Group management report and management report of Porsche Automobil Holding SE

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Fundamental information about the group

Porsche Automobil Holding SE ("Porsche SE" or the "company"), as the ultimate parent of the Porsche SE Group, is a European Company (Societas Europaea) and is headquartered at Porscheplatz 1 in 70435 Stuttgart, Germany. As of 31 December 2021, the Porsche SE Group had 882 employees (916 employees).

The Porsche SE Group is made up of the fully consolidated subsidiaries Porsche Beteiligung GmbH, Stuttgart, Porsche Zweite Beteiligung GmbH, Stuttgart, Porsche Dritte Beteiligung GmbH, Stuttgart, and Porsche Vierte Beteiligung GmbH, Stuttgart. The investments in Volkswagen Aktiengesellschaft, Wolfsburg ("Volkswagen AG" or "Volkswagen"), and INRIX Inc., Kirkland, Washington, USA ("INRIX"), are included in Porsche SE's IFRS consolidated financial statements as associates. PTV Planung Transport Verkehr GmbH, Karlsruhe (formerly PTV Planung Transport Verkehr AG, Karlsruhe) ("PTV"), together with its subsidiaries (collectively the "PTV Group"), is included in Porsche SE's consolidated financial statements as a fully consolidated entity as of 31 December 2021. The PTV Group was deconsolidated in January 2022 following the sale of a majority shareholding in PTV. The non-controlling interest in PTV indirectly remaining at Porsche SE will from now on be included as an associate in Porsche SE's consolidated financial statements.

The business activities of Porsche SE include in particular the acquisition, holding and administration as well as the sale of investments in such companies, their combination under uniform control and the provision of support and advice to them, including the provision of services on behalf of such companies. The management reports for Porsche SE and for the Porsche SE Group are combined in this report ("combined management report").

Investment management of Porsche SE

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 AG, one of the leading automobile manufacturers in the world. 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. In addition to the investment in Volkswagen, the Porsche SE Group holds a stake in the PTV Group, which was fully consolidated until 31 December 2021, as well as non-controlling interests in seven technology companies based in the USA, Israel and Germany.

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.

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 investment in Volkswagen 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.

Core management and financial indicator system

Porsche SE's main corporate goal is to invest in companies that contribute to the mid- and long-term profitability of the Porsche SE Group while securing sufficient liquidity. In line with this corporate goal, the result and liquidity are the core management indicators in the Porsche SE Group.

The IFRS group result after tax is used as the financial indicator for the result of the Porsche SE Group. For liquidity, net liquidity is monitored and managed accordingly. By definition, net liquidity is calculated as cash and cash equivalents, time deposits and securities less financial liabilities.

The management of the Porsche SE Group comprises Porsche SE and the consolidated entities. There is therefore no separate management and forecast of the core management indicators for Porsche SE.

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

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

Report on economic position

Significant events and developments at the Porsche SE Group

Global spread of the coronavirus SARS-CoV-2

The mostly dynamic infection pattern seen in connection with the global spread of the SARS-CoV-2 virus initially continued in many places in 2021. Over the course of the year, many countries largely lifted their restrictions on everyday life and the economy, depending on the progress of their vaccination campaigns. The global spread of the SARS-CoV-2 coronavirus brought enormous disruption to all areas of everyday life and the economy overall in 2021.

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 €14.8 billion in the fiscal year 2021 compared to €8.3 billion in the prior-year period. From January to December 2021, negative special items in connection with the diesel issue affected the passenger cars business area's operating result in an amount of €0.8 billion (€0.9 billion). They largely result from legal risks. Furthermore, the Covid-19 pandemic and the measures taken around the world to contain it as well as the semiconductor shortage had a significant impact on business (see also sections "Business development" and "Results of operations of the Volkswagen Group").

As of 31 December 2021, there were no indicators on the basis of the earnings forecasts of an impairment loss on 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 effects of the Covid-19 pandemic, shortages of intermediates, in particular semiconductors, and commodities, the Russia-Ukraine conflict 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.

Completion of Bridgepoint's investment in PTV

In October 2021, Bridgepoint Advisers Limited, London, UK ("Bridgepoint"), and Porsche SE entered into a partnership to advance the development of PTV. The transaction was completed in January 2022 once all closing conditions had been met. Under this partnership, Bridgepoint has an initial 60% shareholding in PTV, while Porsche SE indirectly retains a significant stake of initially 40% in the company. Porsche SE received a cash inflow of around €0.2 billion from this transaction in the fiscal year 2022. As a result of the deconsolidation, around €0.1 billion in income will also be recorded in the result from discontinued operations in the fiscal year 2022.

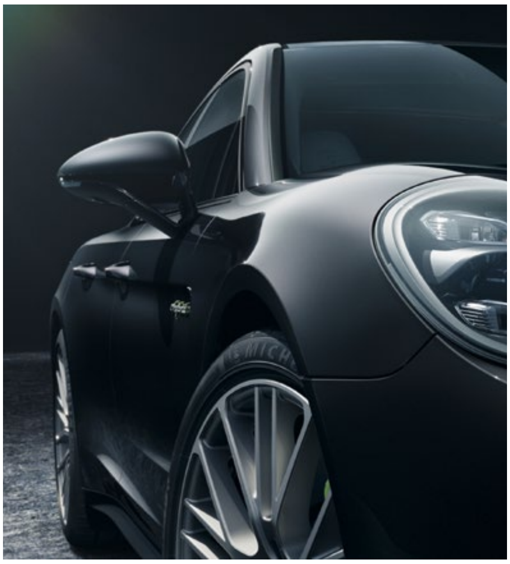
In March 2022, Porsche SE, together with Bridgepoint, acquired the Econolite Group, Inc., Anaheim, California, USA ("Econolite"). Together with PTV, this will create a world-leading technological provider of forward-looking infrastructure and traffic solutions. PTV and Econolite are being combined under a joint holding company. To finance the purchase price, Porsche SE will participate in a capital increase with an amount in the low double-digit million range. With a non-controlling share of around 10%, the previous owners of Econolite will have a stake in the new group, thereby proportionately reducing Porsche SE's and Bridgepoint's shareholding in the combined group comprising PTV and Econolite. The transaction, which is subject to competition clearances, is scheduled to complete by mid-2022.

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 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 increase of the investment in Volkswagen AG. In part these claims are also based on alleged violations of antitrust regulations. In the six initial proceedings suspended with reference to the model case, a total of 40 plaintiffs are asserting alleged claims for damages of about €5.4 billion (plus interest). Since the beginning of the model case, several hearings have already been held before the Higher Regional Court of Celle, in which the court, inter alia, explained its preliminary view on the state of affairs and of the dispute. The next hearings are



scheduled to begin on 28 April 2022. Porsche SE is of the opinion that the claims asserted in the suspended initial proceedings are without merit and that the requested establishment objectives in the model case will be rejected. Porsche SE considers its opinion endorsed by the previous development of the oral hearing before the Higher Regional Court of Celle.

In a proceeding pending before the Regional Court of Frankfurt against an incumbent and a former, meanwhile deceased, member of the supervisory board of Porsche SE, Porsche SE joined as intervener in support of the defendants. In this proceeding the same alleged claims are asserted that are already subject of a currently suspended action concerning alleged damages of about €1.81 billion (plus interest) pending against Porsche SE before the Regional Court of Hanover. No new developments occurred in this proceeding during the reporting period. Porsche SE considers these claims to be without merit.

Since 2012, Porsche SE and two companies of an investment fund have been in dispute over the existence of alleged claims in the amount of about US$195 million and have filed lawsuits in Germany and England respectively. On 6 March 2013, the English proceedings were suspended at the request of both parties until a final decision had been reached in the proceedings commenced in the Regional Court of Stuttgart concerning the question of which court is the court first seized. A final decision on this issue continues to be outstanding. Currently, the proceedings are pending before the Higher Regional Court of Stuttgart. On 21 December 2021, the Regional Higher Court of Stuttgart decided that further witnesses shall be interrogated in the United Kingdom by way of a request for mutual legal assistance. 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 €1.1 billion (plus interest) are pending against Porsche SE before the Regional Court of Stuttgart, the Higher Regional Court of Stuttgart and the Regional Court of Braunschweig. The plaintiffs accuse Porsche SE of alleged nonfeasance of capital market information or alleged incorrect capital market information in connection with the diesel issue. Some of these proceedings are directed against both Porsche SE and Volkswagen AG. Porsche SE considers the actions to be inadmissible in part, but in any case to be without merit.

Before the Regional Court of Stuttgart 204 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 €789.9 million (plus interest) and in part establishment of liability for damages.
24 claims for damages against Porsche SE, with a claim volume (according to the current assessment

of the partially unclear head of claims) of approximately €8.3 million (plus interest), are pending before the Regional Court of Braunschweig. A number of the proceedings pending before the Regional Court of Stuttgart and the Regional Court of Braunschweig are currently suspended with reference to the KapMuG proceedings pending before the Higher Regional Court of Stuttgart and the Higher Regional Court of Braunschweig. Porsche SE considers the actions filed against it before the Regional Court of Stuttgart to be without merit. The actions filed against Porsche SE before the Regional Court of Braunschweig are considered by Porsche SE to be inadmissible and to be without merit.

In addition, three further proceedings, in which a total of further approximately €288 million (plus interest) in damages was claimed, are pending before the Higher Regional Court of Stuttgart on appeal. In two of the appeal proceedings in which a total of approximately €164 million (plus interest) in damages was claimed, the Regional Court of Stuttgart had granted the actions in the amount of approximately €47 million (plus interest) and otherwise dismissed the actions on 24 October 2018. Porsche SE and the respective plaintiffs filed appeals. In one of the proceedings, after oral hearing, the announcement of a decision has been scheduled for 31 March 2022. 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 €124 million (plus interest). Porsche SE considers these actions pending against it before the Higher Regional Court of Stuttgart to be without merit.

A KapMuG proceeding, initiated by order for reference of the Regional Court of Stuttgart of 28 February 2017, is pending before the Higher Regional Court of Stuttgart. On 22 October 2020, the Higher Regional Court of Stuttgart appointed a model case plaintiff. Until now, three oral hearings have taken place before the Higher Regional Court of Stuttgart. The next hearing is scheduled for 13 July 2022. Further oral hearings are currently not determined.

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 26 April 2022.

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.

The regulatory fining proceedings pursuant to Sec. 30, 130 OWiG ["Ordnungswidrigkeitengesetz": German Regulatory Offenses Act] against Porsche SE initiated in connection with the discontinued investigation proceedings on suspicion of market manipulation against (former) board members has meanwhile been terminated.

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 (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.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Significant events and developments at the Volkswagen Group

Covid-19 pandemic/supply shortages

Over the course of 2021, many restrictions were lifted also due to rising vaccination rates. No significant impairment losses relating to the Covid-19 pandemic had to be recognized in Volkswagen AG's consolidated financial statements as of 31 December 2021. The semiconductor shortage and resulting supply shortages had an increasingly negative impact across the entire industry. This also affected production at the Volkswagen Group. For further details, please refer to the chapter "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".

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. In this context, Volkswagen AG announced that noticeable discrepancies between the figures recorded in testing and those measured in actual road use had been identified in type EA 189 diesel engines and that this engine type had been installed in roughly eleven million vehicles worldwide. 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.

The so-called diesel issue is rooted in a modification of parts of the software of the relevant engine control units – which, according to Volkswagen AG's legal position, is only unlawful under US law – for the type EA 189 diesel engines that Volkswagen AG was developing at that time. This software function was developed and implemented from 2006 on without knowledge at the level of Volkswagen's board of management. Members of the board of management did not learn of the development and implementation of this software function until the summer of 2015.

In the fiscal year 2021, special items of €751 million were recognized at the level of the Volkswagen Group in connection with the diesel issue. These special items were attributable to additional expenses of €968 million primarily for legal risks. This was offset by income from damage settlements and income from the reversal of provisions for warranties that are no longer required.

