PORSCHE SE

Group quarterly statement

3rd Quarter 2020

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Porsche Automobil Holding SE ("Porsche SE" or the "company"), as the ultimate parent of the Porsche SE Group, is a European Company (Societas Europaea) and is headquartered at Porscheplatz 1 in 70435 Stuttgart, Germany. As of 30 September 2020, the Porsche SE Group had 915 employees (951 employees).

Porsche SE is a holding company. In particular, it holds the majority of the ordinary shares in Volkswagen Aktiengesellschaft, Wolfsburg ("Volkswagen AG", "Volkswagen" or "VW"), one of the leading automobile manufacturers in the world. The Volkswagen Group comprises twelve brands with registered offices in seven European countries: Volkswagen passenger cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen commercial vehicles, Scania and MAN. The collaboration between the MAN and Scania commercial vehicle brands is coordinated in TRATON SE, which has been listed on the stock exchange since mid-2019. In addition to the investment in Volkswagen AG, the Porsche SE Group holds 100% in PTV Planung Transport Verkehr AG, Karlsruhe ("PTV AG"), shares in INRIX Inc., Kirkland, Washington, USA ("INRIX"), as well as shares in four technology start-ups.

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

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

This group quarterly statement by Porsche SE relates to the development of business and its effects on the results of operations, financial position and net assets in the first nine months of the fiscal year 2020.

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

Content

Significant events and developments at the Porsche SE Group

Significant events and developments at the Porsche SE Group are presented in the following. The explanations refer to events and developments in the third quarter of the fiscal year 2020, unless reference is made in this section to another time period.

Global spread of coronavirus

At the end of December 2019, initial cases of a sometimes fatal respiratory disease became known in Wuhan, in the Chinese province of Hubei. This disease is attributable to a novel coronavirus. Infections also appeared outside China from mid-January 2020. In Europe, the number of people infected rose continuously in the course of February, and especially in March and April 2020. While many European countries recorded declining numbers of new infections as the second quarter of 2020 progressed, the rate of new infections continued to rise in North, Central and South America, Africa and parts of Asia. In the second quarter, many of the measures taken to contain the Covid-19 pandemic were gradually relaxed, especially in Europe. This included partially lifting border controls and travel restrictions, relaxing lockdowns as well as the reopening of businesses and public facilities. In addition, the European Commission and numerous European governments approved aid packages to support the economy. In other regions, too, governments introduced measures aimed at shoring up the economy to counteract the enormous disruption to everyday life and economic activity caused by the Covid-19 pandemic. During the third quarter, and particularly at the beginning of the fourth quarter of 2020, a partly very rapid increase in new infections was again recorded in many parts of the world, which led to a situation-based easing of restrictions being reversed in some places.

The Porsche SE Group currently assumes that the Covid-19 pandemic is a temporary event that will not have any lasting negative impact on the group's long-term business performance.

Significant developments with regard to the investment accounted for at equity in Volkswagen AG

Due to its capital share in Volkswagen AG, Porsche SE is significantly influenced by developments at the level of the Volkswagen Group. In this connection, the main topics for the third quarter of 2020 were again the diesel issue and the Covid-19 pandemic at the level of the Volkswagen Group and the implications for the Porsche SE Group of these issues.

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 the Volkswagen Group with type 2.0 l diesel engines in the USA. In this regard, numerous court and governmental proceedings were subsequently initiated in various countries (“diesel issue”; see the description in the combined group management report of Porsche SE for the fiscal year 2019 in the section “Diesel issue” in the section “Significant events and developments at the Volkswagen Group”).

As a result of the Covid-19 pandemic, the Volkswagen Group recorded a sharp decline in its business in the first nine months of the current fiscal year. The group result after tax decreased from €11.2 billion in the prior year to €1.7 billion. From January to September 2020, negative special items in connection with the diesel issue affected the passenger cars business area’s operating result in an amount of minus €0.7 billion (minus €1.3 billion). These items resulted mainly from legal risks.

The Covid-19 pandemic and the diesel issue also have an impact on the development of the prices of Volkswagen AG’s ordinary and preference shares and thus the market capitalization of Porsche SE’s investment. As of 30 September 2020, 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 as well as any lasting decreases in profit stemming from the Covid-19 pandemic might still lead to an impairment in the value of the investment. There may also still be subsequent effects on the dividend policy of Volkswagen AG and therefore on the cash inflows at the level of Porsche SE. Legal risks from claims brought against Porsche SE stemming from the diesel issue may also have an effect on the results of operations, financial position and net assets of the Porsche SE Group.

2020 annual general meeting

The annual general meeting of Porsche SE, originally planned for 19 May 2020 and then postponed due to the Covid-19 pandemic, was held virtually for the very first time on 2 October 2020.

The annual general meeting resolved to distribute a dividend of €2.210 per preference share and €2.204 per ordinary share for the fiscal year 2019. The total distribution therefore comes to around €676 million. The members of the board of management and those of the supervisory board holding office in the fiscal year 2019 were exonerated. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was engaged by the annual general meeting to audit the annual financial statements and consolidated financial statements for the fiscal year 2020. Furthermore, Sec. 17 (2) of the articles of association (Participation, requirements for the exercise of voting rights, transmission of the general meeting in sound and images) was amended.

