PORSCHE SE

Annual Report 2017

Key figures

		2017 IFRS	2016 IFRS	2015 IFRS
Porsche SE Group				
Total assets	€ million	31,696	28,365	27,591
Shareholders' equity	€ million	31,410	27,894	27,077
Investments accounted for at equity	€ million	30,354	26,760	25,574
Profit/loss from investments accounted for at equity	€ million	3,410	1,449	–471
Revenue	€ million	34[1]	1	0
Personnel expenses	€ million	31[1]	12	15
Financial result	€ million	–8	–20	19
Profit/loss before tax	€ million	3,352	1,382	–491
Profit/loss for the year	€ million	3,332	1,374	–308
Earnings per ordinary share[2]	€	10.87	4.48	–1.01
Earnings per preference share[2]	€	10.88	4.49	–1.00
Net liquidity on 31 December	€ million	937	1,299	1,704
Employees on 31 December		823[1]	30	32

		2017 HGB	2016 HGB	2015 HGB
Porsche SE				
Net profit/loss	€ million	235	–70	871
Net profit available for distribution	€ million	538	308	436
Dividend per ordinary share	€	1.754[3]	1.004	1.004
Dividend per preference share	€	1.760[3]	1.010	1.010

[1] Affected by the acquisition of PTV Group
[2] Basic and diluted
[3] Proposal to the annual general meeting of the Porsche SE

Investments of Porsche SE

PORSCHE SE

Core Investment

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

VOLKSWAGEN
AKTIENGESELLSCHAFT

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

VOLKSWAGEN FINANCIAL SERVICES
AKTIENGESELLSCHAFT

Further Investments

PTV GROUP

Minority stakes

INRIX | Markforged | SEURAT TECHNOLOGIES

Status 20 March 2018

2017

2017

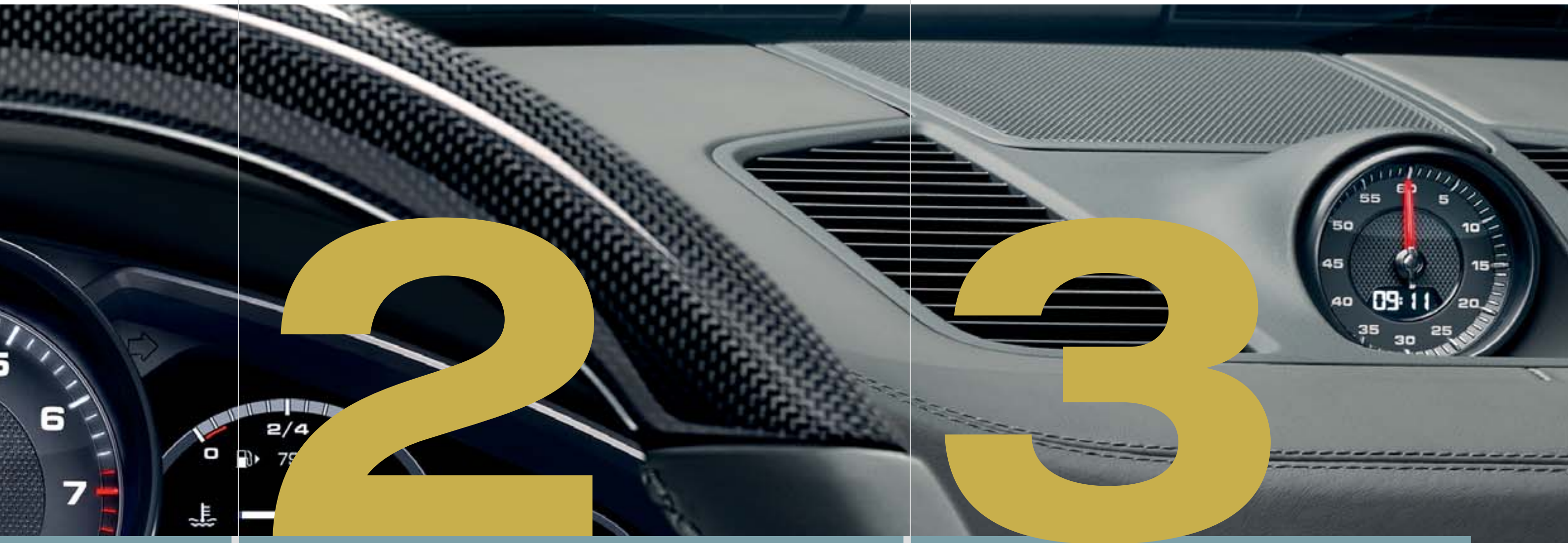
2017

“The past fiscal year 2017 was extraordinarily successful for Porsche SE.”

Hans Dieter Pötsch

Content

1



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To our shareholders

Porsche Cayenne S

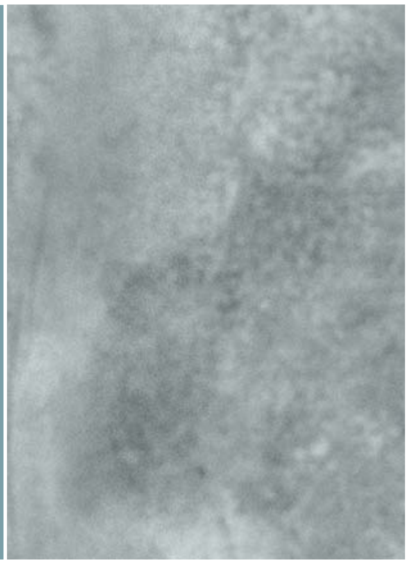

S VM8999


PORSCHE
Cayenne S
S VM8999

1

To our shareholders

Letter to our shareholders



Dear shareholders,

The past fiscal year 2017 was extraordinarily successful for our company. Group profit for the year reached 3.33 billion euro. It was significantly influenced by the profit from investments accounted for at equity of 3.41 billion euro. The equity of the Porsche SE Group increased to 31.41 billion euro, largely due to the positive result for the period. Net liquidity decreased to 937 million euro (31 December 2017). This decrease is primarily attributable to the acquisition of the PTV Group.

The PTV Group is a leading provider of software for traffic planning and management as well as transport logistics. We also widened our investment focus to include start-ups and acquired venture capital investments in the two US companies Markforged Inc. and Seurat Technologies Inc., each with stakes in the single-digit percentage range. Both companies work in the field of additive manufacturing. Our core investment is and remains Volkswagen AG, representing more than 90 percent of Porsche SE's assets.

On the legal side, there was some movement again in the fiscal year 2017. A model case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE in connection with the buildup of the investment in Volkswagen AG is pending with the Higher Regional Court of Celle. The initial proceedings concern 40 plaintiffs asserting alleged claims for damages of around 5.4 billion euro. In an initial oral hearing before the Higher Regional Court of Celle on 12 October 2017, the court explained its preliminary view on the state of affairs and of the dispute and confirmed Porsche SE's position on all significant points.

Porsche SE is also facing lawsuits in connection with the diesel issue. The plaintiffs accuse the company of alleged nonfeasance of capital market information. We regard all lawsuits brought against Porsche SE in connection with the diesel issue to be without merit and in some cases also to be inadmissible and, as in prior years, we would like to stress: Porsche SE has always provided accurate information. We are therefore firmly convinced that we will succeed in these proceedings.

In 2017 there was a change in Porsche SE's ownership structure. The Porsche and Piëch families acquired the majority of the ordinary shares held by Prof. Dr. Ferdinand K. Piëch, thus demonstrating a strong commitment to Porsche SE.

Hans Dieter Pötsch
Chairman of the executive board

By means of an amendment to the articles of association, the executive board and supervisory board of Porsche SE will propose to the annual general meeting in Stuttgart on 15 May 2018 to expand the board from six to ten members. The aim of this measure is to strengthen the supervisory board by adding additional fourth-generation family members as well as additional external experts.

The new members proposed for the board are lawyer Dr. Günther Horvath, managers Marianne Heiß and Prof. Siegfried Wolf as well as entrepreneurs Mag. Josef Michael Ahorner, Dr. Stefan Piëch and Peter Daniell Porsche. Hans-Peter Porsche will retire from his position on the supervisory board effective as of the end of the upcoming annual general meeting.

As for 2018, based on our current group structure, we expect a group profit for the current fiscal year of between 3.4 billion euro and 4.4 billion euro. This forecast is based in particular on the Volkswagen Group's expectations regarding its future development and the uncertainty that continues to surround possible special items in connection with the diesel issue. Furthermore, we aim to achieve positive net liquidity. This is expected to be between 0.7 billion euro and 1.2 billion euro as of 31 December 2018, not taking future equity investments into account.

In past years we have always emphasized one principle in particular: Porsche SE's dividend policy is geared to sustainability. We will continue to abide by this principle. The executive board and supervisory board of Porsche SE therefore propose to the annual general meeting a dividend of 1.76 euro per preference share for the fiscal year 2017, a significant increase on the prior year. Holders of ordinary shares will receive 1.754 euro per share. This results in a total amount to be distributed as dividend of around 538 million euro.

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

Hans Dieter Pötsch

Company boards of Porsche Automobil Holding SE and their appointments

Members of the supervisory board

Dr. Wolfgang Porsche
Diplomkaufmann
Chairman

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

Dr. Hans Michel Piëch
Attorney at law
Deputy chairman (since 30 May 2017)

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

* Employee representative

As of 31 December 2017 or as of the date of departure from the supervisory board of Porsche Automobil Holding SE.

● Membership 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)
- ● E.ON SE, Düsseldorf (deputy chairman)
- ● thyssenkrupp AG, Essen (chairman)
- o Henkel AG & Co. KGaA, Düsseldorf

Hans-Peter Porsche
Engineer

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

Dr. Ferdinand Oliver Porsche
Investment management

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

Uwe Hück* (until 30 May 2017)
Deputy chairman
Deputy chairman of the SE works council
of Porsche Automobil Holding SE
Chairman of the group and general works council
of Dr. Ing. h.c. F. Porsche AG
Chairman of the works council
Zuffenhausen / Ludwigsburg / Sachsenheim

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

Berthold Huber* (until 30 May 2017)
Deputy chairman of the supervisory board of AUDI AG, Ingolstadt

Appointments:
- ● AUDI AG, Ingolstadt (deputy chairman)

Peter Mosch* (until 30 May 2017)
Member of the SE works council of Porsche Automobil Holding SE
Chairman of the AUDI AG general works council

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

Bernd Osterloh* (until 30 May 2017)
Chairman of the SE works council of Porsche Automobil Holding SE
Chairman of the general and group works council of Volkswagen AG

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

Hon.-Prof. Dr. techn. h.c. Ferdinand K. Piëch (until 8 December 2017)
Diplom-Ingenieur ETH

Hansjörg Schmierer* (until 30 May 2017)
Managing director of IG Metall Stuttgart

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

* Employee representative

As of 31 December 2017 or as of the date of departure from the supervisory board of Porsche Automobil Holding SE.

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

Werner Weresch* (until 30 May 2017)
Member of the SE works council
of Porsche Automobil Holding SE
Member of the group works council and
member of the general works council
of Dr. Ing. h.c. F. Porsche AG
Deputy chairman of the works council
Zuffenhausen / Ludwigsburg / Sachsenheim
Head of shop stewards' committee

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

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

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

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

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

Members of the executive board

Hans Dieter Pötsch

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

Chairman of the supervisory board
of Volkswagen AG

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

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

Dr. Manfred Döss

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

Matthias Müller

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

Chairman of the board of management
of Volkswagen AG

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

Philipp von Hagen

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

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

As of 31 December 2017

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

The executive board

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

Philipp von Hagen
Investment management
Member of the executive board

Hans Dieter Pötsch
Chairman of the executive board
Finance

Matthias Müller
Strategy and
corporate development
Member of the executive board

Report of the supervisory board

Ladies and gentlemen,

Porsche SE is a pure investment management holding company with investments along the automotive value chain. As a core investment, it holds the majority of the ordinary shares in Volkswagen AG. Porsche SE sees itself as long-term anchor investor in Volkswagen AG that acts strategically. In terms of operations, the core investment developed positively in the fiscal year 2017 and, with 10.7 million vehicles delivered, set a new sales record. In parallel, the board of management of Volkswagen AG pushed ahead with the strategic realignment of the company. We remain convinced that the Volkswagen Group has vast potential for increasing value added.

Again, in the fiscal year 2017, Porsche SE continued to focus on identifying and acquiring investments along the automotive value chain. On 7 June 2017 the company then announced the acquisition of around 97% of shares in PTV Planung Transport Verkehr AG (“PTV AG”), Karlsruhe. The company is a leading provider of software for traffic planning and management as well as transport logistics. With the closing of the transaction mid-September 2017, Porsche SE holds more than 99% of the shares in PTV AG. On 2 November 2017, Porsche SE went on to announce its acquisition of two venture capital investments in companies in the area of 3D printing, namely the US company Markforged Inc. with registered offices in Watertown in the state of Massachusetts as well as Seurat Technologies Inc., Wilmington, Massachusetts.

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

During the past fiscal year, the supervisory board held four ordinary and five extraordinary meetings. In addition to this, individual resolutions were passed as circular resolutions, such as the annual declaration of compliance with the recommendations of the German Corporate Governance Code. Supervisory board members who were absent from meetings participated in some resolutions by written vote.

Dr. Wolfgang Porsche
Chairman of the supervisory board

Following the end of the 2017 annual general meeting, co-determination was suspended by agreement dated 1 February 2017 concluded with the SE works council, and the supervisory board of Porsche SE was thereupon reduced from twelve to six members exclusively from the capital side.

Cooperation between the supervisory board and the executive board

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

The supervisory board examined the significant planning and annual financial statement documents submitted to it and satisfied itself as to their accuracy and appropriateness. It examined and discussed all reports made available to it in appropriate detail and inquired about them in a critical manner. The supervisory board monitored the executive board to ensure that business is conducted in a proper manner. Monitoring also encompassed appropriate measures for risk avoidance and compliance. The supervisory board also ensured that the executive board carried out the measures for which it is responsible in accordance with Sec. 91 (2) AktG in an appropriate form and that the required risk monitoring system the act requires is effective.

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

Main focus of supervisory and advisory activity of the supervisory board in the fiscal year 2017

The first meeting of the fiscal year 2017 was an extraordinary one held on 24 January 2017. The supervisory board approved the conclusion of an amendment to the co-determination agreement, i.e., the agreement that governs co-determination of employees at Porsche SE, under participation of the employee representatives who were still members of the supervisory board at this point in time. It was decided that the supervisory board of Porsche SE is to comprise six shareholder representatives in the future and co-determination in Porsche SE's supervisory board is to be suspended.

At the first ordinary meeting for the fiscal year on 10 March 2017, the supervisory board focused in particular on the separate and consolidated financial statements as well as the combined management report for the fiscal year 2016. The effects of the diesel issue on the profit/loss of the Porsche SE Group as well as the impairment test performed for the Volkswagen investment as of 31 December 2016 and related sensitivity analyses were outlined and discussed in detail, as were the provisions recognized for the legal fees and the costs of proceedings. The executive board informed the supervisory board in this regard on the status of the legal proceedings pending in Germany. The audit committee also reported in detail on its meeting on 9 March 2017. At its meeting, the supervisory board made a decision on the supervisory board's proposals for resolutions to be made at the Porsche SE's annual general meeting on appropriation of the net profit available for distribution and election of the auditor and passed a resolution to update the declaration of compliance.

At the extraordinary meeting held on 29 March 2017, passing a resolution on additional proposals for resolutions to be made at the annual general meeting of Porsche SE on 30 May 2017 was on the agenda, and the appointment of Mr. Hans Dieter Pötsch and Mr. Philipp von Hagen as chairman of the executive board and member of the executive board, respectively, was extended in each case. The supervisory board also discussed the annual general meeting of Volkswagen AG scheduled for 10 May 2017. The changes to the German Corporate Governance Code made by the Federal German Government Commission on 7 February 2017 were presented to the supervisory board and discussed. Finally, the supervisory board inquired in depth about the company's legal proceedings and court cases, in particular the order of reference issued by the Regional Court of Stuttgart pursuant to the Capital Markets Model Case Act (Kapitalanleger-Musterverfahrensgesetz). The resolutions to be made at the annual general meeting were subsequently passed by resolution.

At its second ordinary meeting on 29 May 2017, the supervisory board focused on the company's annual general meeting the following day. Furthermore, the supervisory board discussed the business situation and development of the Volkswagen Group as well as the status of the pending claims for damages in Germany as well as rescission proceedings and compulsory information procedures. This discussion focused on the claims pending at the Regional Courts of Stuttgart and Braunschweig on alleged nonfeasance of an ad hoc announcement in connection with the diesel issue. The company considers the claims to be without merit and some to also be inadmissible. In addition, the supervisory board set a new target figure for female representation on the company's executive board of 25% to be implemented by 30 June 2022.

The supervisory board, now comprising six members, elected Dr. Wolfgang Porsche as chairman and Dr. Hans Michel Piëch as deputy chairman of the supervisory board at its constituent meeting directly after the company's annual general meeting on 30 May 2017. Furthermore, the committees of the supervisory board were reorganized and their composition approved.

At an extraordinary meeting on 6 June 2017, the supervisory board discussed the acquisition of PTV Planung Transport Verkehr AG in detail and approved the acquisition.

At its extraordinary supervisory board meeting on 28 July 2017, the supervisory board discussed current reporting on the Volkswagen Group in the press; it also inquired about and discussed diesel issue developments.

At its third ordinary meeting on 9 October 2017, the supervisory board focused on the company's business situation and the status of the legal proceedings and court cases. In light of the imminent oral hearing on 12 October 2017, this involved discussing in depth the model case before the Higher Regional Court of Celle pursuant to the Capital Markets Model Case Act (Kapitalanleger-Musterverfahrensgesetz) based on alleged market manipulation and alleged inaccurate information in connection with Porsche SE's acquisition of the shareholding in Volkswagen AG. The supervisory board also discussed the diesel issue developments. Furthermore, the supervisory board amended its rules of procedure to bring them into line with the new composition of the supervisory board. A target figure for the female representation on the supervisory board of 0% by 9 October 2022 was set, a profile of skills and expertise for the supervisory board developed and targets stated for the composition of the board as defined by Sec. 5.4.1 (2) of the German Corporate Governance Code (GCGC). In addition, the efficiency review performed by the supervisory board by means of a self-evaluation was assessed. Finally, the supervisory board inquired about the company's refined investment concept that provides an investment framework for venture capital investments of up to a total of €25 million per year.

At the fourth ordinary meeting of the supervisory board which convened on 15 December 2017, the board discussed the corporate planning for the years 2018 to 2020, the status of the pending claims for damages in Germany, discussed developments of the diesel issue and discussed the remuneration system for the supervisory board and the status of the integration of the PTV Group in the consolidated financial statements. Furthermore, information was provided about the capital market obligations of the supervisory board members and the company.

Efficient work of the supervisory board committees
Until the annual general meeting on 30 May 2017, the supervisory board had total of four committees (executive committee, audit committee, nominations committee and investment committee) to carry out its duties. Following the reduction in the size of the supervisory board, the supervisory board reduced the number of its committees to three on 30 May 2017 (executive committee, audit committee and nomination 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 has been transferred to the individual committees to the extent permitted by law.

Executive committee

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

Until the company's annual general meeting on 30 May 2017, the executive committee comprised the chairman of the supervisory board, his deputy and a shareholder representative and employee representative elected from the supervisory board. In addition to the supervisory board chairman Dr. Wolfgang Porsche and his deputy at that time Mr. Uwe Hück, Dr. Hans Michel Piëch and Mr. Bernd Osterloh were also members of the executive committee.

Since 30 May 2017, the executive committee has comprised the chairman of the supervisory board, his deputy and an additional member of the supervisory board. In addition to the chairman of the supervisory board Dr. Wolfgang Porsche as well as his deputy, Dr. Hans Michel Piëch, Dr. Ferdinand Oliver Porsche is also a member of the executive committee.

The executive committee met five times in the fiscal year 2017, in each case immediately before the ordinary supervisory board meetings as well as immediately before the extraordinary supervisory board meeting on 29 March 2017. At these meetings, in addition to personnel matters of the executive board, the respective agenda items of the subsequent supervisory board meeting were addressed. The full supervisory board was regularly informed about the work of the executive committee. Until 30 May 2017, a mediation committee under co-determination law did not have to be convened.

Audit committee

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

Until the annual general meeting on 30 May 2017, the audit committee had four members: Prof. Dr. Ulrich Lehner (chairman) as well as Mr. Uwe Hück, Mr. Bernd Osterloh and Dr. Ferdinand Oliver Porsche.

Since the constituent meeting of the supervisory board on 30 May 2017, the audit committee has had three members: Prof. Dr. Ulrich Lehner (chairman) as well as Dr. Hans Michel Piëch and Dr. Ferdinand Oliver Porsche. The audit committee met four times in the fiscal year 2017 and regularly reported to the full supervisory board on its work.

At its meeting on 9 March 2017, the audit committee focused on the separate financial statements and consolidated financial statements for the fiscal year 2016, the combined management report and the executive board's proposal for profit appropriation. In this connection, the audit committee also discussed, on the basis of generally accepted measurement methods, the confirmation of the recoverability of the Volkswagen investment as a significant asset of Porsche SE. The confirmation of the carrying amount was further substantiated by sensitivity analyses with regard to key (also covering the risk scenarios) measurement parameters (such as cost of capital). During these analyses, there were no indications of any need to recognize an impairment loss on the investment in Volkswagen AG. Furthermore, the audit committee dealt the current risk report and considered the internal control system as part of the operational risk management as well as the report on the company's tax matters. Other items that were discussed included the status of internal audit, the approval of non-audit services by audit firms and the recommendation for the election of the auditor for the fiscal year 2017.

At the following meeting on 12 May 2017, the audit committee primarily dealt with the group quarterly statement for the first quarter of 2017, the current risk report and the report on the company's tax matters for the first quarter. The audit committee inquired about the status of legal proceedings and court cases, in particular in connection with the acquisition of Porsche SE's investment in Volkswagen AG and with the diesel issue.

The meeting of 28 July 2017 focused on the 2017 interim report, the current risk report and the tax report for the second quarter. In addition, the audit committee approved non-audit services of audit firms and inquired about the status of legal proceedings and court cases, the new requirements of the independent auditor's report (key audit matters) as well as the accounting treatment of the PTV transaction. Furthermore, the audit committee decided on the key audit topics for internal audit as well as for the audit of the financial statements for the fiscal year 2017.

At its final meeting of the fiscal year 2017 on 6 November 2017, the audit committee addressed topics including the group quarterly statement for the third quarter of 2017, the current risk report, the tax report for the third quarter, the requirements of CSR reporting, the key audit matters for the separate and consolidated financial statements for the fiscal year 2017 as well as the enactment of updated guidelines on the awarding of non-audit services and the status of the legal proceedings and court cases.

Nominations committee

Until the company's annual general meeting on 30 May 2017, the nominations committee comprised four supervisory board members representing shareholders, namely the chairman of the supervisory board, Dr. Wolfgang Porsche, who was also chair of the nominations committee, as well as three further shareholder representatives: Prof. Dr. Ferdinand K. Piëch, Dr. Hans Michel Piëch and Dr. Ferdinand Oliver Porsche.

The nominations committee met once in the fiscal year 2017 on 3 April 2017. At this meeting, the duly authorized nominations committee passed resolutions on the supervisory board's proposals to the annual general meeting concerning the election of supervisory board members representing shareholders.

Since 30 May 2017, the nominations committee has had three members: the chairman of the supervisory board, Dr. Wolfgang Porsche, who is also chair of the nominations committee, as well as Dr. Hans Michel Piëch and Dr. Ferdinand Oliver Porsche.

Investment committee

The investment committee was responsible for preparing resolutions of the supervisory board as well as topics to be dealt with in plenary sessions which were required for or conducive to implementing the investment concept decided upon by the executive board. Until 30 May 2017, members of the investment committee that did not meet in the fiscal year 2017 were, in addition to the chairman of the supervisory board Dr. Wolfgang Porsche and his former deputy Mr. Uwe Hück, Prof. Dr. Ferdinand K. Piëch as shareholder representative and Mr. Bernd Osterloh as employees' representative. At the constituent meeting of the supervisory board directly following the annual general meeting of Porsche SE on 30 May 2017, the supervisory board transferred the responsibilities of the investment committee to the full supervisory board or, in urgent cases, to the executive committee.

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 2017 and made it permanently accessible to shareholders on the company's website at www.porsche-se.com/en/company/corporate-governance/. Furthermore, the executive board and supervisory board updated the declaration of compliance in March and April 2017. The current declaration of compliance is reproduced in full in the corporate governance report published in conjunction with the declaration of compliance on the company's website.

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

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

To the extent that concrete conflicts of interest existed or were feared, the particular conflict of interest was reported to the supervisory board. In the past fiscal year, this related to the resolution 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 2016. The shareholder representatives, who are also members of the supervisory board of Volkswagen AG, i.e., Dr. Wolfgang Porsche, Dr. Hans Michel Piëch and Dr. Ferdinand Oliver Porsche, abstained from voting in connection with the resolution on voting behavior regarding their own exoneration.

Audit of the separate financial statements and consolidated financial statements for the fiscal year 2017

The separate financial statements and the consolidated financial statements authorized for issue by the executive board of Porsche SE for the fiscal year 2017 were examined together with the bookkeeping system and the combined management report by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The auditor raised no objections and in keeping with these issued unqualified auditor's reports. The auditor included the following notes in the auditor's report:

"As explained by the executive board in the sections "Significant events and developments at the Porsche SE Group", "Significant events and developments at the Volkswagen Group" and "Opportunities and risks at Porsche SE" and "Opportunities and risks of the Volkswagen Group" in the combined management report, Porsche SE, Stuttgart, as the majority shareholder of Volkswagen AG, Wolfsburg ("VW AG"), continues to be affected by the diesel issue, mainly through its profit/loss from investments accounted for at equity as well as due to the development of the proportion market capitalization of the preference and ordinary shares.

With regard to the investment in VW AG, the executive board of Porsche SE sees the increased risk that due to the diesel issue the company will be subject to further burdens on the proportionate profit/loss attributable to it as part of equity accounting. These burdens could result in particular from new findings regarding the amount of the risk provisioning recognized in the consolidated financial statements of VW AG, Wolfsburg, or the effects of the diesel issue on the operating business and/or the financing costs of the Volkswagen Group which may exceed the extent assumed in the planning. As the impairment test of the investment in VW AG is based on the current planning of the Volkswagen Group, unexpected additional burdens incurred to mitigate the diesel issue could result in an impairment loss for the investment in VW AG.

The provisions for legal risks in connection with the diesel issue recognized in the consolidated financial statements of VW AG as of 31 December 2017 are based on the information currently available to VW AG. According to estimates by VW AG, the provisions recognized for this matter and the contingent liabilities disclosed as well as the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and the fact that the independent, comprehensive investigations have not yet been completed.

Legal risks from claims brought against Porsche SE in connection with the diesel issue may also have an effect on Porsche SE's results of operations, financial position and net assets.

Our opinions on the consolidated financial statements and on the group management report have not been modified in this regard."

The profit/loss before tax of the Porsche SE Group came to €3,352 million in the fiscal year 2017. Profit after tax totaled €3,332 million. The separate financial statements of Porsche SE showed net income for the year of €235 million and a net profit available for distribution of €538 million.

The key topics of the audit of financial statements set by the supervisory board in consultation with the audit committee were the measurement of the provisions for legal risks of Porsche SE and the presentation of these risks in the notes to the separate and consolidated financial statements and in the management report, the effects of the diesel issue on the carrying amount of the equity/investment of Volkswagen AG at Porsche SE in the consolidated financial statements and in the management report as well as the audit of the purchase price allocation and the IFRS opening balance sheet of the PTV Group.

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

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

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

At is meeting on 7 March 2018, the audit committee examined the separate financial statements, the consolidated financial statements and the combined management report and discussed significant topics with the auditor, in particular the measurement and presentation of the provisions for legal risks of Porsche Automobil Holding SE, the effects of the diesel issue, the audit of the purchase price allocation (PPA) as well as the IFRS opening balance sheet of the PTV Group and the note of the auditor presented in the auditor's report. In particular, the audit committee also dealt with the key audit matters formulated by the auditor as well as the impairment test for the investment in Volkswagen AG performed by the executive board. In doing so, the audit committee examined the appropriateness of accounting and whether in preparing the separate financial statements and the consolidated financial statements and the combined management report the legal requirements had been fulfilled, and whether the material presented gives a true and fair view of the company's and group's net assets, financial position and results of operations. Representatives of the auditor attended the meeting of the audit committee when the relevant agenda item was addressed and reported on the significant results of their examination of the separate financial statements and the consolidated financial statements. The representatives of the auditor explained the net assets, financial position and results of operations of Porsche SE and were available to the committee to provide additional information, in particular on the emphasis of matter paragraph included in the auditors' report. In addition, at its meeting on 7 March 2018 the audit committee discussed the executive board's proposal for the appropriation of net profit available for distribution.

The audit committee resolved to recommend to the supervisory board to approve the separate financial statements and the consolidated financial statements and to adopt the executive board's proposal for the appropriation of net profit available for distribution. In addition, the declaration of independence of the auditor was obtained in accordance with No. 7.2.1 of the German Corporate Governance Code. The audit committee then resolved to propose to the supervisory board that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, be recommended to the annual general meeting on 15 May 2018 for election as auditor for the fiscal year 2018.

At its meeting on 9 March 2018, the supervisory board closely examined and discussed the documents provided to it in accordance with Article 9 (1) lit. c (ii) SE-VO and Sec. 170 (1) and (2) AktG as well as the audit reports of the auditor. In connection with this, the chairman of the audit committee gave a detailed report in the audit committee on the discussion of the separate financial statements, the consolidated financial statements, and the combined management report. The supervisory board's review related in particular to the measurement of the investment in Volkswagen AG including the effects of the diesel issue, the assessment of legal risks and their presentation in the financial statements as well as the accounting treatment of the PTV Group including the purchase price allocation. Representatives of the auditor attended the meeting of the supervisory board when the relevant agenda item was addressed and reported on the significant results of their examination of the separate financial statements and the consolidated financial statements. The representatives of the auditor explained the net assets, financial position and results of operations of Porsche SE and of the group, and were available to the supervisory board to provide additional information, in particular on the emphasis of matter paragraph included in the auditors' report.

The supervisory board approved the results of the audit by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. As the final result of its own review, the supervisory board determined that there are no grounds for objection. In compliance with the audit committee's recommendation, the supervisory board approved the separate financial statements and consolidated financial statements for the fiscal year 2017. The separate financial statements are thus confirmed. The supervisory board declared its agreement with the combined management report. After examining it, the supervisory board endorsed the suggestion of the executive board for the appropriation of net profit available for distribution.

Pursuant to Article 9 (1) lit. c (ii) SE-VO and Sec. 312 AktG, the executive board has prepared a report on related companies (dependent company report) for the fiscal year 2017. The auditors have audited the dependent company report and have rendered the following auditor's report:

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

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

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

Together with the auditor's report, the dependent company report was submitted to the supervisory board in a timely manner. Both reports were thoroughly discussed at the meetings of the audit committee on 7 March 2018 and the supervisory board on 9 March 2018, and in particular checked for their accuracy and completeness. Representatives of the auditor participated in these meetings and reported on the significant results of their audit of the dependent company report and were available to the audit committee or the supervisory board to provide additional information. The supervisory board concurred with the result of the auditor's audit of the dependent company report. According to the concluding results of its own review, the supervisory board had no objections to raise with respect to the closing declaration of the executive board in the dependent company report.

Composition of the executive board and supervisory board

The appointment of Mr. Hans Dieter Pötsch and Mr. Philipp von Hagen as chairman of the executive board and member of the executive board, respectively, was extended in the fiscal year 2017. There were no personnel changes within the company's executive board in the fiscal year 2017.

By agreement dated 1 February 2017, Porsche SE and the SE works council agreed that co-determination at Porsche SE be suspended following the end of the 2017 annual general meeting and the supervisory board of Porsche SE comprise six shareholder representatives. Status proceedings were initiated on 6 February 2017. As a consequence of the status proceedings, the tenure of all members of the supervisory board ended with the conclusion of the annual general meeting on 30 May 2017. The annual general meeting on 30 May 2017 re-elected the same six shareholder representatives. Prof. Dr. Ferdinand K. Piëch stepped down from his position on the supervisory board effective end of 8 December 2017.

Acknowledgment

The supervisory board expresses its gratitude to the executive board and all employees in acknowledgment of the work they have done and their unflagging commitment. We would also like to expressly thank those members that left the executive board in the fiscal year 2017, Mr. Uwe Hück, Mr. Berthold Huber, Mr. Peter Mosch, Mr. Bernd Osterloh, Prof. Dr. Ferdinand K. Piëch, Hansjörg Schmierer and Werner Weresch, for their many years of service to the company.

Stuttgart, 9 March 2018

Supervisory board
Dr. Wolfgang Porsche
Chairman

Corporate governance report

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

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

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

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

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

Corporate governance takes into consideration conflicts of interest that can exist, among other things, in the event of membership of two governing bodies (for example, one at Porsche SE and one at

Volkswagen AG) and addresses these in the interest of Porsche SE. For example, a member of the executive board of Porsche SE who is also a member of the Volkswagen AG board of management does not, in principle, participate in any resolutions concerning issues relating to Volkswagen AG where there is a conflict of interest.

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

Monitoring of management by the supervisory board

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

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

Due to the influence of individual members of the supervisory board of Porsche SE on ordinary shareholders of Porsche SE or the fact that individual supervisory board members are also members of the supervisory boards of Porsche SE and Volkswagen AG or individual Volkswagen subsidiaries conflicts of interest can arise for these members of the supervisory board in individual cases. Any conflicts of interest are dealt with appropriately; wherever there is a conflict of interest in individual cases, the respective members do not participate in the discussion of the relevant resolution or abstain.

Composition of the supervisory board

In the reporting period until the end of the company’s annual general meeting on 30 May 2017, the supervisory board consisted of twelve male members and shareholder and employee representatives were equally represented on the supervisory board.

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

According to the agreement dated 1 February 2017, the supervisory board of Porsche SE comprises six shareholder representatives; co-determination of the employee representatives in the supervisory board of Porsche SE was suspended.

Porsche SE initiated status proceedings pursuant to Sec. 97 AktG on 6 February 2017. The status proceedings end the terms of office of all serving members of the supervisory board of Porsche SE pursuant to Sec. 97 (2) Sentence 3 AktG at the close of the annual general meeting on 30 May 2017.

Since the 2017 annual general meeting, the supervisory board has to comprise six members to be elected by the annual general meeting. The annual general meeting on 30 May 2017 therefore elected six supervisory board members (Dr. Wolfgang Porsche (chairman of the supervisory board), Dr. Hans Michel Piëch (deputy chairman), Prof. Dr. Ulrich Lehner, Prof. Dr. Ferdinand K. Piëch, Dr. Ferdinand Oliver Porsche and Mr. Hans-Peter Porsche).

Effective as of the end of 8 December 2017, Prof. Dr. Ferdinand K. Piëch stepped down as member of the supervisory board.

Sec. 111 (5) Sentence 1 and 5 AktG requires that the supervisory board of companies that are listed or subject to co-determination specify a target figure for the percentage of women on the supervisory board if no statutory quota applies. Pursuant to Sec. 17 (2) Sentence 1 SEAG, there is a statutory quota for companies in the legal form of an SE only for a listed SE whose supervisory board comprises equal numbers of shareholder and employee representatives. Although Porsche SE is listed, its supervisory board has not comprised an equal number of shareholder and employee representatives since the 2017 annual general meeting, meaning that there is no statutory quota for Porsche SE. Accordingly, the supervisory board has set a target figure for the percentage of women on the supervisory board of 0% until 9 October 2022. Porsche SE did not need to meet the statutory quota until the 2017 annual general meeting as the existing supervisory board mandates could be continued until the regular end of their term in office (Sec 17 (2) Sentence 4 SEAG).

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

In the reporting year, against the background of the recommendation in Sec. 5.4.1 (2) of the German Corporate Governance Code ("GCGC" or Code"), from which there had previously been a deviation in the explanation pursuant to Sec. 161 AktG, taking into account the activities of the company as an internationally and capital-market oriented holding company in the areas of mobility and industry as well as the ownership structure of the company, the supervisory board prepared a profile of skills and expertise for the entire board and also named specific targets for the composition of the board.

According to the profile of skills and expertise prepared by the supervisory board, the entire board is to have competencies that are of material importance for the activities of the company as an international operating and capital-market-oriented holding company in the areas of mobility and industry. This includes in particular knowledge, skills and professional experience in

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

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

The supervisory board also named the first specific targets for its composition. At least one member of the supervisory board should, in the assessment of the supervisory board, be independent within the meaning of Sec. 5.4.2 GCGC and the supervisory board should not contain more than two former members of the executive board. All members of the company's supervisory board must ensure that they can devote the amount of time necessary to fulfil the supervisory board mandate properly. Members of the supervisory board must not be members of governing bodies of, or exercise advisory functions at, significant competitors of the company. The targets named by the supervisory board for the composition of the entire board do not currently give any guidance on diversity on the board.

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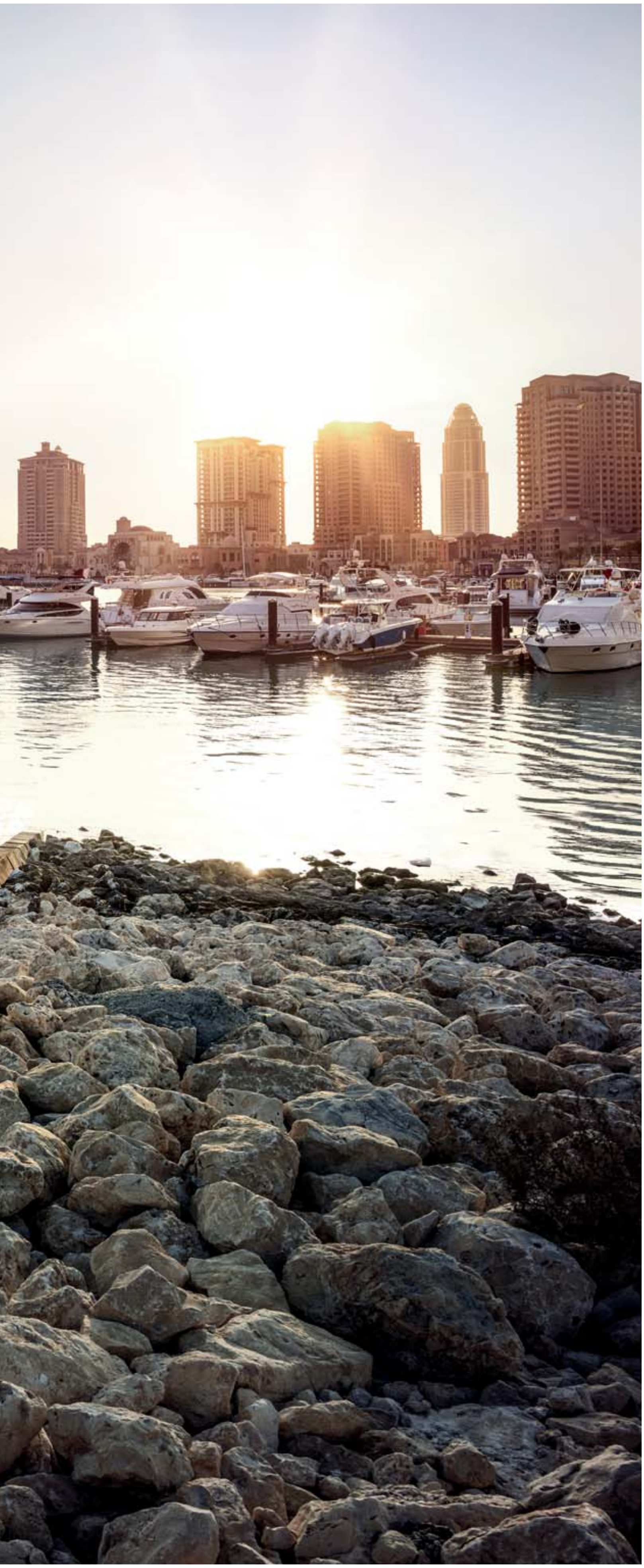


The target figure for the percentage of women on the supervisory board is currently 0%. With regard to the regular limit for the term of office and the regular age limit, the explained deviation from Sec. 5.4.1 (2) GCGC remains in the declaration pursuant to Sec. 161 AktG.

The current composition of the entire board corresponds to the profile of skills and expertise as well as the targets for the composition of the board set out above. In the assessment of the supervisory board, Prof. Dr. Ulrich Lehner is the only independent member.