The income from damage settlements of € 217 million was brought about by agreements with former members of the board of management entered into in June 2021 with the goal of achieving speedy, legally certain, and final resolution of the diesel issue as far as the civil liability of members of governing bodies was concerned. To this end, Volkswagen and Audi entered into damage settlements (liability settlements) with Prof. Dr. Winterkorn and Mr. Stadler respectively in connection with the diesel issue. Prof. Dr. Winterkorn's damage payment amounts to €11.2 million and that of Mr. Stadler to €4.1 million. In addition, provisions of €3.1 million were reversed in this context. Volkswagen has furthermore reached agreement with the relevant insurers under its directors and officers liability policies (D&O insurance) on payment of an aggregate sum of €270 million (coverage settlement), of which €196 million was recognized through profit or loss.

In addition, agreement was reached on damage payments by a former member of Audi’s board of management and by a former member of Porsche AG's board of management. One former member of Audi’s board of management was unwilling to reach a settlement; legal action is being prepared against him. Claims were already asserted against a former member of the Volkswagen passenger cars brand board of management. The annual general meeting of Volkswagen AG gave its approval to these agreements on 22 July 2021.

Significant transactions

Acquisition of Navistar

On 1 July 2021, a TRATON GROUP company acquired all of the outstanding shares in Navistar International Corporation (“Navistar”), a US manufacturer of commercial vehicles based in Lisle, Illinois, USA. The purchase price of €3.1 billion (US$3.7 billion) was paid in cash. TRATON now indirectly holds 100% of the shares in Navistar, which was previously accounted for using the equity method (interest of 16.7%). The initial recognition of the acquisition has not been finalized due to the size of the transaction, as the internal reviews of the underlying information have not yet been completed. This means that the amounts recognized by the Volkswagen Group as of 31 December 2021 are provisional. The transition of the treatment of Navistar from equity accounting to consolidation gave rise to a non-cash gain of €182 million during initial consolidation, which was presented in the financial result of the Volkswagen Group. The result after tax including impairment losses on the realization of hidden reserves of the Volkswagen Group decreased by €0.2 billion.

Equity investments held for sale

In March 2021, Brose Fahrzeugteile SE & Co. Kommanditgesellschaft (“Brose”) and VW Finance Luxemburg S.A., a subsidiary of Volkswagen AG, entered into an agreement to establish a jointly operated company for the development and manufacture of complete seat units, seat structures and components, and solutions for the vehicle interior. As part of this arrangement, Brose acquired half of the shares of the Volkswagen Group company SITECH Sp. z o.o., Polkowice, Poland (“SITECH”). Brose and Volkswagen each hold 50% of the jointly operated company, whereby Brose will take the industrial lead. Consequently, Brose will control the jointly operated company and Volkswagen, given its significant influence following the transaction, will account for the company as an associate using the equity method. Once all closing conditions had been met, the transaction was completed on 1 January 2022. The assets of SITECH were classified as held for sale in accordance with IFRS 5 in Volkswagen’s consolidated financial statements as of the end of the fiscal year.

Establishment of Bugatti Rimac d.o.o., Sveta Nedelja, Croatia

In 2021, the Volkswagen Group and Rimac Automobili d.o.o., Sveta Nedelja, Croatia (“Rimac”), established Bugatti Rimac d.o.o., which has its headquarters in Sveta Nedelja. Volkswagen contributed its consolidated subsidiaries Bugatti Automobiles S.A.S, Molsheim, France, and initially 51% of Bugatti International S.A., Strassen, Luxembourg. After proportional profit elimination, the contribution led to a non-cash gain of €124 million, which was recognized in the other operating result of the Volkswagen Group. Rimac holds 55% of the shares in the company, and Volkswagen holds 45% through Porsche AG. In addition, Porsche AG holds a direct interest of 22% in Rimac. In the consolidated financial statements of Volkswagen AG, both equity investments are reported under investments accounted for at equity.

Sale of MAN Truck & Bus Österreich GesmbH, Steyr, Austria

The sale of MAN Truck & Bus Österreich GesmbH, Steyr, Austria (“MTBÖ”), as part of restructuring measures, was completed with effect from 31 August 2021. The assets and liabilities of MTBÖ were presented as a disposal group in the financial statements of the Volkswagen Group until the date of sale. The sale led to the recognition of an expense at the Volkswagen Group, of which €160 million was mainly attributable to impairment losses on property, plant and equipment and €144 million to a loss on deconsolidation. The total expense of €304 million related to the disposal is presented in other operating expenses of the Volkswagen Group.

Merger of MAN SE with TRATON SE

The merger of MAN SE (“MAN”) with TRATON was adopted by resolution of the annual general meeting of MAN SE at the end of June 2021. The merger resolution also triggered the process to transfer the shares held by non-controlling interest shareholders of MAN to TRATON against payment of an appropriate cash settlement (merger squeeze-out). In this context, the present value of the put options granted, amounting to approximately €587 million, was recognized as a current liability directly in equity. The non-controlling interests in the Volkswagen Group’s equity, as well as the retained earnings and other reserves attributable to the shareholders of Volkswagen AG declined accordingly.

The merger of MAN with TRATON was entered in the commercial registers for MAN and TRATON on 31 August 2021. The squeeze-out took legal effect upon entry in the commercial register. This was followed at the beginning of September 2021 by the disbursement of the cash settlement of €70.68 per ordinary and preference share to the non-controlling interest shareholders of MAN SE, thus completing the MAN SE squeeze-out. The appropriateness of the cash settlement is being reviewed by judicial award proceedings initiated by non-controlling interest shareholders who had received a settlement as a result of the squeeze-out.

Investment in Northvolt AB

In mid-June 2021, Volkswagen and the Swedish battery cell producer Northvolt AB agreed to concentrate production of Volkswagen premium cells in Skellefteå, Sweden. In connection with this, Volkswagen participated in a financing round at Northvolt AB that was proportionate to its shareholding, investing a further US$650 million in the company. Volkswagen also increased its existing convertible loan by a further €190 million and, at the same time, converted this part of the loan to preference shares. This increased Volkswagen's ownership interest in Northvolt AB to 23.6%. Due to favorable terms and conditions on conversion, the measurement of the converted loan resulted in non-cash income of €62 million at the Volkswagen Group. As a result, the carrying amount of the equity investment in Northvolt AB rose by €796 million at the Volkswagen Group. A convertible loan of €240 million remains on issue.

Equity investment in Gotion High-Tech Co., Ltd.

To expand its battery expertise, Volkswagen acquired an interest in Gotion High-Tech Co., Ltd., Hefei, China ("Gotion"), through Volkswagen (China) Investment Co. Ltd., making it the largest shareholder of the Chinese battery supplier at 26%. The Volkswagen Group spent a total of €1.2 billion on this transaction. The investment is accounted for using the equity method in the consolidated financial statements of Volkswagen AG.

Takeover offer for the shares of Europcar

At the end of July 2021, the Volkswagen supervisory board approved an agreement with investment firm Attestor Limited and with Pon Holdings B.V. for the submission of a joint public takeover offer for the shares of Europcar Mobility Group S.A., Paris, France ("Europcar") through a consortium company. Following a successful review of the offer documents, the French regulator approved the takeover offer at the end of November 2021. The period during which the Europcar shareholders can tender their shares began at the end of November 2021. Together with its two partners, Volkswagen is offering a price of €0.50 per Europcar share through the consortium company. If more than 90% of the shares are tendered, an additional one cent per share will be paid. As matters stand, the consortium will assume joint control of Europcar if the offer is accepted.

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 expense of €103 million in the fiscal year 2021, which was recognized in the financial result of the Volkswagen Group.

Antitrust investigations

In April 2019, the European Commission issued an initial statement of objections to Volkswagen AG, AUDI AG and Porsche AG in connection with the Commission’s antitrust investigation of the automobile industry. These objections stated the European Commission's preliminary evaluation of the matter and afforded the opportunity to comment. Following entry into a formal settlement procedure, in April 2021 the Commission issued a revised statement of objections raising charges that were considerably more narrow. On this basis, a settlement decision was issued on 8 July 2021 concluding the administrative action and assessing a total fine of roughly €502 million against the three brands. This amount has been recognized under other operating expenses at the Volkswagen Group. The subject matter scope of the decision is limited to the cooperation of German automobile manufacturers on individual technical questions in connection with the development and introduction of SCR (selective catalytic reduction) systems for passenger cars that were sold in the European Economic Area. The manufacturers are not charged with any other misconduct such as price fixing or allocating markets and customers.

Volkswagen accepted the decision, which was served on 12 July 2021, and filed no appeal, thus allowing the decision to become final.

In 2011, the European Commission conducted searches at European truck manufacturers for suspected unlawful exchange of information during the period from 1997 to 2011; in November 2014, the Commission issued a statement of objections to MAN, Scania, and the other truck manufacturers concerned. In its settlement decision of July 2016, the European Commission assessed fines against five European truck manufacturers. MAN’s fine was waived in full as the company had informed the European Commission about the irregularities as a key witness.

In September 2017, the European Commission fined Scania €0.9 billion. Scania appealed to the European Court of Justice in Luxembourg and mounted a comprehensive defense. In a judgment rendered in February 2022, the European General Court (Court of First Instance) rejected Scania’s appeal in its entirety. Scania is currently analyzing the judgment and will in timely fashion decide whether to appeal it to the European Court of Justice. Scania had already recognized a provision of €0.4 billion in 2016 and increased this provision to approximately €0.9 billion in the reporting year.

Business development

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

General economic development

The global economy recovered in 2021 due to the temporary relaxation of many restrictions and recorded growth of 5.6% (minus 3.4%). The average rate of expansion of gross domestic product was far above the prior-year level in both the advanced economies and the emerging markets. The progress made by many countries in administering vaccines to their populations had a positive effect, while the emergence of new variants of the virus led to renewed national rises in infections. At a national level, performance was dependent among other things on the extent to which the negative impacts of the Covid-19 pandemic were materializing and the intensity with which measures were taken to contain the spread. The governments and central banks of numerous countries continued to maintain their expansionary fiscal and monetary policy measures. Interest rates therefore remained relatively low. Prices for many energy and other commodities rose significantly on average year on year, amid growing shortages of intermediates and commodities. On a global average, consumer prices increased at a faster pace than in 2020, and global trade in goods grew in the reporting year.

Trends in the markets for passenger cars and light commercial vehicles

In the fiscal year 2021, the volume of the passenger car market worldwide rose moderately by 4.2% to 70.9 million units from a weak level in the prior year. However, the growth was uneven owing to the effects of the Covid-19 pandemic, which varied strongly from region to region both in 2020 and in the reporting period. The semiconductor shortage and the resulting supply shortages also had a negative impact in the second half of 2021. The overall markets of the Asia-Pacific, South America, Africa and Middle East regions recorded above-average growth. Increases in Central and Eastern Europe as well as in North America were slightly below the global average, while in Western Europe, the market volume declined further, falling short of the poor prior-year figure.

In the reporting period, the global volume of new registrations for light commercial vehicles was slightly (1.5%) higher than in the prior year.

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 broadened the relevant markets in the commercial vehicles business, both for trucks and for the school bus segment, which expanded 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 experienced pronounced growth versus the comparison period in the fiscal year 2021 (up 19.5%). In comparison with the prior year, which had been adversely affected by the Covid-19 pandemic, a recovery of the truck markets could be observed worldwide.

There was moderate growth in demand overall (up 3.0%) in the bus markets that are relevant for the Volkswagen Group compared with the prior year.

Trends in the markets for financial services

Demand for automotive financial services was buoyant in 2021 due, among other things, to the persistently low key interest rates in the main currency areas. Nevertheless, the Covid-19 pandemic and the limited vehicle availability due to the semiconductor shortage put pressure on the demand for financial services in almost all regions. Overall, a continuing shift from financing to leasing is being observed. Demand for mobility services in the retail and business customer segment increased. These services focus on the use rather than ownership of an automobile, for example car subscription models. There was also a moderate increase in demand for service products such as maintenance and servicing agreements or insurance, given that they allow customers to calculate total operating costs.

