PORSCHE SE

Group quarterly statement

3rd Quarter

2022

Content

This group quarterly statement is available in German and English.
This document is a non-binding convenience translation of the German original which is the legally valid document under German law.

Business development

3rd Quarter 2022

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 2022, the Porsche SE Group had 36 employees (882 employees). In addition to employees at Porsche SE, the comparative figure as of 31 December 2021 also includes employees at PTV Planung Transport Verkehr GmbH ("PTV"), with its subsidiaries (together the "PTV Group").

Porsche SE is a holding company with investments in the areas of mobility and industrial technology. In particular, it holds the majority of the ordinary shares in Volkswagen Aktiengesellschaft ("Volkswagen AG", "Volkswagen" or "VW AG"), one of the world's leading automobile manufacturers. As the parent company of the Volkswagen Group, Volkswagen AG directly and indirectly holds investments in AUDI AG, SEAT S.A., ŠKODA AUTO a.s., Dr. Ing. h.c. F. Porsche AG ("Porsche AG"), TRATON SE ("TRATON"), Volkswagen Financial Services AG, Volkswagen Bank GmbH as well as in numerous other companies in Germany and abroad. Porsche SE also holds a direct non-controlling interest in Porsche AG (see the section "Significant events and developments at the Porsche SE Group").

In addition to these two core investments, the Porsche SE Group holds non-controlling interests in nine technology companies based in Germany, Israel, Canada, Luxembourg and the USA.

The investment strategy of Porsche SE aims to create sustainable value for its shareholders. This is based on the increase in value of assets under management as well as dividend distributions. The investments of Porsche SE fall into two categories. The first category includes the long-term core investments in Volkswagen AG and in Porsche AG. The second category comprises portfolio investments that Porsche SE generally holds for a temporary period of time. Typically, such investments are characterized by their high potential for growth and for increasing value during the holding period. The sector focus in both investment categories is on mobility and industrial technology.

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 2022.

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.

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 2022, unless reference is made in this section to another time period.

Covid-19 pandemic

The global spread of the Omicron variant of coronavirus (SARS-CoV-2) had a substantial impact in some regions on social and economic life in the reporting period. In China particularly, local outbreaks of infection during the reporting period led to tight restrictions under the zero-Covid strategy being pursued there, resulting in economic constraints and disruption to international supply chains.

Russia-Ukraine conflict

In the first nine months of the fiscal year 2022, the Russia-Ukraine conflict led to a humanitarian crisis and global market upheaval. Prices rose substantially, particularly on the energy and commodity markets, and there were significant increases in interest and inflation rates internationally. The Russia-Ukraine conflict led to increased uncertainty in respect of developments in the global economy and prompted large sections of the community of Western states to impose sanctions on Russia ranging from extensive trade embargoes to the partial exclusion of Russia from the global financial system. Russia itself, in its role as an energy exporter, has restricted gas deliveries to Europe. The resulting rise in commodity prices and intensified supply shortages are increasing the threat of persistently high inflation.

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

Due to its share in capital of Volkswagen AG, Porsche SE is significantly influenced by the developments at the level of the Volkswagen Group.

The group result after tax and non-controlling interests of the Volkswagen Group increased to €12.3 billion in the first three quarters of the fiscal year 2022 compared to €10.9 billion in the prior-year period. From January to September 2022, negative special items in connection with the diesel issue affected the operating result in an amount of €0.4 billion (€0.2 billion). They largely result from additional expenses for legal risks. Please also refer to sections “Business development” and “Results of operations of the Volkswagen Group”.

As of 30 September 2022, there were no indicators on the basis of the earnings forecasts of an impairment loss on the carrying amount of the investment in Volkswagen AG accounted for at equity. However, an impairment in the carrying amount of the investment cannot be ruled out, particularly in the event of any sustained decline in earnings, for example due to the consequences of the Russia-Ukraine conflict, the effects of the Covid-19 pandemic, shortages of intermediates, in particular semiconductors and commodities, and/or a further increase in the costs of mitigating the diesel issue. This may also have consequences for the dividend policy of Volkswagen AG and therefore for the cash inflows at the level of Porsche SE. Please refer to the explanations in the section “Opportunities and risks of future development” in the combined management report for the fiscal year 2021.

Acquisition of ordinary shares in Porsche AG

On 18 September 2022, Porsche SE announced that it had concluded, with the participation of VW AG as guarantor, a share purchase agreement with Porsche Holding Stuttgart GmbH (a wholly owned subsidiary of VW AG) on two tranches for a total of 25% plus one share of the ordinary shares in Porsche AG in connection with the IPO of Porsche AG. The ordinary shares of Porsche AG are not listed.

Porsche AG is a luxury automotive manufacturer that sells cars in more than 120 countries worldwide across a network of more than 900 dealerships and retail venues. In addition to its core product portfolio, Porsche AG offers vehicle leasing and financing, flexible mobility solutions and various after-sales products and services.

The agreed purchase price per ordinary share corresponds to the placement price of €82.50 for the preference shares of Porsche AG in the course of the IPO plus a premium of 7.5%. Accordingly, the purchase price per ordinary share in Porsche AG to be paid by Porsche SE under the share purchase agreement is €88.69. The total price for 25% plus one share of ordinary shares in Porsche AG thus amounts to €10.1 billion.

The transfer of the first tranche of the ordinary shares in Porsche AG to Porsche SE of 17.5% plus one share of ordinary shares was completed on 4 October 2022. The transfer of the second tranche of 7.5% of the ordinary shares in Porsche AG will be completed at the latest upon payment of the announced special dividend of VW AG of 49% of the total gross proceeds from the placement of the preference shares and the sale of the ordinary shares in Porsche AG. The special dividend is expected to be paid out on 9 January 2023. Porsche SE also has the right to an early transfer of the second tranche of the ordinary shares in Porsche AG.

As a result of the price setting of the preference shares of Porsche AG, Porsche SE has already been bearing the risk of a change in value associated with the 25% plus one share of ordinary shares (around 12.5% of the share capital) in Porsche AG since 29 September 2022. As Porsche SE also has significant influence, these shares in Porsche AG are accounted for as an associate using the equity method in Porsche SE’s consolidated IFRS statement of financial position as of 30 September 2022 at acquisition costs of around €10.1 billion. At the same time, a purchase price liability to Porsche Holding Stuttgart GmbH of €10.1 billion was recognized as other financial liability.

The purchase price of the first tranche of around €7.1 billion was financed by raising debt capital in the same amount on 4 October 2022. The purchase price of the second tranche of around €3.0 billion is expected to be paid from Porsche SE's share of the special dividend of €3.1 billion to be distributed by VW AG to all of VW AG's shareholders with the tax on investment income including solidarity surcharge of around €0.8 billion expected to be deducted from the special dividend being financed by means of interim financing in the form of a bank loan.

The debt financing is provided by an international syndicate of banks and is subject to variable interest rates. The financing volume totals €8.9 billion. Of this amount, €3.9 billion relates to bridge financing with a term of up to 2 years, €4 billion to two bank loans with terms of 5 and 3 years, respectively, as well as €1 billion to an undrawn credit line with an initial term of 3 years. To hedge interest rate risks, interest rate hedges with a nominal volume of €5.8 billion and terms of up to 5 years were concluded by 28 September 2022. These interest rate hedges are accounted for applying hedge accounting under IFRS 9.

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

Porsche SE is involved in various legal proceedings. The main developments that occurred in the legal proceedings during the reporting period are described in the following. 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 increase 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 was pending with the Higher Regional Court of Celle. Subject of those actions were alleged damage claims based on alleged market manipulation and alleged inaccurate information in connection with Porsche SE's increase of the investment in Volkswagen AG. In part these claims were 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 are asserting alleged claims for damages of about €5.4 billion (plus interest). By decision of 30 September 2022, all of the establishment objectives requested by the plaintiffs have been dismissed or declared groundless by the Higher Regional Court of Celle. The Higher Regional Court of Celle substantiates its decision on the opinion that Porsche SE cannot be deemed liable under any legal aspect and that the opposed pleading of the plaintiffs is yet inconsistent. With this decision, Porsche SE considers its legal position justified that the claims asserted in the suspended initial proceedings are without merit.