Committees of the supervisory board
Until the annual general meeting on 30 May 2017, the supervisory board had a total of four committees (executive committee, audit committee, nominations committee and investment committee) to carry out its duties. Due to the reduction in size of the supervisory board, the supervisory board reduced its committees to three on 30 May 2017 (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, the decision-making authority of the supervisory board has been transferred to individual committees to the extent permitted by law.

The executive committee also functions as a personnel committee and makes decisions on matters which must be voted on in urgent cases.

The audit committee supports the supervisory board in monitoring management of the company and pays particular attention to monitoring financial reporting and the associated financial reporting processes, the effectiveness of the internal control system, the risk management system and internal audit, the audit of the financial statements, including the independence of the auditor, as well as

compliance. The audit committee submits to the supervisory board a recommendation giving reasons for the appointment of the auditor, which comprises at least two candidates if the audit engagement is put out to tender and deals with the issuing of the audit mandate to the auditor, the determination of key audit topics, the key audit matters, the fee agreement as well as non-audit services rendered by audit firms.

The nominations committee proposes candidates for the supervisory board.

The investment committee, which was in place until 30 May 2017, prepared resolutions of the supervisory board as well as topics to be dealt with in plenary sessions which are required for or conducive to implementing the investment concept decided upon by the executive board and gave recommendations in this regard to the supervisory board. Due to the reduction in size of the supervisory board, the full supervisory board now deals with these aspects directly.

Shareholders' rights

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

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

Financial reporting and annual audit

The Porsche SE Group's financial reporting is based on the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union, as well as the provisions of German commercial law applicable under Sec. 315e (1) HGB. The financial statements of Porsche SE as parent company of the Porsche SE Group are based on the accounting provisions of the German Commercial Code. Both sets of financial statements for the fiscal year 2017 are audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as independent auditor. In addition, the underlying facts of the compliance declaration in accordance with Sec. 161 (1) AktG are taken into consideration during the annual audit.

Compliance

In accordance with the provisions of the GCGC, the executive board ensures compliance with legal provisions and internal policies, and works toward ensuring compliance. Porsche SE has a dedicated legal affairs and compliance executive board function. The task of Porsche SE's member of the executive board responsible for legal affairs and compliance is to report to the whole executive board on all questions relating to compliance, to introduce preventive measures, manage these and monitor compliance with regulations. Compliance activities are based on a preventive, proactive strategy.

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

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

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

Risk management and control system

The Porsche SE Group has a group-wide risk management and control system which helps management recognize major risks at an early stage, thus enabling them to initiate counter measures in good time. The risk management and control system at the Porsche SE Group is continuously tested for effectiveness and continually optimized to reflect changed conditions. For details, please refer to pages 122 et seq. of the annual report.

Communication and transparency

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

www.porsche-se.com

(“Porsche SE homepage”), which contains all press releases and financial reports as well as the articles of association of Porsche SE and information about the annual general meeting.

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

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

Declaration on the German Corporate Governance Code

Pursuant to Sec. 161 (1) German Stock Corporation Act (AktG), Art. 9 (1) lit. c) ii) SE-VO, the executive and supervisory board of a listed SE are obliged to make an annual declaration of compliance as to whether they have complied and are continuing to comply with the recommendations of the GCGC in the version valid at the time, or which of the recommendations contained in the Code have not been or are not applied, and why. In the event of changes during the year between two regular declarations, the declaration must be updated.

Text of the declaration of Porsche Automobil Holding SE in accordance with Sec. 161 (1) AktG in the version from May 2017:
The executive board and supervisory board of Porsche Automobil Holding SE declare in accordance with Sec. 161 (1) AktG that since the most recent declaration of compliance in May 2016 – as updated by updates to the declaration of compliance in March and April 2017 – the company has complied with and also in the future will comply with the recommendations of the Government Commission on the German Corporate Governance Code (GCGC or Code) announced by the Federal Ministry of Justice in the official part of the German Federal Gazette in the respective valid version of the Code of 5 May 2015, published in the German Federal Gazette on 12 June 2015, and the version of 7 February 2017, published in the German Federal Gazette on 24 April 2017, with the exception of the following deviations:

The recommendation in Sec. 4.2.3 (2) Sentence 2 GCGC, according to which the monetary elements of the remuneration of executive board members should comprise both fixed and variable elements, has not been complied with regarding the chairman of the executive board Hans Dieter Pötsch and will not be complied with in the future. Mr. Pötsch receives only a fixed basic

component from Porsche Automobil Holding SE. Mr. Pötsch, as member and chairman of the supervisory board, also does not receive any variable remuneration calculated on a multi-year basis from Volkswagen AG. In light of Mr. Pötsch's current role as chairman of the supervisory board of Volkswagen AG, the supervisory board of Porsche Automobil Holding SE considers the current structure of his remuneration to be appropriate.

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

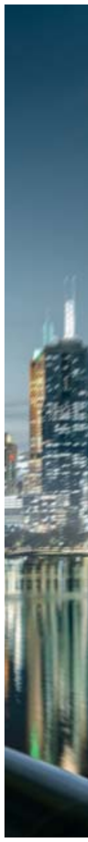
In addition, regarding executive board remuneration paid by Porsche Automobil Holding SE, the recommendation in Sec. 4.2.3 (2) Sentence 6 GCGC has not been and also will not be fully complied with in the future. Based on the judgment of the supervisory board, there are no upper limits of maximum amounts of bonus payments to be made to executive board members for previously agreed targets or a subsequent bonus in recognition of extraordinary performance. The same therefore also applies for compensation on the whole. The supervisory board does not consider this necessary because by exercising its judgment it can ensure that the requirement of appropriateness of Sec. 87 (1) AktG is complied with.

The supervisory board entrusted the task of preparing a proposal for resolution concerning the election of supervisory board members at the annual general meeting on 30 May 2017 to the nominations committee. Accordingly, the nominations committee, in lieu of the supervisory board, approved the proposal for resolution concerning the election of supervisory board members at the annual general meeting of Porsche SE. As a result, formally speaking the recommendation under Sec. 5.3.3 GCGC was not complied with. The tasks were transferred to simplify the decision-making process. In making its decision, the nominations committee took into account the recommendations under Sec. 5.4.1 GCGC addressed to the supervisory board unless the executive board and supervisory board announced a deviation therefrom. In the future, the recommendation under Sec. 5.3.3 GCGC will be fully complied with again.

The recommendations under Sec. 5.4.1 (2) GCGC to set targets with regard to the composition of the supervisory board (in the versions of the Code of 5 May 2015 and of 7 February 2017) and the recommendations on preparing a profile of skills and expertise for the entire board as well as on the circumstances and specifications to be taken into account for the composition of the supervisory board under Sec. 5.4.1 (2) GCGC (in the version of the Code of 7 February 2017) were not complied with. Since 29 March 2017 this has also applied to the recommendations contained therein on determining an age limit for members of the supervisory board and determining a regular limit for the term of office served on the supervisory board. The supervisory board passed a corresponding resolution against the background of the election of the supervisory board that was due to take place at the annual general meeting on 30 May 2017. The supervisory board advocates a balanced composition for the committee as defined in the recommendations in Sec. 5.4.1 (2) GCGC. Setting specific targets and profiles or specifications and taking circumstances into account exceeding the legal requirements continues to be inappropriate in the opinion of the supervisory board since decisions should be taken on the candidates proposed in each individual case in the light of the male or female candidates available at that time. This is to provide the greatest possible flexibility and avoid self-imposed restrictions, all in the best interest of the company. The supervisory board is also of the opinion that the ability to monitor and advise the executive board in its management of the company does not cease upon reaching a certain age. A fixed age limit can also come across as discriminatory. The abovementioned recommendations under Sec. 5.4.1 (2) GCGC will also not be complied with in the future.

In light of the deviations mentioned above, the additional recommendations under Sec. 5.4.1 (3) GCGC (version of the Code of 5 May 2015) and Sec. 5.4.1 (4) Sentence 1 GCGC (version of the Code of 7 February 2017) based thereon were not complied with and will also not be complied with in the future.

As regards the recommendation in Sec. 5.4.1 (6) GCGC (in the version of 7 February 2017, previously Sec. 5.4.1 (5) GCGC) regarding the disclosure of certain matters in the supervisory board's election



recommendations to the annual general meeting, the requirements of the Code are indefinite and their boundaries and scope unclear. The supervisory board has endeavored in the past and will continue to endeavor in the future to meet the requirements of Sec. 5.4.1 (6) of the Code, although, in light of the imprecision, unclear scope and boundaries of the recommendation, it cannot rule out that this recommendation was not fully complied with in the past or will not be fully complied with in the future. As a result, non-compliance has been declared as a precaution.

With regard to the recommendations in Sec. 5.4.2 Sentence 1 GCGC, the supervisory board, with a composition of twelve supervisory board members, cannot – taking into account the ownership structure – maintain its judgment with sufficient legal certainty that due to the membership of Prof. Dr. Ulrich Lehner it has an appropriate number of independent members. As a precaution, it has therefore been declared that the recommendation pursuant to Sec. 5.4.2 Sentence 1 GCGC was not complied with; by reducing the supervisory board to six members the recommendation under Sec. 5.4.2 Sentence 1 GCGC will be complied with in the future.

The recommendation in Sec. 5.4.6 (2) GCGC regarding the orientation of supervisory board compensation toward sustainability has not been complied with nor will it be complied with in the future. In view of the supervisory board’s predominantly supervisory activities, which in the shared opinion of the executive board and the supervisory board give rise to a limited risk of short-term action, the current performance-related compensation includes an adequate sustainability component.

The previous recommendation in Sec. 6.2 GCGC in the version of 5 May 2015 to disclose shares held by members of the company’s governing bodies had not been complied with until it was revoked. Notifications regarding the voting rights of our shareholders in accordance with the European Market Abuse Directive and previously the Securities Trading Act (WpHG) are published by Porsche Automobil Holding SE as required. Notifications concerning the purchase and sale of Porsche preference shares by members of the executive board and supervisory board in accordance with Art. 19 of the European Market Abuse Directive and previously the WpHG are published where required.

Stuttgart, 9 March 2018
Porsche Automobil Holding SE

The supervisory board   The executive board

Porsche SE share

Stock markets[1]

In 2017, the outcome of the presidential elections in the USA remained one of, if not the dominating issue, on the international capital markets. This was exacerbated by uncertainty about further economic development as well as the monetary policy adopted by central banks – mainly the US-Federal Reserve. This pushed the UK's decision to leave the EU into the background somewhat, but was still present as exit negotiations gained in intensity.

The German stock exchange index (DAX) started the new trading year with a leap of more than 110 points: it closed the first trading day of 2017 with 11,598.33 points, up significantly on the 2016 closing level of 11,481.06 points. In the first half of February, the leading German index then dropped to an annual low of 11,509.84 before closing the reporting year back up at 12,917.64 points – an increase of 12.51% on the prior-year closing level. It reached its annual high on 3 November with 13,478.86 points.

The EuroStoxx recorded 3,503.96 points as of the end of the 2017 reporting year, an increase of 5.90%. It had started the year with 3,308.67 points. On 31 January the leading European share index already reached its annual low of 3,230.68 points. The annual high of 3,697.40 points was recorded at the end of the trading day on 1 November.

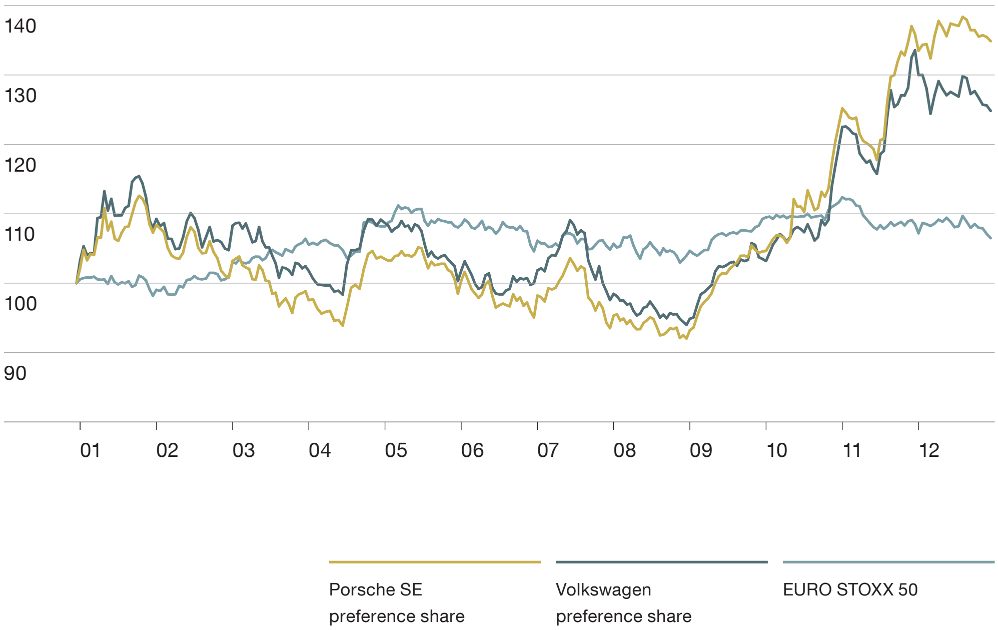
Compared to the two stock exchange indices, Porsche SE's preference share recorded a significantly sharper price increase for the reporting period. The share closed the final trading day in 2017 at 69.78 euro compared to 51.74 euro as of the end of the prior year, an increase of 34.87%. The preference share had initially outperformed the DAX in the first two months of the year, but then fell behind the development of the leading share index towards the end of February. The annual low was recorded at 47.61 euro on 31 August, before the share rallied, hitting its annual high of 71.59 points on 18 December.

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

2017 annual general meeting

The 2017 annual general meeting of Porsche SE was again held in the Porsche-Arena and Hanns-Martin-Schleyer-Halle in Stuttgart. With over 4,000 shareholders, attendance at the meeting was high, similar to prior years. It was resolved to distribute a dividend unchanged on the prior year of 1.010 euro per preference share and 1.004 euro per ordinary share. The amount to be distributed of 308,393,750 euro therefore also remained unchanged on the fiscal year 2015. The executive board and supervisory board were exonerated.

Development of the Porsche SE preference share price 2017
(indexed to 30 December 2016)



Porsche SE preference share: basic data

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

[1] Of which half as ordinary shares

Shareholder composition

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

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

Porsche SE share key figures

		2017	2016	2015
Closing price[1,2,3]	€	69.78	51.74	50.01
Annual high[1,2]	€	71.59	54.04	94.56
Annual low[1,2]	€	47.61	35.94	34.03
Number of ordinary shares issued (31 December)		153,125,000	153,125,000	153,125,000
Number of preference shares issued (31 December)		153,125,000	153,125,000	153,125,000
Market capitalization (31 December)[3,4]	€	21,370,125,000	15,845,375,000	15,315,562,500
Earnings per ordinary share[5]	€	10.87	4.48	-1.01
Earnings per preference share[5]	€	10.88	4.49	-1.00
Dividend per ordinary share	€	1.754[6]	1.004	1.004
Dividend per preference share	€	1.760[6]	1.010	1.010

1 Preference share in Xetra trading
2 Based on daily closing price
3 On 29 December 2017
4 Assuming ordinary shares are valued at the market price of the preference shares
5 Basic and diluted
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 capital market participants in the fiscal year 2017. This was made possible with the help of conference calls as well as roadshows at the most important financial centers.

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

The aim of these activities was and is to inform the capital market participants about the status of the legal proceedings, latest business developments and the investment strategy. The latter in particular was a key topic in the second half of the reporting year as a result of acquiring additional investments.

The relaunch of Porsche SE's website at www.porsche-se.com with its new structure and design was also well received. From a technical standpoint, the new internet presence automatically adjusts the website content to fit the end device being used. Later in the year this was supported by an appearance on career network LinkedIn, thus making Porsche SE's activities in investment management accessible to a wider public. Investor Relations is continuing to work on making Porsche SE's activities available via different communication channels.

Investment strategy of Porsche SE

Porsche SE pursued its investment strategy further in 2017 with the acquisition of three equity investments, with the focus extended to venture capital investments. The investment portfolio complements the core investment Volkswagen AG.

Since mid-2012 Porsche SE has been a pure holding company that in particular manages the majority of the ordinary shares in Volkswagen AG. Porsche SE is also pursuing an investment strategy to acquire additional investments. When it comes to searching for attractive investment opportunities, Porsche SE benefits from having access to one of the largest automotive and industrial networks worldwide.

The aim of Porsche is to establish itself as a long-term financial investor and preferred investment partner in the market and, by having a well-balanced risk profile, to generate a sustainable increase in value for its shareholders. In light of this, Porsche SE is dealing with the future of mobility in the broadest sense as well as with industrial production. This involves Porsche SE looking hard at which technologies will shape the future of mobility and industrial production and how these technologies can be turned into profitable business models.

The principal criteria for future investments are the connection to the automotive value chain, the future of mobility and industrial production as well as an above-average growth potential based on macroeconomic trends and industry-specific trends derived from them.

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. Porsche SE is currently focusing its search in particular on technology surrounding autonomous driving, electromobility, traffic infrastructure and innovative production/manufacturing methods as well as innovative mobility offerings.

New investment opportunities are examined on an ongoing basis.

Building up a venture portfolio

Alongside investments in established companies, Porsche SE expanded its investment focus to young companies and start-ups in the past fiscal year.

Start-ups have the potential of fundamentally changing mobility and industrial production in the future and are an important source of innovation. In order to benefit financially from this innovative strength in the long term, it is essential to identify the corresponding technologies and business models early on and promote them through investments.

By building up a diversified portfolio comprising venture capital investments, the investment strategy will be expanded selectively without fundamentally changing Porsche SE's risk profile. In doing so, the company acts as a focused financial investor with strong sector expertise and an important network.

The aim is an investment amount for venture capital investments in the double-digit million-euro range.

Acquisition of PTV Planung Transport Verkehr AG

In September 2017, an entity of the Porsche SE Group acquired almost 100% of the shares in German company PTV Planung Transport Verkehr AG ("PTV AG"), Karlsruhe. The company is a leading provider of software for traffic planning and management as well as transport logistics.

The acquisition of PTV AG is another important step towards expanding the investment portfolio. As investor, Porsche SE would like to sustainably expand the PTV Group's business. It has a tried-and-tested business model in place and operates at the interface of key trends that are of particular relevance for the future development of the mobility landscape. There is enormous growth potential for PTV Group particularly in the area of optimizing flows of people and goods.

Company profile PTV Group
The Karlsruhe-based company has around 800 employees at more than 20 locations worldwide. PTV Group's software solutions are used globally by more than 2,500 cities. Transports in more than one million vehicles are deployed on a daily basis using PTV software. The software solutions help cities and companies save time and money, enhance road safety and reduce the impact on the environment.

PTV AG was founded in 1979 as a spin-off of the University of Karlsruhe, today the Karlsruhe Institute of Technology (KIT). One of the world's first computer programs for tour planning has since developed into a leading software provider for the planning and optimization of traffic and transport logistics. The current product range consists of three areas: traffic software, logistics software and advisory services.

Traffic software
Traffic software products support infrastructure operators and the public sector with the planning and optimization of traffic and mobility. They are used, on the one hand, to improve the flow of traffic with the existing infrastructure and, on the other, to develop new, future-proof infrastructure. This includes applications for the modeling and simulation of traffic networks for all types of transport, for traffic forecasts, for traffic management in real time and for the development of mobility as a service solutions (MaaS).

Logistics software
PTV Group's know-how supports the optimization of logistic process chains and the transportation of goods – from strategic planning to transportation in real-time and from the central dispatching solution to navigation in the individual vehicle. The performance spectrum consists of software, among other things, for route and tour planning, distribution planning, sales management as well as truck navigation and searching for a place to park.

Advisory services
With its range of services, PTV Group offers municipalities, cities and states sustainable concepts and solutions in traffic and infrastructure projects. PTV Group played a key role in the Lisbon study of the OECD and was one of a select group of companies that have analyzed the impact of fleets of fully automated vehicles on our cities.

PTV Group collaborates closely with research and teaching. The PTV Academics program networks professors from all over the world in a unique platform to swap ideas and research results for the development of innovative technologies.



INRIX

The US technology company INRIX Inc., Kirkland, Washington (USA), is a world leader in the area of connected car services and real-time traffic information. Porsche SE acquired shares in the company in September 2014.

INRIX has specialized in the real-time processing of local data. To do so, the company leverages an extensive crowd-sourcing network of data sources that draws on data from vehicles, smart phones and road sensors. This is supplemented with additional information, e.g., local weather data. This data and innovative algorithms are used, for example, to continuously improve route recommendations.

INRIX is constantly refining its product portfolio and today offers solutions in the areas of parking and infotainment for automobile manufacturers as well as analytics for cities and companies. Based on its data sources, INRIX can analyze all traffic flows in cities with a high degree of granularity. The company therefore not only supports authorities operating in the area of city planning and traffic control centers, but for example also companies from the retail or the real estate industries in connection with location decisions.

Venture capital investments

In November 2017, an entity of the Porsche SE Group acquired venture capital investments in the two US companies Markforged Inc. and Seurat Technologies Inc., each in the single-digit percentage range. Both companies work in the field of additive manufacturing or 3D printing. The investment volume for the two investments was a single-digit million-euro figure in each case.

Markforged and Seurat
Markforged, Watertown, Massachusetts (USA), was founded in 2013 and develops and sells 3D printers and 3D printing solutions. It offers the only industrial 3D printing platform which manufactures high-strength parts from complete pallets of materials from carbon fiber to metal. Another unique selling proposition of the company is the ability to print continuous fiber-reinforced plastics. Moreover, in the past year the company presented its first 3D metal printer for industrial applications. The technology of Markforged is already used worldwide by several thousand customers.

Seurat Technologies, headquartered in Wilmington, Massachusetts (USA), was founded in 2015 and is developing an innovative new technology in the field of 3D metal printing. This technology will allow a significant acceleration of 3D metal printing and will promote the use in industrial series production.

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Group management report and management report of Porsche Automobil Holding SE

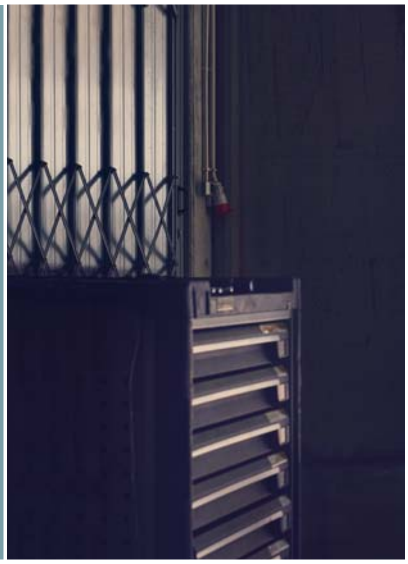
Volkswagen T-Roc


WOB TR 113

2

Group management report and management report of Porsche Automobil Holding SE

Fundamental information about the group



Porsche Automobil Holding SE ("Porsche SE" or the "company"), as the ultimate parent of the Porsche SE Group, is a European Company (Societas Europaea) and is headquartered at Porscheplatz 1 in 70435 Stuttgart, Germany. As of 31 December 2017, the Porsche SE Group had 823 employees (31 December 2016: 30 employees). The increase is attributable to the inclusion of the PTV Group (PTV AG and its subsidiaries).

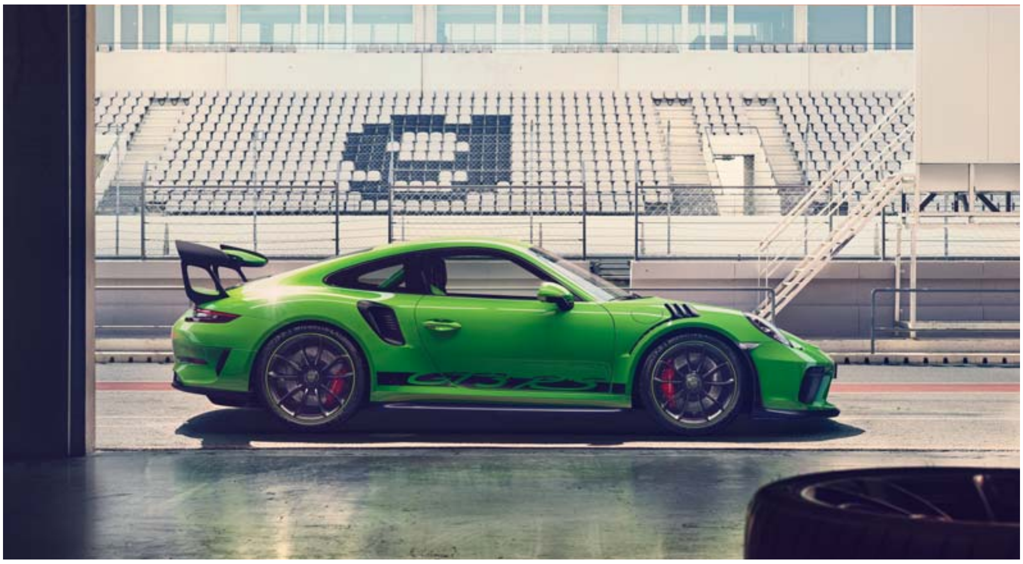
The Porsche SE Group is made up of Porsche Beteiligung GmbH, Stuttgart, Porsche Zweite Beteiligung GmbH, Stuttgart, including the PTV Group, Porsche Dritte Beteiligung GmbH, Stuttgart, Porsche Vierte Beteiligung GmbH, Stuttgart, and the alternative investment fund HI-Liquiditätsfonds; the investments 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 from seven European countries: Volkswagen passenger cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen commercial vehicles, Scania and MAN. In addition, Porsche SE holds shares in the US technology company INRIX. INRIX is a world leader in the field of connected-car services and real-time traffic information. Furthermore, an entity of the Porsche SE Group acquired PTV Planung Transport Verkehr AG ("PTV AG"), Karlsruhe, at the beginning of September. Due to the acquisition of the PTV Group, the Porsche SE Group will distinguish between two segments in the future. The first segment represents "Porsche SE Holdingbetrieb" ("PSE"), including the investments accounted for at equity, and the second segment "Intelligent Transport Systems" ("ITS") currently comprises the development of smart software solutions for transport logistics as well as traffic planning and management.

The principal criteria for future investments are the connection to the automotive value chain, the future of mobility and industrial production as well as above-average growth potential based on macroeconomic trends and industry-specific trends derived from them. 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. Porsche SE is currently focusing its search in particular on technology surrounding autonomous driving, electromobility, transport infrastructure and 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 include young companies from the start-up phase. In this context, in fall 2017 an entity of the Porsche SE Group acquired venture capital investments in the two US companies Markforged Inc., Watertown, Massachusetts, USA, and Seurat Technologies Inc., Wilmington, Massachusetts, USA, each in the single-digit percentage range. The two companies are active in the area of additive manufacturing, also known as 3D printing. The combined investment amounts to a single-digit million-euro figure.

Core management and financial indicator system

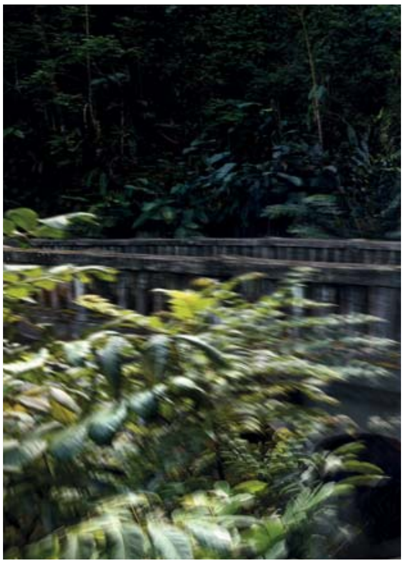
Porsche SE's main corporate goal is to invest in companies that contribute to the mid- and long-term profitability of the Porsche SE Group while ensuring liquidity. In line with these corporate goals, profit/loss and liquidity are the core management indicators in the Porsche SE Group.

Profit/loss after tax for the year is used as a financial indicator for earnings for the Porsche SE Group. For liquidity, net liquidity is monitored and managed accordingly. By definition, net liquidity is calculated as cash and cash equivalents, time deposits and securities less financial liabilities.

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

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

Report on economic position



Significant events and developments at the Porsche SE Group

Diesel issue at the level of the Volkswagen Group

On 18 September 2015, the US Environmental Protection Agency (EPA) informed the public 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 diesel engines. This led to authorities in their respective jurisdictions worldwide commencing their own investigations ("diesel issue").

In the fiscal year 2017, additional expenses of €3.2 billion were recognized at the level of the Volkswagen Group. The increase is due to higher expenses for warranty claims of €2.2 billion as well as legal risks of €1.0 billion. The main reason for the increase in provisions is that buy-back/retrofit programs of 2.0 l TDI vehicles in North America to be implemented under the concluded settlement are proving to be more expensive. Resulting from constantly monitoring the progress of the programs, the campaign is proving more extensive and more technically challenging, which is also causing the time frame of these programs to increase. The diesel issue led to special items totaling minus €25.8 billion at the level of the Volkswagen Group in the years 2015 to 2017.

As the majority shareholder, Porsche SE continues to be affected by this issue, in particular with regard to its profit/loss 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 2017, 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 continue to 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, and the "Forecast report and outlook" section. The executive board of Porsche SE remains committed to the company's role as Volkswagen AG's long-term anchor shareholder and is still convinced of the Volkswagen Group's potential for increasing value added.

Porsche SE acquires PTV AG

On 4 September 2017, a company of the Porsche SE Group acquired 99.9% of the voting shares in PTV AG. The company is a leading provider of software for traffic planning and management as well as transport logistics.

The acquisition of the PTV Group is another important step toward expanding Porsche SE's investment portfolio. The PTV Group operates at the interface of key trends that are of particular relevance for the future development of the mobility landscape. There is enormous growth potential for the PTV Group particularly in the area of optimizing flows of people and goods. With its software solutions, the company occupies key functions in the areas of smart traffic and fleet management.

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. The Regional Court of Hanover has referred certain establishment objectives to the Higher Regional Court of Celle. On 11 May 2016 the Regional Court of Hanover suspended all six proceedings pending before it against Porsche SE up until a final decision about the establishment objectives in the model case before the Higher Regional Court of Celle. 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 canceled the trial dates scheduled for 2017. A new date for continuation of the oral hearing has not been scheduled yet. 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 alleged market manipulation are or were pending:

Based on the same alleged claims that are already subject of a momentarily suspended action concerning alleged damages of €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover, the same plaintiffs filed an action against two members (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 has 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. 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) were 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 have been 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 section "The diesel issue" in the section "Significant events and developments at the Volkswagen Group") the following claims have been asserted against Porsche SE:

Since April 2016 a total of 189 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. The pending actions concern damages in an amount totaling, if and to the extent the claims were quantified, about €934 million (plus interest) and in part establishment of liability for damages. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information in connection with the diesel issue. A part of the actions is directed against both Porsche SE and Volkswagen AG. In one part of these actions Volkswagen AG and the claimants filed motions to recuse judges, about which a decision has not yet been made. 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. 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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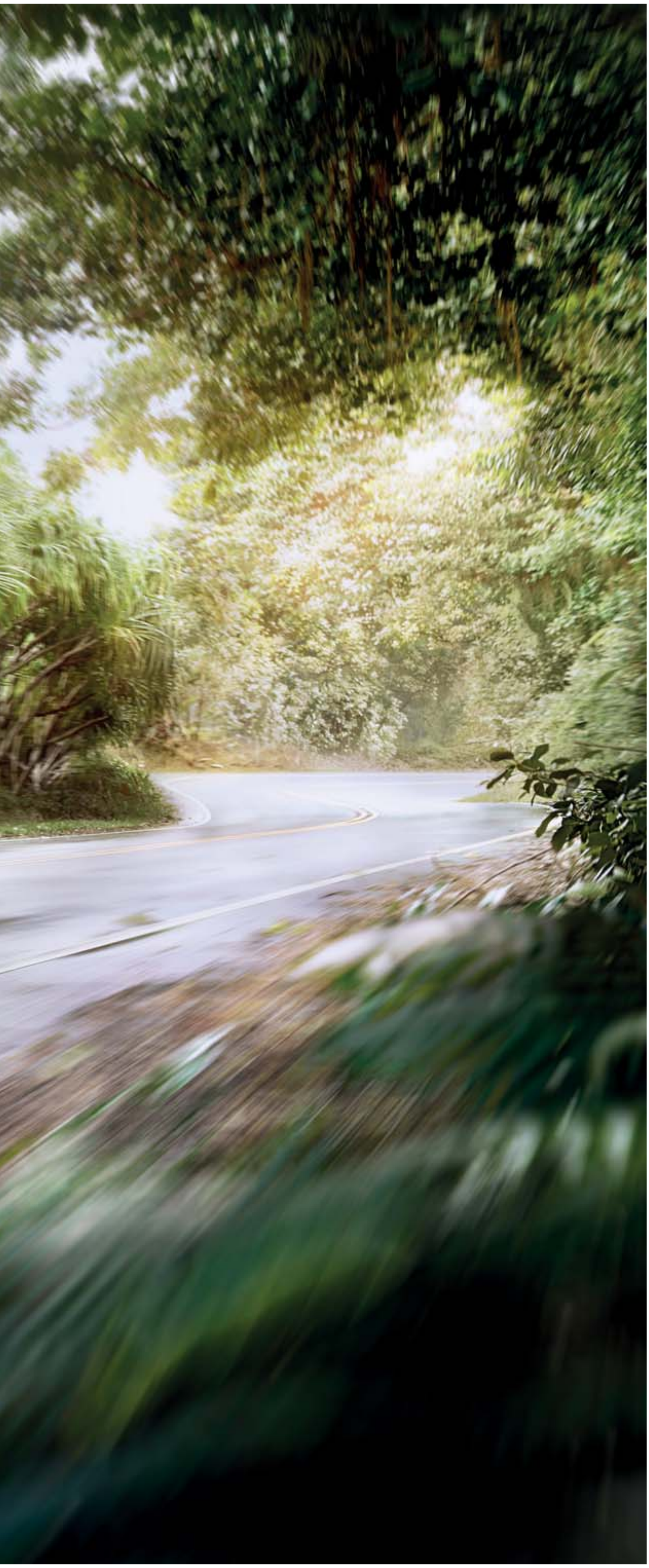

lawsuits in connection with the diesel issue. A part of the plaintiffs has filed motions for suspension of the proceedings with reference to this order of reference. A part of the plaintiffs filed motions for suspension of the proceedings with reference to a KapMuG-based order of reference by the Regional Court of Braunschweig regarding proceedings for damages against Volkswagen AG in connection with the diesel issue. It is currently unclear to what extent the actions pending before the Regional Court of Stuttgart will be suspended with reference to the order of reference issued by the Regional Court of Braunschweig or with reference to the orders of reference issued by the Regional Court of Stuttgart. Since early May 2017, 102 actions have been suspended in whole or partially by the Regional Court of Stuttgart with reference to its order of reference of 28 February 2017 and, to the extent the Regional Court of Stuttgart did not suspend the actions, it partially suggested a withdrawal of the action. The Regional Court of Stuttgart by order decided in 28 actions that the respective action will not be suspended with reference to its order of reference dated 28 February 2017. 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. The actions are directed against both Porsche SE and Volkswagen AG. The actions are based on alleged claims for damages because of nonfeasance of immediate publication of insider information. The actions aim for claims for damages against Porsche SE in the amount of originally about €170,000. Volkswagen AG filed in relation to five actions an application with the Higher Regional Court of Braunschweig to determine the Regional Court of Braunschweig as the competent court. In relation to four proceedings also the plaintiffs filed similar applications to determine the competent court with the Higher Regional Court of Braunschweig. In October 2017 the Higher Regional Court of Braunschweig determined in two proceedings with an amount in dispute of around €136,000 the Regional Court of

Stuttgart as the competent court. Accordingly, the Regional Court of Braunschweig transferred both proceedings to the Regional Court of Stuttgart. In three proceedings the Higher Regional Court of Braunschweig dismissed the motions to determine the competent court. The plaintiffs have in part applied for suspension of the proceeding with reference to the KapMuG-based order of reference issued by the Regional Court of Braunschweig. In part the plaintiffs consented to this motion for suspension. In addition, part of the plaintiffs filed a motion for suspension of the proceedings with reference to the order of reference issued by the Regional Court of Stuttgart of 6 December 2017 concerning questions of local jurisdiction. Prior to that, the Regional Court of Braunschweig had suspended one of the proceedings with respect to Volkswagen AG which was transferred to the Regional Court of Stuttgart with reference to the order of reference issued by the Regional Court of Braunschweig. With orders of 21 February 2018 the Regional Court of Braunschweig suspended two of the proceedings pending before it with respect to Porsche SE and Volkswagen AG with reference to the 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. Porsche SE is evaluating whether it will appeal these orders. A decision regarding the suspension of the remaining three pending proceedings is still outstanding. Porsche SE considers these claims to be inadmissible and to be without merit.

In November 2015, a purchaser of a Volkswagen and an Audi 3.0 l TDI diesel vehicle filed a class action lawsuit in the US District Court for the Eastern District of Michigan against, among others, Volkswagen AG and Porsche SE. The plaintiff alleges that the defendants fraudulently induced US customers to purchase Volkswagen, Audi and Porsche 2.0 l TDI and 3.0 l TDI diesel vehicles that contain illegal defeat devices. This plaintiff's claims against Porsche SE were resolved in fiscal year 2017.

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, 51 persons who have not yet filed a lawsuit have made out-of-court claims or initiated conciliatory proceedings against Porsche SE in connection with the diesel issue. In part, the alleged claims have not yet been quantified. As far as the alleged claims have been quantified by the plaintiffs, the damage claims amount to a total of around €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.

Investigation proceedings

The Stuttgart public prosecutor 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 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. Porsche SE considers the actions to be partially inadmissible and in any event to be without merit.

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 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. The appeal was not allowed.

Significant events and developments at the Volkswagen Group

Diesel issue

Irregularities concerning NO_x emissions
On 18 September 2015, the US Environmental Protection Agency (EPA) publicly announced in a notice of violation that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the USA. In this context, Volkswagen AG announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with type EA 189 diesel engines. On 2 November 2015, the EPA issued a notice of violation alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines.

Numerous court and governmental proceedings were subsequently initiated in the USA and the rest of the world. During the fiscal year 2017, Volkswagen succeeded in ending most significant court and governmental proceedings in the USA by concluding settlement agreements. This includes, in particular, settlements with the US Department of Justice (DOJ). Outside the USA, Volkswagen also reached agreements with regard to the implementation of the technical measures with numerous authorities. Detailed information on the individual settlement agreement as well as on the pending court and governmental proceedings can be found in the Volkswagen Group's risk and opportunity report in this group management report.

Extensive investigations initiated by Volkswagen AG
After the first notice of violation was issued, Volkswagen AG immediately initiated its own internal inquiries and an external investigation.

The supervisory board of Volkswagen AG formed a special committee that coordinates the activities relating to the diesel issue for the supervisory board.

The global law firm Jones Day was instructed by Volkswagen AG to carry out an extensive investigation of the diesel issue in light of the DOJ's and the Braunschweig public prosecutor's criminal investigations as well as other investigations and proceedings which were expected at that time. Jones Day was instructed by Volkswagen AG to present factual evidence to the DOJ. To resolve US criminal law charges, Volkswagen AG and the DOJ entered into a plea agreement, which includes a statement of facts containing a summary of the factual allegations which the DOJ considered relevant to the settlement with Volkswagen AG. The

statement of facts is based in part on Jones Day's factual findings as well as the evidence identified by the DOJ itself.

Jones Day has completed the work required to assist Volkswagen AG in assessing the criminal charges against the company in the USA with respect to the diesel issue. However, work in respect of the legal proceedings which are still pending in the USA and the rest of the world is ongoing and will require considerable efforts and a considerable period of time. In connection with this work, Volkswagen AG is being advised by a number of external law firms.

Furthermore, in September 2015, Volkswagen AG filed a criminal complaint in Germany against unknown individuals as did AUDI AG. Volkswagen AG and AUDI AG are cooperating with all responsible authorities in the scope of reviewing the incidents.