Volkswagen Group deliveries

The Volkswagen Group delivered 8.9 million vehicles to customers worldwide in the fiscal year 2021. This was 4.5% or 0.4 million units less than in the prior year. While sales figures for the passenger cars business area fell short of the prior-year figure, commercial vehicle deliveries to customers rose year on year.

With regard to the trend in our deliveries to customers, there were some appreciable differences across individual countries and regions in the reporting year, depending on the latest infection rates, the related restrictions and the scale of disruption caused by the pandemic in the prior-year period. Furthermore, the semiconductor shortage and the resulting limited availability of group models meant that demand could not be adequately met in some regions, particularly from the third quarter of

2021 onwards. While the number of vehicles delivered to customers in the individual months of the first half of 2021 only failed to exceed the prior-year figure in January, the number of vehicles delivered to customers in the second half of the year was below the comparative figure for the prior year in every month. Nevertheless, SEAT, Bentley, Lamborghini and Porsche all surpassed their prior-year figures. In the North America, South America, Middle East and Africa regions, Volkswagen registered higher sales figures than in the prior year.

The Volkswagen Group's sales figures continued to respond positively to its e-mobility campaign. In the fiscal year now ended, we delivered 0.5 million all-electric vehicles to customers worldwide, 0.2 million units more than in the prior year and accounting for 5.1% (2.5%) of the Volkswagen Group's total deliveries. Its plug-in hybrid models also remained very popular with the Volkswagen Group's customers, with 0.3 million (0.2 million) units being sold. As a result, electric vehicle deliveries climbed by 80.0%, with their share of total group deliveries rising to 8.6% (4.6%).

In an overall global market exhibiting moderate growth, Volkswagen achieved a passenger car market share of 11.7% (12.9%).

In the fiscal year 2021, the Volkswagen Group delivered 42.6% more commercial vehicles to customers worldwide than in the same period of the prior year, when demand was affected by a slump in core markets, which had been further intensified by the uncertainty generated by the Covid-19 pandemic. The Volkswagen Group delivered a total of 0.3 million commercial vehicles to customers.

Volkswagen Group deliveries from 1 January to 31 December[1]

	2021	2020	Change %
Regions			
Europe/Other markets	3,848,309	3,907,290	–1.5
North America	908,427	785,801	15.6
South America	514,626	489,698	5.1
Asia-Pacific	3,610,595	4,122,202	–12.4
Worldwide	**8,881,957**	**9,304,991**	**–4.5**
by brands			
Volkswagen passenger cars	4,896,914	5,328,090	–8.1
ŠKODA	878,202	1,004,816	–12.6
SEAT	470,531	426,641	10.3
Volkswagen commercial vehicles	359,546	371,609	–3.2
Audi	1,680,512	1,692,773	–0.7
Lamborghini	8,405	7,430	13.1
Bentley	14,659	11,206	30.8
Porsche	301,915	272,162	10.9
Bugatti[2]	63	77	–18.2
Passenger cars and light commercial vehicles total	**8,610,747**	**9,114,804**	**–5.5**
Scania	90,366	72,085	25.4
MAN	150,968	118,102	27.8
Navistar	29,876	-	x
Commercial vehicles total	**271,210**	**190,187**	**42.6**

1 Prior-year deliveries have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures. From 1 July 2021, the figures include Navistar.

2 Until 31 October 2021.

Sales, production and inventories at the Volkswagen Group

The Volkswagen Group’s unit sales to the dealer organization[1] decreased by 6.3% to 8.6 million units (including the Chinese joint ventures) in the reporting year. Navistar has been included in these figures since 1 July 2021. During the reporting period, demand in markets around the world recovered from the declines in sales in the prior-year period precipitated by the Covid-19 pandemic. However, the limited vehicle availability due to the semiconductor shortage had a detrimental impact. Overall, the unit sales volume fell by 5.5% outside Germany – especially in China – and unit sales decreased by 12.2% in Germany.

In the reporting period, the Volkswagen Group produced 8.3 million vehicles (including the Chinese joint ventures), 6.9% less than in the same period of the prior year. The prior year had been marked by the impact of national measures to contain the pandemic, which had led to the disruption of supply chains with production subsequently being halted in the Volkswagen Group. In the fiscal year 2021 as well, supply shortages, especially for semiconductors, resulted in production cutbacks so that the total annual production volumes dropped even further. Navistar has been included in the group figures since 1 July 2021.

Global inventories of new vehicles at group companies and in the dealer organization were much lower at the end of the reporting period than at year-end 2020.

Volkswagen Group financial services

The financial services division’s products and services were popular in the fiscal year 2021, although demand was impaired by the Covid-19 pandemic and the limited vehicle availability due to the semiconductor shortage. Since 1 July 2021, the financial services business of Navistar has also been included in the financial services division. At 8.6 million (8.6 million), the number of new financing, leasing, service and insurance contracts worldwide was on the prior-year level. The ratio of leased and financed vehicles to group deliveries (penetration rate) in the financial services division’s markets rose to 36.1% (35.5%). As of 31 December 2021, the total number of contracts was 24.5 million, up 1.7% from the end of 2020.

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

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 fiscal year 2021 and as of 31 December 2021. While the prior-year figures for the results of operations relate to the period from 1 January to 31 December 2020, the financial position and net assets use figures as of 31 December 2020 as comparative figures.

The majority of the shares in PTV were sold in January 2022 (see the section “Significant events and developments at the Porsche SE Group”) as part of Porsche SE’s commitment to developing its investment strategy further. The central elements of this strategy include partnering with renowned investors. Until 30 September 2021, the business of PTV formed the business segment “Intelligent Transport Systems” (“ITS”), which comprised the development of smart software solutions for transport logistics, traffic planning and traffic management. Since then, PTV has been classified as a discontinued operation as defined by IFRS 5. As a result, the income and expenses previously allocated to the ITS segment have been presented net in separate line items (“from discontinued operations”) in the income statement for both the reporting and the comparative period; the same has been done for the cash flows previously allocated to the ITS segment in the statement of cash flows. Furthermore, all assets and liabilities previously allocated to the ITS segment were recognized in the balance sheet items “assets classified as held for sale” or “liabilities associated with assets classified as held for sale” as of 31 December 2021.

In this connection, internal management and thus segment reporting along Porsche SE’s investment strategy was developed further. Segment reporting is now split into the two segments “core investment” and “portfolio investments”. These two segments combined previously formed the “PSE” segment. Furthermore, in the consolidated income statement, income and expenses from the measurement of portfolio investments at fair value are no longer recognized under the financial result as previously, but instead together with the result from investments accounted for at equity under the result from investments.

In order to ensure comparability of the figures for the fiscal year 2021 with the prior year, the figures below have been adjusted to bring them into line with the new segment and income statement structure.

Results of operations of the Porsche SE Group

The result after tax of the Porsche SE Group came to €4,566 million (€2,624 million) in the fiscal year 2021. Of this, €4,563 million (€2,630 million) related to continuing operations and €3 million (minus €7 million) to discontinued operations. In turn, of the result after tax from continuing operations,

€4,575 million (€2,580 million) relates to the core investment segment and minus €12 million (€50 million) to the portfolio investments segment.

The combined group management report for the fiscal year 2020 forecast a group result after tax of between €2.6 billion and €4.1 billion for the fiscal year 2021. On 29 July 2021, Porsche SE had adjusted its forecast for the group result after tax based on the updated outlook of Volkswagen AG for the fiscal year 2021. The group result after tax was within the adjusted corridor of between €3.4 billion and €4.9 billion.

Other comprehensive income of the Porsche SE Group of €2,421 million (minus €1,234 million) mainly contains effects resulting from the investment in Volkswagen AG accounted for at equity that largely relate to actuarial gains from the remeasurement of pension provisions of €1,302 million (minus €612 million) and to currency translation of €1,072 million (minus €935 million).

The result in the core investment segment was significantly influenced by the investment in Volkswagen accounted for at equity of €4,628 million (€2,651 million). This contains profit contributions from ongoing at equity accounting before purchase price allocations of €4,660 million (€2,614 million) as well as subsequent effects from purchase price allocations of minus €32 million (minus €90 million). In the prior year, the result from equity accounting also included income from the acquisition of further ordinary shares in Volkswagen of €127 million. The increase in the result accounted for at equity is attributable to the positive development in the result at the level of the Volkswagen Group, after the prior year had been more heavily affected by the Covid-19 pandemic (see the section “Results of operations of the Volkswagen Group” below).

Other operating income, personnel expenses, amortization and depreciation and other operating expenses in the core investment segment virtually match the amounts for the group as a whole and have not changed significantly compared to the prior year. As in the prior year, other operating expenses mainly relate to legal and consulting fees.

The financial result of minus €7 million (minus €4 million) primarily contains expenses from expected interest payments for taxes from prior years.

The income tax expense of €3 million (€24 million) comprises an expense from current income taxes of €4 million (income of €0 million) as a result of expected tax backpayments for past fiscal years and income from deferred taxes of €1 million (expense of €25 million).

The financial result and income tax expenses of the core investment segment virtually match the corresponding figures of the Porsche SE Group.


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The result after tax of the portfolio investments segment largely corresponds to its result from investments, which contains income of €5 million (€59 million) and expenses of €22 million (€0 million) from the fair value measurement of portfolio companies as well as the results from investments accounted for at equity of €3 million (minus €9 million).

Financial position of the Porsche SE Group

Net liquidity of the Porsche SE Group, i.e., cash and cash equivalents, time deposits and securities less financial liabilities, increased to €641 million (€563 million) compared to 31 December 2020. This was therefore within the corridor forecast for net liquidity of between €0.4 billion and €0.9 billion.

Cash flow from operating activities amounted to €733 million (€773 million) in the reporting period. This primarily contains the dividend from the investment in Volkswagen AG of €756 million (€756 million). Cash inflow from the prior year also included income tax refunds and any interest accrued thereon.

There was a cash outflow from investing activities of €4 million (€186 million) in the fiscal year 2021. Cash received of €51 million from the sale of some shares in a portfolio company (AEVA Inc.) was counter-balanced by cash paid in connection with, among other things, the acquisition of investments and participation in subsequent financing rounds at existing investments totaling €23 million (€2 million) as well as the investment of time deposits and securities of €30 million (€101 million). The comparative figure for the prior-year period also contained cash paid of €81 million for the acquisition of further ordinary shares in Volkswagen AG.

There was a cash outflow from financing activities totaling €691 million (€680 million) in the reporting period, largely due to dividend payments made to the shareholders of Porsche SE.

Cash and cash equivalents increased to €271 million (€259 million) compared to 31 December 2020 taking into account the deducted cash and cash equivalents from discontinued operations. In addition to that, Porsche SE has at its disposal a credit facility with a volume of €1 billion and a term until July 2025.

Net assets of the Porsche SE Group

Compared to 31 December 2020, the Porsche SE Group's total assets increased by €6.3 billion to €42.5 billion as of 31 December 2021.

The Porsche SE Group's non-current assets of €41.6 billion (€35.6 billion) primarily relate to the investments accounted for at equity. These include in particular the carrying amount of the investment in Volkswagen AG accounted for at equity, which increased by €6.3 billion to €41.5 billion. Of the increase in the carrying amount, €4,660 million is attributable to the result from ongoing equity accounting, minus €32 million to effects from the subsequent measurement of the hidden reserves and liabilities identified and €2,453 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. By contrast, dividends allocated of minus €756 million as well as proportionate adjustments to equity not recognized through total comprehensive income at the level of the Volkswagen Group of minus €61 million reduced the carrying amount accounted for at equity.

The decrease in non-current other financial assets to €45 million (€88 million) is largely attributable to the sale of some shares in a portfolio company (AEVA Inc.).

