PORSCHE SE

Group quarterly statement

3rd Quarter 2018

3rd Quarter

2018

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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 30 September 2018, the Porsche SE Group had 863 employees (31 December 2017: 823 employees).

Porsche SE is a holding company. In particular, it holds the majority of the ordinary shares in Volkswagen Aktiengesellschaft, Wolfsburg ("Volkswagen AG" or "Volkswagen"), one of the leading automobile manufacturers in the world. The Volkswagen Group comprises twelve brands from seven European countries: Volkswagen passenger cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen commercial vehicles, Scania and MAN. Furthermore, an entity of the Porsche SE Group acquired PTV Planung Transport Verkehr AG ("PTV AG"), Karlsruhe, in the past fiscal year. An additional entity of the Porsche SE Group holds shares in 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.

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.

In addition to established medium-sized enterprises, Porsche SE has also recently expanded its investment focus to young companies from the start-up phase. In this context, since fall 2017 an entity of the Porsche SE Group has acquired a total of three venture capital investments, each in the single-digit percentage range. The combined investment amounted to a single-digit million-euro figure.

This group quarterly statement by Porsche SE relates to the development of business and its effects on the results of operations, financial position and net assets in the first nine months of the fiscal year 2018, and contains information on the period from 1 January to 19 November 2018.

All figures shown in this group quarterly statement are rounded, 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.

Content

Significant events and developments at the Porsche SE Group

Significant events and developments at the Porsche SE Group are presented in the following. The explanations refer to events and developments in the third quarter of the fiscal year 2018, unless reference is made in this section to another time period.

Diesel issue at the level of the Volkswagen Group

On 18 September 2015, the US Environmental Protection Agency (EPA) publicly announced in a notice of violation that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the USA. This led to authorities in their respective jurisdictions worldwide commencing their own investigations ("diesel issue").

In the period from January to September 2018, the Volkswagen Group's operating result was influenced by negative special items in connection with the diesel issue of minus €2.4 billion. The main reasons for the expenses are the €1.8 billion penalties imposed by the Braunschweig public prosecutor's office and the Munich II public prosecutor's office in connection with the diesel issue as well as higher legal defense costs.

As the majority shareholder, Porsche SE continues to be affected by this issue, in particular with regard to its result from investments accounted for at equity. Furthermore, the proportionate market capitalization of its investment in Volkswagen AG is influenced by the resulting development of the prices of the Volkswagen ordinary and preference shares. As of 30 September 2018, there was no need to recognize an impairment loss on the basis of the earnings forecasts for the investment accounted for at equity in Volkswagen AG. However, particularly a further increase in the costs of mitigating the diesel issue might continue to lead to an impairment in the value of the investment. Finally, there may still be subsequent effects on the dividend policy of Volkswagen AG and therefore on the cash inflows at the level of Porsche SE. Legal risks from claims brought against Porsche SE stemming from this issue may also have an effect on the results of operations, financial position and net assets of the Porsche SE Group. For details of this matter, please refer to the explanations of the significant events and developments at the Volkswagen Group, the explanations of the results of operations, financial position and net assets, the report on opportunities and risks of the Volkswagen Group and the "Forecast report and outlook" section in the combined management report in the annual report of Porsche SE for the fiscal year 2017. The executive board of Porsche SE remains committed to the company's role as Volkswagen AG's long-term anchor shareholder and is still convinced of the Volkswagen Group's potential for increasing value added.

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

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

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

A model case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE is pending with the Higher Regional Court of Celle. Subject of those actions are alleged damage claims based on alleged market manipulation and alleged inaccurate information in connection with Porsche SE's acquisition of the shareholding in Volkswagen AG. In part these claims are also based on alleged violations of antitrust regulations. The model case has been initiated by an order of reference of the Regional Court of Hanover dated 13 April 2016 that followed applications for establishment of a model case by the plaintiffs of four out of six proceedings pending before the Regional Court of Hanover. On 11 May 2016 the Regional Court of Hanover suspended all six proceedings pending before it against Porsche SE up until a final decision about the establishment objectives determined by it in the model case before the Higher Regional Court of Celle. The suspended proceedings concern six legal actions of a total of 40 plaintiffs asserting alleged claims for damages of about €5.4 billion (plus interest). By decision dated 12 January 2017, the Higher Regional Court of Celle extended the KapMuG-based order of reference by additional establishment objectives. The first trial date took place on 12 October 2017. At this date the Higher Regional Court of Celle signalized that it intends to add further establishment objectives and explained its preliminary view on the state of affairs and of the dispute. Due to several motions to recuse the judges that have been dismissed in the meantime the Higher Regional Court of Celle had cancelled the trial dates scheduled for 2017. Further motions to recuse the judges were filed, which were all rejected. By order of 11 September 2018 the Higher Regional Court of Celle added three further establishment objectives to the KapMuG-based order of reference and revised several establishment objectives. An additional hearing before the Higher Regional Court of Celle was held on 30 October 2018, this hearing primarily dealt with further motions and submissions made by the plaintiffs. Porsche SE is of the opinion that the claims asserted in the suspended initial proceedings are without merit and that the establishment objectives that are subject of the model case will be rejected. Porsche SE considers its opinion endorsed by the previous course of the oral hearing before the Higher Regional Court of Celle.

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

Based on the same alleged claims that are already subject of a momentarily suspended action concerning alleged damages of around €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover, the same plaintiffs filed an action against two members (one of whom is no longer in office) of the supervisory board of Porsche SE before the Regional Court of Frankfurt am Main in September 2013. Porsche SE joined the proceeding as intervener in support of the two supervisory board members. A trial date for hearing the case took place on 30 April 2015. By interim judgment dated 21 May 2015, the court assigned six of the seven plaintiffs to provide a security for costs for the legal procedures. Porsche SE considers these claims to be without merit.

On 7 June 2012, Porsche SE filed an action against two companies of an investment fund for declaratory judgment with the Regional Court of Stuttgart that alleged claims in the amount of around US$195 million do not exist. The investment fund had asserted out-of-court that Porsche SE had made false and misleading statements in connection with its acquisition of a stake in Volkswagen AG during 2008. Therefore the investment fund announced that it intended to file the alleged claim before a court in England. On 18 June 2012, the investment fund filed an action against Porsche SE with the Commercial Court in England. On 6 March 2013, the English proceedings were suspended at the request of both parties until a final decision had been reached in the proceedings begun at the Regional Court of Stuttgart concerning the question of which court is the court first seized. On 24 July 2013, the Regional Court of Stuttgart decided that the Regional Court of Stuttgart is the court first seized. This decision of the Regional Court of Stuttgart was appealed by way of an immediate appeal by one of the defendants. By decision dated 28 November 2013, the Regional Court of Stuttgart did not allow the appeal and submitted the appeal to the Higher Regional Court of Stuttgart for a decision. By decision dated 30 January 2015, the Higher Regional Court of Stuttgart dismissed the immediate appeal. The defendant filed an appeal on points of law to the Federal Court of Justice. By decision dated 13 September 2016 the Federal Court of Justice annulled the Higher Regional Court of Stuttgart's decision of 30 January 2015 and referred the case back to the Higher Regional Court of Stuttgart for reconsideration. By brief of 5 September 2018 the defendant filed a motion to recuse judges about which a decision has not yet been made. Porsche SE considers the action filed in England to be inadmissible and the asserted claims to be without merit.