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

In the months after the International Council on Clean Transportation (ICCT) study was published in May 2014, the test set-ups on which the ICCT study was based were repeated in-house at Volkswagen AG and confirmed the unusually high NO_x emissions from certain type EA 189 2.0 l diesel engines in the USA. The California Air Resources Board (CARB) – a part of the environmental authority of California – was informed of this result by Volkswagen and, at the same time, an offer was made to recalibrate the type EA 189 diesel engines in the USA as part of a service measure that was already planned in the USA. This measure was evaluated and adopted by the Ausschuss für Produktsicherheit (APS – Product Safety Committee) of Volkswagen AG, which initiates necessary and appropriate measures to ensure the safety and conformity of Volkswagen AG's products that are placed in the market. Volkswagen has no findings that an unlawful defeat device under US law was disclosed to the APS as the cause of the discrepancies or to the persons responsible for preparing the 2014 annual and consolidated financial statements of Volkswagen AG. Instead, at the time the 2014 annual and consolidated financial statements were being prepared, the persons responsible for preparing the 2014 annual and consolidated financial statements remained under the impression that the issue could be solved with comparatively little effort as part of a service measure.

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

Extensive inquiries were also conducted at AUDI AG in relation to the potential use of unlawful defeat devices under US law in type V6 3.0 l diesel engines. The investigation conducted by Jones Day for Volkswagen AG also comprehensively covered this issue.

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

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

Nothing from the publications made up to the time this report was prepared or from the ongoing investigations and interviews on the diesel issue has presented the Volkswagen AG board of management with any conclusive findings or assessments of fact that would result in a different assessment of the associated risks (e.g., investor lawsuits).

EA 189 vehicles in the EU/rest of the world

Outside the USA and Canada, around 10 million vehicles with type EA 189 diesel engines were affected.

During the first quarter of 2017, the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) issued the final outstanding official approvals needed for technical measures of 14 thousand Volkswagen Group vehicles fitted with type EA 189 diesel engines falling within its remit.

The KBA ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO_2 emissions figures, engine power, maximum torque and noise emissions. Once the updates have been made, the vehicles will thus also continue to comply with the legal requirements and the emission standards applicable in each case.

During the second quarter of 2017, the Vehicle Certification Agency in the United Kingdom issued the outstanding official approvals needed for technical measures to modify the ŠKODA and SEAT models with type EA 189 diesel engines falling within its remit.

The technical measures for all affected vehicles with type EA 189 engines in the European Union were approved without exception, and implemented in most cases.

In some countries outside the EU the technical measure has to be approved by the national authorities. With the exception of South Korea, Volkswagen was able to conclude this approval process in all countries. In South Korea, the majority of approvals were likewise granted; in relation to the pending approvals, Volkswagen is in close contact with the authorities.

Based on current planning, implementation of the technical measures, which are free of charge for the Volkswagen Group's customers, will run into 2018.

Further retrofit programs for type V6/V8 engines
For many months, AUDI AG has been intensively checking all diesel concepts for possible discrepancies and retrofit potentials. A systematic review process for all engine and gear variants has been underway since 2016. This was done in close cooperation with the authorities, which were provided with detailed reports, especially the German Federal Ministry of Transport and the KBA. In this context, AUDI AG announced on 21 July 2017 that it was going to improve the emissions performance of up to 850 thousand vehicles across Europe via service measures. The retrofit package comprises voluntary measures and, to a small extent, measures directed by the authorities; these are measures taken within the scope of a recall, which were proposed by AUDI AG itself, reported to the KBA and taken up and ordered by the latter.


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

The EPA and CARB have approved emissions modifications and issued resale approvals for the majority of the affected vehicles with 2.0 l TDI engines. The repair approvals relate to certain Generation 1 and Generation 2 vehicles, and the first part of a two-step modification for Generation 3 vehicles. The second part of this modification has been submitted for approval. Volkswagen is working in close cooperation with the EPA and CARB to obtain the outstanding approval. Volkswagen has withdrawn the emissions modification proposal for Generation 2 vehicles with manual transmissions.

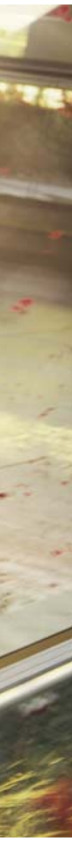
The EPA and CARB have approved the repair solutions for the Generation 2 vehicles with type V6 3.0 l TDI engines. Volkswagen has submitted proposals for emissions modifications for Generation 1 vehicles with type V6 3.0 l TDI engines. These proposals are under review by the EPA and CARB.

The relevant US and Canadian companies of the Volkswagen Group have withdrawn the affected new and certified used vehicles from sale until the outstanding approvals are issued. The technical solutions that have been approved by the authorities have already been implemented.

Legal risks
Various legal risks for the Volkswagen Group are associated with the diesel issue. The provisions recognized in Volkswagen's consolidated financial statements for the diesel issue and the contingent liabilities disclosed there as well as the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and since the facts have not yet been definitively clarified. Should these legal risks materialize, this could result in considerable financial charges for the Volkswagen Group.

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

Independent monitor
In June 2017, Larry D. Thompson was appointed as the independent compliance monitor at Volkswagen under the terms of the plea agreement with the DOJ announced on 11 January 2017 and confirmed by a US federal court on 21 April 2017. He will also work as independent compliance auditor at Volkswagen under the Third Partial Consent Decree concluded separately with the EPA and the Third California Partial Consent Decree agreed with the State of California and CARB (for more information on these agreements, please see the Litigation section in the report on opportunities and risks of the Volkswagen Group in this group management report). Mr. Thompson will assess and oversee Volkswagen's compliance with the terms of the plea agreement and consent decrees for a period of three years, which includes taking measures to further strengthen the company's compliance, reporting and monitoring mechanisms and the implementation of an enhanced compliance and ethics program.



Business development

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

Developments in the global economy
Global gross domestic product (GDP) rose by 3.2% (2.5%) in 2017. Economic momentum accelerated in both advanced economies and emerging markets year-on-year. Consumer prices increased at a slower pace worldwide than in the prior year, with persistently low interest rates and rising energy and commodity prices.

Worldwide new passenger car registrations
In the fiscal year 2017, the global market volume of passenger cars rose by 2.9% to 83.5 million vehicles, achieving a record figure for the seventh time in a row. While demand rose in the Asia-Pacific, South America, Western Europe and Central and Eastern Europe regions, the market volume in North America, the Middle East and Africa fell short of the prior-year figures.

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

In addition, non-tariff trade barriers to protect the respective domestic automotive industry made the movement of vehicles, parts and components more difficult.

Trends in the markets for commercial vehicles
Overall demand for light commercial vehicles in the fiscal year 2017 was slightly lower than in the prior year. A total of 9.1 million (9.3 million) vehicles were registered worldwide. Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets that are relevant for the Volkswagen Group was higher in the fiscal year 2017 than in the prior year, with 547 thousand new vehicle registrations (up 7.4%). Demand for buses in the markets that are relevant for the Volkswagen Group was considerably higher than in the prior year. The markets in Central and Eastern Europe as well as South America contributed in particular to this growth.

Passenger car deliveries worldwide
With its passenger car brands, the Volkswagen Group is present in all relevant automotive markets around the world. The group's key sales markets currently include Western Europe, China, the USA, Brazil and Mexico. The Volkswagen Group recorded encouraging growth in many key markets.

During the reporting period, deliveries of passenger cars to Volkswagen Group customers worldwide rose to 10,038,650 units amid partly difficult conditions in some relevant markets such as the United Kingdom and the USA. This was an increase of 403,164 vehicles or 4.2% on the prior year. Since the passenger car market as a whole expanded by 2.9% in the same period, the Volkswagen Group's share of the global market rose slightly to 12.1% (11.9%). The Volkswagen Group recorded the highest absolute growth in China. Sales figures in Germany and Mexico, among others, were down on the prior year. All Volkswagen Group brands lifted delivery volumes year-on-year. The Volkswagen passenger cars brand recorded the strongest growth in absolute terms, setting new records, as did Audi, ŠKODA, Porsche, Bentley and Lamborghini.

The Volkswagen Group delivered a total of 702,805 commercial vehicles to customers worldwide in 2017 (up 6.2%). Trucks accounted for 183,481 units (up 10.7%) and buses for 19,218 units (up 8.1%). Sales of light commercial vehicles increased by 4.6% year-on-year to 500,106 units.

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

	2017	2016	Change %
Regions			
Europe/Other markets	4,737,630	4,617,709	2.6
North America	976,396	939,173	4.0
South America	521,585	421,539	23.7
Asia-Pacific	4,505,844	4,318,620	4.3
Worldwide	**10,741,455**	**10,297,041**	**4.3**
by brands			
Volkswagen passenger cars	6,230,229	5,980,309	4.2
Audi	1,878,105	1,867,738	0.6
ŠKODA	1,200,535	1,126,477	6.6
SEAT	468,431	408,703	14.6
Bentley	11,089	11,023	0.6
Lamborghini	3,815	3,457	10.4
Porsche	246,375	237,778	3.6
Bugatti	71	1	>100
Volkswagen commercial vehicles	497,894	477,974	4.2
Scania	90,777	81,346	11.6
MAN	114,134	102,235	11.6

1 Deliveries for 2016 have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

Sales and production of the Volkswagen Group

The Volkswagen Group's sales to the dealer organization[1] increased by 3.7% to 10,777,048 units (including the Chinese joint ventures) in the reporting year. This was due to higher demand in Asia-Pacific, especially China, in South America and North America, and in Europe.

The Volkswagen Group produced 10,875,000 vehicles worldwide in the fiscal year 2017, 4.5% more than in the prior year. In total, its Chinese joint ventures manufactured 3.7% more units than in the year before. The percentage of the group's total production accounted for by Germany was lower than in 2016, at 23.7% (25.8%).

Headcount of the Volkswagen Group

The Volkswagen Group's headcount was 642,292 employees (up 2.5%) at the end of the reporting period. The production-related expansion, the recruitment of specialists within and outside Germany and the expansion of the workforce in the new plants in Mexico, China and Poland were offset by the reduction of around 9,800 employees as a result of the disposal of part of the PGA Group SAS. A total of 287,480 people were employed in Germany (up 2.1%), while 354,812 were employed abroad (up 2.8%).

Volkswagen Group financial services

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

Demand for the Volkswagen Group's financial services division's products and services remained strong in the fiscal year 2017. At 7.3 million (7.1 million), the number of new financing, leasing, service and insurance contracts signed worldwide was above the prior-year level. The ratio of leased or financed vehicles to the Volkswagen Group's deliveries (penetration rate) in the financial services division's markets rose to 33.4% (33.3%) in the reporting period. As of 31 December 2017, the total number of contracts was 18.4 million, up 5.7% as against the end of 2016. The number of contracts in the customer financing/leasing area rose by 6.3% to 10.1 million, while it increased by 5.0% to 8.4 million in the service/insurance area.

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

Results of operations, financial position and net assets

In the following explanations, the results of operations as well as the financial position and net assets of the Porsche SE Group for the fiscal year 2017 are compared to the corresponding comparative figures for the period from 1 January to 31 December 2016 (results of operations and financial position) and as of 31 December 2016 (financial position and net assets).

Results of operations of the Porsche SE Group

The Porsche SE Group’s profit/loss for the fiscal year 2017 comes to €3,332 million (€1,374 million). This result was significantly influenced by the profit/loss from the investments accounted for at equity of €3,410 million (€1,449 million). The profit for the year of between €2.1 billion and €3.1 billion originally forecasted for the fiscal year 2017 was thus exceeded. This is due in particular to the profit for the year of the Volkswagen Group. The tax reform passed in the USA at year-end resulted in a non-recurring positive, albeit non-cash, measurement effect from deferred taxes of €1.0 billion at the level of the Volkswagen Group.

Profit/loss from investments accounted for at equity increased by €1,961 million year on year to €3,410 million. Of this, €3,412 million (€1,467 million) is attributable to the investment in Volkswagen AG and minus €2 million (minus €18 million) to the investment in INRIX. Profit/loss from investments accounted for at equity contains profit contributions from ongoing equity accounting of €3,495 million (€1,591 million) as well as subsequent effects from purchase price allocations of minus €85 million (minus €128 million).

The full consolidation of the PTV Group starting at the beginning of September leads to a change in the income statement of the Porsche SE Group. Revenue in particular increased to €34 million (€1 million) as well as the cost of materials to €4 million (€0 million). Furthermore, the number of employees increased as of the reporting date to 823 (30), with personnel expenses also increasing to €31 million (€12 million) as a result. Amortization and depreciation of €6 million (€0 million) primarily relate to the subsequent measurement of the hidden reserves identified as intangible assets in the course of the purchase price allocation .

Other operating expenses in the fiscal year 2017 amount to €48 million (€37 million) and mainly contain legal and consulting fees of €22 million (€22 million).

The financial result came to minus €8 million in the reporting period (€20 million). The increase is due in particular to lower interest expenses following the repayment of a €300 million loan to the Volkswagen Group mid-June 2017.

Group profit before tax increased from €1,382 million to €3,352 million. Income taxes of €21 million (€8 million) relate almost exclusively to deferred taxes. Overall, this gave rise to group profit for the year of €3,332 million (€1,374 million) in the reporting year.

Financial position of the Porsche SE Group

Cash flow from operating activities came to €250 million in the fiscal year 2017 and increased by €347 million year on year. This includes in particular the positive effect from the dividend payment received from Volkswagen AG of €308 million (€17 million) as a cash inflow. Furthermore, the balance of income taxes paid and received decreased by €45 million compared to the comparative period. Other cash outflows during the reporting period of €58 million (€69 million) are mainly attributable to operating expenses as well as interest payments.

There was a cash inflow from investment activities totaling €376 million in the fiscal year 2017 (€341 million). In the reporting period, the decrease in the securities portfolio as well as the time deposits resulted in a cash inflow totaling €667 million. Cash outflows were largely due to the acquisition of the PTV Group. Taking into account the cash funds acquired, this resulted in a net cash outflow of €283 million.

There was a total cash outflow from financing activities of €609 million (€308 million) in the fiscal year 2017. As in the prior year, this related on the one hand to the dividends distributed to shareholders of Porsche SE of €308 million. On the other hand, financial liabilities totaling €300 million were repaid in full to the Volkswagen Group mid-June 2017.

Compared to 31 December 2016, cash funds thus increased by €17 million to €664 million.

Net liquidity of the Porsche SE Group comprises cash and cash equivalents, time deposits and securities less financial liabilities. It decreased from €1,299 million at the beginning of the year to €937 million on 31 December 2017. This decrease is primarily attributable to the acquisition of the PTV Group at the beginning of September. As of 31 December 2016, the development of net liquidity in the fiscal year 2017 of between €1.0 billion and €1.5 billion was forecasted, without taking future investments into account. Following the acquisition of the PTV Group, the range of net liquidity was adjusted to between €0.7 billion and €1.2 billion. This adjusted corridor was maintained as of 31 December 2017.

Net assets of the Porsche SE Group

The Porsche SE Group's total assets increased by €3,331 million from €28,365 million as of 31 December 2016 to €31,696 million as of 31 December 2017.

The non-current assets of the Porsche SE Group as of year-end totaling €30,705 million (€26,761 million) related primarily to the investments accounted for at equity. These included in particular the carrying amount of the investment in Volkswagen AG accounted for at equity, which increased by €3,600 million to €30,339 million. This increase was mainly due to the profit/loss from investments accounted for at equity of €3,412 million as well as effects recognized directly in equity totaling €496 million. This was countered by dividend payments received amounting to €308 million. The investments accounted for at equity also include the carrying amount of the investment in INRIX of €15 million.

Intangible assets of the Porsche SE Group of €333 million (€0 million) primarily contain the goodwill of €213 million resulting from the first-time consolidation of the PTV Group as well as the amortized carrying amounts for brand (€14 million), customer bases (€64 million) and software (€41 million) resulting from the purchase price allocation.

Non-current assets expressed as a percentage of total assets increased from 94.3% as of 31 December 2016 to 96.9% at the end of the fiscal year 2017.

Current assets decreased by €613 million to €991 million largely due to the repayment of financial liabilities as well as the acquisition of the PTV Group. They mainly consist of cash and cash equivalents, time deposits and securities.

As of 31 December 2017, the equity of the Porsche SE Group increased to a total of €31,410 million mainly due to the group profit for the year (€27,894 million). The equity ratio increased from 98.3% at the end of the fiscal year 2016 to 99.1% as of 31 December 2017.

Non-current and current provisions increased slightly by €12 million to €135 million. This increase is primarily due to provisions for personnel costs and pensions of the PTV Group. Deferred tax liabilities increased in total by €56 million to €84 million as of 31 December 2017 mainly as a result of the purchase price allocation for the PTV Group as well as the increase in the carrying amount of the investment accounted for at equity in Volkswagen.

The €287 million decrease in financial liabilities is attributable to the full repayment of the loans due to the Volkswagen Group.

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 2017. This means that effects from inclusion at equity in the consolidated financial statements of Porsche SE, particularly relating to the subsequent measurement of the hidden reserves and liabilities identified in the course of the

purchase price allocations, as well as from applying uniform group accounting policies, are not taken into consideration.

In the fiscal year 2017, the Volkswagen Group's revenue increased by 6.2% year on year to €230.7 billion. In particular, higher volumes and the healthy business performance in the financial services division had a positive effect, while exchange rates had a negative impact. At 80.8% (79.9%) the major share of revenue was recorded outside Germany.

Gross profit improved by €1.5 billion to €42.5 billion. Adjusted for special items recorded under this item in both periods, gross profit increased to €44.8 billion (€42.5 billion). The gross margin amounted to 18.4% (18.9%); excluding special items it was 19.4% (19.6%).

In the reporting period, the Volkswagen Group generated an operating profit before special items of €17.0 billion (€14.6 billion); the operating return on sales before special items rose to 7.4% (6.7%). The increase was mainly the result of positive volume-, mix- and margin-related factors, as well as improvements in product costs, while higher fixed costs as a result of expansion and higher depreciation and amortization charges due to the large volume of capital expenditure had an offsetting effect. Negative special items weighed on operating profit, reducing this item by a total of minus €3.2 billion (minus €7.5 billion). At €13.8 billion, the Volkswagen Group's operating profit was up €6.7 billion on the prior year. The operating return on sales rose to 6.0% (3.3%).

The financial result declined to €0.1 billion (€0.2 billion). Lower interest expenses and lower expenses from the measurement of derivative financial instruments at the reporting date had a positive effect, while foreign currency measurement had a negative impact. The share of the result of equity-accounted investments was at the prior-year level. This includes the gain on the remeasurement of the investment in HERE following the acquisition of shares by additional investors. In the prior-year period, the income from the sale of the LeasePlan shares had a positive effect.

The Volkswagen Group's profit before tax rose to €13.9 billion in the reporting period, up €6.6 billion on the prior-year figure. The return on sales before tax improved from 3.4% to 6.0%. Profit after tax amounted to €11.6 billion (€5.4 billion). Although income taxes increased, the tax rate of 16.3% (26.2%) was considerably lower in the reporting period. This decline was due to the tax reform in the USA passed at the end of the year, which led to a non-recurring positive non-cash measurement effect on deferred taxes of €1.0 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 2017.

Results of operations

Porsche SE achieved a net profit of €235 million in the fiscal year 2017 (net loss: €70 million).

The increase in other operating income is largely due to allocating costs incurred in connection with acquisitions to affiliated companies.

Other operating expenses for the fiscal year 2017 mainly contain legal and consulting costs of €20 million (€22 million) and expenses for other external services of €7 million (€8 million).

In the fiscal year 2017, Porsche SE received a dividend from its investment in Volkswagen AG of €308 million (€17 million). In contrast, the profit and loss transfer agreements in place between Porsche SE and both Porsche Zweite Beteiligung GmbH and Porsche Beteiligung GmbH resulted in a total negative effect on profit/loss from investments of €19 million. This relates in particular to expenses in connection with the acquisition of PTV AG as well as an impairment loss on the investment in INRIX.

The interest result for the fiscal year 2017 increased from minus €21 million in the prior year to minus €11 million. This is mainly attributable to lower interest expenses of €10 million (€21 million) for a loan due to the Volkswagen Group totaling €300 million, which was fully repaid mid-June 2017.

Income statement of Porsche Automobil Holding SE

€ million	**2017**	2016
Revenue	0	1
Other operating income	5	1
Personnel expenses	–12	–11
Other operating expenses	–33	–36
Profit/loss from investments	289	–3
Interest result	–11	–21
Income tax	0	0
Profit/loss for the year	**237**	**–69**
Other tax	–2	–1
Profit/loss after tax	**235**	**–70**
Withdrawals from retained earnings	303	378
Net profit available for distribution	**538**	**308**

Net assets and financial position

The financial assets of Porsche SE primarily contain the investment in Volkswagen AG (€22,034 million), the shares in Porsche Zweite Beteiligung GmbH, which increased to €315 million in the reporting period due to a capital injection for the acquisition of the investment in PTV AG, the shares in an alternative investment fund (€200 million) as well as the investment in Porsche Beteiligung GmbH (€43 million).

Cash and cash equivalents decreased mainly as a result of capital injections at affiliated companies (minus €315 million) as well as the repayment of the loan due to the Volkswagen Group (minus €300 million).

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

Liabilities primarily relate to Porsche SE's obligations from profit and loss transfer agreements (€19 million). In the prior year, this item still contained a loan due to the Volkswagen Group totaling €300 million.

Balance sheet of Porsche Automobil Holding SE

€ million	**31/12/2017**	31/12/2016
Assets		
Non-current financial assets	22,600	22,277
Other assets	2	2
Receivables from affiliated companies	0	1
Marketable securities	0	83
Cash and cash equivalents	704	1,319
Prepaid expenses	1	0
	23,308	**23,682**
Equity and liabilities		
Equity	23,156	23,230
Provisions	117	115
Liabilities	35	337
	23,308	**23,682**

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

Dividends
Porsche SE's dividend policy is generally geared to sustainability. The shareholders should participate to an appropriate extent 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 2017 report a net profit available for distribution of €538 million consisting of a net profit for the year of €235 million and a withdrawal from retained earnings of €303 million. The executive board proposes a resolution for the distribution of a dividend of €1.754 per ordinary share and €1.76 per preference share, i.e., a total distribution of €538 million. For the fiscal year 2016, the dividend had been €1.004 per ordinary share and €1.010 per preference share.

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

Outlook
In the 2018 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 €3.90 per ordinary share and €3.96 per preference share and the operating expenses, which are anticipated to remain constant, Porsche SE is expected to generate a net profit in the mid-triple-digit million-euro range.

Sustainable value enhancement in the Porsche SE Group

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

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

Sustainable value enhancement in the Volkswagen Group

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

Sustainability in the Volkswagen Group

The Volkswagen Group is committed to sustainable, transparent and responsible corporate governance. The biggest challenge the Volkswagen Group faces in implementing this at all levels and at every step in the value chain is the complexity of the company, with its twelve brands, more than 642 thousand employees and 120 production locations. In order to tackle this challenge in the best way possible,

Volkswagen follows the Sustainable Development Goals (SDGs) formulated by the United Nations and the recommendations of the German Corporate Governance Code. In addition, the Volkswagen Group coordinates its sustainability activities across the entire group. It has also put in place a forward-looking system of risk management and a clear framework for dealing with environmental issues in a future-oriented manner, for employee responsibility and for social commitment across its brands and in the regions in which it operates.

For the Volkswagen Group, sustainability means simultaneously striving for economic, social and environmental goals in a way that gives them equal priority. The future program TOGETHER – Strategy 2025 places sustainable growth at the heart of its strategic target dimensions: Volkswagen wants to be an excellent employer and a role model for the environment, safety and integrity, to excite customers and to ensure that it achieves competitive profitability. By 2025, the Volkswagen Group aims to become the world's number one in electric mobility. It will therefore set new priorities with Roadmap E. It also wants to ensure that it recognizes opportunities and risks in the areas of environment, society and governance at an early stage at every step along the value chain. The Volkswagen Group's corporate social responsibility (CSR) activities will contribute toward enhancing the company's reputation and value in the long term.

Management and coordination

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

The sustainability office supports the steering group. Its duties include coordinating all sustainability activities within the Volkswagen Group and the brands. It is also responsible for stakeholder dialog at group level, for example with sustainability-driven analysts and investors. In addition, CSR project teams work across business areas on topics such as reporting, stakeholder management and sustainability in supplier relationships. This coordination and working structure is also largely established across the brands and is constantly expanding. Since 2009, the sustainability and CSR coordinators for all brands and regions have come together once a year to promote communication across the group, create uniform structures and learn from one another. This group CSR meeting has proven its worth as an integral part of the group-wide coordination structure.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Sustainability council
As part of its efforts to continuously improve and expand its sustainability management, the Volkswagen Group appointed an international sustainability council in 2016 made up of renowned experts from the academic world, politics and society. The members of the council establish their own working methods and areas of focus independently and consult with the board of management, senior managers and the employee representatives regularly for the purposes of consultation, exchanging information and initiating action.

The key issues in 2017 were the challenges created by global CO_2 emissions and the regulatory requirements to be met post-2025, as well as the Volkswagen Group's transformation process. The Volkswagen Group is providing €20 million in funding for projects proposed and promoted by the sustainability council for the years 2017 and 2018. The first projects relate to innovation and cultural change in the area of sustainable mobility, an international crisis prevention initiative as a result of climate change and an academic study on the future shape of the transport and climate policy framework.

Research and development in the Volkswagen Group

Forward-looking mobility solutions with brand-defining products and services would be unthinkable without technological innovations. This makes research and development work essential for sustainably increasing the value of the company.

Together with its group brands, the Volkswagen Group has formulated a strategy for networking development activities across the group and launched numerous initiatives based on its future program TOGETHER – Strategy 2025. At the heart of this is an efficient, cross-brand development alliance characterized by a close

network of experts, collaboration on an equal footing, an innovative working environment and the pooling of development activities. With this alliance, Volkswagen aims to make use of synergy effects across the group and act as a role model for the environment, safety and integrity. The alliance is playing a major part in the Volkswagen Group's transformation into a leading provider of sustainable mobility and helping to make the group fit for the future.

Based on this strategic focus, the Volkswagen Group concentrated in the reporting year on continuing to develop promising mobility solutions, establishing technological expertise to strengthen its competitiveness, expanding its range of products and services and improving the functionality, quality, safety and environmental compatibility of its products and services.

Key R&D figures

The automotive division's total research and development costs of €13,135 million in the reporting year were 3.9% lower than in the prior year; their percentage of the automotive division's revenue – the R&D ratio – came to 6.7% (7.3%). Along with new models, the main focus was on the electrification of Volkswagen's vehicle portfolio, a more efficient range of engines and digitalization. Development costs of €5,260 million were capitalized (€5,750 million). The capitalization ratio was 40.0% (42.1%). Amortization of capitalized development costs in the reporting year 2017 came to €3,734 million compared to €3,587 million in the prior year. Research and development costs recognized in the income statement in accordance with IFRSs increased to €11,609 million (€11,509 million).

As of 31 December 2017, Volkswagen's research and development departments – including the equity-accounted Chinese joint ventures – employed 49,316 people (up 2.6%) group-wide or 7.7% of the total headcount.

Procurement in the Volkswagen Group

In fiscal year 2017, the main task for procurement was once again to safeguard the necessary supplies and to help create competitive, innovative products and optimize cost structures. The Volkswagen Group also continued to digitalize procurement processes and expand cooperation with suppliers under the Volkswagen FAST (Future Automotive Supply Tracks) initiative.

Volkswagen FAST – supplier network as the basis for success

FAST is the central initiative of group procurement, introduced in 2015 with the aim of making the Volkswagen Group and its supply network future-proof. The goal of FAST is to successfully implement the key topics of innovation and globalization by involving suppliers at an earlier stage and more intensively. The FAST initiative

enhances the quality and speed of collaboration with Volkswagen's key partners, and thus enables it to coordinate global strategies and points of technological focus even more closely. The common goal is to make impressive technologies available to its customers more quickly and to implement worldwide vehicle projects more effectively and efficiently.

From 55 FAST suppliers in 2016, the network grew to 64 suppliers over the past fiscal year. Volkswagen presented the group's key topics and projects at the FAST Summit, which took place in the reporting year for the third time. In addition, at the FAST Forum, relevant decision makers discussed how FAST can be made even more effective for Volkswagen and suppliers.

Digitalization of supply
The Volkswagen Group is working systematically to implement a completely digitalized supply chain. This will help it to ensure supply, leverage synergies throughout the group and become a leader in cost and innovation. The Volkswagen Group is therefore creating a shared database and using innovative technologies to enable efficient, networked collaboration in real time – both within the group and with its partners. Since the successful launch of its new group business platform ONE KBP in April 2017, Volkswagen has been working together with its suppliers on one platform. A cloud-based, group-wide data strategy was also agreed in 2017. This will enable it to identify supply risks in the supply chain even faster in the future.

Management of purchase parts and suppliers
Purchase parts management is a core component of the global procurement organization. With the Volkswagen Group's experts in tools and industrialization, along with standardized processes and approaches, purchase parts management makes a substantial contribution to ensuring successful production start-ups for vehicles and powertrains all around the world. Against the backdrop of increased complexity in the automotive industry, Volkswagen also helps to safeguard supplies for series production. As part of the pre-production process, Volkswagen simulates series production at suppliers to identify any gaps in production or quality at an early stage and take countermeasures. Purchase parts management works closely with quality assurance at the production sites and conducts multi-stage performance testing.

Production in the Volkswagen Group

The global, cross-brand production network safeguards the processes from the supplier to the factory and assembly line, and from the factory to dealers and customers. Enduring efficiency is a prerequisite for the Volkswagen Group's competitiveness. Volkswagen meets challenges of the future with holistic optimizations, pioneering innovations, flexible supply streams and structures, and an agile team. In fiscal year 2017, the global vehicle production volume surpassed the prior-year level and reached 10.9 million units. Productivity increased by around 5.9% year-on-year, despite the continuing difficult conditions in many markets.

Global production network

With twelve brands and 120 production locations, aspects such as consistent standards for product concepts, plants, operational equipment and production processes are key to forward-looking production. These standards enables the Volkswagen Group to achieve synergy effects, respond flexibly to market challenges, make optimal use of a flexible production network and realize multi-brand locations. Currently, almost half of the 40 passenger car locations are already multibrand locations. One example is the Bratislava site, which produces vehicles for the Volkswagen passenger cars, Audi, Porsche, SEAT and ŠKODA brands. It will add other multi-brand locations in the future, for example, in Tianjin, China.

The Volkswagen Group has set itself the goal of becoming one of the world's leading providers of battery-powered vehicles (BEV) by 2025. The basis for this is the introduction of the modular electric toolkit (MEB), which will be used to expand its range with a new BEV family.

In order to design multibrand projects and for e-mobility to be cost-effective in conjunction with existing concepts, it is important to make production highly flexible and efficient. Making maximum use of potential synergy effects is also a decisive factor for the success of future vehicle projects. Using common parts and concepts as well as identical production processes will enable reduced capital expenditure and provide the opportunity to better utilize existing capacities. The

future will also see electric vehicle projects at multi-brand locations such as Anting, China.

Volkswagen is constantly enhancing its production concepts and aligning them with new technologies. The targeting process anchored in its strategy serves to realize ambitious targets in individual projects as part of a cross-divisional approach.

The components business is also helping to safeguard the group's future with its own initiatives. With around 80,000 employees worldwide, it is an integral part of the group and plays a central role particularly in the core competency of engines and transmissions. The components business has been reorganized within the group as part of a group initiative. Volkswagen's aim is to boost its competitiveness, optimize investment, raise its efficiency, make a major contribution to the trends of the future, enable a coordinated entry into e-mobility and develop new business areas.

New technologies and product innovations

With its manufacturing technologies, Volkswagen creates group products that fulfill the highest standards of functionality, quality and design. In recent years, for example, vehicles with multicolored paintwork have become popular, particularly those with color-contrasting roofs. Until now, this two-tone paintwork has required the vehicles to pass through the paint shop twice during production. Volkswagen is working with process partners in a joint project to develop a new technology that can significantly reduce the workload for multicolored designs. This technology was implemented for the first time in 2017 at the Pamplona site, initially for the new Polo. Other vehicles and locations are set to follow.

In the foreseeable future, the Volkswagen Group will also be able to offer more individually customized paintwork than previously possible thanks to the availability of digital printing.

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

Marketing and sales in the Volkswagen Group

E-mobility and digitalization in group sales
By 2025, as part of its Roadmap E, the Volkswagen Group aims to offer its customers around the world more than 80 new electric models, including around 50 pure battery-driven vehicles and 30 plug-in hybrids. This campaign will be complemented by vehicle-related, customer-focused offers, such as customized charging infrastructure solutions and mobile online services. This is turning the Volkswagen Group from an automotive manufacturer into a mobility service provider, posing completely new sales challenges.

It is making highly targeted use of the opportunities of digitalization in sales. The actions of the Volkswagen Group are guided by a clearly defined strategy that requires extensive cooperation between the brands to achieve the greatest possible synergies. Its aim here is to create a completely new product experience for its customers – one which impresses with its seamless customer communications, from the initial interest in purchasing a vehicle, to servicing and ultimately to the sale of the used car. In the process, Volkswagen is opening up new business models and opportunities in every aspect of the connected vehicle – in particular with regard to mobility and other services. Vehicles are becoming an integral part of the customer's digital world of experience. Volkswagen takes great care to make all processes transparent so that customers always retain control of their own data.

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

Customer satisfaction and customer loyalty in the Volkswagen Group
The Volkswagen Group aims its sales activities at exciting its customers. This is its top priority, as excited customers remain loyal to its brands and recommend its products and services to others. In addition to satisfaction with its products and services, Volkswagen values its customers' emotional connection to its brands. It is important for Volkswagen to retain customers and win new ones. To measure its success in this area, it collects

data on and analyze three strategic indicators for the major passenger car-producing brands:

- Net promoter score. Proportion of customers who would recommend Volkswagen to others minus the proportion of customers who would not recommend Volkswagen. In terms of customers' willingness to recommend them, the Porsche and ŠKODA brands lead the core European markets when compared to other group brands and competitors.
- Loyalty rate. Proportion of customers of the passenger car brands who have bought another group model. The loyalty of Volkswagen passenger cars, Audi, Porsche and ŠKODA customers has kept these brands in the upper loyalty rankings in comparison with competitors for a number of years. Compared to other manufacturer groups, the Volkswagen Group therefore holds the top spot in terms of loyalty, with a considerable margin over the competition.
- Conquest rate. Newly acquired passenger car customers as a proportion of all potential new customers. Here, too, the Volkswagen Group has a top ranking, primarily thanks to the good scores achieved by the Volkswagen passenger cars brand.

In the core European markets, the downward trend in brand image and brand trust at the Volkswagen passenger cars brand following the diesel issue did not continue in 2017. Instead, the first signs of recovery were evident. Porsche remains in top position in the image ranking.

The Volkswagen Group also uses a strategic indicator to measure the satisfaction of customers with its products and services in the truck and bus business:

- Customer satisfaction. In the markets relevant for the Volkswagen Group, Volkswagen aims to be one of the industry leaders in terms of the satisfaction rate for its commercial vehicle brands. To evaluate these criteria, it uses customer satisfaction studies, which delivered positive satisfaction figures in line with the Volkswagen Group's targets in the reporting period.

In the financial services business, it uses two strategic indicators:

- Customer satisfaction. In addition to looking at customer satisfaction with its products, the Volkswagen Group measures this by examining reviews of its service staff; both aspects are an indicator for its customer and service focus. The results continued their positive trend in 2017. To achieve the goal of very high customer satisfaction throughout the financial services business by 2025, Volkswagen regularly evaluates what action is needed and how ideas can be shared and implemented across different countries.


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- Customer loyalty. Trust in and loyalty to the Volkswagen Group's services rely on customer satisfaction with its product range and service. The loyalty scores that are regularly calculated based on product sales to the customers are currently impressive proof of customers' trust in the Volkswagen Group's financial services. Ambitious targets underscore the focus on customers and on fulfilling their needs at Volkswagen financial services.

Quality management in the Volkswagen Group

The quality of products and services plays a key role in maintaining customer satisfaction. Customers are particularly satisfied and remain loyal when their expectations of a product or service are met or even exceeded. Appeal, reliability and service determine quality as it is perceived by the customer throughout the entire product experience. The Volkswagen Group's objective is to positively surprise and excite its customers in all areas and thus win them over with its outstanding quality.

Strategy of group quality management
The Volkswagen Group embodies outstanding quality and ensures dependable mobility for its customers worldwide – this is the strategic goal that guides the work of group quality management. Along with the brands' quality organizations, group quality management plays an active role at all stages of product creation and testing. Through this work, Volkswagen makes an important contribution to successful product start-ups, high customer satisfaction and low warranty and goodwill costs.

Volkswagen has further enhanced the group quality management strategy as part of its future program TOGETHER – Strategy 2025. Focal areas

include digitalization, new technologies and business areas as well as uniform processes, methods and standards at all brands.

Increasing progress in digitalization is also a major challenge for the Volkswagen Group: an increasing number of digital products and services are being developed and brought to market. To continue to ensure the familiar level of quality and safety amid this diversity, it must adapt its quality measures accordingly. The increase in functional diversity and complexity of driver assistance systems, extending all the way to autonomous vehicles, means that software is growing in scope. Here Volkswagen needs to enhance the methods it uses to support selected critical features of software development and safeguard quality requirements. The Volkswagen Group is also taking advantage of the progress in digital technology to further optimize its own processes and structures. For example, it uses virtual measurement technologies or big data analyses when vehicles on the market encounter quality problems.

In this context, group quality management has further developed its strategy in consultation with the group brands. This comprises the following four goals:

- Volkswagen will excite its customers with outstanding quality by understanding the features of the quality that resonates with them and implementing these in its products.
- Volkswagen will contribute to competitive products with optimal quality costs by ensuring robust processes, thereby reducing the expense involved in testing each vehicle.
- In critical business processes, Volkswagen will reinforce the principle of multiple-party verification and monitor achievement of milestones even more closely.
- The Volkswagen Group will become an excellent employer by promoting every single employee's personal development even more intensively.

To achieve its goals, the Volkswagen Group has been working on a total of 15 quality initiatives since mid-2016. All are focused on the topics that will be decisive to the future success of the quality organizations at the Volkswagen Group.

Employees in the Volkswagen Group

As of 31 December 2017, the group, including the Chinese joint ventures, employed 642,292 people, 2.5% more than at the end of 2016. The ratio of group employees in Germany to those abroad remained largely stable over the past year. At the end of 2017, 44.8% (prior year: 44.9%) of employees worked in Germany.

Alongside training for employees, development of graduates, increasing attractiveness as an employer and target-group-specific developments programs as well as preventive healthcare and occupational safety remained the focus of HR work in the fiscal year 2017.

Information technology (IT) in the Volkswagen Group

With digitalization and networking on the rise, all of the business processes of the Volkswagen Group must also be comprehensively provided with digital support. At the same time, the establishment of new locations is placing high demands on networking and coordination. A modern, tailor-made infrastructure and an efficient application landscape are needed to meet these requirements.

Its group-wide production, information and control system (FIS) enables Volkswagen to produce vehicles efficiently all around the world – at the right time and with the right equipment. FIS is a key success factor for flexible, cross-brand manufacturing in the global production network.

The growing convergence of different business areas and IT is opening up new opportunities. In production, for example, big data processes help Volkswagen to analyze faulty machinery and take action at an early stage. Virtual concept vehicles make the product development process even faster and more efficient. Applied research in the field of intelligent human-robot collaboration, and IT systems to control mobile assistive robotics and networked infrastructure (Internet of Things) are also important elements of the digitalization of production at the Volkswagen Group.

The company's internal network Group Connect helps to network all employees. The platform encourages the transfer of expertise and puts experts in touch with one another.

The newly established IT City serves as the central location for the group's own IT and digitalization expertise in Wolfsburg. The campus-style office complex has been systematically designed for agile working. In software development centers, Volkswagen develops applications for a wealth of different uses, thereby maintaining comprehensive in-house expertise in the rapid, demand-oriented development of IT solutions.

Safeguarding data and systems at the Volkswagen Group is another focus of its IT. Over the past fiscal year, Volkswagen has continued to set up the Information Security Management Systems (ISMS). The group offers documents, templates and tools to all group companies and brands in the form of an ISMS toolbox to help them implement their own ISMS. The ISO 27001 standard is one component of this. The key information security processes have been audited and successfully certified within the ISO 27001 framework. This is the most important standard for information security and extends beyond IT to cover issues such as personal security, compliance, physical security and legal requirements.

In 2015, Volkswagen AG co-founded the Deutsche Cyber-Sicherheitsorganisation GmbH – (DCSO). DCSO aims to accumulate specialist knowledge on cybersecurity and become the preferred service provider to German businesses in this field. It conducts security audits and certifies key suppliers and technologies in order to help German companies (especially small and medium-sized enterprises) detect and defend themselves against cyber-attacks and predict them in the future. This work also makes Volkswagen’s supply chain more secure.