The decision of the Higher Regional Court of Celle is not yet final. The plaintiffs filed an appeal against the decision with the Federal Court of Justice.

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 €1.8 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 and sees itself justified in this legal position by the decision of the Higher Regional Court of Celle of 30 September 2022.

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. On 21 December 2021, the Higher Regional Court of Stuttgart decided that witnesses shall be interrogated in the United Kingdom by way of a request for mutual legal assistance. No new substantial developments occurred in this proceeding during the reporting period. Porsche SE considers the action filed in England to be inadmissible and the asserted claims to be without merit.

Legal proceedings and legal risks in connection with the diesel issue

In connection with the diesel issue, legal proceedings with a total volume of approximately €929 million (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. Porsche SE considers the actions to be inadmissible in part, but in any case to be without merit.

Before the Regional Court of Stuttgart 214 actions are currently pending at first instance. The actions pending at first instance concern payment of damages, if quantified, in the total amount of approximately €797 million (plus interest) and in part establishment of liability for damages. After various claims have been referred to the competent Regional Court of Stuttgart, 12 claims for damages against Porsche SE, with a claim volume (according to the current assessment of the partially unclear head of claims) of approximately €3.1 million (plus interest), are now 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 €129 million (plus interest) in damages was claimed, are pending before the Higher Regional Court of Stuttgart on appeal. In one of the appeal proceedings in which approximately €5.7 million (plus interest) in damages was claimed, the Regional Court of Stuttgart had granted the action in the amount of approximately €3.2 million (plus interest) and otherwise dismissed the action on 24 October 2018. Porsche SE and the plaintiff filed appeals. In the further proceeding, which is partly on appeal, plaintiffs object to the fact that the Regional Court of Stuttgart dismissed their actions as inadmissible on 26 August 2021. The amount in dispute is approximately €123 million (plus interest). Porsche SE considers these actions pending against it before the Higher Regional Court of Stuttgart to be without merit.

In an additional appeal proceeding in which approximately €158 million (plus interest) in damages were claimed, the Higher Regional Court of Stuttgart dismissed the action by a legally binding decision of 12 April 2022 in its full amount for lack of a damage.

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. On 22 October 2020, the Higher Regional Court of Stuttgart appointed a model case plaintiff. Until now, four oral hearings have taken place before the Higher Regional Court of Stuttgart. After the most recent hearing on 13 July 2022, the Higher Regional Court of Stuttgart expanded the model case with further establishment objectives by decision of 28 September 2022. On the same day, the Higher Regional Court of Stuttgart also issued an order to take evidence and set a date for the continuation of the oral proceedings and the taking of evidence on 7 December 2022. At that date, the Higher Regional Court of Stuttgart plans to hear two witnesses.

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. The Higher Regional Court of Braunschweig issued a meanwhile binding partial model case ruling regarding questions of jurisdiction. Several oral hearings have taken place before the Higher Regional Court of Braunschweig. The next oral hearing is set to take place on 14 and 15 February 2023. In addition, the Higher Regional Court of Braunschweig has scheduled numerous further oral hearings for 2023.

During the reporting period, no significant new developments 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 for alleged claims for damages.

In connection with the diesel issue, in April 2021, two plaintiffs filed a derivative action against Porsche SE, current and former members of the management and supervisory boards of Volkswagen AG, current and former executives of Volkswagen AG and its subsidiaries, four Volkswagen AG subsidiaries and others in the Supreme Court of the State of New York, County of New York. The plaintiffs claim to be shareholders of Volkswagen AG and allege claims of Volkswagen AG on its behalf. The action is based, inter alia, on an alleged violation of duties vis-à-vis Volkswagen AG pursuant to the AktG [“Aktiengesetz”: German Stock Corporation Act] and the German Corporate Governance Code (Deutscher Corporate Governance Kodex – DCGK). The plaintiffs request, inter alia, a declaration that the defendants have breached their respective duties vis-à-vis Volkswagen AG, and an award to Volkswagen AG as compensation for the alleged damages it sustained as a result of the alleged violation of duties, plus interest. In September 2021, the parties filed a stipulation, which is subject to court approval, accepting service on behalf of certain defendants including Porsche SE, staying all discovery and setting a motion to dismiss briefing schedule.

Status proceedings regarding the composition of Porsche SE's supervisory board

So-called status proceedings were initiated against Porsche SE before the Regional Court of Stuttgart. With applications dated 11 July 2021 and 18 July 2021, the applicant has asked the court to find that Porsche SE's supervisory board is to be composed of half shareholder representatives and half employee representatives. Porsche SE considers this application to be inadmissible and without merit.

Significant events and developments at the Volkswagen Group

In the third quarter of the fiscal year 2022, the following significant events and developments arose at the Volkswagen Group:

Covid-19 pandemic / supply shortages

In addition to the uncertainty and measures being taken around the world to deal with the Covid-19 pandemic (see the section “Significant events and developments at the Porsche SE Group”), persistent semiconductor shortages and the resulting limited availability of VW group models meant that demand could not be adequately met in some regions.

For further details, please refer to the section “Business development” as well as the sections “Results of operations of the Volkswagen Group”, “Opportunities and risks of the Volkswagen Group” and “Anticipated development of the Volkswagen Group”.

Russia-Ukraine conflict

In the reporting period, the ongoing Russia-Ukraine conflict, Russia’s partial mobilization and additional, more stringent sanctions imposed on Russia by the community of Western states led to the risk assessment of the situation in Russia being adjusted in the third quarter.

On the basis of this reassessment, comprehensive loss allowances on assets of production facilities and financial services companies were recognized with the Volkswagen Group, as were risk provisions, especially for third-party expenses expected from the discontinuation of activities in Russia. In addition, the intention is to sell certain companies in Russia.

In this context, additional expenses of around €1.3 billion were recognized at the level of the Volkswagen Group in the third quarter of 2022. In total, the direct effects of the Russia-Ukraine conflict resulted in expenses of around €2 billion in the first nine months of the fiscal year 2022.

IPO of Porsche AG

On 28 September 2022, as part of the IPO of Porsche AG, a total of 113,875,000 preference shares of Porsche AG were successfully placed with investors at a placement price of €82.50, totaling around €9.4 billion – including 14,853,260 preference shares to cover potential additional allocations. The no-par value bearer shares came from the portfolio of Porsche Holding Stuttgart GmbH, Stuttgart – a wholly owned subsidiary of Volkswagen AG. The total number of preference shares offered in the IPO corresponds to up to 25% of the preference share capital of Porsche AG. The non-voting preference shares of Porsche AG are traded on the Regulated Market of the Frankfurt Stock Exchange. Up to the early termination of the stabilization period on 11 October 2022, a total of 3,794,199 preference shares had been bought back on the market; of this total, 3,248,460 preference shares were attributable to the third quarter. The free float of the preference shares after the end of the stabilization period is therefore 24.2% and comprises 110,080,801 preference shares.

In connection with the IPO, Volkswagen additionally sold an interest of 25% of Porsche's ordinary shares plus one ordinary share to Porsche SE (see the section "Significant events and developments at the Porsche SE Group").

As a result of the transactions, the Volkswagen Group's equity increased by €19.2 billion as of 30 September 2022, of which €10.8 billion is reported as non-controlling interests. The right to payments from the sale of the ordinary and preference shares in the amount of €19.2 billion was recognized in Volkswagen's balance sheet as a receivable as of 30 September 2022.