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 that occurred in the legal proceedings during the reporting period are described in the following, although Porsche SE continues not to have reliable findings or assessments that would lead to a different evaluation of the legal risks.

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

A model case according to the Capital Markets Model Case Act (KapMuG) against Porsche SE initiated by an order of reference of the Regional Court of Hanover dated 13 April 2016 is pending with the Higher Regional Court of Celle. Subject of those actions are alleged damage claims based on alleged market manipulation and alleged inaccurate information in connection with Porsche SE's expansion of the investment in Volkswagen AG. In part these claims are also based on alleged violations of antitrust regulations. In the six initial proceedings suspended with reference to the model case a total of 40 plaintiffs assert alleged claims for damages of about €5.4 billion (plus interest). Since the beginning of the model case several hearings have already been held before the Higher Regional Court of Celle, in which the court, inter alia, explained its preliminary view on the state of affairs and of the dispute. The next dates for hearings are scheduled beginning on 18 November 2020. Porsche SE is of the opinion that the claims asserted in the suspended initial proceedings are without merit and that the requested establishment objectives in the model case will be rejected. Porsche SE considers its opinion endorsed by the previous development of the oral hearing before the Higher Regional Court of Celle.

In a proceeding pending before the Regional Court of Frankfurt against an incumbent and a former, meanwhile deceased, member of the supervisory board of Porsche SE, Porsche SE joined as intervener in support of the defendants. In this proceeding the same alleged claims are asserted that are already subject of a currently suspended action concerning alleged damages of about €1.81 billion (plus interest) pending against

Porsche SE before the Regional Court of Hanover. No new developments occurred in this proceeding during the reporting period. Porsche SE considers these claims to be without merit.

Since 2012, Porsche SE and two companies of an investment fund have been in dispute over the existence of alleged claims in the amount of about US$195 million and have filed lawsuits in Germany and England respectively. On 6 March 2013, the English proceedings were suspended at the request of both parties until a final decision had been reached in the proceedings commenced in the Regional Court of Stuttgart concerning the question of which court is the court first seized. A final decision on this issue continues to be outstanding. Currently, the proceedings are pending before the Higher Regional Court of Stuttgart. Porsche SE considers the action filed in England to be inadmissible and the asserted claims to be without merit.

Legal proceedings and legal risks in connection with the diesel issue and shareholder proceedings

In connection with the diesel issue, legal proceedings with a total volume of approximately €1.1 billion (plus interest) are pending against Porsche SE before the Regional Court of Stuttgart, the Higher Regional Court of Stuttgart and the Regional Court of Braunschweig. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information or alleged incorrect capital market information in connection with the diesel issue. Some of these proceedings are directed against both Porsche SE and Volkswagen AG. In one proceeding, in addition to Porsche SE, Robert Bosch GmbH was made defendant. Porsche SE considers the actions to be inadmissible in part, but in any case to be without merit.

Before the Regional Court of Stuttgart 199 actions are currently pending at first instance. After withdrawal of one action by one plaintiff in the amount of around €11 million in February 2020 and withdrawal of one additional action early in March 2020, the actions concern payment of damages, if quantified, in the total amount of approximately €916.6 million (plus interest) and in part establishment of liability for damages. In the majority of the proceedings pending before the Regional Court of Stuttgart, the plaintiff side had filed motions for recusal. To the extent that decisions have been made so far on these motions for recusal, they have been dismissed. The remaining motions for recusal have become inadmissible because of a change in the composition of the chamber. 30 claims for damages against Porsche SE, with a claim volume (according to the current assessment of the partially unclear head of claims) of approximately €9 million (plus interest), are pending before the Regional Court of Braunschweig. A number of the proceedings pending before the Regional Court of Stuttgart and the Regional Court of Braunschweig are currently suspended with reference to the KapMuG proceedings pending before the Higher Regional Court of Stuttgart and the Higher Regional Court of Braunschweig. Porsche SE considers the actions filed against it before the Regional Court of Stuttgart to be without merit. The actions filed against Porsche SE before the Regional Court of Braunschweig are considered by Porsche SE to be inadmissible and to be without merit.

In addition, two further proceedings, in which a total of further approximately €164 million (plus interest) in damages was claimed, are pending before the Higher Regional Court of Stuttgart on appeal. The Regional Court of Stuttgart granted these actions in the amount of approximately €47 million (plus interest) and otherwise dismissed the actions on 24 October 2018. Porsche SE and the respective plaintiffs filed appeals. The appeal proceedings had been suspended with reference to the KapMuG proceedings pending before the Higher Regional Court of Stuttgart and the Higher Regional Court of Braunschweig. The orders to suspend the proceedings by the Higher Regional Court of Stuttgart were appealed by the respective plaintiffs on points of law. In one proceeding, the appeal on points of law against the order to suspend the proceeding has meanwhile been withdrawn. In the other proceeding, the Federal Court of Justice, by court order dated 16 June 2020, set aside the order to suspend the proceeding by the Higher Regional Court of Stuttgart and ordered that the proceeding be resumed. Porsche SE considers these actions filed against it before the Regional Court of Stuttgart to be without merit.

