PORSCHE SE

Half-yearly financial report

1 January – 30 June

2019

Investments of Porsche SE

PORSCHE SE

Core Investment

Stake of ordinary shares: 53.1 %
(Represents a stake of subscribed capital: 31.3 %)

VOLKSWAGEN
AKTIENGESELLSCHAFT

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

VOLKSWAGEN FINANCIAL SERVICES
AKTIENGESELLSCHAFT

Further Investments

PTV GROUP

Minority stakes

INRIX   Markforged   SEURAT

Status 30 June 2019

Content

Interim group management report

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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 June 2019, the Porsche SE Group had 928 employees (31 December 2018: 935 employees).

Porsche SE is a holding company. In particular, it holds the majority of the ordinary shares in Volkswagen Aktiengesellschaft, Wolfsburg ("Volkswagen AG" or "Volkswagen"), one of the leading automobile manufacturers in the world. The Volkswagen Group comprises twelve brands 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 Scania and MAN commercial vehicle brands is coordinated within the TRATON Group. In addition to the investment in Volkswagen AG, at the time of issuing this half-yearly financial report for publication the Porsche SE Group now holds 100% in PTV Planung Transport Verkehr AG ("PTV AG"), Karlsruhe, shares in INRIX Inc., Kirkland, Washington, USA ("INRIX"), as well as shares in three technology start-ups in the USA.

The principal criteria of Porsche SE for investments are the connection to the automotive value chain, industrial production or the future of mobility. The automotive value chain comprises the entire spectrum from basic technologies and supporting the development and production process through to vehicle- and mobility-related services. The 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.

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 second quarter of the fiscal year 2019, unless reference is made in this section to another time period.

Diesel issue at the level of the Volkswagen Group

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

In the period from January to June 2019, the Volkswagen Group's operating result was influenced by special items in connection with this diesel issue of minus €1.0 billion. They largely result from additional expenses for legal risks in particular from the administrative order issued by the Stuttgart public prosecutor in May 2019 of €0.5 billion, thereby settling the ongoing misdemeanor proceeding against Dr. Ing. h.c. F. Porsche AG, as well as higher legal defense costs. As the majority shareholder, Porsche SE continues to be affected by the diesel issue, in particular with regard to its result from investments accounted for at equity. Furthermore, the proportionate market capitalization of its investment in Volkswagen AG is influenced by the resulting development of the prices of the Volkswagen ordinary and preference shares. As of 30 June 2019, there was no need to recognize an impairment loss on the basis of the earnings forecasts for the investment accounted for at equity in Volkswagen AG. However, particularly a further increase in the costs of mitigating the diesel issue might still lead to an impairment in the value of the investment. There may also still be subsequent effects on the dividend policy of Volkswagen AG and therefore on the cash inflows at the level of Porsche SE. Legal risks from claims brought against Porsche SE stemming from this issue may also have an effect on the results of operations, financial position and net assets of the Porsche SE Group. For details of this matter, please refer to the explanations of the significant events and developments at the Volkswagen Group, the explanations of the results of operations, financial position and net assets, the report on opportunities and risks of the Volkswagen Group and the "Forecast report and outlook" section in the combined group management report in the annual report of Porsche SE for the fiscal year 2018.

Annual general meeting

The annual general meeting of Porsche SE was held on 27 June 2019 in Stuttgart. Among other things, the annual general meeting elected Prof. Siegfried Wolf onto the company's supervisory board. Prof. Wolf had previously been appointed as member of the board by resolution of the Stuttgart Local Court in spring 2019.

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

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

Legal proceedings and legal risks in connection with the acquisition 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 acquisition of the shareholding in Volkswagen AG. In part these claims are also based on alleged violations of antitrust regulations. In the six initial proceedings suspended with reference to the model case a total of 40 plaintiffs assert alleged claims for damages of about €5.4 billion (plus interest). Since the beginning of the model case several hearings were already 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 for September 2019. 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.

There have been no new developments during the reporting period in the proceeding pending before the Regional Court of Frankfurt against two members (one of whom is no longer in office) of the supervisory board of Porsche SE, in which Porsche SE joined as intervener in support of the two supervisory board members. In this proceeding the same alleged claims are asserted that are already subject of a currently suspended action concerning alleged damages of about €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover. Porsche SE considers these claims to be without merit.

Since 2012 Porsche SE and two companies of an investment fund have been in dispute over the existence of alleged claims in the amount of about US$195 million and have filed lawsuits in Germany and England respectively. On 6 March 2013, the English proceedings were suspended at the request of both parties until a final decision had been reached in the proceedings commenced in the Regional Court of Stuttgart concerning the question of which court is the court first seized. A final decision on this issue continues to be outstanding. Currently, the proceeding is pending before the Higher Regional Court of Stuttgart. On 15 April 2019 the Higher Regional Court of Stuttgart rejected a motion to recuse judges filed by the defendant companies of the investment fund. Porsche SE considers the action filed in England to be inadmissible and the asserted claims to be without merit.

Legal proceedings and legal risks in connection with the diesel issue

In connection with the diesel issue (see the description in the combined management report for the fiscal year 2018 in the section "Diesel issue" in the section "Significant events and developments at the Volkswagen Group") legal proceedings with a total volume of approximately €1.1 billion are pending against Porsche SE before the Regional Court of Stuttgart, the Higher Regional Court of Stuttgart and the Regional Court of Braunschweig. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information respectively alleged incorrect capital market information in connection with the diesel issue. Some of these proceedings are directed against both Porsche SE and Volkswagen AG. In one proceeding, in addition to Porsche SE, Robert Bosch GmbH was made defendant. Porsche SE considers the actions to be inadmissible in part, but in any case to be without merit. Since the status reported in the annual report 2018, the following significant developments occurred during the reporting period.

Before the Regional Court of Stuttgart are currently 199 actions pending at first instance. The actions concern payment of damages, if quantified, in the total amount of approximately €927 million (plus interest) and in part establishment of liability for damages. In two further proceedings against Porsche SE in which approximately €164 million in damages had been claimed, the Regional Court of Stuttgart granted these actions in the amount of approximately €47 million and otherwise dismissed the actions on 24 October 2018. Porsche SE and the respective plaintiffs appealed the decisions of the Regional Court of Stuttgart rendered on 24 October 2018. In December 2018 Porsche SE filed motions to recuse the single judge conducting the proceedings in some of the other proceedings pending before the Regional Court of Stuttgart. By court orders dated 26 April 2019 and 20 May 2019, the Regional Court of Stuttgart granted the motions to recuse the judge and the self-recusal of the judge. Pursuant to Sec. 348 (2) German Civil Procedural Code (ZPO) the subsequently competent single judge then submitted all the proceedings to the chamber, which took over the proceedings. In numerous proceedings the plaintiffs filed motions to recuse the judges of the Regional Court of Stuttgart who had ruled on the motions for recusal and to recuse the clerk of the court's office. Porsche SE considers the actions filed against it before the Regional Court of Stuttgart to be without merit.

