



PORSCHE



**Annual Report 2003/04**



## Porsche Group Highlights

		1994/95	1995/96	1996/97	1997/98	1998/99
<b>Sales</b>	<b>€ million</b>	<b>1,332.9</b>	<b>1,437.7</b>	<b>2,093.3</b>	<b>2,519.4</b>	<b>3,161.3</b>
Domestic	€ million	569.7	527.7	671.9	735.5	955.6
Export	€ million	763.2	910.0	1,421.4	1,783.9	2,205.7
<b>Vehicle Sales (new cars)</b>	<b>units</b>	<b>21,124</b>	<b>19,262</b>	<b>32,383</b>	<b>36,686</b>	<b>43,982</b>
Domestic Porsche	units	6,420	5,873	9,670	9,174	10,607
Export Porsche	units	11,992	13,346	22,713	27,512	33,375
Other Models	units	2,712	43	–	–	–
Vehicle Sales Porsche	units	18,412	19,219	32,383	36,686	43,982
911	units	17,407	19,096	16,507	17,869	23,090
928	units	510	104	–	–	–
944/968	units	495	–	–	–	–
Boxster	units	–	19	15,876	18,817	20,892
Carrera GT	units	–	–	–	–	–
Cayenne	units	–	–	–	–	–
<b>Production</b>	<b>units</b>	<b>20,791</b>	<b>20,242</b>	<b>32,390</b>	<b>38,007</b>	<b>45,119</b>
Porsche total	units	18,079	20,242	32,390	38,007	45,119
911	units	17,293	20,132	16,488	19,120	23,056
Carrera GT	units	–	–	–	–	–
928	units	470	28	–	–	–
944/968	units	316	–	–	–	–
Boxster	units	–	82	15,902	18,887	22,063
Cayenne	units	–	–	–	–	–
Other models	units	2,712	–	–	–	–
<b>Employees</b>	<b>at year-end</b>	<b>6,847</b>	<b>7,107</b>	<b>7,959</b>	<b>8,151</b>	<b>8,712</b>
Personnel expenses	€ million	363.7	392.1	464.4	528.2	574.9
<b>Balance Sheet</b>						
Total Assets	€ million	836.7	951.4	1,249.7	1,490.9	1,916.1
<b>Shareholders' Equity</b>	<b>€ million</b>	<b>210.5</b>	<b>239.1</b>	<b>298.1</b>	<b>415.8</b>	<b>587.4</b>
Fixed Assets	€ million	353.2	482.5	565.3	579.6	525.6
Capital Expenditures	€ million	83.9	213.6	234.8	175.8	155.0
Depreciation	€ million	55.2	67.7	107.6	157.1	183.7
Cash Flow	€ million	94.8	123.6	205.5	305.0	407.8
Extended Cash Flow	€ million				413.1	592.5
<b>Income</b>	<b>€ million</b>	<b>5.8</b>	<b>27.9</b>	<b>84.5</b>	<b>165.9</b>	<b>357.0</b>
Net income	€ million	1.1	24.6	71.3	141.6	190.9
<b>Dividends</b>	<b>€ million</b>	<b>1.1</b>	<b>1.8</b>	<b>13.0</b>	<b>21.9</b>	<b>21.9</b>
Dividends per share <sup>1)</sup>						
Common stock	€	0.00	0.08	0.72	1.23	1.23
Preferred stock	€	0.13	0.13	0.77	1.28	1.28
DVFA/SG earnings per share <sup>2)</sup>	€	0.10	1.10	4.10	4.80	13.00

<sup>1)</sup> Fiscal years up to 1999/00 have been retroactively recognized according to the stock split in fiscal year 2000/01

<sup>2)</sup> Deutsche Vereinigung für Finanzanalyse und Anlageberatung/Schmalenbach-Gesellschaft, fiscal years up to 1999/00 have been retroactively recognized according to the stock split in fiscal year 2000/01

<sup>3)</sup> Thereof investments from first consolidation in the amount € million 163.5.

1999/00	2000/01	2001/02	2002/03	2003/04	
<b>3,647.7</b>	<b>4,441.5</b>	<b>4,857.3</b>	<b>5,582.0</b>	<b>6,359.4</b>	<b>Sales</b>
893.2	1,001.3	1,121.0	1,482.5	1,421.5	Domestic
2,754.5	3,440.2	3,736.3	4,099.5	4,937.9	Export
<b>48,797</b>	<b>54,586</b>	<b>54,234</b>	<b>66,803</b>	<b>76,827</b>	<b>Vehicle Sales (new cars)</b>
11,754	12,401	12,825	13,896	12,176	Domestic Porsche
37,043	42,185	41,409	52,907	64,651	Export Porsche
-	-	-	-	-	Other Models
48,797	54,586	54,234	66,803	76,827	Vehicle Sales Porsche
23,050	26,721	32,337	27,789	23,704	911
-	-	-	-	-	928
-	-	-	-	-	944/968
25,747	27,865	21,897	18,411	12,988	Boxster
-	-	-	-	222	Carrera GT
-	-	-	20,603	39,913	Cayenne
<b>48,815</b>	<b>55,782</b>	<b>55,050</b>	<b>73,284</b>	<b>81,531</b>	<b>Production</b>
48,815	55,782	55,050	73,284	81,531	Porsche total
22,950	27,325	33,061	29,564	26,650	911
-	-	-	7	270	Carrera GT
-	-	-	-	-	928
-	-	-	-	-	944/968
25,865	28,457	21,989	18,788	13,462	Boxster
-	-	-	24,925	41,149	Cayenne
-	-	-	-	-	Other models
<b>9,320</b>	<b>9,752</b>	<b>10,143</b>	<b>10,699</b>	<b>11,668</b>	<b>Employees</b>
631.3	709.9	799.4	849.5	982.5	Personnel expenses
					<b>Balance Sheet</b>
2,205.4	2,891.6	5,408.7	6,315.0	8,118.2	Total Assets
<b>782.0</b>	<b>1,053.3</b>	<b>1,466.8</b>	<b>1,754.5</b>	<b>2,323.5</b>	<b>Shareholders' Equity</b>
577.7	731.8	2,207.7	2,663.3	3,063.5	Fixed Assets
243.7	293.8	1,119.5	1,295.2	1,505.2 <sup>3)</sup>	Capital Expenditures
196.6	132.7	278.8	392.2	524.8	Depreciation
424.7	418.4	781.5	1,007.9	1,187.0	Cash Flow
506.5	764.4	1,067.3	1,389.6	1,665.8	Extended Cash Flow
<b>433.8</b>	<b>592.4</b>	<b>828.9</b>	<b>933.0</b>	<b>1,088.0</b>	<b>Income</b>
210.0	270.5	462.0	565.0	612.0	Net income
<b>26.4</b>	<b>45.0</b>	<b>297.0</b>	<b>59.0</b>	<b>69.5</b>	<b>Dividends</b>
					Dividends per share <sup>1)</sup>
1.48	2.54	2.94+14.00	3.34	3.94	Common stock
1.53	2.60	3.00+14.00	3.40	4.00	Preferred stock
13.70	17.20	27.80	35.20	38.80	DVFA/SG earnings per share <sup>2)</sup>



PORSCHE

Annual Report 2003/04



---

Dr. Ing. h.c. F. Porsche  
Aktiengesellschaft, Stuttgart

Report on the Fiscal Year  
August 1, 2003 to July 31, 2004

---

## The Reporting Year

- 4 Porsche stays on course
- 6 Members of the Supervisory Board and the Executive Board
- 7 Report of the Supervisory Board
- 8 Group and Porsche AG Status Report
- 18 Declaration of Compliance with the Corporate Governance Code
- 20 Finances
- 25 Shares
- 28 Models
- 34 Sales and Marketing
- 40 The Markets
- 49 Services
- 52 Communication
- 62 Porsche and the Environment
- 68 Purchasing
- 69 The Carrera GT production process
- 77 Employees
- 81 Production
- 84 Research and Development
- 94 Motor Sport

## Financial Statements

- 102 Group Balance Sheet
- 103 Consolidated Statement of Income
- 104 Porsche AG Balance Sheet
- 105 Statement of Income of Porsche AG
- 106 Statement of Cash Flows for the Group
- 107 Group Statement of Changes in Shareholders' Equity
- 108 Segment Reporting for the Group
- 110 Notes to the Financial Statements

---

## Porsche stays on course

---

The last fiscal year can safely be described as a memorable one, and the most successful year ever for Porsche. Sales volume and turnover both underwent double-digit increases and reached new record levels. The same was true of earnings. With pre-tax profits of EUR 1.088 billion – 17.1 percent of turnover – the company once again achieved a level of profitability distinctly higher than any other automobile manufacturer in the world. Furthermore, this was the tenth consecutive year in which the company posted increased profits. Consistent results like these are rare in any industry, let alone in the automobile sector.

Porsche's continuing success story seems impressive enough in itself, but bearing in mind that the entire automobile industry was struggling last year, our results are nothing less than remarkable. In view of the weak demand in key markets, many major manufacturers had no option but to accept shrinking sales figures and reduced earnings. To keep costs under control, there is increased talk of merging production capacities and shedding jobs, especially in Europe. The high-volume producers are by no means the only ones struggling with these problems: even some of our direct competitors in the premium segment are operating well into the red, or have announced plant closures because of lack of demand.

What does Porsche do differently? What enables Porsche to remain on course, seemingly unaffected by such developments, and achieve such impressive results year after year?

The answer is to be sought in the lesson we learned from our own crisis years. When Porsche went into the red about a dozen years ago, we took drastic measures and completely restructured the company. We modernized production from the ground up, we streamlined all our processes, slimmed down our organization, made our structures more flexible, and

pursued a course of product innovation. At the same time, we remained aware that, if a company wishes to remain successful in the long term, it must work towards long-term goals. At Porsche, therefore, every tactical decision made during the normal business day is governed by our consistent, long-term strategy.

At the center of this strategy are products with strong customer appeal and a product program that meets our customer's expectations of our brand. In other words, our premium vehicles are designed to offer dynamic handling, high performance, emotive styling, and individuality in a high-quality, superbly engineered package.

With the Boxster, the Carrera GT high performance sports car, and the Cayenne SUV, we have during the past few years systematically expanded the core brand and, with all due care, opened up new product segments that complement the 911. It may seem remarkable that Porsche, a sports car manufacturer with a long tradition, has succeeded in entering the luxury SUV market so successfully. With its product's combination of speed, off-road ability, road performance, and comfort, it has acquired undisputed leadership in its segment. The systematic organic growth strategy on which the company embarked with the Cayenne was one of the main reasons that Porsche was included in the ranking of the world's 100 most valuable brands for the first time in the summer of 2004.

In our core business – sports cars – we launched new 911 and Boxster model generations in the review year. Timeless, classic styling, a thrilling, no-compromise driving experience, understated elegance and premium materials – these are some of the features that these new models offer in an increasingly hard-fought market. We also felt that it was important to pass our productivity gains on to our customers by offering the new models at distinctly lower prices than their predecessors (including price adjustments for optional extras), which gives them even greater customer appeal.



Outstanding products and services are without doubt a central requirement for a successful business, but not enough on their own: one must also be able to sell the products at prices that are competitive internationally. To do this, lean structures, efficient processes and consistently low fixed costs are needed. Otherwise the company runs the risk of losing its way when the market becomes turbulent.

We have implemented a continuous improvement process throughout the group, which involves constantly examining every aspect of our internal procedures and structures. Keeping the company lean and responsive, recognizing and grasping opportunities for reducing costs and further increasing productivity through greater efficiency, as well as increasing our R & D and marketing effectiveness – these are goals that we at Porsche keep firmly in our sights. They are extremely ambitious, but we will not stop when we have reached them; we will simply raise the benchmark even higher.

We are aware that our lofty ambitions for products, processes and customer satisfaction can only be achieved with the support of a high quality and well-motivated team. Here at Porsche, we have such a team – and we believe that they should share in the success of the company by means of special bonus payments.

It is our firm conviction that companies seeking to be successful in the long term have to create trust and identity. This means establishing an environment in which our employees (but also our customers and shareholders) feel that they belong. This can only be achieved if we project a positive image based on the credibility of our daily actions and reflected in broad social acceptance of the brand, the company, and its products. At Porsche, we believe we have such an image – the result not only of our clearly defined model policy but also of our socio-political positioning. Porsche has always presented itself unambiguously as a German-based company, which means that it creates jobs in Germany and pays its taxes here – not always a matter of course in these times.

Today, Porsche's corporate profile is more clearly defined than ever before. The company continues to create goodwill not only by restating its socio-political policies in clear terms but also by acting in accordance with these policies. Our brand name has come to epitomize the fascination of driving a sports car. The Porsche brand stands for power and dynamics, for state-of-the-art technology, for German engineering and for unique styling. We have done what is necessary to ensure that we stay on course while at the same time remaining highly profitable. Building on the tried and tested cornerstones of our strategy, we will do everything in our power to ensure that our customers, employees, business partners, and shareholders can fully identify with the future development of our company.

Dr. Wendelin Wiedeking  
President and Chief Executive Officer

---

# Members of the Supervisory Board and the Executive Board

---

## Members of the Supervisory Board

Prof. Dr. Helmut Sihler  
Vice Chairman of the Supervisory Board Novartis AG  
Chairman

Hans Baur\*, Diplom-Ingenieur  
Trade Union Secretary  
Deputy Chairman

Maria Arenz\*, Attorney  
Department Head

Jürgen Kapfer\*  
Project Manager

Uwe Hück\*  
Head of the Works Council for the Porsche Group  
Head of the Works Council Zuffenhausen and Ludwigsburg

Dr. techn. h.c. Ferdinand Piëch  
Chairman of the Supervisory Board Volkswagen AG

Dr. Hans Michel Piëch  
Attorney

Prof. Ferdinand A. Porsche  
Designer

Dr. Wolfgang Porsche  
Diplom-Kaufmann

Hansjörg Schmierer\*  
Trade Union Secretary

Werner Weresch\*  
Automotive Mechanic  
Member of the Works Council

Dr. Dr. h.c. Walther Zügel  
Former Chairman of the Executive Board Landesgirokasse

\* Employees' Representative

## Members of the Executive Board

Dr.-Ing. Wendelin Wiedeking  
President and Chief Executive Officer

Wolfgang Dürheimer  
Diplom-Ingenieur  
Research and Development

Holger P. Härter  
Diplom-Volkswirt  
Finance and Controlling

Harro Harmel  
Human Resources/Labor Relations Director

Michael Macht  
Diplom-Ingenieur  
Production and Logistics

Hans Riedel  
Diplom-Kaufmann  
Sales and Marketing

## Report of the Supervisory Board



Throughout the fiscal year, the Supervisory Board was provided with written and oral reports from the Executive Board regarding the status of the Company, the business operations and business policy, on the basis of which it monitored the Company's management. The Supervisory Board's responsibilities included ensuring that the requirements of the KonTraG ("Gesetz zur Kontrolle und Transparenz im Unternehmensbereich": "Corporate Sector Supervision and Transparency Act") are implemented and observed. The Supervisory and Executive Board have scrutinized the recommendations and suggestions of the German Corporate Governance Code, which gained its legal basis through the TransPuG ("Transparenz- und Publizitätsgesetz": "Transparency and Disclosure Law"), and issued a declaration of compliance pursuant to Section 161 of the Stock Corporation Law (AktG). Comments on the declaration of conformity are included in the annual report 2003/04. Further, the Supervisory Board dealt with fundamental issues of the business planning, especially the financial, capital expenditure and personnel planning. The Supervisory Board has formed a standing committee, which acts both as an arbitration committee in accordance with Section 27 subsection 3 of the Mitbestimmungsgesetz ("Co-Determination Act") and as a personnel committee. Business transactions for which the Supervisory Board's consent is required were thoroughly debated at the four meetings of the Supervisory Board and the four meetings of the Standing Committee prior to adopting a resolution. These meetings provided an occasion for the Supervisory Board to satisfy itself of the fact that the Executive Board manages the business efficiently and implements all appropriate measures effectively and in a timely fashion. The Executive Board continuously supplied the Supervisory Board with comprehensive, up-to-date information on the development of the markets and the business lines. The monthly reports, which present and explain important actual quantity and financial data in comparison with budget and prior year figures, play an important role here.

The annual financial statements of the Dr. Ing. h.c. F. Porsche Aktiengesellschaft and the consolidated financial statements prepared by the Executive Board for the 2003/04 fiscal year as well as the accounting records and the combined Company and Group management report were audited by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Stuttgart which was appointed

as auditor at the Annual Shareholders' Meeting on January 23, 2004. Also subject to this audit were the measures taken by the Executive Board to identify at an early stage any risks that might threaten the enterprise's performance and its continuing existence. The auditors raised no objections and thus issued an unqualified auditors' reports.

The annual financial statements of the Porsche AG, the consolidated financial statements and the Company and Group management report for which an unqualified auditors' report was issued by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Stuttgart along with the consolidated auditors' reports were submitted to the Supervisory Board for examination.

The Supervisory Board examined and approved the documents and the auditors' report for the Porsche AG and Porsche Group pursuant to Section 170 subsection 1 and 2 of the Stock Corporation Law (AktG) and concluded after the final result of their examination and approval that no objections have to be made. The Supervisory Board agrees with the audit results of Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Stuttgart. The auditors, having signed the annual financial statements, attended the meeting of Supervisory Board at which the annual financial statements and the consolidated financial statements were approved and reported on their audit of the financial statements and consolidated financial statements.

The Supervisory Board ratified the annual financial statements for the 2003/04 fiscal year. The Supervisory Board approved the management report prepared by the Executive Board. We agree with the executive Board's proposal for the allocation of net income available for distribution. The Supervisory Board acknowledges and expresses its thanks to the Executive Board, the elected staff representatives and all employees for their high degree of commitment and the work they carried out in the past fiscal year.

Stuttgart, November 2004

The Supervisory Board  
Prof. Helmut Sihler  
Chairman

## Group Status Report 2003/04

Porsche's success continues:  
new sales, turnover and earnings records.







The new 911 will stimulate sales afresh in the current fiscal year. Basic and S versions were launched together.