Volkswagen is also capitalizing on digitalization at its in-house IT labs in Wolfsburg, Munich, Berlin, San Francisco and Barcelona. Specialist departments of group IT, research institutions and technology partners are working closely together at these innovation centers on future trends in information technology, such as artificial intelligence and machine learning, quantum computing, digital ecosystems, intelligent human-robot collaboration and smart mobility. These labs act as test laboratories for the group, as centers of expertise for these future trends and as liaison offices for start-ups. They enable Volkswagen to experiment with new technologies outside the line organization. Here, the experience and strategic expertise of a large company like Volkswagen is combined with the pragmatism and speed of young start-ups.

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

In the past fiscal year 2017, the results of operations of Porsche SE and the Porsche SE Group were primarily characterized by the income from investments and earnings contributions from shares in Volkswagen AG accounted for at equity. The group profit for the year of between €2.1 billion and €3.1 billion originally forecasted for the fiscal year 2017 was exceeded. This is due to the profit for the year of the Volkswagen Group. The tax reform passed in the USA at year-end resulted in a non-recurring positive, albeit non-cash, measurement effect from deferred taxes of €1.0 billion at the level of the Volkswagen Group. The net profit in the low triple-digit million-euro range forecasted by Porsche SE in the prior year for the fiscal year 2017 was achieved.

The financial position was influenced to a large extent by the acquisition of the PTV Group as well as the repayment of financial liabilities to the Volkswagen Group. As of 31 December 2016, the development of net liquidity in the fiscal year 2017 to between €1.0 billion and €1.5 billion was forecasted, without taking future investments into account. Due to the acquisition of the PTV Group, the range of net liquidity was adjusted to between €0.7 billion and €1.2 billion. This adjusted corridor was thus maintained as of 31 December 2017.

The executive board of Porsche SE continues to consider the economic situation of the company and its significant investment in Volkswagen AG to be positive. Porsche SE benefited from the positive economic situation in the past fiscal year and from the profit of the Volkswagen Group, which exceeded original expectations. The proportionate market capitalization also increased again. Despite the effects of the diesel issue, Porsche SE expects the Volkswagen Group to maintain its market position in a persistently challenging environment. 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.

Remuneration report

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

Remuneration of the executive board

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

Hans Dieter Pötsch (chairman of the executive board and also CFO of Porsche SE as well as chairman of the supervisory board of Volkswagen AG) receives fixed basic remuneration, which is paid out as a monthly salary, for his work at Porsche SE. As Mr. Pötsch does not receive any variable remuneration calculated on a multi-year basis from either Porsche SE or Volkswagen AG, the recommendation in Sec. 4.2.3 (2) Sentence 2 German Corporate Governance Code (GCGC), according to which the monetary elements of the remuneration of executive board members should comprise fixed and variable elements, has not been complied with as regards Mr. Pötsch. Porsche SE declares non-compliance with this recommendation in this respect.

Dr. Manfred Döss also receives a fixed basic component from Porsche SE, which is paid out as a monthly salary. He receives variable remuneration components calculated on a multi-year basis exclusively from Volkswagen AG.

The member of the executive board Matthias Müller receives fixed basic component paid out in monthly amounts from Porsche SE. He also receives variable remuneration components exclusively from Volkswagen AG.

Philipp von Hagen, who does not perform any function at Volkswagen AG, also receives variable remuneration from Porsche SE in addition to a fixed basic component paid out in monthly amounts. The amount of his variable remuneration is specified by the supervisory board at its discretion, taking into account the respective business and earnings situation, as well as his performance. It is measured specifically in terms of the extent to which the individual (in some cases, differently weighted) targets agreed for the respective fiscal year have been achieved; these targets refer to the following parameters for the term of his agreement:

- Creation of the organizational foundations for professional investment management,

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

For each fiscal year completed, the executive committee of the supervisory board of Porsche SE draws up a proposal for the individual amount of the variable remuneration, taking into account the respective business and earnings situation and based on the specific performance of Mr. von Hagen. This proposal is submitted to the supervisory board of Porsche SE for decision. The amount of variable remuneration paid is capped at an amount of €300,000 per annum.

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

The supervisory board of Porsche SE explicitly reserves the option of also introducing a variable remuneration system for members of the executive board of the company who have not 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. As the bonuses of this kind are not capped, Porsche SE has declared non-compliance with the recommendation in Sec. 4.2.3 (2) Sentence 6 GCGC in this respect. The supervisory board does not consider the inclusion of a cap to be necessary as it can ensure compliance with the requirement of appropriateness in Sec. 87 (1) AktG by exercising its discretion in specific cases. In the fiscal year 2017, Dr. Döss was retrospectively paid a €550,000 bonus in recognition of extraordinary performance in the fiscal year 2016. Furthermore, the supervisory board resolved to pay him a bonus of likewise €550,000 in the fiscal year 2018 in recognition of extraordinary performance in the fiscal year 2017.

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

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

Remuneration of the executive board

During the fiscal years 2016 and 2017, there were no changes in the composition of the executive board. The remuneration presented below for the individual members of Porsche SE's executive board comprises only the remuneration in accordance with the German Commercial Code (HGB). The disclosures on Mr. von Hagen also contain the remuneration paid by PTV AG for serving as chairman of its supervisory board.

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

2017 in €	Non-performance related components	Performance related components	thereof long-term incentive[4]	Total
Hans Dieter Pötsch	841,835	0	0	841,835
Dr. Manfred Döss	574,080	1,100,000[1]	0	1,674,080
Philipp von Hagen	632,960[2]	320,000[3]	120,000	952,960
Matthias Müller	541,334	0	0	541,334
Porsche SE Group	**2,590,209**	**1,420,000**	**120,000**	**4,010,209**

1 €550,000 thereof was granted retrospectively for performance in the fiscal year 2016. Furthermore, €550,000 was granted for extraordinary performance in the fiscal year 2017, which will be paid out in the fiscal year 2018.

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

3 This contains short-term variable remuneration components of €100,000, which were retrospectively granted for performance in the fiscal year 2016.

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

2016 in €	Non-performance related components	Performance related components	thereof long-term incentive[2]	Total
Hans Dieter Pötsch	831,036	0	0	831,036
Dr. Manfred Döss	558,629	0	0	558,629
Philipp von Hagen	611,295	230,000[1]	150,000	841,295
Matthias Müller	539,706	2,100,000	2,100,000	2,639,706
Porsche SE Group	**2,540,666**	**2,330,000**	**2,250,000**	**4,870,666**

1 This contains short-term variable remuneration components of €80,000, which were retrospectively granted for performance in the fiscal year 2015.

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

For the fiscal year 2017, provision is made for a total variable component of €250,000 for Mr. von Hagen. For the fiscal year 2016, also a variable component of €250,000 was granted for him. 40% of this variable component was paid out in the fiscal year 2017; 60% of this variable remuneration is subject to the conditions set forth in the subsection on the remuneration principles and is therefore not included in the above table. The performance-related remuneration components with a long-term incentive for the fiscal year 2017 contain the amounts of the long-term component of the variable remuneration paid for the fiscal year 2015, as all its conditions precedent were fulfilled as of the end of the fiscal year 2017. The performance-related remuneration components with a long-term incentive for Mr. Müller (for the last time and based on his employment agreement at Porsche SE in place up to and including the fiscal year 2014) and Mr. von Hagen for the fiscal year 2016 contain the amounts of the long-term component of the variable remuneration paid for the fiscal year 2014.

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

Mr. Pötsch and Mr. Müller do not receive any pension benefits from the company. In addition to retirement benefits and surviving dependents' benefits, Mr. von Hagen's and Dr. Döss' pension benefits include benefits in the event of permanent disability. Future benefits are calculated as a percentage of an agreed fixed annual remuneration. Starting at 25%, this percentage increases by one percentage point for each full year of active service on the executive board of Porsche SE. The defined maximum is 40%. As of 31 December 2017, Mr. von Hagen and Dr. Döss have a retirement pension entitlement of 30% and 27% of their fixed annual remuneration, respectively. Immediate vesting was agreed for both gentlemen.

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

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

The service cost recognized in the fiscal year 2017 for Mr. von Hagen amounts to €369,067 according to IFRSs (prior year: €304,039), and to €252,828 according to HGB (prior year: €112,463). The present value of the pension obligations for Mr. von Hagen as of 31 December 2017 amounts to €2,105,444 according to IFRSs (31 December 2016: €1,811,565), and to €1,222,927 according to HGB (31 December 2016: €932,698).

Dr. Döss will also continue to be entitled to a company car upon reaching retirement age. The service cost recognized in the fiscal year 2017 for Dr. Döss amounts to a total of €532,781 according to IFRSs (prior year: €426,087), and €364,990 according to HGB (prior year: €359,508). The present value of the existing pension obligations for Dr. Döss as of 31 December 2017 amounts to a total of €2,384,889 according to IFRSs (prior year: €1,956,528), and €1,715,813 according to HGB (prior year: €1,298,743).

Mr. Müller will also continue to be entitled to a company car following the date of retirement. The service cost recognized in the fiscal years 2016 and 2017 amounts to €0 according to IFRSs as well as HGB, as Mr. Müller has already exceeded the retirement age underlying the measurement. The present value of the benefit in kind obligation as of 31 December 2017 amounts to €1,035,739 according to IFRSs (31 December 2016: €1,082,225), and to €839,741 according to HGB (31 December 2016: €837,145).

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 prior to the date when payment falls due as a result of termination for due cause by Porsche SE, the entitlements to variable components that have not yet been paid out (in full or in part) expire. In the event of departure for other reasons prior to the date when payment falls due, the entitlement to payment of their performance-related remuneration, if given, is retained. The date when payment falls due is not affected by early departure from the executive board of the company.

Remuneration of the supervisory board

Principles

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

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

A proposal is to be made to the 2018 annual general meeting to only pay fixed remuneration to the members of the supervisory board in the future.

Remuneration of the supervisory board

By agreement dated 1 February 2017, Porsche SE and the SE works council agreed that co-determination at Porsche SE is to be suspended following the end of the 2017 annual general meeting and the supervisory board of Porsche SE comprise six shareholder representatives. Status proceedings were initiated on 6 February 2017. As a consequence of the status proceedings, the tenure of all members of the supervisory board ended with the conclusion of the annual general meeting on 30 May 2017. The annual general meeting on 30 May 2017 re-elected the same six shareholder representatives. Prof. Dr. Ferdinand K. Piëch retired from his position on the supervisory board effective end of 8 December 2017. In accordance with Art. 13 of Porsche SE's articles of association, the supervisory board received remuneration totaling €1,060,638 (prior year: €1,079,795) for its service at Porsche SE in the fiscal year 2017. This amount contains non-performance-related components of €578,205 (prior year: €678,500) and performance-related components of €482,433 (prior year: €401,295).

Beyond this, the supervisory board members did not receive any other remuneration or benefits from Porsche SE in the fiscal year 2017 or in the fiscal year 2016 for any services they provided personally, such as consultancy and referral services.

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

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

2017 in €	Non-performance-related components	Performance-related components	Total
Dr. Wolfgang Porsche	92,000	83,120	175,120
Uwe Hück (1/1/-30/5/)[1]	42,411	25,618	68,029
Berthold Huber (1/1/-30/5/)[1]	22,274	17,079	39,353
Prof. Dr. Ulrich Lehner	86,000	83,120	169,120
Peter Mosch (1/1/-30/5/)[1]	19,274	17,079	36,353
Bernd Osterloh (1/1/-30/5/)[1]	21,411	25,618	47,029
Hon.-Prof. Dr. techn. h.c. Ferdinand K. Piëch (1/1/-8/12/)	47,425	38,940	86,365
Dr. Hans Michel Piëch	80,363	53,800	134,163
Dr. Ferdinand Oliver Porsche	76,500	62,340	138,840
Hansjörg Schmierer (1/1/-30/5/)[1]	22,274	17,079	39,353
Hans-Peter Porsche	46,000	41,560	87,560
Werner Weresch (1/1/-30/5/)[1]	22,274	17,079	39,353
Total	**578,205**	**482,433**	**1,060,638**

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

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

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

Remuneration in accordance with the German Corporate Governance Code

Remuneration of the executive board

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

When determining the remuneration of the members of Porsche SE's executive board, the supervisory board of Porsche SE also takes into account any remuneration that the members of the executive board receive due to their assuming functions as members of boards and other functions at the level of majority shareholdings. The following presentation of the remuneration therefore also covers Volkswagen AG as the most important investment of Porsche SE as well as the group companies of Volkswagen AG.

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

Mr. Pötsch is chairman of the supervisory board of Volkswagen AG. In addition, he performs various functions in bodies within the Volkswagen Group.

Mr. Müller is chairman of the board of management of Volkswagen AG. Moreover, he is a member of various other bodies of companies of the Volkswagen Group.

Dr. Döss has headed the legal department of Volkswagen AG since 1 January 2016. In this role, he receives fixed and variable remuneration based on a contract of employment with this company; this remuneration contains the usual components for management within the Volkswagen Group.

Mr. von Hagen receives fixed remuneration for serving on the supervisory board of PTV AG. He does not perform any functions as member of boards and other functions at companies of the Volkswagen Group and accordingly does not receive any remuneration. The section below therefore presents the relevant remuneration principles of the Volkswagen Group for Mr. Pötsch, Mr. Müller and Dr. Döss.

Remuneration principles for members of the supervisory board of Volkswagen AG
The 2017 annual general meeting of Volkswagen AG passed a resolution to reorganize the system of supervisory board remuneration. The remuneration of the members of the supervisory board of Volkswagen AG no longer contains any performance-related remuneration components but consists entirely of non-performance-related remuneration components. For Mr. Pötsch as chairman of the supervisory board of Volkswagen AG, the following applies with retroactive effect as of 1 January 2017 in accordance with Article 17 of the articles of association of Volkswagen AG:

- He receives fixed remuneration of €300,000 per year as chairman of the supervisory board.
- In his function as chairman of the executive committee, he receives additional fixed remuneration of €100,000 per year, provided the executive committee met at least once during the year to perform its duties.

Supervisory board members receive an attendance fee of €1,000 for attending a meeting of the supervisory board and a committee. If several meetings are held on one day, the attendance fee is paid only once.

At the beginning of 2017 Mr. Pötsch and the other members of Volkswagen's supervisory board had declared to the board of management of Volkswagen AG to waive the part of their remuneration for the fiscal year 2016 exceeding the amount that would have been payable had the new remuneration regulations for the supervisory board been applied for the fiscal year 2016. This waiver amounted to €65,500. Mr. Pötsch additionally waived an amount of €115,700 of his variable remuneration for fiscal year 2016 and waived his remuneration for fiscal year 2017 in full. The reason for this waiver is the agreement made in connection with Mr. Pötsch's transfer from the board of management to the supervisory board of Volkswagen as of 8 October 2015 to deduct the amount of supervisory board remuneration received up to 31 December 2017 from the compensation payment for his board of management remuneration to which he would have been entitled for the period from 8 October 2015 to 31 December 2017.

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

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

The remuneration principles for members of the board of management of Volkswagen AG presented below pertain to the agreements made with Mr. Müller in connection with his function as chairman of the board of management of Volkswagen AG as well as the remuneration principles for the managers of Volkswagen AG relevant for Dr. Döss.

Volkswagen AG's remuneration system for members of the board of management comprises fixed and variable components. The variable remuneration consists of an annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term. The performance share plan is linked to business development in the next three years and is thus based on a multiyear, forward-looking assessment that reflects both positive and negative developments. The fixed component creates an incentive for individual members of the board of management to perform their duties in the interests of the company and to fulfill their obligation to act with proper business prudence without needing to focus on merely short-term performance targets. The variable components, dependent among other criteria on the financial performance of the Volkswagen Group, serve to ensure the long-term impact of behavioral incentives.

If 100% of the respectively agreed targets are achieved, the annual target remuneration for Mr. Müller amounts to a total of €9,000,000:

- basic remuneration of €2,125,000,
- a target amount from the annual bonus of €3,045,000 and
- a target amount from the performance share plan of €3,830,000.

The fixed remuneration comprises fixed remuneration and fringe benefits. The fixed remuneration contains the basic level of remuneration. The fringe benefits result from non-cash benefits and include in particular the use of operating assets such as company cars and the payment of insurance premiums. Taxes due on these non-cash benefits are mainly borne by Volkswagen AG. The basic level of remuneration is reviewed regularly and adjusted if necessary.

The variable remuneration consists of an annual performance-related bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (long-term incentive components) and phantom preferred shares. The components of variable remuneration therefore reflect both positive and negative developments.

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

The annual bonus is based upon the result for the respective fiscal year. Operating profit achieved by the Volkswagen Group plus the proportionate operating profit of the Chinese joint ventures form half of the basis for the annual bonus, with operating return on sales achieved by the Volkswagen Group making up the second half. Each of the two components of the annual bonus will only be payable if certain thresholds are exceeded or reached.

The calculated payment amount may be individually reduced (multiplier of 0.8) or increased (multiplier of 1.2) by up to 20% by the supervisory board, taking into account the degree of achievement of individual targets agreed between the supervisory board and the respective member of the board of management, as well as the success of the full board of management in achieving the transformation of the Volkswagen Group's employees into new areas of activity.

The payment amount for the annual bonus is capped at 180% of the target amount for the annual bonus. The cap arises from 150% of the maximum financial target achievement and a performance factor of a maximum of 1.2.

Component 1: Operating profit including Chinese joint ventures (proportionate)

€ billion	2017
Maximum threshold	25.0
100% level of target	17.0
Minimum threshold	9.0
Actual value	18.6
Target achievement (%)	110

Component 2: Operating return on sales

€ billion	2017
Maximum threshold	8.0
100% level of target	6.0
Minimum threshold	4.0
Actual value	6.0
Target achievement (%)	100

The LTI is granted in the form of a performance share plan. Each performance period of the performance share plan has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted on the basis of the initial reference price of Volkswagen's preferred shares into performance shares of Volkswagen AG, which are allocated to the respective member of the board of management purely for calculation purposes. The conversion is performed based on the unweighted average of the closing prices of Volkswagen's preferred shares for the last 30 trading days preceding 1 January of a given fiscal year. At the end of each year, the number of performance shares is determined definitively for one-third of the three-year performance period based on the degree of target achievement for the annual earnings per Volkswagen preference share (EPS – earnings per share per preference share in €). A prerequisite for this is that a threshold is reached.

Performance period 2017-2019

€ billion	2017
Maximum threshold	30.0
100% level of target	20.0
Minimum threshold	10.0
Actual value	22.69
Target achievement (in %)	113

A cash settlement is made at the end of the three-year term of the performance share plan. The payment amount corresponds to the final number of determined performance shares, multiplied by the closing reference price at the end of the three-year period plus a dividend equivalent for the relevant term. The closing reference price is the unweighted average of the closing prices for Volkswagen's preferred shares for the 30 trading days preceding the last day of the three-year performance period.

in €	2017
Initial reference price	127.84
Closing reference price	–[1]
Dividend equivalent	2.06

[1] Is determined at the end of the performance period.

The payment amount under the performance share plan is limited to 200% of the target amount. An advance of 20% on the payment amount is paid if the average ratio of capex to revenue in the automotive division or the R&D ratio of the last three years is smaller than 5%.

Should Mr. Müller for example leave the company of his own volition without good cause before the performance shares are paid out or should that member start working for a competitor, the unpaid performance shares will expire. For Mr. Müller this regulation only applies in the event of a future reappointment.

In the introductory phase of the performance share plan (2017 – 2018), he will receive 100% of his target amount in advance. The two advances will each be paid after the first year of the performance period. After the last day of the relevant three-year performance period, settlement will be made based on actual achievement of targets. He has been granted the option of immediate settlement of the performance shares at the end of his contract of service.

Mr. Müller was allocated 29,959 performance shares at the grant date for the performance period 2017-2019, the fair value of which amounted to €4,309,602 at the grant date. The number of performance shares includes the provisional performance shares allocated at the grant date of the performance share plan. The fair value as at the grant date was determined using a recognized valuation technique. The provision of €10,201,381 recognized as of 31 December 2017 reflects the obligation of Volkswagen AG to Mr. Müller. To determine its amount, the performance shares expected for future performance periods were taken into account in addition to the provisional performance shares determined or allocated for the performance period 2017 – 2019. The intrinsic value of €4,728,427 was calculated in accordance with IFRS 2 and corresponds to the amount that Mr. Müller would have received if he had stepped down on 31 December 2017. Only the nonforfeitable (vested) performance shares at the reporting date are included in the calculation. The intrinsic value was calculated based on the unweighted average share price for the 30 trading days (Xetra closing prices of Volkswagen's preferred shares) preceding 31 December 2017, taking the dividends paid per preference share during the performance period into account. Comprehensive income 2017 arising from performance shares according to IFRS amounts to €10,201,381 for Mr. Müller at the level of Volkswagen AG; it contains the net value of all amounts recognized in income for the performance shares in the fiscal year 2017.

The phantom preferred shares for the remuneration withheld for 2015 will form part of the board of management remuneration until they are paid out in 2019.

In addition to the cap on the individual variable components of the remuneration for the members of the board of management, the annual benefits received according to the code, consisting of basic remuneration and the variable remuneration components (i.e. annual bonus and performance share plan) for one fiscal year, may not exceed an amount of €10,000,000 for Mr. Müller. If the total amount is exceeded, the variable components will be reduced proportionately.

The supervisory board regularly reviews and, if necessary, adjusts the level of the total remuneration cap and the individual targets.

Mr. Müller is entitled to payment of his normal remuneration from Volkswagen AG for six months in the event of illness.

The remuneration for Dr. Döss as head of the legal department of Volkswagen AG contains fixed and variable components. The fixed remuneration comprises fixed remuneration and fringe benefits. Fringe benefits result from non-cash benefits from the provision of accommodation; Dr. Döss also has a claim to use company cars. Taxes due on these non-cash benefits are partially borne by Volkswagen AG.

His variable remuneration comprises a personal performance bonus, a company bonus and an LTI. The specification of the individual components is based on the specified 100% level at equitable discretion, taking into account personal performance and achievement of targets, the financial performance and economic situation as well as the achievement of the strategic targets of the Volkswagen Group. The company bonus pertains to the business development for the reporting year and the past year, while the LTI is based on the reporting year and the past three fiscal years. The LTI is limited to 200%; no limit was set for the personal performance bonus and the company bonus; Porsche SE has declared non-compliance with the recommendation in Sec. 4.2.3 (2) Sentence 6 GCGC in this respect. Based on past experience with the amount of the variable remuneration granted to management within the Volkswagen Group, the supervisory board assumes that the remuneration granted to Dr. Döss is nevertheless appropriate and Dr. Döss is provided with a long-term incentive to act in the interest of the company through the variable remuneration granted to him by Volkswagen AG. For Dr. Döss, the 100% level was specified at €145,000 per component for the fiscal year 2017 (prior year: €133,000). A lower limit for performance-based remuneration of €460,000 was agreed for each of the first three years (beginning as of the fiscal year 2016).

Benefits based on phantom preferred shares from the remuneration withheld for fiscal year 2015

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

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

The shares will be reconverted and paid out either when the three-year holding period has expired or – in the event that members retire early from office – at the time that they do so.

To determine the payment amount, the average share price for the 30 trading days preceding the last day of the holding period, i.e. 22 April 2019, or preceding the leaving date will be calculated (closing reference price). The difference between the target reference price and the initial reference price will be deducted from the closing reference price, and the dividends distributed on one real Volkswagen preference share during the holding period (dividend equivalent) will be added to the closing reference price. The figure thus calculated will be multiplied by the number of phantom preference shares so as to calculate the amount to be paid to each board of management member. This will ensure that – excluding any dividend equivalents accrued – the amount withheld is only paid out in full if the initial reference price of the preference share has increased by at least 25%. Otherwise, the amount will be reduced accordingly to a minimum of €0. The amount disbursed may not be more than twice the amount originally withheld. If Mr. Müller retires from office before the expiry of the holding period, the disbursement amount will be calculated and paid out proportionately based on the date that his contract of service ends.

The number of Volkswagen preferred shares granted on 22 April 2016 to Mr. Müller as part of benefits based on phantom Volkswagen preferred shares for 2015 did not change in the fiscal year 2017.

The table on management remuneration pursuant to the GCGC, which discloses the allocation for Mr. Müller, does not contain any entries for the phantom preferred shares from the remuneration withheld for fiscal year 2015, as no payouts were made in the fiscal year 2017. Furthermore, neither the holding period of three years expired nor did Mr. Müller step down in the fiscal year 2017. Since the benefits based on phantom preferred shares were first agreed upon after the end of fiscal year 2015, consideration of the impact of these agreements is taken into account in the table on board of management remuneration pursuant to the GCGC, which discloses the benefits granted to Mr. Müller, in the column for the fiscal year 2016. The revised amount listed there is the difference between the fair value of the Volkswagen phantom preferred shares and the amount withheld at the time of they were granted on 22 April 2016.

Remuneration of the executive board in the fiscal years 2016 and 2017

The total remuneration of the members of Porsche SE's executive board presented in the tables below includes not only remuneration for their service as a member of the company's executive board, but for Mr. Pötsch, Mr. Müller and Dr. Döss additionally remuneration for their functions as members of boards and other functions at companies of the Volkswagen Group for the fiscal years 2016 and 2017 and, in the case of Mr. von Hagen, the remuneration for serving as chairman of the supervisory board of PTV AG.

Remuneration of the members of the executive board in accordance with the German Corporate Governance Code for the fiscal years 2016 and 2017 – benefits granted

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

	Pötsch[1] Chairman of the executive board (since 1 November 2015) Chief Financial Officer (since 25 November 2009)			
in €	2016	**2017**	**2017 (Min)**	**2017 (Max)**
Benefits granted				
Fixed compensation	574,500	500,000	500,000	500,000
Fringe benefits	331,036	341,835	341,835	341,835
Total	**905,536**	**841,835**	**841,835**	**841,835**
Waiver for 2016	181,200	0	0	0

[1] Mr. Pötsch had declared to the board of management of Volkswagen AG to waive the part of his remuneration from his service on the supervisory board at Volkswagen AG for the fiscal year 2016 exceeding the amount that would have been payable had the new remuneration regulations for the supervisory board of Volkswagen AG been applied for the fiscal year 2016. This waiver amounted to €65,500. Mr. Pötsch also waived an amount of €115,700 of his variable remuneration for fiscal year 2016 and waived his remuneration for fiscal year 2017 in full. The reason for this waiver is the agreement made in connection with Mr. Pötsch's transfer from the board of management to the supervisory board of Volkswagen as of 8 October 2015 to deduct the amount of supervisory board remuneration received up to 31 December 2017 from the compensation payment for his board of management remuneration to which he would have been entitled for the period from 8 October 2015 to 31 December 2017.

in €	2016	2017	2017 (Min)	2017 (Max)
	Dr. Döss Legal affairs and compliance since 1 January 2016			
Benefits granted				
Fixed compensation	827,040	835,920	835,920	835,920
Fringe benefits	85,629	101,080	101,080	101,080
Total	**912,669**	**937,000**	**937,000**	**937,000**
One-year variable compensation Volkswagen AG	207,300	219,200	0[2]	n/a[3]
Bonus Porsche SE	0	1,100,000[1]	0	n/a[3]
Multi-year variable compensation Volkswagen AG	252,700	240,800	0	n/a[3]
Bonus VW (two-year period)	53,200	83,800	0[2]	n/a[3]
LTI VW (four-year period)	199,500	157,000	0[2]	290,000
Total	**1,372,669**	**2,497,000**	**1,397,000[1]**	**n/a[3]**
Service cost	434,487	541,181	541,181	541,181
Total	**1,807,156**	**3,038,181**	**1,938,181**	**n/a[3]**

1 €550,000 thereof was granted retrospectively for performance in the fiscal year 2016. Furthermore, €550,000 was granted for extraordinary performance in the fiscal year 2017, which will be paid in the fiscal year 2018.

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

3 In some cases there is no upper limit for the variable remuneration components for serving at the level of Porsche SE and Volkswagen AG; reference is made to the explanations in the section “Remuneration principles for members of the board of management and managers of Volkswagen AG”.

in €	Müller Strategy and corporate development since 13 October 2010			
	2016	**2017**	**2017 (Min)**	**2017 (Max)**
Benefits granted				
Fixed compensation	2,084,000	2,625,000	2,625,000	2,625,000
Fringe benefits	218,357	234,069	234,069	234,069
Total	**2,302,357**	**2,859,069**	**2,859,069**	**2,859,069**
One-year variable compensation[1]	1,313,200	3,045,000	0	5,481,000
Multi-year variable compensation	6,352,610	4,309,602	0	7,660,000
LTI (Performance-Share-Plan 2017-2019) Volkswagen AG[1]	0	4,309,602	0	7,660,000
Special compensation VW (two-year period)	3,283,000	0	0	0
LTI VW (four-year period)	3,375,000	0	0	0
Phantom shares Volkswagen AG	–305,390	0	0	0
Total	**9,968,167**	**10,213,671**	**2,859,069**	**16,000,069**
Service cost	526,589	612,807	612,807	612,807
Total	**10,494,756**	**10,826,478**	**3,471,876**	**16,612,876**

1 The figures presented are based for the annual bonus of Volkswagen AG on the 100% level of target and for the performance share plan on the fair value at the grant date.

in €	von Hagen Investment management since 1 March 2012			
	2016	**2017**	**2017 (Min)**	**2017 (Max)**
Benefits granted				
Fixed compensation	540,000	541,971	541,971	541,971
Fringe benefits	71,295	90,989	90,989	90,989
Total	**611,295**	**632,960**	**632,960**	**632,960**
One-year variable compensation	120,000	100,000	0	120,000
Multi-year variable compensation	180,000	150,000	0	180,000
LTI Porsche SE (three-year period)	180,000	150,000	0	180,000
Total	**911,295**	**882,960**	**632,960**	**932,960**
Service cost	304,039	369,067	369,067	369,067
Total	**1,215,334**	**1,252,027**	**1,002,027**	**1,302,027**

Remuneration of the members of the executive board in accordance with the German Corporate Governance Code for the fiscal years 2016 and 2017 – allocation
The tables below present the allocation in or for the fiscal years 2016 and 2017 respectively pursuant to Sec. 4.2.5, 2nd bullet point GCGC. In contrast to the figures presented in the benefits granted for variable remuneration, the tables below contain the actual value of the variable remuneration allocated in the respective fiscal year.

	Pötsch[1] Chairman of the executive board (since 1 November 2015) Chief Financial Officer (since 25 November 2009)	
in €	2016	**2017**
Allocation		
Fixed compensation	574,500	500,000
Fringe benefits	331,036	341,835
Total	**905,536**	**841,835**
One-year variable compensation	511,300	0
Total	**1,416,836**	**841,835**
Service cost	0	0
Total	**1,416,836**	**841,835**
Waiver for 2016	181,200	0

[1] Mr. Pötsch had declared to the board of management of Volkswagen AG to waive the part of his remuneration from his service on the supervisory board at Volkswagen AG for the fiscal year 2016 exceeding the amount that would have been payable had the new remuneration regulations for the supervisory board of Volkswagen AG been applied for the fiscal year 2016. This waiver amounted to €65,500. Mr. Pötsch also waived an amount of €115,700 of his variable remuneration for fiscal year 2016 and waived his remuneration for fiscal year 2017 in full. The reason for this waiver is the agreement made in connection with Mr. Pötsch's transfer from the board of management to the supervisory board of Volkswagen as of 8 October 2015 to deduct the amount of supervisory board remuneration received up to 31 December 2017 from the compensation payment for his board of management remuneration to which he would have been entitled for the period from 8 October 2015 to 31 December 2017.

in €	Dr. Döss Legal affairs and compliance since 1 January 2016	
	2016	**2017**
Allocation		
Fixed compensation	827,040	835,920
Fringe benefits	85,629	101,080
Total	**912,669**	**937,000**
One-year variable compensation Volkswagen AG	219,200	226,200
Bonus Porsche SE	0	1,100,000[1]
Bonus Volkswagen AG	0	50,000[2]
Multi-year variable compensation Volkswagen AG	240,800	377,000
Bonus VW (two-year period)	83,800	205,900
LTI VW (four-year period)	157,000	171,100
Total	**1,372,669**	**2,690,200**
Service cost	434,487	541,181
Total	**1,807,156**	**3,231,381**

1 €550,000 thereof was granted retrospectively for performance in the fiscal year 2016. Furthermore, €550,000 was granted for extraordinary performance in the fiscal year 2017, which will be paid in the fiscal year 2018.

2 €50,000 was granted retrospectively for extraordinary performance in the fiscal year 2016.

in €	Müller Strategy and corporate development since 13 October 2010 2016	2017
Allocation		
Fixed compensation	2,084,000	2,625,000
Fringe benefits	218,357	234,069
Total	**2,302,357**	**2,859,069**
One-year variable compensation	1,617,500	3,513,207
Multi-year variable compensation	6,090,000	3,830,000
LTI PSE (three-year period)	2,100,000	0
LTI (Performance-Share-Plan 2017-2019) Volkswagen AG	0	3,830,000
Special compensation VW (two-year period)	1,335,000	0
LTI VW (four-year period)	2,655,000	0
Total	**10,009,857**	**10,202,276**
Service cost	526,589	612,807
Total	**10,536,446**	**10,815,083**

in €	von Hagen Investment management since 1 March 2012 2016	2017
Allocation		
Fixed compensation	540,000	541,971
Fringe benefits	71,295	90,989
Total	**611,295**	**632,960**
One-year variable compensation	0	200,000
Multi-year variable compensation	150,000	120,000
LTI PSE (three-year period)	150,000	120,000
Total	**761,295**	**952,960**
Service cost	304,039	369,067
Total	**1,065,334**	**1,322,027**

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

In the event of regular termination of his service on the board of management of Volkswagen AG, Mr. Müller is entitled to a pension, including a surviving dependents' pension, as well as the use of company cars for the period in which he receives his pension. The agreed benefits are paid or made available on reaching the age of 63. The retirement pension is calculated as a percentage of the fixed basic salary. It is planned to increase Mr. Müller's retirement pension by 4.5% as of 1 March 2017, 4.5% as of 1 March 2018 as well as 5.0% as of 1 March 2019. The supervisory board of Volkswagen AG has defined a maximum of 70%. These benefits are not broken down any further into performance-related components and long-term incentive components. Mr. Müller had a retirement pension entitlement of 57.5% of the basic level of remuneration as of the end of 2017. The increase in the basic remuneration as a consequence of the new remuneration system in place from fiscal year 2017 is therefore not taken into account for the incumbent members of the board of management of Volkswagen AG with an existing occupational pension based on final remuneration.

In the event of disability, he is entitled to the retirement pension. Surviving dependents of Mr. Müller receive a widows' pension of 66 2/3% and orphans' benefits of 20% of the pension of the person concerned. For Mr. Müller, it is generally the case that his payable retirement pension is to be paid following his departure from Volkswagen AG.

Mr. Müller is also entitled to a pension and to a surviving dependents' pension as well as the use of company cars for the period in which his receives his pension in the event of early termination of his service. If his service as chairman of the board of management of Volkswagen AG is terminated for cause through no fault of his own, his claims are limited to a maximum of two years' remuneration, in accordance with the recommendation in Sec. 4.2.3 (4) GCGC (severance payment cap). No severance payment is made if Mr. Müller's is terminated prematurely for good reason for which he is responsible.

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

Remuneration of the supervisory board

The remuneration of the members of Porsche SE's supervisory board presented below includes not only remuneration for their service on the company's supervisory board but additionally remuneration for their membership on the supervisory boards of the Volkswagen Group. The remuneration paid on this level is based on the respective articles of association of the companies and is partly composed of non-performance-related and performance-related components (reference is made to the changes in the remuneration system for members of the supervisory board of Volkswagen AG in the section "Remuneration principles for members of the supervisory board of Volkswagen AG").

The remuneration of the members of the supervisory board of Porsche SE for the fiscal year 2016 that were also members of the supervisory board of Volkswagen AG during this period contains the amounts resulting from the Volkswagen AG's old system of supervisory board remuneration.

Beyond this, the supervisory board members of Porsche SE did not receive any other remuneration or benefits from the Porsche SE Group or from the Volkswagen Group in the fiscal years 2016 and 2017 for any services they provided personally, such as consultancy and referral services.

Remuneration of the members of the supervisory board in accordance with the German Corporate Governance Code for the fiscal year 2017[1]

2017 in €	Non-performance-related components	Performance-related components	Total
Dr. Wolfgang Porsche	459,000	127,520	586,520
Uwe Hück (1/1/-30/5/)[2]	119,453	25,618	145,071
Berthold Huber (1/1/-30/5/)[2]	31,441	54,079	85,520
Prof. Dr. Ulrich Lehner	86,000	83,120	169,120
Peter Mosch (1/1/-30/5/)[2]	110,906	44,829	155,735
Bernd Osterloh (1/1/-30/5/)[2]	104,182	25,618	129,800
Hon.-Prof. Dr. techn. h.c. Ferdinand K. Piëch (1/1/-8/12/)	47,425	38,940	86,365
Dr. Hans Michel Piëch	264,363	120,400	384,763
Dr. Ferdinand Oliver Porsche	407,000	128,940	535,940
Hansjörg Schmierer (1/1/-30/5/)[2]	45,048	30,071	75,119
Hans-Peter Porsche	83,000	41,560	124,560
Werner Weresch (1/1/-30/5/)[2]	46,298	30,071	76,369
Total	**1,804,115**	**750,768**	**2,554,882**

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

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

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

2016 in €	Non-performance-related components	Performance-related components	Total	Waiver for 2016[3]
Dr. Wolfgang Porsche	188,500	384,513	573,013	49,333
Uwe Hück[2]	160,000	193,002	353,002	60,167
Berthold Huber[2]	63,500	74,690	138,190	0
Prof. Dr. Ulrich Lehner	77,000	51,780	128,780	0
Peter Mosch[2]	77,000	293,740	370,740	61,250
Bernd Osterloh[2]	87,500	270,085	357,585	19,250
Hon.-Prof. Dr. techn. h.c. Ferdinand K. Piëch	43,000	25,890	68,890	0
Dr. Hans Michel Piëch	135,375	212,251	347,626	60,167
Dr. Ferdinand Oliver Porsche	137,500	383,768	521,268	54,333
Hansjörg Schmierer[2]	67,000	25,890	92,890	0
Hans-Peter Porsche	55,000	25,890	80,890	0
Werner Weresch[2]	70,000	25,890	95,890	0
Total	**1,161,375**	**1,967,389**	**3,128,764**	**304,500**

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

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

3 The members of the supervisory board of Porsche SE that were also members of the supervisory board of Volkswagen AG had declared to the board of management of Volkswagen AG to waive the part of their remuneration for their service on the supervisory board at Volkswagen AG for the fiscal year 2016 exceeding the amount that would have been payable had the new remuneration regulations for the supervisory board of Volkswagen AG concluded in the fiscal year 2017 been applied for the fiscal year 2016.

Opportunities and risks of future development

Report on opportunities and risks at Porsche SE

Risk management system of the Porsche SE Group

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

In principle, Porsche SE distinguishes between two types of risk. The first type of risk comprises risks from business activities which are entered into as part of a (conscious) entrepreneurial decision (“entrepreneurial risks”). The second type of risk comprises risks resulting from the lack of a definition or insufficient compliance with processes (“organizational risks”).

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

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

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

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

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

As the first line of defense, “operational risk management” comprises analysis, management, monitoring and documentation of risks at operational level. Each individual department within Porsche SE is responsible for independently identifying, evaluating, managing, 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 operational areas of the company, with the aim of preventing these risks from spreading to other areas or even to the company as a whole. With regard to the organizational risks, operational risk management is performed using the internal control system, which is described in the “Internal control system including internal control system relevant for the financial reporting process” section. In addition to operational management of the specific individual risk areas at department level, the finance department also creates a complete view of the significant risks in order to take into consideration the overall risk exposure of the group and identify interactions between risk areas.

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

The third line of defense, “review-based risk management”, ensures the appropriateness 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. Furthermore, the strategic level is reviewed to determine whether there is a structured systems approach and whether the respective controls and reviews are performed in strategic risk management.

The earnings and impairment risks arising from the investment in Volkswagen AG, PTV AG and in INRIX Inc. are addressed at the level of Porsche SE’s operational risk management and continuously monitored. On account of the investment structure, risks pertaining to Volkswagen AG and INRIX Inc. affect Porsche SE in the form of valuation, consolidation and dividend effects. The risks of the fully consolidated PTV Group primarily relate to Porsche SE in the form of earnings and balance sheet effects. In addition, there continue to be risks from the basic agreement to create an integrated automotive group between Porsche and Volkswagen (“basic agreement”) and the related corporate restructuring. Risk management at the level of Volkswagen AG, PTV AG and INRIX Inc. is performed in the respective companies.