Current assets of €960 million (€637 million) mainly consist of assets classified as held for sale, cash and cash equivalents, time deposits and securities.

The reclassification of assets previously allocated to the ITS segment to the item “assets classified as held for sale” relates primarily to intangible assets of €218 million, property, plant and equipment of €32 million, trade receivables of €18 million, other assets of €22 million and cash and cash equivalents of €25 million.

The equity of the Porsche SE Group increased to a total of €42.2 billion (€35.9 billion) due to the positive total comprehensive income as of 31 December 2021; this was counterbalanced – as in the prior year – by dividend payments made to the shareholders of Porsche SE. The equity ratio of 99.2% remained constant compared to the end of the fiscal year 2020.

The reclassification of liabilities previously allocated to the ITS segment to the item “liabilities associated with assets classified as held for sale” relates primarily to financial liabilities of €25 million, other liabilities of €61 million and deferred tax liabilities of €20 million.

Results of operations of the Volkswagen Group

The following statements relate to the original profit/loss figures of the Volkswagen Group in the fiscal year 2021. 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.

Against the backdrop of a global economic recovery and despite the continuing impact of the Covid-19 pandemic, and in particular limited vehicle availability as a result of the semiconductor shortage, the Volkswagen Group generated revenue of €250.2 billion in the fiscal year 2021, 12.3% more than in the prior year, despite the decline in unit sales. Mix effects, better price positioning, and the good business performance of the financial services division and the commercial vehicles business area particularly had a positive impact. The semiconductor shortage and the resulting limited availability of vehicles led to a reduction in vehicle sales. Changes in exchange rates also had a negative effect. At 82.3% (80.8%), most of the revenue was generated abroad. Gross profit increased by €8.3 billion to €47.2 billion. The gross margin went up to 18.9% (17.5%).

The Volkswagen Group's operating result before special items improved by €9.4 billion to €20.0 billion in the reporting period. The operating return on sales before special items increased to 8.0% (4.8%). The rise was mainly attributable to positive mix effects, improved price positioning and positive effects of €2.5 billion (minus €0.1 billion) from the measurement of derivatives to which hedge accounting is not applied (especially commodity hedging derivatives). The good business performance of the financial services division also made a positive contribution. One-off expenses of €0.7 billion for restructuring measures were recognized in the commercial vehicles business area. These primarily include expenses from the sale of the commercial vehicle plant in Steyr, which became effective on 31 August 2021. In addition, incurred expenses of around €0.5 billion in connection with the EU antitrust proceedings against Scania had a negative effect. Special items in connection with the diesel issue weighed on the operating result, reducing this item by minus €0.8 billion (minus €0.9 billion). The Volkswagen Group's operating profit doubled to €19.3 billion (€9.7 billion), resulting in a rise in the operating return on sales to 7.7% (4.3%).

The financial result decreased by €1.1 billion year on year to €0.9 billion. The other financial result included negative effects from forward purchase agreements for new shares in QuantumScape (minus €0.6 billion). In the prior year, the measurement and realization of these forward agreements had led to a non-cash gain of €1.4 billion. Moreover, the share of the result of investments accounted for at equity was down on the prior-year period. This is primarily attributable to the lower profit generated by the Chinese joint ventures, which is again a reflection of the semiconductor shortage and the resulting limited availability of vehicles. The interest expenses included in the financial result increased, due mainly to the interest cost on provisions. In the prior year, changes in share prices had weighed on net income from securities and funds as a result of the Covid-19 pandemic.

The Volkswagen Group's result before tax rose to €20.1 billion (€11.7 billion). The return on sales before tax increased to 8.0% (5.2%). Income taxes resulted in an expense of €4.7 billion (€2.8 billion) in the fiscal year 2021, which in turn led to a tax rate of 23.3% (24.4%). The result after tax went up by €6.6 billion to €15.4 billion.

Porsche Automobil Holding SE (financial statements pursuant to the German Commercial Code)

The following explanations of the results of operations, financial position and net assets relate to the separate financial statements of Porsche SE for the fiscal year 2021.

Results of operations

Porsche SE achieved a net profit of €824 million (€703 million) in the fiscal year 2021. The result after tax amounted to €825 million (€703 million).

Other operating expenses of €34 million (€33 million) mainly contain legal and consulting fees of €24 million (€21 million).

In the fiscal year 2021, Porsche SE received a dividend from its investment in Volkswagen AG of €756 million (€756 million).

In the reporting period, profit and loss transfer agreements resulted in a positive effect on the result from investments of €120 million (negative effect of €8 million). This results in particular from reversals of impairment losses on previously impaired shares in PTV and INRIX as well as from proceeds from the sale of some shares in a portfolio investment (AEVA Inc.).

The interest result for the fiscal year 2021 primarily comprises interest expenses for expected tax backpayments for prior years.

Income tax as well as other tax is largely attributable to expected tax backpayments for past fiscal years.

Income statement of Porsche Automobil Holding SE

€ million	**2021**	2020
Revenue	0	0
Other operating income	7	4
Personnel expenses	–15	–15
Other operating expenses	–34	–33
Result from investments	876	748
Interest result	–6	–2
Income tax	–4	0
Result after tax	**825**	**703**
Other tax	–1	0
Net profit	**824**	**703**
Transfer to (-) / withdrawal from (+) retained earnings	–41	–27
Net profit available for distribution	**783**	**676**

Net assets and financial position

Non-current assets of €22,896 million (€22,945 million) primarily contain the investment in Volkswagen AG of €22,512 million (€22,512 million). The decrease in non-current assets is mainly due to the sale of securities classified as non-current assets of €52 million.

Receivables and other assets largely comprise receivables from affiliates from profit/loss transfer.

Cash and cash equivalents contain bank balances including short-term time deposits. The increase in cash and cash equivalents was primarily attributable to the surplus of €80 million from dividend payments received of Volkswagen AG over the dividends paid to shareholders of Porsche SE. This was counterbalanced primarily by cash paid for other operating expenses relating to holding activities.

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

As before, the liabilities relate largely to loan relationships entered into with subsidiaries.

Balance sheet of Porsche Automobil Holding SE

€ million	**31/12/2021**	31/12/2020
Assets		
Non-current assets	22,896	22,945
Receivables and other assets	126	1
Marketable securities	145	95
Cash and cash equivalents	463	412
	23,631	**23,453**
Equity and liabilities		
Equity	23,386	23,238
Provisions	108	92
Liabilities	137	123
	23,631	**23,453**

Risks relating to the business development

The risks relating to the development of Porsche SE's business are closely connected to the risks relating to the significant investment in Volkswagen AG and to the development of the legal proceedings. The risks are described in the section "Opportunities and risks of future development".

Dividends

Porsche SE's dividend policy is generally geared to sustainability. The shareholders should participate in the success of Porsche SE in the form of an appropriate dividend, while taking the objective of securing sufficient liquidity into consideration, in particular for the purpose of acquiring future investments.

The separate financial statements of Porsche SE as of 31 December 2021 report a net profit available for distribution of €783 million consisting of a net profit of €824 million and a transfer to retained earnings of €41 million. The board of management proposes a resolution for the distribution of a dividend of €2.554 per ordinary share and €2.560 per preference share, i.e., a total distribution of €783 million.

Dependent company report

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

Outlook

We refer to the statements in the section "Anticipated development of the Porsche SE Group", which also in particular reflect the expectations for the parent company. Based on the dividend proposed by the board of management and supervisory board of Volkswagen AG, Porsche SE expects a dividend of €7.50 per Volkswagen ordinary share and €7.56 per Volkswagen preference share for the fiscal year 2021. As a result, dividend income from Volkswagen of €1.2 billion is expected at the level of Porsche SE for the fiscal year 2021, which is likely to have significant impact on the 2022 separate financial statements.


IN RS 3302

Sustainable value enhancement in the Porsche SE Group

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 investment in Volkswagen 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.

Before acquiring investments, Porsche SE considers both the non-financial and the financial aspects of the target company. The scope of these investigations depends considerably on the company's business model and market coverage.

In addition to the core investment in Volkswagen, the Porsche SE Group has over the past few years invested in several companies that have significant sustainability aspects anchored in their respective business models. With their software solutions and their data portfolio offered, the PTV Group and INRIX aim to optimize traffic and transport routes, thereby making a significant contribution to reducing the consumption of resources and lowering emissions. The innovative 3D printing solutions of our investments Markforged and Seurat Technologies should allow raw materials to be used more efficiently in development and emissions to be reduced by shortening supply chains.

Separate non-financial group report

The separate non-financial group report of the Porsche SE Group pursuant to Sec. 315b HGB for the fiscal year 2021 can be accessed at the latest by 30 April 2022 in German at www.porsche-se.com/unternehmen/corporate-governance and in English at www.porsche-se.com/en/company/corporate-governance.

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

In the past fiscal year 2021 the results of operations of Porsche SE and the Porsche SE Group were largely characterized by the development of the Volkswagen Group. The result after tax of the Porsche SE Group is higher than the profit corridor forecast in the prior year.

The financial position was influenced to a large extent by dividends received and paid as well as by investments and divestitures relating to the portfolio investments. As of 31 December 2021, net liquidity was within the corridor forecast in the prior year of between €0.4 billion and €0.9 billion.

The board of management of Porsche SE considers the economic situation of the company and its significant investment in Volkswagen AG to be positive also in light of the persistent negative effects from the Covid-19 pandemic as well as disruption caused by the semiconductor shortage. Porsche SE expects the Volkswagen Group to maintain its market position in a persistently challenging environment. The board of management of Porsche SE is still fully committed to the company's role as Volkswagen AG's long-term anchor shareholder and remains convinced of the Volkswagen Group's potential for increasing value added. By providing positive support for a possible initial public offering ("IPO") of Porsche AG, Porsche SE is supporting an expansion of the financial flexibility of Volkswagen AG and, at the same time, an increase in the entrepreneurial opportunities of Porsche AG.

Opportunities and risks of future development

Report on opportunities and risks at the Porsche SE Group

Risk management system of the Porsche SE Group

Overview of the risk management system

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

The risk management system of the Porsche SE Group monitors both the direct risks at the level of Porsche SE as well as the significant indirect and direct risks from investments described below. The investments generally have their own independent risk management system and are responsible for managing their own risks. The risk management system can therefore be divided into the sphere of Porsche SE as holding company and the sphere of the investments.

In its risk management system, Porsche SE focuses on risks that may cause the company to negatively deviate from its targets. However, on occasion potential opportunities are also analyzed and presented.

The risk management system is designed to ensure that the management of Porsche SE is always informed of significant risk drivers and able to assess the potential impact of the identified risks in order to take suitable countermeasures at an early stage.

The Porsche SE Group's risk management system is updated on an ongoing basis and adapted to the company's requirements. Porsche SE's auditor examines the Porsche SE Group's risk early warning system annually with respect to its fundamental suitability of being able to identify risks at an early stage that might jeopardize the continued existence and assesses the functionality of the risk early warning and monitoring systems in accordance with Sec. 317(4) HGB. Assessing the probability and extent of future events and developments is, by its nature, subject to uncertainty. Even the best risk management system cannot foresee all potential risks and can never completely prevent irregular acts.

Risk management system of Porsche SE

The risk management system of Porsche SE is significantly shaped by the existing risk culture and is subdivided into three lines of defense: “operational risk management”, “strategic risk management” and “review-based risk management”.

The risk culture as part of the corporate culture comprises the fundamental attitude to risks and the way they are dealt with. It strongly influences the company’s risk awareness. The Risk culture within the Porsche SE Group is shaped by the practiced behavior of the management, the creation and promotion of a company-wide risk awareness and open and transparent risk communication.