A KapMuG proceeding, initiated by order for reference of the Regional Court of Stuttgart of 28 February 2017, is pending before the Higher Regional Court of Stuttgart. The Higher Regional Court of Stuttgart decided by court order dated 27 March 2019 that the model case proceeding is inadmissible. Against this decision an appeal on points of law was filed with the Federal Court of Justice. By court order dated 16 June 2020, the Federal Court of Justice set aside the court order of the Higher Regional Court of Stuttgart and referred the case back to the Higher Regional Court. On 22 October 2020, the Higher Regional Court appointed a model case plaintiff.

Following corresponding orders to suspend the proceedings by the Regional Court of Braunschweig and the courts of Stuttgart, Porsche SE became a further model case defendant in the model case proceedings before the Higher Regional Court of Braunschweig. Several oral hearings have taken place before the Higher Regional Court of Braunschweig. The next oral hearing is set to take place on 15 December 2020. With regard to the partial model case ruling of the Higher Regional Court of Braunschweig regarding questions of jurisdiction, an appeal on points of law was filed with the Federal Court of Justice. By court order dated 21 July 2020, the Federal Court of Justice dismissed the appeal on points of law.

During the reporting period, no significant new developments have occurred with regard to claims asserted out of court and not yet brought to court against Porsche SE with a total amount of approximately €63 million and in some cases without defined amounts as well as with regard to the waiver of the statute of limitations defense granted by Porsche SE to the United States of America.

The investigation proceedings on suspicion of market manipulation against Matthias Müller, Hans Dieter Pötsch and Prof. Dr. Martin Winterkorn, have meanwhile been terminated. The regulatory fining proceedings against Porsche SE pursuant to Sec. 30, 130 Regulatory Offences Act (OWiG) continue to be pending. Porsche SE considers the allegation made to be without merit.

In the shareholder proceedings, the so-called status proceeding in accordance with Sec. 98 German Stock Corporation Act (AktG) was closed due to the withdrawal of all motions. Also closed is the proceeding for annulment regarding the resolutions of the annual general meeting on 29 June 2016 on the exoneration of the board of management and the supervisory board for the fiscal year 2015. The appeal against the refusal of leave to appeal on points of law filed by Porsche SE has been rejected.

Significant events and developments at the Volkswagen Group

In the third quarter of fiscal year 2020, the following significant events and developments occurred at the Volkswagen Group:

Covid-19 pandemic

Due to the global drop in demand as well as interruptions in production, which are partly still ongoing, the Covid-19 pandemic had a negative impact on the Volkswagen Group's financial position and results of operations in the first nine months of the fiscal year 2020. For further details, please refer to the sections "Results of operations of the Volkswagen Group", "Opportunities and risks at the Volkswagen Group" and "Anticipated development of the Volkswagen Group".

Partnerships

At the end of September 2020, Volkswagen and BlackIvy Ghana signed a non-binding Memorandum of Understanding for a strategic collaboration. BlackIvy Ghana builds and grows commercial enterprises across Sub-Saharan Africa. The mutual goal of both parties is to create sustainable and green mobility and improve access to cars and housing in Ghana. In the long term, the collaboration is intended to help build a charging infrastructure for electric cars in Ghana, thus opening up the market for electric cars from the Volkswagen Group.

Car.Software Org expands image processing expertise

At the end of September 2020, the Volkswagen Group's software company Car.Software Org agreed to acquire the front camera software business area of software specialist HELLA Aglaia Mobile Vision GmbH, a subsidiary of HELLA GmbH & Co. KGaA. The aim of this transaction is to expand the internal software expertise in the field of image processing and to forge ahead with developing driver assistance systems up to automated driving functions for all Volkswagen Group brands. The employees of HELLA Aglaia working in the front camera software business area are to provide support at Car.Software Org's Berlin site. The acquisition, which is still subject to approval by the antitrust authorities, is expected to be completed at the beginning of 2021.

Squeeze-out under the German Stock Corporation Act agreed at AUDI AG

As part of the planned squeeze-out at AUDI AG under the German Stock Corporation Act, Volkswagen AG announced on 16 June 2020 that the cash compensation for the transfer of shares held by minority shareholders had been set at €1,551.53 per share. On 31 July 2020, the annual general meeting of AUDI AG approved a squeeze-out under the German Stock Corporation Act and the transfer of all outstanding Audi shares to

Volkswagen AG. This resolution will take effect upon its entry in the commercial register.

Merger squeeze-out at MAN SE postponed

On 17 September 2020, TRATON SE announced that it was no longer seeking to carry out the merger squeeze-out of the minority shareholders of MAN SE in 2020, contrary to the statement made on 28 February 2020. The realignment of MAN SE and measures to deal with the Covid-19 pandemic will be prioritized first. The full corporate integration of MAN SE into TRATON SE is to be pursued further in 2021.

Completion of the sale of interest in Renk AG

On 6 October 2020, the Volkswagen Group completed the sale of its 76% interest in Renk AG. The sale price was €0.5 billion. The corresponding assets and liabilities continued to be classified as held for sale in the balance sheet of the Volkswagen Group as of 30 September 2020.