Risk management at the level of Volkswagen AG
Management of the risks at Volkswagen is located at the level of Volkswagen AG (we refer to the subsection “Report on opportunities and risks of the Volkswagen Group”). The task of Volkswagen AG’s risk management is to identify, manage and monitor existing risks at the level of the Volkswagen Group. Volkswagen AG has implemented its own risk management system and is responsible for handling its own risks. At the same time, however, Volkswagen AG is required to ensure that Porsche SE as the holding company – within the scope of the legally permissible exchange of information – is informed at an early stage of any risks potentially jeopardizing the investment’s ability to continue as a going concern. This information is provided, inter alia, in management talks and by forwarding risk reports.

Risk management at the level of PTV AG
The earnings and impairment risks from the investment in PTV AG are currently being integrated into Porsche SE’s risk management system. The integration had not yet been fully completed as of the time of reporting; however, regular management meetings and the regular exchange of balance sheet and earnings indicators ensure that Porsche SE is promptly informed about any significant risks identified at the level of PTV AG.

In the future PTV AG will retain responsibility for handling its own risks and for identifying, managing and monitoring its risks via an independent risk management system.

Internal control system including internal control system relevant for the financial reporting process
The aim of Porsche SE’s internal control system is to manage the organizational risks as part of operational risk management. The organizational risks can be classified in the risk areas “business operations”, “compliance” and “accounting/ financial reporting”.

The internal control system generally prescribes the same measures for each of the three risk areas mentioned. On the basis of a comprehensive process map, the respective process owner derives the individual process steps, responsibilities and interfaces for the key processes, and a suitable structure is derived for the company as a whole. Controls for all three risk areas are defined for processes and interfaces of particular relevance, compliance with which is generally monitored using the dual control principle. These measures are documented in process overviews, guidelines and checklists.

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

With regard to the risk area “compliance”, Porsche SE has established a compliance organization, and thus a compliance management system, that is specifically tasked with preventing breaches of laws or other 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 2017 primarily addressed general compliance-relevant regulations.

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

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

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

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

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

The internal control system is also applied during the preparation of the HGB financial statements of Porsche SE. At Porsche SE, the

accounting for provisions and accruals and deferrals as well as testing the company's equity investments included in the balance sheet for impairment are determined in cooperation with the departments responsible. The accounting processes implemented at Porsche SE ensure that matters arising from agreements that are relevant in terms of accounting and subject to disclosure requirements are identified in full and presented appropriately in the financial statements.

Opportunities and risks at Porsche SE

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

Liquidity risks

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

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

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

Opportunities and risks arising from the use of financial instruments

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

The financial instruments currently used at Porsche SE in particular comprise cash and cash equivalents, time deposits and securities. Furthermore, Porsche SE made investments in an alternative investment fund within the scope of liquidity management.

Investing liquidity gives rise to counterparty risks. Since mid-June 2017 there have not been any more counterparty risks as a result of guarantees which Porsche SE had made to the Volkswagen Group in connection with the creation of the integrated automotive group, with the exception of the hold harmless agreement for the deposit guarantee fund agency of the Association of German Banks. To mitigate the counterparty risks, Porsche SE monitors the creditworthiness and spreads the investment of liquidity across various counterparties.

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

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

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

Opportunities and risks of investments

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

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

With regard to the investment in Volkswagen AG, there is an increased risk of the profit/loss

attributable to Porsche SE as part of equity accounting and the future dividend inflow being subject to further burdens as a result of the diesel issue (we refer to the explanations in the section “Significant events and developments at the Volkswagen Group”). These burdens could result in particular from new findings regarding the amount of the risk provisioning or the effects of the diesel issue on the operating business and/or the financing costs of the Volkswagen Group which exceed the extent assumed in the planning (we refer to the explanations in the section “Report on opportunities and risks of the Volkswagen Group”).

As regards the recoverability of the investment in Volkswagen AG, impairment testing was performed in the fiscal year 2017 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, and in particular also takes into consideration the risk provisioning recognized in connection with the diesel issue at the level of the Volkswagen Group, the risks of unexpected additional burdens described above also exist here. As part of the impairment test, sensitivity analyses regarding key measurement parameters were performed. As the value in use of the investment in Volkswagen AG was significantly higher than the carrying amount in each of the scenarios considered in the sensitivity analysis, the risk of a need to recognize an impairment loss is considered to be low on the basis of the current information.

By fully consolidating the PTV Group into the consolidated financial statements of Porsche SE since the beginning of September 2017, generally there is the underlying risk of the PTV Group making a negative contribution to the earnings of the Porsche SE Group. This risk is deemed to be raised on account of internationalization as well as the planned expansion of the product portfolio. The recoverability of the goodwill identified in the course of the purchase price allocation is tested for impairment annually and if there is any indication that the goodwill may be impaired. As of 31 December 2017, an impairment test was performed as scheduled. The recoverability was confirmed. Within the scope of the sensitivity analyses performed, the value in use did not exceed the carrying amount in one scenario only. The risk of a future need for impairment of goodwill is deemed to be increased.

With regard to the investment in INRIX, it was also tested whether there was any need to recognize impairments or reversals of impairment as of the reporting date; this was found not to be the case. With regard to the profit/loss attributable to Porsche SE as part of equity accounting and with respect to the future recoverability of the investment, the risk underlying the value of the investment is considered elevated due to INRIX’s ambitious growth plans. However, the potential effects on the Porsche SE Group’s results of operations, financial position and net assets would be correspondingly manageable owing to

the relatively low carrying amount of the investment of €15 million.

The minority investments in the two US 3D printing companies Markforged Inc. and Seurat Technologies acquired by the Porsche SE Group in 2017 are recognized as financial instruments. In accordance with their character as venture capital investments they are subject to an increased uncertainty in terms of the development of the value of the investments and the amount of the cash inflows expected in the future. However, it is negligible for Porsche SE from a materiality perspective.

Litigation risk

Porsche SE is involved in legal disputes and administrative proceedings both nationally and internationally. As of 31 December 2017, this primarily relates to actions for damages concerning the stake building of the investment in Volkswagen AG and the allegation of market manipulation as well as legal proceedings in connection with the diesel issue. Where such risks are foreseeable, adequate provisions are recognized in order to account for any ensuing risks. The amount of the provisions for legal risks recognized in the reporting year corresponds to the attorneys' fees and litigation expenses anticipated for the ongoing proceedings. The company does not believe, therefore, that these risks have had a sustained effect on the economic position of the group. However, due to the fact that the outcome of litigation can be estimated only to a limited degree, it cannot be ruled out that very serious losses may eventuate that are not covered by the provisions already recognized, which would result in a correspondingly negative impact on profit/loss and liquidity.

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

A tax field audit is currently being performed for the assessment periods 2009 to 2013 as well as a wage tax field audit for the levy period 2011 to 2016. New findings of the tax field audits for the periods 2009 to 2013 and 2011 to 2016 could result in an increase or decrease in the tax and interest payments due or any payments already made could be partially refunded.

During the assessment periods 2006 to 2009, Porsche SE was initially the legal successor of Porsche AG and later the ultimate tax parent and thus liable for tax payments. As part of the contribution of the business operations, Volkswagen AG agreed to refund to Porsche SE any tax benefits – for example, in the form of a refund, tax reduction or tax saving, a reversal of tax liabilities or provisions or an increase in tax losses – of Porsche Holding Stuttgart GmbH, Porsche AG and its legal predecessors and subsidiaries which pertain to assessment periods up to 31 July 2009. In return, under certain 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 in the Volkswagen Group that are expected to partly compensate the tax risks of Porsche SE. However, the provisions in the contribution agreement do not cover all matters and thus not all tax risks of Porsche SE from the tax field audits for the assessment periods 2006 to 2009. The existence and amount of a possible reimbursement claim against Volkswagen AG can be reliably determined only following completion of the tax field audit for the assessment period 2009. Based on the findings of the completed tax field audit for the assessment periods 2006 to 2008 and the information available for the assessment period 2009 when these consolidated financial statements were authorized for issue, Porsche SE would have a claim for compensation in the low triple-digit million-euro range. Future findings arising from the tax field audit for the assessment period 2009 may lead to an increase or decrease in the possible compensation claim.

Report on opportunities and risks of the Volkswagen Group

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

Only by promptly identifying, accurately assessing and effectively and efficiently managing the risks and opportunities arising from its business activities can the Volkswagen Group ensure its sustainable success. The aim of the Volkswagen Group's risk management system (RMS) and internal control system (ICS) is to identify potential risks at an early stage so that suitable countermeasures can be taken to avert the threat of loss to the company, and any risks that might jeopardize its continued existence can be ruled out.

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

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

The organizational design of the Volkswagen Group's RMS/ICS is based on the internationally recognized COSO framework for enterprise risk management (COSO: Committee of Sponsoring Organizations of the Treadway Commission). Structuring the RMS/ICS in accordance with the COSO framework for enterprise risk management ensures that potential risk areas are covered in full. In the reporting period, Volkswagen again took an approach to risk management that combines aspects of the ICS and the compliance management system (CMS). Uniform group principles are used as the basis for managing risks in a standardized manner. Opportunities are not recorded.

With this approach, Volkswagen not only fulfils legal requirements, particularly with regard to the financial reporting process, but is also able to manage significant risks to the group holistically, i.e. by incorporating both tangible and intangible criteria.

The open approach to dealing with risks in the Volkswagen Group and the quarterly reporting on the current risk situation were focal points in the reporting period in addition to the ad hoc and annual risk assessment. The Volkswagen Group continued to reinforce the internal control system in the area of product compliance in 2017. This includes the implementation of what are known as the golden rules in the areas of control unit software development, emission classification and escalation management. These rules represent minimum requirements in the organization, processes and tools & systems categories. They serve to shore up governance and compliance.

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

First line of defense: operational risk management

The primary line of defense comprises the operational risk management and internal control systems at the individual Volkswagen group companies and business units. The RMS/ICS is an integral part of the Volkswagen Group's structure and workflows. Events that may give rise to risk are identified and assessed locally in the divisions and at the investees. Countermeasures are introduced immediately, their effects are assessed and the information is incorporated into the planning in a timely manner. The results of the operational risk management process are incorporated into budget planning and financial control on an ongoing basis. The targets agreed in the budget planning rounds are continually reviewed in revolving planning updates.

At the same time, the results of risk mitigation measures that have already been taken are incorporated into the monthly forecasts on further business development without delay. This means that the board of management also has access to an overall picture of the current risk situation via the documented reporting channels during the year.

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

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

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

Each systemic risk reported is assessed by Volkswagen using the expected likelihood of occurrence and various risk criteria (financial and nonfinancial). In addition, the measures taken to manage and control risk are documented at management level. This means that risks are assessed in the context of any risk management measures initiated, i.e., in a net analysis. In addition to strategic, operational and reporting risks, risks arising from potential compliance violations are also integrated into this process. Moreover, the effectiveness of key risk management and control measures is tested and any weaknesses identified in the process are reported and rectified.

All Volkswagen group companies and units selected from among the entities in the consolidated group on the basis of materiality and risk criteria were subject to the regular GRC process in the fiscal year 2017.

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

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

The group board of management committee for risk management was set up in the reporting period. The new committee has the following tasks, among others:

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

In the past, the Scania brand was not yet included in the Volkswagen Group's risk management system due to various provisions of Swedish company law. Scania has been integrated into quarterly risk reporting since 2016. From 2018, it will also be gradually included in the standard GRC process. Risk management and risk assessment are integral parts of Scania's corporate management. Risk areas at Scania are evaluated by the brand's controlling department and reflected in the financial reporting.

Third line of defense: checks by group internal audit

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

Risk early warning system in line with the KonTraG

The company's risk situation is ascertained, assessed and documented in accordance with the requirements of the German Act on Control and Transparency in Business (KonTraG). The requirements for a risk early warning system are met through the elements of the RMS/ICS described above (first and second lines of defense). Independently of this, the external auditors check both the processes and procedures implemented in this respect and the adequacy of the documentation on an annual basis. The plausibility and adequacy of the risk reports are examined on a random basis in detailed interviews with the divisions and companies concerned that also involve the external auditors. The latter assessed the Volkswagen Group's risk early warning system based on this volume of data and ascertained that the risks identified were presented and communicated accurately. The risk early warning system meets the requirements of the KonTraG.

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

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

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

The 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 that are intended to ensure the complete, accurate and timely transmission of the information required for the preparation of the financial statements of Volkswagen AG, the consolidated financial statements and the combined group management report. These measures are designed to minimize the risk of material misstatement in the accounts and in the external reporting.

Main features of the risk management and integrated internal control system relevant for the financial reporting process

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

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

Control activities at the level of the Volkswagen Group include analyzing and, if necessary, adjusting the data reported in the financial statements presented by the subsidiaries, taking into account the reports submitted by the auditors of Volkswagen 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 Volkswagen 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 group management report is prepared – in accordance with the applicable requirements and regulations – centrally but with the involvement of and in consultation with the Volkswagen group units and companies.

In addition, the accounting-related internal control system is independently reviewed by the group internal audit function in Germany and abroad.

Integrated consolidation and planning system
The Volkswagen consolidation and corporate management system (VoKUs) enables the Volkswagen Group to consolidate and analyze both financial reporting's backward-looking data and controlling's budget data. VoKUs offers centralized master data management, uniform reporting, an authorization concept and maximum flexibility with regard to changes to the legal environment, providing a future-proof technical platform that benefits group financial reporting and group controlling in equal measure. To verify data consistency, VoKUs has a multi-level validation system that primarily checks content plausibility between the balance sheet, the income statement and the notes.

Opportunities and risks of the Volkswagen Group

The Volkswagen Group uses competitive and environmental analyses and market studies to identify not only risks but also opportunities with a positive impact on the design of its products, the efficiency with which they are produced, their success in the market and its cost structure. Where they can be assessed, risks and opportunities that the Volkswagen Group expects to occur are already reflected in the medium-term planning and the forecast.

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

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

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

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

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

The funding needed to cover the risks may lead to assets having to be sold due to the situation and equivalent proceeds for them not being achieved as a result.

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

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

Effects of the diesel issue on legal risks

On 18 September 2015, the US Environmental Protection Agency (EPA) publicly announced in a notice of violation that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the USA. It was alleged that Volkswagen had installed undisclosed engine management software installed in 2009 to 2015 model year 2.0 l diesel engines to circumvent NO_x emissions testing regulations in the USA in order to comply with certification requirements. The California Air Resources Board (CARB), a unit of the US environmental authority of California, announced its own enforcement investigation into this matter.

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. The vast majority of these engines were type EA 189 Euro 5 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. CARB also issued a letter announcing its own enforcement investigation into this matter. AUDI AG has confirmed that at least three auxiliary emission control devices were inadequately disclosed in the course of the US approval documentation. Around 113 thousand vehicles from the 2009 to 2016 model years with certain six-cylinder diesel engines were affected in the USA and Canada, where regulations governing NO_x emissions limits for vehicles are stricter than those in other parts of the world.

Numerous court and governmental proceedings were subsequently initiated in the USA and the rest of the world against companies of the Volkswagen Group. During the fiscal year 2017, Volkswagen succeeded in ending most significant court and governmental proceedings in the USA by concluding settlement agreements. This includes, in particular, settlements with the US Department of Justice (DOJ). Outside the USA, Volkswagen also reached agreements with regard to the implementation of the technical measures with numerous authorities.

The supervisory board of Volkswagen AG formed a special committee that coordinates the activities relating to the diesel issue for the supervisory board.

The global law firm Jones Day was instructed by Volkswagen AG to carry out an extensive investigation of the diesel issue in light of the DOJ's and the Braunschweig public prosecutor's criminal investigations as well as other investigations and proceedings which were expected. Jones Day was instructed by Volkswagen AG to present factual evidence to the DOJ. To resolve US criminal law charges, Volkswagen AG and the DOJ entered into a plea agreement, which includes a statement of facts containing a summary of the factual allegations which the DOJ considered relevant to the settlement with Volkswagen AG. The statement

of facts is based in part on Jones Day's factual findings as well as the evidence identified by the DOJ itself.

Jones Day has completed the work required to assist Volkswagen AG in assessing the criminal charges in the USA with respect to the diesel issue. However, work in respect of the legal proceedings which are still pending in the USA and the rest of the world is ongoing and will require considerable efforts and a considerable period of time. In connection with this work, Volkswagen AG is being advised by a number of external law firms.

Furthermore, in September 2015, Volkswagen AG filed a criminal complaint in Germany against unknown persons as did AUDI AG. Volkswagen AG and AUDI AG are cooperating with all responsible authorities in the scope of reviewing the incidents.

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

1. Coordination with the authorities on technical measures

Based on decisions dated 15 October 2015, the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) ordered the Volkswagen passenger cars, Volkswagen commercial vehicles and SEAT brands to recall all the diesel vehicles that had been issued with vehicle type approval by the KBA from among the eleven million vehicles affected with type EA 189 engines. The recall concerns the member states of the European Union (EU28). On 10 December 2015 a similar decision was issued regarding Audi vehicles with the EA 189 engine. The timetable and action plan forming the basis for the recall order corresponded to the proposals presented in advance by Volkswagen. Depending on the technical complexity of the concerned remedial actions, this means that the Volkswagen Group has been recalling the affected vehicles, of which there are around 8.5 million in total in the EU28 countries, to the service workshops since January 2016. The remedial actions differ in scope depending on the engine variant. The technical measures cover software and in some cases hardware modifications, depending on the series and model year. The technical measures for all vehicles in the European Union have since been approved without exception. The KBA ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO_2 emissions figures, engine power, maximum torque and noise emissions. Once the modifications have been made, the vehicles will thus also continue to comply with the legal requirements and the emission standards applicable in each case. The technical measures for all affected vehicles with type EA 189 engines in the European Union were approved without exception, and implemented in most cases.

In some countries outside the EU – among others South Korea, Taiwan and Turkey – national type approval is based on prior recognition of the EC/ECE type approval; the technical measure must therefore be approved by the national authorities. With the exception of South Korea, Volkswagen was able to conclude this approval process in all countries. In South Korea, the majority of approvals were likewise granted; in relation to the pending approvals, Volkswagen is in close contact with the authorities.

In addition, there is an intensive exchange of information with the authorities in the USA and Canada, where Volkswagen's proposed modifications in relation to the four-cylinder and the six-cylinder diesel engines also have to be approved. Due to NO_X limits that are considerably stricter than in the EU and the rest of the world, it is a greater technical challenge here to refit the vehicles so that the emission standards defined in the settlement agreements for these vehicles can be achieved.

For many months, AUDI AG has been intensively checking all diesel concepts for possible discrepancies and retrofit potentials. A systematic review process for all engine and gear variants has been underway since 2016.

On 14 June 2017, based on a technical error in the parameterization of the transmission software for a limited number of specific Audi A7/A8 models that AUDI AG itself discovered and reported to the KBA, the KBA issued an order under which a correction proposed by AUDI AG will be submitted. The technical error lies in the fact that, in the cases concerned, by way of exception a specific function that is standard in all other vehicle concepts is not implemented in actual road use. In Europe, this affects around 24,800 units of certain Audi A7/A8 models. The KBA has not categorized this error as an unlawful defeat device.

On 21 July 2017, AUDI AG offered a software-based retrofit program for up to 850,000 vehicles with V6 and V8 TDI engines meeting the Euro 5 and Euro 6 emission standards in Europe and other markets except the USA and Canada. The measure will mainly serve to further improve the vehicles' emissions in real driving conditions in inner city areas beyond the legal requirements. This was done in close cooperation with the authorities, which were provided with detailed reports, especially the German Federal Ministry of Transport and the KBA. The retrofit package comprises voluntary measures and, to a small extent, measures directed by the authorities; these are measures taken within the scope of a recall, which were proposed by AUDI AG itself, reported to the KBA and taken up and ordered by the latter. The voluntary tests have already reached an advanced stage, but have not yet been completed. The measures adopted and mandated by the KBA involved the recall of different diesel vehicles with a V6 or V8 engine meeting the Euro 6 emission standard, for which the KBA categorized certain emission strategies as an unlawful defeat device. From July 2017 to January

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.

Currently, AUDI AG assumes that the total costs of the software-based retrofit program including the amount based on recalls will be manageable and has recognized corresponding balance-sheet risk provisions. Should additional measures become necessary as a result of the investigations by AUDI AG and the consultations with the KBA, AUDI AG will quickly implement these as part of the retrofit program in the interest of customers.

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

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

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

In principle, it is possible that customers in the affected markets will file civil lawsuits against Volkswagen AG and other Volkswagen Group companies. In addition, it is possible that importers and dealers could assert claims against Volkswagen AG and other Volkswagen Group companies, e.g. through recourse claims. As well as individual lawsuits, class action lawsuits are possible in various jurisdictions (albeit not in Germany). Furthermore, in a number of markets it is possible that consumer and/or environmental organizations will apply for an injunction or assert claims for a declaratory judgment or for damages against companies of the Volkswagen Group.

In the context of the diesel issue, various lawsuits are currently pending against Volkswagen AG and other Volkswagen Group companies at present.

There are pending class action proceedings and lawsuits brought by consumer and/or environmental associations against Volkswagen AG and other companies of the Volkswagen Group in

various countries such as Argentina, Australia, Belgium, Brazil, China, the Czech Republic, Israel, Italy, Mexico, the Netherlands, Poland, Portugal, Taiwan and the United Kingdom. The class action proceedings are lawsuits aimed among other things at asserting damages or, as is the case in the Netherlands, at a declaratory judgment that customers are entitled to damages. With the exception of Brazil, where there has already been a non-binding judgment in the first instance, Volkswagen cannot yet quantify the amount of these damages more precisely due to the early stage of the proceedings. Volkswagen does not estimate the litigants' prospect of success to be more than 50% in any of the class action proceedings.

In South Korea, various mass proceedings are pending (in some of these individual lawsuits several hundred litigants have been aggregated). These lawsuits have been filed to assert damages and to rescind the purchase contract including repayment of the purchase price. Due to special circumstances in the market and specific characteristics of the South Korean legal system, Volkswagen estimates the litigants' prospects of success in the South Korean mass proceedings mentioned above to be inherently higher than in other jurisdictions outside the USA and Canada. On 12 May 2017, one first-instance judgment was delivered in these proceedings in South Korea during the fiscal year, in which the court completely dismissed an action filed to assert criminal damages over pollution. The judgment has since become binding.

Contingent liabilities have been disclosed in Volkswagen's consolidated financial statements for pending class action and mass proceedings that can be assessed and for which the chance of success was deemed not implausible. Provisions were recognized to a small extent.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in numerous countries. In Germany, there are around 9,000 individual lawsuits. In Italy, Austria and Spain, lawsuits numbering in the low three-digit range and in France and Ireland individual lawsuits in the two-digit range are pending against Volkswagen AG and other companies of the Volkswagen Group, most of which are aimed at asserting damages or rescinding the purchase contract.

In addition, on 29 November 2017, Volkswagen AG was served with an action brought by financialright GmbH asserting the rights assigned to it by a total of approximately 15,000 customers in Germany. This action seeks the payment of around €350 million in return for restitution of the vehicles.

In Switzerland, a claim for damages was brought against Volkswagen AG in December 2017 from the assigned rights of some 6,000 customers; the stated amount in dispute is approximately CHF 30 million.

According to Volkswagen's estimates so far, the litigants' prospect of success is below 50% in the vast majority of the individual lawsuits. Contingent liabilities have therefore been disclosed in Volkswagen's consolidated financial statements for those lawsuits that can be assessed and for which the chance of success was deemed not implausible.

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

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

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

At the District Court in Stuttgart, further investor lawsuits have been filed against Volkswagen AG, in some cases along with Porsche SE as joint and several debtors. On 6 December 2017, the District Court in Stuttgart issued an order for reference to the Higher Regional Court in Stuttgart in relation to procedural issues, particularly for clarification of jurisdiction. On account of the diesel issue, model case proceedings against Porsche SE are also pending before the Higher Regional Court in Stuttgart.

Further investor lawsuits against Volkswagen have been filed at various courts in Germany as well as in Austria and the Netherlands. In Austria, the Supreme Court ruled on 7 July 2017 that the investor lawsuits against Volkswagen AG do not fall within the jurisdiction of the Austrian courts. Consequently, all but one of the investor lawsuits against Volkswagen that were formerly pending in Austria have been dismissed or withdrawn. The last pending lawsuit has been dismissed at first instance.

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 in connection with the diesel issue, with the claims totaling approximately €9 billion. Volkswagen remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits. Insofar as the chance of success was estimated at not lower than 10%, contingent liabilities have been disclosed in Volkswagen's consolidated financial statements.

5. Proceedings in the USA/Canada

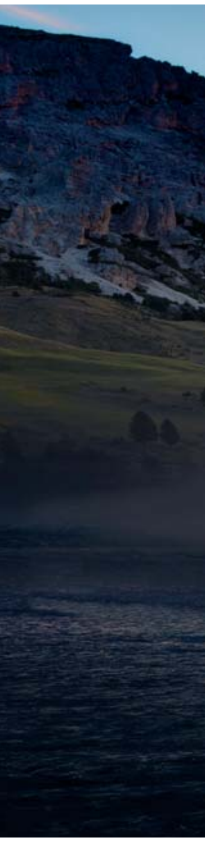
Following the publication of the EPA's notices of violation, Volkswagen AG and other Volkswagen Group companies have been the subject of intense scrutiny, ongoing investigations (civil and criminal) and civil litigation. Volkswagen AG and other Volkswagen Group companies have received subpoenas and inquiries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

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

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

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

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



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

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

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

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

On 20 December 2016, Volkswagen entered into a second partial consent decree, subject to court approval, with the DOJ, EPA, CARB and the California Attorney General that resolved claims for injunctive relief under the Clean Air Act and California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. Under the terms of this consent decree, Volkswagen agreed to implement a buyback and lease termination program for Generation 1 3.0 l TDI vehicles and a free emissions recall and modification program for Generation 2 3.0 l TDI vehicles, and to pay US$225 million into the environmental mitigation trust that has been established pursuant to the first partial consent decree. The second partial consent decree was lodged with the court on 20 December 2016 and approved on 17 May 2017.

In addition, on 20 December 2016, Volkswagen entered into an additional, concurrent California Second Partial Consent Decree, subject to court approval, with CARB and the California Attorney General that resolved claims for injunctive relief under California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. Under the terms of this consent

decree, Volkswagen agreed to provide additional injunctive relief to California, including the implementation of a “Green City” initiative and the introduction of three new Battery Electric Vehicle (BEV) models in California by 2020, as well as a US$25 million payment to CARB to support the availability of BEVs in California.

On 11 January 2017, Volkswagen entered into a third partial consent decree with the DOJ and EPA that resolved claims for civil penalties and injunctive relief under the Clean Air Act related to the 2.0 l and 3.0 l TDI vehicles. Volkswagen agreed to pay US$1.45 billion (plus any accrued interest) to resolve the civil penalty and injunctive relief claims under the Clean Air Act, as well as the customs claims of the US Customs and Border Protection. Under the third partial consent decree, the injunctive relief includes monitoring, auditing and compliance obligations. This consent decree, which was subject to public comment, was lodged with the court on 11 January 2017 and approved on 13 April 2017. Also on 11 January 2017, Volkswagen entered into a settlement agreement with the DOJ to resolve any claims under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and agreed to pay US$50 million (plus any accrued interest), specifically denying any liability and expressly disputing any claims.

On 21 July 2017, the federal court in the multidistrict litigation pending in California approved the Third California Partial Consent Decree, in which Volkswagen AG and certain affiliates agreed with the California Attorney General and CARB to pay US$153.8 million in civil penalties and cost reimbursements. These penalties covered California environmental penalties for both the 2.0 l and 3.0 l TDI vehicles. An agreement in principle had been reached on 11 January 2017.

The DOJ also opened a criminal investigation focusing on allegations that various federal law criminal offenses were committed. On 11 January 2017, Volkswagen AG agreed to plead guilty to three federal criminal felony counts, and to pay a US$2.8 billion criminal penalty. Pursuant to the terms of this agreement, Volkswagen will be on probation for three years and will work with an independent monitor for three years. The independent monitor will assess and oversee the

company's compliance with the terms of the resolution. This includes overseeing the implementation of measures to further strengthen compliance, reporting and monitoring systems, and an enhanced ethics program. Volkswagen will also continue to cooperate with the DOJ's ongoing investigation of individual employees or former employees who may be responsible for criminal violations.

Moreover, investigations by various US regulatory and government authorities are ongoing against companies of the Volkswagen Group, including in areas relating to securities, financing and tax.

On 31 January 2017, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates entered into a settlement agreement with private plaintiffs represented by the PSC in the multidistrict litigation pending in California, and a consent order with the FTC. These agreements resolved certain civil claims made in relation to affected diesel vehicles with 3.0 l TDI engines from the Volkswagen, Audi and Porsche brands in the USA. On 14 February 2017, the court preliminarily approved the settlement agreement with private plaintiffs. On 11 May 2017, the court held a fairness hearing on whether approval should be granted and on 17 May 2017, the court granted final approval of the settlement agreement and the partial stipulated consent order.

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

Generation 2 (model years 2013 – 2016) consumers will receive a free emissions-compliant repair to bring the vehicles into compliance with the emissions standards to which they were originally certified, as well as cash payments. Volkswagen has received approval from the EPA and CARB for emissions-compliant repairs within the time limits set out in the settlement agreement. Volkswagen will also make cash payments to certain former Generation 2 owners or lessees.

In September 2016, Volkswagen announced that it had finalized an agreement to resolve the claims of Volkswagen branded franchise dealers in the USA relating to TDI vehicles and other matters asserted concerning the value of the franchise. The settlement agreement includes a cash payment of up to US$1.208 billion, and additional benefits to resolve alleged past, current, and future claims of losses in franchise value. On 18 January 2017, a fairness hearing on whether final approval should be

granted was held, and on 23 January 2017, the court granted final approval of the settlement agreement.

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

Volkswagen reached separate agreements with the attorneys general of 45 US states, the District of Columbia and Puerto Rico, to resolve their existing or potential consumer protection and unfair trade practices claims – in connection with both 2.0 l TDI and 3.0 l TDI vehicles in the USA – for a settlement amount of US$622 million. Five states did not join these settlements and still have consumer claims outstanding: Arizona, New Mexico, Oklahoma, Vermont and West Virginia. Volkswagen has also reached separate agreements with the attorneys general of eleven US states (Connecticut, Delaware, Maine, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Vermont, and Washington) to resolve their existing or potential future claims for civil penalties and injunctive relief for alleged violations of environmental laws for a settlement amount of US$207 million. The attorneys general of ten other US states (Illinois, Maryland, Minnesota, Missouri, Montana, New Hampshire, New Mexico, Ohio, Tennessee and Texas) and some municipalities have also filed suits in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, seeking civil penalties and injunctive relief for alleged violations of environmental laws. Illinois, Maryland, Minnesota, Missouri, Montana, New Hampshire, Ohio, Tennessee and Texas participated in the state settlements described above with respect to consumer protection and unfair trade practices claims, but those settlements did not include claims for environmental penalties. The environmental claims of two other states – Alabama and Wyoming – have been dismissed as preempted by federal law. Alabama has appealed this dismissal.

In addition to the lawsuits described above, for which provisions have been recognized at the level of the Volkswagen Group, a putative class action has been filed on behalf of purchasers of Volkswagen AG American Depositary Receipts, alleging a drop in price purportedly resulting from the matters described in the EPA's notices of violation. A putative class action has also been filed on behalf of purchasers of certain US$-denominated Volkswagen bonds, alleging that these bonds were trading at artificially inflated prices due to Volkswagen's alleged misstatements and that the value of these bonds declined after the EPA issued its notices of violation.

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

In Canada, civil consumer claims against companies of the Volkswagen Group and regulatory investigations have been initiated for vehicles with 2.0 l and 3.0 l TDI engines. On 19 December 2016, Volkswagen AG and other Canadian and US Volkswagen Group companies reached a class action settlement in Canada with consumers relating to 2.0 l diesel vehicles. Also on 19 December 2016, Volkswagen Group Canada agreed with the Commissioner of Competition in Canada to a civil resolution regarding its regulatory inquiry into consumer protection issues as to those vehicles. On 21 December 2017, Volkswagen announced an agreement in principle on a proposed consumer settlement in Canada involving 3.0 l diesel vehicles. The court preliminarily approved the settlement agreement on 12 January 2018, and the notice and opt out period began on 17 January 2018. Final approval hearings are scheduled in Quebec and Ontario for 3 and 5 April 2018, respectively. On January 12, 2018, Volkswagen and the Canadian Commissioner of Competition reached a resolution related to civil consumer protection issues relating to 3.0 l diesel vehicles. Also, criminal enforcement-related investigations by the federal environmental regulator and quasi-criminal enforcement-related investigations by a provincial environmental regulator are ongoing in Canada related to 2.0 l and 3.0 l diesel vehicles. On 15 September 2017, a provincial regulator in Canada, the Ontario Ministry of the Environment and Climate Change, charged Volkswagen AG under the province's environmental statute with one count alleging that it caused or permitted the operation of model years 2010 – 2014 Volkswagen and Audi brand 2.0 l diesel vehicles that did not comply with prescribed emission standards. Following initial court appearances on 15 November 2017 and 7 February 2018, the matter was put over to 4 April 2018 pending ongoing evidence disclosure. No trial date has been set. Provisions have been recognized for possible obligations stemming from pending lawsuits in Canada at the level of the Volkswagen Group.

Moreover, in Canada, two securities class actions by investors in Volkswagen AG American Depositary Receipts and shares are pending against Volkswagen AG in the Quebec and Ontario provincial courts. These actions allege misrepresentations and omissions in financial

reporting issued from 2009–2015 stemming from the diesel issue. The proposed class periods are for residents in the provinces who purchased the relevant securities between 12 March 2009 and 18 September 2015, and held all or some of the acquired securities until after the alleged first corrective disclosures. Discovery has not begun. In both actions, motions for certification were filed. In the Quebec matter, the motion was heard on 5 and 6 February 2018 and the court's decision is on reserve. In the Ontario matter, the motion is scheduled for hearing on 10 and 11 July 2018.

In addition, putative class action and joinder lawsuits by customers, and a certified environmental class action on behalf of residents against companies of the Volkswagen Group, remain pending in certain provincial courts in Canada.

An assessment of the underlying situation is not possible for Volkswagen at this early stage of those proceedings.

6. Additional proceedings

With its ruling from 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 should examine whether there was a breach of duties on behalf of the members of the board of management and supervisory board of Volkswagen AG in connection with the diesel issue starting from 22 June 2006 and if this resulted in damages for Volkswagen AG. The ruling from the Higher Regional Court of Celle is formally legally binding. However, Volkswagen AG lodged a constitutional complaint toward the German Federal Constitutional Court regarding the infringement of its constitutionally guaranteed rights. It is currently unclear when the Federal Constitutional Court will reach a decision on this matter.

In addition, the District Court of Hanover has filed a second motion for the appointment of a special auditor for Volkswagen AG, which is also aimed at the examination of transactions in connection with the diesel issue. This proceeding will be suspended until the ruling has been announced by the Federal Constitutional Court.

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

To protect against the currently known legal risks related to the diesel issue, provisions of approximately €2.0 billion exist as of 31 December 2017 on the basis of existing information and current assessments at the level of the Volkswagen

Group. Beyond this, appropriate provisions have been recognized for defense and legal advice expenses. Insofar as these can be adequately measured at this stage, total contingent liabilities in relation to the diesel issue totaling €4.3 billion (prior year: €3.2 billion), of which lawsuits filed by investors account for €3.4 billion (prior year: €3.1 billion), were disclosed in the notes. According to estimates by Volkswagen, the provisions recognized for this matter and the contingent liabilities disclosed as well as the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and the fact that the independent, comprehensive investigations have not yet been completed.

Overall statement on the risks faced by the Volkswagen Group

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

Overall statement on the risks faced by the Porsche SE Group

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

Publication of the declaration of compliance

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

Subsequent events

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

Forecast report and outlook

Developments in the global economy

According to the International Monetary Fund (IMF), the global economy is currently enjoying a marked upward trend. According to the current update on the world economic outlook, the IMF expects growth of 3.9% in 2018 after global economic growth of 3.7% in the past year. The positive forecast is primarily attributable to the improved outlook in the eurozone and Asia. But even in the developing and emerging economies, expectations were also exceeded by 0.1% on average in 2017.

High demand for goods in Europe was the trigger for increased growth especially in Germany, Italy and the Netherlands. In Spain, by contrast, the outlook had worsened slightly due to political uncertainties.

The IMF also expects a continued positive development for the developing and emerging economies, supported by improved external factors such as a positive financial environment overall.

According to the IMF, the German economy will grow by 2.3% in 2018. For the entire eurozone, an increase of 2.2% is expected for 2018.

For the USA, the outlook is also positive. The US tax reform here is a fiscal policy stimulus, which will lead to increased growth for the time being at least. Neighboring states Mexico and Canada also benefited from this development. Overall, the IMF has raised its forecast for the USA from 2.3% to 2.7% for 2018.

The economy of the developing and emerging economies in Asia would grow at a more or less unchanged pace in 2018. For China, the IMF forecasts an increase of 6.6% in 2018. With growth of 7.4%, the growth rate for India is even higher.

Exchange rate trends

Growth in the global economy increased in 2017. The euro appreciated against the US dollar over the course of the year. The pound sterling continued to depreciate against the EU currency. This development was largely shaped by the uncertainties with regard to the exit negotiations the UK has started with the EU and their future relationship. Since the beginning of the reporting year, the currencies of major emerging economies had depreciated somewhat against the euro. For 2018, it is forecast that the euro will stabilize against the US dollar, the pound sterling, the Chinese renminbi and other key currencies. The Russian ruble, the Brazilian real and the Indian rupee will most likely remain weak by comparison.

Interest rate trends

Interest rates remained extremely low in fiscal year 2017 due to the continuation of expansionary monetary policy and the challenging overall economic environment. In the major Western industrialized nations, key interest rates persisted at a historic low level. While it became apparent in the USA that the extremely loose monetary policy was gradually drawing to an end, the European Central Bank continued to pursue this course. In light of further expansionary monetary policy measures in the eurozone, we therefore expect no more than a slight rise in interest rates in 2018. In the USA, however, a moderate increase in interest rates is expected.

Trends in the markets for passenger cars

Trends in the passenger car markets in the individual regions are expected to be mixed in 2018. Overall, the increase in global demand for new vehicles will probably be slower than in the reporting period.

Anticipated development of the Volkswagen Group

The Volkswagen Group is well 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 the Volkswagen Group 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 profit for the group and the passenger cars business area, the Volkswagen Group forecasts an operating return

on sales in the range of 6.5% and 7.5% in 2018. For the commercial vehicles business area, an operating return on sales of between 5.0% and 6.0% is anticipated. In the power engineering business area, Volkswagen expects a lower operating loss than in the prior year. For the financial services division, Volkswagen is forecasting an operating profit at the prior-year level.

Anticipated development of the Porsche SE Group

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

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

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

Based on the current group structure, in particular on the basis of the Volkswagen Group's expectations regarding its future development and the ongoing existing uncertainties with regard to possible special items in connection with the diesel

issue, Porsche SE expects a group profit for the year of between €3.4 billion and €4.4 billion for the fiscal year 2018.

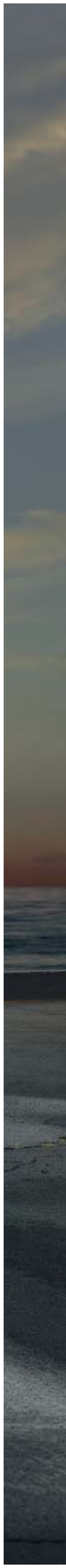
As of 31 December 2017, the Porsche SE Group had net liquidity of €937 million. The goal of both Porsche SE and the Porsche SE Group to achieve positive net liquidity remains unchanged. This is expected to be between €0.7 billion and €1.2 billion as of 31 December 2018, not taking future investments into account.

