28 February 2017, is pending before the Higher Regional Court of Stuttgart. Following a hearing on 6 February 2019, the Higher Regional Court of Stuttgart decided by court order dated 27 March 2019 that the model case proceeding is inadmissible. The appeal on points of law to the Federal Court of Justice was permitted and filed by some plaintiffs of the suspended initial proceedings.

Following corresponding orders to suspend the proceedings by the Regional Court of Braunschweig and the courts of Stuttgart, Porsche SE became a further model case defendant in the model case proceedings before the Higher Regional Court of Braunschweig. Several oral hearings have taken place before the Higher Regional Court of Braunschweig. The next oral hearing is set to take place on 20 April 2020. By order of 23 October 2018, the Higher Regional Court of Braunschweig dismissed applications of joined parties for the extension of the model case before the Higher Regional Court of Braunschweig to include establishment objectives relating exclusively to alleged claims against Porsche SE. The appeal on points of law to the Federal Court of Justice was permitted and has been filed by joined parties. By order of 1 October 2019, the Federal Court of Justice dismissed the appeal on points of law filed by the joined parties. On 12 August 2019, the Higher Regional Court of Braunschweig issued a partial model case ruling regarding questions of jurisdiction. This decision was appealed to the Federal Court of Justice by joined parties on points of law.

One person, who originally asserted alleged claims for damages regarding the diesel issue against Porsche SE by means of a conciliatory proceeding, brought an action against Porsche SE in the reporting period. Apart from that, no significant new developments have occurred with regard to claims asserted out of court and not yet brought to court against Porsche SE with a total amount of approximately €63 million and in some case without defined amounts during the reporting period.

Also with regard to the waiver of the statute of limitations defense granted by Porsche SE to the United States of America in December 2018 concerning alleged claims for damages in respect of the alleged acquisition of a total of 40,992 Porsche SE preference shares, there were no new developments in the reporting period.

With respect to the investigation proceedings on suspicion of market manipulation in connection with the diesel issue against Prof. Dr. Martin Winterkorn, Hans Dieter Pötsch and Matthias Müller, which were initiated in 2016, there were likewise no significant new developments in the reporting period. The investigation proceedings are not directed against Porsche SE. Porsche SE considers the allegation made to be without merit.

Shareholder proceedings

In the shareholder proceedings, the Regional Court of Stuttgart had granted the 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 appeal filed by Porsche SE against this decision was dismissed by the Higher Regional Court of Stuttgart on 18 November 2019 and further appeal on points of law has not been allowed. Porsche SE filed a complaint against the refusal of leave to appeal on points of law on 20 December 2019. Porsche SE still considers the action to be without merit.

In addition, the Regional Court of Stuttgart had granted a motion for disclosure of information of the same shareholder regarding questions allegedly asked and allegedly answered insufficiently at the annual general meeting on 29 June 2016 with respect to five questions and dismissed it regarding the remaining 49 questions by decision dated 5 December 2017. The appeal filed by Porsche SE against this decision was dismissed by the Higher Regional Court of Stuttgart on 18 November 2019. The decision is final and binding. Porsche SE provided the shareholder with supplementary information on the five questions that were the subject of the proceedings.

In November 2018, a shareholder initiated a so-called status proceeding at the Regional Court of Stuttgart in accordance with Sec. 98 German Stock Corporation Act (AktG) and applied for a court ruling that, differing from its current composition, the supervisory board of Porsche SE should be composed equally of shareholder representatives and employee representatives. By court order dated 27 January 2020, the Higher Regional Court of Stuttgart dismissed procedural requests by Porsche SE by way of interim decisions. Porsche SE has filed an appeal against these decisions. A decision on the substance of the proceeding has not been rendered yet. Porsche SE is of the opinion that the supervisory board is duly composed and considers the motion to be without merit.

Apart from this, no significant changes occurred during the reporting period. In particular, Porsche SE continues not to have reliable findings or assessments that would lead to a different evaluation of the legal risks.

[21] Contingent assets

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

[22] Related parties

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

The disclosure requirements under IAS 24 also extend to persons who have the power to exercise significant influence over the entity, i.e., who have the power to participate in the financial and operating policies of the entity, but do not control it. In fiscal year 2019 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.