Takeover of Navistar

On 7 November 2020, TRATON SE announced that it had signed a binding merger agreement with Navistar International Corporation (“Navistar”), in which TRATON already holds a stake of approximately 16.7%. Under the merger agreement, TRATON will acquire all common shares in Navistar not already held by TRATON for a price of US$44.50 per Navistar common share. The board of management and the supervisory board of TRATON as well as the boards of Volkswagen AG have approved the transaction. The board of directors of Navistar has approved the conclusion of the merger agreement. The closing of the transaction, which is expected to take place mid-2021, is subject, inter alia, to the approval of the merger agreement by the shareholders' meeting of Navistar and further closing conditions, in particular the receipt of the necessary regulatory approvals.

Judgments by Federal Court of Justice in diesel litigation

On 25 May 2020, the Bundesgerichtshof (BGH – Federal Court of Justice) handed down its first decision ever in an individual product-related lawsuit in connection with the diesel issue. The BGH held that the buyer, who had purchased a vehicle with a type EA 189 engine prior to public disclosure of the diesel issue, had a claim for damages against Volkswagen AG. While the buyer can require reimbursement of the vehicle's purchase price, he must accept a deduction for the benefit derived from using the vehicle and must return it to Volkswagen AG. The judgment clarified the BGH's stance on the fundamental issues underlying a large number of individual diesel lawsuits then still pending.

In a series of fundamental judgments rendered in July 2020, the BGH decided further legal issues of major importance for the litigation still pending with regard to vehicles with type EA 189 engines. The BGH held that plaintiffs who purchased their vehicle after the ad hoc announcement of 22 September 2015 have no claim for damages. The court furthermore ruled that purchasers of affected vehicles are not entitled to tort interest under Sec. 849 German Civil Code (BGB). The court also made it clear that a plaintiff's potential damage claim may be completely offset by the benefit derived from using the vehicle.

Independent Compliance Monitorship successfully completed

In September 2020, the Independent Compliance Monitor, Larry D. Thompson, certified that Volkswagen has fulfilled its obligations under its plea agreement with the U.S. Department of Justice (DOJ) to design and implement a compliance program that will prevent and detect violations of anti-fraud and environmental laws. Certification applies to Volkswagen AG and its subsidiaries and affiliates with the exception of Porsche AG and Porsche Cars North America, which were not part of the monitorship. Over the course of the monitorship, which began in 2017 and is now concluded, Volkswagen enhanced and improved its structures, processes and systems in many divisions of the company including technical development, governance, risk management, compliance and legal functions. Thompson also served as Independent Compliance Auditor and issued his third and final audit report in June 2020. That report established that there had been no new violations of the relevant settlements with the Environment and Natural Resources Division of the DOJ, the California Attorney General, the Environmental Protection Agency and the California Air Resources Board.

First green bonds successfully placed

In September 2020, the Volkswagen Group successfully placed its first green bonds on the market, with a volume of €2 billion and terms of 8 and 12 years. The bonds met with great interest, including from international and specialized green bond investors. The proceeds will be used for the Modular Electric Drive Toolkit (MEB) and the new ID.3 and ID.4 BEV models. The green bonds were the first issue based on the Green Finance Framework presented by Volkswagen in March for sustainability-oriented financial instruments. The Volkswagen Group plans to increase its use of green bonds in future in order to finance its comprehensive electric campaign.

Business development

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

General economic development

The global spread of the SARS-CoV-2 virus, the associated restrictions and the resulting downturn in demand and supply meant that growth in the world economy was negative between January and September 2020. The average rate of expansion of gross domestic product (GDP) was far below the prior-year level in both the advanced economies and the emerging markets. However, it was evident worldwide that growth rates declined less sharply in the third quarter of this year than in the second quarter. At country level, performance in the reporting period depended on the extent to which the negative impacts of the global Covid-19 pandemic were already materializing. The governments and central banks of numerous countries worldwide responded in some cases with substantial fiscal and monetary policy measures. This meant cuts in the already relatively low interest rates. There was a marked fall in prices for energy resources, while other commodity prices remained, on average, virtually unchanged year on year. Currencies in some emerging markets depreciated distinctly in the first nine months of 2020. Global trade in goods declined in the reporting period.

Trends in the markets for passenger cars and light commercial vehicles

Global demand for passenger cars fell significantly year on year from January to September 2020 as a result of the Covid-19 pandemic (down 20.2%). The slump affected all regions. Above-average losses were recorded in the overall markets of Western Europe, South America and Africa, while the decline was lower by comparison in Asia-Pacific and the Middle East.

Global demand for light commercial vehicles between January and September 2020 was substantially below the prior-year level.

Trends in the markets for commercial vehicles

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was much lower in the reporting period than in the prior year due to the spread of the SARS-CoV-2 virus. The bus markets were also very strongly impacted by the Covid-19 pandemic.

Trends in the markets for financial services

Demand for automotive financial services was buoyant particularly in the first three months of 2020, due among other things to the persistently low key interest rates in the main currency areas. Nevertheless, the Covid-19 pandemic put pressure on the demand for financial services in almost all regions during the reporting period. The effects of the Covid-19 pandemic were noticeable worldwide, especially in the second quarter of 2020. Markets for automotive financial services staged a partial recovery in the third quarter.