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

Legal proceedings and legal risks in connection with the diesel issue

In connection with the diesel issue (for a description see the combined management report for the fiscal year 2017 in the section “Diesel issue” in the section “Significant events and developments at the Volkswagen Group”) the following claims in connection with the acquisition of preference shares of Porsche SE or derivatives relating thereto and, in one matter, also regarding shares of Volkswagen AG have been asserted against Porsche SE:

Since April 2016 a total of 190 proceedings against Porsche SE have been initiated before or have been transferred to the Regional Court of Stuttgart. One action was withdrawn in November 2017. In addition, several plaintiffs of one matter have withdrawn their actions of about €70 million. The pending actions concern damages in an amount totaling, if and to the extent the claims were quantified, about €865 million (plus interest) and in part establishment of liability for damages. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information respectively alleged incorrect capital market information in connection with the diesel issue. A part of these proceedings is directed against both Porsche SE and Volkswagen AG. One action of about €11,500 is directed against both Porsche SE and Robert Bosch GmbH. In one part of the actions Volkswagen AG filed motions to recuse judges. The Regional Court of Stuttgart dismissed Volkswagen AG’s motions to recuse judges in some cases and has not yet made a decision in all remaining cases. Volkswagen AG has appealed these dismissals. Motions to recuse judges filed by a part of the plaintiffs were rejected. A part of the plaintiffs filed applications for establishment of a model case according to the KapMuG. As a precautionary measure, in case the Regional Court of Stuttgart does not dismiss actions right away, Porsche SE has applied in a total of ten proceedings for the issuance of a KapMuG-based order of reference containing six further specified establishment objectives. The Regional Court of Stuttgart decided on 28 February 2017 with respect to the aforementioned KapMuG motions to refer to the Higher Regional Court of Stuttgart nine of the establishment objectives asserted by the plaintiffs and the aforementioned six establishment objectives asserted by Porsche SE as a precautionary measure. By indicative court order dated 5 July 2018, the Higher Regional Court of Stuttgart expressed doubts as to the admissibility of the initiation of model case proceedings by the order of reference dated 28 February 2017. In addition, on 6 December 2017 the Regional Court of Stuttgart in proceedings against Volkswagen AG adopted a KapMuG-based order of reference concerning questions of local jurisdiction regarding investor lawsuits in connection with the diesel issue.

A part of the plaintiffs has filed motions for suspension of the proceedings with reference to this order of reference. A part of the plaintiffs has filed motions for suspension of the proceedings with reference to a KapMuG-based order of reference by the Regional Court of Braunschweig regarding proceedings for damages against Volkswagen AG in connection with the diesel issue. It is currently unclear if and to what extent the actions pending before the Regional Court of Stuttgart will be or will remain suspended with reference to the order of reference issued by the Regional Court of Braunschweig or with reference to the orders of reference issued by the Regional Court of Stuttgart. Currently 128 actions have been suspended in whole or partially with reference to the order of reference of 28 February 2017. A part of the proceedings has been suspended by the Regional Court of Stuttgart with reference to the order of reference of the Regional Court of Stuttgart of 6 December 2017 relating to questions of local jurisdiction, as well as to the order of reference of the Regional Court of Braunschweig. On 12 September 2018, the Regional Court of Stuttgart held hearings in three proceedings. In two proceedings, in which a total of approximately €164 million in damages were claimed, the Regional Court of Stuttgart granted the actions in the amount of approximately €47 million on 24 October 2018. In the third proceeding with a value in dispute of approximately €68,000, the Regional Court of Stuttgart issued an advisory order on 24 October 2018, in which the Regional Court of Stuttgart announced a further clarification of the facts and requested Porsche SE to submit further facts and evidence. Porsche SE has appealed against the decisions of the Regional Court of Stuttgart rendered on 24 October 2018. Porsche SE considers these claims to be without merit.

Since September 2016 seven actions have been filed against Porsche SE before the Regional Court of Braunschweig. Four of those are still pending before the Regional Court of Braunschweig. In each of these cases Porsche SE is jointly sued with Volkswagen AG. The actions are based on alleged claims for damages because of alleged nonfeasance of capital market information or alleged incorrect capital market information. The actions aim for claims for damages against Porsche SE in the amount of currently about €17,000. By orders of 21 February, 8 March and 20 August 2018 the Regional Court of Braunschweig suspended three of the proceedings pending before it with respect to Porsche SE and Volkswagen AG with reference to the KapMuG-based order of reference issued by the Regional Court of Braunschweig as well as the order of reference of the Regional Court of Stuttgart of 6 December 2017 concerning questions of local jurisdiction. Thus, Porsche SE is, in addition to Volkswagen AG, model case defendant in the model case proceedings before the Higher Regional Court of Braunschweig and the model case proceedings before the Higher Regional Court of Stuttgart concerning questions of local jurisdiction which were initiated by the order of reference dated 6 December 2017. On 10, 11 and 17 September 2018 the first trial dates took place before the Higher Regional Court of Braunschweig. By order of 23 October 2018, the Higher Regional Court of Braunschweig dismissed applications by the joined parties for the extension of the model case to include establishment objectives which relate exclusively to alleged claims against Porsche SE. The appeal on points of law was granted. The Higher Regional Court of Braunschweig scheduled dates for the continuation of the hearing starting on 26 November 2018. A decision regarding the suspension of the remaining proceeding pending before the Regional Court of Braunschweig is still outstanding. Porsche SE considers these claims to be inadmissible and to be without merit.

10 court orders for payment have been obtained against Porsche SE concerning alleged claims for damages in connection with the diesel issue in an amount of about €3.7 million (plus interest). Porsche SE considers these claims to be without merit and has filed complaints against those court orders. Meanwhile four of the claimants have asserted alleged claims for damages against Porsche SE of about €3.6 million (plus interest) in court.

Since October 2015, 54 persons have made out-of-court claims or initiated conciliatory proceedings against Porsche SE in connection with the diesel issue but have not yet filed lawsuits concerning those alleged claims. In part, the alleged claims have not yet been quantified. As far as the alleged claims have been quantified by the plaintiffs, the damage claims amount to a total of around €37 million (without interest). The plaintiffs demand damages caused by alleged inaccurate capital market information or the omission of such information by Porsche SE. Porsche SE considers the claims to be without merit and has rejected them.

Since August 2018, 17 plaintiffs have registered alleged claims for damages against Porsche SE in connection with the diesel issue in an amount of about €423,000 before the Higher Regional Court of Braunschweig within the model case proceeding.

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

Proceedings regarding shareholders' actions
A shareholder has filed an action of nullity and for annulment regarding the resolutions of the annual general meeting on 27 May 2014 as well as a

precautionary action for determination that a shareholders' resolution has been adopted before the Regional Court of Stuttgart. Subject of the action are the shareholders' resolutions on the exoneration of the executive board and the supervisory board for fiscal year 2013 as well as the resolution to refuse the motion to vote out the chairman of the general meeting. As a precautionary measure, the shareholder additionally filed an action for determination that a shareholders' resolution has been adopted regarding the motion to vote out the chairman of the general meeting. By decision of 28 October 2016 the Regional Court of Stuttgart dismissed the actions. The plaintiff has appealed this decision of the Regional Court of Stuttgart. By order dated 10 September 2018 the Higher Regional Court of Stuttgart indicated that it intends to dismiss the appeal and advised withdrawal of the appeal. On 18 October 2018 the plaintiff withdrew the appeal. The decision of the Regional Court of Stuttgart dated 28 October 2016 has thus become final and binding.