As the first line of defense, “operational risk management” comprises analysis, management, monitoring, communication and documentation of risks at operational level. Porsche SE distinguishes between two types of risk. The first type of risk comprises risks from business activities which are entered into as part of (conscious) entrepreneurial decisions (“entrepreneurial risks”). The second type of risk comprises risks resulting from the lack of a definition or insufficient compliance with processes (“organizational risks”). Every single department within Porsche SE is responsible for identifying, evaluating, managing, monitoring and documenting risks in its area and reporting significant risks to the finance department. In particular, this means that measures for managing risks are derived and implemented immediately at this level in all areas of the company, with the aim of preventing these risks from spreading to other areas or even to the company as a whole. With regard to the organizational risks, operational risk management is performed using the internal control system, which is described in the “Internal control system including internal control system of Porsche SE relevant for the financial reporting process” section. In addition to operational management of the specific individual risk areas at department level, the finance department also creates a complete view of the significant risks in order to take into consideration the overall risk exposure of the group. Risks are aggregated to appropriately take into account combined effects of several risks. In this context, risk-bearing capacity is regularly determined based on Porsche SE’s net assets. To assess the existence of any developments that may jeopardize the ability of the company to continue as a going concern, the aggregated risks are compared to Porsche SE’s net assets based on scenarios.

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


HN R 8012

The third line of defense, “review-based risk management”, aims to ensure the appropriateness and effectiveness of the risk management system and therefore in particular that the operational and strategic risk management are in line with externally and internally defined standards. Review-based risk management is the responsibility of the internal audit, which, as an objective instance, reviews on the basis of samples whether operational risk management is firmly embedded in all areas and regularly performed, and reports the audit findings to the supervisory board’s audit committee. Furthermore, the strategic level is reviewed to determine whether there is a structured systems approach and whether the respective controls and reviews are performed in strategic risk management.

Risk management at the level of the investments

The investments of Porsche SE generally have their own independent risk management system to monitor and manage risks at their level.

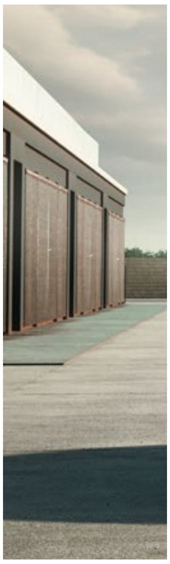
Management of the risks at Volkswagen is located at the level of Volkswagen AG. The task of Volkswagen AG’s risk management is to identify, manage and monitor existing risks at the level of the Volkswagen Group. Volkswagen AG has implemented its own group-wide risk management system and is responsible for handling its own risks. At the same time, however, Volkswagen AG is required to ensure that Porsche SE as the holding company – within the scope of the legally permissible exchange of information – is informed at an early stage of any risks potentially jeopardizing the investment’s ability to continue as a going concern. This information is provided, inter alia, in management talks and by forwarding risk reports. Volkswagen AG’s auditor examines the Volkswagen Group’s risk early warning system annually with respect to its fundamental suitability of being able to identify risks that might jeopardize the continued existence and assesses the functionality of the risk early warning and monitoring systems in accordance with Sec. 317(4) HGB. For additional information on the structure of the risk management system at the level of Volkswagen AG, we refer to the explanations in the section “Risk management system of the Volkswagen Group”.

In addition to the investment in Volkswagen AG, Porsche SE indirectly holds additional portfolio investments in the mobility and industrial technology sector in the form of non-controlling interests. The risks at the level of these investments are also managed and controlled along decentralized lines by the respective investments themselves. Regular reports on the economic situation, management meetings as well as in some cases observation and delegation rights on advisory and monitoring boards aim – within the scope of the legally permissible exchange of information – to ensure that Porsche SE is informed about any significant risks at the level of the non-controlling interests.

Up until the date of deconsolidation (see the section “Significant events and developments at the Porsche SE Group”), the PTV Group had been integrated into the group-wide risk management system of the Porsche SE Group.

Internal control system including internal control system of Porsche SE relevant for the financial reporting process

The aim of Porsche SE’s internal control system is to manage the organizational risks as part of operational risk management.



The internal control system defines uniform measures to manage the organizational risks. Based on a comprehensive process map, a suitable organizational structure is derived for the entire company and the individual process steps, responsibilities and interfaces are derived by the respective process owner for the key processes. Controls are defined for processes and interfaces of particular relevance, compliance with which is generally monitored using the dual control principle. These measures are documented in process overviews, guidelines and checklists.

The accounting-related internal control system aims to ensure the compliance and legality of internal and external accounting and financial reporting. It comprises measures aimed at ensuring complete, correct and timely transmission of the information required for authorizing for issue the separate and consolidated financial statements as well as the combined management report for Porsche SE.

Opportunities and risks of the Porsche SE Group

Organizational risks

Organizational risks comprise risks resulting from the lack of a definition or insufficient compliance with processes. The internal control system serves to manage these risks. Porsche SE distinguishes between the risk areas “Reporting”, “Business operations” and “Compliance”.

The risk area “Reporting” relates in particular to internal and external reporting. The IFRS accounting manual of Porsche SE ensures uniform recognition and measurement. Accounting duties are performed by the individual companies included in the consolidated financial statements. The financial statements of the group companies are prepared using standard software. The issuance of formal instructions such as a time schedule as well as set reporting packages ensures the timely and uniform reporting to Porsche SE. The components of the reporting packages required to be prepared for the Porsche SE Group are set out in detail and updated regularly to reflect changes to the legal requirements. Upon receipt, they are subjected to an analysis and plausibility check. Depending on the matter at hand, significant developments are addressed in discussions with the reporting companies.

The reporting packages are processed in a certified consolidation system. Extensive checks performed manually and by the system aim to ensure the completeness and reliability of the information processed in the consolidated financial statements. For all accounting-related processes, the principle of dual control and plausibility checks form the basis of the internal control system. Furthermore, the consolidated financial statements as well as the figures and information contained in the reporting packages are subjected to variance analyses and analyses are performed of the composition of individual items. Suitable selection processes and regular training measures aim to ensure that employees involved in the accounting process are appropriately qualified.

The combined management report is prepared – in accordance with the applicable requirements and regulations – centrally but with the involvement of and in consultation with the investments that are significant for preparing the management report.

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

With regard to the management of risks from the risk area “compliance”, Porsche SE has established a compliance organization, and thus a compliance management system, that is specifically tasked with preventing breaches of laws or other provisions and company-internal guidelines and regulations. In this connection, a compliance council was also set up, which comprises executives from the key departments. In addition to the adjustment of internal guidelines, the compliance council’s meetings in the fiscal year 2021 primarily addressed general compliance-relevant regulations.

Risk assessment for organizational risks

The organizational risks of the Porsche SE Group are regularly subjected to an overall risk assessment using the categories low, medium or high. The three identified risk areas “Reporting”, “Business operations” and “Compliance” are each considered low as of the reporting date.

Entrepreneurial risks

In the area of entrepreneurial risks, the Porsche SE Group primarily faces opportunities and risks from investments, risks from financial instruments as well as legal and tax opportunities and risks. These are considered in terms of their potential influence on the earnings and liquidity situation of the Porsche SE Group. The focus of risk management is primarily on negative variances from expectations regarding the development of the group result after tax or net liquidity of the Porsche SE Group.

Opportunities and risks from investments

In connection with any existing and future investments, Porsche SE generally faces opportunities and risks regarding the effects on its result and/or net liquidity. This includes the risk of a need to recognize impairment losses, with a corresponding negative impact on the result of Porsche SE, the risk of a decrease in dividend inflow, the risk of burdens on profits from changes in the market value of equity instruments accounted for at fair value as well as the risk of burdens on profits attributed to Porsche SE in the consolidated financial statements under the equity method. However, there are also corresponding opportunities from positive development in these areas. Porsche SE is currently exposed to

significant risks from the core investment in Volkswagen AG and from the portfolio investments.

To detect a possible impairment at an early stage with regard to Porsche SE's investments, the company regularly analyzes key figures on the business development of the investment in Volkswagen AG in particular and, if applicable, monitors assessments made by analysts.

With regard to the investment in Volkswagen AG, there is an increased risk of the result attributable to Porsche SE as part of equity accounting falling short of expectations on account of the Volkswagen Group not developing as planned (referred to below as the risk area "Result contribution Volkswagen"). According to Volkswagen, the most significant risks at the level of the Volkswagen Group arise from a negative trend in markets and unit sales, with regard to quality and cyber security, and from an inability to develop products in line with demand and requirements, especially in view of e-mobility and digitalization. Non-fulfillment of CO_2-related requirements also constitutes a risk. The Volkswagen Group continues to be exposed to risks from the diesel issue. In 2022, any flare-up of the Covid-19 pandemic, the supply situation, especially for semiconductors, and the Russia-Ukraine conflict may have an adverse effect. The assessment of risks at the level of the Volkswagen investment is generally based on the report on risks and opportunities in the 2021 group management report of Volkswagen AG. With regard to risks from the Russia-Ukraine conflict, please refer to the details provided in the section "Subsequent events".

As regards the recoverability of the investment in Volkswagen AG, impairment testing was performed in the fiscal year 2021 due to the proportionate market capitalization being below the carrying amount of the investment accounted for at equity. As the impairment test is based on the current planning of the Volkswagen Group, the risks described above of an unexpected development which might lead to an impairment in the value of the investment also exist here. The risk of an impairment loss needing to be recognized through profit or loss is referred to below as the risk area "Impairment Volkswagen". As part of the impairment test, sensitivity analyses regarding key measurement parameters were performed. As the value in use of the investment in Volkswagen AG was significantly higher than the carrying amount in each of the scenarios considered in the sensitivity analysis, the risk of a need to recognize an impairment loss is considered to be unlikely on the basis of the current information.

There is also the general risk of a significant decrease in dividend inflow from Volkswagen AG (referred to below as the risk area "Dividend inflow Volkswagen"), which would in turn affect the net liquidity of the Porsche SE Group. Such developments are not currently expected.

In connection with the sale of shares in PTV to Bridgepoint (see the section "Significant events and developments at the Porsche SE Group"), the reporting on risks from portfolio investments has been adjusted. Accordingly, the previous risk areas "Impairment risk PTV" and "Result contribution

venture portfolio" were combined into a new risk area "Result contribution portfolio investments". Opportunities and risks from the portfolio investments of Porsche SE mainly arise from changes in market value, which in the case of investments measured at fair value have a full impact on the result of the Porsche SE Group. In the case of portfolio investments accounted for at equity, in addition to the risk of impairment losses, there are also opportunities and risks arising from the result of the respective investments that is allocable proportionately to Porsche SE. In particular, the performance of technology companies in disruptive markets is in general subject to increased uncertainty.

Risks from financial instruments

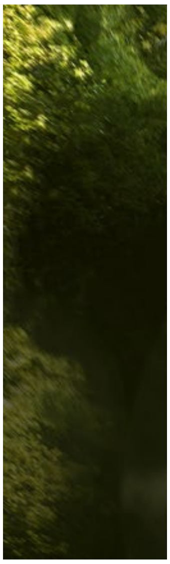
In its business activities Porsche SE is exposed to risks arising from the use of financial instruments. Significant risks resulting from such activities are referred to below as the risk area "Risks from financial instruments". The financial instruments currently used at Porsche SE in particular comprise cash and cash equivalents, time deposits and securities.

The use of financial instruments as part of liquidity management gives rise to counterparty risks. To mitigate the counterparty risks, Porsche SE monitors the creditworthiness of counterparties and spreads the investment of liquidity across various counterparties. With the exception of the market price risks of the portfolio investments measured at fair value presented in the section on opportunities and risks from investments, further risks from using financial instruments are currently classified as insignificant for Porsche SE.

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

Legal risks

Porsche SE is involved in legal disputes both nationally and internationally. As of 31 December 2021, this primarily relates to actions for damages concerning the increase of the investment in Volkswagen AG and the allegation of alleged market manipulation and alleged inaccurate capital market information as well as legal proceedings because of alleged nonfeasance of capital market information or alleged incorrect capital market information in connection with the diesel issue. Where such risks are foreseeable, adequate provisions are made in order to account for any ensuing risks. The amount of the provisions for legal risks recognized in the reporting year corresponds to the attorneys' fees and litigation expenses anticipated for the ongoing proceedings. The company believes that thus far these risks have not had a sustained effect on the economic position of the group. However, due to the fact that the outcome of litigation can be



estimated only to a limited degree, it cannot be ruled out that very serious losses may eventuate that are not covered by the provisions already made, which would result in a correspondingly negative impact on the result and liquidity.