#### **World Economy recovering**

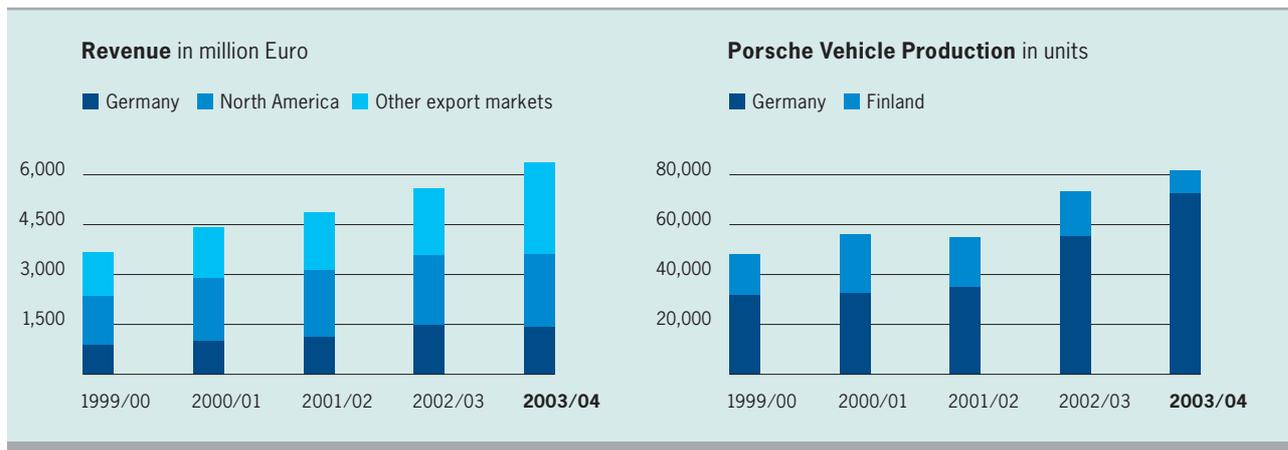
The world economy has been showing signs of an upturn for over a year. Contributing factors have been lower interest rates, improved sales expectations, and more robust investment activity. This encouraging development is being driven by two main regional centers: North America and Asia. The upturn in the US is a consequence of its expansive economic policy, and has been accompanied by a rise in employment figures. The boom in China is providing the Asian economy with considerable impetus, and in Japan too the economy continues to recover.

Benefiting from the upturn in these regions, the Euro zone is gradually moving out of a long period of stagnation. Despite the strong Euro, exports have been key driving element in this trend. The new EU nations in Central and Eastern Europe have also contributed to the dynamics of the Euro economy. However, weak spending by private households is still a fly in the ointment.

Unfortunately, the German economy is participating only very hesitantly in the worldwide economic recovery. The domestic national product may have increased during 2004, but the dynamic performance of the economy bears no comparison with that of other countries. The country's many structural problems are an important reason for this. The consequential costs of German reunification and the effects of obsolete bureaucracy in the labor and social systems are working against the welcome efforts of the government to introduce reforms.

#### **Porsche remains on Track for Success**

Despite the fact that the upturn has not yet reached all markets, and regardless of unsatisfactory developments in the automobile markets, Porsche remained on course for success. Our key business figures once again reached new record levels



in fiscal 2003/04. The growth driver was the Cayenne, which secured a successful market position in its first full sales year – more than compensating for the drop in sports car sales. Porsche’s core business, that is to say the 911 coupés and convertibles and the Boxster, suffered a decline. Since these models had reached the end of their life cycle, this was to be expected. In the course of the current year, new 911 and Boxster model generations will provide further sales impetus.

The Cayenne was Porsche’s best selling model in the review year. 39,913 units were sold, compared with 20,603 in the previous fiscal year, even though the SUV was only rolled out internationally from December 2002 on. The Cayenne S continued to enjoy great popularity, with 20,114 units sold, while the turbo version, at 9,146 units, accounted for over 20 percent of Cayenne sales. The new six-cylinder version made an auspicious debut during the review year. Although it was only introduced gradually to international markets at the end of November 2003, 10,653 units of the Cayenne V6 had been sold by the end of the fiscal year.

Despite the impending introduction of the new generation 911, which took place in July 2004, this model still sold in considerable numbers – 23,704 units compared with 27,789 in the previous year. Within this model line, which celebrated its 40th anniversary in 2003, there was a continuing trend toward a higher-value model mix. The Carrera 4S Cabriolet was particularly sought after, with 4,583 units sold, together with the Turbo Cabriolet with 3,042 units. The GT3, too, enjoyed great popularity, with 2,362 units sold. Approximately 45 percent of all 911 buyers chose a cabriolet model during the year under review. The all-wheel drive option – available for both coupé and cabriolet – proved particularly popular. If the Turbo is included in the figures, 58.4 percent of all 911s were sold with all-wheel drive. The new Carrera and Carrera S models accounted for approximately 1,000 units.

During the review year, few areas of the automobile market were as fiercely contested as the roadster segment. Manufacturers launched numerous new models, only to discover that consumers were reluctant to spend their money. Given this difficult background, and in particular considering that the roadster

was already in its eighth year of production during the review year, sales of the Boxster held up well, at 12,988 units (down by 29.5 percent). The more powerful Boxster S sold 6,447 units, accounting for 49.6 percent of the total, compared with 44.8 percent in the previous year. The “550 Spyder 50th Anniversary” version of the Boxster S, which became available in March 2004, was warmly received by customers.

Including the high performance Carrera GT sports car, which sold 222 units in its first year, the Porsche Group sold a total of 76,827 vehicles in the 2003/04 fiscal year – a 15.0 percent increase on the previous year’s sales total of 66,803 units. The company’s growth thus remains undiminished.

#### Porsche vehicles in demand worldwide

Porsche vehicles are in strong demand all over the world. This is particularly true of the Cayenne. Thanks to this model, we have enjoyed strong growth in a number of markets in which penetration had previously not been very high – in the Middle East, for example. We also made good progress in Europe, with the United Kingdom being particularly worthy of mention. Sales in all export markets outside North America amounted to 33,295 vehicles, an increase of 39.4 percent on the previous year’s figure of 23,883 units.

In Porsche’s most important market – North America – sales were 8.0 percent higher, with 31,356 units sold compared with 29,024 units in the previous year. The Cayenne played an important role in this success: its sales in North America rose by 69.6 percent to 17,216 units. With a total of 14,041 units sold, 911 and Boxster sales were 25.6 percent down, while the Carrera GT sold 99 units.

Despite the general weakness of its home market, Porsche managed to sell 12,176 units in Germany. This total excludes, for the first time, Porsche employees’ company and leasing vehicles and thus represents an increase of 3.9 percent over the equivalent figure for the previous year. Sales of the Cayenne – 5,245 units – had a considerable influence. Sales of the 911 and Boxster fell by 16.7 percent to 6,890 units, although the higher-value versions of the 911 improved the product mix. 41 units of the Carrera GT were sold.



Pre-tax profit went up for the tenth year in succession and reached a new record level of 1.088 billion Euro.

### **Turnover reaches a Record High**

Increased sales volumes resulted once again in higher turnover during fiscal 2003/04. Group turnover increased by 13.9 percent to EUR 6.36 billion – a record high for the company. The Porsche AG share of total turnover amounted to EUR 5.16 billion. The percentage increase in Group turnover was lower than the percentage increase in sales. This is due to the change in the mix of models sold, and also to less favorable exchange rates. The CTS Car Top Systems Group made a substantial first-time contribution to turnover. Adjusted for CTS, Porsche turnover went up by 8.2 percent to EUR 6.04 billion. CTS, of which Porsche previously owned only 50 percent, was taken over in its entirety by Porsche AG in September 2003 and is thus fully consolidated.

The lion's share of Group turnover was accounted for by vehicle business, which registered a 12.9 percent rise to EUR 4.88 billion. The financial services companies achieved a turnover of EUR 556.0 million.

### **Production start-up of the new 911**

Porsche substantially increased the number of vehicles it produced in the review year. 81,531 vehicles (previous year: 73,284 units) were produced, including 8,862 Boxster and Boxster S models built in Finland. This is an increase of 11.3 percent. The 911 accounted for 26,650 of total vehicle output (down by 9.9 percent) and the Boxster model line for 13,462 (down by 28.3 percent). As a result of strong demand, the Cayenne accounted for the largest share of vehicles produced by Porsche. We built 41,149 units of this SUV, compared with 24,925 units in the previous year. The strong growth of 65.1 percent is explained by the fact that production of the Cayenne in the new Porsche plant in Leipzig had gradually been increased in the previous year. The Carrera GT is also produced in Leipzig; 270 of these high-performance sports cars were built during the year under review.

A total of 31,250 sports cars left the production line in Zuffenhausen. The 3.1 percent increase over the previous year is due mainly to an increased share of Boxster production in Zuffenhausen. Production of the new 911 began in spring 2004 in order to build up the stocks needed to supply the market

during the launch phase in mid-July 2004. In the year under review, we built 3,432 of the new generation 911.

### **Considerable Development Expenditure**

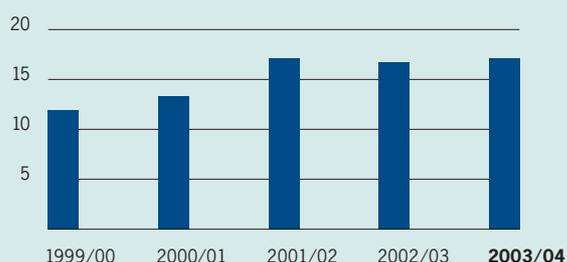
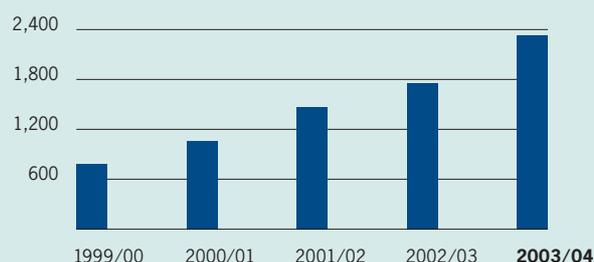
Expenditure on internal development was once again at a high level in fiscal 2003/04. Although resources for the 911 were cut back in view of the impending launch of the new-generation 911, other sports car development projects – the new Boxster, for example – demanded greater financial commitment. The ongoing development of three model lines and the pursuit of an intensive variant strategy are matters that are consistently reflected in design and development expenditure.

### **Workforce increased**

In contrast to the general trend, Porsche also created new jobs during the period under review. The number of persons employed by the Group on the balance sheet date increased by 9.1 percent to 11,668 (previous year: 10,699); CTS Group, accounted for the major part of the increase with 939 people. The workforce of Porsche AG – 7,992 employees – was smaller than in the previous year (8,078 employees).

### **Record Results**

Although the economy is only gradually recovering from its bout of weakness, and the earnings position of many other carmakers remained difficult, Porsche again succeeded in substantially improving its operating profits. Profit before tax within the Group went up to EUR 1.088 billion (previous year: EUR 933.0 million), despite substantial costs for the development and launch marketing of the new-generation Porsche 911 and Boxster models. This result was achieved by a combination of higher productivity and a cautious hedging policy on major currencies such as the US dollar. The group's net after-tax income for the year rose from EUR 565.0 million in the previous year to EUR 612.0 million. Our subsidiary companies in Germany and abroad contributed to this positive trend. The slowdown in the growth of the annual surplus was due to the fact that there was a positive tax effect in the previous year.

**Percentage return on sales before tax****Equity in million Euro**

Porsche AG's pre-tax profits went down to EUR 843.0 million (previous year: EUR 1.042 billion). Net income for the AG was EUR 488.0 million, compared with EUR 660.0 million in the previous year. Reasons for the decrease include the changed model mix, lower dividends from subsidiary companies, elimination of the tax credit, and the one-off build-up of Cayenne stocks in the previous year.

#### Investments and Depreciation

The increase in business volume and the construction of the engine plant in Zuffenhausen, together with preparations for the new sports-car model generations, led to high investment volumes during the year under review.

Adjusted for the effects of initial consolidation, Group investment in property, plant, equipment and intangible assets amounted to EUR 575.4 million (previous year EUR 580.3 million). Investment in leased assets at our financial services companies was EUR 759.7 million (previous year: EUR 712.5 million). At Porsche AG, investments totaled EUR 568.1 million; the investment plans of the AG involved various rationalization projects, including ongoing modernization of the IT systems, the replacement of existing equipment, and environmental protection measures. Investment was also needed for the production start-up of the new sports-car model generations in Zuffenhausen.

Depreciation within the Group went up to EUR 524.8 million (previous year: EUR 392.2 million), in particular as a result of increased Cayenne production levels. Of this total, EUR 235.6 million (previous year EUR 182.0 million) were for the financial services companies.

#### Financial Structure: Marked Increase in Cash Flow

The strong earnings performance of Porsche was impressively reflected in its extended cash flow. This key ratio includes changes to the other reserve allocations. These were substantially increased during the year under review and, at EUR 1.666 billion, clearly exceeded the previous year's value of EUR 1.390 billion. To safeguard the continued growth of the Porsche Group, a corporate bond was issued with a value of 625 million US dollars.

Thanks to the improved profit situation, net liquidity improved by 33.6 percent, to EUR 1.817 billion. Equity capital also rose by approximately EUR 568.9 million to EUR 2.323 billion. Continued prudent accounting led to increased reserves of EUR 2.560 billion, an increase of EUR 472 million.

#### Process Optimization at Porsche

With the introduction of the third model line, an increasing number of derivatives, and the opening up of new sales markets, the Porsche Group had an increasing number of tasks to carry out in the past few years. This has largely taken place within the existing administrative infrastructure. However, the growing model range has increased the administrative workload, and this has put pressure on the company's administrative structure.

In order to create a solid foundation for Porsche's positive growth trajectory to continue, the Executive Board decided during the review year to introduce Porsche Process Optimization (PPO). During the course of this program, all key Porsche Group processes will be analyzed and optimized by the end of the 2005/06 fiscal year. The objective of PPO is to deploy current resources in a way that offers scope for future growth and so secures Porsche's independence and competitiveness in the long term.

In the past fiscal year, we already conducted two successful pilot projects in the Quality Control and Development areas.

#### Thanks to our Staff, Partners and Stockholders

In the review year, exceptional demands were once again made of Porsche employees in all operating areas both at home and abroad. Activity was concentrated on the production start-up of the new 911, but there was also a need to deal with increased Cayenne production volume.

The worldwide presentations of the 911 to journalists, dealers, and customer presented another major challenge, but many other sales and development tasks were also undertaken with great enthusiasm. The Executive Board wishes to express its gratitude to everyone involved. As a token of our appreciation, as in previous years, all employees paid according to negotia-



ted rates who have been with the company for at least one year will receive a bonus payment reflecting our good results.

We also wish to thank the shareholders, who have consistently and repeatedly shown their confidence in the company. Our special thanks go to the employees' elected representatives, who have given their agreement to far-reaching strategic decisions reached together with company management. Thanks are also due to our suppliers and our partners in the sales organizations. It is only with their energetic support that Porsche has been able to achieve its ambitious targets and, in most cases, even to exceed them.

#### **Future Development Risks**

Under the German Corporate Sector Supervision and Transparency Act (KonTraG), Porsche is required to operate a risk management system. This obliges us to report on risks related to future developments that could endanger or adversely affect our corporate assets, financial position or performance. We examine and assess the risks inherent in our business activities in annual rounds of planning meetings, and establish objectives based on our analyses. Our performance in complying with these objectives is monitored throughout the fiscal year by means of a Group-wide controlling and reporting system. Any deviations or changes in the market or the competitive situation are immediately identified and analyzed by the system, and decision-making executives advised of the outcome without delay. By acting promptly, we can identify negative trends at an early stage and take the appropriate remedial action. As well the regular reporting procedure, there is an internal ad-hoc reporting procedure for risks that arise unexpectedly.

The relevance and efficiency of risk management as a whole is centrally monitored by the risk management department and Porsche AG's internal auditing. If potential for improvement is discovered, this is reported without delay to the Executive Board and implemented. The monitoring process also involves continuous documentation of the complete risk management program and checks on its suitability and effectiveness.

#### **Rapid Intervention ensured**

As in the previous year, the auditors assessed our risk management performance during their audit of the annual financial statements and determined that it complies with German Corporate Sector Supervision and Transparency Act (KonTraG). No potentially damaging developments likely to have a significant and lasting effect on the company's assets, financial and earnings situation can be identified at present.

It must be appreciated that risks can never be completely eliminated. An escalation of terrorist activities could negatively affect sales of Porsche vehicles. Recessive changes to the economic environment also influence the demand for consumer durables and thus the sales of our products. The North American and German markets are particularly critical for Porsche, because of the sales volumes which they generate.

Thanks to continued, intensive market monitoring and the early warning indicators that are in place, Porsche is in a position to recognize an incipient slowdown in sales and to reduce its negative effects on the company by adopting suitable measures such as adjusting production levels or diverting sales streams.

Like all enterprises active in international markets, Porsche is exposed to exchange rate risks. The company limits these by entering into appropriate hedging agreements with selected first-class financial partners. The nature and extent of these agreements are prescribed by internal guidelines and processed centrally by the company's Treasury department.

Another business area that requires ongoing precautionary measures is leasing. Its expansion – in line with increased group sales – increases the residual value risk involved in disposing of vehicles returned to the Porsche financial services companies at the end of the leasing contract. To limit this risk, the residual value of Porsche vehicles in the used car market is continuously monitored, and this information used as a basis for establishing the residual value in future leasing vehicle agreements. Any remaining risks are covered by the provisions in the Porsche AG balance sheet.

Optimizing all the main processes within the Porsche Group creates preconditions for continued successful growth.



Porsche also makes provision for other risks. The company competes with other internationally active companies for skilled specialists and executive managers. Thanks to the attraction of Porsche as an employer, and its current personnel development program, employee satisfaction remains high, and this reduces the risk of losing know-how through workforce fluctuation.

Porsche also takes steps to limit risk in the field of information technology, since unauthorized attempts to access or misuse data can severely disrupt our operating procedures. Porsche protects itself against this by issuing instructions to staff on compulsory procedures governing access to information and the handling of data, as well as by the adoption of preventive measures such as virus scanners and firewall systems. Porsche has an emergency and disaster program in case its IT systems should fail. It is largely based on the duplication of data and hardware that are vital to the operation of the company. The current emergency program is regularly updated to take changes in operational requirements into account.

Production may, however, suffer serious and lasting disruption through unexpected, but not entirely unavoidable events, such as a fire or explosion at a Porsche plant or at one of its suppliers. This risk is limited by extensive safeguards and continuous checks, which also ensure that Porsche qualifies as a well-protected industrial risk. In addition, Porsche has taken out extensive cover against plant failure and disruption of its business as part of its international insurance program.

Finally, for events representing a potential threat to Porsche's image, we have developed communication strategies that allow us to react immediately and flexibly to a wide variety of crisis scenarios. This is of key importance, as Porsche's public image is chiefly governed by the way it is presented.

#### **Extensive Quality Precautions**

Automobile manufacturers now work very closely with their suppliers on product development and series production. However, despite the economic advantages of doing so, this creates a situation of increased dependence for the manu-

facturer. Late deliveries, failure to deliver, or quality deficiencies quickly lead to disruption of production, which can also have a negative effect on profits. Porsche has limited risk of this kind by adopting extensive procedures for the selection, monitoring and management of its suppliers.

Porsche undertakes an in-depth analysis and assessment of the technical competence and financial viability of its suppliers before selecting and classifying them. If a supplier does not fully satisfy Porsche's requirement profile, but a contract nevertheless needs to be awarded, skill development measures are established and implemented. When regular deliveries start, a thorough check is made on the quality of parts and their punctual delivery. If there is any deterioration in performance, the causes are analyzed, immediate remedial measures are taken, and their effectiveness is continuously monitored.