Special dividend

On 24 February 2022, Volkswagen AG announced that, following the successful IPO, it will propose to its shareholders that a special dividend be distributed in the amount of 49% of the total gross proceeds from the placement of the preference shares and the sale of the ordinary shares. Against this backdrop, the board of management and the supervisory board of the Volkswagen Group have called an extraordinary general meeting for 16 December 2022, and propose a special dividend in the amount of €19.06 per ordinary or preference share carrying dividend rights to enable Volkswagen AG shareholders to participate directly in the success of the overall transaction.

Takeover of Europcar

In 2021, together with investment firm Attestor Limited and Pon Holdings B.V., Volkswagen made a joint public takeover offer for the shares of Europcar Mobility Group S.A., Paris, France, through the consortium company Green Mobility Holding S.A. (GMH) based in Strassen, Luxembourg. The European Commission issued final antitrust approval at the end of May 2022. During the extended offer period, the French Financial Markets Authority gave Europcar shareholders the opportunity to tender their shares to the consortium company. In total, 93.6% of Europcar's shareholders accepted the offer. The consortium jointly assumed control of Europcar in mid-June 2022. Because the acceptance rate was over 90%, a squeeze-out was initiated for the remaining Europcar shares in July 2022, and the company was delisted. As a result, the consortium company has held 100% of the shares in Europcar since 13 July 2022. The purchase price was 51 cents per Europcar share.

At the end of June 2022, the entire portion of the purchase price attributable to Volkswagen, amounting to €1.7 billion, was contributed to GMH. The company, in which Volkswagen holds 66% of the shares, is accounted for in the Volkswagen consolidated financial statements using the equity method. In addition, Volkswagen is the writer of put options held by the other members of the consortium, and the other members have granted Volkswagen call options on their shares in the consortium company. The measurement of the options led to a non-cash gain of €30 million in the period from January to September 2022 at the level of the Volkswagen Group.

Impairment of Argo AI

Volkswagen will make no further investments in Argo AI to develop autonomous driving and will cease to be a shareholder of the company. An impairment loss on the entire interest in the Argo AI joint venture was therefore recognized as of 30 September 2022. This resulted in an expense of €1.9 billion at the level of the Volkswagen Group.

Volkswagen Group begins construction of its first battery cell factory

In July 2022, Volkswagen celebrated laying the foundation stone for its first battery cell factory in Salzgitter, Lower Saxony, which is due to begin production in 2025. The factory will produce unified battery cells for the volume segment. In future, the plant is to reach an annual capacity of up to 40 GWh. The site is to serve as a blueprint for the standard factory concept that is to be rolled out throughout Europe and set benchmarks for sustainability and innovation. The standardization will encompass not only equipment, buildings and infrastructure but also products, processes and IT. The cell factories are to operate on renewable power and will be designed for future closed-loop recycling.

The Volkswagen Group has pooled its global battery activities in the newly created company PowerCo SE. Based in Salzgitter, the company manages the development of international factory operations, the further development of cell technology and the vertical integration of the value chain.

Partnerships

In August 2022, the Volkswagen Group and Mahindra & Mahindra Ltd., India, further strengthened their recent partnership. To this end, they signed a term sheet regarding the supply of MEB components for Mahindra’s new, all-electric SUV family. Furthermore, the two companies have agreed to examine other potential areas of cooperation in the field of e-mobility, including vehicle projects, local battery cell production and charging and energy solutions for the electric ecosystem in India.

In August 2022, Volkswagen signed a memorandum of understanding with the Canadian government on battery value creation and securing the supply of raw materials. The parties will investigate how Canada can contribute to the Volkswagen Group’s global and regional battery supply chains. PowerCo SE, the Volkswagen Group’s newly founded battery company, will have a central role in these efforts and drive forward the planned cooperation in the fields of battery value creation, raw materials supply chains and cathode material production in the North America region.

In July 2022, the TRATON GROUP together with Daimler Truck and the Volvo Group completed the final step in establishing their announced joint venture for the development of a charging infrastructure. The joint venture plans to install and operate high-performance charging points for heavy-duty trucks and coach buses on and near major highways as well as at logistics hubs across Europe. The charging stations are to be reliable and easily accessible. The customer-focused offering will be aimed at all operators of battery-electric heavy-duty commercial vehicle fleets. The joint venture, in which the TRATON GROUP, Daimler Truck and the Volvo Group own equal shares, operates as a legally independent company headquartered in Amsterdam in the Netherlands.

In September 2022, PowerCo SE and the Belgian materials technology group Umicore announced the formation of a joint venture for the production of cathode and primary materials in Europe. The joint venture is due to begin production in 2025 and will successively start supplying key materials to PowerCo's battery cell factories, beginning with Salzgitter. In e-mobility, cathode materials are a central technological lever for battery performance and an appreciable cost factor. The two partners also plan to collaborate under additional agreements on the sustainable and responsible provision of raw materials for the joint venture and, at a later stage, to incorporate refinement and recycling activities into the joint venture.

Restructuring of the Volkswagen Group's management

At the beginning of September 2022, the supervisory board of Volkswagen AG agreed a restructuring of the group's management and a new allocation of responsibilities for the Volkswagen Group's board of management. This also involved downsizing the board of management to nine members. The brands will be given more business responsibility while the group will define the objectives, establish the guidelines for operational implementation and provide synergies for platforms and technologies. The Volkswagen Group's board of management will concentrate on key tasks such as strategic orientation, important decisions on the company's direction, capital allocation and financial requirements. Alongside the Volume, Premium and Sport & Luxury brand groups, the central board divisions Finance, Human Resources, Truck & Bus, Integrity and Legal Affairs, IT, Technology and China will continue to be represented on the Volkswagen Group's board of management. The chairman of the board of management will be responsible for the areas of strategy, quality, design and the software subsidiary CARIAD. Specific divisions with relevance across the group such as Procurement, Research and Development, Production and Sales will be pooled at the level of the Volkswagen Group in an extended group management function.

Business development

The business development of the Porsche SE Group in the first nine months of the fiscal year 2022 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 Russia-Ukraine conflict led to increased uncertainty in respect of developments in the global economy and prompted large sections of the community of Western states to impose sanctions on Russia ranging from extensive trade embargoes to the partial exclusion of Russia from the global financial system. Russia itself, in its role as an energy exporter, has restricted gas deliveries to Europe. The resulting increase in commodity prices and further intensified supply shortages are reinforcing the threat of persistently high inflation.

During the first three quarters of 2022, the restrictive measures put in place to protect the population from the SARS-CoV-2 virus were lifted to a large extent in many countries. The progress made in administering vaccines to the public had a positive effect, while the emergence of the new Omicron variant and its subvariants led to renewed sharp rises in infections on a national scale, mostly causing milder symptoms but increased rates of sick leave.

Following the slump in global economic output in 2020 and the incipient recovery due to base and catch-up effects in 2021, economic growth in both the advanced economies and the emerging markets during the reporting period remained on a recovery course on average. However, it was significantly lower year on year with diminishing momentum overall. At national level, developments depended on the one hand on the scale of the negative impact of the Covid-19 pandemic and the intensity with which measures were taken to contain it, and on the other on the extent to which national economies were affected by the consequences of the Russia-Ukraine conflict. In response to the further rise of inflation rates around the world, many countries shifted to a more restrictive monetary policy, which led central banks to increase their key interest rates and reduce bond purchases during the reporting period. The gloomier economic outlook resulted in large losses on major stock markets. On average, prices for energy and many other commodities rose significantly year on year and shortages of intermediates and commodities remained high. Global trade in goods increased in the reporting period.