For the status of the legal proceedings and for current developments, reference is made to the section “Significant events and developments at the Porsche SE Group”.

Tax opportunities and risks

The contribution of the holding business operations of Porsche SE to Volkswagen AG as of 1 August 2012 is generally associated with tax risks. To safeguard the transaction from a tax point of view, and thus avoid tax back payments for the spin-offs performed in the past, rulings were obtained from the competent tax authorities. Porsche SE implemented the necessary measures to execute the contribution transaction in accordance with the rulings received and is monitoring compliance with them.

The tax field audit is still being performed for the assessment periods 2009 to 2013. New findings of the tax field audit for the periods 2009 to 2013 as well as legal changes can result in an increase or decrease in tax provisions and interest or any refunds already received might have to be partially paid back.

During the assessment periods 2006 to 2009, Porsche SE was initially the legal successor of Porsche AG and later the ultimate tax parent and thus liable for tax payments. As part of the contribution of the business operations, Volkswagen AG agreed to refund to Porsche SE any tax benefits – for example, in the form of a refund, tax reduction or tax saving, a reversal of tax liabilities or provisions or an increase in tax losses – of Porsche Holding Stuttgart GmbH, Porsche AG and its legal predecessors and subsidiaries which pertain to assessment periods up to 31 July 2009. In return, under certain circumstances Porsche SE holds Porsche Holding Stuttgart GmbH, Porsche AG and their legal predecessors harmless from tax disadvantages that exceed the obligations from periods up until and including 31 July 2009 recognized at the level of these entities. If the total tax benefits exceed the total tax disadvantages, Porsche SE has a claim against Volkswagen AG to payment of the amount by which the tax benefits exceed the tax disadvantages. The amount of tax benefits and tax disadvantages to be taken into account is regulated in the contribution agreement. The risks arising at the level of Porsche SE, for which provisions were recognized in prior years and payments were made, will in some cases lead to tax benefits at the Volkswagen Group that are expected to partly compensate the tax risks of Porsche SE. However, the provisions in the contribution agreement do not cover all matters and thus not all tax risks of Porsche SE from the tax field audits for the assessment periods 2006 to 2009. The

existence and amount of a possible reimbursement claim against Volkswagen AG can be reliably determined only following completion of the tax field audit for the assessment period 2009. Based on the findings of the completed tax field audit for the assessment periods 2006 to 2008 and the information available for the assessment period 2009 when these financial statements were prepared, it is estimated that Porsche SE has a compensation claim against Volkswagen AG in the low triple-digit million-euro range. Future findings and legal changes may lead to an increase or decrease in the possible compensation claim.

Risk assessment for entrepreneurial risks

The methodology for regularly assessing entrepreneurial risks remained unchanged in the past fiscal year. A risk assessment is performed for each of the significant entrepreneurial risks of the Porsche SE Group using risk categories “Low”, “Moderate” and “High”. This involves assessing the risk of falling short of the forecast corridor communicated for the result after tax and/or the net liquidity of Porsche SE Group. Compared to the prior year, the forecast corridor for the group result after tax of Porsche SE has increased, while the forecast corridor for the group net liquidity of Porsche SE remains unchanged.

The risk assessment of a risk area includes the potential impact of the risk area as well as its likelihood of occurrence. A risk area under examination is allocated to one of the categories low, moderate or high based on its potential impact. The allocation is generally based on the potential impact that a risk area under examination can have on the result after tax and/or the net liquidity of the Porsche SE Group following potential countermeasures that are integrated into the process in terms of whether it negatively deviates from the corresponding forecast value. Considered individually as of the reporting date, risk areas categorized as high based on their potential impact generally have the potential to impact the key performance indicators result after tax and/or net liquidity of the Porsche SE Group by more than half of the forecast corridor.

The likelihood of occurrence is allocated using the categories unlikely, moderately likely and highly likely.

The risk assessment of the significant entrepreneurial risks of the Porsche SE Group using the risk categories remains unchanged compared to the prior year. With regard to the reporting on risks from portfolio investments, the risk areas “Result contribution venture portfolio” and “Impairment risk PTV” were combined into the risk area “Result contribution portfolio investments”, which is estimated to have a low potential impact and a moderate likelihood of occurrence. As of the reporting date, the risk assessment is as follows:

Presentation of the risk assessment (with regard to the forecast corridor)

Potential impact (with regard to the forecast corridor)	unlikely	moderately likely	highly likely
high	• Dividend inflow Volkswagen • Impairment risk Volkswagen • Tax risks • Legal risks	• Result contribution Volkswagen	
moderate	• Risks from financial instruments		
low		• Result contribution venture portfolio	

Likelihood of occurrence

Risk category "Low" | Risk category "Moderate" | Risk category "High"

Overall statement on the risks faced by the Porsche SE Group

The overall risk exposure of the Porsche SE Group is made up of the individual risks relating to the significant investments and the specific risks of Porsche SE presented. The risk management system aims to ensure that these risks are addressed adequately. Based on the information currently available, the board of management has not identified any risks which could endanger the ability of the Porsche SE Group to continue as a going concern, either individually or in combination with other risks.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Report on opportunities and risks of the Volkswagen Group

Risk management system of the Volkswagen Group

In this section, the objective and structure of the Volkswagen Group's risk management system (RMS) and internal control system (ICS) are explained and its systems described with regard to the financial reporting process. Volkswagen AG has implemented its own group-wide risk management system and is responsible for handling its own risks. The following is based on extracts from the Report on Risks and Opportunities in the 2021 group management report of Volkswagen AG.

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

Only by promptly identifying, accurately assessing and effectively and efficiently managing the risks and opportunities arising from its business activities can the Volkswagen Group ensure its long-term success. The aim of the RMS/ICS is to identify potential risks at an early stage so that suitable countermeasures can be taken to avert the threat of loss to the company, and any risks that might jeopardize its continued existence can be ruled out.

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

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

The organizational design of the Volkswagen Group's RMS/ICS is based on the internationally recognized COSO framework for enterprise risk management (COSO: Committee of Sponsoring Organizations of the Treadway Commission). Structuring the RMS/ICS in accordance with the COSO framework for enterprise risk management ensures that potential risk areas are covered in full. Uniform group principles are used as the basis for managing risks in a standardized manner. Opportunities are not recorded in the RMS/ICS processes.

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

The minimum requirements for the RMS/ICS, including the three lines model, are set out in guidelines for the entire Volkswagen Group.

Following completion of the implementation of the “Riskradar” risk management IT system in 2020 and of the standardization of the ICS for business processes associated with risk at significant companies, Volkswagen’s RMS/ICS will continue to be developed in future.

First line: Operational risk management

The first line comprises the operational risk management and internal control systems at the individual group companies and business units. The RMS/ICS is an integral part of the Volkswagen Group’s structure and workflows. Events that may give rise to risk are identified and assessed locally in the divisions and at the investees. Countermeasures are introduced, the remaining potential impact is assessed, and the information incorporated into the planning in a timely manner. Material risks are reported to the relevant committees on an ad hoc basis. The results of the operational risk management process are incorporated into budget planning and financial control on an ongoing basis. The targets agreed in the budget planning rounds are continually reviewed in revolving planning updates. At the same time, the results of risk mitigation measures are promptly incorporated into the monthly forecasts regarding further business development. This means that Volkswagen AG’s board of management also has access to an overall picture of the current risk situation via the documented reporting channels during the year.

Second line: Group-wide standardized quarterly risk identification and reporting

Each quarter, in addition to the ongoing operational risk management, the Volkswagen Group’s risk management department sends standardized surveys regarding the risk situation and the implementation of countermeasures to all group brands, to significant group companies and to Volkswagen Financial Services AG and Volkswagen Bank GmbH.

Acute risks for the Volkswagen Group are reported in this survey of the risk situation – the quarterly risk process (QRP). The responses are used to update the picture of the potential risk situation. The assessment of risks from the QRP is conducted in the “Riskradar” IT system.

The methodology for aggregating risks and assessing the Volkswagen Group’s risk-bearing capacity was developed further in 2021. The aggregated risk situation and risk-bearing capacity are compared at half-yearly intervals. There were no indications of insufficient risk-bearing capacity at the Volkswagen Group in the fiscal year 2021.

A score is calculated for each risk by multiplying the likelihood of occurrence (Prob) by the potential extent of the damage. This enables comparison of

the risks. The extent of the damage is calculated from the criteria of financial loss (Mat) and reputational damage (Rep) and the potential threat to adherence to external legal requirements (Req). A score between 0 and 10 is assigned to each of these criteria. The measures taken to manage and control risk are taken into account in the risk assessment (net perspective).

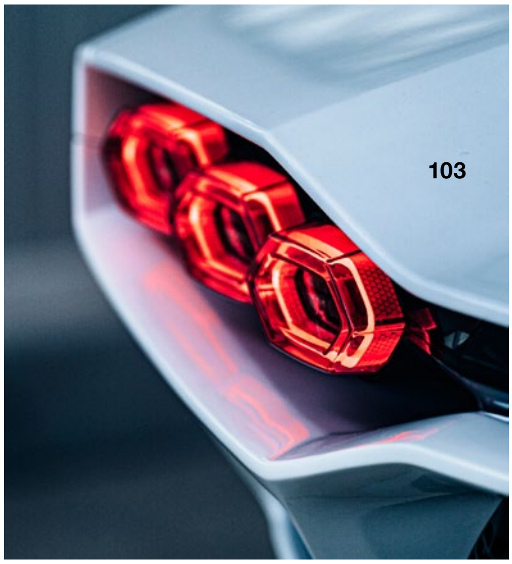
The score for a likelihood of occurrence of more than 50% in the analysis period is classified as high; for a medium classification, the likelihood of occurrence is at least 25%. For the criterion of financial loss, the score rises in line with the loss; the highest score of 10 is reached when the potential loss is upwards of €1 billion. The criterion of reputational damage can have characteristics ranging from local erosion of confidence and loss of trust at local level to loss of reputation at regional or international level. The potential threat to adherence to external legal requirements is classified based on the influence on the local company, the brand or the group.

Calculation of risk score

Risk score

$$= \text{Likelihood of occurence} \times \text{Potential extent of damage}$$

$$= \text{Score}_{\text{Prop}} \times \left[\text{Score}_{\text{Mat}} + \frac{\text{Score}_{\text{Rep}} + \text{Score}_{\text{Req}}}{2} \right]$$



In addition to strategic, operational and reporting risks, risks arising from potential compliance violations (compliance risks) are also integrated into this process.

Risk reporting to the committees of Volkswagen AG depends on materiality thresholds. Acute risks from a risk score of 40 or potential financial loss of €1 billion or more are regularly presented to the board of management and the audit committee of the supervisory board of Volkswagen AG. The reporting also includes all risks from the QRP with a risk score of 20.

In addition, significant changes to the risk situation that can arise in the short term, for instance from unexpected external events, are reported to the board of management as required. This is necessary if the risk may lead to potential financial loss of €1 billion or more and the likelihood of occurrence is estimated at greater than 50%.

In recent years, Volkswagen has developed a standardized ICS that goes significantly beyond the requirements for the ICS posed by financial reporting. In 22 catalogs of controls, the Volkswagen Group companies within its scope are presented with requirements in respect of the process risks and control objectives to be covered in order to protect the value chain in a standardized manner. In addition to financial reporting issues, for example, their content addresses process risks in development, production or compliance.

Key controls to cover process risks and control objectives are also tested for their effectiveness; any weaknesses identified are reported to the responsible bodies at Volkswagen AG and resolved in the departments. Like the quarterly risk process, the standardized ICS is fully supported by the “Riskradar” IT system.