Vehicle manufacture is a complex process in which product defects can occur that may eventually lead to claims being made under warranty or product liability, and product recalls may even be necessary. Identifying and analyzing product defects in the various sales markets enables Porsche to detect any reduction in product quality at an early stage. To do this, we have set up an interdisciplinary task force, which meets weekly to discuss product quality, analyze the causes of product defects, and initiate the appropriate remedial action. The evaluation covers our entire production, including the quality of parts and our suppliers' manufacturing processes. All product liability claims are dealt with centrally by our legal department and are covered, as far as possible, by our international insurance program. Financial provision for claims under warranty is also made.

The infringement of third parties' rights can cause disruption to design and development or to production. Porsche takes preventive measures here too. To protect ourselves from possible infringements of rights, we conduct research that systematically investigates and evaluates the industrial property rights of third parties.



Regardless of economic uncertainties, we view the current business year with confidence.

### Outlook

Leaving aside the possibility of further price increases in crude oil and other raw materials, conditions for a continued but moderate upturn in the world economy are favorable. There is every chance that the European Central Bank will continue to use low interest rates as a means of encouraging economic recovery in 2005 and that the American Federal Reserve Bank will be cautious in tightening up its monetary policy, since inflation is not a major problem either in Europe or in America. Expansionary forces in Asia remain fundamentally intact, although demand and production in China are expected to give rise to somewhat slower growth than was previously the case. As a result, expansion of world trade in real terms could slow noticeably in 2005.

In the Euro zone, the expansionary effect of export demand could therefore gradually weaken. Since German domestic demand is picking up only gradually, a dynamic upturn is not in sight. The prospects for new members of the European Union are more positive, since production in these countries will continue to increase vigorously.

For Germany, as the largest economy in Europe, the political challenges of a merely moderate economic performance will not diminish. It would therefore be wrong to ascribe the slight economic recovery we have experienced so far entirely to the recent reforms. More than ever, the government's financial policy is charged with the task of getting public-sector finances back on their feet. The social system in particular is still not equipped to deal with the tough challenges of the future. Only when these problems are tackled in earnest can Germany – and thus also the Euro zone – achieve its self-declared goal of becoming one of the world's dynamic growth regions once again.

Notwithstanding this economic uncertainty and the continuingly weak worldwide demand for automobiles, we consider the prospects for our company to be exceptionally positive in the 2004/05 fiscal year. Today, Porsche has a broader and more attractive product program than ever before. The Cayenne established itself in the performance SUV segment within a very short time and is well on its way to consolidating its

position in the market. The Carrera GT high performance sports car at the upper end of the sports car program will further enhance the image of the brand. Above all, however, the new 911, which has rolled out progressively since the middle of July, and the new Boxster – launched at the end of November – will provide further impetus for Porsche's core business. As a result of these recent enhancements to its product program, the company looks forward to further growth in the current fiscal year.

Stuttgart, October 4, 2004

Dr. Ing. h.c. F. Porsche  
Aktiengesellschaft  
The Executive Board



---

# Declaration of Compliance with the Corporate Governance Code

---

## Background Information

On February 26, 2002, the Federal German Government Commission on the Corporate Governance Code introduced a code of conduct for the Executive and Supervisory Boards of companies listed on the stock exchange. The Executive and Supervisory Boards of listed companies are obliged to make an annual declaration of conformity as to whether they have complied and are continuing to comply with the code, or which of the recommendations contained in the code have not been applied.

In May 2003 the Corporate Governance Code was updated and the latest version published in the electronic version of the German Federal Legal Gazette on July 4, 2003. This Declaration of Compliance is based on the amended version.

## Declaration of Compliance by Porsche AG

Porsche AG complies with the vast majority of the non-mandatory regulations of the code. However Porsche AG does not comply with a number of regulations, mainly as a result of company-specific factors. These regulations are listed below, together with the reasons for non-compliance:

\_\_\_\_ “If the company takes out D & O (directors’ and officers’) insurance policies for the Executive Board and Supervisory Board, a suitable deductible shall be agreed.”

This recommendation is not being followed. Porsche insures the D&O risk under its general asset and liability insurance but does not include a specific deductible in the total premium payable. A large deductible, which would have to be a standard sum in order to comply with the principle of equality, would have widely differing effects on the members of the Executive and Supervisory Boards according to their individual circumstances in respect of private incomes and assets. In the worst case, a less well-off member of the Supervisory board might find him/herself in serious financial difficulties, which cannot be considered fair, in view of the fact that all members have the same obligations.

\_\_\_\_ “The Supervisory Board shall set up an Audit Committee which, in particular, handles issues of accounting and risk management, the necessary independence required of the auditor, issue of the audit mandate to the auditor, determination of audit priorities and the agreed fee.”

The particular features of Porsche’s shareholder structure require all members of the Supervisory board to receive the same quality and quantity of information on all important topics. It has always been characteristic Porsche’s practice that the entire Supervisory board should be given very detailed information, especially on accounting and risk management, and should hold in-depth discussions on the annual accounts with the auditor.

\_\_\_\_ “Suitable information shall be provided in the Notes to the Consolidated Financial Statements regarding the purchase or sale of shares in the company or its parent company, and any options or derivatives relating to them, by members of the Executive Board and Supervisory Board. The shareholdings, including options and derivatives, held by individual members of the Executive and Supervisory Boards, shall be reported, if these directly or indirectly exceed 1% of the shares issued by the company. If the entire holdings of the Executive Board and Supervisory Board exceed 1% of the shares issued by the company, these shall be reported separately according to the Executive Board and Supervisory Board.”

All the common stock is owned by the Porsche and Piëch families and the proportions of shares owned are published as required by share trading legislation.

Purchases and sales of Porsche preferred stock by members of the Executive or Supervisory Boards are published insofar as this is required by § 15a of the German Stock Corporation Law (AktG). Publication takes place without delay on the Group home page of Porsche AG in the Internet and remains accessible for at least 30 days. In our view, an ex-post statement in the Group annex offers the investor no additional value and is therefore undertaken only to the extent declared by law to be mandatory.

\_\_\_\_ “The Consolidated Financial Statements and interim reports shall be prepared under observance of internationally recognized accounting principles.”

The Porsche AG Executive Board has decided to take advantage of the time frame contained in the legislation and not to convert to international accounting standards until 2005. The main reason for this is that these regulations are still in a state of flux. Converting later on what will by then be a secure basis, will considerably reduce the effort and expense involved.

\_\_\_\_ “The Consolidated Financial Statements shall be publicly accessible within 90 days from the end of the financial year, and the interim reports within 45 days from the end of the reporting period.”

Porsche has established a publication cycle corresponding to its unusual financial year, which guarantees the company optimum publicity. We do not consider it appropriate to deviate from this practice.

\_\_\_\_ “Notes on the relationships with shareholders considered to be related persons pursuant to the applicable accounting regulations shall be provided in the Consolidated Financial Statements.”

This recommendation is not being followed because of the special character of Porsche AG’s shareholder structure. There have been and still are many and varied relationships with the common stockholders of the Porsche and Piëch families, for which this schematic form of publication is not appropriate. This form of collaboration takes place according to common practice in the business sector concerned.

\_\_\_\_ “Shareholders and third parties are mainly supplied with information by the Consolidated Financial Statements. They shall be informed during the financial year by means of interim reports.”

The company issues interim reports. However, Porsche rejects quarterly reporting for reasons of principle that have already been explained in detail.

\_\_\_\_ “Payments to members of the Executive Board shall be reported in the notes to the Consolidated Financial Statements, subdivided according to fixed, performance-related and long-term incentive components. The figures shall be individualized.”

We show the salaries of members of the Executive Board subdivided according to fixed and performance-related components. Porsche AG does not operate a share option scheme. We will not comply with the non-mandatory regulation in the code requiring payments to board members to be shown individually. In our opinion, the associated disadvantages – particularly the inevitable leveling up of board members’

salaries and the invasion of the individuals’ right to privacy – outweigh the advantages of such a practice to investors. The latter are, in any case, unaware of the criteria and scales on which differences between board members’ salaries are based.

\_\_\_\_ “Payments to the members of the Supervisory Board shall also be reported in the notes to the Consolidated Financial Statements, individualized and subdivided according to components.”

We show payments to the Supervisory Board as a single sum. We do not state the sums paid to individuals because we can see no additional advantage for investors in this in view of the level of payments involved and the requirements stated in the statutes.

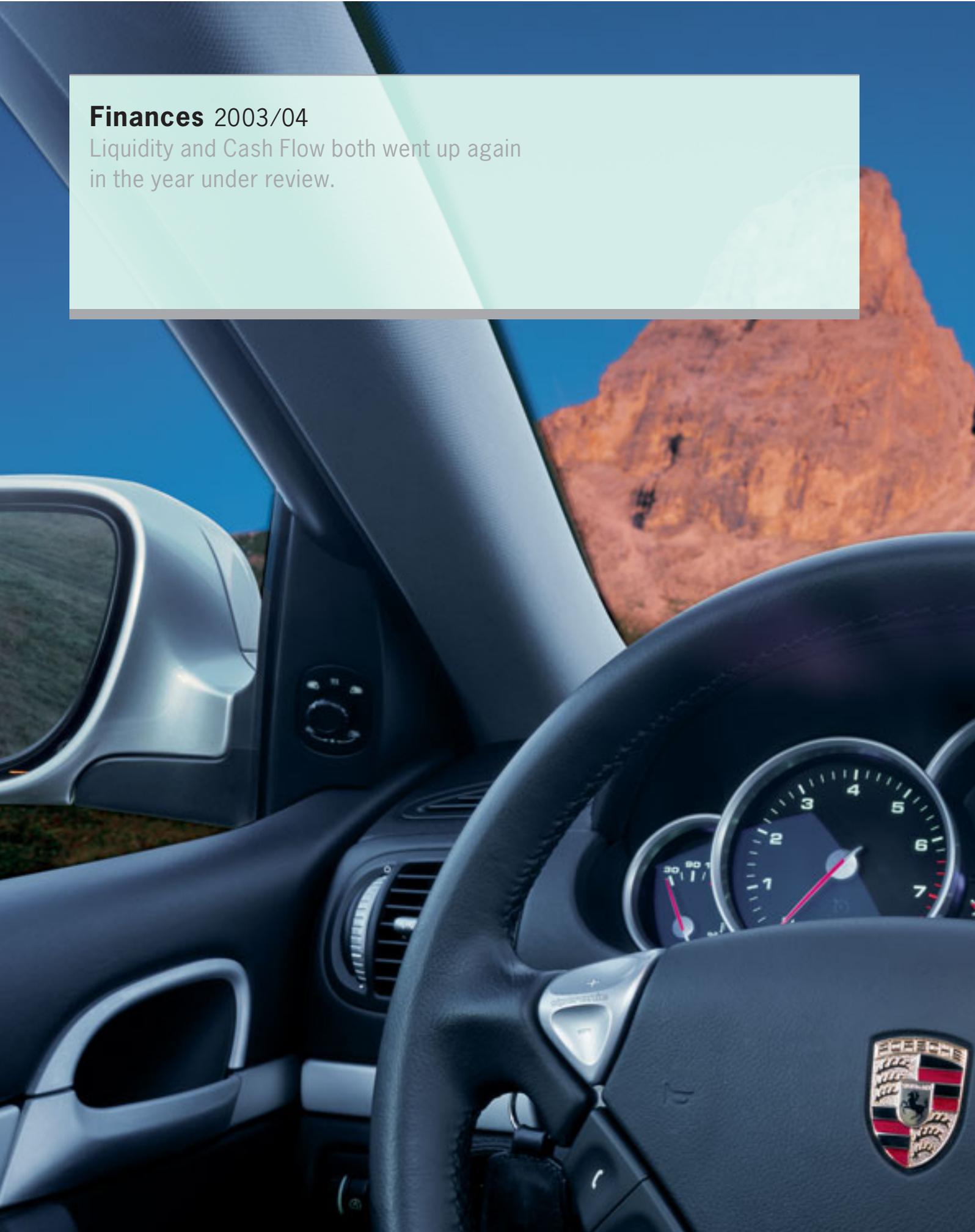
\_\_\_\_ “Payments made to members of the Supervisory Board or the benefits granted to them in respect of personal services rendered, in particular advisory or negotiating services, are also to be shown individually and separately in the annex to the Consolidated Financial Statements.”

The ability to access the expertise of individual members of the families who are shareholders in the company on specific subjects represents a particular advantage for Porsche AG. This cooperation takes place on terms that are customary in this business sector and which are also complied with in the event of comparable business arrangements being undertaken with third parties. The recommendation is inappropriate for the character of a family-owned business and for this reason is not complied with.

Dr. Ing. h.c. F. Porsche Aktiengesellschaft  
Supervisory Board and Executive Board

## **Finances** 2003/04

Liquidity and Cash Flow both went up again in the year under review.







The Porsche Group's equity ratio rose despite the much greater balance-sheet volume.

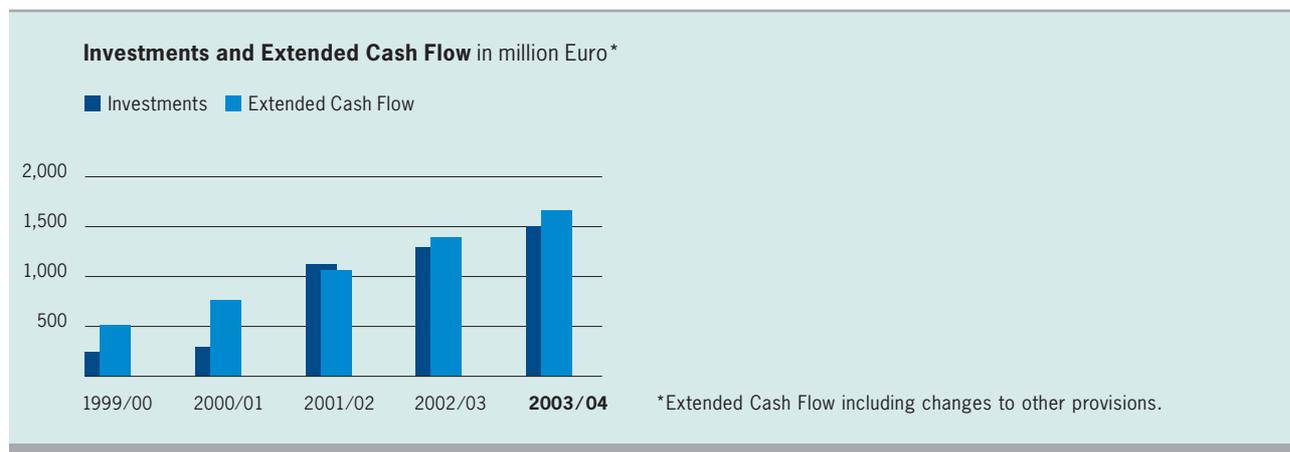
#### **Liquidity further improved**

The key financial figures for the Porsche Group at the end of fiscal 2003/04 broke all records, with increased sales and turnover volumes and a renewed improvement in the earnings situation. As a result, the balance sheet total of the Porsche Group increased substantially during the period under review, by EUR 1.803 billion to EUR 8.118 billion.

Investments in property, plant, equipment and intangible assets amounted to EUR 575.4 million during the review year, compared with EUR 580.3 million in the previous year. Investments in leased assets at our financial services companies was EUR 759.7 million (previous year: EUR 712.5 million). Depreciation also increased to EUR 524.8 million (previous year: EUR 392.2 million), primarily in connection with the start of Cayenne production.

At the balance sheet date, Porsche reported assets of EUR 3.064 billion – a year-on-year increase of EUR 400.2 million. Despite this increase, the share of assets as a percentage of total assets fell from 42.2 to 37.7 percent, due to the relatively faster growth in balance sheet total. The proportion of the Group's assets covered by shareholder equity was 75.8 percent (previous year: 65.9 percent). Inventories increased by EUR 99.6 million to EUR 567.9 million and trade receivables by EUR 59.8 million to EUR 271.1 million. Other assets amounted to EURO 1.401 billion during the review year, compared with EUR 1.163 billion in the previous year. The increase in other items is a result both of the increased business volume and of first-time company consolidations during the report year.

Porsche improved its already high liquidity from EUR 1.766 billion in the previous year to EUR 2.791 billion during the year under review. This is primarily a reflection of the company's



good earnings performance, although the funds raised via a private equity placement in the USA also contributed to the liquidity situation. Liquidity, excluding borrowings, has increased by a substantial 33.6 percent to EUR 1.817 billion. Extended cash flow also increased markedly to EUR 1.666 billion in fiscal 2003/04, from EUR 1.390 billion in the previous year, thus exceeding the EUR 863 million outlay for investment activity by a large margin.

#### Higher Equity Ratio

Shareholders' Equity increased by EUR 569 million to EUR 2.323 billion during the year under review. As a result, the Porsche Group's equity ratio increased to 28.6 percent from 27.8 percent in the previous year. This was in spite of the considerable increase in the balance sheet value.

Compared with the previous year, provisions were increased substantially, by EUR 472 million to EUR 2.560 billion. Our highly cautious accounting and risk assessment policy is reflected in our allocations to reserves. Trade payables increased slightly to EUR 368.3 million (previous year: EUR 336.8 million).

During the course of the past fiscal year, we launched a Private Placement in the USA with an equivalent value of EUR 518.5 million and with terms between seven and fifteen years. Also reported in the accounts is the bond negotiated in 2002 for EUR 300 million with a remaining term of three years. Liabilities to banks amounted to EUR 156.2 million, compared with EUR 106.6 million in the previous year. Other financial liabilities rose from EUR 1.003 billion to EUR 1.131 billion, resulting from the financing of vehicle sales. Refinancing is by way of country-specific structured financing schemes, known as asset-backed structures. The deferred income of EUR 624.2 million relates primarily to the proceeds of forfeited – i.e. sold – receivables from leasing.

#### Group Earnings increase again

Porsche's strong earnings performance was undiminished during the review year. We achieved yet another record operating performance, despite the adverse environment. Group pre-tax profits rose to EUR 1.088 billion (previous year: EUR 933 million) and net income from EUR 565 million to EUR 612 million.

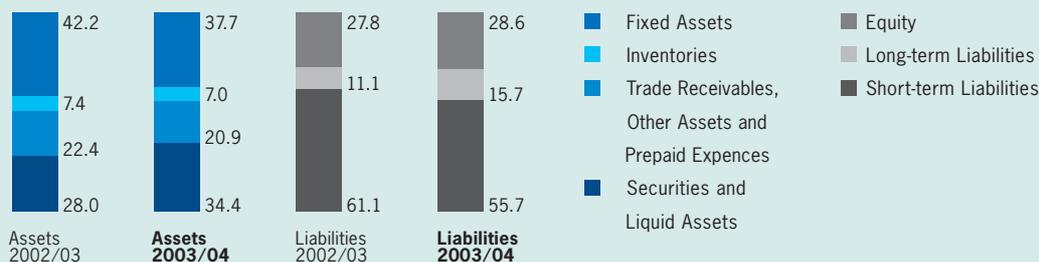
This excellent result is thanks to the Cayenne, which was responsible for a marked increase in sales volume. In addition, Porsche made great strides in achieving sustainable improvements in its business processes. Finally, currency hedging in markets relevant to us made a valuable contribution to the group's favorable earnings performance.