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

	Supplies and services rendered and other income		Supplies and services received and other expenses	
€ million	**2019**	2018	**2019**	2018
Porsche and Piëch families		0		
Associates	758	608	7	4
	758	**608**	**7**	**4**

	Receivables		Liabilities	
€ million	**31/12/2019**	31/12/2018	**31/12/2019**	31/12/2018
Porsche and Piëch families		0		
Associates	0	1	12	13
	0	**1**	**12**	**13**

As in the prior year, service transactions were primarily with the Volkswagen Group in the reporting year. In addition to dividends received from Volkswagen AG totaling €753 million (€601 million), supplies and services rendered and other income primarily include income from selling shares in PTV Truckparking B.V. to Volkswagen Financial Services GmbH and income from the software and consulting sector. Supplies and services received and other expenses in the reporting period mainly consisted of services and the provision of vehicles. Liabilities mainly comprise obligations in connection with the contribution of the holding business operations of Porsche SE to Volkswagen AG in the fiscal year 2012 (hereinafter also referred to as “contribution” or “business contribution”).

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

Volkswagen AG has agreed to hold Porsche SE harmless for internal purposes from any claims of the 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 “Contingent assets”).

Within the scope of the basic agreement, Porsche SE and Volkswagen AG had granted each other put and call options relating to the 50.1% share in Porsche Holding Stuttgart GmbH remaining at Porsche SE prior to the contribution of its holding business operations to Volkswagen AG. Both Volkswagen AG (in the event that it exercises its call options) as well as Porsche SE (in the event that it exercises its put options) had both agreed to bear any tax expenses arising from exercising the options and from any downstream measures with respect to the investments in Porsche Holding Stuttgart GmbH (e.g., from back taxes on the 2007 and/or 2009 spin-off). If Volkswagen AG, Porsche Holding Stuttgart GmbH, Porsche AG or their respective subsidiaries had enjoyed tax benefits as a result of subsequent taxation of the 2007 and/or 2009 spin-off, the purchase price payable by Volkswagen AG for the transfer of the remaining 50.1% share in Porsche Holding Stuttgart GmbH would have increased by the present value of the tax benefits if Porsche SE had exercised its put options. This rule was taken over in the course of the contribution agreement to the extent that Porsche SE has a payment claim against Volkswagen AG equivalent to the present value of the recoverable tax benefits as a result of back tax payments on the 2007 spin-off owing to the contribution. In connection with the contribution it was also agreed that Porsche SE would release Volkswagen AG, Porsche Holding Stuttgart GmbH and its subsidiaries from any tax liability with respect to subsequent taxation in 2012 resulting from 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.
- In addition, Porsche SE holds Volkswagen AG harmless from half of the amount of the tax (with the exception of income tax) of Porsche Holding Stuttgart GmbH, Porsche AG and their subsidiaries arising at their respective levels in connection with the contribution and that would not have been incurred had the call options been exercised for the shares in Porsche Holding Stuttgart GmbH remaining at Porsche SE prior to the contribution. Accordingly, Volkswagen AG holds Porsche SE harmless for half the amount of such tax incurred there. In

addition, Porsche Holding Stuttgart GmbH will be held harmless for half of the amount of the real estate transfer tax and other costs triggered as a result of the merger.
- It was also agreed to allocate based on causation any subsequent VAT receivables and/or VAT liabilities from transactions up to 31 December 2009 between Porsche SE and Porsche AG.
- Various information, conduct and cooperation duties were agreed in the contribution agreement between Porsche SE and the Volkswagen Group.

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

€ million	**2019**	2018
Short-term employee benefits	4	6
Post-employment benefits	1	1
Other long-term benefits	0	0
Termination benefits	n/a	1
	5	**8**

Post-employment benefits contain additions to the pension provisions. Other long-term benefits concern the addition to provisions for the long-term component of the variable incentive of the members of the executive board of Porsche SE. In the prior year, termination benefits included 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 €9 million (€7 million).

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

The total remuneration of members of Porsche SE's executive board amounted to €3 million in the fiscal year 2019 (€5 million).

Remuneration for a former executive board member amounted to €0 million (€1 million). The provision for post-employment benefits recognized for this former member amounted to €1 million (€1 million) as of the reporting date.

The total remuneration of the supervisory board for fiscal year 2019 amounts to €1 million (€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.