In terms of its content and organizational aspects, the standardized ICS of the Volkswagen Group thus offers broader protection than the regular governance, risk and compliance (GRC) process used in the past. With the introduction of the standardized ICS in further Volkswagen Group companies in 2021, the regular GRC process is being gradually shut down.

A separate Group Board of Management Committee for Risk Management examines the key aspects of the RMS/ICS every quarter. Its tasks are as follows:

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

Third line:
Review by Group Internal Audit

Group Internal Audit helps Volkswagen AG’s board of management to monitor the various divisions and corporate units within the Volkswagen Group. It regularly checks the risk early warning system and the structure and implementation of the RMS/ICS and compliance management system (CMS) as part of its independent audit procedures. The audit plan adopted by Volkswagen AG’s board of management includes the first and second lines, i.e., the risk-mitigating functions in addition to the operational units.

Risk early warning system at Volkswagen

The risk situation of the Volkswagen Group is ascertained, assessed and documented in accordance with the legal requirements. The requirements for a risk early warning system are met by means of the RMS/ICS elements described above (first and second line). Independently of this, the external auditors of Volkswagen AG checks both the processes and procedures implemented in this respect and the adequacy of the documentation on an annual basis. The plausibility and adequacy of the risk reports are examined via spot checks in detailed interviews with the divisions and companies concerned together with the external auditors. The auditor of Volkswagen AG examines the risk early warning system integrated in the risk management system of the Volkswagen Group with respect to its fundamental suitability of being able to identify risks that might jeopardize the continued existence at an early stage and assesses the functionality of the risk early warning and monitoring systems in accordance with Sec. 317(4) HGB.

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

Volkswagen Financial Services AG operates a risk early warning and management system. Its aim is to ensure that the locally applicable regulatory requirements are adhered to and at the same time to enable appropriate and effective risk management at group level. Important components of it are regularly reviewed as part of the audit of the annual financial statements.

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

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

Risk management and integrated internal control system in the context of the financial reporting process within the Volkswagen Group

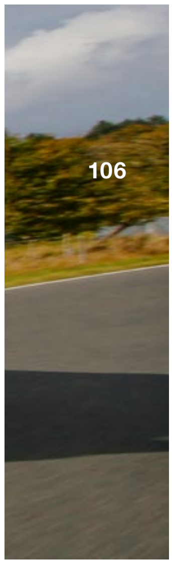
The accounting-related part of the RMS/ICS that is relevant for the financial statements of Volkswagen AG and the Volkswagen Group as well as its subsidiaries comprises measures intended to ensure that the information required for the preparation of the financial statements of Volkswagen AG, the consolidated financial statements and the combined management report of the Volkswagen Group and Volkswagen AG is complete, accurate and transmitted in a timely manner. These measures are designed to minimize the risk of material misstatement in the accounts and in external reporting.

Main features of the risk management and integrated internal control system in the context of the financial reporting process

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

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

Control activities at group level include analyzing and, if necessary, adjusting the data reported in the



financial statements presented by the subsidiaries of the Volkswagen Group, taking into account the reports submitted by the auditors of Volkswagen AG and the outcome of the meetings on the financial statements with representatives of the individual companies. These discussions address both the plausibility of the single-entity financial statements and specific significant issues at the subsidiaries. Alongside plausibility checks, other control mechanisms applied during the preparation of the single-entity and consolidated financial statements of Volkswagen AG include the clear delineation of areas of responsibility and the application of the "four eyes" principle.

The effectiveness of the internal control system of the Volkswagen Group in the context of the accounting process is systematically assessed in significant companies as part of the standardized ICS. This begins with a risk analysis and definition of controls with the aim of identifying significant risks for the financial reporting process. Regular tests based on samples are performed to evaluate the effectiveness of the controls. These form the basis for a self-evaluation of whether the controls are appropriately designed and effective.

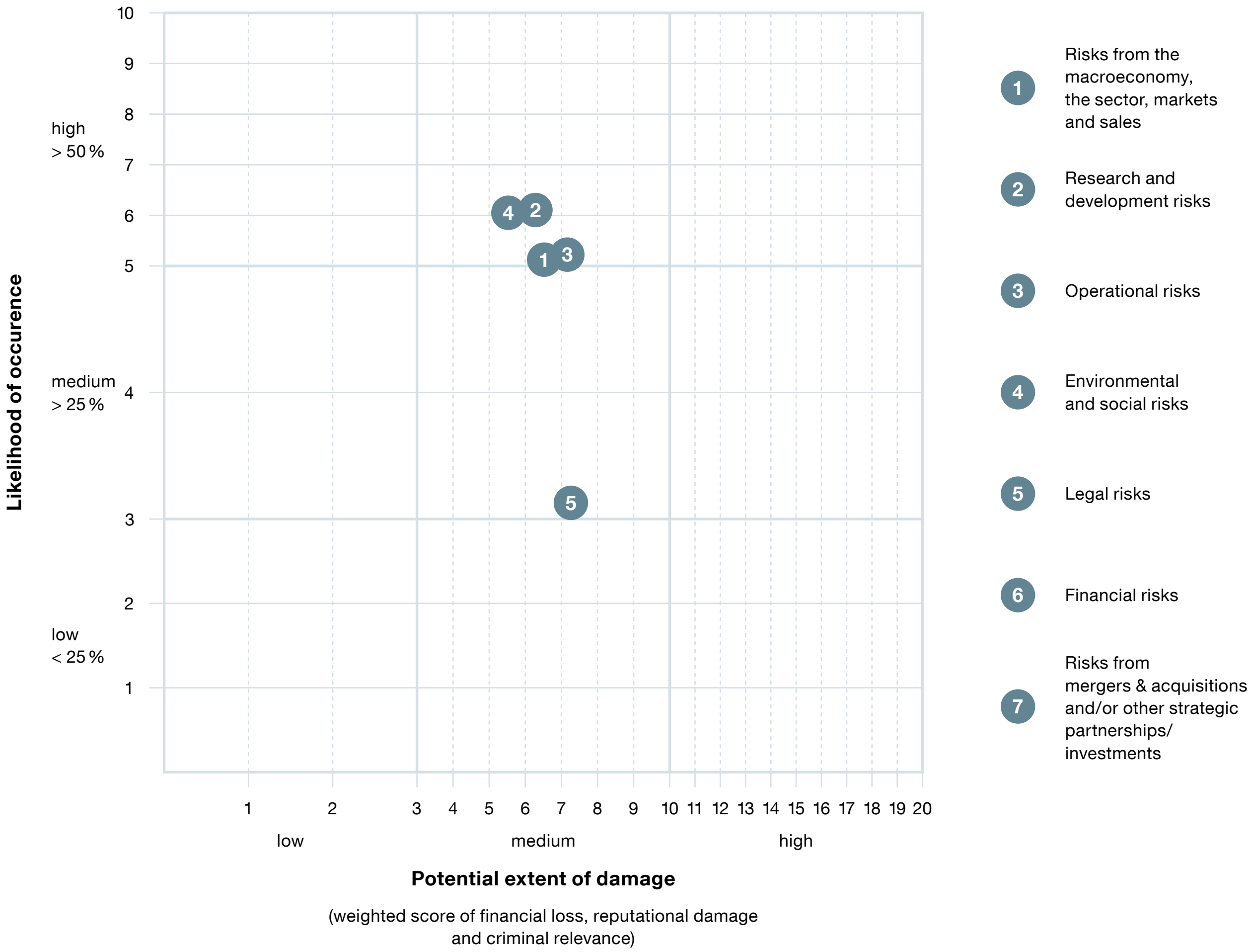
The combined management report of the Volkswagen Group and Volkswagen AG is prepared – in accordance with the applicable requirements and regulations – centrally but with the involvement of and in consultation with the group units and companies.

In addition, the accounting-related internal control system is independently reviewed by Volkswagen Group Internal Audit in Germany and abroad.

Integrated consolidation and planning system

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

Average scores of the risk categories



Opportunities and risks of the Volkswagen Group

This section outlines the main risks and opportunities arising in the business activities of the Volkswagen Group from the Volkswagen Group's perspective. In order to provide a better overview, the risks and opportunities have been grouped into categories. At the beginning of each risk category, the most significant risks are stated in order of their importance as identified by Volkswagen using the risk score from the quarterly risk process (QRP).

All risks reported to the Group Risk Management department with a risk score of 20 or more for the units included from the QRP are incorporated in the assessment of the Volkswagen Group's risk categories and the reporting to the board of management of Volkswagen AG, amongst others. The risk categories are plotted based on the average scores. In the reporting year, no risks with such scores were reported for the "Financial risks" and "Risks from mergers & acquisitions and/or other strategic partnerships/investments" risk categories at Volkswagen.

Volkswagen uses analyses of the competition and the competitive environment in addition to market studies to identify not only risks but also opportunities that have a positive impact on the design of its products, the efficiency with which they are produced, their success in the market and its cost structure. Where they can be assessed, risks and opportunities that Volkswagen expects to occur are already reflected in its medium-term planning and its forecast. The Volkswagen Group therefore reports on internal and external developments as risks and opportunities that, based on existing information available to the Volkswagen Group at that time, may result in a negative or positive deviation from its forecast or targets.

Risk categories at the Volkswagen Group

The category "Risks and opportunities from the macroeconomy, the sector, markets and sales" summarizes macroeconomic risks and opportunities, sector-specific risks and market opportunities/potential, sales risks, risks from the Russia-Ukraine conflict as well as other factors. Under risks from the Russia-Ukraine conflict, Volkswagen describes the risk that the latest developments in the Russia-Ukraine conflict will have a negative impact on the Volkswagen Group's business. Under other factors, Volkswagen describes the risk in particular that the Covid-19 pandemic could intensify, due to reasons such as changes in the virus. All areas of the Volkswagen Group are affected by the pandemic. For this risk category, the likelihood of occurrence is classified as high (prior year: high) and the potential extent of damage is classified as medium (prior year: medium) by Volkswagen. From the Volkswagen Group's perspective, the most significant risks from the QRP in this category lie in restrictions on trade and increasingly protectionist tendencies resulting in a negative trend in markets and unit sales.

The category "Research and development risks" contains risks arising from research and

development as well as risks and opportunities from the modular toolkit strategy. For this risk category, the likelihood of occurrence is classified as high (prior year: high) and the potential extent of damage is classified as medium (prior year: medium) by Volkswagen. The most significant risks from the QRP result from the inability to develop products in line with demand and requirements, especially with regard to e-mobility and digitalization.

“Operational risks and opportunities” summarizes risks from particular events in the Volkswagen Group’s purchasing and production network, risks and opportunities from Purchasing and Technology, production risks, risks arising from long-term production, quality risks, IT risks and risks from media impact. Risks from particular events in the Volkswagen Group’s purchasing and production network currently describes in particular the risk that the current spread of the SARS-CoV-2 virus or the current conflict between Russia and Ukraine may result in supply risks in purchasing and significantly impair production. As a consequence, bottlenecks or even outages in production may occur at Volkswagen, thus preventing the planned volume of production from being achieved. For this risk category, the likelihood of occurrence is classified as high (prior year: high) and the potential extent of damage is classified as medium (prior year: medium) by Volkswagen. The most significant risks from the QRP lie particularly in volatile procurement markets, here primarily in relation to the availability of semiconductors, as well as cyber security and new regulatory requirements regarding IT, and in quality problems.

The risk category “Environmental and social risks” include personnel risks as well as risks from environmental protection regulations. For this risk category, the likelihood of occurrence is classified as high (prior year: medium) and the potential extent of damage is classified as medium (prior year: medium) by Volkswagen. The most significant risks from the QRP arise from non-fulfillment of CO_2-related requirements.

Risks from litigation and legal risks in connection with the diesel issue as well as tax risks are subsumed under “Legal risks”. For this risk category, the likelihood of occurrence is classified as medium (prior year: medium) and the potential extent of damage is classified as medium (prior year: medium) by Volkswagen. The most significant risks from the QRP are associated with the diesel issue.