Trends in the markets for passenger cars and light commercial vehicles

Between January and September 2022, the volume of the passenger car market worldwide declined moderately overall year on year (down 4.3%), impacted primarily by bottlenecks and disruption in the global supply chains as a consequence of the semiconductor shortage, the coronavirus pandemic and the repercussions of the Russia-Ukraine conflict. While the overall markets in the Asia-Pacific, Middle East, South America and Africa regions posted slight to moderate growth, the other sales regions saw a drop in volumes. The North America and Western Europe regions recorded a considerably weaker sales volume. Sales volume fell very sharply in Central and Eastern Europe.

The global volume of new registrations of light commercial vehicles between January and September 2022 was distinctly lower than the prior-year level.

Trends in the markets for commercial vehicles

Since 1 July 2021, Navistar has been a TRATON GROUP brand, making it part of the Volkswagen Group's commercial vehicles business area. This has expanded the relevant markets in the commercial vehicles business, both for trucks and for the school bus segment, to include North America (consisting of USA, Canada and Mexico).

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 moderately higher in the reporting period than in the prior year. Truck markets globally were far weaker than in the prior year, which was primarily due to the fall in demand in the Chinese market.

In the first nine months of 2022, there was a moderate decline in demand overall in the bus markets that are relevant for the Volkswagen Group compared with the same period of the prior year.

Trends in the markets for financial services

Demand for automotive financial services was buoyant in the first three quarters of 2022 due, among other things, to key interest rates in the main currency areas, which have remained low for now. The rise in interest rates in the third quarter has so far had a minor impact on the financial services markets. The Covid-19 pandemic and vehicle availability, which continued to be limited, put pressure on the demand for financial services in almost all regions.

Volkswagen Group deliveries

Between January and September 2022, the Volkswagen Group delivered 6.1 million vehicles to customers worldwide. This was 12.9% or 895 thousand units less than in the same period of the prior year. While sales figures for the passenger cars business area fell short of the prior-year figure, sales in the commercial vehicles business area were higher than in the prior year. It is important to note that Navistar was only integrated as of 1 July 2021.

Sales of Volkswagen Group passenger cars and light commercial vehicles worldwide in the first nine months of 2022 declined by 13.6% year on year to 5.8 million units. In addition to the uncertainty and measures being taken around the world to deal with the Covid-19 pandemic, persistent semiconductor shortages and the resulting limited availability of group models meant that demand could not be adequately met in some regions. From late February 2022 onwards, the Russia-Ukraine conflict also created further parts supply shortages and greater uncertainty in the markets. While Porsche, Lamborghini and Bentley delivered a higher number of vehicles to customers, none of the other Volkswagen Group brands reached their prior-year figures. Volkswagen registered a year-on-year decline in sales in all regions.

With additional model launches as part of the Volkswagen Group's e-mobility campaign sales increased in the first three quarters of this year, bringing deliveries of all-electric vehicles to 366 thousand units worldwide. This was 73 thousand or 25.0% more units than in the same period of the prior year. Their share of the group's total deliveries rose to 6.0% (4.2%). A total of 160 thousand of its plug-in hybrid models were delivered (down 34.9%). Total electric vehicle deliveries declined by 2.3%. However, their share of total group deliveries rose year on year to 8.7% (7.8%).

In an overall global market experiencing a moderate decline, Volkswagen achieved a passenger car market share of 11.0% (12.1%).

Between January and September 2022, the Volkswagen Group delivered 11.1% more commercial vehicles to customers worldwide than in the same period of the prior year. Volkswagen delivered a total of 217 thousand commercial vehicles to customers in the first nine months of this year.

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

	2022	2021	Change %
Regions			
Europe/Other markets	2,493,289	3,075,565	–18.9
North America	631,254	703,610	–10.3
South America	337,548	392,019	–13.9
Asia-Pacific	2,594,248	2,780,246	–6.7
Worldwide	**6,056,339**	**6,951,440**	**–12.9**
by brands			
Volkswagen passenger cars	3,334,509	3,794,719	–12.1
ŠKODA	544,515	700,735	–22.3
SEAT	291,980	391,298	–25.4
Volkswagen commercial vehicles	234,403	286,533	–18.2
Audi	1,193,529	1,347,637	–11.4
Lamborghini	7,430	6,902	7.6
Bentley	11,316	10,934	3.5
Porsche	221,512	217,198	2.0
Bugatti[2]		58	
Passenger cars and light commercial vehicles total	**5,839,194**	**6,756,014**	**–13.6**
Scania	58,384	67,235	–13.2
MAN[3]	55,756	68,534	–18.6
Navistar	59,908	14,076	325.6
Volkswagen Truck & Bus[3]	43,097	45,581	–5.4
Commercial vehicles total	**217,145**	**195,426**	**11.1**

1 Prior-year deliveries have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures. As of 1 July 2021, the figures include Navistar.
2 Until 31 October 2021.
3 Until the first quarter of 2022, deliveries for Volkswagen Truck & Bus were reported within MAN.

Sales, production and inventories at the Volkswagen Group

In the reporting period, the Volkswagen Group's unit sales to the dealer organization[1] declined year on year by 3.4% to 6.2 million vehicles (including the equity-accounted companies in China). Between January and September 2022, limited vehicle availability as a result of the Covid-19 pandemic and bottlenecks in the supply of parts caused by the shortage of semiconductors and the Russia-Ukraine conflict had a negative impact. In addition, disruptions in logistics resulted in delays. At 5.5 million vehicles, unit sales outside Germany declined by 3.7% compared with the period from January to September 2021. The United Kingdom, Brazil and France were particularly affected, as was Russia, since vehicle exports to this region had been halted. Growth was recorded, however, in China, India and the USA. Unit sales in Germany decreased by 1.3% year on year. Vehicles sold in Germany as a proportion of overall sales increased to 11.7% (11.5%).

In the first nine months of 2022, the Volkswagen Group produced 6.4 million vehicles (including the equity-accounted companies in China), 4.9% more than in the same period of the prior year. The shortage of semiconductors and the disruption of supply chains caused by the Russia-Ukraine conflict and the Covid-19 pandemic led to production being halted in the Volkswagen Group. The situation eased at the end of the reporting period. Against the backdrop of the Russia-Ukraine conflict and the resulting consequences, Volkswagen decided to suspend the start of vehicle production in Russia until further notice. Between January and September 2022, production outside Germany increased by 5.3% year on year, giving a total of 5.2 million vehicles. The proportion of vehicles produced in Germany decreased to 18.5% (18.8%).

Global inventories of new vehicles at group companies and in the dealer organization were higher on 30 September 2022 than at year-end 2021, and above the corresponding prior-year figure. Disruptions in logistics, among other factors, had a negative impact in the reporting period.

Volkswagen Group financial services

The Volkswagen Group's financial services division's products and services were popular in the period from January to September 2022. However, demand was affected to varying degrees by the Covid-19 pandemic. Limited vehicle availability caused by parts supply shortages, and exacerbated by the Russia-Ukraine conflict, also weighed on demand. The number of new financing, leasing, service and insurance contracts signed worldwide

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

fell by 5.0% to 6.3 million. The ratio of leased and financed vehicles to deliveries of the Volkswagen Group (penetration rate) in the financial services division's markets stood at 32.0% (36.1%) in the reporting period. The total number of contracts on 30 September 2022 was 24.5 million (24.5 million).

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 2022 and as of 30 September 2022. While the prior-year figures for the results of operations relate to the period from 1 January to 30 September 2021, the financial position and net assets use figures as of 31 December 2021 as comparative figures.

In line with its investment strategy, the Porsche SE Group differentiates between the two segments “core investments” and “portfolio investments”. The core investments segment comprises the long-term core investments in Volkswagen AG and Porsche AG as well as Porsche SE’s holding operations, comprising Porsche SE’s corporate functions including the holding financing function. The second segment portfolio investments comprises existing portfolio investments that Porsche SE generally holds for a temporary period of time and that are characterized by their high potential for growth and increasing value during the holding period.