Volkswagen Group deliveries

The Volkswagen Group delivered 6.5 million (8.0 million) vehicles to customers worldwide from January to September 2020. The decrease of 18.7% or 1.5 million units year on year was due almost exclusively to the Covid-19 pandemic and the measures taken worldwide to contain its spread. Sales figures for both the passenger cars business area and the commercial vehicles business area declined as a result of the fall in demand. Bentley was the only Volkswagen Group brand that did not fall short of its prior-year figures. The Volkswagen Group registered declining demand year on year in all regions. During the second and third quarter, the month-on-month declines diminished again, and Volkswagen saw growth in demand for group models in some individual markets. Demand for group models in September was up on the prior-year figure. In a significantly declining overall global market, the Volkswagen Group achieved a passenger car market share of 13.0% (12.6%).

Volkswagen Group deliveries from 1 January to 30 September[1]

	2020	2019	Change %
Regions			
Europe/Other markets	2,768,288	3,685,068	−24.9
North America	548,986	702,867	−21.9
South America	334,659	447,000	−25.1
Asia-Pacific	2,852,814	3,170,231	−10.0
Worldwide	**6,504,747**	**8,005,166**	**−18.7**
by brands			
Volkswagen passenger cars	3,674,338	4,514,552	−18.6
Audi	1,187,190	1,357,102	−12.5
ŠKODA	721,884	913,723	−21.0
SEAT	316,904	454,797	−30.3
Bentley	7,496	7,155	+4.8
Lamborghini	5,631	6,517	−13.6
Porsche	191,547	202,318	−5.3
Bugatti	58	62	−6.5
Volkswagen commercial vehicles	272,035	369,849	−26.4
Passenger cars and light commercial vehicles total	**6,377,083**	**7,826,075**	**−18.5**
Scania	47,735	74,720	−36.1
MAN	79,929	104,371	−23.4
Commercial vehicles total	**127,664**	**179,091**	**−28.7**

[1] Prior-year deliveries have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

Sales, production and inventories at the Volkswagen Group

The Volkswagen Group’s unit sales to the dealer organization[1] declined by 21.0% year on year in the first nine months of 2020 to 6.3 million vehicles (including the Chinese joint ventures). The main reason for the decline was the negative impact of the Covid-19 pandemic. Ongoing uncertainty in connection with this and national measures introduced to contain the pandemic, such as mobility restrictions and closing stores, were accompanied by a fall in customer demand.

In the reporting period, the Volkswagen Group’s production declined by 23.4% year on year to a total of 6.1 million vehicles due to the measures taken to stem the spread of the SARS-CoV-2 virus. The impact of national measures to contain the pandemic led to a disruption of supply chains and consequently to production stoppages within the Volkswagen Group. While the production figures for the locations in China saw a year-on-year recovery from the second quarter, the delayed impact of the Covid-19 pandemic at the other locations worldwide caused declines in production in all quarters.

Global inventories at group companies and in the dealer organization were lower on 30 September 2020 than at year-end 2019, and also below the corresponding prior-year figure.

Financial services of the Volkswagen Group

The financial services division’s products and services were impacted by the Covid-19 pandemic in the period from January to September 2020. The number of new financing, leasing, service and insurance contracts signed worldwide decreased by 10.0% to 6.2 million. In the reporting period, the ratio of leased or financed vehicles to group deliveries (penetration rate) in the financial services division’s markets increased to 36.2% (34.9%) because the group’s deliveries fell at a higher rate than the number of contracts signed. As of 30 September 2020, the total number of contracts was 23.8 million (23.7 million), slightly higher than the year-end 2019 figure.

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

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

In the following explanations, the significant results of operations as well as the financial position and net assets of the Porsche SE Group are presented for the first nine months of the fiscal year 2020 and as of 30 September 2020. While the prior-year figures for the results of operations and cash flows relate to the period from 1 January to 30 September 2019, the net assets use figures as of 31 December 2019 as comparative figures.

The Porsche SE Group distinguishes between two segments. The first segment, “PSE”, primarily includes Porsche SE holding operations including the investments accounted for at equity. The second segment, “Intelligent Transport Systems” (“ITS”), comprises the development of smart software solutions for transport logistics as well as traffic planning and traffic management. The results of operations of the Porsche SE Group are essentially the sum of the two segments, as the consolidation effects are immaterial.

Results of operations of the Porsche SE Group

The Porsche SE Group’s result after tax came to €437 million (€3,520 million[1]) in the first nine months of the fiscal year 2020. €449 million (€3,527 million[1]) related to the PSE segment. For the ITS segment, a result after tax of minus €12 million (minus €8 million) was derived. This included effects from the purchase price allocation amounting to minus €7 million (minus €7 million).