Porsche AG's pre-tax earnings fell from EUR 1.042 billion to EUR 843 million. One of the reasons for the downturn is lower profit distributions by our subsidiary companies. In addition, while our subsidiary companies were building up their inventories in preparation for the launch of the Cayenne, Porsche AG generated profits in the previous year that did not occur again during the year under review. The same circumstances affected the result after taxes. After-tax earnings were EUR 488 million (previous year: EUR 660 million), but the preceding year's positive tax effect did not reoccur in fiscal 2003/04.

The rise in overall sales volume due to the Cayenne had a positive effect on Group turnover, which went up by 13.9 percent to EUR 6.359 billion. The cost of materials rose to EUR 2.959 billion (previous year: EUR 2.281 billion), representing 45.4 percent of overall revenues, compared with 41.8 percent in the previous year. Both the altered model mix and the success of our cautious currency hedging policy can be seen to have contributed to this item. Personnel expenses rose from EUR 849.5 million to EUR 982.5 million, but this figure is equal to 15.1 percent of overall revenues – a drop of 0.5 percent. Other operating expenses rose from EUR 1.182 billion to EUR 1.248 billion, representing 19.2 percent of overall revenues, compared with 21.6 percent the previous year.

Interest income, net went up to EUR 41.7 million (previous year: EUR 29.5 million). Taxes of EUR 476 million represented a tax ratio of 43.8 percent, compared with 39.4 percent the previous year. It should be noted, however, that a one-off tax credit arising from the high extraordinary dividends issued for fiscal 2001/02 was granted in the previous year. For comparison purposes, leaving aside this special effect would result in a tax ratio of 44.7 percent rather than 39.4 percent for fiscal year 2002/03.

**Group Balance Sheet Structure** Proportions in Percent



**Currency and Cash Management**

Currency fluctuation continued to be an important issue for Porsche during the year under review. The Iraq conflict in particular exacerbated the insecurity of the money and capital markets. Our strategy of using medium-term forward foreign exchange agreements to secure a stable platform for future planning once again proved worthwhile. The Porsche currency hedging strategy is based on studies of the major economies using currency and analysis models. Using the results of these studies, we then mitigate exchange rate risks by means of a number of financial instruments, entering into agreements only with carefully selected banks of good financial standing. We also secure loans made to Group companies by means of interest rate agreements.

Porsche’s currency and cash management organization complies with the German industry’s standard. Strictly controlled regulations govern the nature, scope and execution of all transactions. The principle of separation of functions is adhered to, and specialized data processing systems are used to evaluate and monitor all transactions.

Porsche’s investment policy adheres strictly to the principle that investment security takes absolute precedence over return on investment. We therefore deposit our liquid assets with banks of impeccable creditworthiness in the form of overnight or fixed-term loans. In addition, Porsche invests in money market funds and makes use of special securities investment funds when liquidity has to be deposited in the medium or long term.

**Borrowing strengthens Financial Position**

Due to the company’s strong earnings performance, the liquid funds managed by SUV Funding Ltd. once again remained untouched during the year under review. In 1998 SUV Funding Ltd., which was set up specifically for the purpose but is not part of the Group, issued a bond of approximately EUR 256 million Euro (500 million Deutschmarks) with a term of seven years, guaranteed by Dr. Ing. h.c. F. Porsche AG.

In May 2002, Porsche International Financing plc issued a bond of EUR 300 million, guaranteed by Dr. Ing. h.c. F. Porsche AG. Only part of this was used for Group financing. The major portion, namely 200 million Euro, has been invested in various thoroughly sound securities and is used to ensure liquidity.

In the past financial year, Porsche Financial Services Inc. issued a private equity offer in the USA, guaranteed by Porsche AG. A bond with a number of parcels, each with a different volume, was issued to institutional investors, primarily insurance companies. A total of US Dollar 625 million was issued with terms of between seven and fifteen years. Interest is between 4.47 and 5.33 percent per annum, depending on the term of the parcel concerned. The issue attracted much attention from institutional investors and was oversubscribed many times. With the resources made available in this way, we are using the low interest rate in the spring of 2004 to secure our long-term liquidity; they have been invested in a number of different funds.

## Porsche Stock 2003/04

During the review year the Porsche stock was quoted at a previously unattained level of 584 Euro.



### Porsche stock outperforms its category

During the year under review we observed greater optimism in the financial markets, although the rocketing stock prices of the New Economy boom remained a distant memory. Nevertheless, the German Stock Market Index (DAX) showed a positive trend for extended periods of the Porsche 2003/04 fiscal year, staging a welcome recovery from the lows of the previous year. Both the general upturn in the world economy and the cost reduction programs of recent years assisted in this considerable recovery in profitability in both the industrial and the financial sectors, leading to higher stock market valuations for the companies concerned.

However, players in the capital markets have generally become more cautious as the growing number of terrorist attacks introduces uncertainty to the international political situation. In Europe, the Madrid bombings in spring 2004 created renewed uncertainty. Over a year after the military intervention in Iraq, the country is still experiencing major unrest, a situation which is responsible in many ways for the tension running just below the surface of the stock markets. There are other aggravating factors, such as the oil price rises that have depressed the markets since the summer of 2004. The overall business environment during the review year did not inspire a great deal of optimism in the stock markets.

### Porsche Stock Outperforms Related Sectors

Despite this situation the Porsche stock performed better than other, similar stocks during 2003/04. Not only did it surge in value compared with the previous year; but in fact reached record highs from time to time. The peak in the review year was reached on June 23, 2004 with an all-time high share price of EUR 584. The previous best price had been EUR 542 in March 2002. The stock started the year on 1 August, 2003 at EUR 359.2; by the end of July 2004 it

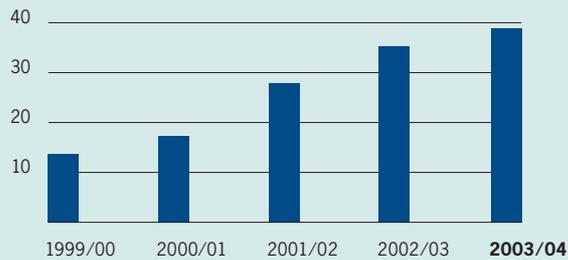
had reached EUR 537 – an increase of 49.5 percent. Both the DAX (+13.3 percent) and the automotive industry share index (+16.5 percent) were noticeably weaker. Porsche stock outperformed the competition primarily because of a clear, brand-focused growth strategy that has helped the group break one record after another.

### Business Trend boosts Stock Price Performance

The healthy business figures posted during the year under review had a positive affect on the Porsche stock. The first distinct upward movement happened in September 2003, around the time that the preliminary 2002/03 results were announced. This trend gained momentum over the following months as a result of events such as our announcement of record results on 12 November. The stock price went up yet again after we provided further details of the group's 2002/03 performance at our Financial Press Conference on 3 December, 2003. We noticed a similar surge around the time of the Annual General Meeting on 23 January, 2004, when the stock price approached the 500 Euro mark. The stock really began to take off in spring 2004 and continued hitting record highs through to the end of June, supported by the healthy operating results announced by the Porsche Group both in a letter to stockholders at the end of the first half-year and in a subsequent interim report.

During the review year, share performance also benefited from Porsche's regular market briefings that provided finance market participants with insights into our strategy and philosophy. Investor communication included the staging of roadshows at major financial centers both at home and abroad, and regular meetings with investors and analysts at our Zuffenhausen headquarters. These activities generated a high level of investor commitment to our stock. A number of analysts upgraded their forecasts for Porsche stock – up to EUR 800 in one instance. This was in recognition of the Cayenne's market success during its first 12 months and also of the fact that sales of 911 models were holding up well, despite their imminent replacement.

## Earnings per Share in Euro\*



\*According to the DVSA/SG formula.

### Outstanding Long-term Performance

From our investors' point of view, Porsche's growth strategy has paid off yet again. The value of an investment in Porsche stock has grown substantially during the past-ten year period. A EUR 10,000 investment in the sports car manufacturer's stock on 31 July, 1994 would, including dividends, have been worth EUR 134,806 on 31 July, 2004.

In ten years – from July 31, 1994 to July 31, 2004 – our share price has increased from EUR 42.45 to EUR 537 (converted to Euros and adjusted for the split). This 1,165 percent increase vastly outperformed the German DAX index, which grew by a mere 81 percent during the same period.

### Stock Performance honored once again

The outstanding performance of Porsche stock was recognized once again this year by the London trade journal "Automotive News Europe" and the US accounting firm PricewaterhouseCoopers. A truly exceptional occurrence was that the company received two awards for the highest "Total Shareholder Return" on the same occasion in June 2004. This was in acknowledgement of the fact that Porsche AG preference stockholders had enjoyed the highest growth in the value of their investment not only during the previous 12 months but also over the previous three years. In the period considered in the survey – from the end of May 2001 to the end of May 2004 – an investment in Porsche stock (including reinvested dividend payments) increased in value by 57 percent. By comparison, the index of all European automobile stocks fell by 18 percent. And from May 31, 2003 to May 31, 2004, Porsche stock increased in value by 73 percent, whereas the index of other European automobile stocks increased by just 34 percent.

The Porsche stock performance pattern was also a key criterion for another award gained by the company last year, when Porsche AG took first place in the second annual ranking of the 50 best European companies published by Business Week, the respected US magazine. Business Week was impressed by Porsche's consistent focus on customer needs and the resulting commercial success of the company as clearly evidenced by the growth in profits and the positive development of the Porsche stock price.

### Increased Profit per Share

The profitability of Porsche AG is reflected once again in increased earnings per share. At EUR 38.8, they have once more surpassed the previous year's figure of EUR 35.2. There will also be an increase in dividends. For fiscal 2003/04, the Annual General Meeting will be recommending a dividend of EUR 3.94 per ordinary share and EUR 4.00 per preference share. The total dividend for ordinary and preference shares for the year under review amounts to EUR 69,475 million, compared with EUR 58,975 million the previous year. This represents an increase of 17.8 percent.

### Increased Emphasis on Investor Relations

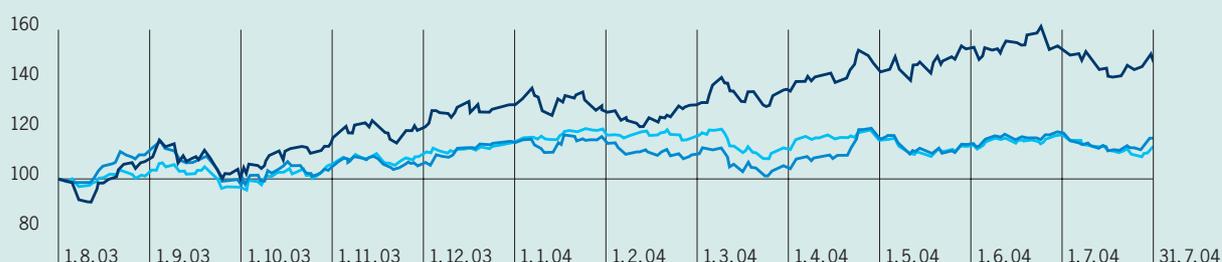
Financial markets have for many years expressed consistently keen interest in Porsche. In the year under review, we therefore continued to devote close attention to investor relations and to respond to the information needs of investors and analysts. We met these needs by issuing regular, detailed reports to the media as well as through direct contact with financial market participants at roadshows, vehicle shows and presentations, and in numerous face-to-face discussions.

We talked to institutional investors at a wide variety of financial centers in North America, Germany, the United Kingdom, France, Italy, Switzerland and Scandinavia. The roadshows at which we outline our corporate strategy and provide investors with up-to-date business information have been very well received.

We discussed our latest key figures and our corporate strategy at the analyst conferences held during the IAA in September 2003 as well as at the press launch of the new 911 in June 2004. Several trading forums run by stock associations and banks expressed a keen interest in Porsche and invited us to introduce the company to private investors. At the many meetings with institutional investors and analysts held at our headquarters in Zuffenhausen, straight talking was the order of the day, our objective being to provide the same clear message to both the general public and the world of finance.

## Development of Porsche Share compared to DAX und CDAX-Automobile

■ Porsche ■ CDAX-Automobile ■ DAX



### Stable Circle of Stockholders

A stable circle of stockholders provides a solid foundation upon which to build a company and the latitude to develop a sustainable long-term growth strategy. Frequent changes of share ownership, on the other hand, often put a strain on operational management. Porsche AG has been reaping the benefits of such stability for many years now, with an unchanged distribution of our EUR 45.5 million share capital into 8,750,000 ordinary and 8,750,000 listed preference shares. The ordinary shares, which are held by members of the Porsche and Piëch families, provide the company with a secure base. More than half of the preference shares are held by institutional investors such as stock funds, banks and insurance companies, based mainly in the USA, Germany and the UK and, to a lesser extent, in other European and Asian countries. Slightly less than half of Porsche's preferred stock is distributed among a large number of private investors, predominantly from Germany. Porsche AG's ordinary stockholders also hold preference stock.

### Stockholders get to know the Leipzig Factory

Porsche not only wrote a new and positive chapter in the history of the company with the Cayenne, but also built a brand new factory for this model – in Leipzig. Both the Cayenne sports SUV and the high performance Carrera GT sports car are made there. It was therefore not surprising that many stockholders expressed an interest in visiting the new plant. In response to these wishes, Porsche AG decided to hold its Annual General Meeting on 23 January, 2004 not in Stuttgart, but for the first time in the company's history in Leipzig. Stockholders were offered an opportunity to tour the new Porsche production plant, to view the architectural splendor of our Customer Center, and to be driven for a few laps of the test track in our automobiles. The next Porsche AG Annual General Meeting in January 2005 will be held as usual at our group headquarters in Stuttgart.

### 20 Years on the Stock Exchange – without Quarterly Reports

During the year under review, Porsche celebrated the 20th anniversary of its relationship with the stock market. The sports car manufacturer's preference shares were first listed

on the stock market on 4 May, 1984 at 1,020 Deutschmarks. Converted to Euros and adjusted for the subsequent stock split, this would be the equivalent of approximately EUR 50. The stock proved very popular with investors even during this first year. Demand for Porsche stock strengthened in 1996 – the year of the Boxster launch – and thanks to its outstanding performance, it has remained a favorite with investors and analysts ever since. Our presence in the capital market has had a positive affect on the company's corporate image.

Although as a matter of principle Porsche has never published quarterly reports during this entire period, this situation has never undermined the stock's performance. Rather than issuing quarterly reports, we provide the financial markets with detailed information on a regular basis – without the restraint of rigid reporting deadlines.

These reports were subjected to increased political scrutiny during the year under review. The EU Finance Ministers, closely followed by the European Parliament, agreed in the Spring of 2004 that quarterly reports should not be mandatory. This, in our view, vindicates the position we have taken all along: that quarterly reports provide investors with no additional value whatsoever. On the contrary: a snapshot of the temporary state of a business can result in sharp fluctuations in the price of the company's stock, damaging the stock's continued performance pattern and, in certain circumstances, having a negative impact on the company's decision-making processes.

Porsche's refusal to publish quarterly reports has until now disqualified it from inclusion in the Frankfurt Stock Exchange's Prime Standard. The international view is, of course, that the quality of the stock is beyond question, and the company – quarterly reports notwithstanding – is accordingly included in two respected international indices: the Morgan Stanley Capital International index and the Dow Jones STOXX 600.

## **Models** 2003/04

The new-generation 911 and Boxster sports-car models were impressive evidence that Porsche's appeal is as strong as ever.







The Boxster is on the way to establishing itself as a timeless classic model that is not influenced by short-lived fashion trends.

The dominant feature of the 2004/05 fiscal year at Porsche is the introduction of the new-generation sports cars. The new 911 (internal development code 997) represents a further major milestone after the first water-cooled 911 (1996), which was launched seven years ago. In July 2004, the 911 Carrera S with a more powerful 3.8 liter engine was introduced to complement the basic car. The two models differ in the engine, chassis, and in certain exterior and interior details. They offer higher performance than the models they replace, with high levels of comfort, and are well suited to day-to-day driving. The 3.8 liter 911 Carrera S, for example, features a new electronic shock absorber adjusting system, Porsche Active Suspension Management (PASM), larger wheels and a new generation of tires.

The new Boxster was also introduced in the current fiscal year. It has a noticeably more powerful presence with revised styling and a completely new interior, while at the same time retaining the classic Boxster design elements. We expect this car, like the 911, to become a timeless classic. Its unique design pays no heed to short-term fashion trends but stands proud as an unmistakable icon in the fast-moving roadster market.

Porsche also introduced a number of innovations to the Cayenne series. During the year under review, an attractive V6 basic model was added to the lineup. The model line underwent extensive updating in the current 2005 model year. All Cayennes are now fitted as standard with a further developed version of the Porsche Stability Management (PSM) system and electric closing assistance for the tailgate. The lower sills and front and rear body sections of the Cayenne and Cayenne S are now color-keyed for greater perceived value. A number of attractive options are being made available for the 2005 model year, including the new panorama roof system and the Sport Design Package.



### Variant Strategy extended

In the year under review, a central focus of Porsche strategy was the development of new variants of existing models. For the 911 model line, we developed the Carrera 4S Cabriolet, the Turbo Cabriolet and the 40th Anniversary Porsche 911. Interest in the turbo versions was heightened by the 911 Turbo S and the 911 Turbo S Cabriolet. Both of these are equipped with a powerful 450 bhp twin-turbo engine and a specification that should satisfy every wish. It includes, for example, new-generation Porsche Ceramic Composite Brakes (PCCB), which are more resistant to wear, particularly when braking hard, and include optimum brake disk cooling. Ceramic brakes are standard equipment on the 911 GT2 and optional on the new 911 Carrera S.

The 911 GT3 RS was introduced at the German 'IAA' Motor Show in Frankfurt in September 2003 as a variant of the Club Sport version of the 911 GT3. It is the lightweight homologation model intended to serve as a basis for motor sport activities. It is distinguished by its white paintwork with red or blue "GT3 RS" inscription on the sides, a modified front end, and carbon-fiber rear wings. The 911 GT3 RS was delivered until the end of the 2004 model year. The 911 GT2 gained extra performance during the review year with a twin-turbo engine that now develops 483 bhp, and features revised chassis tuning to improve dynamic handling.