The Regional Court of Stuttgart on 28 February 2017 and on 6 December 2017 respectively issued an order of reference with regard to the proceedings pending before it and subsequently suspended in whole or in part numerous proceedings. Following a hearing on 6 February 2019, the Higher Regional Court of Stuttgart decided by court orders dated 27 March 2019 that the model case proceedings which were submitted to the court by orders of reference by the Regional Court of Stuttgart dated 28 February 2017 and 6 December 2017 were inadmissible. The appeal on points of law was permitted. An appeal on points of law was filed by some plaintiffs of the suspended initial proceedings against the court order dated 27 March 2019 in the model case proceedings initiated by the order of reference dated 28 February 2017.

Following corresponding orders to suspend the proceedings by the Regional Court of Braunschweig, Porsche SE became a further model case defendant in the model case proceedings before the Higher Regional Court of Braunschweig. The Regional Court of Stuttgart meanwhile also suspended numerous proceedings pending before it with reference to the KapMuG-based order of reference issued by the Regional Court of Braunschweig dated 5 August 2016. A decision on the suspension of the remaining proceedings against Porsche SE which are still pending before the Courts of Braunschweig and Stuttgart continues to be outstanding. By order of 23 October 2018, the Higher Regional Court of Braunschweig dismissed applications of joined parties for the extension of the model case before the Higher Regional Court of Braunschweig to include establishment objectives relating exclusively to alleged claims against Porsche SE. The appeal on points of law was permitted and has since been filed by joined parties. Several hearings have been held before the Higher Regional Court of Braunschweig. The next hearing is scheduled for 21 October 2019. Porsche SE considers these actions filed against it before the Regional Court of Braunschweig to be inadmissible and to be without merit.

With regard to claims asserted out of court and not yet brought to court against Porsche SE regarding the diesel issue with a total amount of approximately €63 million and in some case without defined amounts no new developments have occurred during the reporting period.

The same applies to the waiver of the statute of limitations defense granted by Porsche SE to the United States of America, to the investigation proceedings on suspicion of market manipulation against Prof. Dr. Martin Winterkorn, Hans Dieter Pötsch and Matthias Müller as well as regarding shareholder actions. There were no significant new developments in the reporting period.

Apart from this, no significant changes occurred during the reporting period compared with the information provided in section “Significant developments and current status relating to litigation risks and legal disputes” in the group management report in the annual report 2018. In particular, Porsche SE continues not to have reliable findings or assessments that would lead to a different evaluation of the legal risks.

Significant events and developments at the Volkswagen Group

The following significant events and developments occurred at the Volkswagen Group in the second quarter of the fiscal year 2019:

Partnerships

At the beginning of April 2019, the Volkswagen Group and Ganfeng Lithium Co., Ltd. based in Jiangxi (China) signed a memorandum of understanding on the long-term supply of lithium for battery cells. Under the agreement, Ganfeng will supply lithium to the Volkswagen Group and its suppliers for the next ten years. In this regard, Volkswagen is already today pursuing the goal of securing a significant share of its growing lithium requirements for batteries. Ganfeng Lithium Co., Ltd. was founded in 2000 and is the world's leading producers of lithium and metals products.

In mid-April 2019, the Volkswagen Group joined an industry initiative for responsible purchasing of strategic minerals. Blockchain technology is designed to help improve efficiency, sustainability and transparency in global and complex supply chains. The cooperation will give the Volkswagen Group better insight into the source of cobalt, for example, which is used in lithium-ion batteries that power electric vehicles. The path of other minerals used in vehicle production can also be tracked in this way. The blockchain network already includes participants from all key stages of the supply chain, from the mine to end users. Further participants to date include the Ford Motor Company, Huayou Cobalt, IBM, LG Chem and the RCS Global Group.

In mid-June 2019, Volkswagen announced that it wants to invest approximately €900 million in joint battery activities with Northvolt AB. Part of the sum is intended for a planned joint venture with the Swedish battery cell producer; a further share will go directly to Northvolt AB. In return, Volkswagen will receive about 20% of the shares in Northvolt AB and will have one seat on the supervisory board. A joint venture of equal partners is supposed to be formed in the course of this year with the aim of building a 16-GWh battery cell factory in Europe. The plan is to establish the factory at the group's site in Salzgitter starting in 2020 at the earliest, if all preconditions are fulfilled. Battery cell production for Volkswagen is then planned to commence around the turn of the year 2023/2024.

Also in mid-June 2019, the Volkswagen Group moved into a new climate-neutral data center in Rjukan, Norway. The facility was set up in just six months in collaboration with the Norwegian partner Green Mountain. The data center will be powered entirely by hydro-power in future, thus saving more than 5,800 tons of CO_2 per year compared to a conventionally operated data center. The maximum output of 2,750 kilowatts will be used by the Volkswagen passenger cars and Audi brands for high-performance servers, which are used for computer-intensive vehicle development projects.

These include the simulation of crash tests and virtual wind tunnel tests. The Volkswagen Group focuses on economic and ecological factors in the development of computing capacity. Thus, Volkswagen already operates a climate-neutral data center in Iceland.

IPO of TRATON SE

Since 28 June 2019, shares of TRATON SE have been traded on the regulated market of the Frankfurt Stock Exchange and the NASDAQ Stockholm Exchange. These bearer shares without nominal value were taken from Volkswagen AG's existing shares and placed with investors. The offer price was set at €27.00 per share. This led to an increase of €1.4 billion in the Volkswagen Group's equity, of which €1.2 billion is reported as non-controlling interests. The IPO is intended to lay the foundation for both companies to create even more added value for their stakeholders in the future. Volkswagen will remain an involved majority shareholder.

Diesel issue

The administrative fine order issued on 7 May 2019 by the Stuttgart Office of the Public Prosecutor terminates the regulatory offense proceeding conducted against Dr. Ing. h.c. F. Porsche AG in connection with the diesel issue. The administrative fine order is based on a negligent breach of the obligation to supervise occurring in the organizational unit "Prüffeld Entwicklung Gesamtfahrzeug/Qualität" (Overall Vehicle Development/Quality - Testing Facility). The administrative order imposes a total fine of €535 million, consisting of a penalty payment of €4 million and the forfeiture of economic benefits in the amount of €531 million. After thorough examination, Dr. Ing. h.c. F. Porsche AG has accepted the fine and paid it in full, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG.

Business development

The business development of Porsche SE is largely shaped by its investment in Volkswagen AG as well as the development of the actions pending against it. For the business development at the level 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” in this interim group management report. The following statements take into consideration factors influencing operating developments in the passenger cars and commercial vehicles business areas at the Volkswagen Group.

General economic development

The global economy continued its robust growth in the first six months of 2019 albeit at a slower pace. The average expansion rate of gross domestic product (GDP) in this period was down year on year in both the advanced and the emerging market economies. Prices for energy and other commodities decreased on average compared with the prior-year period amid a still comparatively low – albeit slightly higher – interest rate level. In connection with the upheaval in trade policy and economic uncertainty, international trade of goods waned in the first half of 2019.