The same shareholder has also filed an action of nullity and for annulment regarding the resolutions of the annual general meeting on 29 June 2016 on the exoneration of the executive board and the supervisory board for fiscal year 2015. By decision dated 19 December 2017 the Regional Court of Stuttgart granted the action. Porsche SE has appealed this decision. Porsche SE considers the action to be without merit.

In addition, the same shareholder claims a right to information against Porsche SE before the Regional Court of Stuttgart. With this motion, the disclosure of questions allegedly asked and allegedly answered insufficiently at the annual general meeting on 29 June 2016 is demanded. By decision dated 5 December 2017 the Regional Court of Stuttgart accepted the motion with respect to five questions and dismissed it regarding the remaining 49 questions. Porsche SE has appealed this decision. Porsche SE considers the motion to be without merit.

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

Significant events and developments at the Volkswagen Group

Significant events and developments at the Volkswagen Group in the third quarter of the fiscal year 2018 are presented below.

Diesel issue

In October 2018, the Munich II public prosecutor's office issued AUDI AG an administrative order in connection with deviations from regulatory specifications for certain V6/V8 diesel engines and diesel cars manufactured or sold by AUDI AG. The administrative order imposes a fine of €800 million in total, comprising of the maximum legal penalty of €5 million for negligent breaches of monitoring obligations in the organizational unit "Emissions Service/Engine Authorization" and a disgorgement of economic benefits in the amount of €795 million. Following thorough examination, the fine has been accepted, has been paid in full by AUDI AG and is therefore legally binding. As a result of the administrative order, the ongoing misdemeanor proceeding against AUDI AG will be settled.

Partnerships

In early July 2018, Volkswagen Group China and SEAT signed a memorandum of understanding with Anhui Jianghuai Automobile Group Corp. Ltd. (JAC). Together, the three parties want to create a new research and development center focusing on electric vehicles and technologies for connectivity and autonomous driving, and to establish their own powerful platform on the market for battery-powered vehicles.

In July 2018, Volkswagen Group China signed memorandums of understanding with long-standing joint venture partner FAW Group, and China Intelligent and Connected Vehicles (Beijing) Research Institute Co. Ltd. on electric mobility, connectivity, mobility services and autonomous driving. The aim is to work with the Chinese partners to systematically drive forward the large-scale electric campaign in China and the use of new technologies.

TRATON AG and Hino Motors intensified their strategic partnership in September 2018, the goal of which is to establish a joint venture for procurement purposes and the pooling of their strengths in the field of electromobility. Hino has operated in the field of electrified vehicles for more than 25 years and has one of the world's largest hybrid commercial vehicle fleets.

September 2018 also marked the announcement of the further expansion of the long-term partnership between TRATON AG and the Chinese-based CNHTC Group (Sinotruk). The goal is to establish a new joint venture for the purpose of developing a heavy truck from MAN for China. Moreover, the cooperation is intended to be evaluated and intensified in the areas of technology and procurement.

In late September 2018, Volkswagen agreed a strategic partnership with Microsoft to jointly develop the Volkswagen Automotive Cloud. The partnership will lay the foundation for combining the global cloud expertise of Microsoft with the experience of Volkswagen as an automaker with a global market presence. With this move, Volkswagen is taking a decisive step in its transformation into a mobility provider with a fully connected vehicle fleet and the digital ecosystem "Volkswagen We". By establishing the Volkswagen Automotive Cloud, Volkswagen wants to extend digital services to include its entire fleet in the future. Long term, the solutions developed are also to be rolled out to other group brands in all regions of the world.

New production sites in China

As part of its localization strategy for China, the Volkswagen Group opened three new FAW-Volkswagen vehicle plants in China by the end of August 2018 in Qingdao, Foshan and Tianjin, as well as the Volkswagen FAW Platform Tianjin Branch component plant. At the Tianjin plant, 300,000 SUV models will roll off the assembly line each year, forming the basis for Volkswagen Group China's SUV campaign. Vehicle and component plants have been combined at a single location in Tianjin in order to take advantage of further synergy effects with the existing transmission plant and improve the efficiency of production. The opening of the second vehicle-manufacturing plant in Foshan with a total capacity of 600,000 vehicles a year plays a seminal role in the Volkswagen Group's "Roadmap E" electrification strategy. The production of vehicles on the Modular Electric Drive Toolkit (MEB) and the MEB battery systems will commence there by 2020. In Qingdao, too, electric vehicles will be built alongside models with combustion engines in future. In addition, the production of battery systems for the MQB platform will take place there. All four new factories considerably improve Volkswagen Group China's flexibility to respond more quickly to customer needs.

Extraordinary notice of termination of the control and profit and loss transfer agreement with MAN SE

On 22 August 2018, TRATON AG (formerly Volkswagen Truck & Bus AG), a wholly owned subsidiary of Volkswagen AG, terminated the control and profit and loss transfer agreement with MAN SE by extraordinary notice with effect from 1 January 2019.

As part of the award proceedings conducted by the Higher Regional Court in Munich regarding the appropriateness of the cash settlement and the right to compensation for the non-controlling interest shareholders of MAN SE, the final decision to raise the cash settlement amount set out in the contract to €90.29 per share and the annual compensation to €5.47 gross per share had already been made. This results in a significant increase of the annual compensation to be paid to non-controlling interest stakeholders of MAN SE. In the opinion of the board of management at TRATON AG, this is no longer proportionate to the profit transfer of MAN SE and other benefits stipulated in the control and profit and loss transfer agreement, therefore TRATON AG has exercised its right to extraordinary termination in accordance with Sec. 304 (4) AktG.

Following the announcement of the termination of the control and profit and loss transfer agreement and the recording thereof in the commercial register in the beginning of 2019, the non-controlling shareholders of MAN SE will, pursuant to provisions of the BGAV, gain the right to tender their shares to TRATON AG at a cash compensation price amounting to €90.29 during and in the two months following.

A total of 17.8 million MAN SE shares were tendered to the Volkswagen Group after the reporting date. A right to compensation amounting to €1.6 billion is attributable to these shares; this will be paid in the fourth quarter. Following the share tendering process, the Volkswagen Group holds 86.9% of the shares in MAN SE.

Business development

The business development of Porsche SE is largely shaped by its investment in Volkswagen AG as well as the development of the actions pending against it. For the business development of Porsche SE, please refer to the sections “Significant events and developments at the Porsche SE Group” and “Explanatory notes on results of operations, financial position and net assets” in this group quarterly statement. 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 continued its robust growth in the first nine months of 2018, though the rate of growth tapered off during this period. While the average expansion rate of gross domestic product (GDP) was up slightly year on year in the advanced economies, it remained steady in the emerging markets. The majority of energy and commodity prices increased compared with the prior-year period with the interest rate level remaining comparatively low. Growing upheaval in trade policy at international level led to substantially increased uncertainty.