In the category “Financial risks”, the Volkswagen Group includes financial risks, risks arising from financial instruments, liquidity risks as well as risks and opportunities in the financial services business. No risks with a score of 20 or more were reported by Volkswagen for this risk category in the reporting year. For this risk category, the likelihood of occurrence was classified as high and the potential extent of damage as medium in the prior year.

Under “Opportunities and risks from mergers and acquisitions and/or other strategic partnerships/ investments”, the Volkswagen Group summarizes opportunities and risks from partnerships, risks arising from the recoverability of goodwill or brand names and from equity investments as well as risks from the disposal of equity investments. No risks with a score of 20 or more were reported by Volkswagen for this risk category in the reporting year. For this risk category, the likelihood of occurrence was classified as medium and the potential extent of damage as high in the prior year.

Volkswagen AG's risk assessment regarding the diesel issue

An amount of around €2.1 billion (€1.9 billion) has been included in the provisions of the Volkswagen Group for litigation and legal risks as of 31 December 2021 to account for the legal risks currently known to the Volkswagen Group related to the diesel issue based on the presently available information and the current assessments of Volkswagen. Where adequately measurable at this stage, contingent liabilities relating to the diesel issue have been disclosed in the notes of the Volkswagen Group in an aggregate amount of €4.3 billion (€4.2 billion), whereby roughly €3.6 billion (€3.5 billion) of this amount results from lawsuits filed by investors in Germany. The provisions recognized at the Volkswagen Group, the contingent liabilities disclosed, and the other latent legal risks in the context of the diesel issue are in part subject to substantial estimation risks given the complexity of the individual relevant factors, the ongoing coordination with the authorities, and the fact that the fact-finding efforts have not yet been concluded. Should these legal or estimation risks materialize, this could result in further substantial financial charges. In particular, adjustment of the provisions recognized by Volkswagen in light of knowledge acquired or events occurring in the future cannot be ruled out.

In line with IAS 37.92, no further statements have been made by Volkswagen concerning estimates of financial impact or regarding uncertainty as to the amount or maturity of provisions and contingent liabilities in relation to the diesel issue. This is so as to not compromise the results of the proceedings or the interests of Volkswagen.

Overall assessment of the risk and opportunity position of the Volkswagen Group

The Volkswagen Group's overall risk and opportunity position results from the specific risks and opportunities shown above. Volkswagen has put in place a comprehensive risk management system to ensure that these risks are controlled. The most significant risks to the Volkswagen Group across all risk categories arise from a negative trend in markets and unit sales, with regard to quality and cyber security, and from an inability to develop products in line with demand and requirements, especially in view of e-mobility and digitalization. Non-fulfillment of CO_2-related requirements also constitutes a risk. The Volkswagen Group continues to be exposed to risks from the diesel issue. In 2022, any flare-up of the Covid-19 pandemic, the supply situation, especially for semiconductors, and the Russia-Ukraine conflict may have an adverse effect. Taking into account all the information known to the Volkswagen Group at present, no risks exist which could pose a threat to the continued existence of significant group companies or the Volkswagen Group.

Publication of the declaration of compliance

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

Subsequent events

On 24 February 2022, Porsche SE announced that the board of management of Porsche SE had resolved, with the approval of the supervisory board, to further examine the feasibility of a possible IPO of Porsche AG on the basis of talks held to date with Volkswagen AG and to support it in principle. Porsche SE and Volkswagen AG entered into a cornerstone agreement, which summarizes the content of the talks held to date and forms a basis for the next steps of preparation for a possible IPO. The actual feasibility of an IPO depends on a number of different parameters as well as general market conditions. No final decisions have been made. Moreover, the agreements in the cornerstone agreement for a possible IPO are subject to numerous conditions, including the final approval of the boards of both parties.

According to the current status of the talks, in the event of an IPO, the share capital of Porsche AG would be divided into 50% preference shares and 50% ordinary shares and, in the course of a possible IPO, approximately 25% of the preference shares would be placed on the capital market. In connection with a possible IPO, Porsche SE would acquire 25% plus one share of the ordinary shares of Porsche AG from Volkswagen AG for the placement price of the preference shares plus an additional premium of 7.5%. With the positive support of a possible IPO of Porsche AG, Porsche SE is supporting the plans of Volkswagen AG to expand the financial flexibility of Volkswagen AG and increase the entrepreneurial opportunities of Porsche AG. Volkswagen AG would still include Porsche AG in its consolidated financial statements by way of full consolidation following the implementation of an IPO, while in the future Porsche SE would include the shares in Porsche AG in the consolidated financial statements of Porsche SE as associates at equity. It is also planned to continue the industrial cooperation between Volkswagen AG and Porsche AG even after a possible IPO.

The parties have further agreed that, in the event of an IPO of Porsche AG, Volkswagen AG will propose to its shareholders to pay out a special dividend equivalent to 49% of the total gross proceeds of the placement of the preference shares and the sale of the ordinary shares. Such a proposal of a special dividend will be approved by Porsche SE.

At the time of preparing the consolidated financial statements, there is a risk that the latest developments in the Russia-Ukraine conflict will have a negative impact on the business activities of the Volkswagen Group and thus also indirectly on the Porsche SE Group. This may also result from bottlenecks in the supply chain. At the present time, it is not yet possible to conclusively assess the specific effects. Nor is it possible at this stage to predict with sufficient certainty to what extent further escalation of the Russia-Ukraine conflict will impact on the global economy and industry growth in the fiscal year 2022. The Volkswagen Group does not have any material subsidiaries and equity investments in Ukraine. In Russia, the Volkswagen Group has in particular the production company at the Kaluga site, as well as sales units and financing companies. Against the background of the Russian attack on Ukraine and the resulting consequences,

Volkswagen's board of management has decided to suspend vehicle production in Russia until further notice. Vehicle exports to Russia have also been stopped, although original parts are still being delivered. With the extensive interruption of business activities in Russia, Volkswagen's board of management is reviewing the consequences from the overall situation, during this period of great uncertainty and upheaval. In terms of the Volkswagen Group's results of operations, financial position and net assets, the business activities of the Volkswagen Group in these two countries are insignificant. There is a risk that a further escalation of the conflict could have a material adverse effect on the results of operations, financial position and net assets of the Volkswagen Group and thus also indirectly on the Porsche SE Group.

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

Forecast report and outlook

Developments in the global economy

The planning is based on the assumption that global economic output will continue to grow in 2022, albeit at a somewhat lower level overall, after the recovery observed in the past fiscal year – provided that the Covid-19 pandemic does not flare up again and that shortages of intermediates and commodities become less intense. It continues to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts, with risks arising especially from the Russia-Ukraine conflict.

It is assumed that both the advanced economies and the emerging markets will experience positive momentum.

For 2022, planning anticipates that the euro will strengthen somewhat against the currencies that are key for the Volkswagen Group. The currencies of some emerging markets are expected to depreciate further. The Russia-Ukraine conflict may lead to increased volatility on the foreign exchange markets; additional pressure on the Russian currency is also expected.

With monetary policy remaining relatively expansionary, a gradual departure from the existing measures of the central banks in the major Western industrialized nations is expected in 2022. Changes in key interest rates will depend to a considerable extent on inflationary trends in the individual countries. Whether the higher inflation rates currently being seen in many countries are judged to be temporary or lasting will be crucial here. Base effects resulting from the Covid-19 pandemic and disruption to supply chains could be seen as grounds to assume that they are a temporary phenomenon.

With regard to the commodity markets, the prices of most commodities to are expected continue to increase in 2022. There is a risk that this will be exacerbated as a result of the Russia-Ukraine conflict.

Trends in the markets for passenger cars and light commercial vehicles

It is predicted that trends in the markets for passenger cars in the individual regions will be mixed in 2022. Overall, the global volume of new vehicle sales is expected to be moderately up on the prior year without reaching the pre-pandemic level. This prediction assumes that the Covid-19 pandemic does not flare up again and that shortages of intermediates, especially semiconductors, and commodities become less intense.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed; on the whole, a slight increase in the sales volume is anticipated for 2022. This assumes that the Covid-19 pandemic does not flare up again and that shortages of intermediates, especially semiconductors, and commodities become less intense.

Trends in the markets for commercial vehicles

For 2022, a significantly positive development is expected in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the prior year, with variations from region to region, in the markets that are relevant for the Volkswagen Group. A significant increase in overall demand, with regional variations, is expected for 2022 in the bus markets relevant for the Volkswagen Group.

Trends in the markets for financial services

It is anticipated that automotive financial services will prove highly important to global vehicle sales in 2022, particularly in the context of the ongoing challenges posed by the Covid-19 pandemic and limited vehicle availability as a result of the semiconductor shortage. Demand is expected to rise in emerging markets where market penetration has so far been low. Regions with already established automotive financial services markets will probably see a continuation of the trend towards enabling mobility at the lowest possible total cost. Integrated end-to-end solutions, which include mobility-related service modules such as insurance and innovative packages of services, are likely to become increasingly important for this. Additionally, it is expected that demand will increase for new forms of mobility, such as rental and car subscription (Auto-Abo) services, and for integrated mobility services, for example parking, refueling and charging, and that the shift initiated in the European financial services business with individual customers from financing to lease contracts will continue.

In the mid-sized and heavy commercial vehicles category, rising demand is anticipated for financial services products in emerging markets. In these countries in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In the developed markets, increased demand is expected for telematics services and services aimed at reducing total cost of ownership in 2022.

Anticipated development of the Volkswagen Group

Volkswagen believes it is well prepared overall for the future challenges pertaining to the automotive business activities and for the mixed development of the regional automotive markets. Its brand diversity, presence in all major world markets, broad and selectively expanded product range, and technologies and services put the Volkswagen Group in a good competitive position worldwide. As part of the transformation of its core business, Volkswagen is positioning its group brands with an even stronger focus on their individual characteristics, and is optimizing the vehicle and drive portfolio. The focus is primarily on its vehicle'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 somewhat lower level overall, after the recovery observed in the past fiscal year – provided that the Covid-19 pandemic does not flare up again 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 and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts, with risks arising especially from the Russia-Ukraine conflict. The Volkswagen Group anticipates that both the advanced economies and the emerging markets will experience positive momentum.

The Volkswagen Group anticipates that, given the continuing challenging market conditions, deliveries to customers in 2022 will be 5% to 10% up on the prior year. This assumes that the Covid-19 pandemic will not flare up again 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 in the second half of the year, compared with the first half.

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 and of the passenger cars business area in 2022 to be 8% to 13% higher than the prior-year figure. In terms of operating result for the group and the passenger cars business area, Volkswagen forecasts an operating return on sales in the range of 7.0% to 8.5% in 2022. For the commercial vehicles business area, it anticipates an operating return on sales of 5.0% to 7.0% 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 €4.5 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 on 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.

In particular on the basis of the Volkswagen Group's expectations regarding its future development, the Porsche SE Group expects 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 further development of the Covid-19 pandemic, the intensity of shortages of intermediates and commodities, the diesel issue as well as the Russia-Ukraine conflict continue to result in significant limitations to forecasting accuracy.

As of 31 December 2021, the Porsche SE Group had net liquidity of €641 million. As of 31 December 2022, the goal of the Porsche SE Group is to achieve positive net liquidity. This is expected to be between €0.6 billion and €1.1 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. The forecast therefore contains in particular no effects from a potential IPO of Porsche AG and any related acquisition of ordinary shares in Porsche AG by Porsche SE (please refer to the details provided in the section "Subsequent events").

Stuttgart, 16 March 2022
Porsche Automobil Holding SE

The board of management

Glossary

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Glossary

Selected terms at a glance

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

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

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.

Tax rate
The tax rate is the ratio of income taxes to profit before tax, expressed as a percentage. It shows what percentage of the profit generated has to be paid over as tax.

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.