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

Condensed consolidated income statement

€ million	PSE Group Jan. - Sep. 2020	PSE Group Jan. - Sep. 2019
Revenue	75	79
Cost of materials	−10	−11
Personnel expenses	−63	−59
Amortization and depreciation	−16	−16
Other operating expenses	−41	−34
Other income/expenses	7	8
Result from investments accounted for at equity	495	3,585[1]
Financial result	−4	9
Result before tax	**442**	**3,560**
Income tax	−5	−41
Result after tax	**437**	**3,520**

Condensed consolidated statement of comprehensive income

€ million	PSE Group Jan. - Sep. 2020	PSE Group Jan. - Sep. 2019
Result after tax	**437**	**3,520[1]**
Other comprehensive income	−932	−2,463
Total comprehensive income	**−495**	**1,057**

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

Total comprehensive income of the Porsche SE Group primarily contains positive effects from the measurement of cash flow hedges of €0.5 billion (minus €0.6 billion) as well as negative effects from currency translation of minus €0.9 billion (€0.2 billion) and actuarial losses from the remeasurement of pension provisions from the Volkswagen investment accounted for at equity of minus €0.5 billion (minus €2.2 billion).

Results of operations of the PSE segment
The result after tax for the PSE segment was significantly influenced by the result from the investments accounted for at equity of €496 million (€3,584 million[1]). The decrease in the result from investments accounted for at equity is largely attributable to the investment in Volkswagen AG. From ongoing equity accounting this contains a contribution of €431 million (€3,333 million) as well as subsequent effects from purchase price allocations of minus €52 million (minus €71 million). The decrease in the result from ongoing equity accounting reflects the impact of the Covid-19 pandemic at the level of the Volkswagen Group. The result from equity accounting also includes preliminary income from the acquisition of further ordinary shares in Volkswagen of €126 million (€322 million[1]). The bargain purchase is mainly attributable to the fact that the fundamental data for the Volkswagen Group used particularly in the valuation of the brands and the investments accounted for at equity are not fully reflected in the share price and therefore not in the acquisition cost when calculating the pro rata revalued equity.

The increase in other operating expenses in the PSE segment is largely attributable to higher legal and consulting fees of €18 million (€7 million) compared to the prior year.

The financial result of minus €3 million (€9 million) primarily contains losses incurred from the sale of financial instruments. The prior-year value largely contains positive earnings contributions from financial instruments measured at fair value.

The €34 million decrease in the income tax expense to minus €6 million largely relates to the lower result from the investment accounted for at equity in Volkswagen AG and the associated decrease in the deferred tax expense incurred thereon.

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

Results of operations of the ITS segment
The ITS segment generated revenue of €75 million (€79 million) in the reporting period. The decrease in revenue led to a corresponding proportionate decrease in cost of materials. Compensating positive effects on earnings were achieved by implementing appropriate cost measures. The decrease in the segment result before tax from minus €8 million to minus €13 million is primarily attributable to positive prior-year effects from the sale of the majority of the shares in PTV Truckparking B.V. and negative effects from the subsequent measurement of the remaining shares in the current fiscal year.

Financial position and net assets of the Porsche SE Group

Net liquidity of the Porsche SE Group comprises cash and cash equivalents, time deposits and securities less financial liabilities. It decreased to €492 million (€553 million) compared to 31 December 2019. Cash outflows result primarily from the acquisition of ordinary shares in Volkswagen and from operating holding expenses. This was counterbalanced by cash inflows from income tax refunds including any interest accrued thereon.

The Porsche SE Group's total assets decreased by €551 million to €35.0 billion as of 30 September 2020.

Condensed consolidated balance sheet

	PSE Group	
€ million	**30/9/2020**	31/12/2019
Assets		
Intangible assets	231	241
Investments accounted for at equity	33,421	34,597
Other non-current assets	69	70
Non-current assets	**33,721**	**34,908**
Securities	47	147
Time deposits	37	93
Cash and cash equivalents	445	353
Other current assets	791	92
Current assets	**1,320**	**684**
	35,041	**35,592**
Equity and liabilities		
Equity	**34,740**	**35,284**
Financial liabilities	33	35
Deferred tax liabilities	89	100
Other non-current liabilities	72	71
Non-current liabilities	**194**	**206**
Financial liabilities	4	5
Other current liabilities	102	97
Current liabilities	**107**	**102**
	35,041	**35,592**

The Porsche SE Group's non-current assets of €33.7 billion (€34.9 billion) primarily related to the investments accounted for at equity. These included in particular the carrying amount of the investment accounted for at equity in Volkswagen AG of €33.4 billion (€34.6 billion). Of the decrease in the carrying amount, minus €996 million is attributable to expenses and income recognized under other reserves, minus €756 million to imputed dividends as well as minus €52 million to effects from the subsequent measurement of the hidden reserves and liabilities identified in the course of the purchase price allocations. This was counterbalanced in particular by the result from ongoing equity accounting of €431 million as well as the acquisition of further ordinary shares in Volkswagen of €81 million and resulting income of €126 million.

As of 30 September 2020, the intangible assets of the Porsche SE Group of €231 million (€241 million) primarily contained the goodwill of the PTV Group of €147 million (€147 million) as well as the carrying amounts for customer bases, software and brand resulting from the purchase price allocation.

In the reporting period, current assets of €1,320 million (€684 million) primarily contained dividend claims from Volkswagen AG of €756 million. Other than this the current assets mainly consisted of cash and cash equivalents, time deposits and securities, as was the case as of 31 December 2019.

At 99.1% as of 30 September 2020, the equity ratio remained constant compared to the end of the fiscal year 2019.