As a whole, the economies of Western Europe recorded solid growth from January to September 2018, albeit with a decline in momentum. In the economies of Central Europe, growth rates remained relatively high in the first three quarters of 2018. In Eastern Europe, the higher energy price level compared to the prior-year period boosted economic growth. The pace of growth in the US economy continued to increase in the reporting period, while the situation in South America remained tense. The high growth momentum in the Chinese economy remained virtually unchanged during the reporting period, while India’s growth dynamic decreased on a high level as the year went on. Japan registered weaker GDP growth than in the same period of the prior year.

Trends in the passenger car markets

Global demand for passenger cars increased in the period from January to September 2018 (up 1.2%). It thus exceeded the comparable prior-year figure for the ninth year in a row. In Western Europe, demand for passenger cars in the reporting period was slightly up on the prior-year level due to the positive development in the second quarter. The changeover to the WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) as of 1 September 2018 led to pull-forward effects in the months of July and August and to significant declines in September. On the whole, growth slowed down year on year. While demand in Asia-Pacific also rose only slightly, the Central and Eastern Europe regions and South America recorded high increases. By contrast, sales in North America were down slightly on the prior-year figure.

Trends in the markets for commercial vehicles
Global demand for light commercial vehicles was down slightly on the prior year in the period from January to September 2018. In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was above the prior-year figure between January and September 2018. Demand for buses in the markets that are relevant for the Volkswagen Group was above the prior-year level in the period from January to September 2018. The markets in Brazil as well as in Central and Eastern Europe contributed in particular to this growth.

Employees in the Volkswagen Group
At the end of the first nine months of 2018, the Volkswagen Group had a total of 660,627 employees worldwide, up 2.9% on the number as of 31 December 2017. The main contributors to this were expansion due to the increase in volume, the recruitment of specialists inside and outside Germany and the expansion of the workforce at the new plants in China. There were 292,585 employees in Germany, up 1.8% on year-end 2017. However, the proportion of employees in Germany declined to 44.3% (44.8%).

Sales and production in the Volkswagen Group
In the first nine months of 2018, the Volkswagen Group's unit sales to the dealer organization[1] (including the Chinese joint ventures) rose by 2.7% to 8,123,044 vehicles. This was due especially to higher demand in Central and Eastern Europe, China and Brazil. Unit sales outside Germany increased by 3.3% in the reporting period. In the German market, they fell 2.3% short of the prior-year figure, due to the changeover to the WLTP test procedure which took place in the third quarter. Vehicles sold in Germany as a proportion of overall sales declined to 11.6% (12.2%). Between January and September 2018, the Volkswagen Group's production increased by 1.7% year on year to a total of 8,178,747 vehicles. Production in Germany amounted to 1,714,429 units; the 12.6% decline was mainly WLTP-related. The proportion of vehicles produced in Germany declined to 21.0% (24.4%).

Volkswagen Group deliveries
In the period from January to September 2018, the Volkswagen Group delivered 8,130,250 vehicles to customers worldwide. This was 4.2% or 323,964 units more than in the same period of the prior year.

Global demand for passenger cars from the Volkswagen Group in the reporting period was up 4.1% year on year to 7,592,480 vehicles amid slight growth in the market as a whole. In the regions of Western Europe, Central and Eastern Europe, South America and Asia-Pacific, demand for passenger cars from the Volkswagen Group was significantly higher in some cases than the corresponding prior-year figure. The number of vehicles sold in North America was approximately on a level with the prior year. The

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

Volkswagen Group recorded the highest absolute increase in the Asia-Pacific region. The ŠKODA and SEAT brands in particular developed very encouragingly. Volkswagen passenger cars, Audi, Porsche, Lamborghini and Bugatti also increased their delivery volumes.

In the first nine months of 2018, the Volkswagen Group delivered a total of 537,770 commercial vehicles to customers worldwide (up 5.0%). Trucks accounted for 145,068 units (up 11.6%) and buses for 16,393 units (up 22.1%). Deliveries of light commercial vehicles increased by 2.0% year on year to 376,309 units.

The following table presents the Volkswagen Group's deliveries to customers by region and by brand in the reporting period.

Deliveries of passenger cars and commercial vehicles to customers from 1 January to 30 September[1]

	2018	2017	Change %
Regions			
Europe/Other markets	3,683,916	3,563,004	3.4
North America	713,295	718,733	−0.8
South America	436,455	389,746	12.0
Asia-Pacific	3,296,584	3,134,803	5.2
Worldwide	**8,130,250**	**7,806,286**	**4.2**
by brands			
Volkswagen passenger cars	4,622,846	4,490,902	2.9
Audi	1,407,718	1,380,463	2.0
ŠKODA	939,064	871,082	7.8
SEAT	415,577	354,894	17.1
Bentley	7,107	7,890	−9.9
Lamborghini	3,554	2,930	21.3
Porsche	196,562	185,898	5.7
Bugatti	52	42	23.8
Volkswagen commercial vehicles	371,442	367,884	1.0
Scania	68,639	63,959	7.3
MAN	97,689	80,342	21.6

1 Prior-year deliveries have been updated to reflect subsequent statistical trends. 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.

The financial services division's products and services remained very popular in the period from January to September 2018. The number of new financing, leasing, service and insurance contracts signed worldwide exceeded the prior-year figure at 5.8 million (5.4 million). The ratio of leased or financed vehicles to group deliveries (penetration rate) in the financial services division's markets amounted to 34.0% (33.8%) in the reporting period. On 30 September 2018, the total number of contracts was 19.4 million, up 5.5% compared with 31 December 2017.

Explanatory notes on results of operations, financial position and net assets

In the following explanations, the significant results of operations as well as the financial position and net assets of the Porsche SE Group are presented for the first nine months of the fiscal year 2018 and as of 30 September 2018. While the prior-year figures for the results of operations and cash flows relate to the period from 1 January to 30 September 2017, the net assets use figures as of 31 December 2017 as comparative figures. Due to the acquisition of the PTV Group (PTV AG and its subsidiaries) in September 2017, the prior-year figures are only comparable to a limited extent.

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

Results of operations of the Porsche SE Group

The Porsche SE Group’s result for the period came to €2,672 million (€2,136[1] million) in the first nine months of the fiscal year 2018. Of this, €2,686 million (€2,139[1] million) related to the PSE segment. For the ITS segment, a result for the period of minus €14 million was derived, taking into consideration effects from the purchase price allocation amounting to minus €7 million.

This result for the period for the PSE segment was significantly influenced by the result from the investments accounted for at equity of €2,739 million (€2,194[1] million). The increase in the result from investments accounted for at equity of €545 million was attributable to the profit contribution from the investment in Volkswagen AG. The result from the investment in INRIX accounted for at equity improved slightly on the prior year, although it is still negative. The result from investments accounted for at equity contains profit contributions from ongoing equity accounting of €2,801 million (€2,263[1] million) as well as subsequent effects from purchase price allocations of minus €62 million (minus €69 million).

Other operating expenses increased in the PSE segment by €10 million to €33 million compared to the prior year. The increase was attributable to higher legal and consulting fees in connection with the diesel issue. Personnel expenses came to €12 million, an increase of

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

€3 million on the prior year. The increase was largely due to payments made to the former member of the executive board Matthias Müller.