During the review year, we produced a special version of the Boxster under the name "550 Spyder 50th Anniversary". There was great demand for this anniversary model commemorating the famous 550 Spyder, but it was limited to a production run of 1,953. It is powered by a 266 bhp engine and finished in an attractive GT silver metallic custom paint. The interior is trimmed in leather interior and there is a custom-color soft top in "cocoa".

### The Model Program

With the arrival of the new Boxster and the 911 Carrera and Carrera S, the Porsche model program in the current fiscal year comprised the following 15 models:

Boxster  
Boxster S

New 911 Models (997, from fiscal year 2004/05):

911 Carrera Coupé  
911 Carrera S Coupé

911 Models (996):  
911 Carrera Cabriolet  
911 Carrera 4S Coupé and Cabriolet  
911 Targa  
911 Turbo Coupé and Cabriolet  
911 Turbo S Coupé and Cabriolet  
911 GT3  
911 GT2

Carrera GT

Cayenne  
Cayenne S  
Cayenne Turbo

Evolution of the **911 series** continued with the new 911 Carrera and the 911 Carrera S. This sixth generation is notable for substantially greater performance, improved comfort, and a high level of suitability for everyday use.

Clean lines, excitement and precision are the terms that sum up the styling of the new 911 Carrera. Interesting exterior details include new oval headlamps, the side lights and turn indicators integrated into the front bumper, more dominant fenders, a slightly wider (38 mm) body and two-arm, folding outer mirrors. A high-level brake light is built into the rear spoiler, which has been optimized for better aerodynamics.



The 3.6 liter engine in the 911 Carrera now develops 325 bhp; the newly developed 3.8 liter engine of the 911 Carrera S has an output of 355 bhp. Power is transmitted to the wheels via a newly developed six-speed gearbox. Both engines comply with the strict EU 4 emission limits.

The size of the wheels on the 911 Carrera has been increased by one inch to 18 inches; the 911 Carrera S is fitted with 19-inch wheels. Standard equipment on the S model (and optional on the 911 Carrera) is PASM electronic damping control, which resolves the conflicting demands of ride comfort for day-to-day driving and roadholding for high-performance driving. The system automatically adjusts the degree of damping to the driving situation, and also offers the driver the option of switching between the "normal" and "sport" settings.

PSM is now standard on both models. It has been thoroughly redesigned and now offers smoother operation, shorter stopping distances and more agile settings. The Sport Chrono Package Plus with even sportier settings for the engine, transmission and chassis is available as an option.

The interior was also completely revised and features design characteristics that are typically Porsche. The new seats in the 911 Carrera are extremely comfortable even for long journeys, especially for persons of larger stature. The seat side panels now contain thorax airbags, which (together with the head and front airbags) mean that the 911 Carrera now has a total of six airbags. Adaptive sports seats are another option. They allow individual adjustment of the seat cushion side bolsters and the backrest to suit the occupants and the driving situation.

In addition to black, the 911 Carrera is available in four new colors – sand beige, sea blue, palm green or stone gray – and with special leather in terracotta or cocoa. Aluminum and carbon fiber, and the new "Macassar" and "Plane" satin-finish wood trim, set the tone for the interior. New custom colors – GT silver metallic and dark olive metallic – have been introduced for the exterior.

Coupé and convertible versions of the 911 Turbo S are now available. The already generous list of standard equipment on the 911 Turbo has been extended to include new ceramic brakes and 18-inch wheels, and the 911 Turbo S is available in custom dark olive metallic at no extra cost. A CD changer, cruise control, and an exclusive embossed pattern on the natural leather option make for an exclusive interior ambience.

After more than eight successful years on the market the **Boxster** has a successor. Even at first glance, the exterior is that of a completely new car: more powerful, more attractive and more seductive. Yet the roadster offers all this without losing its classic lines. Its suitability for everyday use and its comfort have been further improved. Both the body and track are wider than the previous model. Distinctive details include new headlamps, auxiliary lights built into in the bumper, more aggressive fenders, new, twin arm power-folding outer mirrors, an aerodynamically optimized rear spoiler and a more dynamic pattern of joint lines. The convertible top has been re-shaped in the side window area. The new 911 colors are also available for the Boxster.

The new Boxster is powered by the proven 2.7 liter flat-six engine, the output of which has been increased to 240 bhp. The Boxster S has a further developed 3.2 liter engine with an output of 280 bhp. These engines, together with the revised aluminum suspension, wider track, and larger wheels will ensure that this mid-engined classic stays ahead of the pack as far as dynamic handling is concerned.

The Boxster is now equipped with 17-inch wheels as standard; the S model has 18-inch wheels. Together with the Porsche Stability Management system (PSM), which is also fitted as standard, the chassis achieves new levels of active safety. The optional PASM and Sport Chrono Package Plus can be ordered for an even more agile engine and chassis. The driving experience is enhanced with a new, precise but sensitive variable ratio steering system and a gearbox with reduced lever throw. The S variant is equipped as standard with a newly developed six-speed gearbox, which can also be specified as an option on the basic model.

The panorama roof system available for the Cayenne offers entirely new forms of open-top driving.



With all these active safety features on the Boxster, there has nevertheless been no neglect of passive safety. Full-size airbags for driver and passenger and separate head and thorax airbags make up the total of six airbags that are standard equipment. The newly designed seats with built-in thorax airbags are an important component in the revised Porsche Side Impact Protection System (POSIP).

The ergonomics of the interior have been greatly improved, but without neglecting typical Porsche design features. The raised seta back, height-adjustable steering wheel and repositioned sports-style pedals improve the ergonomics for taller drivers. Adaptive sports seats like those in the 911 are available as an option. Interior upgrades extending up to all-leather upholstery and trim are available, including two-tone leather for the first time.

The third Porsche model, the **Cayenne**, has successfully established itself in the multipurpose sport utility vehicle market. The extensive update changes carried out during the current 2005 model year have further enhanced its appeal. Improvements include the upgraded PSM, which now incorporates a system to stabilize the vehicle when a trailer is being towed. Vehicles fitted with Tiptronic S also have a "shift on the move" option, which, for the first time, allows the low gear range to be switched in or out while traveling slowly.

To improve off-road performance still further, we have been offering the Advanced Offroad Technology Pack since November 2003. This features an electronically controlled rear axle differential lock for extra traction on difficult terrain and hydraulically disengageable anti-roll bars at front and rear for increased off-road axle articulation. Improved sill protection, better protection for the engine, fuel tank and rear axle, a headlamp cleaning system, and a second towing eye make the Cayenne even better prepared for operation over difficult terrain.

All Cayenne models from the 2005 model year on are fitted with closure assistance to simplify operation of the tailgate. Even more options are available for those requiring extra luxury on or off the road: DVD navigation, a TV tuner and an automatically extending rear-view camera. The Sport Design Package with its optimized nose section, modified lower rear section, larger roof spoiler and side moldings is an additional customizing option for all Cayenne models.

We have also been offering a performance upgrade for the Cayenne Turbo via the Exclusive and Tequipment program since December 2004. Engine output is increased by 50 bhp to 500 bhp; there is a more powerful braking system and the chassis is modified to suit. We achieved the 50 bhp power increase by optimizing the flow through the charge-air intercooler and modifying the engine management electronics. This, together with the modified gas pedal characteristic, optimizes the torque curve and results in an even sportier engine.

The Panorama roof system for the Cayenne offers a radically new way of opening up the vehicle's interior. This glass roof system, with three variable segments and one fixed segment of tinted glass, is available since December 2004. Its surface area of nearly 1.4 square meters (15 square feet) is almost four times larger than the Cayenne sunroof, and it offers a total of 15 different roof positions.

---

## Sales and Marketing 2003/04

Porsche succeeds in resolving apparent conflicts of objective: its models have strong emotive appeal and are at the same time suitable for day-to-day driving.

---

### The Porsche Brand

During the 2003/04 fiscal year, Porsche once again demonstrated its capacity for high growth and its ability to withstand crisis situations. Automobile markets in many countries suffered from stagnation or negative growth, but Porsche Group sales continued to increase.

Systematic global brand management played a decisive role in this. The fact that Porsche sets the standard for profitability and successful corporate management in the automobile industry today is closely related to its outstanding brand image. The international awards bestowed on the company during the report year are clear evidence of this situation. For example, the US magazine Business Week placed Porsche at the top of its list of the 50 best-managed European companies. The company's key success factors, according to Business Week, are its excellent customer relations and its high quality management. In Germany, Porsche gained first place for the third time in succession in the "Imageprofiles 2004" poll conducted by Manager Magazin.

For many years now, the company has succeeded in going its own often unconventional way, developing a brand that is uniquely individual and desirable. Although Porsche is the world's smallest independent automobile manufacturer, in July 2004 it secured a place for the first time in the annual "100 Top Global Brands" ranking by Interbrand, the leading international brand consultancy firm. At a time when many products are claiming to be "premium brands", a brand profile that is clear, independent, unmistakable and with a rich heritage represents a significant competitive edge.

Porsche has always understood how to harmonize apparent opposites; its vehicles are highly emotive, yet at the same time well suited to the rigors of daily use. The 911 and the Boxster prove that cars can be enjoyable to drive yet economical to run. One of the reasons customers choose Porsche is that they are not prepared to accept compromises in either of these aspects of car ownership. Equally important, they feel that Porsche embodies, in an understated way, values such as exclusivity and success – success that the owners do not need to justify.

The Porsche 911 imparts this more than any other model. This classic model celebrated its 40th birthday during the year under review. To mark the occasion, we not only produced an exclusive, 40th Anniversary 911 limited-edition model; we also launched the convertible versions of the Carrera 4S and 911 Turbo. The latest incarnation of the legendary 911, introduced in July 2004, is more attractive to the customer than ever before.

The Boxster, too, is rated supreme in its class. Numerous awards such as the recent top place in the 2004 J.D. Power APEAL Study in the USA confirmed this model's outstanding level of customer satisfaction and excellent quality. Both the Boxster and Boxster S were voted "Best Sports Car" for the third time by Automobile Magazine, the specialist US publication. And if further proof of their appeal were needed, the "50th Anniversary Spyder" limited edition sold out in record time.

The new Boxster generation incorporates styling and engineering enhancements designed to ensure that its undisputed supremacy in the increasingly competitive roadster segment is maintained. As with the 911, our objective was to develop the Boxster carefully into a timeless classic.

The Cayenne has established a strong position in its market segment in the same way as the 911 and Boxster. During the year under review an attractively priced V6 entry-level version was added to the model program. The current success of the Cayenne – it accounts for about half of all vehicles leaving the Porsche Group's production lines – vindicates the strategic



decision to widen the scope of the company's operations by entering a new segment of the market. The success of the Cayenne has more than compensated for the life-cycle-related decline in sales of the Boxster and 911.

#### **New Vehicles via a selective Dealer Network**

During the year under review, the EU Competition Commission reached a decision that allows Porsche to continue selling its vehicles via a selective European dealer network based on specific brand criteria. The specimen contract agreed with the Commission for our sales and service organization ensures that our vehicles are sold in separate showrooms and by specially trained staff. Moreover, franchised dealerships may not open sales outlets at other locations without Porsche's agreement.

As in the past, Porsche will accept new service centers as official members of the service network only if they meet specified criteria and quality standards. In this important area there is now no longer any question that we will maintain our customer service at the highest level, in line with Porsche quality standards.

#### **Porsche Brand Architecture**

We will continue to promote the Porsche dealership exterior design concept worldwide. Since we began to do so in 2000, the dealer organization has invested considerable sums in implementing this corporate design. According to current plans, our sales partners will invest a total of nearly EUR one billion in construction work by the end of 2006. The architectural design of Porsche dealerships makes an important contribution to perceived brand value. The design concept has been extremely well received by dealers and customers alike; the high-tech architectural styling effectively highlights the fascination of our cars.

Most of the building work has taken place in the newer, fast-developing markets of Southern and Eastern Europe and in China. During the review year, new dealers opened exclusive showrooms in Zagreb, Riga, Bucharest and in Peking. In Western Europe and North America many new dealership buildings have been erected and existing ones refurbished. A substantial number of new building projects are under way or at the

planning stage. In 2004, in line with our program of keeping the Porsche brand separate from those of other manufacturers, for the first time more than half of the Porsche dealerships had exclusive showrooms and workshops.

A new workshop design concept provides service-only partners with an opportunity to upgrade their premises. In addition, a special architectural design will be available for pre-owned vehicle centers, so that these can also benefit from the Porsche retail design concept.

#### **Comparison with the Best: the KPI System**

The KPI, or Key Performance Indicator System, helps dealers and importers – the key players in a successful sales operation – to work more closely together on improving their business processes. The KPI system supplies an in-depth analysis of the performance of the dealership that goes beyond purely financial key figures such as net profit, profit on sales, or equity ratio. In addition to these fundamental figures, the system provides data on other areas important to the development of the business. It can produce performance reports on all areas of the company, including comparisons with competitors' activities.

Our subsidiaries in the Germany, the United Kingdom, France, Italy and Australia have already obtained positive results with the system. Porsche Iberica and Porsche Middle East will be the next to introduce this important tool.

#### **Information Management within the Dealership Network**

Since January 2004, the "Porsche Partner Network" has enabled every authorized dealer to transact business processes electronically and access training packages and information online. The linking of dealers to Porsche AG's systems acts as a basis for selective new-vehicle sales and service business. Because information can be made available faster, this will improve Porsche customer service throughout the world. The "Porsche Vehicle Sales Assistant (PVA)", a multimedia IT support system for Porsche sales staff, became more firmly established within our international dealership organizations during the year under review. The PVA takes sales staff through the sales process step by step, from initial advice



with visual support, to providing information on financial services and formulating the order – all using a single computer application. Not only does it make the sales process more efficient; it also improves the quality of the advice that can be provided.

#### **The Crucial Task of Selling Pre-Owned Vehicles**

Professionalism and efficiency are not only crucial to making a profit in the pre-owned vehicle business; they are a prerequisite for ensuring a continuous flow of new vehicle sales. This is why we pushed ahead with the Porsche Certified Pre-Owned Vehicle Program during the review year.

We produced a dealer support manual which explains all the pre-owned vehicle business processes and contains common standards for the entire Porsche sales organization. At the same time, we organized training programs to ensure that the standards developed for the pre-owned vehicle program were applied worldwide.

These programs also helped dealers to develop a marketing presence that was appropriate to the brand. Customers benefit, too, since they get to choose from a range of high quality vehicles at competitive prices offered with a comprehensive warranty – and to deal with well-qualified sales staff.

The International Porsche Locator (IPL) pre-owned vehicle cyberstore is growing in importance as an information source and sales channel for pre-owned automobiles. The system has now been introduced in twelve countries and has been effective in bringing an increasing number of customers into the dealerships; a substantial number of these customers eventually make a decision to purchase. The IPL website also offers many useful extra features for customers. Not only is the pre-owned vehicle center in Zuffenhausen a success; we also actively export a regular flow of know-how to the international markets.

#### **After Sales: Fully Integrated Vehicle Diagnosis**

Our largest subsidiaries are connected directly to Porsche AG via the Polaris parts logistics system (the acronym stands for “Porsche Logistic Automatic Replenishment”), which ensures spare parts availability in line with market and customer needs. The system guarantees improved parts availability while at the same time reducing the need for large inventories.

The new generation of vehicles contains significantly more electronic components than was previously the case – a trend that can be expected to continue in the future. The development of vehicle diagnostic systems, repair manuals and spare parts information for the new 911 was a priority for the after-sales division. The Porsche Integrated Workshop Information System, or PIWIS, was developed from the ground up to deliver the information needed by dealers' service departments. It is based on guided diagnostics, which enable fault analysis to be carried out faster and more efficiently than before.

Thanks to this system, customers' vehicles spend less time in the workshop and customers save money when having their vehicles serviced or repaired. Service technicians within the Porsche service organization can access all the information they need online and can perform troubleshooting work using the most up-to-date technical data. All information within the Porsche AG-importer – dealership chain is available to everyone at the same time.

By means of PIWIS, Porsche partners can request specific information on individual vehicles, including details of the installed equipment. No longer do service personnel have to spend time searching and checking different information sources when troubleshooting faults or preparing to service a vehicle. Paper-based information is no longer supplied to the dealer networks, which helps to preserve valuable natural resources and protect the environment.

During the 2003/04 fiscal year, we set up the Technical Competence Center (TCC) in order to speed up and improve our customer service. The TCC supports the worldwide dealership network in all matters relating to vehicle engineering, repairs, spare parts, and workshop manuals. By bringing



together staff from different After Sales areas, we have improved the flow of information to the dealership organization and simplified coordination. A vital part of the Technical Competence Center is the Carrera GT mobile service team, which will assist with on-the-spot repairs.

The value for money represented by spare parts for Porsche classic cars was greatly improved. The prices charged for over half of all available classic parts have been substantially reduced. This will ensure a satisfactory supply of spares for owners of older vehicles.

#### **Management and Customer Relations**

The new cross-departmental Customer Relations Management function was created in Sales during the review year. It will group together existing customer relations initiatives in individual departments and identify measures and programs in the customer relations management area designed to encourage greater loyalty to the Porsche brand.

The first projects are already in progress in Germany and the USA. They will be concluded during this fiscal year and are expected to offer pointers for future customer-relations initiatives. We plan to implement a complete, integrated, customs relations management program within the next three years. The objective is to improve customer loyalty, new customer prospecting strength and the competitiveness of the sales organization.

#### **The Attraction of Porsche Leipzig**

The Porsche plant in Leipzig attracts customers from all over the world. During the year under review, we welcomed approximately 25,000 visitors – customers collecting their new vehicles directly from the factory, but also individuals and groups attending special events or visiting the Customer Center. Those picking up new cars were particularly impressed with the vehicle handover and driving demonstration on the test track and the six-kilometer off-road course.

With 250 events and approximately 10,000 guests, Porsche Leipzig was almost fully booked. Visitors inspected the Cayenne and Carrera GT production lines and the Customer Center.

Events ranged from small seminars to major functions for up to 500 people. Many event organizers took the opportunity to combine a conference or gala event in the Customer Center with a driving experience for their guests. The Porsche Sports Driving School expanded its range of courses during the year under review. All course levels are now being offered in Leipzig – from basic instruction to competition driving.

#### **Customizing for Porsche Owners**

The interest in Porsche accessories – now being marketed by the Porsche Lizenz- und Handels GmbH company – and in vehicle customizing continues unabated. Accessories available for customizing reflect classic Porsche brand values such as design, sportiness, innovation and individuality. Expansion of the Customer Tailoring business area will in future enable customers to be offered even more opportunities for individualization of their cars. To satisfy the increasing level of demands and wishes expressed by its customers, Porsche AG has decided to install a Competence Center at its location in Stuttgart-Zuffenhausen.

#### **Exclusive**

The Porsche Exclusive program offers customers a host of ex-factory customizing options, including interior and exterior styling and technical specification changes. Porsche Exclusive offers custom options and accessories for all models, including the Carrera GT, on the basis that Porsche owners deserve a car that truly reflects their individual character.