Trends in the markets for passenger cars and light commercial vehicles

In the first half of 2019, global demand for passenger cars was weaker than in the prior-year period (down 5.0%). While new registrations in the Central and Eastern Europe region narrowly exceeded the prior-year figure, the overall markets in Western Europe, Middle East, North America, South America and Asia-Pacific recorded dips.

Global demand for light commercial vehicles between January and June 2019 was up slightly on the prior year.

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 significantly higher between January and June 2019 than in the prior-year period. Demand for buses was also significantly higher than the prior-year level. The markets in Brazil and France contributed in particular to this growth.

Volkswagen Group deliveries

The Volkswagen Group delivered 5.4 million vehicles to customers worldwide in the first half of 2019. This was 2.8% fewer vehicles than in the prior-year period. While sales figures for the commercial vehicles business area significantly exceeded the prior-year level, there was a decline in the number of models delivered to customers from the passenger cars business area. The Volkswagen commercial vehicles brand has been reported as part of the passenger cars business area since 1 January 2019. The prior-year figures have been adjusted accordingly.

Global demand for the Volkswagen Group's passenger cars and light commercial vehicles fell year on year by 3.1% to 5.2 million units during the reporting period amid continuously challenging market conditions. The decrease was mainly attributable to declining markets, especially in China. Other causes were the shift to the WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure), the limited availability of petrol engines and model changes. As a result, the Volkswagen passenger cars, Audi and ŠKODA brands fell short of their high prior-year levels, while Volkswagen commercial vehicles reached the volume seen in that period. The SEAT (up 8.4%) and Lamborghini (up 95.7%) brands performed especially well, both recording the best first six months in their corporate history. Porsche, Bentley and Bugatti also increased their deliveries year on year. Volkswagen registered declining sales figures in all regions, however, demand for Group models rose in some core markets. The Volkswagen Group's passenger car market share expanded in a declining overall market worldwide to 12.5% (12.2%).

In the first six months of 2019, the Volkswagen Group delivered a total of 123 thousand commercial vehicles to customers worldwide (up 10.0%). Trucks accounted for 106 thousand units (up 8.3%) and buses for 10 thousand units (down 9.1%).

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

Deliveries of passenger cars, light commercial vehicles, trucks and buses of the Volkswagen Group from 1 January to 30 June [1]

	2019	2018	Change %
Regions			
Europe/Other markets	2,564,111	2,610,047	–1.8
North America	460,572	465,000	–1.0
South America	283,358	280,938	0.9
Asia-Pacific	2,057,306	2,163,447	–4.9
Worldwide	**5,365,347**	**5,519,432**	**–2.8**
by brands			
Volkswagen passenger cars	2,998,182	3,118,702	–3.9
Audi	906,180	949,233	–4.5
ŠKODA	620,935	652,735	–4.9
SEAT	314,279	289,946	8.4
Bentley	4,785	4,430	8.0
Lamborghini	4,553	2,327	95.7
Porsche	133,484	130,598	2.2
Bugatti	42	34	23.5
Volkswagen commercial vehicles	259,571	259,293	0.1
Scania	51,524	46,778	10.1
MAN	71,812	65,356	9.9

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

Sales and production in the Volkswagen Group

In the first six months of 2019, the Volkswagen Group's unit sales to the dealer organization[1] (including the Chinese joint ventures) fell by 4.2% on the prior-year period to 5.3 million vehicles. This was due to lower demand, especially in China, Turkey and Argentina. Between January and June 2019, the Volkswagen Group's production decreased by 6.3% year on year to a total of 5.4 million vehicles. Production in Germany fell by 14.7% to 1.1 million units. The proportion of production in Germany declined to 20.9% (22.9%).

Inventories in the Volkswagen Group

Global inventories at Group companies and in the dealer organization were higher on 30 June 2019 than at year-end 2018 but below the corresponding prior-year figure.

Financial services of the Volkswagen Group

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

The financial services division's products and services were very popular in the period from January to June 2019. The number of new financing, leasing, service and insurance contracts signed worldwide stood at 4.5 million (4.5 million). The ratio of leased and financed vehicles to Group deliveries (penetration rate) in the financial services division's markets amounted to 34.5% (34.1%) in the first six months of 2019. As of 30 June 2019, the total number of contracts was 23.2 million, 4.8% higher than on 31 December 2018.

Employees of the Volkswagen Group

At the end of the first half of the year of 2019, the Volkswagen Group had a total of 662,787 employees worldwide. This was roughly on a level with the figure at year-end 2018. At 291,717, the number of employees in Germany was also almost on a level with the end of 2018.

[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 six months of the fiscal year 2019 and as of 30 June 2019. While the prior-year figures for the results of operations and cash flows relate to the period from 1 January to 30 June 2018, the net assets use figures as of 31 December 2018 as comparative figures.

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

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

Results of operations of the Porsche SE Group

The Porsche SE Group's result after tax came to €2,381 million (€1,904 million) in the first half of the fiscal year 2019. Of this amount, €2,385 million (€1,916 million) related to the PSE segment. For the ITS segment, a result after tax of minus €4 million is derived (minus €11 million). This included effects from the purchase price allocation amounting to minus €4 million (minus €5 million).

The result after tax for the PSE segment was significantly influenced by the result from the investments accounted for at equity of €2,421 million (€1,939 million). The increase in the result from investments accounted for at equity is largely attributable to the investment in Volkswagen AG. The result from the investment in INRIX accounted for at equity improved on the prior year, although it is still slightly negative.

The result from investments accounted for at equity contains profit contributions from ongoing equity accounting of €2,149 million (€1,982 million) as well as subsequent effects from purchase price allocations of minus €55 million (minus €43 million). This figure also includes preliminary income from the acquisition of further ordinary shares in Volkswagen of €326 million (€0 million). Between early December 2018 and mid-March 2019, Porsche SE acquired 0.9% of the ordinary shares in Volkswagen AG for a total of €397 million in a series of capital market transactions. The acquisitions resulted overall in preliminary income from first-time at equity accounting of €423 million, of which €97 million related to the acquisitions made until the end of the fiscal year 2018. The income 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 the acquisition costs when calculating the pro rata revalued equity. The purchase price allocation had not yet been completed when the half-yearly financial report was being prepared.

Other operating expenses increased slightly in the PSE segment year on year to €13 million (€9 million). The increase is attributable to higher legal and consulting fees. Personnel expenses decreased by €3 million on the prior year. In the prior year, payments made to former member of the executive board Matthias Müller were included in this item.

The positive financial result of €8 million (minus €1 million) was primarily attributable to profit contributions from financial instruments measured at fair value. The deferred income tax expense of €25 million (€4 million) was primarily due to the increase in the carrying amount of the investment in Volkswagen AG accounted for at equity as well as the countereffect from the increase in deferred tax assets on loss carryforwards.