[24] 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	**2019**	2018
Audit of financial statements services	846	591
Other assurance services	8	72
Tax advisory services	231	409
Other services	125	108
	1,210	**1,180**

Other assurance services relate to a valuation certificate at the level of a subsidiary. Tax advisory services primarily relate to advisory services in connection with tax field audits. Other services contain fees for translation services as well as services in connection with tax compliance management systems.

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

[25] Declaration on the German Corporate Governance Code

The executive board and supervisory board of Porsche SE submitted the annual declaration of compliance in accordance with Sec. 161 AktG in May 2019 and made it permanently accessible to shareholders on the company's website at www.porsche-se.com/en/company/corporate-governance/. In December 2019, the executive board and supervisory board also changed the schedule of declarations following suggestions of the Code Commission and submitted another annual declaration of compliance in accordance with Sec. 161 AktG. This can also be accessed on the company's website.

[26] Subsequent events

On 30 January 2020, TRATON SE, a subsidiary of Volkswagen AG, submitted an offer for the complete acquisition of all outstanding ordinary shares of Navistar International Corporation not yet owned by TRATON SE for a price of US$35.00 per share in cash. This corresponds to an offer price of around €2.6 billion. As of 31 December 2019, TRATON SE held 16.8% of the outstanding ordinary shares of Navistar.

At the level of the Volkswagen Group, ongoing restrictions stemming from the coronavirus may have a negative impact on its results of operations, financial position and net assets in 2020.

On 28 February 2020, Volkswagen AG and the vzbv reached an out-of-court that brought the model declaratory judgment to a close. According to this, Volkswagen AG will offer individual settlements to consumers who have registered claims under the action for model declaratory judgment and who meet the settlement criteria. The volume of such settlements amounts to approximately €830 million. The vzbv will withdraw the model declaratory judgment.

It is not possible to estimate the effects on the results of operations, financial position and net assets. All effects on the results of operations and net assets at the level of the Volkswagen Group impact the Porsche SE Group in an amount proportionate to Porsche SE’s share in capital of Volkswagen AG.

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, 11 March 2020

Porsche Automobil Holding SE
The executive board

Hans Dieter Pötsch   Dr. Manfred Döss   Philipp von Hagen

Independent auditor's report

On completion of our audit, we issued the following unqualified auditor's report dated 12 March 2020. 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 to 31 December 2019, the consolidated balance sheet as of 31 December 2019, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2019, 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 to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance, which is published on the internet page referred to in the combined management report and incorporated in the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB 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 2019, and of its financial performance for the fiscal year from 1 January to 31 December 2019, 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. Our opinion on the combined management report does not cover the content of the statement on corporate governance referred to above.

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” as well as “Accounting policies” in the notes to the financial statements, 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 in particular the risk that due to the diesel issue the company will in the future 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. 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 2019 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 2019. 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 obtained 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 "[9] Investments accounted for at equity" and in the combined 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. In all other respects, the executive directors are responsible for other information. Other information comprises the above mentioned statement on corporate governance as well as the following components designated for the annual report, of which we received a version prior to issuing this auditor’s report except for the non-financial group report which has to be published on the company’s website by 30 April 2020 at the latest, in particular:

- 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 section “Porsche SE share”,
- the non-financial group report.

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 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 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 27 June 2019 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 28 June 2019. 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, 12 March 2020

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, 11 March 2020

Porsche Automobil Holding SE
The executive board

Hans Dieter Pötsch   Dr. Manfred Döss   Philipp von Hagen

Imprint

Editor
Porsche Automobil Holding SE, Stuttgart

Photography
Jim Rakete, Berlin

Dr. Ing. h.c. F. Porsche AG, Stuttgart
Volkswagen AG, Wolfsburg
AUDI AG, Ingolstadt
SEAT S.A., Martorell, Spain
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Ducati Motor Holding S.p.A, Bologna, Italy
Gustav Lindh, Dan Boman/Scania AB,
Södertälje, Sweden
MAN Truck & Bus AG, München

Creative conception
Simone Leonhardt, Frankfurt am Main

Total production
IThaus Münster GmbH & Co. KG, Kornwestheim

Inhouse produced with FIRE.sys

This annual report is available in German and English.
In case of doubt the German version is binding.

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Financial calendar

12 May 2020
Group quarterly statement 1st Quarter 2020

19 May 2020
Annual general meeting in Stuttgart

10 August 2020
Half-yearly financial report 2020

10 November 2020
Group quarterly statement 3rd Quarter 2020

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