To enhance the interior of their vehicle, customers can choose from high-quality materials such as leather, aluminum, burr walnut or carbon fiber. Parts with an aluminum finish – and the look and feel of earlier Porsche competition cars – remain very popular. For the exterior, there are exclusive wheels, stainless steel exhaust tailpipes, and Aerokits, as well as engineering options such as sports mufflers or uprated engines for the 911 Turbo and 911 Carrera. Over half of the 911 cars sold are fitted with Exclusive options at the factory.

During the year under review, the most popular Exclusive options for the 911 and the Boxster were the padded leather-covered steering wheel and the Porsche Communication



Management package, finished in the body color, in aluminum or in leather. The Exclusive program for the Cayenne fulfilled all our expectations and offers an unrivalled choice of customizing options.

Features such as the SportDesign Package, the 20-inch painted SportTechno wheels and the sports exhaust tailpipes emphasize the character of the Cayenne for the active driver. A growing range of Exclusive products for the Cayenne interior in carbon fiber, leather, and wood gives customers the opportunity to personalize their all-terrain Porsche. Our designers worked on a range of Exclusive products for the 911 Carrera and 911 Carrera S during the year under review, so that approximately 40 new options could be added to the program when the new models were launched in July 2004.

#### **Tequipment**

The Porsche Tequipment program provides a wide choice of products for customers wishing to customize their vehicle after purchase. Growing worldwide demand for these items is reflected in the positive sales trend during the year under review.

Tequipment aftermarket products, such as the intelligent load-carrying systems for all current models or the safe, comfortable child seats, not only increase the utility value of the vehicle but also satisfy the emotional needs of owners wishing to enjoy even greater driving pleasure.

There is continued strong demand for the attractively designed summer and winter wheel sets for all three Porsche model lines. The program for the 911 was expanded to include the sporty 18-inch GT3 wheel and the elegant 18-inch Carrera alloy wheel.

The SportDesign Package was added to the Tequipment range for the Cayenne in the 2005 model year. This exterior package comprises a lower front air dam with built-in foglamps, sill trims, a lower rear apron panel and an elegant roof spoiler. This tasteful and effective package emphasizes the sports performance and dynamics of the Cayenne.

During the year under review, design work concentrated on Tequipment products for the new 911. This attractive program of accessories was released to coincide with the launch of the new model.

#### **Porsche Travel Club**

The consistently high rate of growth of the Porsche Travel Club shows no sign of letting up. The club offers customers an exciting introduction into the Porsche world. Its wide-ranging but flexible program is now available online and includes individual guided tours during which the customer has access to a large fleet of different Porsche models, programs for the Boxster and the 911, and special events involving all aspects of Porsche Cayenne driving.

Highlights during the review year were the CAMP 4 international winter training on the Arctic Circle, the Desert Safari in Dubai, and Camp Cayenne in Basella in the Pyrenees. At CAMP 4 in Lapland, participants practice driving close to the handling limits on snow and ice. Participants in Dubai hone their driving skills in the Cayenne on desert roads and sand dunes. Camp Cayenne offers extreme off-road training on special mountain roads and slopes in the Pyrenees.

As always, these Porsche travel programs in Germany and Europe remain immensely popular, and many well know companies have asked the Travel Club to organize incentive trips for selected customers or meritorious employees.

#### **The Porsche Sports Driving School**

Under the guidance of experienced staff, Porsche drivers and others learn how to control their own vehicles in extreme situations. In a series of exercises of increasing difficulty, participants are shown how to brake correctly, how to avoid sudden obstacles and how to take corners like a professional. Training takes place on racing circuits such as the Hockenheim Ring, Nürburg Ring, Imola, Mugello, Spa Francorchamps, Zandvoort and Magny Cours.

With the addition of the Leipzig test track during the review year, the Sports Driving School has been able to virtually double the number of courses on offer. From beginner's courses to

Total membership of Porsche Clubs around the world is now more than 110,000, and still rising.



preparatory courses for the German Motor Sport Association competition license – the Driving School has something to offer the most discerning customer. The graded training system is based on various skill levels such as one-day basic training, two-day advanced training, intensive training, exclusive training, competition driving and winter training. The Porsche Sports Driving School also accepts drivers in suitable vehicles of other makes.

During the year under review the Porsche Driving School offered courses with works vehicles for the first time in order to assist customers and companies from abroad in participating in the school's programs. In addition to the traditional program, Porsche offers a special training course on the Leipzig off-road track for the Cayenne or SUVs from other manufacturers.

#### **Support for Porsche Clubs**

The Porsche clubs were founded by Porsche owners themselves. The first one came into being in 1952 in Westphalia, Germany. Today there are approximately 510 clubs in over 55 countries on every continent, with a total membership exceeding 110,000 – and still rising. During the review year, new clubs were established in Croatia, Greece, Korea, Cuba, Poland, and Russia.

The Cayenne, which is currently being actively integrated into club life, is one of the factors stimulating the growth of the clubs. Approximately every fifth Porsche worldwide is driven by a club member. The Porsche Club organization is one of the largest one-make car clubs in the world, and has one of the richest traditions.

All of 35 years ago, Porsche was one of the first automobile brands to set up a special department to look after the clubs and their varied activities. The major club events during the year under review were the large parades in the USA, Europe, Japan, and South Africa, which formed part of fun motoring weekends attended by hundreds of enthusiastic members.

Also extremely popular with club members are the Porsche Club Days, at which members from different countries get together over a weekend to drive on famous international

race-tracks such as Magny Cours, Spa Francorchamps, Zandvoort or the newly opened Formula 1 track in Dubai.

The Porsche Classic Clubs, which devote their efforts to the care and maintenance of historic Porsche vehicles, were also very active during the review year. The enthusiasm of the club members is clearly demonstrated at international meetings such as the European 356 meeting in Deauville in France, the US 356 meeting in Asheville, the 928 meeting in Beaulieu, or the 914 meeting in Hilversum, Netherlands. The international Porsche Diesel Tractor Meeting in the fall of 2004, which followed last year's successful event at the Porsche family's home in Zell am See, is likely to become another of the club's most popular events.

## **The Markets** 2003/04

Systematic development of new markets and expansion of the product program have paid off: Porsche has achieved continued growth despite the restrained economic situation.





Reduced sales of the sports cars as they approached the end of their lifecycles were more than compensated for.

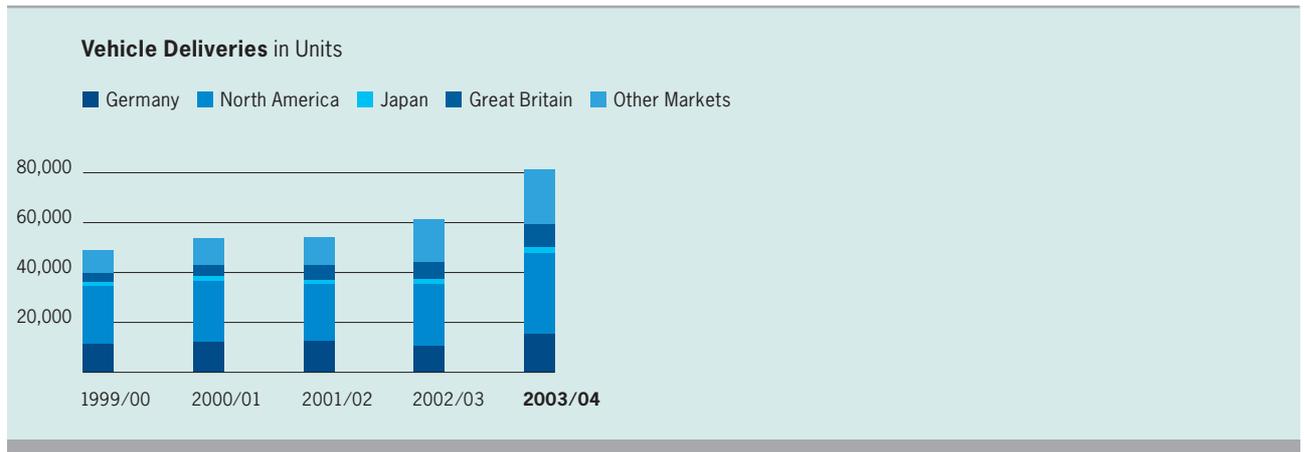
Due to an uncertain economic and political climate, even customers in the high-quality sector held back from vehicle purchases in the year under review. The consequence was that even sales of premium products were supported by discounting schemes – particularly in North America, but increasingly in Germany as well. Porsche, however, did not adopt this practice. With the exception of a few very specific sales promotions, the company reacted to the reduced demand for sports cars with production cutbacks geared to the market and supply situation. As a result, prices and residual values remained stable, which was of benefit to Porsche in terms of the profitability of its international dealerships – and provided profits that could then be invested in providing even better customer service.

#### **New Record for Customer Deliveries**

The timing of the Cayenne's launch at the end of 2002 proved to be strategically correct. Whereas life-cycle related reductions had to be taken into account for the 911 and the Boxster, the Cayenne helped to establish a new Porsche sales record of 81,223 units (previous year 61,139 units).

It is interesting to note that the new versions of the 911 and the Boxster such as the 911 Carrera 4S Cabrio or Turbo Cabriolet and special editions such as the "40th Anniversary 911" or the "50th Anniversary 550 Spyder" have given these models new sales momentum – in the last year of their model lifecycle, they both found more buyers than when they were launched. This is an exceptional success in the automotive industry, which is otherwise dominated by product cycles.

Our dedication to developing new markets in recent years has also proved worthwhile, as it has lessened our dependence on the North American market. In the year under review, 41.7 percent of customer deliveries were made to the USA



and Canada and the second largest market was Germany with 16.1 percent of deliveries, but sales to other markets amounted to 42.2 percent. The United Kingdom is also gaining strongly in significance and is currently the third largest individual market; other regions such as the Middle East and Latin America are also increasing in importance.

#### Germany: Success in a Difficult Climate

Despite initial optimistic predictions, the economy in Germany did not gather any significant momentum during the year under review. Consumer spending in particular did not revive. Nevertheless, with deliveries of 15,209 new vehicles – including company cars and those leased to Porsche employees – the preceding year’s result (13,179 units) was clearly exceeded. This is mainly due to the Cayenne, but also to the 911, sales of which exceeded expectations after the premiere of five new versions – the 911 C4S Cabrio, the 911 Turbo Cabriolet, the 911 GT3 RS, the 911 GT2 and the “911 40th Anniversary” special edition – at the German Motor Show in September 2003.

Porsche presented the new 911 to customers on July 16, 2004, according to an organizational plan developed by Porsche Germany GmbH for our 85 Porsche Centers. Using the motto “911 Precision”, the two new 911 Carrera and 911 Carrera S models were introduced to more than 64,000 guests by means of an audio-visual presentation. The response was extremely positive.

In spring 2004, Porsche Germany staged a roadshow with the high performance Carrera GT sports car at 22 German Porsche Centers. The Carrera GT was displayed to perfection in a glass trailer towed by a Cayenne.

The dealers also demonstrated great commitment to the new Boxster. Introduction of the limited edition “550 Spyder 50th Anniversary” model in March 2004 triggered a significant upturn in Boxster sales – a trend that is expected to continue with the new Boxster model generation.

German Porsche Centers introduced the Cayenne with V6 engine to their customers in November 2003, using the slogan “Family and Leisure Time”. This gave extra impetus to

sales of the Cayenne, which is the most popular premium SUV with spark-ignition engine in Germany.

Overall, there was a further increase in the professionalism of the sales organization during the year under review. Improvements were made in the service management and sales control areas. The network of dealers was further expanded, with a third location opened in Munich. Altogether, during the year under review, German dealers invested EUR 31 million in the renovation of their premises in accordance with the new brand architecture.

#### North America: Stable Growth

North America remains Porsche’s largest market. It is therefore all the more fortunate that the economic situation there has stabilized. This helped Porsche to increase deliveries to customers during the review year by 32.4 percent to 32,763 vehicles, a total that includes Carrera GT deliveries. In the figures that follow for the individual markets, these are not shown separately because of the low total number involved.

The Cayenne’s great success in North America can also be attributed to the launch of the six-cylinder version during the review year. However, the Cayenne S and Cayenne Turbo also enjoyed sustained popularity. Overall, in its first complete year of availability the Cayenne SUV sold 17,457 units.

911 and Boxster deliveries fell by 15.3 percent to 15,225 units. However, 911 sales figures remained largely stable at 10,075 units (previous year 10,485 vehicles), despite the impending change of model. This was for the most part due to the great success of the new higher-value convertible versions of the 911.

5,150 Boxster cars were sold, a drop of 31.3 percent. The Boxster struggled against increasing competition and market saturation in the roadster sector.

With 203 dealers in the USA and Canada, the size of the sales network remained almost static, although further improvements were implemented in terms of exclusivity and dealer presentation. Porsche once again achieved high rankings in



Our sales volume went up significantly on important European export markets such as the United Kingdom, Italy and France.

dealer satisfaction surveys. In the 2004 NADA dealer satisfaction survey, Porsche rose four places and now ranks seventh overall.

#### **United Kingdom: Boxster sales go up strongly**

Porsche Cars Great Britain made the most of the positive trend in the UK car market. The previous year's sales success was significantly improved on, with deliveries increasing by 33.6 percent to 8,851 units. Approximately 30 percent of total deliveries were made by the five Porsche-owned dealerships in the total of 33 dealers in the UK and Ireland.

The increase in Boxster sales was particularly noteworthy. At 3,368 units, deliveries of this roadster model were 12.2 percent up on the previous year – making the UK the Boxster's second-largest market after North America and ahead of Germany. 911 sales went down by 7.3 percent to 2,666 units. The Cayenne was greeted enthusiastically by British customers. The 2,807 units sold (previous year 750 units) made a substantial contribution to our overall success in the UK.

#### **Italy: New Record**

Porsche has been breaking record after record in the home market of Ferrari and Maserati. During the review year, 3,733 vehicles were delivered (an increase of 20.4 percent). The Cayenne made a substantial contribution to this new peak sales volume: it secured a dominant position in its market segment in Italy with 1,892 units sold. 507 Boxsters were sold (a 29.9 percent reduction), as well as 1,328 units of the 911s (14.3 percent fewer). There was strong demand for both new convertible versions of the 911 in Italy, and Italian dealers celebrated the 40th anniversary of the 911 very imaginatively with classic vehicles on display in numerous city centers.

#### **Japan: Great Interest in the Cayenne**

During the review year, Porsche further strengthened its presence in the Japanese market. 2,632 vehicles were delivered in all (an increase of 37.0 percent). This makes Japan by far the largest single Porsche market in Asia. Following the opening of five second-hand car centers, Japanese customers can now also buy top quality second-hand Porsche vehicles at

authorized dealerships. This service is unusual in Japan and has enabled additional customers to be prospected for.

The Cayenne with V6 engine was launched in Japan in April 2004. Even before the launch, there was great interest in this vehicle, which has contributed to the successful sales figures for the Cayenne series – 1,072 units in all (an increase of 229 vehicles) were delivered. 911 and Boxster sales fell back by 7.9 percent to 1,588 units, with 886 of the 911s sold (5.0 percent down) and 672 Boxsters (11.5 percent fewer).

#### **France: On Tour with Porsche Cars**

Seemingly unaffected by poor economic conditions and consumers' reduced willingness to spend, Porsche France exceeded the previous year's already excellent results by delivering 2,250 cars - an increase of 42.4 percent. This was due in large part to the Cayenne, of which 1,422 were sold during the review year (previous year 566 units). Deliveries of the 911 and the Boxster during the review year were 548 units (a reduction of 15.8 percent) and 296 units (25.9 percent down) respectively.

More than 1,000 test drives of various models were offered to customers at the beginning of the year under review in association with a Porsche dealers' roadshow. The Porsche Carrera GT also went on tour in France. The climax of Porsche France's numerous activities was participation in the Le Mans Classic event at the end of the fiscal year. During the year under review, French dealers made further investments in the Porsche brand – new dealerships designed according to the brand's architectural guidelines were opened in Andorra, Bastia, Lyon, Marseilles, Orléans and Toulouse.

#### **Switzerland: High Demand for Premium Models**

The year under review proved to be the most successful year so far for our Swiss importer AMAG. Deliveries of 1,585 vehicles (an increase of 17.1 percent) exceeded even the previous year's record-breaking performance.

The models sold included a significant proportion of high-value versions. In the Cayenne model line, of which a total of 799 units were delivered, 42.4 percent were the Cayenne



Turbo model. The Cayenne in general exceeded all expectations and has won over completely new customer groups in Switzerland.

The extensive series of driving events was extended to include activities such as competition driver training on the Hungaro Ring. This forms an important element in the targeting of new customers and also in generating repeat business.

#### **Spain and Portugal: Focus on Porsche**

During the year under review, Porsche Ibérica handed back the complete wholesale operation for the Saab brand, for which it had previously been responsible, to General Motors in order to concentrate exclusively on Porsche merchandising. The success of this strategy is clear from the 74.8 percent increase in deliveries to a total of 2,077 units.

The Cayenne established itself in this market with great success. With 1,341 units sold, sales exceeded the figure planned for. There was also strong demand for the 911 and Boxster, with 731 deliveries, a similar total to the preceding year.

#### **Australia: Success on Difficult Terrain**

Porsche acquitted itself well in the difficult Australian market with a total of 1,309 units sold (a 50.9 increase). Although the overall trend in the entire SUV segment was less positive than expected, Porsche was still able to increase sales to 664 Cayennes (following 140 units in the preceding year). The success of the Cayenne is also clearly demonstrated by its 30 percent share of the high-quality SUV market. Sales of sports cars remained almost the same as the preceding year with 726 units sold, the specific totals being 390 for the 911 (a reduction of 0.8 percent) and 336 for the Boxster (a 14.7 percent reduction).

Dealers' market presence was further enhanced. The new Porsche Centre in Brisbane opened in March 2004. The Carrera Cup Australia represented another important landmark in brand presence. In the 2004 season there were 30 participants, once again the largest field anywhere in the world – evidence of strong interest in motor sport in Australia and the strength of the Porsche brand.

#### **The Middle East and South Africa: Deliveries more than doubled**

Despite continuing political instability in the region, deliveries more than doubled during the year under review, with a total of 2,779 units delivered (compared with 1,127 vehicles in the previous year). The Porsche Cayenne made a considerable contribution to this success, with 2,157 units sold, but sales of the 911 and the Boxster also increased by 10.2 percent to 616 units.

During the review year, new importers started business operations, for instance in the Yemen, and further improvements were made to the Porsche dealer network in various markets. New or refurbished dealerships were opened in Kuwait, Abu Dhabi, the Lebanon and Egypt.

#### **India: The Cayenne creates new Opportunities**

Porsche's Cayenne SUV is creating new opportunities for the company in India, which is an important new market. In the past fiscal year, two official importers were appointed in New Delhi and Mumbai, thus laying the foundations for further growth in the region. The first new cars were delivered in June 2004. Further dealerships will open during the current fiscal year in addition to those in New Delhi and Mumbai. The Indian market is looked after by the Porsche Middle East & Africa regional office, based in Dubai.