Following the sale of the shares in PTV, it was deconsolidated at the beginning of January 2022. The shares in European Transport Solutions S.à r.l. (“ETS”) acquired in this context, which since then indirectly holds all shares in PTV, are accounted for at equity and allocated to the portfolio investments segment.

Results of operations of the Porsche SE Group

The Porsche SE Group’s result after tax came to €4,029 million (€3,299 million) in the first nine months of the fiscal year 2022. Of this, €3,933 million (€3,303 million) related to continuing operations and €96 million (minus €5 million) to discontinued operations. In turn, of the result after tax from continuing operations, €3,904 million (€3,321 million) relates to the core investments segment and €28 million (minus €18 million) to the portfolio investments segment.

The result after tax in the core investments segment was significantly influenced by the result from the investment in Volkswagen accounted for at equity of €3,698 million (€3,366 million). This contains profit contributions from ongoing at equity accounting before purchase price allocations of €3,863 million (€3,411 million) as well as subsequent effects from purchase price allocations of minus €58 million (minus €45 million). The increase in the result from investments accounted for at equity resulted from the positive development in the result at the level of the Volkswagen Group. The increase in the result is primarily attributable to the positive effects from the price positioning, the product mix as well as from derivatives to which hedge accounting is not applied. This was counterbalanced by higher product costs as well as loss allowances and risk provisions in connection with the consequences of the Russia-Ukraine conflict and the equity investment in Argo AI (see the section “Results of operations of the Volkswagen Group” below). Furthermore, the result from the investment in Volkswagen accounted for at equity contains positive effects from the recognition of a provisional gain from a bargain purchase due to a provisional purchase price allocation in connection with the acquisition of preference shares in the first half of 2022 as well as negative effects due to the measurement of around 2.7 million preference shares at stock price due to the reclassification pursuant to IFRS 5 of a net amount of minus €108 million in June 2022.

Porsche AG is accounted for as an associate using the equity method and was recognized for the first time on 29 September 2022 without affecting the consolidated income statement. The application of the equity method for the last two days of the reporting period did not have any significant impact on the results of operations of the Porsche SE Group.

The result from investments in the core investments segment also contains expenses of €3 million from the measurement of the preference shares in Volkswagen AG held for sale.

Other operating income, personnel expenses, amortization and depreciation, the financial result and income tax income of the core investments segment virtually match the amounts for the group as a whole.

Of other operating income, an amount of €177 million relates to the proportionate realization of an intercompany profit that was eliminated in the fiscal year 2012. This intercompany profit was attributable to the contribution of the operating business of Porsche SE to Volkswagen AG in the fiscal year 2012. The contribution of the operating business of Porsche SE to Volkswagen AG primarily involved the transfer of the investment in Porsche Holding Stuttgart GmbH and all other investments in Porsche SE at the time of the contribution (with the exception of the investment in Volkswagen AG). As Volkswagen AG was already an associate of Porsche SE at the time of this contribution, this intercompany profit had to be eliminated. This reduced the carrying amount of Volkswagen AG accounted for at equity in the consolidated financial statements of Porsche SE; prior to the IPO of Porsche AG the reduction amounted to €1,465 million. The sale of preference shares by the Volkswagen Group to third parties in the course of the IPO of Porsche AG triggered the proportionate realization of this intercompany profit.

Other operating expenses decreased in the core investments segment largely due to lower expenses year on year in connection with legal risks to a total of €17 million (€29 million).

The financial result of minus €4 million (minus €6 million) largely contains commitment fees, transaction costs and other finance costs. In the comparative period, it also mainly included expenses from expected interest payments for taxes from prior years.

The income tax income of €59 million (€1 million) largely comprises deferred tax income of €59 million (€5 million), which is largely attributable to the recognition of deferred tax assets on loss carryforwards. In the prior year, this had included an expense from current income taxes of €4 million as a result of expected tax backpayments for past fiscal years.

The result after tax from continuing operations in the portfolio investments segment largely corresponds to its result from investments, which contains the result from investments accounted for at equity of €25 million (€0 million) as well as income of €12 million (€4 million) and expenses of €8 million (€22 million) from the fair value measurement of portfolio companies. The result from investments accounted for at equity contains income of €33 million from a write-up of the investment in INRIX Inc. (“INRIX”).

In the reporting period, the result after tax from discontinued operations contains the deconsolidation gain on disposal of the shares in PTV of €96 million.

Other comprehensive income of the Porsche SE Group of €4,615 million (€2,130 million) mainly contains effects resulting from the investment in Volkswagen AG accounted for at equity totaling €4,604 million (€2,159 million) that largely relate to actuarial gains from the remeasurement of pension provisions of €3,404 million (€1,280 million) and to currency translation of €1,319 million (€666 million), in each case after taking deferred tax into account. At the level of Porsche SE, other comprehensive income primarily contains income from the measurement of interest rate hedges concluded by Porsche SE within the framework of hedge accounting amounting to €60 million after taking deferred tax into account.

Financial position of the Porsche SE Group

Cash inflow from operating activities amounted to €841 million (€736 million) in the reporting period and largely contains the net dividend received from the investment in Volkswagen AG of €884 million. Due to a change in the law, the gross dividend of €1,201 million allocable to Porsche SE is subject to deduction of tax on investment income including solidarity surcharge of 26.375% or €317 million, which will only lead to corresponding tax refunds in subsequent years. Offsetting this, both the reporting and the comparative period include in particular cash outflows for operating expenses relating to holding activities.

In the first nine months of the fiscal year 2022, investing activities resulted in a cash outflow of €115 million, while there had been a cash inflow of €7 million in the prior-year comparative period. The cash outflow in the reporting period is largely attributable to cash paid for acquiring additional preference shares in Volkswagen AG of €400 million, for participating in a capital increase of ETS of €35 million, for acquisition-related costs incurred of €2 million as well as for the acquisition of shares in portfolio investments or the participation in subsequent financing rounds at portfolio investments totaling €14 million (€22 million). On the other hand, there were cash inflows from disposals of securities of €115 million (€33 million) as well as from cash received from time deposits of €20 million (cash outflow from the investment: €53 million). Furthermore, there was cash received from the sale of shares in the PTV Group of €226 million less cash and cash equivalents of the PTV Group of €25 million disposed of in the course of the deconsolidation as well as cash received from the partial sale of shares in portfolio investments of €2 million (€51 million).

Financing activities led to a total cash outflow of €783 million (€679 million) in the first three quarters of 2022, largely due to dividend payments made to the shareholders of Porsche SE.

Cash and cash equivalents decreased to €240 million (€271 million) compared to 31 December 2021.

Net liquidity of the Porsche SE Group, i.e., cash and cash equivalents, time deposits and securities less financial liabilities, decreased to €474 million (€641 million) compared to 31 December 2021.

The largely debt-financed acquisition of ordinary shares in Porsche AG (see the section “Significant events and developments at the Porsche SE Group”) did not lead to any cash outflows or inflows in the reporting period. The purchase price payment for the first tranche of the ordinary shares in Porsche AG of around €7.1 billion was made on 4 October 2022, financed by raising debt capital in the same amount. The purchase price for the second tranche of the ordinary shares in Porsche AG of €3.0 billion is expected to be paid at the latest on 9 January 2023 and is expected to be paid from Porsche SE’s share of the special dividend of €3.1 billion to be distributed by VW AG to all of VW AG’s shareholders with the tax on investment income including solidarity surcharge of around €0.8 billion expected to be deducted from the special dividend being financed by means of interim financing in the form of a bank loan.

Net assets of the Porsche SE Group

As of 30 September 2022, the Porsche SE Group’s total assets increased by €19.5 billion to €62.0 billion compared to 31 December 2021.

The Porsche SE Group’s non-current assets of €60.9 billion (€41.6 billion) primarily relate to the investments accounted for at equity.