Stuttgart, 2 March 2018

Porsche Automobil Holding SE
The executive board

3 Financials

Audi A8 L

3

Financials

3

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

€ million	Note	**2017**	2016
Revenue	[1]	34	1
Other operating income	[2]	6	1
Cost of materials		–4	0
Personnel expenses	[3]	–31	–12
Amortization and depreciation	[10]	–6	0
Other operating expenses	[4]	–48	–37
Profit/loss from investments accounted for at equity	[5]	3,410	1,449
Profit/loss before financial result		3,361	1,402
Finance costs	[6]	–12	–24
Other financial result	[7]	4	4
Financial result		**–8**	**–20**
Profit/loss before tax		**3,352**	**1,382**
Income tax	[8]	–21	–8
Profit/loss for the year		**3,332**	**1,374**
thereof attributable to			
shareholders of Porsche Automobil Holding SE		3,332	1,374
non-controlling interests		0	0
Earnings per ordinary share (basic and diluted)	[9]	10.87	4.48
Earnings per preference share (basic and diluted)	[9]	10.88	4.49

Consolidated statement of comprehensive income of Porsche Automobil Holding SE for the period from 1 January to 31 December 2017

€ million	**2017**	2016
Profit/loss for the year	**3,332**	**1,374**
Remeasurements of pensions recognized in equity	1	–3
Other comprehensive income not to be reclassified to profit or loss in subsequent periods from investments accounted for at equity (after tax)	287	–1,123
Other comprehensive income not to be reclassified to profit or loss in subsequent periods	288	–1,126
Other comprehensive income to be reclassified to profit or loss in subsequent periods from investments accounted for at equity (after tax)	225	884
Other comprehensive income to be reclassified to profit or loss in subsequent periods	225	884
Other comprehensive income after tax	**513**	**–242**
Comprehensive income	**3,845**	**1,132**
thereof attributable to		
shareholders of Porsche Automobil Holding SE	3,845	1,132
non-controlling interests	0	0

A breakdown of individual components of the statement of comprehensive income is given in note [15].

Consolidated balance sheet of Porsche Automobil Holding SE as of 31 December 2017

€ million	Note	**31/12/2017**	31/12/2016
Assets			
Intangible assets	[10]	333	0
Property, plant and equipment	[10]	7	0
Investments accounted for at equity	[11]	30,354	26,760
Other financial assets	[12]	7	0
Other assets	[13]	2	1
Deferred tax assets	[8]	1	0
Non-current assets		**30,705**	**26,761**
Inventories		3	0
Trade receivables	[24]	18	0
Other financial assets	[12]	4	3
Other assets	[13]	12	1
Income tax receivables		2	1
Securities	[14]	185	272
Time deposits	[24]	101	679
Cash and cash equivalents	[24]	664	648
Current assets		**991**	**1,604**
		31,696	**28,365**
Equity and liabilities			
Subscribed capital	[15]	306	306
Capital reserves	[15]	4,884	4,884
Retained earnings	[15]	26,219	22,704
Equity attributable to shareholders of Porsche SE		31,410	27,894
Non-controlling interests	[15]	1	0
Equity		**31,410**	**27,894**
Provisions for pensions and similar obligations	[16]	36	30
Other provisions	[17]	19	18
Financial liabilities	[18]	12	0
Other financial liabilities	[19]	5	0
Deferred tax liabilities	[8]	84	28
Non-current liabilities		**155**	**76**
Other provisions	[17]	80	75
Trade payables		5	2
Financial liabilities	[18]	1	300
Other financial liabilities	[19]	19	17
Other liabilities	[20]	24	1
Income tax liabilities		1	0
Current liabilities		**130**	**395**
		31,696	**28,365**

Due to the acquisition of the PTV Group, the presentation of the balance sheet was expanded and adjusted. Financial assets and financial liabilities are disclosed separately in the balance sheet. The prior-year figures were adjusted accordingly.

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

€ million	Equity attributable to the shareholders of Porsche SE						
	Subscribed capital	Capital reserves	Retained earnings		Total	Non-controlling interests	Total equity
			Others[3]	Investments accounted for at equity			
As of 1 January 2016	306	4,884	23,681	–1,794	27,077	0	27,077
Profit/loss for the year			1,374		1,374		1,374
Other comprehensive income after tax			–3	–239	–242		–242
Comprehensive income for the period	0	0	1,371	–239	1,132	0	1,132
Dividend payment			–308[1]		–308		–308
Other changes in equity arising at the level of investments accounted for at equity			–7		–7		–7
As of 31 December 2016	**306**	**4,884**	**24,737**	**–2,033**	**27,894**	**0**	**27,894**
As of 1 January 2017	306	4,884	24,737	–2,033	27,894	0	27,894
Profit/loss for the year			3,332		3,332		3,332
Other comprehensive income after tax			1	512	513		513
Comprehensive income for the period	0	0	3,332	512	3,845	0	3,845
Dividend payment			–308[2]		–308		–308
Additions from business combinations					0	1	1
Other changes in equity arising at the level of investments accounted for at equity			–21		–21		–21
As of 31 December 2017	**306**	**4,884**	**27,739**	**–1,520**	**31,410**	**1**	**31,410**

1 Distribution of a dividend of €1.004 per ordinary share; total €153,737,500
Distribution of a dividend of €1.010 per preference share; total €154,656,250

2 Distribution of a dividend of €1.004 per ordinary share; total €153,737,500
Distribution of a dividend of €1.010 per preference share; total €154,656,250

3 Retained earnings also contain items that are not to be reclassified to profit or loss in subsequent periods. The actuarial losses from pensions and similar obligations after taxes amount to €10 million as of 31 December 2017 (31 December 2016: €11 million).

Equity is explained in note [15].

Consolidated statement of cash flows of Porsche Automobil Holding SE for the period from 1 January to 31 December 2017

€ million	**2017**	2016
1. Operating activities		
Profit/loss for the year	3,332	1,374
Amortization and depreciation	6	0
Change in provisions for pensions	3	3
Change in other provisions	0	–8
Interest expenses	12	24
Interest income	–1	–2
Income tax expense	21	8
Income tax paid	–1	–53
Income tax received	1	8
Interest paid	–13	–22
Interest received	3	3
Non-cash expenses and income	–3,411	–1,450
Dividends received	308	17
Changes in other assets	–7	7
Changes in other liabilities	–1	–6
Cash flow from operating activities	**250**	**–97**
2. Investing activities		
Cash paid for the acquisition of intangible assets and property, plant and equipment	–2	0
Cash paid for the acquisition of other shares in entities	–7	0
Cash paid for the acquisition of subsidiaries	–283	0
Change in investments in securities	88	470
Change in investments in time deposits	579	–129
Cash flow from investing activities	**376**	**341**
3. Financing activities		
Dividends paid to shareholders of Porsche SE	–308	–308
Cash paid for settlement of financial liabilities	–301	0
Cash flow from financing activities	**–609**	**–308**
4. Cash and cash equivalents		
Change in cash and cash equivalents (subtotal of 1 to 3)	17	–64
Exchange-rate related changes	0	0
Cash and cash equivalents as of 1 January	648	712
Cash and cash equivalents as of 31 December	**664**	**648**

Interest paid and received is disclosed separately. In the prior year, these items had been broken down in the notes. Note [21] contains further explanations on the statement of cash flows.

Notes to the consolidated financial statements of Porsche Automobil Holding SE for the fiscal year 2017

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 for future investments are the connection to the automotive value chain, the future of mobility and industrial production as well as an above-average growth potential based on macroeconomic trends and industry-specific trends derived from them. 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.

In addition to established medium-sized enterprises, Porsche SE has also recently expanded its investment focus to young companies from the start-up phase onwards. The investment volume amounts to a single-digit million-euro figure to date.

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). Percentages and figures in this report may contain rounding differences.

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

The consolidated financial statements and combined management report were authorized for submission to the supervisory board by the executive board by resolution dated 2 March 2018.

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 2017

	Share in capital as of 31/12/2017	Currency	FX rate 1 € =	Equity in local currency	Profit/loss in local currency
	%			€ thousand	€ thousand
Fully consolidated entities					
Germany					
Porsche Beteiligung GmbH, Stuttgart	100.0	EUR	-	42,785	0[2]
Porsche Zweite Beteiligung GmbH, Stuttgart	100.0	EUR	-	315,024	0[2]
Porsche Dritte Beteiligung GmbH, Stuttgart	100.0	EUR	-	7,824	0[2]
Porsche Vierte Beteiligung GmbH, Stuttgart	100.0	EUR	-	24	0[2]
PTV Planung Transport Verkehr AG, Karlsruhe[1]	99.9	EUR	-	29,548	10,158
DDS Digital Data Services GmbH, Karlsruhe[1]	99.9	EUR	-	397	92
PTV Transport Consult GmbH, Karlsruhe[1]	99.9	EUR	-	2,682	1,795
Transport Technologie-Consult Karlsruhe GmbH, Karlsruhe[1]	51.0	EUR	-	852	195
International					
DPS Technology, Ltd., Halesowen[1]	99.9	GBP	0.8873	17	0
Locatienet B.V., Utrecht[1]	92.1	EUR	-	243	217
PTV Africa (Pty) Ltd., Johannesburg[1]	99.9	ZAR	14.7572	–482	111
PTV America Holding Inc., Portland, Oregon[1]	99.9	USD	1.1988	–2,161	4
PTV America Inc., Portland, Oregon[1]	99.9	USD	1.1988	–1,140	502
PTV América Latina, S.A. de C.V., Mexico City[1]	98.9	MXN	23.6142	5,574	–4,124
PTV Asia-Pacific Pte, Ltd., Singapore[1]	99.9	SGD	1.6014	1,729	364
PTV Asia-Pacific Pty, Ltd., Sydney[1]	99.9	AUD	1.5329	–220	191
PTV Austria Planung Transport Verkehr GmbH, Vienna[1]	99.9	EUR	-	374	166
PTV België B.V.B.A., Ypern[1]	99.8	EUR	-	67	61
PTV CEE Sp. z.o.o., Warsaw[6]	99.9	PLN	4.1749	0	0
PTV do Brasil Ltda., São Paulo[1]	99.9	BRL	3.9707	106	72
PTV France Sàrl, Strasbourg[1]	99.9	EUR	-	627	299
PTV Italia Logistics S.r.l., Perugia[1]	51.0	EUR	-	504	153
PTV Japan Ltd., Tokyo[1]	99.9	JPY	134.8700	65,363	35,770
PTV Loxane SAS, Cergy[1]	99.9	EUR	-	1,380	610
PTV MENA Region DMCC, Dubai[1]	99.9	AED	4.4032	5,194	2,436
PTV MENA Region WLL, Doha[1]	49.0	QAR	4.3647	1,653	1,542
PTV MENA Region Transport Technology Solution L.L.C, Abu Dhabi[1]	49.0	AED	4.4032	–131	–187
PTV Nederland B.V., Utrecht[1]	99.9	EUR	-	2,265	2,010
PTV Nordics AB, Gothenburg[1]	99.9	SEK	9.8314	456	488
PTV Software Technology (Shanghai) Co., Ltd., Shanghai[1]	99.9	CNY	7.8009	2,084	1,510
PTV Traffic Technology (Shanghai) Co., Ltd., Shanghai[1]	99.9	CNY	7.8009	5,820	725
PTV Traffic and Transportation Software, S.L., Barcelona[1]	99.9	EUR	-	50	0

	Share in capital as of 31/12/2017	Currency	FX rate 1 € =	Equity in local currency	Profit/loss in local currency
	%			€ thousand	€ thousand
Fully consolidated entities					
PTV Transworld Holding B.V., Utrecht[1]	99.9	EUR	-	6	–10
PTV Truckparking B.V., Utrecht[1]	99.9	EUR	-	–375	–395
PTV Truckparking LLC, Arlington, Virginia[1]	99.9	USD	1.1988	0	0
PTV UK Ltd., Birmingham[1]	99.9	GBP	0.8873	650	150
PTV UK Holding Ltd., Halesowen[1]	99.9	GBP	0.8873	322	79
PTV Distribution Planning Software Ltd., Halesowen[1]	99.9	GBP	0.8873	29	–74
SISTeMA Soluzioni per l´Ingegneria dei Sistemi di Trasporto e l´infoMobilitÀ S.r.l., Rome[1]	97.9	EUR	-	2,161	291
Associates					
Germany					
Volkswagen Aktiengesellschaft, Wolfsburg	30.8[3]	EUR	-	30,437,576	4,353,015
VIB Verkehrsinformationsagentur Bayern GmbH i.L., Munich[4,6]	49.0	EUR	-	137	–95
European Center for Information and Communication Technologies - EICT GmbH, Berlin[4]	20.0	EUR	-	1,259	–3
International					
INRIX Inc., Kirkland, Washington[4]	11.7	USD	1.1988	20,132	–21,372
Mygistics Inc., Kansas City, Missouri	30.0	USD	1.1988	[5]	[5]

1 Figures taken from the 2016/2017 financial statements
2 Profit and loss transfer agreement with Porsche SE
3 Diverging from the capital share, the share in voting rights is 52.2% as of the reporting date
4 Figures taken from the 2016 financial statements
5 No data available
6 Diverging fiscal year

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

On 4 September 2017, an entity of the Porsche SE Group acquired 99.9% of the voting shares in the PTV Group (PTV AG and its subsidiaries). The PTV Group is a leading provider of software for traffic planning and management as well as transport logistics.

The acquisition of the PTV Group is another important step towards expanding Porsche SE’s investment portfolio. The PTV Group operates at the interface of key trends that are of particular relevance for the future development of the mobility landscape. There is enormous growth potential for the PTV Group particularly in the area of optimizing flows of people and goods. With its software solutions, the group occupies key functions in the areas of smart traffic and fleet management.

In the four months until 31 December 2017, the PTV Group contributed revenue of €34 million and a loss after tax of €1 million to group profit.

Including the PTV Group in the consolidated financial statements of Porsche SE as of 1 January 2017 would have led to consolidated revenue amounting to €99 million and to a group profit for the year amounting to €3,335 million. These pro forma disclosures are exclusively for comparison purposes and do not necessarily represent the figures that would have arisen if the acquisition had taken place as of 1 January 2017. They are therefore not to be used for forecasting future developments.

Consideration transferred

The fair value of each major class of consideration at acquisition date is summarized below:

€ million	
Purchase price paid	296
Settlement of share-based payment remuneration (stock options)	13
Liabilities arising from contingent consideration	3
Consideration transferred	**312**

Settlement of share-based payment awards (share options)

The Porsche SE Group settled the share options granted by PTV AG to certain employees and executive board members. No replacement awards were granted to the persons eligible. In accordance with the terms of the share options, a one-off cash settlement was made on the same terms and at the same price per share (less the exercise price) as they were granted to the shareholders when their shares were sold. As of the date of acquisition, the persons entitled had not yet fully completed the vesting period, nor were they obliged to complete an additional period of service after the acquisition date. The purchase price paid for the settlement of the share options was recognized fully as part of the consideration transferred.

Contingent consideration

In addition to the purchase price due immediately after the transaction was closed, a performance-based earn-out was agreed with the former shareholders and the former share option owners. The earn-out period is three years, based on the PTV Group’s earlier fiscal year differing from the calendar year and comprises the period from 1 April 2017 to 31 March 2020. The earn-out is capped at €25 million including interest and is only paid out when the consolidated EBIT generated by the PTV Group adjusted for extraordinary effects exceeds certain thresholds. Furthermore, the earn-out for the individual periods is also capped. If the maximum payout is not reached in one year, the difference can be carried forward to the following year. If the threshold is exceeded by 10%, the overfulfillment can be carried forward to the next year as long as the corresponding threshold is reached in the following year. Payout amounts are retrospectively subject to 3% interest from the time that the agreement is completed to the due date. For significant business units of the PTV Group that are sold, either part or all of the earn-out is due immediately.

As of the date of acquisition, the contingent consideration has a fair value of €3 million. The valuation was performed using a Black-Scholes option price model, taking into account the equity value of the PTV Group, its volatility, the term of the earn-out, the EBIT thresholds as well as an adequate, risk-free base interest rate.

The change in the fair value of the contingent consideration as of 31 December 2017 was immaterial (see note [19]).

For the period from 1 April to 31 December 2017, the relevant consolidated EBIT of the PTV Group is below the set threshold, meaning that no earn-out payment will fall due for this period.

Acquisition-related costs

The Porsche SE Group incurred costs of €3 million for legal advisory services and due diligence reviews in connection with the business combination. These costs are recognized under other operating expenses.

Cash outflow due to the acquisition

The effective cash outflow due to the acquisition and its presentation in the statement of cash flows is as follows:

€ million	
Cash payments (included in cash flow from investing activities)	–309
Cash and cash equivalents acquired with the business combination (included in cash flow from investing activities)	26
Transaction costs of the acquisition (included in cash flow from operating activities)	–3
Net cash outflow due to the acquisition	**–286**

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of the PTV Group as at the date of acquisition are as follows:

€ million	Carrying amount as of acquisition date	Hidden reserves/liabilities identified in purchase price allocation	Fair value as of acquisition date
Assets			
Intangible assets	6	119	125
Property, plant and equipment	7	0	7
Inventories	3	0	3
Trade receivables	15	0	15
Other financial assets	2	0	2
Other assets	13	0	13
Cash and cash equivalents	26	0	26
Deferred tax assets	1	0	1
	73	119	192
Liabilities			
Trade payables	3	0	3
Provisions	8	0	8
Financial liabilities	13	0	13
Other financial liabilities	6	0	6
Other liabilities	24	0	24
Income tax liabilities	2	0	2
Contingent liabilities	0	2	2
Deferred tax liabilities	0	34	35
	57	36	92
Identifiable net assets	**17**	**83**	**100**

Goodwill

Goodwill was recognized as follows due to the acquisition:

€ million

Consideration transferred	312
Non-controlling interests	1
Fair value of the identifiable net assets	– 100
Goodwill	**213**

Goodwill represents expectations regarding the market growth for software solutions in the areas of traffic management and transport logistics. On the one hand, the core business in place up to now is to be expanded further by adding top-selling products. On the other, growth potential is to be explored in the ITS (Intelligent Transport Systems) market.

Furthermore, goodwill contains the skills and technical proficiency of the acquired workforce.

Goodwill is allocated entirely to the ITS segment (see note [22]).

None of the goodwill recognized is expected to be deductible for income tax purposes.

Trade receivables amounted to a gross amount of €18 million as of the acquisition date. The receivables were impaired by an amount of €2 million. The receivables disclosed are expected to be collectible.

The carrying amount of trade receivables corresponds to the fair value of the acquired receivables and at the same time represents the best estimate for the expected cash inflows from the receivables.

Subsequent changes that arise within twelve months after the acquisition date (measurement period) are made retrospectively as of the acquisition date. For changes after twelve months since the acquisition date, only the regulations regarding error corrections and estimation errors are applied.

Full consolidation and at equity accounting

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

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

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

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

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

Porsche SE holds 52.2% of the voting rights and 30.8% of the capital of 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.

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

	31/12/2017	31/12/2016
Fully consolidated subsidiaries		
Germany	8	4
International	31	0
Fully consolidated alternative investment fund		
Germany	1	1
Associates		
Germany	3	1
International	2	1
	45	**7**

Investments in associates

Volkswagen AG, one of the world's leading automobile manufacturers and Porsche SE's strategically most important investment, is included in the consolidated financial statements of Porsche SE as an associate. As of 31 December 2017, the market value of the investment in Volkswagen AG amounted to €26,007 million (prior year: €21,081 million). In the fiscal year, Porsche SE received a dividend of €308 million from Volkswagen AG (prior year: €17 million).

Taking into account the identification and subsequent effects of hidden reserves and liabilities for the shares already held before the end of September 2015 (share in capital: 29.88%) and the additional shares acquired at the end of September 2015 (share in capital: 0.88%) in connection with the accounting at equity at the level of Porsche SE, the Volkswagen Group reports the following figures:

€ million	VW without acquisition in FY2015 31/12/2017	VW acquisition of shares in FY2015 31/12/2017	VW Total 31/12/2017
Non-current assets	262,914	293,832	-
Current assets	160,142	160,112	-
Non-current liabilities	153,101	164,537	-
Current liabilities	160,389	160,389	-
Equity	109,566	129,018	-
thereof non-controlling interests and hybrid capital investors	–11,391	–11,316	-
Effects from additional dividends	–80	–26	-
Equity adjusted for at equity accounting	98,095	117,676	-
Carrying amount of the investment in Volkswagen AG accounted for at equity	**29,307**	**1,032**	**30,339**

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

€ million	VW without acquisition in FY2015 2017	VW acquisition of shares in FY2015 2017	VW Total 2017
Revenue	230,682	230,682	-
Comprehensive income	13,080	11,010	-
thereof other comprehensive income	1,675	21	-
thereof profit/loss from continuing operations	11,405	10,989	-
Profit/loss attributable to non-controlling interests and hybrid capital investors	–284	–284	-
Effects from additional dividends	–12	–12	-
Profit/loss after tax adjusted for at equity accounting	11,109	10,693	-
Profit/loss from investment in Volkswagen AG accounted for at equity	**3,319**	**94**	**3,412**

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

The carrying amount of other investments accounted for at equity comes to €15 million (prior year: €21 million). The profit or loss from other investments accounted for at equity breaks down as follows:

€ million	**2017**	2016
Profit/loss from continued operations	–2	–4
Impairment	0	–14
Other comprehensive income	–4	1
Comprehensive income	**–6**	**–17**

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.

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

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

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

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

Equity accounting

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

In subsequent periods, the carrying amount is remeasured to reflect the Porsche SE Group's share of changes in net assets of the associate (at equity method). The group's share in profit/loss after tax and after non-controlling interests of the investment is recognized in the income statement within the item "profit/loss from investments accounted for at equity". Dilutive effects reducing the investment carrying amount that do not lead to any changes in the status of the investment as an associate are also recognized in this item.

Changes in income and expenses not recognized in profit or loss at the level of the associates are recognized in a separate item within Porsche SE's total equity. Dividends received lead to a reduction of the investment's carrying amount.

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

An impairment test is carried out whenever there is any indication in accordance with IAS 39 that the entire carrying amount of the investment is impaired. If the carrying amount of the investment exceeds its recoverable amount determined in accordance with IAS 36, a difference is recognized as an impairment loss in profit or loss. The recoverable amount represents the higher of the value in use and fair value less costs to sell. Value in use is determined on the basis of the estimated future cash flows expected to be generated by the investment accounted for at equity. Stock market prices and, on occasion, valuations using multipliers are used as the fair value less costs to sell. When an impairment loss was recognized in prior periods, it is assessed at least once a year whether there is any indication that the reason for a previously recognized impairment loss no longer exists or has decreased. If this is the case, the recoverable amount is recalculated and an impairment previously recognized that no longer exists is reversed.

Currency translation

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

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

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

		Balance sheet Closing rate	
		Porsche SE Group	Porsche SE Group
	1€=	**31/12/2017**	31/12/2016
Argentina	ARS	22.9920	16.8010
Australia	AUD	1.5329	1.4615
Brazil	BRL	3.9707	3.4372
Canada	CAD	1.5026	1.4228
China	CNY	7.8009	7.3332
Czech Republic	CZK	25.5790	27.0240
India	INR	76.5670	71.6550
Japan	JPY	134.8700	123.5000
Mexico	MXN	23.6142	21.8480
Poland	PLN	4.1749	4.4153
Qatar	QAR	4.3647	N/A
Republic of Korea	KRW	1,278.2200	1,269.1100
Russia	RUB	69.3352	64.6755
Singapore	SGD	1.6014	N/A
South Africa	ZAR	14.7572	14.4848
Sweden	SEK	9.8314	9.5672
United Kingdom	GBP	0.8873	0.8585
United Arab Emirates	AED	4.4032	N/A
USA	USD	1.1988	1.0560

	1€=	Income statement Average rate Porsche SE Group **2017**	Income statement Average rate Porsche SE Group 2016
Argentina	ARS	18.7264	16.3321
Australia	AUD	1.4730	1.4888
Brazil	BRL	3.6047	3.8622
Canada	CAD	1.4644	1.4666
China	CNY	7.6269	7.3507
Czech Republic	CZK	26.3292	27.0343
India	INR	73.5015	74.3706
Japan	JPY	126.6676	120.1366
Mexico	MXN	21.3318	20.6654
Poland	PLN	4.2573	4.3642
Qatar	QAR	4.3223	N/A
Republic of Korea	KRW	1,275.9497	1,284.7954
Russia	RUB	65.8888	74.2344
Singapore	SGD	1.6029	N/A
South Africa	ZAR	15.0454	16.2834
Sweden	SEK	9.6370	9.4671
United Kingdom	GBP	0.8763	0.8190
United Arab Emirates	AED	4.3604	N/A
USA	USD	1.1293	1.1068

Accounting policies

The assets and liabilities of the companies included in the consolidated financial statements are accounted for using uniform accounting policies applicable within 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 and the INRIX Group are also included in the explanations below.

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

Intangible assets

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

Research and development
Expenses for research activities are recognized in profit or loss as they are incurred. Development costs are only recognized 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. Other development expenses are recognized in profit or loss as they are incurred. Capitalized development cost is recognized at its 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.

Property, plant and equipment

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

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

Depreciation is based on the following useful lives:

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

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

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

Leases

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

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

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

Where group companies are the lessee in operating leases, lease or rental payments are recognized directly as an expense in the income statement.

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

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

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

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

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

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

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

Investment property

Investment property held to generate rental income is accounted for at amortized cost. The underlying useful lives and depreciation methods used in subsequent measurement 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. If the trade date of a financial asset differs from the settlement date, it is initially accounted for at the settlement date. Initial recognition of a financial instrument is at fair value. Transaction costs are included for financial instruments not designated as at fair value through profit or loss. Subsequent measurement of financial instruments is either at fair value or amortized cost, depending on their category. Each financial instrument is allocated to a category upon initial recognition.

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

Financial liabilities are divided into the two categories:
- Financial liabilities at fair value through profit or loss (FVtPL), as well as
- Financial liabilities measured at amortized cost (FLAC).

Fair value corresponds to the market or stock price, provided the financial instruments measured are traded on an active market. If there is no active market for a financial instrument, fair value is calculated using appropriate valuation techniques such as generally accepted option price models or discounting future cash flows with the market interest rate, or by referring to the most recent business transactions between knowledgeable, willing and independent business partners. The carrying amount of current financial assets and liabilities not measured at fair value through profit or loss provides an approximation of their fair value.

The amortized costs of a financial asset or financial liability are the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, minus any reduction for impairment or uncollectibility, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the settlement amount (premium or discount/transaction costs). The amortized costs of current receivables and liabilities generally correspond to the nominal value or settlement amount.

Financial assets are generally derecognized when the contractual right to the cash flows expires or this right is transferred to a third party. Financial liabilities are derecognized when the obligation underlying the liability has been fulfilled, canceled or extinguished.

Non-derivative financial instruments

Financial instruments accounted for at fair value include financial instruments held for trading, financial instruments that are classified as at fair value through profit or loss upon initial recognition as well as contingent considerations. Gains and losses from subsequent measurement as well as interest and dividend income are generally recognized through profit or loss in the other financial result. Changes in contingent consideration are recognized in other operating income or expenses. Bonds and investment fund shares have been classified at fair value through profit or loss in the Porsche SE Group, provided they are managed at fair value in accordance with the internal requirements for the investment strategy and risk management.

As of the reporting date, the Porsche SE Group did not hold any financial instruments that are allocable to the category of held-to-maturity financial assets.

Available-for-sale financial instruments are measured at fair value. Unrealized gains and losses from subsequent measurement are recognized in equity taking into account deferred tax until the financial instruments are derecognized or there is objective evidence of impairment. They are generally measured at fair value. If no active market exists and fair value cannot be determined at reasonable expense, they are measured at cost. If there is any indication that fair value is lower, they are measured at these lower values.

Unless they are related to hedging instruments, loans and receivables and financial liabilities are measured at amortized cost using the effective interest method. As of the reporting date, they include in particular trade receivables, time deposits and cash and cash equivalents, other financial receivables, trade payables, financial liabilities and other financial liabilities.

With regard to financial guarantees given, the Porsche SE Group is required to make specified payments if a debtor fails to make payment when due. Financial guarantees are presented on a net basis. The compensation paid for assumption of the liability therefore is not recognized before it is due. It is presented as other financial assets or other financial liabilities. Liabilities are not recognized until the utilization of a financial guarantee becomes probable. No liability had to be recognized in fiscal year 2017 or in the prior year.

Financial assets are subject to an impairment test if there is objective evidence that the asset is permanently impaired. Any impairment loss is immediately recognized as an expense.

Specific valuation allowances are recognized for individually significant receivables by applying uniform guidelines and are measured at the amount of incurred losses. Indicators of a potential impairment include delayed payments over a certain period of time, the institution of enforcement measures, the threat of insolvency or overindebtedness, application for or the opening of insolvency proceedings or the failure of financial reorganization measures.

An impairment test is performed on the carrying amount of available-for-sale financial assets if there is objective evidence of permanent impairment. In the case of equity instruments, evidence of impairment is considered to exist, among other things, if the fair value decreases significantly (more than 20%) below cost or the decrease in fair value is permanent (more than 10% of the average market prices over the course of a year). Where there is evidence of impairment, the cumulative loss of an available-for-sale financial instrument – measured as the difference between cost and its current fair value, less any impairment loss previously recognized on that financial instrument through profit or loss – is derecognized from other comprehensive income and recognized through profit or loss. Any increase in the value of debt instruments at a later date is accounted for as a reversal of the impairment loss recognized through profit or loss. In the case of equity instruments, reversals of impairment losses are recognized directly in equity.

Derivative financial instruments

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

To date, derivatives have only been used in hedge accounting at the level of the Volkswagen Group. As soon as the criteria of IAS 39 for hedge accounting are satisfied, the derivative financial instruments are designated from then on either as fair value or cash flow hedges.

A fair value hedge hedges the exposure to changes in fair value of a recognized asset, a recognized liability or an unrecognized firm commitment. Gains or losses arising from marking hedging instruments to market and the secured portion of the risk of the hedged transaction are recognized through profit or loss. If the fair value hedge ends, the adjustment of the carrying amount arising from fair value hedge accounting for financial instruments measured at amortized cost as hedged transaction is released to profit or loss over the remaining term of the hedged transaction. In the case of portfolio-based fair value hedges, any changes in fair value are accounted for in the same way as fair value hedges based on an individual contract. Any gains or losses on hedging instruments and hedged transactions or items are recognized through profit or loss.

A cash flow hedge is mainly used to hedge exposures from highly probable future cash flows. Hedges are only included in hedge accounting to the extent that they offset changes in the value of the cash flows of the hedged transaction. The ineffective portion is immediately recognized through profit or loss. When included in cash flow hedge accounting, changes in value are recorded directly in equity, taking deferred taxes into account. When the hedged transaction occurs, the change in value is reclassified to profit or loss. If a forecasted transaction is no longer expected to occur, the cumulative gain or loss previously recognized directly in equity is reclassified to profit or loss.

Derivatives that are not used for hedge accounting are allocated to the category financial assets/liabilities held for trading.

Offsetting of financial instruments

Financial assets and liabilities are presented net in the balance sheet only if the group has a present contractual right to settle net and if it intends to settle the liability net or by realizing the liability together with the asset.

Time deposits

The time deposits represent cash deposits with an original term of more than three months.

Cash and cash equivalents

Cash and cash equivalents include checks, cash on hand and cash at banks with an original term of up to three months. This item may also include cash and cash equivalents that are not freely available for use by the Porsche SE Group.

Deferred tax

Deferred tax assets are generally recognized for deductible temporary differences between the tax base and carrying amounts in the consolidated balance sheet (taking into account temporary differences arising from consolidation) as well as on unused tax 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 referring to items recognized directly in equity is presented in equity. Deferred tax assets and deferred tax liabilities are offset if the group entities have a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate 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 directly in equity is likewise recognized 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. The defined benefit obligations are recognized at the present value of vested benefits as of the measurement date taking probable future increases in pensions and salaries into account. The defined benefit obligation for active employees increases annually by the interest cost plus the present value of the new benefit entitlements earned in the current period. Actuarial gains or losses result from changes in the composition of the plan and deviations of actual parameters (for example, increases in income and pensions or changes in interest rates) compared to the assumptions made in the valuation; these are posted directly to retained earnings through OCI.

The interest rate used to discount provisions is determined on the basis of the return on long-term high-quality corporate bonds at the reporting date.

If pension obligations are funded by plan assets, the obligation and the assets are offset. Service cost is presented as personnel expense while the net interest expense from additions to provisions and return on plan assets are presented in finance costs.

Other provisions

Other provisions are recognized if a past event has led to a current legal or constructive obligation to third parties that is expected to lead to a future outflow of resources that can be estimated reliably. Provisions are generally measured at the expected settlement amount, taking into account all identifiable risks. The settlement amount is calculated on the basis of the best estimates and also includes estimated cost increases.

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

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

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

Accruals are not presented under provisions, but under trade payables or other liabilities or other financial liabilities, depending on their nature.

Liabilities

Non-current other liabilities are measured at amortized cost using the effective interest method. Current liabilities are recognized at their repayment or settlement value.

Government grants

Government grants for assets are deducted from the carrying amount and recognized 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. The grants recognized in the fiscal year 2017 were recognized in personnel expenses. The Porsche SE Group did not recognize any government grants in fiscal year 2016.

Income and expenses

Income is generally recognized to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured.

Revenue from the sale of products is generally not recognized until the point in time when the significant opportunities and risks associated with ownership of the goods and products being sold are transferred to the buyer, the amount of the revenue can be determined reliably and its settlement can be assumed. Revenue is reported net of sales deductions (discounts, price discounts, customer bonuses and rebates). Revenue from customer financing and financial leasing is recognized under revenue using the effective interest method. Where vehicle financing bears no interest or interest below market rates, the interest incentives granted are deducted from revenue. Revenue from operating leases is earned on a straight-line basis over the term of the lease agreement. Revenue from extended guarantees or maintenance agreements is recognized upon delivery of the goods or rendering of the services. In the event of advance payments, deferred revenue is recognized in proportion to the expected costs to be incurred based on past experience. Where there is insufficient past experience, revenue is spread over the term of the agreement on a straight-line basis. Losses are recognized for the respective agreements wherever the anticipated costs exceed deferred revenue.

If an agreement contains several identifiable components (multiple-element arrangements), they are realized separately in line with the above principles. Income from assets for which a group entity has a buyback obligation cannot be realized until the assets have definitely left the group. If a fixed repurchase price was agreed when the contract was concluded, the difference between the selling and repurchase price is recognized as income ratably over the term of the contract. 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.

Construction contracts are recognized in accordance with the percentage-of-completion (PoC) method. According to this method, pro rata revenue and costs are recognized according to the stage of completion as of the reporting date. The contract revenue agreed with the customer and the expected contract costs form the basis. As a rule, the percentage of completion is calculated from the costs incurred by the reporting date as a percentage of the total expected contract costs (cost-to-cost method). In individual cases, in particular for novel and complex contracts, the percentage of completion is determined using contractually agreed milestones (milestone method). If the result of a customer-specific construction contract cannot yet be estimated reliably, income is only recognized at the amount of the contract costs incurred (zero-profit-margin method). After deducting advance payments received, parts of contracts recognized as revenue using the PoC method are accounted for in the balance sheet under other assets/other liabilities. Anticipated losses from customer-specific construction contracts are taken into account in full as an expense by impairing any assets recognized and, if necessary, recognizing provisions.

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

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

Production-related expenses are recognized upon delivery or utilization of the service, while all other expenses are recognized as an expense as incurred. The same applies for development costs not eligible for recognition as part of the cost of an asset.

Revenue disclosed in the ITS segment relates primarily to income 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. Maintenance agreements are recognized as deferred income over the term of the agreement. Advisory services generally relate to customer-specific orders that are received for a particular period in accordance with the regulations of IAS 11. As of the reporting date, construction contracts were recognized with a debit balance of €7 million and a credit balance of €1 million.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation to third parties that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the reporting company. A contingent liability may also be a present obligation that arises from past events but is not recognized because an outflow of resources is less than 50% likely or the amount of the obligation cannot be measured with sufficient reliability. The amount of contingent liabilities is only stated in cases where they can be measured and where the probability of an outflow of resources is not classified as remote (i.e., less than 10%) by management. A verbal explanation of the contingent liabilities is provided in cases where they cannot be measured and where the probability of an outflow of resources is not classified as remote by management.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company. Contingent assets are not recognized as an asset, as this would result in the recognition of income that potentially may never be realized. If the realization of income is virtually certain, however, the asset in question is no longer regarded as a contingent asset and recognition as an asset is appropriate. An explanation is provided in the notes if an inflow of economic benefits is probable.

Accounting estimates and judgments of the management

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

The main matters affected by estimates and judgment at the level of the investees and which thus influence the profit/loss from investments accounted for at equity are the measurement of options to company shares not traded on an active market, the determination of fair value for the assets and liabilities in the course of purchase price allocations for which there are no observable market inputs, and the impairment test of financial and non-financial assets such as goodwill, brands, capitalized development costs, special tools, receivables from financial services, leased assets, investments accounted for at equity or investments measured at cost. Other areas at this level that are subject to estimation uncertainties include legal disputes, legal risks associated with the diesel issue, useful lives, government grants, deferred tax assets, put options or compensation claims of non-controlling interests recognized in liabilities, the measurement of provisions for pensions as well as the accounting and measurement of warranty provisions and other provisions.

Additional key sources of estimation at the level of Porsche SE in particular include the testing of the carrying amounts of investments for impairment and reversal of impairment (see note [11]) and goodwill (see note [10]), the determination of fair values for assets and liabilities in the course of purchase price allocations for subsidiaries acquired, the assessment of unused tax loss carryforwards, the measurement of income tax liabilities and other provisions as well as contingent liabilities (particular reference is made to note [8] as well as to the descriptions of legal matters in dispute asserted by plaintiffs in note [25]).

The carrying amounts of the assets and liabilities affected by estimates can be seen in the breakdowns of the individual balance sheet items.

Key sources of judgment are deciding which indicators are indicative of an impairment of associates and intangible assets, the reversal of deferrals as well as recognizing current and deferred tax assets (reference is made to note [8]), provisions and contingent liabilities (particular reference is made to the descriptions of legal matters in dispute in note [25]).

Another key source of estimates and judgment uncertainties that therefore could have a significant adverse effect on the results of operations, financial position and net assets of the Porsche SE Group is the diesel issue, which came to light in September 2015. The impact of the diesel issue on Porsche SE is two-fold: on the one hand, the effects at the level of the Volkswagen Group indirectly via its investment in Volkswagen AG and, on the other, directly on account of the claims asserted against Porsche SE itself. In addition, tax matters at Porsche SE are subject to estimation and judgment uncertainties.

Effects of the diesel issue at the level of the Volkswagen Group

In the fiscal year 2017, additional expenses of €3.2 billion were recognized at the level of the Volkswagen Group. These are due to higher expenses for warranty claims of €2.2 billion as well as legal risks of €1.0 billion. The main reason for the increase in provisions is that buy-back/retrofit programs of 2.0 l TDI vehicles in North America to be implemented under the concluded settlement are proving to be more expensive. Resulting from constantly monitoring the progress of the programs, the campaign is proving more extensive and more technically challenging, which is also causing the time frame of these programs to increase. The diesel issue led to total special items of minus €25.8 billion in the years 2015 to 2017.

The significant legal risks described below resulting from the diesel issue may have a particularly large influence on estimates and judgment uncertainties 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. It was alleged that Volkswagen had installed undisclosed engine management software installed in 2009 to 2015 model year 2.0 l diesel engines to circumvent NO_x emissions testing regulations in the USA in order to comply with certification requirements. The California Air Resources Board (CARB), a unit of the US environmental authority of California, announced its own enforcement investigation into this matter.

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. The vast majority of these engines were type EA 189 Euro 5 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. CARB also issued a letter announcing its own enforcement investigation into this matter. AUDI AG has confirmed that at least three auxiliary emission control devices were inadequately disclosed in the course of the US approval documentation. Around 113 thousand vehicles from the 2009 to 2016 model years with certain six-cylinder diesel engines were affected in the USA and Canada, where regulations governing NO_x emissions limits for vehicles are stricter than those in other parts of the world.

Numerous court and governmental proceedings were subsequently initiated in the USA and the rest of the world against companies of the Volkswagen Group. During the fiscal year 2017, Volkswagen succeeded in ending most significant court and governmental proceedings in the USA by concluding settlement agreements. This includes, in particular, settlements with the US Department of Justice (DOJ). Outside the USA, Volkswagen also reached agreements with regard to the implementation of the technical measures with numerous authorities.

The supervisory board of Volkswagen AG formed a special committee that coordinates the activities relating to the diesel issue for the supervisory board.

The global law firm Jones Day was instructed by Volkswagen AG to carry out an extensive investigation of the diesel issue in light of the DOJ's and the Braunschweig public prosecutor's criminal investigations as well as other investigations and proceedings which were expected. Jones Day was instructed by Volkswagen AG to present factual evidence to the DOJ. To resolve US criminal law charges, Volkswagen AG and the DOJ entered into a plea agreement, which includes a statement of facts containing a summary of the factual allegations which the DOJ considered relevant to the settlement with Volkswagen AG. The statement of facts is based in part on Jones Day's factual findings as well as the evidence identified by the DOJ itself.