#### **Belgium: Encouraging Business Developments**

After economic and political turbulence in the previous year, the general situation has once again stabilized in Belgium. Porsche brand sales were correspondingly positive, with 945 vehicles sold (previous year 676 units) and 493 Cayennes delivered, compared with 163 in the preceding year. Of the total number of vehicles delivered, 451 were sports cars (a 12.1 percent reduction).

Porsche took part in many activities in Belgium, a particular highlight being its stand at the Brussels Motor Show, which yielded excellent sales results. The opening of the new Porsche Center in Liège concluded the successful reorganization of the Belgian dealer network.

**The Porsche dealership building concept is to be pursued further. Their unified architecture is a major element in the communication of brand values.**



### **The Netherlands: Substantial Increase in Sales**

The Porsche brand's success continued during the year under review. 835 vehicles were sold, an increase of 61.8 percent. This was due in no small measure to exceptional demand for the Cayenne, of which 545 were delivered (previous year 138 units). Sales figures for the 911 and the Boxster totaled 288 (a reduction of 23.8 percent).

In addition to an extensive range of customer events, the Pon's company – our importer in the Netherlands – established the "Porsche Driving Experience" as a regular feature of its active driving program.

### **Austria: Award for Importer**

The 2003/04 fiscal year was the most successful so far for our importer, Porsche Holding GmbH. There was a 23.2 percent increase in deliveries compared with the previous year, with 764 units delivered. 390 of these were from the Cayenne model line (previous year 182 units). However, the various 911 and Boxster models also maintained their positions with a total of 364 deliveries (previous year 438 units).

During the review year, there were numerous successful marketing campaigns in Austria. The importer received the well-deserved Porsche AG marketing award for its "High Safety" customer program.

This success is also a consequence of thorough renewal of the dealer network. In March 2004, the largest Austrian Porsche dealership opened in Vienna (Liesing). There are now two Porsche dealerships in the most important location in Austria.

### **Latin America: New Market Shares secured**

In spite of continuing political uncertainties, there was economic stability in Latin America during the year under review. This had a positive effect on demand in the automobile sector. During the review year, Porsche Latin America increased deliveries by 43.0 percent to 1,004 vehicles and enlarged its share of the market.

There were significant increases in deliveries to Panama, Brazil, Puerto Rico and Mexico, with the Cayenne, the "Porsche for Latin America", accounting for 60 percent of sales.

Boxster sales went down by 21.6 percent to 160 units, but sales of 911 models remained at much the same level as in the preceding year with 187 units sold, despite the imminent model change.

The dealer network in Latin America incorporating 26 businesses underwent further professionalization, with two-thirds of the dealerships now complying with the Group's architecture guidelines. Further new construction and renovation work is planned. Among the numerous activities undertaken were the Porsche World Roadshow in Mexico, Porsche customer driving schools in Brazil, Guatemala and Mexico, the launch of the Carrera GT and a wealth of motor events staged by the very active Latin American branch of the Porsche Club, all of which contributed to the brand's vitality.

### **Northern Europe: Steady Growth Course**

Following the previous year's successes, sales during the review year increased once again, by 16.3 percent to a total of 1,150 vehicles. The Cayenne made a significant contribution to this total with 775 units sold (previous year 308 units). Sales of sports cars were not as strong, with 370 deliveries (previous year 681).

The dealer network is undergoing steady development in the Northern European region as well. The Porsche Centers in Borås and Helsingborg, for instance, were extensively converted and extended. Further projects are due for completion in the current fiscal year.

The Carrera Cup Scandinavia established itself as an immediate success. This competitive event takes place in association with the Swedish and Danish Touring Car Championship and therefore attracts high levels of public interest. The popularity of the Porsche brand will reap the benefits for many years to come.



The Chinese market contributed to the company's strong growth in Asia.

**Southern and Eastern Europe:  
Presence increased**

Southern and Eastern European countries are making an increasing contribution to the company's success. During the review year, deliveries increased by 58.7 percent to 1,208 units. The Cayenne was of particular significance in these markets, with 883 sold (preceding year 346 units).

Not only sales figures are on the increase – the number of countries in which Porsche is represented also continues to rise. During the year under review, contracts were signed with partners in Serbia, Montenegro, Bulgaria and Kazakhstan.

The dealer network was also extended in countries where contract partners are already active. Completely new dealerships were established in Croatia (Zagreb) and Romania (Bucharest). June 2004 saw the opening of the first Porsche showroom in the center of Kiev. As a result, Porsche is now also represented at a top location in the Ukrainian capital.

**Russia: Porsche's new Subsidiary Company**

With the launch of the sixth generation of its classic 911 sports car, Porsche also restructured the company's activities in Russia. In September 2004, Porsche Russia, a newly established 100 percent subsidiary of Porsche AG, assumed the role of importer in this emerging high-growth market.

Porsche has had a presence in the Russian market through a partner company since October 2000. The 911 and Boxster sports cars and the Cayenne SUV were previously sold through the Moscow-based Porsche dealer "Sport Car Center". 280 units were delivered during the review year.

Porsche Russia is planning to open two further Porsche Centers in the coming months, in St. Petersburg and Yekaterinburg.

**Asia/Pacific: Surge of Economic Growth in China**

Economic development in the Asian markets was influenced by an unstable political climate and the continued fall in the value of local currencies against the Euro. In this difficult environment, Porsche none the less succeeded in nearly doubling

its sales during the year under review, with 1,413 units sold (preceding year 749 units).

The Cayenne with V6 engine, launched in March 2004, particularly caught the attention of Asian customers. A total of 913 units of all three versions of the SUV were sold (compared with 147 units in the preceding year). This positive development was supported by stable sales of the Boxster model line with 163 units sold (187 of these roadsters in the preceding year). 334 of the 911s were also sold (a reduction of 19.5 percent).

For Porsche too, one of the driving forces for growth in the region was the Chinese market. Continued expansion of the dealer network and a product range tailored to the market produced a six-fold rise in sales figures compared with the preceding year, and 250 vehicles delivered to retail customers.

Chinese customers' particularly strong interest in the Cayenne models and the planned further expansion of the dealer network to more than ten Porsche Centers during the current fiscal year will result in further significant increases in sales.

As well as China, Thailand, New Zealand and Hong Kong all contributed to positive growth in the region. We see further potential for expansion in Indonesia. With this in mind – and with the aim of unlocking the potential of the Indonesian market – a new Porsche Center was opened in Jakarta in March 2004.



---

## Services 2003/04

The Porsche dealer offers reliable, fast and convenient services covering vehicle purchase, leasing, finance and insurance.

---

### Full service from a single source

Porsche offers its customers a comprehensive service for their vehicles, both new and second-hand. Dealers are one-stop providers of vehicle purchase, leasing, financing and hire purchase services, as well as insurance and the Porsche Card. This comprehensive service is not only secure, swift and simple – it can, of course, also be customized.

Porsche ensures that its leasing contracts can be altered to suit customers' requirements – with differentiated services and flexibility with regard to the duration of the contract. In all our larger markets, Porsche's financial services providers also offer the standard alternatives to leasing such as classic financing or attractive hire purchase deals for business customers.

Development work for other companies is a special service which marks Porsche out from other automobile manufacturers. With its package of expertise and resources in all areas from styling to production, Porsche is a much sought-after partner for projects of all kinds. In view of the close links of this business area to development work, the activities of the Porsche Engineering Group are described in the chapter on Research and Development.

### High Demand for Financial Services

In North America, Porsche's largest market, the demand for financial services has stabilized at a high level. Porsche Financial Services North America Inc. has concluded more than 27,000 contracts, and in January 2003 extended its activities to Canada. Porsche Financial Services Australia Pty. Ltd. was also established during 2003 in order to offer the appropriate financial services to our customers in Australia.

There was also a high level of demand for Porsche's financial services in Europe. A third of all new cars supplied to the German market were leased or financed via Porsche Financial Services GmbH. Porsche's financial specialists are also in demand in connection with the purchase of high-quality second-hand cars. Overall, there has once again been a gratifying increase in the number of follow-on contracts with customers making repeated use of our financial services.

In the United Kingdom almost one in three buyers of a new car opted for a financing deal from Porsche Financial Services Great Britain Ltd. As the company also provided financing deals for two-thirds of second-hand car purchases, this represented a significant expansion of the company's contract volume. Customers were also keen to accept the attractive insurance rates offered to them.

In France, the proportion of new car buyers who took up an offer from Porsche Financial Services France S.A. once again exceeded 30 percent. The company's sales and net income increased significantly. Porsche Services Espana S.L. also experienced an increase in demand for leasing and financing contracts for new and second-hand Porsche vehicles. The period under review also proved to be highly successful for Porsche Financial Services Italia S.p.A. – the company steadily increased its volume of leasing and financing contracts. There was also strong demand for the range of insurance products tailored to Italian customers' needs and offered in collaboration with the Haftpflichtverband der Deutschen Industrie (HDI).

The financial services division also had a successful year in Asia: Porsche Financial Services Japan K.K. once again financed half of the new vehicles sold in Japan. It is also noteworthy that even in the difficult second-hand car market, the number of contracts remained constant.

### Porsche Card facilitates Holiday Planning

The Porsche Card is aimed at making driving and travel more pleasant. It represents an attractive combination of the Porsche EUROCARD and the Lufthansa VISA Card Gold, which Porsche is offering exclusively to its customers in Germany. The Porsche Card is accepted at approximately 22 million



locations worldwide and also offers numerous advantages as a travel card.

The card's service package includes fully comprehensive insurance and letters of credit for vehicle purchases. The service offers Porsche owners free priority parking in AVIS depots at airports – with car valeting if required – and a hire car reservation in special circumstances. Porsche Card holders also have the use of a 24 hour telephone service for obtaining flight information, for example, and for booking tickets; they are eligible for hotel discounts and can reserve tables in restaurants.

Porsche Card holders receive comprehensive travel information including details of embassies and consulates abroad, the latest currency and customs regulations, the best travel routes and weather updates.

The Porsche Card also facilitates better planning for sporting and cultural events. The cardholder can obtain telephone information about events and purchase entrance tickets – for football or tennis, classical or pop music concerts and theater or open-air performances.

The Lufthansa VISA Card Gold gives the Porsche driver waiting list priority as a Frequent Traveler or Senator on all Lufthansa flights, lounge access all over the world, travel insurance and automatic participation in the Miles & More Program.

#### **Porsche Insurance Services**

Porsche is also active in the insurance sector. We have co-operated with the HDI to design an insurance product which, in addition to favorable rates, has numerous other advantages, including letters of credit for use at home and abroad, high-quality rental cars in the case of an accident and a replacement-as-new clause for the first year following registration.

#### **Growth in Consultancy Services**

Porsche also offers consultancy services to business customers through Porsche Consulting GmbH. This subsidiary company now ranks among the 25 leading corporate consultancy companies in Germany. The company was created

following Porsche AG's own restructuring program in 1994 and has since then assisted many successful companies in a wide variety of business sectors. This was also true for the period under review. Despite overall stagnation in the consultancy services market, Porsche Consulting continued the impressive growth trajectory of previous years. Turnover increased by 17 percent to more than EUR 19.5 million, with 73 percent generated by external customers. The company also anticipates strong growth rates in the years to come.

Porsche Consulting focuses primarily on process optimization and cost reduction. To an ever-increasing extent, the consultancy portfolio now includes business sectors other than the classic customer base in the automotive industry. More specifically, Porsche Consulting now numbers amongst its clients companies from the mechanical and electrical engineering sectors, as well as the food, construction, furniture and domestic appliance industries. The company has also successfully implemented its first projects in the commercial and financial services sectors.

Porsche Consulting has a staff of 91. They work together with their clients on site to develop solutions to problems in the entire process chain from development via procurement and production through to distribution. The extent of the projects ranges from brief production workshops to optimization of the entire value chain in international companies.

A key element in the range of services offered by Porsche Consulting is the Porsche Academy. The Academy offers a range of customized qualifications by means of open and individual seminars, including those held for management-level staff. Among the services provided by the Porsche Academy are benchmark seminars in Japan, Europe and the USA, which provide an insight into the practices of particularly successful companies.

#### **Far-reaching Process and IT Solutions**

For the last few years, the range of services offered by the Porsche Engineering Group and Porsche Consulting GmbH has been enhanced by yet another Porsche subsidiary: the Mieschke, Hofmann und Partner (MHP) management and IT



support company. This portfolio of services – in engineering, consulting and IT support – enables Porsche AG to provide external business clients with consulting services across the entire value chain.

With headquarters in Freiberg am Neckar, MHP is one of the most successful German process and IT support companies, particularly in the area of SAP solutions. In the past financial year, the company – 74.8 percent of which is now owned by Porsche AG – was able to maintain its positive development. Sales increased by nearly 20 percent to 24.0 million Euros and the number of employees to 176 (preceding year 142).

In addition to Porsche, MHP assists many other high-profile clients both in the automotive industry and in other sectors. The company provides fully integrated solutions along the entire process chain from planning through implementation and the management of IT solutions. MHP's objective is to become one of the leading international business experts in the automotive industry and to transfer its strategic innovations to other sectors.

#### **Porsche Licensing and Trading Company established**

In addition to the automotive-related services previously provided, Porsche aims to boost the high-quality luxury goods and accessories business area. With this aim in mind, Porsche AG and Porsche Design Management GmbH in Salzburg established the Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG (PLH) during the year under review, with headquarters in Bietigheim-Bissingen. Porsche AG has a 65 percent share in PLH, the remaining 35 percent being held by the shareholders of Porsche Design Produkte Vertriebs GmbH (previously Porsche Design Management GmbH). The activities of Porsche Design, Porsche Selection and the Design Studio in Zell am See (brand design by F. A. Porsche) in the high-quality luxury goods and accessories areas are now grouped under the umbrella of PLH. The most important objective is to make greater use of the Porsche Design brand's potential by means of a coordinated brand policy.

Professor Ferdinand Alexander Porsche established the Porsche Design premium brand in 1972 and has since that time worked

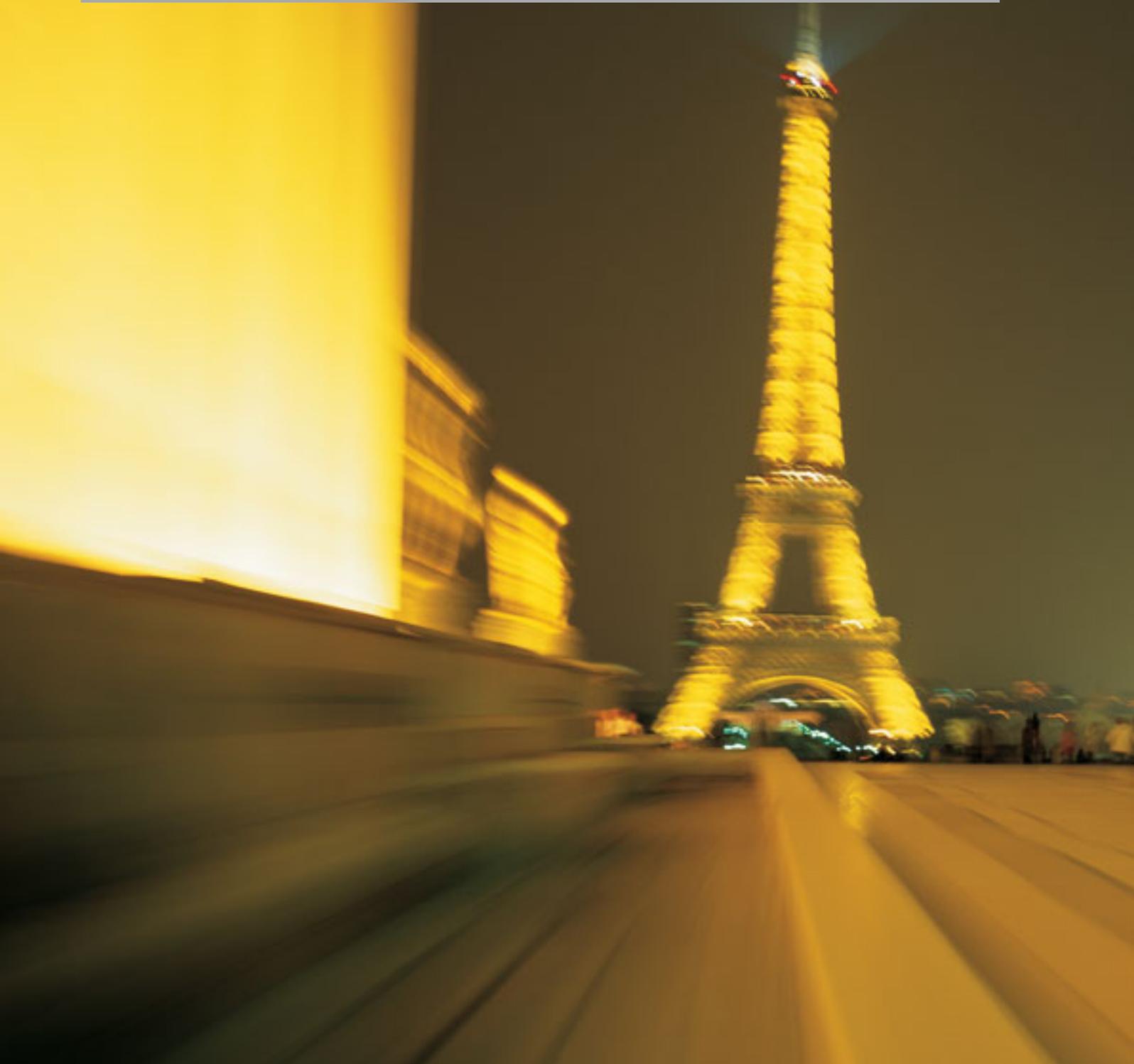
to expand it – completely independently from the sports car brand – with products distinguished by a distinctive design signature and superior technical solutions. The range of products offered by Porsche Design already includes all classic men's accessories such as watches, eyewear and leather goods. It is planned to extend the product portfolio to include electronic products, sports equipment and a fashion and fragrance range. PLH's objective is to develop Porsche Design into one of the world's leading accessory brands for men.

PLH therefore intends to pursue a selective marketing approach appropriate to Porsche Design's brand positioning. Porsche Design products are only available at company-owned stores, franchise shops, shop-in-shops, high-quality department stores and selected specialist retail outlets. The company is currently working on the development of the requisite international distribution network. Simultaneously, Porsche Design's communicative presence is being significantly increased.

The company will market customer accessories using the brand name Porsche Design Driver's Selection (previously Selection), thereby providing an additional opportunity for brand identification. Like Porsche vehicles, these products are distinguished by their quality, functionality and styling – they have a special, individual character. The product program includes extensive ranges of luggage and collections associated with the relaunch of the 911 and the launch of the special Boxster 550 Spyder model and the Carrera GT. Porsche Design Driver's Selection articles are available exclusively from Porsche Dealers and via the Internet.