As of 29 September 2022, the investment in Porsche AG was recognized with an interest of 25% plus one share of ordinary shares in the amount of the acquisition costs of €10.1 billion (see the section “Significant events and developments at the Porsche SE Group”). The application of the equity method for the last two days in the reporting period caused the carrying amount of the investment in Porsche AG accounted for at equity to increase only marginally.

Furthermore, the investments accounted for at equity mainly include the carrying amount of the investment in Volkswagen AG accounted for at equity, which increased by €8.9 billion to €50.4 billion compared to 31 December 2021. Of the increase in the carrying amount, €3,863 million is attributable to the result from ongoing at equity accounting, minus €58 million to effects from the subsequent measurement of the hidden reserves and liabilities identified and €4,604 million to expenses and income recognized in other comprehensive income. These result primarily from positive effects from the measurement of pensions as well as from currency translation at the level of the Volkswagen Group. There was also an increase of €1,590 million in the carrying amount accounted for at equity reported directly in equity. The change reported directly in equity is largely due to accounting for the reduction in the investment in Porsche AG at the level of the Volkswagen Group as a result of the IPO, unless this was attributable to Porsche SE's acquisition of ordinary shares. The carrying amount of the investment accounted for at equity was also increased by the proportionate realization of the intercompany profit from the contribution of the holding business operations of Porsche SE to Volkswagen AG eliminated in the fiscal year 2012 of €177 million (see the section "Results of operations of the Volkswagen Group"). On the other hand, dividends of €1,201 million as well as effects from the acquisition of around 2.6 million preference shares carried out in the reporting period and the subsequent reclassification of around 2.7 million preference shares pursuant to IFRS 5 totaling minus €51 million reduced the carrying amount accounted for at equity. The investments accounted for at equity also include the carrying amount of the investment in ETS of €113 million as well as the investment in INRIX of €40 million (€6 million).

In addition to shares in portfolio investments of €61 million, non-current other financial assets of €150 million (€45 million) also include interest rate hedges of €89 million measured at fair value to which hedge accounting applies.

Current assets of €1,146 million (€960 million) mainly consist of income tax receivables, securities, time deposits, cash and cash equivalents and assets classified as held for sale. Income tax receivables totaling €321 million largely relate to tax withheld on investment income for dividend payments of €317 million received from Volkswagen AG. As of 30 September 2022, the item "Assets classified as held for sale" comprised around 2.7 million preference shares in Volkswagen AG. As of 31 December 2021, this had included the assets previously allocated to the PTV Group.

The equity of the Porsche SE Group increased to a total of €51.6 billion (€42.2 billion) due to the positive total comprehensive income of the Group as of 30 September 2022. The equity ratio decreased to 83.3% (99.2%) compared to the end of the fiscal year 2021, primarily due to the purchase price liability from the acquisition of ordinary shares in Porsche AG.

Non-current other financial liabilities relate to interest rate hedges of €2 million measured at fair value to which hedge accounting applies.

In connection with the recognition of shares in Porsche AG accounted for at equity (see the section “Significant events and developments at the Porsche SE Group”), a purchase price liability to Volkswagen AG of €10.1 billion was recognized as current other financial liability.

Results of operations of the Volkswagen Group

The following statements relate to the original profit/loss figures of the Volkswagen Group in the first three quarters of the fiscal year 2022. It should be noted that the group result of Porsche SE only reflects its capital share in the result of the Volkswagen Group in the course of at equity accounting. Furthermore, effects from at equity accounting 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 in the explanations below.

In the first three quarters of 2022, the Volkswagen Group generated revenue of €203.0 billion (€186.6 billion), up distinctly on the prior-year level. Improved price positioning, positive mix and exchange rate effects and the good business performance of the financial services division were set against the fact that vehicle availability continued to be limited due to parts supply shortages. Navistar is included in the Volkswagen Group’s revenue in an amount of €7.8 billion (€1.7 billion); the company has been consolidated since 1 July 2021. In the reporting period, the Volkswagen Group generated 82.6% (82.7%) of its revenue abroad. Gross profit (revenue less cost of sales) improved to €39.2 billion (€33.8 billion). The gross margin increased to 19.3% (18.1%).

At €17.5 billion, the Volkswagen Group’s operating result before special items exceeded the prior-year figure by €3.3 billion in the period from January to September 2022. The operating return on sales before special items climbed to 8.6% (7.6%). Positive effects resulted mainly from the price positioning and the mix. The Volkswagen Group’s financial services division’s good business performance and positive effects of €0.7 billion from derivatives in the financial services division to which hedge accounting is not applied (interest rate hedges) contributed to higher group earnings. These factors were offset in the reporting period by higher product costs, especially for commodities, as well as expenses of around €2 billion relating to loss allowances and risk provisions as a consequence of the direct impact of the Russia-Ukraine conflict. In the period from January to September 2022, the passenger cars business area reported one-off expenses for restructuring measures at SEAT in an amount of €0.2 billion. In the prior year, one-off expenses for restructuring measures (€0.7 million) had been recognized in the commercial vehicles business area. An expense of €0.1 billion was recognized for transaction costs in connection with the IPO of Porsche AG. In addition, the employees of Volkswagen AG and Volkswagen Sachsen GmbH are to participate in the economic success of the sale of shares in Porsche AG in the amount of €2,000 per employee; to this end, an amount of €0.3 billion was recognized in personnel costs.

Special items in connection with the diesel issue weighed on the operating result, reducing this item by €0.4 billion (reduction of €0.2 billion). In the first nine months of 2022, the Volkswagen Group's operating result improved by a total of €3.1 billion to €17.1 billion, and the operating return on sales rose to 8.4% (7.5%).

The financial result was down €0.4 billion to minus €0.1 billion. The interest expenses included in the financial result decreased by €1.1 billion due to measurement-related factors resulting primarily from a change in the discount rates used in the measurement of provisions. The other financial result was negatively impacted by the impairment loss of €1.9 billion recognized on the equity investment in Argo AI, which weighed on net other investment income, and by changes in share prices, mainly as a result of the Russia-Ukraine conflict, which affected net income from securities and funds. Both factors were offset by favorable exchange rate effects. The prior year had also been negatively impacted by measurement effects on forward purchase agreements for new shares in QuantumScape.

The Volkswagen Group's result before tax improved by €2.7 billion to €17.0 billion in the period from January to September 2022. The result after tax climbed by €1.4 billion year on year to €12.8 billion.

Opportunities and risks of future development

Opportunities and risks of the Porsche SE Group

Regarding the 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 2021, there has been one change with regard to the risk area "Result contribution portfolio investments". The likelihood of occurrence has now been categorized as unlikely (moderately likely) given the positive development in the result in the portfolio investments segment in light of the write-up of INRIX. 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.

Porsche SE's investment in the share capital of Porsche AG (see the section "Significant events and developments at the Porsche SE Group") results in economic opportunities and risks that are represented by the new risk areas "Result contribution Porsche AG", "Impairment risk Porsche AG" as well as "Dividend inflow Porsche AG" under Porsche SE's risk management system. The risks associated with raising debt capital on 4 October 2022 are combined with other opportunities and risks from financial instruments in the risk area "Financing / financial instruments", the risk assessment of which changes as a result.

With regard to the direct investment in Porsche AG, there is in particular an increased risk of the result attributable to Porsche SE as part of equity accounting falling short of expectations on account of the Porsche AG Group not developing as expected (risk area "Result contribution Porsche AG"). Risks at the level of the Porsche AG Group arise in this regard from protectionist tendencies, turbulence in financial markets, structural deficits in individual countries, the real economic impact of high inflation rates around the world, rising interest rates and in respect of market shortages for intermediates and raw materials. Risks that arise in particular are supply risks, risks from the Russia-Ukraine conflict, risks stemming from a potential gas shortage, downtime risks on account of force majeure or other unforeseen events (such as a flare-up of the Covid-19 pandemic), from cost risks for vehicle projects as well as from regulatory requirements. The assessment of risks at the level of the Porsche AG investment is generally based on the report on expected developments, opportunities and risks in the interim group management report in the half-year financial report 2022 and the group quarterly statement of Porsche AG for the third quarter of 2022. The risk area "Result contribution Porsche AG" is estimated to have a moderate potential impact and a low likelihood of occurrence.