Jones Day has completed the work required to assist Volkswagen AG in assessing the criminal charges in the USA with respect to the diesel issue. However, work in respect of the legal proceedings which are still pending in the USA and the rest of the world is ongoing and will require considerable efforts and a considerable period of time. In connection with this work, Volkswagen AG is being advised by a number of external law firms.

Furthermore, in September 2015, Volkswagen AG filed a criminal complaint in Germany against unknown persons as did AUDI AG. Volkswagen AG and AUDI AG are cooperating with all responsible authorities in the scope of reviewing the incidents.

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

1. Coordination with the authorities on technical measures

Based on decisions dated 15 October 2015, the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) ordered the Volkswagen passenger cars, Volkswagen commercial vehicles and SEAT brands to recall all the diesel vehicles that had been issued with vehicle type approval by the KBA from among the eleven million vehicles affected with type EA 189 engines. The recall concerns the member states of the European Union (EU28). On 10 December 2015 a similar decision was issued regarding Audi vehicles with the EA 189 engine. The timetable and action plan forming the basis for the recall order corresponded to the proposals presented in advance by Volkswagen. Depending on the technical complexity of the concerned remedial actions, this means that the Volkswagen Group has been recalling the affected vehicles, of which there are around 8.5 million in total in the EU28 countries, to the service workshops since January 2016. The remedial actions differ in scope depending on the engine variant. The technical measures cover software and in some cases hardware modifications, depending on the series and model year. The technical measures for all vehicles in the European Union have since been approved without exception. The KBA ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO_2 emissions figures, engine power, maximum torque and noise emissions. Once the modifications have been made, the vehicles will thus also continue to comply with the legal requirements and the emission standards applicable in each case. The technical measures for all affected vehicles with type EA 189 engines in the European Union were approved without exception, and implemented in most cases.

In some countries outside the EU – among others South Korea, Taiwan and Turkey – national type approval is based on prior recognition of the EC/ECE type approval; the technical measure must therefore be approved by the national authorities. With the exception of South Korea, Volkswagen was able to conclude this approval process in all countries. In South Korea, the majority of approvals were likewise granted; in relation to the pending approvals, Volkswagen is in close contact with the authorities.

In addition, there is an intensive exchange of information with the authorities in the USA and Canada, where Volkswagen's proposed modifications in relation to the four-cylinder and the six-cylinder diesel engines also have to be approved. Due to NO_X limits that are considerably stricter than in the EU and the rest of the world, it is a greater technical challenge here to refit the vehicles so that the emission standards defined in the settlement agreements for these vehicles can be achieved.

For many months, AUDI AG has been intensively checking all diesel concepts for possible discrepancies and retrofit potentials. A systematic review process for all engine and gear variants has been underway since 2016.

On 14 June 2017, based on a technical error in the parameterization of the transmission software for a limited number of specific Audi A7/A8 models that AUDI AG itself discovered and reported to the KBA, the KBA issued an order under which a correction proposed by AUDI AG will be submitted. The technical error lies in the fact that, in the cases concerned, by way of exception a specific function that is standard in all other vehicle concepts is not implemented in actual road use. In Europe, this affects around 24,800 units of certain Audi A7/A8 models. The KBA has not categorized this error as an unlawful defeat device.

On 21 July 2017, AUDI AG offered a software-based retrofit program for up to 850,000 vehicles with V6 and V8 TDI engines meeting the Euro 5 and Euro 6 emission standards in Europe and other markets except the USA and Canada. The measure will mainly serve to further improve the vehicles' emissions in real driving conditions in inner city areas beyond the legal requirements. This was done in close cooperation with the authorities, which were provided with detailed reports, especially the German Federal Ministry of Transport and the KBA. The retrofit package comprises voluntary measures and, to a small extent, measures directed by the authorities; these are measures taken within the scope of a recall, which were proposed by AUDI AG itself, reported to the KBA and taken up and ordered by the latter. The voluntary tests have already reached an advanced stage, but have not yet been completed. The measures adopted and mandated by the KBA involved the recall of different diesel vehicles with a V6 or V8 engine meeting the Euro 6 emission standard, for which the KBA categorized certain emission strategies as an unlawful defeat device. From July 2017 to January 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.

Currently, AUDI AG assumes that the total costs of the software-based retrofit program including the amount based on recalls will be manageable and has recognized corresponding balance-sheet risk provisions. Should additional measures become necessary as a result of the investigations by AUDI AG and the consultations with the KBA, AUDI AG will quickly implement these as part of the retrofit program in the interest of customers.

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

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

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

In principle, it is possible that customers in the affected markets will file civil lawsuits against Volkswagen AG and other Volkswagen Group companies. In addition, it is possible that importers and dealers could assert claims against Volkswagen AG and other Volkswagen Group companies, e.g. through recourse claims. As well as individual lawsuits, class action lawsuits are possible in various jurisdictions (albeit not in Germany). Furthermore, in a number of markets it is possible that consumer and/or environmental organizations will apply for an injunction or assert claims for a declaratory judgment or for damages against companies of the Volkswagen Group.

In the context of the diesel issue, various lawsuits are currently pending against Volkswagen AG and other Volkswagen Group companies at present.

There are pending class action proceedings and lawsuits brought by consumer and/or environmental associations against Volkswagen AG and other companies of the Volkswagen Group in various countries such as Argentina, Australia, Belgium, Brazil, China, the Czech Republic, Israel, Italy, Mexico, the Netherlands, Poland, Portugal, Taiwan and the United Kingdom. The class action proceedings are lawsuits aimed among other things at asserting damages or, as is the case in the Netherlands, at a declaratory judgment that customers are entitled to damages. With the exception of Brazil, where there has already been a non-binding judgment in the first instance, Volkswagen cannot yet quantify the amount of these damages more precisely due to the early stage of the proceedings. Volkswagen does not estimate the litigants' prospect of success to be more than 50% in any of the class action proceedings.

In South Korea, various mass proceedings are pending (in some of these individual lawsuits several hundred litigants have been aggregated). These lawsuits have been filed to assert damages and to rescind the purchase contract including repayment of the purchase price. Due to special circumstances in the market and specific characteristics of the South Korean legal system, Volkswagen estimates the litigants' prospects of success in the South Korean mass proceedings mentioned above to be inherently higher than in other jurisdictions outside the USA and Canada. On 12 May 2017, one first-instance judgment was delivered in these proceedings in South Korea during the fiscal year, in which the court completely dismissed an action filed to assert criminal damages over pollution. The judgment has since become binding.

Contingent liabilities have been disclosed in Volkswagen's consolidated financial statements for pending class action and mass proceedings that can be assessed and for which the chance of success was deemed not implausible. Provisions were recognized to a small extent.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in numerous countries. In Germany, there are around 9,000 individual lawsuits. In Italy, Austria and Spain, lawsuits numbering in the low three-digit range and in France and Ireland individual lawsuits in the two-digit range are pending against Volkswagen AG and other companies of the Volkswagen Group, most of which are aimed at asserting damages or rescinding the purchase contract.

In addition, on 29 November 2017, Volkswagen AG was served with an action brought by financialright GmbH asserting the rights assigned to it by a total of approximately 15,000 customers in Germany. This action seeks the payment of around €350 million in return for restitution of the vehicles.

In Switzerland, a claim for damages was brought against Volkswagen AG in December 2017 from the assigned rights of some 6,000 customers; the stated amount in dispute is approximately CHF 30 million.

According to Volkswagen's estimates so far, the litigants' prospect of success is below 50% in the vast majority of the individual lawsuits. Contingent liabilities have therefore been disclosed in Volkswagen's consolidated financial statements for those lawsuits that can be assessed and for which the chance of success was deemed not implausible.

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

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

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

At the District Court in Stuttgart, further investor lawsuits have been filed against Volkswagen AG, in some cases along with Porsche SE as joint and several debtors. On 6 December 2017, the District Court in Stuttgart issued an order for reference to the Higher Regional Court in Stuttgart in relation to procedural issues, particularly for clarification of jurisdiction. On account of the diesel issue, model case proceedings against Porsche SE are also pending before the Higher Regional Court in Stuttgart.

Further investor lawsuits against Volkswagen have been filed at various courts in Germany as well as in Austria and the Netherlands. In Austria, the Supreme Court ruled on 7 July 2017 that the investor lawsuits against Volkswagen AG do not fall within the jurisdiction of the Austrian courts. Consequently, all but one of the investor lawsuits against Volkswagen that were formerly pending in Austria have been dismissed or withdrawn. The last pending lawsuit has been dismissed at first instance.

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 in connection with the diesel issue, with the claims totaling approximately €9 billion. Volkswagen remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits. Insofar as the chance of success was estimated at not lower than 10%, contingent liabilities have been disclosed in Volkswagen's consolidated financial statements.

5. Proceedings in the USA/Canada

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

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

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

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

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

In June 2016, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates reached settlement agreements with the DOJ on behalf of the EPA, CARB and the California Attorney General, private plaintiffs represented by a Plaintiffs' Steering Committee (PSC) in the multidistrict litigation pending in California, and the U.S. Federal Trade Commission (FTC). These settlement agreements resolved certain civil claims made in relation to affected diesel vehicles with 2.0 l TDI engines from the Volkswagen passenger cars and Audi brands in the USA. Volkswagen AG and certain affiliates also entered into a first partial consent decree with the

DOJ, EPA, CARB and the California Attorney General, which was lodged with the court on 28 June 2016. On 18 October 2016, a fairness hearing on whether final approval should be granted was held, and on 25 October 2016, the court granted final approval of the settlement agreements and the partial consent order. A number of class members have filed appeals to an US appellate court from the order approving the settlements.

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

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

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

On 20 December 2016, Volkswagen entered into a second partial consent decree, subject to court approval, with the DOJ, EPA, CARB and the California Attorney General that resolved claims for injunctive relief under the Clean Air Act and California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. Under the terms of this consent decree, Volkswagen agreed to implement a buyback and lease termination program for Generation 1 3.0 l TDI vehicles and a free emissions recall and modification program for Generation 2 3.0 l TDI vehicles, and to pay US$225 million into the environmental mitigation trust that has been established pursuant to the first partial consent decree. The second partial consent decree was lodged with the court on 20 December 2016 and approved on 17 May 2017.

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

On 11 January 2017, Volkswagen entered into a third partial consent decree with the DOJ and EPA that resolved claims for civil penalties and injunctive relief under the Clean Air Act related to the 2.0 l and 3.0 l TDI vehicles. Volkswagen agreed to pay US$1.45 billion (plus any accrued interest) to resolve the civil penalty and injunctive relief claims under the Clean Air Act, as well as the customs claims of the US Customs and Border Protection. Under the third partial consent decree, the injunctive relief includes monitoring, auditing and compliance obligations. This consent decree, which was subject to public comment, was lodged with the court on 11 January 2017 and approved on 13 April 2017. Also on 11 January 2017, Volkswagen entered into a settlement agreement with the DOJ to resolve any claims under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and agreed to pay US$50 million (plus any accrued interest), specifically denying any liability and expressly disputing any claims.

On 21 July 2017, the federal court in the multidistrict litigation pending in California approved the Third California Partial Consent Decree, in which Volkswagen AG and certain affiliates agreed with the California Attorney General and CARB to pay US$153.8 million in civil penalties and cost reimbursements. These penalties covered California environmental penalties for both the 2.0 l and 3.0 l TDI vehicles. An agreement in principle had been reached on 11 January 2017.

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

Moreover, investigations by various US regulatory and government authorities are ongoing against companies of the Volkswagen Group, including in areas relating to securities, financing and tax.

On 31 January 2017, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates entered into a settlement agreement with private plaintiffs represented by the PSC in the multidistrict litigation pending in California, and a consent order with the FTC. These agreements resolved certain civil claims made in relation to affected diesel vehicles with 3.0 l TDI engines from the Volkswagen, Audi and Porsche brands in the USA. On 14 February 2017, the court preliminarily approved the settlement agreement with private plaintiffs. On 11 May 2017, the court held a fairness hearing on whether approval should be granted and on 17 May 2017, the court granted final approval of the settlement agreement and the partial stipulated consent order.

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

Generation 2 (model years 2013 - 2016) consumers will receive a free emissions-compliant repair to bring the vehicles into compliance with the emissions standards to which they were originally certified, as well as cash payments. Volkswagen has received approval from the EPA and CARB for emissions-compliant repairs within the time limits set out in the settlement agreement. Volkswagen will also make cash payments to certain former Generation 2 owners or lessees.

In September 2016, Volkswagen announced that it had finalized an agreement to resolve the claims of Volkswagen branded franchise dealers in the USA relating to TDI vehicles and other matters asserted concerning the value of the franchise. The settlement agreement includes a cash payment of up to US$1.208 billion, and additional benefits to resolve alleged past, current, and future claims of losses in franchise value. On 18 January 2017, a fairness hearing on whether final approval should be granted was held, and on 23 January 2017, the court granted final approval of the settlement agreement.

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

Volkswagen reached separate agreements with the attorneys general of 45 US states, the District of Columbia and Puerto Rico, to resolve their existing or potential consumer protection and unfair trade practices claims – in connection with both 2.0 l TDI and 3.0 l TDI vehicles in the USA – for a settlement amount of US$622 million. Five states did not join these settlements and still have consumer claims outstanding: Arizona, New Mexico, Oklahoma, Vermont and West Virginia. Volkswagen has also reached separate agreements with the attorneys general of eleven US states (Connecticut, Delaware, Maine, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Vermont, and Washington) to resolve their existing or potential future claims for civil penalties and injunctive relief for alleged violations of environmental laws for a settlement amount of US$207 million. The attorneys general of ten other US states (Illinois, Maryland, Minnesota, Missouri, Montana, New Hampshire, New Mexico, Ohio, Tennessee and Texas) and some municipalities have also filed suits in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, seeking civil penalties and injunctive relief for alleged violations of environmental laws. Illinois, Maryland, Minnesota, Missouri, Montana, New Hampshire, Ohio, Tennessee and Texas participated in the state settlements described above with respect to consumer protection and unfair trade practices claims, but those settlements did not include claims for environmental penalties. The environmental claims of two other states – Alabama and Wyoming – have been dismissed as preempted by federal law. Alabama has appealed this dismissal.

In addition to the lawsuits described above, for which provisions have been recognized at the level of the Volkswagen Group, a putative class action has been filed on behalf of purchasers of Volkswagen AG American Depositary Receipts, alleging a drop in price purportedly resulting from the matters described in the EPA's notices of violation. A putative class action has also been filed on behalf of purchasers of certain US$-denominated Volkswagen bonds, alleging that these bonds were trading at artificially inflated prices due to Volkswagen's alleged misstatements and that the value of these bonds declined after the EPA issued its notices of violation.

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

In Canada, civil consumer claims against companies of the Volkswagen Group and regulatory investigations have been initiated for vehicles with 2.0 l and 3.0 l TDI engines. On 19 December 2016, Volkswagen AG and other Canadian and US Volkswagen Group companies reached a class action settlement in Canada with consumers relating to 2.0 l diesel vehicles. Also on 19 December 2016, Volkswagen Group Canada agreed with the Commissioner of Competition in Canada to a civil resolution regarding its regulatory inquiry into consumer protection issues as to those vehicles. On 21 December 2017, Volkswagen announced an agreement in principle on a proposed consumer settlement in Canada involving 3.0 l diesel vehicles. The court preliminarily approved the settlement agreement on 12 January 2018, and the notice and opt out period began on 17 January 2018. Final approval hearings are scheduled in Quebec and Ontario for 3 and 5 April 2018, respectively. On January 12, 2018, Volkswagen and the Canadian Commissioner of Competition reached a resolution related to civil consumer protection issues relating to 3.0 l diesel vehicles. Also, criminal enforcement-related investigations by the federal environmental regulator and quasi-criminal enforcement-related investigations by a provincial environmental regulator are ongoing in Canada related to 2.0 l and 3.0 l diesel vehicles. On 15 September 2017, a provincial regulator in Canada, the Ontario Ministry of the Environment and Climate Change, charged Volkswagen AG under the province's environmental statute with one count alleging that it caused or permitted the operation of model years 2010 – 2014 Volkswagen and Audi brand 2.0 l diesel vehicles that did not comply with prescribed emission standards. Following initial court appearances on 15 November 2017 and 7 February 2018, the matter was put over to 4 April 2018 pending ongoing evidence disclosure. No trial date has been set. Provisions have been recognized for possible obligations stemming from pending lawsuits in Canada at the level of the Volkswagen Group.

Moreover, in Canada, two securities class actions by investors in Volkswagen AG American Depositary Receipts and shares are pending against Volkswagen AG in the Quebec and Ontario provincial courts. These actions allege misrepresentations and omissions in financial reporting issued from 2009–2015 stemming from the diesel issue. The proposed class periods are for residents in the provinces who purchased the relevant securities between 12 March 2009 and 18 September 2015, and held all or some of the acquired securities until after the alleged first corrective disclosures. Discovery has not begun. In both actions, motions for certification were filed. In the Quebec matter, the motion was heard on 5 and 6 February 2018 and the court's decision is on reserve. In the Ontario matter, the motion is scheduled for hearing on 10 and 11 July 2018.

In addition, putative class action and joinder lawsuits by customers, and a certified environmental class action on behalf of residents against companies of the Volkswagen Group, remain pending in certain provincial courts in Canada.

An assessment of the underlying situation is not possible for Volkswagen at this early stage of those proceedings.

6. Additional proceedings

With its ruling from 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 should examine whether there was a breach of duties on behalf of the members of the board of management and supervisory board of Volkswagen AG in connection with the diesel issue starting from 22 June 2006 and if this resulted in damages for Volkswagen AG. The ruling from the Higher Regional Court of Celle is formally legally binding. However, Volkswagen AG lodged a constitutional complaint toward the German Federal Constitutional Court regarding the infringement of its constitutionally guaranteed rights. It is currently unclear when the Federal Constitutional Court will reach a decision on this matter.

In addition, the District Court of Hanover has filed a second motion for the appointment of a special auditor for Volkswagen AG, which is also aimed at the examination of transactions in connection with the diesel issue. This proceeding will be suspended until the ruling has been announced by the Federal Constitutional Court.

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

To protect against the currently known legal risks related to the diesel issue, provisions of approximately €2.0 billion exist as of 31 December 2017 on the basis of existing information and current assessments at the level of the Volkswagen Group. Beyond this, appropriate provisions have been recognized for defense and legal advice expenses. Insofar as these can be adequately measured at this stage, total contingent liabilities in relation to the diesel issue totaling €4.3 billion (prior year: €3.2 billion), of which lawsuits filed by investors account for €3.4 billion (prior year: €3.1 billion), were disclosed in the notes. According to estimates by Volkswagen, the provisions recognized for this matter and the contingent liabilities disclosed as well as the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and the fact that the independent, comprehensive investigations have not yet been completed.

Direct effects of the diesel issue on Porsche SE

Porsche SE is directly affected by the diesel issue on account of the claims asserted against it, in particular in the form of proceedings (reference is made to the descriptions of contingent liabilities in the section “Legal proceedings and legal risks in connection with the diesel issue” in note [25]). Provisions have been set up for the expected attorneys’ fees and litigation expenses. The outcome of litigation is subject to substantial estimation risks.

Effects of the estimation risks from the diesel issue on the consolidated financial statements of Porsche SE

The estimation risks from the diesel issue described above could give rise to significant effects on the Porsche SE Group. This largely relates to profit/loss from investments accounted for at equity (reference is made to note [5]), the carrying amount of the investment in Volkswagen AG accounted for at equity (reference is made to the explanations on the impairment test performed in note [11]), the amount of the provisions (reference is made to note [17]), as well as subsequent effects of an amended dividend policy of Volkswagen AG.

Tax matters

Taxes constitute another key source of estimates and judgment. A tax field audit is currently being performed for the assessment periods 2009 to 2013. New findings of the tax field audit for the assessment periods 2009 to 2013 could result in an increase or decrease in the tax and interest payments due or any payments already made could be partially refunded.

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

Changes to underlying assumptions

The judgments and estimates are based on assumptions that are derived from the current information available. In particular, the circumstances given when preparing the consolidated financial statements and assumptions as to the expected future development of the global and industry environment were used to estimate the company’s future business performance. Future business performance is associated with uncertainties. Factors which may cause variances from expectations at the level of Porsche SE are in particular additional negative effects of the diesel issue, the outcome of the tax field audit for the assessment periods 2009 to 2013 and litigations. Factors which may cause variances from assumptions and estimates at the level of associates of the expected future business development include in particular short and medium-term forecast cash flows as well as the discount rates used and expectations regarding the global and industry-specific environment.

In such cases, the assumptions, and if necessary the carrying amounts of the assets and liabilities concerned, will be adjusted accordingly. Prior to the date of authorization of the financial statements by the executive board for 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 in the following reporting period. Estimates and judgments by management included assumptions relating to the development of the Volkswagen Group, macroeconomic development, the development of automotive markets as well as the legal environment that are described in the forecast report as part of Porsche SE’s group management report for the 2017 reporting period.

New accounting standards

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

The new or revised standards adopted for the first time in fiscal year 2017 in accordance with the respective transitional provisions are presented below. None of these were early adopted on a voluntary basis.

Since 1 January 2017, in accordance with IAS 7 (Statement of Cash Flows) additional notes must be disclosed on cash and non-cash changes in financial liabilities resulting from financing activities.

Since 1 January 2017, the recognition of deferred tax assets from unrealized losses has been clarified for assets accounted for at fair value by amendments to IAS 12 (Income Taxes).

Since 1 January 2017, the International Accounting Standards Board has made amendments to IFRS 12 (Disclosure of Interests in Other Entities) as part of improving the International Financial Reporting Standards (Annual Improvement Project 2016). This standard clarifies that the disclosures pursuant to IFRS 12 are generally also required for subsidiaries, joint arrangements, associates and non-consolidated structured entities, even if they were classified as “held for sale” or as “intended for distribution to owners” or are part of a discontinued operation.

The regulations presented and other amended regulations do not have any significant effects on the results of operations, financial position and net assets of the Porsche SE Group.

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

Standard or interpretation		Published by IASB	First-time adoption[1]	Adoption by the EU	Expected effects
IFRS 9	Financial Instruments	24/7/2014	1/1/2018	Yes	Description follows
IFRS 9	Prepayment features with negative compensation	12/10/2017	1/1/2019	No	None
IFRS 15	Revenue from Contracts with Customers	28/5/2014	1/1/2018[2]	Yes	Description follows
IFRS 15	Clarifications to IFRS 15: Revenue from Contracts with Customers	12/4/2016	1/1/2018	Yes	Transitional expedients, no other material impact
IFRS 16	Leases	13/1/2016	1/1/2019	Yes	Description follows
IFRS 2	Classification and measurement of Share-based Payment Transactions	20/6/2016	1/1/2018	Yes	None
IFRS 4	Applying IFRS 9 “Financial instruments” with IFRS 4 “Insurance contracts”	12/9/2016	1/1/2018	Yes	None
IAS 40	Transfers of Investment Property	8/12/2016	1/1/2018	No	No material impact
AIP 2014-2016	Annual improvements of International Financial Reporting Standards 2014-2016 Cycle[3]	8/12/2016	1/1/2018[4]	Yes	No material impact
IAS 28	Long-term interests in Associates and Joint Ventures	12/10/2017	1/1/2019	No	None
AIP 2015-2017	Annual improvements of International Financial Reporting Standards 2015-2017 Cycle[5]	12/12/2017	1/1/2019	No	No material impact
IFRS 17	Insurance contracts	18/5/2017	1/1/2021	No	No material impact
IFRS 10 and IAS 28	Sales or Contributions of Assets between an Investor and its Associate or Joint Venture	11/9/2014	deferred[6]	_	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	8/12/2016	1/1/2018	No	Translation of advance payments denominated in foreign currency into the functional currency at the spot rate on the day of payment
IFRIC 23	Uncertainty over Income Tax Treatments	7/6/2017	1/1/2019	No	No material impact
IAS 19	Plan Amendment, Curtailment or Settlement	7/2/2018	1/1/2019	No	Still under examination

[1] Mandatory first-time application from the perspective of Porsche SE.
[2] Postponed until 1 January 2018 (IASB resolution from 11 September 2015).
[3] Minor amendments to a number of IFRSs (IFRS 1, IFRS 12 and IAS 28).
[4] This relates to the first-time application of the amendments to IFRS 1 and IAS 28.
[5] Minor amendments to a number of IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23).
[6] On 15 December 2015, the IASB decided to postpone the effective date indefinitely.

Early adoption of these amendments is not currently planned.

IFRS 9 "Financial Instruments"

IFRS 9 amends the accounting regulations on the classification, measurement and impairment of financial instruments as well as hedge accounting.

The classification and measurement of financial assets are determined using the existing business model as well as the structure of the cash flows. Upon initial recognition, a financial asset is classified as either "at amortized cost", "at fair value with changes in value recognized directly in equity in other comprehensive income" or as "at fair value with changes in value recognized in profit or loss". The classification and measurement of financial liabilities under IFRS 9 is largely unchanged compared to the previous accounting provisions under IAS 39. The model used to determine impairment losses and to recognize risk provisions changes from the incurred loss model to the expected credit loss model.

With regard to hedge accounting there are both expansions of designation possibilities as well as the necessity to implement more complex posting and measurement logic. IFRS 9 also does away with the quantitative limits for the effectiveness test.

The standard becomes effective for fiscal years beginning on or after 1 January 2018. At the level of Porsche SE and its subsidiaries, this does not have any significant impact on the group's results of operations, financial position and net assets. The following transition effects are most likely to arise at the level of the associates:

- Changes in the procedure for classifying and measuring financial assets are most likely to result in a transition effect of around €0.3 billion at the level of the associates. This effect of initial application increases retained earnings through profit or loss taking deferred taxes into account.
- Changes in the measurement basis for determining impairment upon first-time application result in an increase in risk provisions of between €0.3 billion and €0.5 billion at the level of the associates. These amounts reduce retained earnings taking deferred taxes into account without any effect on profit or loss. The increase in risk provisioning is due, on the one hand, to the requirement to recognize risk provisioning even for not non-performing financial assets for which the credit risk has not significantly increased since initial recognition. On the other hand, the increase also arises from the requirement to take into account risk provisioning for financial assets for which the credit risk has significantly increased since initial recognition based on the overall expected remaining term.
- On account of the retrospective application of the provisions to designate options, a transition effect of €0.1 billion is expected. This effect from first-time application increases retained earnings at the level of the associates taking deferred taxes into account without any effect on profit or loss. There are no effects of initial application from these new regulations for hedging relationships with forward exchange transactions as they are to be applied prospectively.

Disclosures in the notes are considered to be more extensive.

The resulting effects on the results of operations and net assets will impact the carrying amount accounted for at equity and the retained earnings in an amount equivalent to Porsche SE's share in capital of Volkswagen AG in the consolidated financial statements of Porsche SE without any effect on profit or loss.

IFRS 15 "Revenue from Contracts with Customers" (including clarifications)
IFRS 15 sets forth regulations about when and in what amount revenue is recognized. In addition, it requires more extensive disclosures on revenue recognition than before. IFRS 15 replaces IAS 11, IAS 18 and a number of interpretations relating to revenue. The standard becomes effective for fiscal years beginning on or after 1 January 2018. At the level of Porsche SE and its subsidiaries, this does not have any impact on the group's results of operations, financial position and net assets. At the level of the associates, recognition of revenue at a later point in time is expected for certain types of contracts compared to the current accounting treatment. Other provisions and other liabilities are adjusted accordingly. As a consequence of recognizing prepayments due but not yet made by the customer in cash, there is an increase in total assets at the level of the associates in the low triple-digit millions. Furthermore, as of next year the reversal of provisions for sales deductions will no longer be shown at the level of the associates as other operating income but instead within revenue. The associates will apply the modified retrospective transition method. This will most likely not result in any significant transition effects as the previous procedure was already to a large extent in line with the new regulations. The resulting effects on the results of operations and net assets will impact the equity accounting within the consolidated financial statements of Porsche SE in an amount equivalent to Porsche SE's share in capital of its associates.

IFRS 16: Leases

This standard replaces IAS 17, SIC-15 and SIC-27. For all leases, lessees will generally have to recognize a right-of-use asset for the underlying asset and a corresponding lease liability for the payment obligations entered into. Exemptions are allowed for low-value leased assets and short-term leases. IFRS 16 is applicable for the first time for reporting periods beginning on or after 1 January 2019. At the level of Porsche SE and its subsidiaries, it will result in an increase in non-current assets and non-current liabilities. However, these will not have any significant effects on the presentation of the Porsche SE Group's results of operations, financial position and net assets. At the level of the associates, the new accounting treatment as lessees will tend to increase non-current assets and non-current liabilities; in the income statement, it is expected to impact positively on the operating result and negatively on the financial result. The resulting effects on the results of operations and net assets will impact the equity accounting within the consolidated financial statements of Porsche SE in an amount equivalent to Porsche SE's share in capital of its associates.

Notes to the consolidated income statement

[1] Revenue

Revenue primarily relates to the ITS segment (see note [22]) and breaks down by main category as follows:

€ million	**2017**	2016
Licenses	9	0
Maintenance	7	0
Hosting	6	0
Projects	12	0
Others	0	1
	34	**1**

[2] Other operating income

€ million	**2017**	2016
Income from reversal of provisions and accruals	2	1
Income from changes in exchange rates	1	0
Sundry other operating income	2	0
	6	**1**

[3] Personnel expenses

€ million	**2017**	2016
Wages and salaries	25	10
Social security contributions	3	0
Pension and other benefit costs	3	2
	31	**12**
Employees (annual average)		
Executive employees	53	6
Employees	230	24
Employees according to Sec. 314 (1) No. 4 HGB	**283**	**30**
Others	17	2
Total	**300**	**32**

The employees of the PTV Group were only included in calculating the average for the year as of the acquisition date.

[4] Other operating expenses

Other operating expenses consist of:

€ million	**2017**	2016
Legal and consulting fees	22	22
Other external services	7	8
Rental/leasing	4	2
Sundry other operating expenses	15	5
	48	**37**

Other external services principally contain expenses relating to the execution of Porsche SE's annual general meetings.

[5] Profit/loss from investments accounted for at equity

The profit/loss from investments accounted for at equity breaks down as follows:

€ million	**2017**	2016
Profit/loss from ongoing equity accounting before purchase price allocations	3,495	1,591
Effects from purchase price allocations	–85	–128
Profit/loss from ongoing equity accounting	3,410	1,463
Impairment	0	–14
	3,410	**1,449**

Profit/loss from ongoing equity accounting relates almost exclusively to the earnings contribution from the investment in Volkswagen AG.

The impairment in the comparative period was recognized on the shares in INRIX accounted for at equity (reference is made to the explanations in note [11]).

[6] Finance costs

€ million	**2017**	2016
Interest expenses from loans issued by associates	10	21
Other interest and similar expenses	2	3
	12	**24**

All finance costs relate to financial instruments that are not measured at fair value through profit or loss (prior year: €22 million).

[7] Other financial result

€ million	**2017**	2016
Income from derivative financial instruments	7	5
Expenses from derivative financial instruments	−4	−4
Income from bonds and investment fund shares	1	1
Other interest and similar income	1	2
	4	**4**

Other financial result contains interest income of €1 million (prior year: €2 million) from financial instruments that are not measured at fair value through profit or loss.

[8] Income tax

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

€ million	**2017**	2016
Current tax expense/income	0	0
thereof income/expenses relating to other periods	0	0
Deferred tax expense/income	20	8
Income taxes	**21**	**8**

The actual tax expense is less than €0.5 million and will therefore be disclosed at €0 million due to rounding. Together with the deferred tax expense, this results in a rounded income tax expense of €21 million.

Previously unused tax losses for which no deferred tax assets were recognized amounted to €1,877 million (prior year: €1,913 million).

Deductible temporary differences on which no deferred tax was recognized amounted to €29 million in the prior year. In the reporting year, deferred taxes were recognized on all temporary differences.

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

€ million	**2017**	2016
Profit/loss before tax	3,352	1,382
Group tax rate	30.5 %	30.5 %
Expected income tax expense	**1,023**	**422**
Tax rate related differences	0	0
Difference in tax base	−982	−423
Recognition and measurement of deferred tax	−20	9
Tax relating to other periods	0	0
Reported income tax expense	**21**	**8**

The item "Difference in tax base" mainly relates to the tax exemption or non-deductibility of profit/loss from investments accounted for at equity. The reconciliation item "Recognition and measurement of deferred tax" mainly contains deferred taxes recognized on previously unaccounted unused tax losses from prior years of €12 million (prior year: unrecognized deferred tax on unused tax loss carryforwards of €7 million).

Taxable temporary differences from investments in subsidiaries, for which no deferred taxes were recognized in the balance sheet, amount to €1 million.

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

	Deferred tax assets		Deferred tax liabilities	
€ million	**31/12/2017**	31/12/2016	**31/12/2017**	31/12/2016
Intangible assets	0	0	34	0
Investments accounted for at equity	0	0	126	71
Other receivables and assets	0	0	1	0
Unused tax losses	65	39	0	0
Provisions for pensions and similar obligations	6	4	0	0
Other provisions	7	0	0	0
Other liabilities	0	0	0	0
Gross value	78	43	161	71
Offsetting	−77	−43	−77	−43
Balance according to consolidated balance sheet	**1**	**0**	**84**	**28**

With the exception of the deferred taxes on pension provisions, changes in deferred tax assets and liabilities are recognized through profit or loss. Of the change in deferred taxes, €34 million is due to changes in the consolidated group.

[9] Earnings per share

		2017	2016
Profit/loss for the year	€ million	3,332	1,374
Profit/loss attributable to non-controlling interests	€ million	0	0
Profit/loss attributable to shareholders of Porsche SE	€ million	3,332	1,374
Earnings per ordinary share (basic and diluted)	€ million	1,665.5	686.5
Earnings per preference share (basic and diluted)	€ million	1,666.5	687.5
Average number of ordinary shares outstanding	Number	153,125,000	153,125,000
Average number of preference shares outstanding	Number	153,125,000	153,125,000
Earnings per ordinary share (basic and diluted)	€	10.87	4.48
Earnings per preference share (basic and diluted)	€	10.88	4.49

Earnings per share are calculated by dividing the profit or loss attributable to the shareholders of Porsche SE by the total average number of shares outstanding in the reporting period. The additional dividend of 0.6 cents per share to which the preference shares are entitled was deducted when calculating earnings per share for ordinary shares. This gave rise to the difference in earnings per share between ordinary and preference shares.

There were no dilutive effects.

Notes to the consolidated balance sheet

[10] Intangible assets and property, plant and equipment

€ million	Goodwill	Capitalized software development costs	Customer base	Brands	Other intangible assets	Intangible assets total	Property, plant and equipment
Historical cost							
As of 1 January 2017	0	0	0	0	0	0	0
Additions through business combinations	213	43	67	14	1	338	7
Additions	0	0	0	0	1	1	1
As of 31 December 2017	**213**	**43**	**67**	**14**	**1**	**338**	**8**
Amortization and depreciation							
As of 1 January 2017	0	0	0	0	0	0	0
Additions	0	2	3	0	0	5	1
As of 31 December 2017	**0**	**2**	**3**	**0**	**0**	**5**	**1**
Carrying amount as of 31 December 2017	**213**	**41**	**64**	**14**	**1**	**333**	**7**

Research and non-capitalized development costs amounted to €1 million (prior year: €0 million).

Intangible assets with indefinite useful lives are tested for impairment at least once a year. As of the reporting date, this related exclusively to goodwill. The test is performed at the level of the cash-generating unit. Impairment tests are also conducted if there are indications of the carrying amount being impaired.

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

The underlying goodwill is allocated entirely to the ITS segment, with the cash-generating unit being the ITS segment here.

The calculation of the value in use as of 31 December 2017 is based on the corporate planning for the PTV Group prepared as part of the due diligence by Porsche SE. The detailed planning phase of this business plan comprises the period up to and including March 2023. For the planning of revenue as well as the EBITDA margin, it was assumed that the PTV Group could continue the positive development from fiscal years 2014/15, 2015/16 and 2016/17. A sustainable annual growth rate of 2.0% was used to extrapolate the cash flow beyond this corporate planning. To discount cash flows, a weighted average after-tax cost of capital of 9.0%

was derived based on a peer group analysis. The corresponding weighted average pre-tax cost of capital is 11.7%.

Since the value in use determined in the impairment test as of 31 December 2017 is higher than the carrying amount of the cash-generating unit including goodwill, there was no need for impairment as of reporting date.

The impairment test included a sensitivity analysis of the critical assumptions. This involved analyzing the extent to which an isolated 10% reduction in the sustainable EBITDA margin, an isolated reduction of the sustainable annual growth rate by one percentage point or an isolated increase in the after-tax average weighted cost of capital by one percentage point would have on the impairment test. Only in the event of an isolated increase in the after-tax average weighted cost of capital by one percentage point, the value in use falls short of the carrying amount by an amount in the single-digit million-euro range.

[11] Investments accounted for at equity

Of the investments accounted for at equity, €30,339 million (prior year: €26,739 million) relates to the carrying amount of the investment in Volkswagen AG.

Porsche SE has at its disposal a credit facility with a volume of €1,000 million and a term until October 2019. If the credit facility is drawn, Volkswagen AG ordinary shares worth 150% of the amount drawn must be provided as collateral. No other financial covenants have to be complied with.

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 (prior year: five-year plan) approved by the board of management of Volkswagen AG was used as a basis for determining the value in use. The remaining risk provisioning recognized at the level of the Volkswagen Group until 31 December 2017 regarding the effects of the diesel issue were fully taken into account when determining the cash flows.

The overall development of the operating result assumed for fiscal year 2018 in the impairment test corresponds approximately to the lower limit specified by Volkswagen in its forecast report, which reports an operating return on sales of between 6.5% and 7.5% with an increase in revenue of up to 5% for the group. With regard to the entire five-year period, the assumed average annual revenue growth is in the mid-single-digit percentage range.

The assumed revenue growth is based on the expectation that the moderately positive growth of the global economy will continue in the coming years. Geopolitical tension and conflicts are expected to continue to have an adverse effect in 2018. The highest growth is anticipated in the emerging economies in Asia. As regards the automobile markets, growth is expected to vary between the various regions and demand for new vehicle is expected to increase more slowly on the whole in 2018. Its unique brand portfolio, the presence in all major world markets, broad and selectively expanded product range, and pioneering technologies and services mean the Volkswagen Group is in a good position compared to the competition. Moderate gains in market share are therefore expected during the planning period.

The planned ratio of capex to revenue in the automotive division in the fiscal year 2018 is within Volkswagen's expected corridor of between 6.5% and 7.0% of revenue and will fall in the planning period to the level of the long-term target rate of around 6%. The investments in plants and models as well as in the development of alternative drives and modular systems create the prerequisites for Volkswagen's profitable and sustainable growth.

As regards operating return on sales, Porsche SE assumes a relatively constant development, which is down slightly on the long-term target of the Volkswagen Group of between 7% and 8% by 2025 and therefore also down on the operating return on sales before special items generated in the fiscal year 2017.

A growth rate of 1% (prior year: 1%) was used to extrapolate the cash flow beyond the detailed planning phase. The sustainable operating return on sales was therefore determined taking into account the operating return on sales generated over the last five fiscal years (before special items). A weighted average cost of capital of 7.9% (prior year: 7.4%) 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 analyses also yielded a value in use that was considerably higher than the carrying amount in all of the scenarios considered. As a result, there was no need to recognize an impairment loss as of 31 December 2017.

The investment in INRIX was tested to identify any need to record impairments or reversals of impairment in the consolidated financial statements of Porsche SE as of 31 December 2017; this was found not to be the case.

[12] Other financial assets

€ million	31/12/2017 current	31/12/2017 non-current	31/12/2017 Total	31/12/2016 current	31/12/2016 non-current	31/12/2016 Total
Other financial assets	0	7	7	0	0	0
Derivative financial instruments	1	0	1	0	0	0
Interest receivables	1	0	1	1	0	1
Sundry other financial assets	2	0	2	2	0	2
	4	**7**	**11**	**3**	**0**	**3**

Valuation allowances are recognized to take account of any default risks. The maximum default risk corresponds to the carrying amounts of the other receivables and assets. The current other receivables and assets are non-interest-bearing. Collateral customary for the industry has been provided for obligations arising from derivatives transactions of €8 million (prior year: €8 million).