The financial result of the PSE segment came to minus €2 million in the reporting period (minus €9 million). The improvement was due in particular to lower interest expenses following the repayment of a loan in June 2017. The financial result also largely contains refinancing expenses for a credit facility, which remain unchanged.

The PSE segment generated a result before tax of €2,693 million (€2,154[1] million). The deferred income tax expense primarily results from the change in the carrying amount of the investment in Volkswagen AG accounted for at equity and decreased from €16 million to €8 million.

In the reporting period, the ITS segment generated revenue of €69 million, resulting from maintenance services rendered, license sales, the project business and hosting services. Taking into account cost of materials for purchased services of €11 million, personnel expenses of €46 million, amortization and depreciation of €13 million and other operating expenses of €19 million, the ITS segment generated a result before tax of minus €16 million. Taking income tax into consideration led to a result for the period of minus €14 million.

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

Financial position and net assets of the Porsche SE Group

Net liquidity of the Porsche SE Group comprises cash and cash equivalents, time deposits and securities less financial liabilities. It increased to €961 million compared to the beginning of the year (€937 million). The increase was mainly attributable to the positive dividend surplus of €63 million, which resulted from the balance from the dividends received from the investment in Volkswagen AG and the dividend payments to the shareholders of Porsche SE. Operating expenses of €33 million had the opposite effect, in particular payments to advisors.

The Porsche SE Group's total assets increased by €1,248 million from €31,576[1] million as of 31 December 2017 to €32,824 million as of 30 September 2018.

The non-current assets of the Porsche SE Group totaling €31,813 million (€30,586[1] million) primarily comprise the investments accounted for at equity. These include in particular the carrying amount of the investment in Volkswagen AG accounted for at equity, which increased by €1,234 million to €31,454 million. This increase resulted in particular from the result from investments accounted for at equity of €2,740 million. It was counterbalanced by the expenses and income recognized directly in equity as well as other changes (minus €905 million) as well as dividend payments received (minus €601 million).

The investments accounted for at equity also include the carrying amount of the investment in INRIX of €16 million (€15 million).

Intangible assets of the Porsche SE Group of €323 million (€333 million) primarily contain the goodwill of €213 million arising from the consolidation of the PTV Group as well as the resulting carrying amounts for customer bases, software and brand.

Current assets of €1,012 million (€991 million) mainly consist of cash and cash equivalents, time deposits and securities.

As of 30 September 2018, the equity of the Porsche SE Group increased to a total of €32,522 million (€31,292[1] million) in particular due to the group result for the year. The equity ratio remained constant compared to the end of the fiscal year 2017 at 99.1%.

Results of operations of the Volkswagen Group

The following statements relate to the original results of the Volkswagen Group in the first nine months of the fiscal year 2018. This means that effects from inclusion in the consolidated financial statements of Porsche SE, particularly relating to the subsequent measurement of the hidden reserves and liabilities identified in the course of the purchase price allocations are not taken into

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

consideration. It should also be noted that the group result of Porsche SE only reflects its capital share in the result of the Volkswagen Group. The mandatory application of IFRS 9 and IFRS 15 resulted in some prior-year figures having to be adjusted.

Between January and September 2018, the Volkswagen Group generated revenue of €174.6 billion, thus exceeding the prior-year figure by 2.7%. Positive effects were mainly attributable to improvements in the volume and mix and to the healthy business performance in the financial services division; they were partially offset by negative exchange rate factors. The effects of applying the new International Financial Reporting Standards resulted in an overall increase in revenue. The proportion of revenue generated abroad amounted to 81.0% (80.2%).

Gross profit was €35.0 billion, €2.4 billion up on the prior-year figure. The gross margin amounted to 20.1% (19.2%). Adjusted for the special items recognized here in the prior year, gross profit was up €0.3 billion on the prior year. In the prior-year period, the gross margin before special items had amounted to 20.4%.

At €13.3 (13.2) billion, the Volkswagen Group's operating result before special items was on a level with the prior year in the first three quarters of 2018. The operating return on sales before special items declined slightly to 7.6% (7.8%). Positive factors included primarily volume improvements, although fair value measurement gains and losses on certain derivatives, which have had to be reported here since the beginning of the year, and a lower capitalization ratio for development costs had a negative impact. Special items in connection with the diesel issue weighed on the operating result, reducing this item by minus €2.4 (minus 2.6) billion. The Volkswagen Group's operating result was €10.9 billion, up by €0.2 billion compared with the prior year. The operating return on sales amounted to 6.2% (6.3%).

The financial result stood at €1.6 billion, an increase of €2.0 billion compared with the prior year. Lower expenses from the reporting date measurement of derivative financial instruments used to hedge financing transactions, lower interest expenses and positive foreign currency measurement effects had a positive impact. The total effect of the remeasurement of put options and compensation rights in connection with the control and profit and loss transfer agreement with MAN SE was negative. The share of profits of equity-accounted investments increased, amid a year-on-year rise in the profits generated by the Chinese joint ventures. In the prior-year period, the remeasurement of the interest in HERE following the acquisition of shares by additional investors had had a positive impact.

The Volkswagen Group's result before taxes rose by €2.2 billion to €12.5 billion compared with the prior year. The result for the period increased by €1.8 billion to €9.4 billion.

Opportunities and risks of future development

Opportunities and risks at Porsche SE

The report on opportunities and risks at Porsche SE in the combined management report of Porsche SE for the fiscal year 2017 must be updated as of 30 September 2018 with regard to the statements on the current status of the legal proceedings. Therefore, we refer to the section “Significant events and developments at the Porsche SE Group” in this group quarterly statement.

The presentation of opportunities and risks from investments must also be updated. Over the course of the year, risks from the diesel issue have arisen at the level of the Volkswagen Group that have had a proportionate effect on the result from investments accounted for at equity of the Porsche SE Group. It was largely for this reason that the previously communicated guidance for the Porsche SE Group’s result for the period had to be adjusted.

With regard to the profit contribution from the PTV Group, the risks increased over the course of the year. This is attributable to the development of the PTV Group falling short of expectations in the first nine months of the fiscal year 2018, which is not expected to be fully offset in the last quarter.

Beyond this, there were no significant changes compared with the presentation of the opportunities and risks of Porsche SE in the combined management report for the fiscal year 2017.

Opportunities and risks at the Volkswagen Group

According to information by Volkswagen AG a model case proceeding was initiated on 1 November 2018 against Volkswagen AG before the Higher Regional Court of Braunschweig. The subject of this proceeding is in particular to determine that buyers of automobiles with engines of the type EA 189 EU5 or EU6 are in principle entitled to damages against Volkswagen AG.

The following information relates to the status as of the reporting date 30 October 2018.

For certain T6 models (M1 class) with Euro 6 diesel engines registered as passenger cars, the inspection regarding the conformity of the current production of new vehicles with the approved type (conformity of production) identified that certain technical data could not be fully confirmed. To ensure this conformity of production for new vehicles, Volkswagen AG developed a software measure, which was approved by the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) at the end of February 2018 and was applied to the production of new vehicles as well as to (a total of approximately 30,000) new vehicles that had not been delivered by then. Volkswagen AG also conducted in-use tests to determine whether the around 200,000 T6 used vehicles already on the market conform to the technical data. The tests carried out on the proposal of Volkswagen AG were taking place in close collaboration with the KBA, which included this process in a decision dated 1 March 2018. Following further tests in August 2018, at the proposal of Volkswagen AG and in accordance with this decision, there is also a software measure for used T6 vehicles to ensure conformity with the approved vehicle type.