Results of operations of the Volkswagen Group

The following statements relate to the original profit/loss figures of the Volkswagen Group. This means that effects from at equity inclusion in the consolidated financial statements of Porsche SE, particularly relating to the subsequent measurement of the hidden reserves and liabilities identified in the course of the purchase price allocations, are not taken into consideration. It should also be noted that the group result of Porsche SE only reflects its capital share in the result of the Volkswagen Group.

The Volkswagen Group generated revenue of €155.5 billion in the first nine months of 2020, a decline of 16.7% compared with the prior year. Profit was weighed down especially by the decline in volumes resulting from the Covid-19 pandemic, while changes in exchange rates also had a negative effect. In contrast, mix effects and improved price positioning made a positive contribution. The Volkswagen Group generated 80.7% (80.4%) of its revenue abroad. Gross profit decreased to €23.3 billion (€36.4 billion); the gross margin stood at 15.0% (19.5%).

In the period from January to September 2020, the Volkswagen Group's operating result before special items moved back into positive territory, at €2.4 billion (€14.8 billion). The operating return on sales before special items declined to 1.5% (7.9%). In particular, the negative impact of the spread of the Covid-19 pandemic was an adverse factor: in addition to lower unit sales because of the fall in customer demand, turbulence in the commodity and capital markets meant that the fair value measurement of derivatives to which hedge accounting is not applied and the measurement of receivables and liabilities denominated in foreign currencies had a negative effect. The contribution of Autonomous Intelligent Driving (AID) to the joint venture Argo AI led to a gain of €0.8 billion. Special items in connection with the diesel issue had a negative impact of minus €0.7 billion (minus €1.3 billion) on the operating result. A positive operating result of €1.7 billion (€13.5 billion) was achieved in the reporting period. The operating return on sales was at 1.1% (7.3%).

Because of the spread of the SARS-CoV-2 virus, the financial result was also lower than in the prior year, decreasing by €0.5 billion to €0.6 billion. The change in discount rates used to measure liabilities meant that interest expenses included in the financial result were down for measurement-related reasons. Changes in share prices weighed on net income from securities and funds. The share of the result of equity-accounted investments was lower than in the prior-year period; this was due primarily to the lower profit generated by the Chinese joint ventures, which were affected by Covid-19 mainly during the first quarter of 2020.

The Volkswagen Group's result before tax decreased by €12.4 billion to €2.3 billion in the reporting period. The result after tax amounted to €1.7 billion (€11.2 billion).

Opportunities and risks of future development

Opportunities and risks of the Porsche SE Group

Regarding the risk areas presented in the report on opportunities and risks at the Porsche SE Group in the combined group management report for the fiscal year 2019, there were the following changes as of the reporting date due to the effects of the Covid-19 pandemic.

In light of the Covid-19 pandemic, the Volkswagen Group withdrew its outlook for the fiscal year 2020 in April 2020, as the initial expectations could no longer be achieved in the opinion of Volkswagen's board of management. Accordingly, Porsche SE also withdrew its forecast for the group result after tax in the fiscal year 2020. The risk area "Profit contribution Volkswagen" describes the risk of the result of the Volkswagen Group attributable to Porsche SE as part of equity accounting falling short of expectations when the consolidated financial statements for the fiscal year 2019 were authorized for issue. The likelihood of occurrence of this risk has increased in line with the communication issued by Porsche SE and Volkswagen AG, with the risk area moving into the risk category "High".

In light of the Covid-19 pandemic, in July 2020 Volkswagen AG postponed its annual general meeting originally planned for May 2020 to September 2020 and communicated a change in the proposed dividend to the prior-year level for the fiscal year 2019. Due to the associated reduction in the expected dividend inflow at the level of Porsche SE in the current year, the risk area "Dividend inflow Volkswagen" had moved into the risk category "High" in the meantime. In this connection, Porsche SE had likewise adjusted its proposed dividend to the prior-year level. After Porsche SE received the adjusted dividend of Volkswagen AG at the beginning of October, the risk area "Dividend inflow Volkswagen" returns to the risk category "Moderate".

Despite the current Covid-19 pandemic, the PTV Group continues to work on implementing the strategy it adopted in the first half of the fiscal year 2020. The likelihood of occurrence for the risk area "Impairment risk PTV" has therefore been reduced, with the risk area remaining in the risk category "Low".

Regarding the other risk areas and their risk assessments presented in the report on opportunities and risks at the Porsche SE Group in the combined group management report for the fiscal year 2019, there were no changes up to the reporting date. For the current status of the legal proceedings of Porsche SE and for current developments, reference is made to the section "Significant events and developments at the Porsche SE Group" in this group quarterly statement.

Opportunities and risks at the Volkswagen Group

The following is based on extracts from the Report on Expected Developments, Risks and Opportunities in the interim report January to September 2020 of Volkswagen AG.

The global spread of the SARS-CoV-2 virus is bringing enormous disruption to all areas of everyday life and the economy. This is also combined with turbulence on the commodity and financial markets. The consequences, particularly for the further development of individual economies and the world economy as a whole, cannot reliably be predicted at the current time. A second wave with growing numbers of new infections could also add to the strain and uncertainty.