[13] Other assets

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

€ million	31/12/2017 current	31/12/2017 non-current	31/12/2017 Total	31/12/2016 current	31/12/2016 non-current	31/12/2016 Total
Receivables from long-term construction contracts	7	0	7	0	0	0
Receivables from government grants	2	1	3	0	0	0
Deferrals	3	1	4	1	1	2
	12	**2**	**14**	**1**	**1**	**2**

[14] Securities

Securities consist of:

€ million	**31/12/2017**	31/12/2016
Bonds and investment fund shares	185	189
Asset-backed commercial papers	0	83
	185	**272**

For the bonds and investment fund shares, the option for accounting for financial instruments at fair value through profit or loss is exercised.

[15] Equity

The development of equity is presented in the Porsche SE Group's consolidated statement of changes in equity and in the consolidated statement of comprehensive income.

Subscribed capital

Unchanged from the figure at the end of the prior year, Porsche SE's subscribed capital totals €306.25 million and continues to be divided into 153,125,000 ordinary shares and 153,125,000 non-voting preference shares which have been fully paid in. Each share represents a €1 notional value of the subscribed capital. The preference shares carry an additional dividend of 0.6 cents per share in the event of there being net profit available for distribution and a corresponding resolution on a distribution.

Capital reserves

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

Retained earnings

Retained earnings contain current profits and those earned by the group companies in prior years and not yet distributed, the actuarial gains and losses from pensions taking deferred taxes into account, the items that will be reclassified subsequently to profit/loss as well as the reserve for investments accounted for at equity. The foreign currency translation reserve was immaterial as of 31 December 2017 (prior year: €0 million).

As of 31 December 2017, actuarial gains and losses from pensions amounted to €14 million (31 December 2016: €15 million); the allocable deferred tax amounted to €4 million as of 31 December 2017 (31 December 2016: €4 million).

The reserve for investments accounted for at equity breaks down as follows:

€ million	**31/12/2017**	31/12/2016
Other comprehensive income to be reclassified to profit or loss in subsequent periods (income (+), expenses (–))		
Currency translation	299	933
Securities marked to market (before tax)	37	1
Cash flow hedges (before tax)	1,523	–181
Tax	–448	607
Other comprehensive income to be reclassified to profit or loss in subsequent periods from investments accounted for at equity (after tax)	283	48
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	**1,694**	**1,408**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (income(+), expenses (–))		
Remeasurement of pensions (before tax)	–4,600	–4,858
Tax	1,360	1,421
Other comprehensive income not to be reclassified to profit or loss in subsequent periods from investments accounted for at equity (after tax)	25	–3
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods	**–3,215**	**–3,440**
Total reserve for investments accounted for at equity	**–1,520**	**–2,033**

Proposal for the appropriation of profit

The separate financial statements of Porsche SE as of 31 December 2017 show a net income for the year of €235 million (prior year: net loss of €70 million) and a withdrawal of €303 million (prior year: €378 million) from retained earnings, therefore coming to a net profit available for distribution of €538 million (prior year: €308 million). The executive board proposes a resolution for the distribution of a dividend of €1.754 per ordinary share and €1.760 per preference share, i.e., a total distribution of €538 million (prior year: €308 million) for fiscal year 2017. For fiscal year 2016, the dividend was €1.004 per ordinary share and €1.010 per preference share.

Capital management

The target of capital management at Porsche SE is the continuous increase in enterprise value, securing its liquidity and a return on investment that is commensurate with the risk involved. These goals aim to sustainably protect the interests of the shareholders and employees and other stakeholders. By means of a systematic investment and financial management system, Porsche SE continually ensures that costs of capital as well as capital structure are optimized considering its function as a holding company.

The Porsche SE Group's total capital, defined for capital management purposes as the sum of equity and financial liabilities, is as follows as of the reporting date:

€ million	**31/12/2017**	31/12/2016
Equity	31,410	27,894
Share of total capital	100%	99%
Non-current financial liabilities	12	0
Current financial liabilities	1	300
Total financial liabilities	13	300
Share of total capital	0%	1%
Total capital	**31,423**	**28,194**

[16] Provisions for pensions and similar obligations

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

In the case of defined contribution plans, the company makes contributions to state or private pension schemes based on legal or contractual requirements, or on a voluntary basis. Once the contributions have been paid, there are no further obligations for the company. Contributions are recognized as expenses of the period concerned and amounted to €2 million (prior year: €0 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 employees. The direct and indirect obligations include both current pension obligations and future pension and retirement benefit obligations. In addition, personal retirement capital is accumulated in Germany by way of employee contributions to Porsche VarioRente.

Actuarial assumptions:
The defined benefit obligations are calculated using actuarial methods. These include assumptions concerning future wage and salary developments and pension trends. The measurement is based on the following assumptions:

	Germany	
%	**2017**	2016
Discount rate	1.75	1.70
Increase in wages and salaries	3.00	3.00
Career progress	0.50	0.50
Increase in pensions	1.70	1.70

The carrying amount of pension provisions is derived as follows:

€ million	**2017**	2016
Present value (funded)	5	0
Present value (unfunded)	32	30
Total present value	37	30
Fair value of plan assets	–1	0
Provisions for pensions as of 31 December	**36**	**30**

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	**2017**	2016
As of 1 January	30	24
Current service cost	3	2
Interest expenses	1	1
Subtotal pension expense recognized through profit/loss	3	3
Actuarial gains (–) and losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–) and losses (+) arising from changes in financial assumptions	–1	4
Actuarial gains (–) and losses (+) arising from experience adjustments	0	0
Subtotal pension expense recognized in other comprehensive income	–1	4
Pension payments	0	0
Effects from changes in consolidated group	5	0
Changes in exchange rates	0	0
Other changes	0	–1
As of 31 December	**37**	**30**

The sensitivity analyses present the effect of isolated changes to one assumption with otherwise no change to the other assumptions. Possible correlations between individual assumptions were therefore not taken into account.

€ million		**31/12/2017**	31/12/2016
Discount rate	0.50% increase	–3	–3
	0.50% decrease	4	3
Future pension cost	0.25% increase	1	1
	0.25% decrease	–1	–1
Future salary trend	0.50% increase	1	1
	0.50% decrease	–1	0
Turnover rate	0.25% increase	0	0
	0.25% decrease	0	0

The weighted average duration of pension obligations is 20 years (prior year: 21 years). Estimated contributions for fiscal year 2018 amounted to €1 million (prior year: €0 million). The cash outflow of pension provisions is expected to amount to €2 million (prior year: €2 million) in a period of between one and five years and €33 million (prior year: €28 million) in a period of more than five years.

[17] Other provisions

€ million	31/12/2017 current	non-current	**Total**	31/12/2016 current	non-current	Total
Other provisions	80	19	98	75	18	93
Provisions for bonuses and personnel costs	5	0	5	4	1	5
Provisions for costs of litigation	10	17	27	9	17	26
Sundry other provisions	65	2	66	62	0	62

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 [25]). The provision amounts and timing of the outflows are based on past estimations and analyses that are continuously rolled forward and adjusted where needed.

Sundry other provisions mainly comprise provisions for other tax.

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

Other provisions developed as follows:

€ million	As of 1/1/2017	Additions through business combinations	Additions	Utilization	Reversal	**As of 31/12/2017**
Provisions for bonuses and personnel costs	5	2	4	6	0	5
Provisions for costs of litigation	26	0	10	9	0	27
Sundry other provisions	62	3	10	8	1	66
	93	**6**	**25**	**23**	**1**	**98**

The effects of unwinding the discount on provisions were immaterial in the fiscal year 2017 and in the fiscal year 2016.

[18] Financial liabilities

Financial liabilities are measured at amortized cost and as of the reporting date contain a promissory note of €10 million and liabilities to banks of €3 million. Financial liabilities in the prior year exclusively comprised liabilities to associates. They were fully repaid as of 18 June 2017.

[19] Other financial liabilities

Other financial liabilities break down as follows:

	31/12/2017			31/12/2016		
€ million	current	non-current	**Total**	current	non-current	Total
Liabilities to associates	14	0	14	16	0	16
Liabilities from company acquisition	0	3	3	0	0	0
Liabilities from derivatives	1	0	1	0	0	0
Sundry other financial liabilities	4	2	6	1	0	1
	19	**5**	**24**	**17**	**0**	**17**

[20] Other liabilities

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

	31/12/2017			31/12/2016		
€ million	current	non-current	**Total**	current	non-current	Total
Deferrals	10	0	10	0	0	0
Advance payments received on account of orders	4	0	4	0	0	0
Liabilities	5	0	5	0	0	0
from government grants	2	0	2	0	0	0
relating to other tax	2	0	2	0	0	0
from long-term construction contracts	1	0	1	0	0	0
Sundry other liabilities	5	0	5	1	0	1
	24	**0**	**24**	**1**	**0**	**1**

Other notes

[21] Notes to the consolidated statement of cash flows

The statement of cash flows shows how the cash funds of the Porsche SE Group have changed during the reporting year as a result of cash inflows and outflows. For this purpose, the cash flows in the statement of cash flows are categorized by operating activities, investing activities, and financing activities. Cash inflows and outflows from investing and financing activities are presented using the direct method.

Cash inflows and outflows from investing activities during the reporting period primarily relate to net cash outflows from the acquisition of shares in the PTV Group as well as to the decrease in investments in securities and time deposits.

The cash outflow from financing activities in particular concerns cash outflows from dividend payments. The financial liabilities from financing activities developed as follows in the reporting period:

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

Non-cash changes relate exclusively to effects from changes in the consolidated group.

In contrast, the cash inflow and outflow from operating activities is derived indirectly, starting from profit/loss for the year. Therefore, all non-cash expenses and income – mainly the profit/loss from investments accounted for at equity contained in non-cash income and expenses – are eliminated from profit/loss for the year and adjusted for changes in other assets and liabilities. Cash inflows from dividends are also a component of the cash inflow from operating activities.

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

[22] Segment reporting

Until the acquisition of the PTV Group, the business activities of the Porsche SE Group were essentially limited to holding and managing investments, in particular in Volkswagen AG. The Porsche SE Group was managed exclusively on the basis of aggregates. No resources had been allocated to various business divisions before. Porsche SE, together with its investments accounted for at equity, thus represented a single reporting segment which was identical to the Porsche SE Group. There was therefore no requirement to prepare segment reporting.

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

As the two segments exceeded 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 2017:

€ million	PSE	ITS	Total segments	Reconciliation	**Group 31/12/2017**
Revenue from external third parties	0	34	34	0	34
Amortization and depreciation	0	–6	–6	0	–6
Profit/loss from investments accounted for at equity	3,410	0	3,410	0	3,410
Segment result (operating result)	3,363	–2	3,361	0	3,361
Finance costs	–12	0	–12	0	–12
Other financial result	4	0	4	0	4
Profit/loss before tax	3,355	–2	3,352	0	3,352
Income tax	–22	1	–21	0	–21
Profit/loss for the year	3,333	–1	3,332	0	3,332
Non-cash expenses (–) and income (+)	3,411	0	3,411	0	3,411
Segment assets	31,608	400	32,008	–312	31,696
thereof from investments accounted for at equity	30,354	0	30,354	0	30,354
thereof additions to non-current assets[1,2]	0	347	347	0	347
Segment liabilities	197	89	285	0	285

[1] incl. additions through business combinations

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

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

By region 2017:

€ million	Germany	Rest of Europe	North America	Asia	Other markets	**Total 31/12/2017**
Revenue from external third parties	14	14	2	2	3	34
Non-current assets[1]	30,693	4	0	0	0	30,697

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

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

[23] Other financial obligations

	Payable			**Total**
€ million	2018	2019 – 2022	2023 et seq.	**31/12/2017**
Obligations from long-term rental and leasing contracts	5	10	22	37
Sundry other financial obligations	2	0	0	2

As of the prior-year reporting date, the Porsche SE Group had minimum lease payments of €1 million which were due the year after.

[24] Financial risk management and financial instruments

1 Financial risk management principles

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

For further details on risk management and on risks relating to financial instruments, reference is made to the “Opportunities and risks of future development” section in Porsche SE’s group management report.

2 Credit and default risk

The credit and default risk arising from financial assets involves the risk of default by counterparties, and therefore comprises at a maximum the amount of the carrying amounts recognized.

Cash and cash equivalents, time deposits and securities are invested with different counterparties in order to spread risk. The contracting partners for monetary investments, capital investments and, if necessary, derivative financial instruments are domestic and international counterparties. Furthermore, various measures are taken as needed, such as obtaining hold harmless agreements.

Until June 2017, there was also a credit and default risk equivalent to the financial guarantees issued.

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

The receivables balances as well as the additional financial assets held by the group are regularly tested for impairment and the default risk is taken into account through adequate valuation allowances considering any collateral that has already been provided.

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

Financial assets are given their credit rating using maturity bands. The gross carrying amounts within the maturity bands are as follows:

€ million	Neither past due nor impaired	Impaired	Not impaired and in the maturity bands past due			**Gross carrying amounts 31/12/2017**
			up to 30 days	more than 30 up to 90 days	more than 90 days	
Available-for-sale financial assets	**7**	**0**	**0**	**0**	**0**	**7**
Other non-current financial assets	7	0	0	0	0	7
Measured at amortized cost	**778**	**2**	**3**	**2**	**4**	**788**
Other non-current financial assets	0	0	0	0	0	0
Trade receivables	9	2	3	2	4	20
Other current financial assets	4	0	0	0	0	4
Securities	0	0	0	0	0	0
Time deposits	101	0	0	0	0	101
Cash and cash equivalents	664	0	0	0	0	664
Assets at fair value through profit or loss	**186**	**0**	**0**	**0**	**0**	**186**
Other current financial assets	1	0	0	0	0	1
Securities	185	0	0	0	0	185
	971	**2**	**3**	**2**	**4**	**981**

In the prior year there were no past due or impaired financial assets.

As of the reporting date, there were no indications that there would be any additional need for impairment for the financial assets that are not impaired.

Impairments developed as follows in the fiscal year and relate exclusively to the operating activities of the PTV Group:

€ million	2017
As of 1 January	0
Changes to consolidated group	2
Additions	0
Utilization	–1
Reversal	–1
Changes in exchange rates and other changes	0
As of 31 December	**1**

3 Liquidity risk

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

The solvency and liquidity of the Porsche SE Group is continuously monitored by means of liquidity planning. Solvency and liquidity are additionally secured by a cash liquidity reserve and guaranteed credit lines. The lines of credit amount to €1,010 million as of the reporting date (prior year: €1,000 million), and had not been drawn down either as of the end of the reporting period or as of the reporting date in the prior year. Furthermore, there are financial liabilities of €13 million (prior year: €300 million).

Reference is also made to explanations on the management of liquidity risks at the level of the Porsche SE Group presented in the section “Opportunities and risks of future development” in the group management report.

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

€ million	Remaining contractual maturities within 1 year	in 1 to 5 years	more than 5 years	Total
31/12/2017				
Non-current financial liabilities	0	13	0	13
Other non-current financial liabilities	0	5	0	5
Trade payables	5	0	0	5
Current financial liabilities	1	0	0	1
Other current financial liabilities (without derivatives)	18	0	0	18
Other current financial liabilities (only derivatives)	19	0	0	19
	43	**17**	**0**	**61**
31/12/2016				
Financial liabilities	313	0	0	313
Trade payables	2	0	0	2
Other financial liabilities	14	0	0	14
Derivative financial instruments	21	0	0	21
Financial guarantees	251	0	0	251
	601	**0**	**0**	**601**

Until June 2017 there were financial guarantees issued for financial liabilities of the Volkswagen Group. Volkswagen AG issued a hold harmless agreement for 100% of these financial guarantees.

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

4 Market risk

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, other 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 profit or loss 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 (31 December 2016: €2 million).

There are also interest rate risks at the level of the PTV Group regarding the amount of future interest payment from a floating-rate loan valued at €10 million as of the reporting date. The effects on pre-tax profit/loss 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

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

The foreign cash reserves at the PTV Group as of the reporting date are immaterial for the Porsche SE Group. A 10% change in the significant exchange rates results in each case to effects on pre-tax profit/loss 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, as well as the comparison of carrying amount and fair value:

€ million	Measurement category under IAS 39	**31/12/2017** Carrying amount	Fair value	31/12/2016 Carrying amount	Fair value
Assets					
Other non-current financial assets	AfS	7	7	0	0
Other non-current financial assets	LaR	0	0	0	0
Trade receivables	LaR	18	18	0	0
Other current financial assets	LaR	4	4	3	3
Other current financial assets	FVTPL	1	1	0	0
Securities	FVTPL	185	185	189	189
Securities	LaR	0	0	83	83
Time deposits	LaR	101	101	679	679
Cash and cash equivalents	LaR	664	664	648	648
Equity and liabilities					
Non-current financial liabilities	FLAC	12	12	0	0
Other non-current financial liabilities	FLAC	2	2	0	0
Other non-current financial liabilities	FVtPL*	3	3	0	0
Trade payables	FLAC	5	5	2	2
Current financial liabilities	FLAC	1	1	300	312
Other current financial liabilities	FLAC	18	18	17	17
Other current financial liabilities	FVtPL	1	1	0	0

AfS: Available-for-sale financial assets
LaR: Loans and receivables
FVtPL: Financial instruments at fair value through profit or loss
FVtPL*: Contingent consideration at fair value through profit or loss
FLAC: Financial liabilities at cost

Other non-current financial assets are measured at cost pursuant to IAS 39.46 (c).

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 reported fair values of the assets are determined using pricing methods, present value methods or the net asset value approach. The reported fair values of the financial liabilities are determined using the parameters by means of discounted cash flow calculations or Black-Scholes models. The fair value of financial instruments in level 3 is calculated using inputs that are not based on observable market data.

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

Financial instruments measured at fair value comprise other financial assets, non-derivative financial instruments designated as at fair value as well as derivative financial instruments for which hedge accounting is not applied.

The following overview contains the breakdown of these financial instruments by level:

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

The carrying amounts of the current other financial assets and liabilities were partly allocated to level 1, partly to level 2. This cannot be seen in the table due to rounding.

€ million	31/12/2016	Level 1	Level 2	Level 3
Financial assets at fair value through profit/loss				
Securities	189	0	189	0

In the fiscal year 2017, a transfer from level 2 to level 1 of €56 million was performed for securities on account of the transfer of measurement logic from observable market data to market prices.

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 (see the explanations in the section "List of shareholdings of the group as of 31 December 2017").

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

€ million	Interest expenses (–) and income (+)	At fair value through profit/loss	Impairments (–)/ reversal of impairments (+)	**2017**	2016
Financial instruments at fair value through profit or loss	0	3	0	3	2
Loans and receivables	0	0	1	1	1
Contingent consideration at fair value through profit or loss	0	0	0	0	0
Financial liabilities measured at amortized cost (FLAC)	–11	0	0	–11	–21
	–10	**3**	**0**	**–7**	**–18**

The net gains or losses from the category "Financial instruments at fair value through profit or loss" include income and expenses from derivative financial instruments allocable to the category "held for trading" as well as from the remeasurement of bonds and investment fund shares designated as at fair value.

The net gains or losses from the "loans and receivables" category includes all income from the cash investment.

The net gains or losses from "financial liabilities at amortized cost" essentially comprise interest expenses.

The table below contains the notional amounts of the derivative financial instruments both on the assets and the liabilities side:

€ million	Notional amount			Total notional amount
	due within 1 year	due in 1 to 5 years	due in more than 5 years	
31/12/2017				
Interest rate hedge with a positive carrying amount	52	0	0	52
Stock options with positive carrying amount	8	0	0	8
Commodity futures contracts with positive carrying amount	9	0	0	9
Interest rate hedge with a negative carrying amount	62	0	0	62
Stock options with negative carrying amount	31	0	0	31
Commodity futures contracts with negative carrying amount	9	0	0	9
	171	**0**	**0**	**171**

€ million	Notional amount			Total notional amount
	due within 1 year	due in 1 to 5 years	due in more than 5 years	
31/12/2016				
Interest rate hedge with a positive carrying amount	22	0	0	22
Stock options with positive carrying amount	8	0	0	8
Commodity futures contracts with positive carrying amount	5	0	0	5
Interest rate hedge with a negative carrying amount	77	0	0	77
Stock options with negative carrying amount	19	0	0	19
Commodity futures contracts with negative carrying amount	5	0	0	5
	136	**0**	**0**	**136**

[25] Contingent liabilities from legal disputes

For several years, Porsche SE has been involved in various legal proceedings. The risk assessment of Porsche SE regarding the actions pending as of 31 December 2017 is presented below. For all proceedings, provisions had so far been recognized exclusively for the expected attorneys' fees and litigation expenses but not for the underlying matters in dispute as the litigants' prospect of success is below 50%. Due to the complexity of the underlying matters and legal issues, the financial impact presented below is done so in the amount of the claims for damages asserted. The development of all pending legal proceedings and legal risks in fiscal year 2017 is presented in the group management report and management report of Porsche SE in the section "Significant events and developments at the Porsche SE Group".

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

A model case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE is pending with the Higher Regional Court of Celle. Subject of those actions are alleged damage claims based on alleged market manipulation and alleged inaccurate information in connection with Porsche SE's acquisition of the shareholding in Volkswagen AG. In part these claims are also based on alleged violations of antitrust regulations. The model case has been initiated by an order of reference of the Regional Court of Hanover dated 13 April 2016 that followed applications for establishment of a model case by the plaintiffs of four out of six proceedings pending before the Regional Court of Hanover. The Regional Court of Hanover has referred certain establishment objectives to the Higher Regional Court of Celle. On 11 May 2016 the Regional Court of Hanover suspended all six proceedings pending before it against Porsche SE up until a final decision about the establishment objectives in the model case before the Higher Regional Court of Celle. 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 canceled the trial dates scheduled for 2017. A new date for continuation of the oral hearing has not been scheduled yet. 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 alleged market manipulation are or were pending:

Based on the same alleged claims that are already subject of a momentarily suspended action concerning alleged damages of €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover, the same plaintiffs filed an action against two members (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 has 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. 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) were 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 have been 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 section “The diesel issue” in the section “Accounting estimates and judgments of the management” the following claims have been asserted against Porsche SE:

Since April 2016 a total of 189 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. The pending actions concern damages in an amount totaling, if and to the extent the claims were quantified, about €934 million (plus interest) and in part establishment of liability for damages. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information in connection with the diesel issue. A part of the actions is directed against both Porsche SE and Volkswagen AG. In one part of these actions Volkswagen AG and the claimants filed motions to recuse judges, about which a decision has not yet been made. 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. 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 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 to what extent the actions pending before the Regional Court of Stuttgart will be suspended with reference to the order of reference issued by the Regional Court of Braunschweig or with reference to the orders of reference issued by the Regional Court of Stuttgart. Since early May 2017, 102 actions have been suspended in whole or partially by the Regional Court of Stuttgart with reference to its order of reference of 28 February 2017 and, to the extent the Regional Court of Stuttgart did not suspend the actions, it partially suggested a withdrawal of the action. The Regional Court of Stuttgart by order decided in 28 actions that the respective action will not be suspended with reference to its order of reference dated 28 February 2017. 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. The actions are directed against both Porsche SE and Volkswagen AG. The actions are based on alleged claims for damages because of nonfeasance of immediate publication of insider information. The actions aim for claims for damages against Porsche SE in the amount of originally about €170,000. Volkswagen AG filed in relation to five actions an application with the Higher Regional Court of Braunschweig to determine the

Regional Court of Braunschweig as the competent court. In relation to four proceedings also the plaintiffs filed similar applications to determine the competent court with the Higher Regional Court of Braunschweig. In October 2017 the Higher Regional Court of Braunschweig determined in two proceedings with an amount in dispute of around €136,000 the Regional Court of Stuttgart as the competent court. Accordingly, the Regional Court of Braunschweig transferred both proceedings to the Regional Court of Stuttgart. In three proceedings the Higher Regional Court of Braunschweig dismissed the motions to determine the competent court. The plaintiffs have in part applied for suspension of the proceeding with reference to the KapMuG-based order of reference issued by the Regional Court of Braunschweig. In part the plaintiffs consented to this motion for suspension. In addition, part of the plaintiffs filed a motion for suspension of the proceedings with reference to the order of reference issued by the Regional Court of Stuttgart of 6 December 2017 concerning questions of local jurisdiction. Prior to that, the Regional Court of Braunschweig had suspended one of the proceedings with respect to Volkswagen AG which was transferred to the Regional Court of Stuttgart with reference to the order of reference issued by the Regional Court of Braunschweig. With orders of 21 February 2018 the Regional Court of Braunschweig suspended two of the proceedings pending before it with respect to Porsche SE and Volkswagen AG with reference to the 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. Porsche SE is evaluating whether it will appeal these orders. A decision regarding the suspension of the remaining three pending proceedings is still outstanding. Porsche SE considers these claims to be inadmissible and to be without merit.

In November 2015, a purchaser of a Volkswagen and an Audi 3.0 l TDI diesel vehicle filed a class action lawsuit in the US District Court for the Eastern District of Michigan against, among others, Volkswagen AG and Porsche SE. The plaintiff alleges that the defendants fraudulently induced US customers to purchase Volkswagen, Audi and Porsche 2.0 l TDI and 3.0 l TDI diesel vehicles that contain illegal defeat devices. This plaintiff's claims against Porsche SE were resolved in fiscal year 2017.

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, 51 persons who have not yet filed a lawsuit have made out-of-court claims or initiated conciliatory proceedings against Porsche SE in connection with the diesel issue. In part, the alleged claims have not yet been quantified. As far as the alleged claims have been quantified by the plaintiffs, the damage claims amount to a total of around €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.

Investigation proceedings

The Stuttgart public prosecutor 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 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. Porsche SE considers the actions to be partially inadmissible and in any event to be without merit.

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 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. The appeal was not allowed.

[26] Related parties

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

As in the prior-year period, there were only immaterial service transactions between the Porsche SE Group and the Porsche and Piëch families and their affiliates.

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 2017 and in the comparative period, this concerns members of the supervisory board and the executive board of Porsche SE as well as their close family members. As in the prior year, no transactions were conducted by entities of the Porsche SE Group with members of the supervisory board or executive board as key management personnel and their close family members or with any other entities having these persons on their executive or supervisory board and over which Porsche SE has no significant influence or does not exercise joint control.

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

All relationships to the respective parent companies and subsidiaries of both of these groups are presented. In the reporting year, there were transactions with the INRIX Group that were immaterial (prior year: no transactions). Supplies and services rendered include dividends received from Volkswagen AG totaling €308 million (prior year: €17 million). Direct obligations resulting from the contribution of the holding business operations of Porsche SE to Volkswagen AG in fiscal year 2012 (hereinafter also: “contribution of business operations” or “contribution”) are reported within other financial liabilities at an amount of €12 million (prior year: €12 million).

In addition, financial and other guarantees with a nominal volume of €250 million plus interest were issued to an entity of the Volkswagen Group until June 2017. The probability of claims being made based on the guarantees was considered very low and Volkswagen AG had signed a hold harmless agreement for 100%.

Porsche SE and the Volkswagen Group also have a relationship in the financial services sector. This led to financial income of €0 million (prior year: €2 million), which was counterbalanced by finance costs and other expenses of €11 million (prior year: €22 million). Liabilities came to €303 million in the prior year.

In addition, services were transacted that led to the recognition of services rendered totaling €0 million (prior year: €1 million) and goods and services received totaling €4 million (prior year: €3 million). In connection with this relationship, liabilities came to €2 million (prior year: €1 million). The goods and services received resulting from these relationships resulted in receivables of €0 million in fiscal year 2017 (prior year: €1 million).

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

- Volkswagen AG holds Porsche SE harmless from certain financial guarantees issued by Porsche SE to creditors of entities in the Porsche Holding Stuttgart GmbH Group (reference is made to note [24]). The hold harmless agreement also extends to financial guarantees until June 2017 given by Porsche SE to the bond creditors of Porsche Holding Finance plc, Dublin, Ireland, with respect to the interest payment and redemption of bonds with a total volume of €250 million. Under the contribution of the holding business operations of Porsche SE to Volkswagen AG, Volkswagen AG undertook to assume a liability compensation as is customary in the market for guarantees issued vis-à-vis external creditors while holding Porsche SE harmless for internal purposes.
- Under the contribution agreement, Porsche SE in certain circumstances holds Porsche Holding Stuttgart GmbH, Porsche AG and their legal predecessors harmless from tax disadvantages that exceed the obligations from periods up until and including 31 July 2009 recognized at the level of these entities. Volkswagen AG has generally undertaken to transfer any tax advantages of Porsche Holding Stuttgart GmbH, Porsche AG or their legal predecessors and subsidiaries for assessment periods up until and including 31 July 2009 to Porsche SE (reference is made to the section "Accounting estimates and judgments of the management").
- Porsche SE under certain circumstances holds its subsidiaries transferred under the contribution agreement, Porsche Holding Stuttgart GmbH and Porsche AG, harmless from certain obligations towards Porsche SE pertaining to the period up to and including 31 December 2011 and that go beyond the obligations recognized for these entities for this period.
- Porsche SE holds Porsche Holding Stuttgart GmbH and Porsche AG harmless from obligations resulting from certain litigation, including the cost of appropriate legal counsel.
- In addition, Porsche SE holds Volkswagen AG harmless from half of the amount of the tax (with the exception of income tax) of Porsche Holding Stuttgart GmbH, Porsche AG and their subsidiaries arising at their respective levels in connection with the contribution and that would not have been incurred had the call options been exercised for the shares in Porsche Holding Stuttgart GmbH remaining at Porsche SE prior to the contribution. Accordingly, Volkswagen AG holds Porsche SE harmless for half the amount of such tax incurred there. In addition, Porsche Holding Stuttgart GmbH will be held harmless for half of the amount of the real estate transfer tax and other costs triggered as a result of the merger.

- It was also agreed to allocate based on causation any subsequent VAT receivables and/or VAT liabilities from transactions up to 31 December 2009 between Porsche SE and Porsche AG.
- Various information, conduct and cooperation duties were agreed in the contribution agreement between Porsche SE and the Volkswagen Group.
- Within the scope of the basic agreement, Porsche SE and Volkswagen AG had granted each other put and call options relating to the 50.1% share in Porsche Holding Stuttgart GmbH remaining at Porsche SE prior to the contribution of its holding business operations to Volkswagen AG. Both Volkswagen AG (in the event that it exercises its call options) as well as Porsche SE (in the event that it exercises its put options) had both agreed to bear any tax expenses arising from exercising the options and from any downstream measures with respect to the investments in Porsche Holding Stuttgart GmbH (e.g., from back taxes on the 2007 and/or 2009 spin-off). If Volkswagen AG, Porsche Holding Stuttgart GmbH, Porsche AG or their respective subsidiaries had enjoyed tax benefits as a result of subsequent taxation of the 2007 and/or 2009 spin-off, the purchase price payable by Volkswagen AG for the transfer of the remaining 50.1% share in Porsche Holding Stuttgart GmbH would have increased by the present value of the tax benefits if Porsche SE had exercised its put options. This rule was taken over in the course of the contribution agreement to the extent that Porsche SE has a payment claim against Volkswagen AG equivalent to the present value of the recoverable tax benefits as a result of back tax payments on the 2007 spin-off owing to the contribution. In connection with the contribution it was also agreed that Porsche SE would release Volkswagen AG, Porsche Holding Stuttgart GmbH and its subsidiaries from any tax liability with respect to subsequent taxation in 2012 resulting from a measure taken or omitted by Porsche SE upon or subsequent to the execution of the contribution. Also in that event, Porsche SE has a payment claim against Volkswagen AG in the amount of the present value of the recoverable tax benefits resulting from such a transaction at the level of Volkswagen AG or one of its subsidiaries.
- Volkswagen AG has agreed to hold Porsche SE harmless for internal purposes from any claims of the deposit guarantee fund agency after Porsche SE issued a hold harmless declaration to the deposit guarantee fund agency as required by the Association of German Banks in August 2009. In addition, Volkswagen AG has undertaken to hold the deposit guarantee fund agency harmless from any losses incurred as a result of its measures in favor of a bank in which it holds the majority.

The table below shows the supplies and services rendered and received between the Porsche SE Group and its related parties as well as existing receivables and liabilities.

	Supplies and services rendered		Supplies and services received	
€ million	**2017**	2016	**2017**	2016
Associates	309	20	15	25
	309	**20**	**15**	**25**

	Receivables		Liabilities	
€ million	**31/12/2017**	31/12/2016	**31/12/2017**	31/12/2016
Associates	0	1	14	316
	0	**1**	**14**	**316**

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	**2017**	2016
Short-term employee benefits	4.8	3.7
Other long-term benefits	0.2	0.9
Post-employment benefits	0.9	0.7
Termination benefits	0.0	0.0

Other long-term benefits concern the addition to provisions for the long-term component of the variable incentive of the members of the executive board of Porsche SE. The expenses for post-employment benefits contain the addition to the pension provisions.

As of the end of the fiscal year, the outstanding balances for remuneration of members of Porsche SE’s executive board and supervisory board amounted to €6.5 million (prior year: €8.1 million).

[27] Remuneration of the supervisory board and the executive board

The total remuneration of members of Porsche SE's executive board amounted to €4.0 million in fiscal year 2017 (prior year: €4.8 million).

The total remuneration of the supervisory board for fiscal year 2017 amounts to €1.1 million (prior year: €1.1 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.

[28] 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	**2017**	2016
Audit of financial statements	758	291
Other assurance services	45	44
Tax advisory services	368	557
Other services	261	23
	1,432	**915**

The item for the audit of financial statements contains the fee for the audit of the separate financial statements of Porsche SE and its German subsidiaries as well as for the audit of the consolidated financial statements. The other assurance services contain fees for the review of the half-yearly financial report. Other services primarily comprise fees for services in connection with carrying out due diligence reviews.

[29] Declaration on the German Corporate Governance Code

The executive board and supervisory board of Porsche SE issued the declaration required by Sec. 161 AktG in May 2017 and made it permanently accessible to the shareholders of Porsche SE on the website www.porsche-se.com.

[30] Subsequent events

With the exception of the developments presented in note [25] “Contingent liabilities from legal disputes”, there were no reportable events after the reporting date.

Stuttgart, 2 March 2018

Porsche Automobil Holding SE
The executive board

Hans Dieter Pötsch   Dr. Manfred Döss   Matthias Müller   Philipp von Hagen

3

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, 2 March 2018

Porsche Automobil Holding SE
The executive board

Hans Dieter Pötsch Dr. Manfred Döss Matthias Müller Philipp von Hagen

Independent auditor's report

On completion of our audit, we issued the following unqualified auditor's report dated 7 March 2018. 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 group 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 balance sheet as of 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January 2017 to 31 December 2017, 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 ("group management report"), for the fiscal year from 1 January 2017 to 31 December 2017.

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

- the accompanying consolidated financial statements comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the group as of 31 December 2017 and its financial performance for the fiscal year from 1 January to 31 December 2017, and

- the accompanying group management report as a whole provides an appropriate view of the group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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 group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and the group 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 group 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 group management report.

Emphasis of matter paragraph - diesel issue

As explained 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 at Porsche SE” and “Opportunities and risks of the Volkswagen Group”, among others, Porsche SE, Stuttgart, as the majority shareholder of Volkswagen AG, Wolfsburg (“VW AG”), continues to be affected by the diesel issue, mainly through its profit/loss from investments accounted for at equity as well as due to the development of the proportional market capitalization of the preference and ordinary shares.

With regard to the investment in VW AG, the executive board of Porsche SE sees the increased risk that due to the diesel issue the company will be subject to further burdens on the proportionate profit/loss attributable to it as part of equity accounting. These burdens could result in particular from new findings regarding the amount of the risk provisioning recognized in the consolidated financial statements of VW AG, Wolfsburg, or the effects of the diesel issue on the operating business and/or the financing costs of the Volkswagen Group which may exceed the extent assumed in the planning. As the impairment test of the investment in VW AG is based on the current planning of the Volkswagen Group, unexpected additional burdens incurred to mitigate the diesel issue could result in an impairment loss for the investment in VW AG.

The provisions for legal risks in connection with the diesel issue recognized in the consolidated financial statements of VW AG as of 31 December 2017 are based on the information currently available to VW AG. According to estimates by VW AG, the provisions recognized for this matter and the contingent liabilities disclosed as well as the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and the fact that the independent, comprehensive investigations have not yet been completed.

Legal risks from claims brought against Porsche SE in connection with the diesel issue may also have an effect on Porsche SE’s results of operations, financial position and net assets.

Our opinions on the consolidated financial statements and on the group 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 2017. 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, making up 95.7% of total assets. Due to the consolidation of the investment in VW AG at equity, the proportionate profit/loss 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 risk 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 profit/loss 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 verified and assessed in particular the key measurement parameters such as the capitalization interest rate in terms of calculation and method, also with the support of valuation specialists. 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. In order to estimate any potential 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 profit/loss of VW AG and thus on the measurement of the profit/loss at Porsche SE accounted for at equity recorded during the current fiscal year following additional special items, we accompanied the audit of Volkswagen’s consolidated financial statements by its group auditor. In this regard, we sent audit instructions to the group auditor of VW AG, in which we provided guidelines on risk classification and the audit procedure, in particular in connection with risks regarding the diesel issue. Furthermore, we regularly obtain information about the current status of the audit in personal meetings and inspected the working papers of the group auditor.

Our audit procedures did not lead to any reservations concerning the measurement of the investment in VW AG.

Reference to related disclosures

The accounting policies applied for the investment in VW AG and the associated disclosures on judgments of the board of management regarding the estimation of the recoverability of the investment in VW AG are included in the notes to the consolidated financial statements in the sections “Accounting policies” and “[11] Investments accounted for at equity” and in the group management report in the sections “Significant events and developments at the Porsche SE Group” and “Report on opportunities and risks at Porsche SE”.

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.

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 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 also obtained letters of confirmation from attorneys and also consulted internal EY lawyers.

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 “[25] Contingent liabilities from legal disputes” and in the group management report in the sections “Significant events and developments at the Porsche SE Group” and “Report on opportunities and risks at Porsche SE”.

3. Accounting treatment of the acquisition of PTV AG including the purchase price allocation

Reasons why the matter was determined to be a key audit matter

With the acquisition of PTV AG, Karlsruhe, the Porsche SE Group acquired an operating group which is included in the consolidated financial statements of Porsche SE by means of full consolidation.

The fair values resulting from the remeasurement of the assets recognized and the identification of acquired assets as well as the difference between the purchase price and the net assets of the PTV Group measured at fair value are significant for the consolidated financial statements of Porsche SE, and the remeasurement of the assets and liabilities acquired is also subject to estimation and judgment uncertainties.

Auditor's response

Based on our knowledge of the business of the PTV Group and the explanations and plans of the executive board, we verified the assets and liabilities identified in the purchase price allocation.

In the course of our audit procedures in connection with determining the fair values of the assets and liabilities acquired, we also consulted internal valuation experts. In particular, this included us assessing the method used by the company to apply the discounted cash flow measurement model and verified the clerical accuracy. We verified the individual components used to determine the discount rate by analyzing the peer group, comparing market data with external evidence and examining the clerical accuracy of the calculation. We discussed with management the planning assumptions used in the cash flow planning for the individual assets and liabilities and assessed key planning assumptions.

We also examined the completeness of the disclosures in the notes to the consolidated financial statements pursuant to the provisions of IFRS 3.

Our audit procedures in connection with the accounting treatment of the acquisition of PTV AG did not lead to any reservations.

Reference to related disclosures

The accounting policies applied in connection with the acquisition of PTV AG are included in the notes to the consolidated financial statements in the sections "Changes in the reporting period", "Accounting policies" and "[10] Intangible assets and property, plant and equipment".

Other information

The supervisory board is responsible for the report of the supervisory board. In all other respects, the executive directors are responsible for other information. The other information comprises the following sections of the annual report: the report of the supervisory board, the information contained in section 1 of the annual report "To our shareholders", the responsibility statement presented in the consolidated financial statements as well as the statement on corporate governance available on the company's website. We received a copy of this 'Other information' by the time this auditor's report was issued.

Our opinions on the consolidated financial statements and on the group 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 group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to 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 group management report that, as a whole, provides an appropriate view of the group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the group's position and 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 group 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 group 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 group 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 group 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 group 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 group 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 group 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 group 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 30 May 2017 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 19 June 2017. 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 Mathieu Meyer.

Stuttgart, 7 March 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Meyer	Koch
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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

Financial calendar

20 March 2018
Annual press and analyst conference

15 May 2018
Group quarterly statement 1st Quarter 2018

15 May 2018
Annual general meeting

10 August 2018
Half-yearly financial report 2018

20 November 2018
Group quarterly statement 3rd Quarter 2018

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