Also, with regard to the impairment risk of the investment in Porsche AG, the risks described above of a development below expectations also exist here and might lead to an impairment loss.

The risk of an impairment loss recognized through profit or loss is referred to as the risk area "Impairment risk Porsche AG". In light of the market capitalization of Porsche AG and taking into account the risks described above, a potential future impairment loss is currently estimated to have a high potential impact and a low likelihood of occurrence.

There is also the general risk of a significant decrease in dividend inflow from Porsche AG (risk area "Dividend inflow Porsche AG"), which would in turn have a corresponding impact on the net liquidity of the Porsche SE Group. Such developments are currently not expected. The risk area "Dividend inflow Porsche AG" is estimated to have a moderate potential impact and a low likelihood of occurrence.

The risk area "Financing / financial instruments" combines risks resulting from raising debt capital and using financial instruments. The risk area was previously referred to as "Risks from financial instruments". In the reporting period, the nature and scope of financial instruments used increased significantly. To finance the acquisition of the investment in Porsche AG, a financing agreement was concluded for a total volume of €8.9 billion subject to variable interest and with terms of up to five years. This includes an undrawn credit line of €1 billion with an initial term of 3 years. To hedge interest rate risks resulting from the financing, interest rate hedges with a volume of €5.8 billion were entered into with banks (see the section "Significant events and developments at the Porsche SE Group"). Other financial instruments currently used at Porsche SE in particular include cash and cash equivalents, time deposits and securities.

The financing may generally result in risks for Porsche SE. The planned repayment of loans and the payment of interest will mainly be made from dividend inflows from Volkswagen AG and Porsche AG. If there are significant negative deviations from the medium-term planning of the dividend receipts, this may give rise to risks especially from delayed repayment of debt financing and from refinancing needs. The financing is subject to standard market financial covenants relating in particular to the market value of Porsche SE's shares in Volkswagen AG and in Porsche AG as well as to the interest cover. A breach of covenants can in principle lead to the outstanding credit volume falling due and therefore to liquidity risks. Such developments are not foreseeable at present and are considered to be unlikely.

The use of financial instruments as part of liquidity and financial management also gives rise to counterparty risks. The creditworthiness of the counterparties of financial instruments is monitored regularly, mainly to assess any potential default. To mitigate the counterparty risks, Porsche SE also diversifies the investment of liquidity and enters into interest rate hedges across various counterparties.

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

The risk area “Financing / financial instruments” is estimated to have a high potential impact and a low likelihood of occurrence.

Opportunities and risks of 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 2022 of Volkswagen AG.

As a result of the Russia-Ukraine conflict and the spread of the Omicron variant of the coronavirus in China, combined with the restrictions imposed as part of the zero-Covid strategy in place there, Volkswagen’s risk exposure has increased.

The Russia-Ukraine conflict has created considerable uncertainty, particularly with regard to the potential impact of the actions of the political players, primarily where the duration, intensity and allocation of energy supplies and their impact on the supply chain are concerned.

Particularly, the supply of energy, other raw materials and parts for the production process could result in greater constraints for Volkswagen, especially in Europe, where a gas shortage is possible. Higher energy and commodity prices plus greater volatility could add to the strain. Furthermore, rising inflation rates could reduce purchasing power, adversely affect consumer behavior and put a damper on demand for Volkswagen’s products. Moreover, the need might arise for Volkswagen to recognize further impairment losses on assets and additional risk provisions.

Based on developments in the first nine months of the year, Volkswagen has adjusted its forecast for the following core performance indicators:

In view of the global economic slowdown, the limited availability of parts and disruptions in logistics, Volkswagen believes that deliveries to customers will be similar to the prior year. Volkswagen expects the revenue of the passenger cars business area to be 5% to 10% higher than the prior-year figure.

In terms of operating result for the Volkswagen Group before and after special items, Volkswagen is confirming an operating return on sales in the range of 7.0% to 8.5% and expects it to be in the upper third.

Volkswagen is keeping to its forecast for the passenger cars and commercial vehicles business areas as well as for the financial services division that was adjusted for the 2022 half-yearly report: for the operating result for passenger cars before and after special items the higher operating return on sales of between 8% and 9%; for commercial vehicles the lower operating return on sales of 4% to 5%; and for financial services the higher operating result of around €5 billion.

Furthermore, the status of legal risks at the level of the Volkswagen Group was updated in the interim report of the Volkswagen Group. Other than that, there were no significant changes in the reporting period of Volkswagen's interim report compared to the explanations in the section "Opportunities and risks of the Volkswagen Group" of the combined management report in the annual report of Porsche SE for the fiscal year 2021.

Outlook

Anticipated development of the Volkswagen Group

Volkswagen believes it is well prepared overall for the future challenges pertaining to automotive business activities and for the mixed development of the regional automotive markets. Its brand diversity, presence in all major world markets, a broad and selectively expanded product range, and its 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.

Volkswagen's planning is based on the assumption that global economic output will continue to grow in 2022, albeit at a lower level overall, after the recovery observed in the past fiscal year – provided that the Covid-19 pandemic does not flare up and that shortages of intermediates and commodities become less intense. Volkswagen continues to believe that risks will arise from protectionist tendencies, turbulence in the financial markets, structural deficits in individual countries and the effects of high inflation and rising interest rates worldwide on the economy. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts, with risks arising especially from the Russia-Ukraine conflict, including in relation to the security of supply of energy resources in Europe. The Volkswagen Group anticipates that both the advanced economies and the emerging markets will experience declining yet positive momentum.

The Volkswagen Group anticipates that, given the continuing challenging market conditions, deliveries to customers in 2022 will be similar to the prior year. This assumes that the Covid-19 pandemic will not flare up and that shortages of intermediates and commodities will become less intense. The 2022 fiscal year will continue to be affected by shortfalls in supply due to the structural shortage of semiconductors. Volkswagen anticipates that the supply of semiconductors will improve further in the fourth quarter. Disruptions in logistics may additionally have an adverse impact.

As Volkswagen sees it, challenges will arise particularly from the economic situation, the increasing intensity of competition, volatile commodity and foreign exchange markets, securing supply chains and more stringent emissions-related requirements.

Volkswagen expects the revenue of the Volkswagen Group in 2022 to be 8% to 13% higher than the prior-year figure. It is also anticipated that the 2022 revenue of the passenger cars business area will be 5% to 10% higher year on year. In terms of operating result for the group before and after special items, Volkswagen forecasts an operating return on sales in the range of 7.0% to 8.5% in 2022.

In terms of operating result for the passenger cars business area before and after special items, Volkswagen expects an operating return on sales in the range of 8% to 9% in 2022. For the commercial vehicles business area, Volkswagen anticipates an operating return on sales of 4% to 5% amid a strong year-on-year increase in revenue, including Navistar. For the financial services division, Volkswagen forecasts that revenue will be noticeably higher than the prior-year figure and that the operating result will be around €5 billion.

With regard to the Porsche AG Group, Porsche AG's planning is based on the assumption that global economic output will grow in 2022, albeit at a lower level overall, after the recovery in the past fiscal year – provided that the Covid-19 pandemic does not flare up. Porsche AG continues to believe that risks will arise from protectionist tendencies, turbulence in financial markets, structural deficits in individual countries, the real economic impact of high inflation rates around the world, rising interest rates and in respect of market shortages for intermediates and commodities.