All areas of the Volkswagen Group are affected by the Covid-19 pandemic, especially sales due to a fall in customer demand, as well as production and the supply chains. There are risks arising in particular from a sustained fall in demand and an increasing intensity of competition. These risks could be mitigated by government economic programs. Volkswagen also envisages challenges, especially associated with production, specifically with regard to stable supply chains and protecting the health of its staff. The Volkswagen Group has put in place increased hygiene and protective measures to ensure plants can operate. The Volkswagen Group's board of management expects a negative impact on business operations at all locations worldwide. As a result, Volkswagen assumes that it will not fulfill the initial expectations for some of the group's core performance indicators in the fiscal year 2020.

Furthermore, the status of legal risk at the level of the Volkswagen Group was updated in the interim report January to September 2020 of the Volkswagen Group. Beyond this, in the reporting period of the Volkswagen interim report there were no significant changes compared to the disclosures in the "Opportunities and risks at the Volkswagen Group" section of the combined management report in the annual report of Porsche SE for the fiscal year 2019.

In particular, based on the information as it exists and has been established, there continue to be no conclusive findings or assessments available to the board of management of Volkswagen AG as of the date of publication of the Volkswagen interim report January to September 2020 regarding the facts described by Volkswagen that would suggest that a different assessment of the associated risks should have been made.

Outlook

Anticipated development of the Volkswagen Group

The Volkswagen Group's board of management anticipates a negative growth rate in the world economy in 2020 as a result of the spread of the SARS-CoV-2 virus. Volkswagen also continues to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by continuing geopolitical tensions and conflicts. Volkswagen expects both the advanced economies and the emerging markets to experience a marked decline in economic performance. Despite this, it expects the economic recovery to continue for the remainder of 2020.

In response to the Covid-19 pandemic, Volkswagen has developed scenarios for the development of the passenger car markets in individual regions in 2020 which, for example, also take account of the trends currently being experienced in China. The scenarios reflect the differing temporal spread of the Covid-19 pandemic in the various geographic regions. In all, Volkswagen expects the volume of global demand for new vehicles in 2020 to be between 15% and 20% lower than it was the prior year.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2020; on the whole, Volkswagen anticipates a significant fall in demand due to Covid-19.

In the markets relevant for the commercial vehicles business area, the Volkswagen Group expects a sharp to very sharp year on year fall in 2020 in new registrations for both mid-sized and heavy trucks with a gross weight of more than six tonnes and for buses.

In the view of the Volkswagen Group, automotive financial services will again be very important for vehicle sales worldwide in 2020.

Its brand diversity, presence in all major world markets, broad and selectively expanded product range, and technologies and services put the Volkswagen Group in a good competitive position worldwide. As part of the transformation of its core business, Volkswagen is positioning its group brands with an even stronger focus on their individual characteristics, and is optimizing the vehicle and drive portfolio. The focus is primarily on its vehicle fleet's carbon footprint and on the most attractive and fastest-growing market segments. In addition, the Volkswagen Group is working to leverage the advantages of its multibrand group even more effectively with the ongoing development of new technologies and the enhancement of its toolkits.

The Volkswagen Group anticipates that deliveries to customers will be significantly down on the prior year in 2020 due to the impact of the Covid-19 pandemic.

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

Volkswagen expects the revenue of the Volkswagen Group and its business areas – with the exception of the financial services division – to fall significantly below the prior-year level in 2020 as a result of the Covid-19 pandemic. It anticipates a severe year-on-year decline in the operating result before and including special items for the Volkswagen Group and its passenger cars business area as well as in the operating result for the commercial vehicles business area. In the financial services division, Volkswagen expects the pandemic to have less of an impact on the operating result in 2020 due to their business model. It forecasts revenue on a level with the prior year and a significant drop in the operating result year on year. Overall, the Volkswagen Group expects its operating result for 2020 before and including special items to be in positive territory.

Anticipated development of the Porsche SE Group

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

Given the framework conditions described above, which are currently largely determined by the Covid-19 pandemic, there continues to be unusual uncertainty regarding business development at the level of the Volkswagen Group, which materially restricts forecasting ability at the level of the Porsche SE Group. On 16 April 2020, the board of management of Porsche SE decided to no longer uphold the forecast for the group result after tax for the fiscal year 2020 presented in the combined group management report of Porsche SE for the fiscal year 2019. This decision still applies. A second wave with growing numbers of new infections could also add to the strain and uncertainty. It is therefore not currently possible to make a reliable and realistic forecast. However, the Porsche SE Group does expect a positive group result after tax for the fiscal year 2020.

The previous forecast on net liquidity of the Porsche SE Group remains unaffected by this development according to current estimates. Without taking additional investments into account, the forecast for net liquidity lies in a corridor of €0.4 billion to €0.9 billion as of 31 December 2020.

Glossary

Selected terms at a glance

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

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

Modular Electric Drive Toolkit (MEB)
The modular system is being developed for the manufacturing of electric vehicles. The MEB establishes parameters for axles, drive systems, high-voltage batteries, wheelbases and weight ratios to ensure a vehicle optimally fulfills the requirements of e-mobility. The first vehicle based on the MEB should go into series production in 2020.

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

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

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