On 2 March 2018, the federal multidistrict litigation court in California dismissed in its entirety the first amended class action complaint alleging that these bonds were trading at artificially inflated prices and that the value of these bonds declined after the U.S. Environmental Protection Agency (EPA) issued its notices of violation, but granted leave to file a second amended complaint. On 2 April 2018, plaintiffs filed a second amended class action complaint which Volkswagen has moved to dismiss. On 7 September 2018, the court denied Volkswagen's motion to dismiss, so the case will proceed.

The U.S. Securities and Exchange Commission (the "SEC") has requested information from Volkswagen AG regarding potential violations of securities laws in connection with issuances of bonds sponsored by Volkswagen AG, as a result of nondisclosure of certain Volkswagen diesel vehicles' noncompliance with US emission standards.

On 5 March 2018, a Tennessee state court granted in part and denied in part a motion to dismiss the state environmental claims asserted against Volkswagen AG and certain affiliates by the Tennessee Attorney General. Volkswagen and Tennessee have both appealed the decision.

On 12 March 2018, a Minnesota state court granted in part and denied in part a motion to dismiss the state environmental claims asserted against Volkswagen AG and certain affiliates by the Minnesota Attorney General. Volkswagen has appealed the decision.

On 15 March 2018, co-lead counsel for plaintiffs with regard to the German Automotive Manufacturers Antitrust Litigation filed consolidated amended class action complaints against Volkswagen AG and certain affiliates as well as other manufacturers in the Northern District of California on behalf of putative classes of indirect and direct purchasers. The consolidated amended complaints claim that since the 1990s, defendants had engaged in a conspiracy to unlawfully increase the prices of German luxury vehicles by agreeing to share commercially sensitive information and to reach unlawful agreements regarding technology, costs, and suppliers. Moreover, plaintiffs claim that defendants had agreed to limit the size of AdBlue tanks to ensure that U.S. emissions regulators did not scrutinize the emissions control systems in defendants' vehicles, and that such agreement for Volkswagen was the impetus for the creation of the defeat device. The complaints further claim that defendants had coordinated to fix the price of steel used in their automobiles by agreeing with German steel manufacturers to apply a two component pricing formula to steel purchases and worked closely together to generate scientific studies aimed at promoting diesel vehicles. On 17 May 2018, all defendants filed a joint motion to dismiss the two consolidated class action complaints. On 24 May 2018, Volkswagen defendants also filed an individual motion to dismiss on grounds specific to them. The motions have been fully briefed, and a hearing is currently scheduled for 12 February 2019.

On 22 March 2018, Volkswagen AG, certain affiliates and the Arizona Attorney General notified an Arizona state court that they have reached a settlement of Arizona's consumer protection claims and unfair trade practices claims. On 24 May 2018, the Arizona state court granted a stipulation of dismissal with prejudice of the Arizona action.

In South Korea, approval for the last vehicle clusters with engine type EA 189 was given on 28 March 2018.

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

On 11 April 2018, a Texas state court granted in part and denied in part a motion for summary judgment on the state environmental claims asserted against Volkswagen AG and certain affiliates by the Texas Attorney General. The Texas court denied Volkswagen's motion for reconsideration or interlocutory appeal. On 1 August 2018, Volkswagen asked a Texas appellate court to reverse the trial court's decision through an alternate procedure.

On 16 April 2018, the federal multidistrict litigation court in California dismissed with prejudice state and local environmental claims asserted against certain Volkswagen AG affiliates by the Environmental Protection Commission of Hillsborough County, Florida and Salt Lake County, Utah, on the basis of the same federal preemption issue that is currently being litigated in the Tennessee, Minnesota, and Texas cases referenced above, as well as in several other state courts. The counties have appealed that decision.

The Stuttgart public prosecutor's office has opened a criminal investigation. The office confirmed that it is investigating, among others, the former chairman of the board of management of Volkswagen AG in his capacity as member of the executive board of Porsche SE, regarding his possible involvement in potential market manipulation in connection with this same issue.

Moreover, the Stuttgart public prosecutor's office has commenced a criminal investigation into the diesel issue against one board member, one employee and one former employee of Dr. Ing. h.c. F. Porsche AG on suspicion of fraud and illegal advertising. Dr. Ing. h.c. F. Porsche AG has appointed two renowned major law firms to clarify the matter underlying the accusations made by the public prosecutor's office. The investigations are at an early stage. The executive board and supervisory board of Dr. Ing. h.c. F. Porsche AG are being regularly updated on the current state of affairs. If the findings constitute reproachable conduct or fault on behalf of the organization, then the executive board or supervisory board, respectively, will adopt the necessary measures.

On 18 April 2018, the EPA and California Air Resources Board (CARB) approved the second phase of the emissions modification for affected 2.0 l TDI vehicles with Generation 3 engines. Thereby the approval process for the technical measures for the relevant vehicles with engine type EA 189 has now been completed in all countries with the exception of Chile.

On 19 April 2018, the federal multidistrict litigation court in California approved the stipulation of the parties postponing the hearing previously scheduled for 11 May 2018, regarding defendants' motion to dismiss plaintiffs' consolidated class action complaint alleging that defendants concealed the existence of defeat devices in Audi brand vehicles with automatic transmissions. The parties have stipulated to further postpone the hearing on the motion, and no hearing is scheduled.

On 25 April 2018, Volkswagen AG, certain affiliates and the Maryland Department of the Environment announced an agreement to resolve the State of Maryland's environmental and remaining consumer claims for restitution or injunctive relief. The Maryland settlement includes a consent decree, which the Maryland state court approved on 3 May 2018.

On 19 and 25 April 2018, respectively, Ontario and Quebec courts granted approval of a consumer settlement entered into by Volkswagen AG and other Volkswagen Group companies involving 3.0 l TDI vehicles.

On 1 May 2018, Volkswagen AG, certain affiliates, and the West Virginia Attorney General announced an agreement to resolve the State of West Virginia's consumer claims. The West Virginia settlement includes a consent decree, which the West Virginia state court approved on 1 May 2018.

On 29 August 2017, plaintiffs filed a complaint, on behalf of a putative class of purchasers of Volkswagen AG's American Depositary Receipts, against Volkswagen AG, and against three former and one current member of Volkswagen AG's board of management in the U.S. District Court for the Eastern District of New York. Plaintiffs assert claims under the U.S. Securities Exchange Act of 1934 alleging that defendants made material misstatements and omissions concerning Volkswagen AG's compliance measures, in particular those relating to competition and antitrust law as well as allegations in an antitrust litigation against Volkswagen AG in the Northern District of California. On 13 July 2018, plaintiffs filed an amended complaint; a motion to dismiss this complaint has been filed.

On 18 May 2018, the EPA and CARB approved an emissions modification for Generation 1.1 vehicles with type V6 3.0 l TDI engines. On 13 July 2018, the EPA and CARB approved an emissions modification for Generation 1.2 vehicles with type V6 3.0 l TDI engines.