In the reporting period, the ITS segment generated revenue of €52 million (€47 million), resulting primarily from maintenance services rendered, license sales, the project business and hosting services. In particular, revenue for recurring services increased by 27% year on year. Furthermore, the ITS segment generated income from selling shares in PTV Truckparking B.V. to Volkswagen Financial Services GmbH. With personnel expenses increasing by €2 million year on year, the result after tax improved by €7 million compared to the prior year.

Financial position of the Porsche SE Group

Cash inflow from operating activities improved to €741 million in the first half of 2019 (€577 million). The increase is mainly attributable to higher dividends received from the investment in Volkswagen AG of €753 million (€601 million).

There was a cash outflow from investing activities of €290 million (€102 million) in the first half of 2019. This largely resulted from payments made for acquiring further ordinary shares in Volkswagen AG of €311 million (€0 million).

There was a cash outflow from financing activities of €3 million (€538 million) in the first half of 2019. In the prior year, the cash outflow was almost entirely attributable to the dividend payments made to the shareholders of Porsche SE.

In the reporting year these had not yet been made as of 30 June.

Cash and cash equivalents therefore increased by a total of €448 million to €1,077 million compared to 31 December 2018 (€630 million).

Net liquidity of the Porsche SE Group comprises cash and cash equivalents, time deposits and securities less financial liabilities. It increased to €1,264 million (€864 million) year on year as the dividend payments for the fiscal year 2018 to the shareholders of Porsche SE of €676 million were not made until after 30 June.

Net assets of the Porsche SE Group

The Porsche SE Group's total assets increased by €1,111 million compared to 31 December 2018 to €34,820 million.

The Porsche SE Group's non-current assets primarily relate to the carrying amount of the investment in Volkswagen AG accounted for at equity of €33,162 million (€32,508[1] million). Of the increase in the carrying amount, €2,149 million is attributable to the result from ongoing equity accounting, €311 million to the acquisition of further ordinary shares in Volkswagen and €326 million to income generated as a result of the acquisition. This was counterbalanced by other comprehensive income as well as expenses and income recognized in equity of minus €1,325 million which are largely attributable to the change in the interest rate and the associated actuarial remeasurement of the pension provisions at the level of the Volkswagen Group. Furthermore, dividend payments received of minus €753 million as well as effects from the subsequent measurement of the hidden reserves and liabilities of minus €54 million identified in the course of the purchase price allocations caused the carrying amount accounted for at equity to decrease.

The investments accounted for at equity also include the carrying amount of the investment in INRIX of €10 million (€10 million).

Intangible assets of the Porsche SE Group of €248 million (€255 million) primarily contain the goodwill of €147 million arising from the consolidation of the PTV Group as well as the carrying amounts for customer bases, software and brand resulting from the purchase price allocation.

Current assets of €1,344 million (€916 million) mainly consist of cash and cash equivalents, time deposits and securities. The increase is primarily attributable to the fact that the dividend payments

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

for the fiscal year 2018 to the shareholders of Porsche SE were made after the reporting date.

As of 30 June 2019, the equity of the Porsche SE Group increased to a total of €33,812 million (€33,416[1] million) in particular due to the group result after tax. The equity ratio decreased to 97.1% (99.1%) compared to the end of the fiscal year 2018 due to the fact that as of the reporting date there were still liabilities from dividends for the fiscal year 2018 due to shareholders of Porsche SE that were settled after the reporting date.

Related parties

With regard to significant transactions with related parties, reference is made to the note [10] to the interim condensed consolidated financial statements.

Results of operations of the Volkswagen Group

The following statements relate to the original results 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 accounts for leases in accordance with IFRS 16, using the modified retrospective method, for the first time as of 1 January 2019. Prior-year periods have therefore not been restated. The new approach resulted in a slight increase in operating result in 2019, because the only items allocated to operating result as from 1 January 2019 are depreciation charges on right-of-use assets. Interest expense on lease liabilities in the automotive division is recognized in the financial result and has a corresponding negative impact here.

Between January and June 2019, the Volkswagen Group generated revenue of €125.2 billion, thus exceeding the prior-year figure by 4.9%. Despite the negative volume trend, revenue increased, mainly because of mix and price improvements and the healthy business performance in the financial services division. The proportion of revenue generated abroad amounted to 80.8% (79.8%). Less cost of sales, gross profit was on a level with the prior year at €24.7 billion (€24.8 billion). The gross margin stood at 19.8% (20.8%).

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

The Volkswagen Group's operating result before special items rose by €0.2 billion to €10.0 billion in the first half of 2019, while the operating return on sales before special items amounted to 8.0% (8.2%). Improvements in the mix and in price positioning, as well as a year-on-year decline in special items, more than offset the rise in fixed costs, negative exchange rate movements and lower vehicle sales. As a result, the Volkswagen Group's operating result of €9.0 billion was up €0.8 billion compared with the prior-year figure. The operating return on sales increased to 7.2% (6.8%).

The financial result fell by €0.3 billion to €0.6 billion. The decrease is mainly attributable to higher interest expenses, which were driven up by the rise in the refinancing volume, the interest expense on provisions and the application of the new IFRS 16. The result of equity-accounted investments and the result of the Chinese joint ventures included in that item were down slightly on the prior year. The remeasurement of put options and compensation rights in connection with the control and profit and loss transfer agreement with MAN SE had had a negative impact in the prior-year period.

The Volkswagen Group's result before tax, which amounted to €9.6 billion, exceeded the prior-year figure by €0.6 billion. The result after tax of €7.2 billion was also €0.6 billion higher than as of the end of the first half of 2018.

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 of the Porsche SE Group in the combined management report for the fiscal year 2018, 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 half-yearly financial report.

Opportunities and risks of the Volkswagen Group

Special items resulting from the diesel issue had a negative impact on the operating result of the Volkswagen Group in the reporting period. The forecast for the operating result before special items for the Volkswagen Group and the passenger cars business area remains unchanged. Volkswagen has reduced the forecast for the operating result including special items for the fiscal year 2019. In the power engineering business area, Volkswagen expects a distinctly higher operating loss than in the prior year amid a slight rise in revenue.

In particular, the status of the legal proceedings at the level of the Volkswagen Group is updated in the half-yearly report of the Volkswagen Group. Beyond this, there were no significant changes in the reporting period compared with the disclosures on the Volkswagen Group's expected development in the fiscal year 2019 in the "Forecast report and outlook" and "Opportunities and risks of the Volkswagen Group" sections – including the underlying description of the issues in the section entitled "Diesel issue" in the section "Significant events and developments at the Volkswagen Group" – of the combined management report in the 2018 annual report of Porsche SE.