The forecast of Porsche AG for 2022 is based on certain expectations and estimations, including no significant worsening in economic conditions or the Covid-19 pandemic situation in Porsche's primary markets and no further escalation of the conflict in Ukraine. This is also linked to assumptions such as no significant supply chain disruptions, particularly with regard to semiconductors, energy and parts, no significant increases in material prices for commodities and intermediate products and components and no restrictions in logistics for finished products.

Porsche AG expects, based on these assumptions for 2022 as a whole, a return on sales in the range of 17% to 18%. This forecast is based on assumed revenue for the Porsche AG Group in a range of approximately €38 billion to €39 billion.

Anticipated development of the Porsche SE Group

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

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

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

Due to Porsche SE's acquisition of ordinary shares in Porsche AG (see the section “Significant events and developments at the Porsche SE Group”), the result of the Porsche SE Group is from now on also influenced by the result from investments accounted for at equity that is attributable to Porsche SE and therefore by the earnings situation of the Porsche AG Group, largely relating to the fourth quarter of the fiscal year 2022. The earnings forecast of Porsche SE therefore also takes into account the expectations of the Porsche AG Group regarding its future development as well as the finance costs expected by Porsche SE in connection with the acquisition.

In particular on the basis of the expectations of the Volkswagen Group and the Porsche AG Group regarding their future development, the Porsche SE Group continues to expect a group result after tax of between €4.1 billion and €6.1 billion for the fiscal year 2022.

Existing uncertainties with regard to the consequences of the Russia-Ukraine conflict as well as the further development of the Covid-19 pandemic, the intensity of shortages of intermediates and commodities as well as the diesel issue continue to result in significant limitations to forecasting accuracy.

As of 30 September 2022, the Porsche SE Group had net liquidity of €474 million. Against the backdrop of the acquisition of ordinary shares in Porsche AG using borrowed funds, on 28 September 2022, Porsche SE adjusted the forecast corridor for the group net liquidity to between minus €6.9 billion and minus €6.4 billion.

The earnings forecast as well as the net liquidity forecast is based on the current structure of the Porsche SE Group. Effects from future investments and divestitures are not taken into account.

Glossary

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.

Diesel issue

On 18 September 2015, the US Environmental Protection Agency ("EPA") publicly announced in a notice of violation that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain Volkswagen Group vehicles with 2.0 l diesel engines in the USA. On 2 November 2015, the EPA issued a notice of violation alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines. In this regard, numerous judicial and regulatory proceedings were subsequently initiated in various countries.

Equity ratio

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

Operating result

The revenue of the Volkswagen Group, which does not include the figures for its Chinese joint ventures accounted for at equity, 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.

Selected financial information

Consolidated income statement of Porsche Automobil Holding SE for the period from 1 January to 30 September 2022

€ million	**Jan. - Sep. 2022**	Jan. - Sep. 2021[1]
Result from investments accounted for at equity	3,728	3,365
Result from valuation of assets classified as held for sale	−3	
Income from investment valuation	12	4
Expenses from investment valuation	−8	−22
Result from investments	**3,728**	**3,348**
Other operating income	178	1
Personnel expenses	−11	−11
Amortization and depreciation	0	0
Other operating expenses	−17	−29
Result before financial result	**3,878**	**3,308**
Finance costs	−3	−4
Other financial result	−1	−2
Financial result	**−4**	**−6**
Result before tax	**3,874**	**3,302**
Income taxes	59	1
Result after tax from continuing operations	**3,933**	**3,303**
Result after tax from discontinued operations	96	−5
Result after tax	**4,029**	**3,299**

[1] The structure of the consolidated income statement was adjusted.

Condensed consolidated statement of comprehensive income of Porsche Automobil Holding SE for the period from 1 January to 30 September 2022

€ million	**Jan. - Sep. 2022**	Jan. - Sep. 2021
Result after tax	**4,029**	**3,299**
Other comprehensive income after tax	4,615	2,130
Total comprehensive income	**8,644**	**5,428**
from continuing operations	8,547	5,433
from discontinued operations	96	−5

Consolidated balance sheet of Porsche Automobil Holding SE as of 30 September 2022

€ million	30/9/2022	31/12/2021
Assets		
Intangible assets	0	0
Property, plant and equipment	1	1
Investments accounted for at equity	60,712	41,527
Other financial assets	150	45
Other assets	0	1
Non-current assets	**60,863**	**41,574**
Other financial assets	9	1
Other assets	1	1
Income tax receivables	321	0
Securities	30	145
Time deposits	205	225
Cash and cash equivalents	240	271
Assets classified as held for sale	341	316
Current assets	**1,146**	**960**
	62,009	**42,533**
Equity and liabilities		
Subscribed capital	306	306
Capital reserves	4,884	4,884
Retained earnings	44,974	40,219
Other reserves (OCI)	1,460	−3,214
Equity attributable to shareholders of Porsche SE	51,624	42,196
Non-controlling interests		1
Equity	**51,624**	**42,196**
Provisions for pensions and similar obligations	29	42
Other provisions	23	30
Financial liabilities	0	0
Other financial liabilities	2	
Deferred tax liabilities	181	116
Non-current liabilities	**235**	**188**
Provisions for pensions and similar obligations	1	1
Other provisions	34	31
Trade payables	4	2
Financial liabilities	0	0
Other financial liabilities	10,101	3
Other liabilities	4	4
Income tax liabilities	5	
Liabilities associated with assets classified as held for sale		109
Current liabilities	**10,149**	**149**
	62,009	**42,533**

Consolidated statement of cash flows of Porsche Automobil Holding SE for the period from 1 January to 30 September 2022

€ million	**Jan. - Sep. 2022**	Jan. - Sep. 2021[1]
1. Operating activities		
Result after tax	4,029	3,299
Result after tax from discontinued operations	–96	5
Result from investments	–3,728	–3,348
Amortization and depreciation	0	0
Interest expense	4	5
Interest income	–1	0
Income tax expense/income	–59	–1
Other non-cash expenses (+) and income (-)	–175	2
Change in other assets	–6	–2
Change in provisions for pensions	0	0
Change in other provisions	–5	6
Change in other liabilities	4	–1
Dividends received	884	756
Interest paid	–10	0
Interest received	1	1
Income tax received	0	
Cash flow from operating activities from continuing operations	**841**	**722**
Cash flow from operating activities from discontinued operations		14
Cash flow from operating activities	**841**	**736**
2. Investing activities		
Cash paid for the acquisition of intangible assets and property, plant and equipment	0	
Cash received from the disposal of subsidiaries net of cash and cash equivalents	201	
Cash paid for the acquisition of shares in investments accounted for at equity	–437	
Cash paid for the acquisition of other shares in entities	–14	–22
Cash received from the disposal of other shares in entities	2	51
Change in investments in securities	115	33
Change in investments in time deposits	20	–53
Cash flow from investing activities from continuing operations	**–115**	**8**
Cash flow from investing activities from discontinued operations		–1
Cash flow from investing activities	**–115**	**7**

1 The structure of the consolidated statement of cash flows was adjusted.

€ million	**Jan. - Sep. 2022**	Jan. - Sep. 2021[1]
3. Financing activities		
Dividends paid to shareholders of Porsche SE	–783	–675
Cash paid for settlement of financial liabilities	0	0
Cash flow from financing activities from continuing operations	**–783**	**–676**
Cash flow from financing activities from discontinued operations		–3
Cash flow from financing activities	**–783**	**–679**
4. Cash and cash equivalents		
Cash and cash equivalents as of 1 January	271	259
plus cash and cash equivalents from discontinued operations as of 1 January	25	
Change in cash and cash equivalents (subtotal of 1 to 3)	–56	64
less cash and cash equivalents from discontinued operations as of 30 September		–44
Cash and cash equivalents as of 30 September	**240**	**280**

[1] The structure of the consolidated statement of cash flows was adjusted.

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