On 22 May 2018, plaintiffs filed a consolidated class action complaint on behalf of a putative class of Volkswagen salespersons who work at franchise dealerships. On 7 June 2018, the court in the federal multidistrict litigation in California appointed the plaintiffs' counsel as the interim lead counsel for the putative class.

On 28 May 2018, a class action filed in Quebec provincial court was authorized to proceed as to claims relating to Volkswagen AG's shares and American Depositary Receipts.

On 1 June 2018, a notice of amendment to the Third Partial Consent Decree entered into with the Department of Justice (DOJ) and EPA, which modified certain due dates related to annual reporting, was filed with the federal multidistrict litigation court in California. Concerning the due dates related to the annual reporting set forth in the Third California Partial Consent Decree such a notice of amendment was also filed on 30 August 2018 with the same court.

On 5 June 2018, an Illinois state court granted a motion to dismiss the state environmental claims asserted against Volkswagen AG and certain affiliates by the Illinois Attorney General. Illinois has appealed that decision.

On 6 June 2018, Volkswagen AG, certain affiliates, and the Oklahoma Attorney General announced an agreement to resolve the State of Oklahoma's consumer claims. The Oklahoma settlement includes a consent decree, which the Oklahoma state court approved on 6 June 2018.

In the course of the searches on 11 June 2018, it transpired that the Munich II public prosecutor's office has extended the criminal investigation pending there. The underlying search warrant shows that the former chairman of the board of management of AUDI AG (at the same time a former member of the board of management of Volkswagen AG) and a further active member of the AUDI AG board of management are now also under investigation. The accusations include fraud in connection with the sale of diesel vehicles on the European market in the period after fall 2015. In connection with the diesel issue, the Munich II public prosecutor's office is currently investigating 23 individuals. AUDI AG has appointed two renowned major law firms to clarify the matter underlying the accusations made by the public prosecutor's office. The board of management and supervisory board of AUDI AG are being regularly updated on the current state of affairs. If the findings constitute reproachable conduct or fault on behalf of the organization, then the board of management or supervisory board, respectively, will adopt the necessary measures.

On 13 June 2018, Volkswagen AG, certain affiliates, and the Vermont Attorney General announced an agreement to resolve the State of Vermont's consumer claims. On 16 July 2018, a joint stipulation of dismissal was filed with the Vermont court.

On 13 June 2018, the Braunschweig public prosecutor's office issued Volkswagen AG an administrative order in connection with the diesel issue. The administrative order is linked to negligent breaches of monitoring obligations on the part of Volkswagen AG employees in the Powertrain Development department and relates to the period from mid-2007 to 2015 and a total of 10.7 million vehicles with diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. The administrative order imposes a fine of €1.0 billion in total, comprising of the maximum legal penalty of €5 million and the disgorgement of economic benefits in the amount of €995 million. Following thorough examination, the fine has been accepted, has been paid in full by Volkswagen AG and is therefore legally binding. As a result of the administrative order, the misdemeanor proceeding against Volkswagen AG has been concluded. Further sanctioning or confiscation against Volkswagen AG and its group companies is therefore not expected in Germany in connection with the particular matter covered by the administrative order concerning diesel engines of types EA 189 worldwide and EA 288

(Generation 3) in the USA and Canada. As a result, Volkswagen expects that the conclusion of this proceeding will have a substantially positive impact on additional governmental proceedings conducted in Europe against Volkswagen AG and its group companies.

On 11 July 2018, the Braunschweig public prosecutor's office granted the defense counsel for the defendants and the defense counsel for Volkswagen AG access to the investigation files for what is referred to as the NO_x proceeding being conducted against Volkswagen AG employees. In addition, the files pertaining to the concluded misdemeanor proceeding of the Braunschweig public prosecutor's office were examined on 3 September 2018. This represents a further step for Volkswagen AG in its efforts to address the diesel issue.

In October 2018, the Munich II public prosecutor's office issued AUDI AG an administrative order in connection with deviations from regulatory specifications for certain V6/V8 diesel engines and diesel cars manufactured or sold by AUDI AG. The administrative order imposes a fine of €800 million in total, comprising of the maximum legal penalty of €5 million for a negligent breach of monitoring obligations in the organizational unit "Emissions Service/Engine Authorization" and a disgorgement of economic benefits in the amount of €795 million. Following thorough examination, AUDI AG has accepted the fine and waived the right to appeal, thus the administrative order is legally binding. The fine has been paid in full in the meantime and shall therefore be regarded as enforced. As a result of the administrative order, the misdemeanor proceeding against AUDI AG has been concluded.

On 25 June 2018, a Pennsylvania state court approved a consent judgment that implemented an earlier settlement agreement resolving the state environmental claims asserted against Volkswagen AG and certain affiliates by the State of Pennsylvania and nine other states that have opted out of federal emissions standards.

On 26 June 2018, a Missouri state court granted a motion to dismiss the state environmental claims asserted against Volkswagen AG and certain affiliates by the Missouri Attorney General. Missouri has declined to appeal that decision.

On 6 July 2018, the Federal Constitutional Court ruled on the constitutional complaints in connection with the search at the law firm Jones Day and ascertained that the confirmation of the provisional seizure of client engagement documents and data of Volkswagen AG had not violated constitutional law. The companies of the Volkswagen Group will continue to cooperate with the government authorities with due regard for the ruling of the Federal Constitutional Court.

In Austria, the first-instance dismissal of the last investor complaint pending in connection with the diesel issue became binding in the reporting period.

On 30 July 2018, the Braunschweig public prosecutor's office opened an administrative proceeding against Volkswagen AG pursuant to Sec. 30 of the Act on Regulatory Offences (OWiG) in connection with the criminal investigation of individuals for alleged market manipulation. On 24 August 2018, the Braunschweig public prosecutor's office granted the defense counsel for the defendants and the defense counsel for Volkswagen AG access to the investigation for these proceedings.

On 15 August 2018, an Ontario provincial court dismissed a proposed securities class action by investors in Volkswagen AG American Depositary Receipts and shares among others on the basis that the court lacked jurisdiction over the action. An appeal from this ruling was noticed on 14 September 2018.

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

On 17 September 2018, Volkswagen AG, AUDI AG and certain affiliates sought leave to appeal to the Supreme Court of Canada regarding a Quebec provincial court's 24 January 2018 ruling authorizing an environmental class action on the sole issue of whether punitive damages could be recoverable.

For many months, AUDI AG has been intensively checking all diesel concepts for possible discrepancies and retrofit potentials. From July 2017 to September 2018, the measures proposed by AUDI AG were adopted and mandated in various decisions by the KBA on vehicle models with V6 and V8 TDI engines. The investigations initiated in May 2018 on the current vehicle concepts of the Generation 2 evo and Generation 3 engine generations have been completed. The key findings were presented to the KBA.

Having served Volkswagen AG with an action asserting the rights assigned by approximately 2,000 customers in Switzerland, financialright GmbH has brought a further such action on behalf of around 6,000 Slovenian customers.

The private Spanish consumer protection organization Organización de Consumidores y Usuarios (OCU) has filed a class action against Volkswagen Group España Distribución S.A. on 9 May 2018. OCU represents around 7,500 Spanish customers.