In particular, there continue to be no conclusive findings or assessments of facts available to the board of management of Volkswagen AG as of the date of publication of the Volkswagen half-yearly report based on the information available and gained 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 is well prepared overall for the future challenges pertaining to the automobility business and the mixed developments in regional vehicle markets. Its brand diversity, presence in all major world markets, broad, selectively expanded product range and pioneering 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 a stronger focus on their individual characteristics and optimizing the vehicle and drive portfolio. The focus hereby 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 make even more focused use of the advantages of its multibrand group by continuously developing new technologies and its toolkits.

The Volkswagen Group expects that deliveries to its customers in 2019 will slightly exceed the prior-year figure amid continuously challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, exchange rate volatility and more stringent WLTP requirements.

Volkswagen expects the revenue of the Volkswagen Group and its passenger cars and commercial vehicles business areas to grow by as much as 5% year on year. In terms of the operating result before special items for the group and the passenger cars business area, the Volkswagen Group forecasts an operating return on sales in the range of 6.5% to 7.5% in 2019. For the commercial vehicles business area, it anticipates an operating return on sales of between 6.0% and 7.0%. In the power engineering business area, Volkswagen expects a distinctly higher operating loss than in the prior year amid a slight rise in revenue. For the financial services division, it is forecasting a moderate increase in revenue and an operating result at the prior-year level.

After special items, Volkswagen anticipates that the operating return on sales will be at the lower end of the expected range for both the group and the passenger cars business area.

Anticipated development of the Porsche SE Group

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

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

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

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

Based on the current group structure, in particular on the basis of the Volkswagen Group's expectations regarding its future development and the ongoing existing uncertainties with regard to possible special items in connection with the diesel issue, the Porsche SE Group continues to expect a group profit after tax of between €3.4 billion and €4.4 billion for the fiscal year 2019.

As of 30 June 2019, the Porsche SE Group had net liquidity of €1,264 million. Dividend payments for the fiscal year 2018 to the shareholders of Porsche SE of €676 million were made after the reporting date.

The goal of the Porsche SE Group to achieve positive net liquidity remains unchanged as of 31 December 2019. This is expected to be between €0.3 billion and €0.8 billion, not taking future investments into account.

Stuttgart, 5 August 2019

Porsche Automobil Holding SE
The executive board

Glossary

Selected terms at a glance

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

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

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

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

Return on sales before tax
The return on sales is the ratio of profit before tax to revenue in a period, expressed as a percentage. It shows the level of profit generated for each unit of revenue. The return on sales provides information on the profitability of all business activities before deducting income tax expense.

Interim condensed consolidated financial statements

Consolidated income statement of Porsche Automobil Holding SE for the period from 1 January to 30 June 2019

€ million	Note	1st half of 2019	1st half of 2018
Revenue	[1]	52	47
Changes in inventories and own work capitalized		0	0
Other operating income		5	2
Cost of materials		-7	-8
Personnel expenses		–39	–40
Amortization and depreciation		–10	-8
Other operating expenses		–24	–22
Result from investments accounted for at equity	[2]	2,421	1,939
Result before financial result		**2,398**	**1,910**
Finance costs		-2	-1
Other financial result		9	0
Financial result		**7**	**-1**
Result before tax		**2,405**	**1,908**
Income tax		–25	-4
Result after tax		**2,381**	**1,904**
thereof attributable to			
shareholders of Porsche Automobil Holding SE		2,381	1,904
non-controlling interests		0	0
Earnings per ordinary share (basic and diluted)		7.77	6.22
Earnings per preference share (basic and diluted)		7.78	6.22

Consolidated statement of comprehensive income of Porsche Automobil Holding SE for the period from 1 January to 30 June 2019

€ million	1st half of 2019	1st half of 2018
Result after tax	**2,381**	**1,904**
Remeasurements of pensions recognized in equity	-7	
Deferred tax on remeasurements of pensions recognized in equity	2	
Other comprehensive income not to be reclassified to profit or loss in subsequent periods from investments accounted for at equity (before tax)	–2,019	–50
Deferred tax on other comprehensive income not to be reclassified to profit or loss in subsequent periods from investments accounted for at equity	598	16
Deferred tax on investments accounted for at equity	22	
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods	–1,403	–34
Currency translation	0	0
Other comprehensive income to be reclassified to profit or loss in subsequent periods from investments accounted for at equity (before tax)	–250	–681
Deferred tax on other comprehensive income to be reclassified to profit or loss in subsequent periods from investments accounted for at equity	110	181
Deferred tax on investments accounted for at equity	2	
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	–138	–499
Other comprehensive income after tax	**–1,541**	**–534**
Total comprehensive income	**840**	**1,371**
thereof attributable to		
shareholders of Porsche Automobil Holding SE	840	1,371
non-controlling interests	0	0

Consolidated balance sheet of Porsche Automobil Holding SE as of 30 June 2019

€ million	Note	30/6/2019	31/12/2018
Assets			
Intangible assets		248	255
Property, plant and equipment		35	7
Investments accounted for at equity		33,174	32,518[1]
Other financial assets		17	10
Other assets		1	1
Deferred tax assets		1	1
Non-current assets		**33,476**	**32,792**
Inventories		3	3
Trade receivables		22	21
Other financial assets		4	4
Other assets		10	10
Income tax receivables		1	2
Securities		193	138
Time deposits		33	108
Cash and cash equivalents		1,077	630
Current assets		**1,344**	**916**
		34,820	**33,708**
Equity and liabilities			
Subscribed capital	[3]	306	306
Capital reserves	[3]	4,884	4,884
Retained earnings	[3]	32,448	30,601[1]
Other reserves (OCI)	[3]	−3,827	−2,376
Equity attributable to shareholders of Porsche SE		33,811	33,415
Non-controlling interests	[3]	1	1
Equity		**33,812**	**33,416**
Provisions for pensions and similar obligations		43	35
Other provisions	[4]	16	20
Financial liabilities		36	12
Other financial liabilities		0	0
Other liabilities		0	0
Deferred tax liabilities		93	93[1]
Non-current liabilities		**188**	**160**
Provisions for pensions and similar obligations		0	0
Other provisions	[4]	78	78
Trade payables		5	3
Financial liabilities		4	1
Other financial liabilities		12	12
Other liabilities	[5]	719	38
Income tax liabilities		1	1
Current liabilities		**820**	**133**
		34,820	**33,708**

1 Prior-year figures were adjusted due to the change in a purchase price allocation (see note [2])

Consolidated statement of changes in equity of Porsche Automobil Holding SE for the period from 1 January to 30 June 2019

€ million	Equity attributable to the shareholders of Porsche SE						
	Subscribed capital	Capital reserves	Retained earnings	Other reserves (OCI)	Total	Non-controlling interests	Total equity
As of 1 January 2018	306	4,884	27,652	–1,552	31,291	1	31,292
Result after tax			1,904		1,904	0	1,904
Other comprehensive income after tax				–534	–534	0	–534
Total comprehensive income			1,904	–534	1,371	0	1,371
Dividend payment			–538[1]		–538	0	–538
Other changes in equity arising at the level of investments accounted for at equity			–4		–4		–4
As of 30 June 2018	**306**	**4,884**	**29,015**	**–2,086**	**32,119**	**1**	**32,120**
As of 31 December 2018	306	4,884	30,583	–2,376	33,398	1	33,399
Adjustment of the purchase price allocation			17		17		17
As of 1 January 2019 after adjustment	306	4,884	30,601	–2,376	33,415	1	33,416
Result after tax			2,381		2,381	0	2,381
Other comprehensive income after tax				–1,541	–1,541	0	–1,541
Total comprehensive income			2,381	–1,541	840	0	840
Dividends			–676[2]		–676	0	–676
Other changes in equity arising at the level of investments accounted for at equity			142	90	232		232
As of 30 June 2019	**306**	**4,884**	**32,448**	**–3,827**	**33,811**	**1**	**33,812**

1 Distribution of a dividend of €1.754 per ordinary share; total €268,581,250
Distribution of a dividend of €1.760 per preference share; total €269,500,000
2 Resolution to distribute a dividend of €2.204 per ordinary share; total €337,487,500
Resolution to distribute a dividend of €2.210 per preference share; total €338,406,250
3 Prior-year figures were adjusted due to the change in a purchase price allocation (see note [2]).

Equity is explained in note [3].

Consolidated statement of cash flows of Porsche Automobil Holding SE for the period from 1 January to 30 June 2019

€ million	1st half of 2019	1st half of 2018
1. Operating activities		
Result after tax	2,381	1,904
Result from investments accounted for at equity	–2,421	–1,939
Amortization and depreciation	10	8
Gains (-) / losses (+) from the disposal of intangible assets and property, plant and equipment	-3	0
Interest expense	2	1
Interest income	0	0
Income tax expense	25	4
Other non-cash expenses (+) and income (-)	-7	1
Change in other assets	-1	2
Change in provisions for pensions	1	1
Change in other provisions	-4	–14
Change in other liabilities	7	7
Dividends received	753	601
Interest paid	-1	-1
Interest received	0	1
Income tax paid	0	-1
Income tax received	0	0
Cash flow from operating activities	**741**	**577**
2. Investing activities		
Cash paid for the acquisition of intangible assets and property, plant and equipment	-3	-1
Cash received from the disposal of intangible assets and property, plant and equipment	0	0
Cash paid for the acquisition of shares in non-controlling interests	0	
Cash received from the disposal of subsidiaries	3	
Cash paid for the acquisition of shares in investments accounted for at equity	–311	
Cash paid for the acquisition of other shares in entities	-1	-2
Change in investments in securities	–54	-5
Change in investments in time deposits	75	–94
Cash flow from investing activities	**–290**	**–102**
3. Financing activities		
Dividends paid to shareholders of Porsche SE	0	–538
Cash paid to non-controlling interests		0
Cash paid for settlement of financial liabilities	-3	0
Cash flow from financing activities	**-3**	**–538**
4. Cash and cash equivalents		
Change in cash and cash equivalents (subtotal of 1 to 3)	448	–64
Cash and cash equivalents as of 1 January	630	664
Cash and cash equivalents as of 30 June	**1,077**	**600**

Selected explanatory notes

Basis of presentation

Porsche Automobil Holding SE ("Porsche SE" or the "company"), as the ultimate parent of the Porsche SE Group, is a European Company (Societas Europaea) and is headquartered at Porscheplatz 1 in 70435 Stuttgart, Germany. The company is registered at the Stuttgart Local Court under HRB 724512.

The interim condensed consolidated financial statements of Porsche SE as of 30 June 2019 were prepared according to Sec. 115 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] as well as in accordance with the International Accounting Standard (IAS) 34 "Interim Financial Reporting". Furthermore, the interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union (EU).

The half-yearly financial reporting covers the period from 1 January to 30 June of a year. The group's presentation currency is the euro. Unless otherwise stated, all figures are presented in millions of euro (€ million). All figures and percentages are rounded according to customary business practice, so minor discrepancies may arise from the addition of these amounts. Amounts smaller than €0.5 million are stated at zero.

The interim condensed consolidated financial statements and the interim group management report were authorized for issue by the executive board on 5 August 2019. They were discussed with the supervisory board's audit committee before publication.

Furthermore, the half-yearly financial report was reviewed by the group auditor of Porsche SE, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as defined by Sec. 115 WpHG.

Scope of consolidation

The interim condensed consolidated financial statements of Porsche SE for the first half of 2019 include by means of full consolidation all entities controlled by Porsche SE.

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

The scope of consolidation did not change in the reporting period. For further information, please refer to the consolidated financial statements of Porsche SE as of 31 December 2018 in the section "List of shareholdings of the group as of 31 December 2018".

Between early December 2018 and mid-March 2019, Porsche SE acquired 0.9% of the ordinary shares in Volkswagen AG for €397 million in capital market transactions, of which 0.7% or €311 million relates to the period from 1 January to 18 March 2019. As of 31 December 2018 and 30 June 2019, Porsche SE held 52.4% and 53.1% of the ordinary shares in Volkswagen AG, respectively.

New accounting standards

IFRS 16: Leases

IFRS 16 changes the requirements on accounting for leases and replaces IAS 17, SIC-15 and SIC-27. For all leases, lessees must generally recognize a right-of-use asset for the underlying asset and a corresponding lease liability for the payment obligations entered into.

In the course of the first-time adoption of IFRS 16 as of 1 January 2019, the Porsche SE Group has accounted for leases using the modified retrospective method. The prior-year period has not been adjusted. At the Porsche SE Group, the lease liability is measured by the outstanding lease payments discounted using the incremental borrowing rate, while the right-of-use asset is generally measured at the amount of the lease liability. During the lease term, the right-of-use asset is amortized and the lease liability rolled forward using the effective interest method, taking lease payments into account. IFRS 16 grants exemptions for short-term leases and low-value lease assets, which the Porsche SE Group uses and therefore does not recognize right-of-use assets and lease liabilities for such leases. The respective lease payments continue to be recognized as an expense in the income statement. At the time of first-time adoption, leases with terms ending before 1 January 2020 were classified as short-term leases regardless of when the lease agreement started. Furthermore, a reassessment was not performed at the time of first-time adoption for contracts already in place as to whether they constitute a lease or not using the criteria of IFRS 16.

Right-of-use assets recognized in the consolidated balance sheet are presented in the balance sheet item under which the assets underlying the lease would have been recognized had they been under the ownership of Porsche SE. The right-of-use assets are therefore recognized within non-current assets under the item property, plant and equipment as of the reporting date.

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

- Right-of-use assets of €26 million were recognized under property, plant and equipment in the opening balance sheet.
- Lease liabilities of €26 million have been recognized in the opening balance sheet under non-current and current financial liabilities.

There were no effects from first-time application in equity.