Volkswagen AG has been served with 14 actions brought by the Austrian consumer protection organization (VKI) asserting claims for damage compensation for approximately 8,400 customers, which have been assigned to VKI for collection. Furthermore, Volkswagen AG has been served with six actions brought by the platform "Cobin Claims" asserting claims for damage compensation for approximately 80 customers, which have assigned their claims to Cobin Claims for collection.

On 12 September 2018, a class action by customers was brought in Johannesburg against Volkswagen of South Africa Ltd. as well as various dealerships.

In Poland, on 17 September 2018 further class actions by customers were filed against Volkswagen AG and other Volkswagen Group companies.

In Germany, around 25,500 product-related individual actions brought by customers in connection with the diesel issue are pending against Volkswagen AG and other Volkswagen Group companies.

As part of the cartel investigations in the automotive industry already known to the public, the European Commission took the procedural step of initiating formal proceedings against affected undertakings on 18 September 2018. The investigations have been ongoing for some time. As the European Commission's press statement indicates, the European Commission is now restricting the scope of the investigation to the subject of emissions. The formal initiation of proceedings is standard and is a purely procedural step in the process, which was fully expected by Volkswagen. The Volkswagen Group and the relevant group brands have been fully cooperating with the European Commission and will continue to cooperate with the Commission.

In addition, the Italian Competition Authority initiated proceedings to investigate potential competition law infringements (alleged exchange of competitively sensitive information) by a number of captive automotive finance companies, including Volkswagen Bank GmbH. The proceedings were later extended to the relevant parent companies, including Volkswagen AG. In October 2018, Volkswagen Bank GmbH and Volkswagen AG received a statement of objections summarizing the findings by the authority and describing the alleged infringement. At this stage it is too early to determine the risk exposure for Volkswagen Group.

On 26 June 2018, the Higher Regional Court in Munich made a final decision in the award proceedings on the appropriateness of the cash settlement and the right to compensation payable to the non-controlling interest shareholders of MAN SE, ruling that the annual compensation claim has to be increased to €5.47 gross (less any corporate income tax and any solidarity surcharge according to the respective tax rate applicable to these taxes for the financial year in question) per share. The cash settlement in the amount of €90.29 per share, increased in the first instance by the First Regional Court in Munich, was confirmed. The decisions by the Higher Regional Court in Munich are final and were published in the Federal Gazette on 6 August 2018. In accordance with Sec. 305 AktG, it was possible to accept the cash compensation of €90.29 per share within two months after this date. Further applications have been made to the Higher Regional Court in Munich by non-controlling interest shareholders of MAN to have also the guaranteed dividend paid in 2013 increased to €5.47 gross. The decision of the Higher Regional Court in Munich regarding these applications which were made after the end of the court proceedings remains to be seen.

In the tax proceedings between MAN Latin America and the Brazilian tax authorities, the Brazilian tax authorities took a different view of the tax implications of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, a second instance judgment was rendered in administrative court proceedings, which was negative for MAN Latin America. MAN Latin America has initiated proceedings against this judgment before the regular court in 2018. Due to the difference in the penalties plus interest which could potentially apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is laden with uncertainty. However, a positive outcome continues to be expected for MAN Latin America.

Beyond this, there were no significant changes in the reporting period compared with the disclosures on the Volkswagen Group’s expected development in fiscal year 2018 in the “Forecast report and outlook” and “Opportunities and risks of future development” sections – including the “Risks from the diesel issue” and “Effects of the diesel issue on legal risks” sections and the underlying description of the issues in the section entitled “Diesel issue” in the section “Significant events and developments at the Volkswagen Group” – of the combined management report in the 2017 annual report of Porsche SE or in publications released by the reporting date, as well as the continuing investigations and interviews in connection with the diesel issue and additional important legal cases.

Outlook

Anticipated development of the Volkswagen Group

The Volkswagen Group is well prepared for the future challenges in the mobility business and the mixed developments in regional automotive markets. Its unique brand portfolio, presence in all major world markets, broad and selectively expanded product range, and pioneering technologies and services place it in a good competitive position worldwide. In the course of transforming its core business, Volkswagen will define the positioning of its group brands more clearly and optimize the vehicle and drive portfolio with a view to the most attractive and fastest-growing market segments. In addition, the Volkswagen Group is working to make even more focused use of the advantages of its multibrand group by continuously developing new technologies and toolkits.

The Volkswagen Group expects that deliveries to customers in 2018 will moderately exceed the prior-year figure amid continuously challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, exchange rate volatility and the diesel issue. In the EU, there is also a new, more time-consuming test procedure for determining pollutant and CO_2 emissions as well as fuel consumption in passenger cars and light commercial vehicles known as the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP).

The revenue of the Volkswagen Group and its business areas is expected to grow by as much as 5% year on year. In terms of the operating result before special items for the group and the passenger cars business area, the Volkswagen Group forecasts an operating return on sales in the range of 6.5-7.5% in 2018. For the commercial vehicles business area, an operating return on sales of between 5.0-6.0% is anticipated. In the power engineering business area, Volkswagen expects an operating loss at around the prior-year level. For the financial services division, Volkswagen is forecasting an operating result at the prior-year level.

After special items, Volkswagen anticipates that the operating return on sales will fall moderately short of the expected range for both the group and the passenger cars business area.

Anticipated development of the Porsche SE Group

The Porsche SE Group’s result is largely dependent on the results of operations of the Volkswagen Group and therefore on the result of the investment in it accounted for at equity that is attributable to

Porsche SE. The forecast is therefore largely based on the expectations of the Volkswagen Group regarding the future development of its operating result, supplemented in particular by expectations of Porsche SE's executive board regarding developments of the financial result, including the profit contributions from investments at the level of the Volkswagen Group.

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

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

Porsche SE originally expected a group profit for the year of between €3.4 billion and €4.4 billion for the fiscal year 2018. Taking into account the special items at the level of Volkswagen Group in the fiscal year 2018 in connection with the diesel issue in the amount of €2.4 billion (please refer to the explanations in the sections "Significant events and developments at the Porsche SE Group") as well as emerging time lags regarding tax compensation claims in the low three-digit million euros against Volkswagen AG, the previously communicated guidance for the Porsche SE Group's result for the period had to be adjusted.

Based on current expectations, the Porsche SE Group's profit for the year for the fiscal year 2018 will be between €2.5 billion and €3.5 billion. This forecast considers in particular the expectations of the Volkswagen Group regarding its future development and the uncertainty surrounding possible special effects in connection with the diesel issue. Due to these limitations, the prognosis of Porsche SE is inevitably still subject to evaluation risks.

As of 30 September 2018, the Porsche SE Group had net liquidity of €961 million. The goal of both Porsche SE and the Porsche SE Group to achieve positive net liquidity remains unchanged. This is expected to be between €0.7 billion and €1.2 billion as of 31 December 2018, not taking future investments into account.

Glossary

Selected terms at a glance

Capitalization ratio
The capitalization ratio is defined as the ratio of capitalized development costs to total research and development costs in the automotive division of the Volkswagen Group. It shows the proportion of primary research and development costs subject to capitalization.

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 sales revenue.

This group quarterly statement is available in German and English.
In case of doubt the German version is binding.

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