At the level of the associates, the new accounting treatment for lessees caused non-current assets and non-current and current financial liabilities to increase in the mid-single-digit billion euro range in each case. First-time adoption did not result in any effects on equity. The increase in financial liabilities had a corresponding negative effect on the net liquidity of the associates. In the income statement, there was a positive effect on the operating result of €0.1 billion in the first half of 2019 at the expense of the financial result. The resulting effects on the results of operations and net assets influence the equity accounting within the consolidated financial statements of Porsche SE in an amount equivalent to Porsche SE's share in capital of its associates.

Accounting policies

For these interim consolidated financial statements, a discount rate for pension provisions of 1.25% (as of 31 December 2018: 2.0%) was used.

Otherwise, the same accounting policies and consolidation principles were generally used to prepare the interim consolidated financial statements as those used in the consolidated financial statements as of 31 December 2018. A detailed description of these methods is published in the notes to the consolidated financial statements in the "Accounting policies" section. Moreover, the effects of new standards are described in more detail under the section "New accounting standards".

Accounting estimates and judgments of the management

The information presented in the section "Accounting estimates and judgments of the management" in the 2018 consolidated financial statements remains unchanged. For the issues below, the following new developments and findings arose in the first half of 2019:

Diesel issue at the level of the Volkswagen Group
On 18 September 2015, the US Environmental Protection Agency (EPA) publicly announced in a notice of violation that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the USA. This was followed by further reports on the scope of the diesel issue. Detailed information can be found in the 2018 consolidated financial statements of Porsche SE in the section "Accounting estimates and judgments of the management".

In the first half of the fiscal year 2019, additional expenses of €1.0 billion for legal risks had to be recognized in this connection at the level of the Volkswagen Group. They largely result from additional expenses for legal risks in particular from the administrative order issued by the Stuttgart public prosecutor in May 2019 of €0.5 billion, thereby settling the ongoing misdemeanor proceeding against Dr. Ing. h.c. F. Porsche AG, as well as higher legal defense costs. Furthermore, there continue to be no conclusive findings or assessments of facts available at the level of the Volkswagen Group that would suggest that a different assessment of the associated risks (e.g., lawsuits filed by investors) should have been made.

Legal disputes
For new developments with regard to legal disputes, please refer to the section "Significant events and developments at the Porsche SE Group" in the interim group management report. The amount of the provisions for litigation costs recognized continues to correspond to the respective attorneys' fees and litigation expenses anticipated in this connection.

New findings and developments with regard to the diesel issue and legal proceedings could have an effect on the results of operations, financial position and net assets of the Porsche SE Group.

Notes to the consolidated income statement

[1] Revenue

Revenue primarily relates to the ITS segment (see note [6]) and breaks down by main category as follows:

€ million	1st half of 2019	1st half of 2018
Licenses	13	14
Maintenance	16	13
Projects	12	12
Hosting	10	7
Others	1	0
	52	**47**

[2] Result from investments accounted for at equity

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

€ million	1st half of 2019	1st half of 2018
Income from first-time at equity accounting of newly acquired shares	326	
Result from ongoing at equity accounting before purchase price allocations	2,150	1,982
Effects from purchase price allocations	−55	−43
	2,421	**1,939**

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

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

The acquisitions resulted overall in preliminary income from first-time at equity accounting of €423 million, of which €97 million relates to transactions performed by the end of the fiscal year 2018. Income from first-time at equity accounting of newly acquired shares results from the difference between the pro rata revalued equity of the Volkswagen Group and the acquisition cost of the ordinary shares in Volkswagen AG. This is mainly attributable to the fact that the fundamental data for the Volkswagen Group used particularly in the valuation of the brands and the investments accounted for at equity are not fully reflected in the share price and therefore not the acquisition cost when calculating the pro rata revalued equity. In addition, negative effects on the share price and purchase price arising from the diesel issue did not have to be accounted for to the same extent.

The brands were valued using the relief from royalty method. When applying the relief from royalty method, the fair value of the brands was calculated using a fictitious royalty as a percentage of revenue relevant for each brand based on the planning of the Volkswagen Group. The royalty rate was calculated using internal studies and data; a sustainable growth rate of 0.5% was assumed for the calculation. The investments accounted for at equity were mainly valued on the basis of the discounted cash flow method. The respective planning of the Volkswagen Group as well as a sustainable growth rate of 0.5% was likewise used as a basis for this. The valuation of the brands and of the investments accounted for at equity was based on country-and asset-specific after-tax cost of capital rates in the range of between 5.5% and 9.7%.

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

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

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

The purchase price allocation was still provisional at the time of preparing the interim consolidated financial statements. New findings at the level of the Volkswagen Group may result in further adjustments.

[3] Equity

The development of equity is presented in the consolidated statement of changes in equity and in the consolidated statement of comprehensive income.

Porsche SE's subscribed capital totals €306.25 million and, as before, is divided into 153,125,000 ordinary shares and 153,125,000 non-voting preference shares. Each share represents a €1 notional value of the fully paid-in subscribed capital. The preference shares carry an additional dividend of 0.6 cents per share if net profit is available for distribution.

On 27 June 2019, the annual general meeting of Porsche SE resolved to distribute a dividend of €2.204 (€1.754) per ordinary share and €2.210 (€1.760) per preference share for the fiscal year 2018.

[4] Other provisions

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

	30/6/2019			31/12/2018		
€ million	current	non-current	Total	current	non-current	Total
Provisions for bonuses and personnel costs	4	1	4	5	0	6
Provisions for costs of litigation	17	13	30	15	18	33
Sundry other provisions	58	2	60	58	2	60
	78	**16**	**94**	**78**	**20**	**98**

[5] Other liabilities

The increase in other liabilities is largely attributable to the dividend of Porsche SE resolved at the annual general meeting on 27 June 2019, but which had not yet been paid out to the shareholders as of the reporting date.

Other notes

[6] Segment reporting

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

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

Reporting segments 1st half of 2019:

€ million	PSE	ITS	Total segments	Reconciliation	Group 30/6/2019
Revenue from external third parties	0	52	52	0	52
Result after tax	2,385	-4	2,381		2,381

Reporting segments 1st half of 2018:

€ million	PSE	ITS	Total segments	Reconciliation	Group 30/6/2018
Revenue from external third parties	0	47	47	0	47
Result after tax	1,916	– 11	1,904		1,904

[7] Disclosures on financial instruments

The following table shows the reconciliation of balance sheet items to the classes of financial instruments corresponding to the measurement categories at the Porsche SE Group, broken down by the carrying amount and the fair value of the financial instruments:

	30/6/2019				
	Measured at fair value through profit or loss	Measured at amortized cost		Not in the scope of IFRS 7	Balance sheet item
€ million	Carrying amount	Carrying amount	Fair value	Carrying amount	
Non-current assets					
Investments accounted for at equity	n/a	n/a	n/a	33,174	33,174
Other financial assets	16	0	0	n/a	17
Current assets					
Trade receivables	n/a	22	22	n/a	22
Other financial assets	1	3	3	n/a	4
Securities	143	50	50	n/a	193
Time deposits	n/a	33	33	n/a	33
Cash and cash equivalents	n/a	1,077	1,077	n/a	1,077
Non-current liabilities					
Financial liabilities	n/a	36	36	n/a	36
Other financial liabilities	n/a	0	0	n/a	0
Current liabilities					
Trade payables	n/a	5	5	n/a	5
Financial liabilities	n/a	4	4	n/a	4
Other financial liabilities	0	12	12	n/a	12

€ million	31/12/2018				
	Measured at fair value through profit or loss	Measured at amortized cost		Not in the scope of IFRS 7	Balance sheet item
	Carrying amount	Carrying amount	Fair value	Carrying amount	
Non-current assets					
Investments accounted for at equity	n/a	n/a	n/a	32,518[1]	32,518[1]
Other financial assets	9	0	0	n/a	10
Current assets					
Trade receivables	n/a	21	21	n/a	21
Other financial assets	1	3	3	n/a	4
Securities	138	n/a	n/a	n/a	138
Time deposits	n/a	108	108	n/a	108
Cash and cash equivalents	n/a	630	630	n/a	630
Non-current liabilities					
Financial liabilities	n/a	12	12	n/a	12
Other financial liabilities	0	0	0	n/a	0
Current liabilities					
Trade payables	n/a	3	3	n/a	3
Financial liabilities	n/a	1	1	n/a	1
Other financial liabilities	0	11	11	n/a	12

1 Prior-year figures were adjusted due to the change in a purchase price allocation (see note [2])

The principles and methods on fair value measurement remain unchanged on the prior year. Detailed explanations on the measurement principles and methods can be found in the consolidated financial statements as of 31 December 2018 under “Accounting policies”.

The financial instruments measured at fair value through profit or loss largely comprise securities, other non-current financial assets and derivatives that were not designated as hedging instruments.

The allocation of fair values to the various hierarchy levels is based on the availability of observable market data on an active market. Level 1 presents the fair values of financial instruments where a market price on active markets can be determined. Level 2 presents the fair value of financial instruments for which market data are directly or indirectly observable. In particular, interest rate curves, index values and exchange rates are used as key parameters. The presented fair values of the assets are determined using pricing methods, present value methods or the net asset value approach. Fair values of financial instruments in level 3 are calculated using inputs that are not based on observable market data.

Other non-current financial assets measured at fair value were measured using non-observable input parameters and therefore represent level 3 measurements. From this measurement, income of €6 million was recognized in the other financial result.

Other current financial liabilities measured at fair value are calculated using Black-Scholes models and therefore represent measurements according to level 3.

The reported fair values of the securities and non-current liabilities measured at amortized cost are calculated using observable parameters by means of discounted cash flow calculations and therefore represent measurements according to level 2.

Transfers between the levels are taken into account on the respective reporting dates.

The following overview contains the breakdown of the financial instruments accounted for at fair value through profit or loss by level:

€ million	30/6/2019	Level 1	Level 2	Level 3
Financial instruments at fair value				
Non-current other financial assets	16			16
Current other financial assets	1	0	0	
Securities	143	48	95	
Current other financial liabilities	0	0	0	0

€ million	31/12/2018	Level 1	Level 2	Level 3
Financial instruments at fair value				
Non-current other financial assets	9			9
Current other financial assets	1	0	1	
Securities	138	60	79	
Non-current other financial liabilities	0			0
Current other financial liabilities	0	0	0	

Due to changes in the selection of price sources in the reporting period, transfers from level 1 to level 2 of €21 million and from level 2 to level 1 of €6 million were performed for securities.

[8] German Corporate Governance Code

The declaration of the executive board and supervisory board of Porsche SE on the German Corporate German Corporate Governance Code required by Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] was updated in May 2019 and is accessible on the website www.porsche-se.com.

[9] Contingent liabilities from legal disputes

For new developments with regard to legal disputes, please refer to the section "Significant events and developments at the Porsche SE Group" in the interim group management report.

[10] Related parties

Reportable transactions with related parties in the reporting period were exclusively with associates.

Related parties

€ million	Income		Expenses	
	1st half of 2019	1st half of 2018	1st half of 2019	1st half of 2018
Porsche and Piëch families				
Associates	5	0	1	2
	5	**0**	**1**	**2**

€ million	Receivables		Liabilities	
	30/6/2019	31/12/2018	30/6/2019	31/12/2018
Porsche and Piëch families		0		0
Associates	4	1	14	13
	4	**1**	**14**	**13**

Stuttgart, 5 August 2019

Porsche Automobil Holding SE
The executive board

Hans Dieter Pötsch   Dr. Manfred Döss   Philipp von Hagen

Review report

To Porsche Automobil Holding SE

We have reviewed the interim condensed consolidated financial statements, prepared by Porsche Automobil Holding SE, Stuttgart ("Porsche SE"), comprising the condensed balance sheet, the condensed income statement, the condensed statement of comprehensive income, the condensed statement of cash flows, the condensed statement of changes in equity and selected explanatory notes to the financial statements, and the interim group management report for the period from 1 January 2019 to 30 June 2019, which are part of the half-yearly financial report pursuant to Sec. 115 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]. The preparation of the interim condensed consolidated financial statements in accordance with IFRSs on interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim management reports is the responsibility of the company's management. Our responsibility is to issue a report on the interim condensed consolidated financial statements and the interim group management report based on our review.

We conducted our review of the interim condensed consolidated financial statements and interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed consolidated financial statements have not been prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim management reports. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements have not been prepared, in all material respects, in accordance with IFRSs for interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Without qualifying this conclusion, we refer to the information presented by the executive board in the interim group management report sections "Significant events and developments at the Porsche SE Group", "Significant events and developments at the Volkswagen Group" and "Opportunities and risks of the Volkswagen Group", which explain that Porsche SE, Stuttgart, as the majority shareholder of Volkswagen AG, Wolfsburg ("VW AG"), continues to be affected by the diesel issue, mainly through its result from investments accounted for at equity as well as due to the development of the proportional market capitalization of the preference and ordinary shares.

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

The provisions for risks in connection with the diesel issue recognized in the interim consolidated financial statements of VW AG as of 30 June 2019 are based on the information of the executive directors of VW AG as presented. Due to the uncertainties necessarily associated with pending and expected litigation, it cannot be ruled out that the risk estimation by the executive directors of VW AG could change in the future.

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

Stuttgart, 6 August 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Meyer	Koch
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Responsibility statement

We assure to the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim condensed consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group, and the interim group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Stuttgart, 5 August 2019

Porsche Automobil Holding SE
The executive board

Hans Dieter Pötsch | Dr. Manfred Döss | Philipp von Hagen

Financial calendar

12 November 2019
Group quarterly statement 3rd Quarter 2019

This half-yearly financial report is available in German and English.

In case of doubt the German version is binding.

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