## **Communication** 2003/04

A permanent aim of our communication strategy is to enhance the credibility of our products, the brand and their social acceptance.







Journalists from all over the world were able to subject the new 911 and Boxster to tough testing at our press driving events.

Porsche enjoys an excellent international reputation. This is an important success factor for the company, and one that also promotes positive business development. The function of an effective communication strategy is to maintain and increase this good reputation by continually enhancing the credibility of the products and the brand as well as their social acceptance. Evidence that Porsche has succeeded in this is provided by one award in particular: for the third time in succession, Porsche was voted the company with the best image in Germany.

This accolade was awarded to the sports car manufacturer by "manager magazin" in January 2004. The editorial team asked 2,500 members of senior management in German business to nominate company which they considered to have the best image. 171 companies from 16 sectors were listed in the resulting this image profile, which included factors such as customer focus, management quality and innovative thinking. After coming out on top in 2000 and 2002 – the survey takes place every two years – Porsche AG was again voted overall winner in 2004.

Porsche has proved more than once that size is not everything for the achievement of economic success. A comparatively small company can also make itself heard on economic and socio-political topics – whether this concerns the avoidance of quarterly reports, the refusal to accept subsidies or a clear declaration of confidence in Germany as a business location.

Having the courage to clearly state what you mean – and doing so in a successful manner with carefully chosen words – this approach to communication was also one of the reasons why Porsche's CEO was awarded the 2003 Cicero Speakers' Prize. The jury appreciated his special ability to combine commercial knowledge, the quality of leadership and rhetorical craftsmanship.

**The new Boxster had its successful world premiere at the Paris Motor Show in September 2004.**



Dr. Wendelin Wiedeking's business achievements were also acknowledged by the Geneva-based Heinz Goldmann Foundation for International Communication (HGF). The Foundation awarded him its "Excellence in Leadership" prize for the fifth time in succession. The HGF surveyed an international jury composed of 68 CEOs. Amongst other things, it was emphasized that Porsche is excellently prepared for future challenges.

### **Impressive Driving Experiences**

One vehicle above all others represents Porsche's future as well as its past: the 911. It is therefore scarcely surprising that the press launch for a new generation of this classic Porsche model represents a major task in terms of communication. The Münchhausen Castle Hotel in Hameln, near Hanover, provided a stylish, exceptionally attractive setting for the presentation of the new 911 to approximately 1,000 journalists from more than 50 markets in June 2004. The journalists and financial analysts had the opportunity of testing the new sports car intensively on selected stretches of road in the surrounding Weserberg hills. The superb road performance of both the 911 Carrera and its higher performance counterpart, the 911 Carrera S, gave rise to much enthusiastic appreciation and in due course resulted in headlines such as: "911 in Top Form revives Sporting Spirit" in "Auto Bild" – just one example of the positive reaction in the international press.

Journalists needing a deeper, more technically detailed insight into the engine of the new 911 were invited to a technology workshop. This offer proved to be highly popular. 200 international journalists took part in the special workshop at the Porsche Development Center in Weissach in May 2004.

Even more journalists were tempted to travel north in November 2003, where Porsche demonstrated the Cayenne's off-road abilities in Finland's ice and snow. Both the six-cylinder version of the SUV, which was being presented to the press for the first time, and the manual-gearbox version of the Cayenne S acquitted themselves excellently in off-road conditions especially selected for their difficulty.

There was yet another unforgettable driving experience for journalists: in many cases they experienced for the first time

in their lives what it feels like to be driven at 300 kph and when a sports car accelerates from zero to 200 kph in 9.9 seconds. This opportunity – accompanied by an experienced racing car engineer or a racing driver such as Walter Röhrl – was offered to journalists at the Carrera GT press launch in Gross-Dölln near Berlin. The former airfield provided perfect conditions in which to experience the outstanding qualities of the high-performance sports car at first hand.

There was more pure driving enjoyment to be had in October 2004, when the new Boxster was presented to the press at the Wörthersee lake in Austria. On winding roads, the mid-engined roadster demonstrated its agility to nearly a thousand journalists. Even during the event itself, there was already much comment in the media about the Boxster and its attractive appearance.

### **Multiple Awards**

Porsche sports vehicles always come out on top when motor journals ask their readers for their opinions. The readers of "Road & Track", the leading American magazine for car enthusiasts, voted the Porsche Carrera GT the dream car of the year in 2004. The high-performance sports car from Stuttgart left its six rivals trailing well behind and can now rejoice in the title of "Best Dream Car 2004". This was the second award from the US motor press for the Carrera GT. At the end of 2003, the magazine "Popular Science" selected the car's advanced technology and chassis construction as the best technological innovation of 2003. The British magazine "Top Gear" also put the Carrera GT in first place in the "Supercars" class in its April 2004 edition. Previously, the Carrera GT had been voted "Best sports car" in the annual "Best Cars" competition participated in by the readers of "auto motor und sport" magazine. The awards made in association with this competition are some of the most sought-after in Europe.

But that is not all. There was a double accolade for the Carrera GT and the 911 GT3 RS from readers of the specialist magazine "sport auto". In the rankings for the best-performing sports car of 2003, the Carrera GT won the category for production cars costing more than EUR 125,000 and the GT3 RS the category for cars in the EUR 75,000 to 125,000 bracket.



**At the driving event in Hameln, the new 911 impressed journalists and finance analysts.**

In addition, readers of the American publication "Automobile Magazine" voted the 911 Carrera the best GT and the 911 Turbo the best supercar.

The Boxster, in its eighth year, collected another prize: The Porsche roadster models Boxster and Boxster S were chosen as the best sports cars by "Automobile Magazine". In association with their All-Star Awards 2004, the specialist monthly with a circulation of 500,000 awarded the roadster the title of "Best Sports Car" – and this was before its replacement by a new model generation.

#### **Well-received Trade Fair Appearances**

Nothing reflects the appeal of a company as effectively as its own products. This makes it all the more important to ensure that the new models and their variants are suitably presented to the public – a central element of Porsche's communication strategy. In the year under review, there were five new model variants of the 911 aspiring to outshine each other at the German 'IAA' Motor Show in Frankfurt – and also a world premiere to celebrate: On the occasion of the 40th birthday of the classic Porsche sports car, the special "911 40th anniversary" edition was launched at the IAA in September 2003. The next world premiere took place just four months later – the Boxster S special edition "550 Spyder 50th anniversary" was exhibited at the Detroit Motor Show.

Whether in Frankfurt, Detroit or at other trade fairs – one Porsche model above all others has a magnetic effect on the public: the Carrera GT. This high-performance sports car drew crowds of car enthusiasts on every occasion to the Porsche stand. It ranked amongst the vehicles most photographed and discussed by visitors, thus confirming once again the appeal of a brand rich in tradition.

There was another exhibition highlight in September 2004. The new Boxster was presented to the world press for the first time in the exclusive surroundings of the Pavillon Gabriel near the Champs Elysées. At this event, held on the evening before the first press day of the Paris 'Mondial de l'Automobile' exhibition, the second model generation of this roadster attracted much attention. But this was not all: In addition to

the Boxster's world premiere in Paris, the new 911 was also on display to the public for the first time at the Mondial.

#### **Close Contact with Investors**

Porsche considers intensive dialogue with participants in the financial markets, i.e. private investors, institutional investors and analysts, to be very important. Open, personal contact strengthens the positive image that the company and brand enjoy with investors around the world. Whether in Zuffenhausen or at road shows held in the most important international financial centers – Porsche seeks communication with market participants. An additional central component of investor relations activities during the year under review was the continuous, comprehensive flow of information regarding the company's corporate development that appeared in many publications. Integration of the Investor Relations department into the Public Relations division ensures that investors and journalists receive the same information with the same basic content wherever possible.

#### **New Layout for Christophorus**

The long-established customer magazine "Christophorus" was extensively redesigned at the beginning of 2004. The layout is now clearer and even more uncluttered. The presentation is modern, but not fashion-driven, in line with the spirit of the times but not slavishly adhering to ephemeral trends. The new layout draws the reader's attention to individual articles on subjects such as Porsche products and technology or corporate development. The magazine also regularly takes lifestyle themes as its subject matter.

"Christophorus" was founded in 1952, which makes it the oldest customer newsletter in the automobile sector. The editorial team is based where the sports cars are built – in Zuffenhausen. In spite of this close link to Porsche Group headquarters, the selection and range of subjects always has an international flavor. The magazine appears six times a year, is printed in five languages and has an international circulation of 260,000.



Porsche is to build a new museum at its headquarters in Zuffenhausen. Larger and more attractive, it will emphasize the unique character of the brand.

### **Employees' Magazine now Online**

Keeping its employees informed is of key importance to Porsche – not least because they constitute the company's most important resource. Good internal communication systems to ensure that information is conveyed as clearly as possible increase the motivation of the workforce. Porsche uses a variety of means to achieve this. The "Carrera TV" in-house television service provides informative monthly reports, the "Carrera Mail" bulletin board newsletter appears in German and English and is distributed throughout the international business organization every two months, and the "Carrera" employees' newsletter is published every four weeks. In addition "Carrera" is now available online to all Porsche employees with a PC and Intranet access.

### **New Museum planned on Porscheplatz**

Knowing where we come from and maintaining our traditions – this is the approach that Porsche has always taken. It is all the more important when we consider that the history of Porsche's models has always been more evolutionary than revolutionary in character. Even the current families of modern vehicles still have clear links to their roots. For more than 100 years, however, the Porsche name has also stood for many other innovative constructions – such as the development of electric wheel-hub drive – a sensation at the Paris World's Fair as long ago as 1900 – or the Volkswagen Beetle. These concepts reflect the impressive pioneering achievements of the company's founding fathers and engineers. Construction of Porsche sports cars did not start until 1948, but an era then commenced which has made the company and brand internationally famous and progressively increased the desirability of its products.

An important window on the company tradition is provided by the Porsche Museum at company headquarters in Zuffenhausen, which attracts approximately 80,000 visitors every year. During the review year, the decision was taken to build a new, larger and more attractive museum on Porscheplatz, thereby strengthening the effect of the company's historical public relations work. Following an architect's competition for the new building, which will occupy a site between the plant, the sales subsidiary and the high-bay parts store, construction work is due to start in 2005.

With this decision in favor of the new building, the company is complying with wishes repeatedly expressed by investors at shareholders' general meetings, by customers interested in the history of sports cars and by classic car enthusiasts. With the new museum, Porsche also aims to make its contribution to maintaining Stuttgart's reputation as a city well endowed with museums.

The museum will also emphasize the unique character of the Porsche brand. It will set itself apart from the current expectations of an experience-driven society and express the fundamental idea of a place dedicated to the preservation and communication of values: substance rather than superficial effect is one of the precepts of Porsche's exhibition concept. At the same time, the museum's will aim to provide more than a historical retrospect and the mere preservation of past achievements, and will endeavor to act as a showcase for the whole body of contemporary and historical knowledge about the Porsche brand.

Whereas the existing museum, opened in 1976, only has space to display about 20 historical vehicles from the current collection of around 300, the new museum will be able to display approximately 80 vehicles to the public. A workshop for individual exhibits in roadgoing condition – some of which are very valuable – will also provide an insight into the craftsmanship needed for the restoration of historic sports cars. The facilities on offer will be completed with generous gastronomic facilities that will increase the museum's appeal to both internal and external organizations as an venue for their events.

### **On the Road with Historic Vehicles**

The goal of our public relations program devoted to the history of the company is to keep the company tradition alive outside the Zuffenhausen museum and to convey its spirit as vividly as possible. Selected historic vehicles therefore go on tour frequently as a "mobile museum", and visited more than 20 classic car rallies during the year under review. The Goodwood Festival of Speed in the UK, the Targa Tasmania, the Mille Miglia in Italy and the Ennstal Classic in Austria are only a few of the events in which Porsche's classic cars took part.

**The 2004 Porsche Tennis Grand Prix in Filderstadt: winner Lindsay Davenport (right) with Amélie Mauresmo.**



Another highlight was the appearance of the Porsche Museum at the second Porsche motor racing reunion, held on the International Speedway in Daytona, USA. The central focus of this event was on Porsche 550 historic competition cars, but the Porsche Museum was also well represented in other respects in Florida, with five particularly rare vehicles from its collection, including the “Number 1” 356. More than 50,000 Porsche fans came to Daytona, where the 50th anniversary of the 356 Speedster was also celebrated.

#### **Sport Promotion**

Another key area of emphasis of Porsche communication is sport promotion, and indeed few brands are so closely connected with sporting ability and achievement as Porsche.

For more than a quarter of a century, the focal point of sport activities other than motor racing has been the annual Porsche Tennis Grand Prix in Filderstadt near Stuttgart. Almost all the top-ranking women tennis players from all over the world take part in this tournament, which is deeply rooted in the company's corporate communication strategy and encourages the sustained promotion of its sporting image.

In addition to the Filderstadt tournament, our North American subsidiary Porsche Cars North America (PCNA) is also involved in the world of tennis and acts as sponsor to the WTA tour. Porsche is thus the exclusive sponsor of the season's final event in Los Angeles.

In addition to motor racing and tennis, Porsche sponsors the ambitious “Bietigheim Steelers” ice-hockey club, based near the Porsche location in Bietigheim-Bissingen. The team plays successfully in the second German ice-hockey league. During the review year, Porsche also sponsored many weekend courses for young ice-hockey players from all over Germany.

#### **Backing for the “American Academy”**

The close connection between Porsche and the USA is a story of a friendship stretching back more than fifty years. For this reason Porsche has been providing support since the 2002/03 fiscal year for the “American Academy” established in 1997 in Berlin, which is also supported by such

well-known personages as the former US ambassador to Germany, Richard C. Holbrooke, Henry Kissinger and Richard von Weizsäcker. The “American Academy” is an important link between America and the German capital. It offers selected American students and artists a home from home, stages a wide variety of public events and propagates a living image of the diversity of American life and American culture.

#### **Consolidation of Cultural Commitment**

In recent years, Porsche has begun an involvement in the cultural sector – examples being the return of the complete, reconstructed Kafka library to Prague or the restoration of the famous Ladegast organ in the Nikolai Church in Leipzig. In spring 2001, Porsche accepted the cost of EUR 1.8 million for restoration of this instrument. An organ builder from Bautzen needed approximately 50,000 hours of work to ensure that the organ was once again ready for use. It was a highlight of Porsche's cultural involvement when, at the end of October 2004, the ceremonial dedication of this very special instrument took place. The organ was originally built in 1862 by master organ-builder Friedrich Ladegast.

Porsche also sponsored various art exhibitions during the year under review, such as the Stuttgart photographer Dieter Blum's exhibition “KörperKathedralen” (“BodyCathedrals”) in St Petersburg and Moscow, and the “Tag und Nacht immerfort Räder” (“Nothing but Wheels Day and Night”) exhibitions by Johannes Vennekamp in Reutlingen and at Schloss Fachsenfeld near Aalen, during which the author Martin Walser read his essay from the book “Das Davidprinzip” (“The David Principle”).

#### **International Student Advertising Film Competition**

During the year under review, the Porsche prize for the best international student advertising film-maker was awarded for the first time. Building on its long-standing positive link with the Baden-Württemberg Film Academy in Ludwigsburg, Porsche AG supported an invitation to 200 international colleges of cinematic art to take part and awarded the four first prizes in the form of a “David Trophy” to the winners – symbolizing Porsche's own principle that the small can take on the strong and come out on top.

**Porsche provided financial support for the restoration of the celebrated Ladegast organ in Leipzig, which was ceremonially re-dedicated at the end of October 2004.**



### **The Ferry Porsche Prize promotes Interest in Technology**

In modern Germany, knowledge constitutes the most important trump card on the global competitive scene. In line with this insight, Porsche wishes to convince young people that engineering studies are worth their while. The Ferry Porsche Prize, awarded once again during the year under review, aims to increase the appeal of courses in mathematics, science and technology. Prizes are awarded to students who achieve the best results in physics, technology and mathematics in the university entrance examinations (the "Abitur") in the Federal German State of Baden-Württemberg. During the review year, 242 students received a prize. There were also five four-week placements with Porsche Cars North America, during which students could experience technology and business activities at close quarters. The Ferry Porsche Prize also gives Porsche an opportunity to increase its appeal to young people as an employer and to forge initial links with possible new recruits.

Young people are also introduced to technology and electronics at Porsche's Leipzig plant. Schoolchildren and university students are given an opportunity for a closer look at vehicle technology under the tutelage of an expert at the Leipzig Technology Center, which was co-founded by Porsche – this often has the effect of awakening interest in a career in the automotive sector.

### **Marketing Communication**

On November 8, 2004, Porsche received a notable accolade: the Germany Marketing Association awarded the company the German Marketing Prize, the highest award in Germany for outstanding achievements in marketing. "Porsche has made use of conscientious marketing to effect an economic turnaround. The brand has been revitalized by internationally consistent brand management and geared to attain long-term corporate targets. Concentrating on the brand core has strengthened the brand to the extent that it has won over an entirely new market segment with the Cayenne SUV", said the chairman of the jury when commenting on the reasons for the committee's decision. In the opinion of the jurors, Porsche achieved its strong brand image by going its own, often unconventional, way for a number years, which has given the brand special individuality and exclusivity. The award also paid tribute to the fact that even as a

manufacturer of exclusive products, Porsche has been able to strengthen its broad-based social acceptance and achieve a high degree of brand empathy.

### **"Porsche DNA" revealed**

What do all Porsche vehicles have in common? During the review year, Marketing Communications used the "Porsche DNA" sales campaign to provide an overview of the characteristics shared by the various Porsche model lines and individual models. The aim, figuratively speaking, was to create a brand umbrella. The campaign highlighted the DNA linking all the Porsche models. DNA is the abbreviation of a bio-medical technical term. An individual's DNA contains a personal genetic code and therefore important information on his or her genetic inheritance. In the Porsche campaign, this abbreviation is taken to stand for the unique characteristics of every vehicle, which are defined as follows:

- A Porsche is a pure-bred sports car – or in the case of the Cayenne, the most dynamic of the SUVs.
- A harmonious vehicle concept delivers more than the sum of its parts.
- The vehicles' character is governed by technological innovation.
- The design is typical of Porsche.
- Certain characteristics are unique, such as the positioning of the ignition switch on the left.

Porsche's entire DNA is based on the fact that each current series has a predecessor in the company's history – so that the forerunners of today's vehicles have a significant role to play. An example of this is the Boxster anniversary model, which was introduced internationally during the year under review to mark the 50th anniversary of the 550 Spyder. In 1953, the Spyder launched Porsche's career as one of the most world's successful competition car brands. This small, lightweight car with its mid-engine of only 1.5 liters' capacity won out against seemingly all-powerful competition, thanks to characteristic Porsche features such as uncompromisingly lightweight construction, optimum weight distribution, precise steering response and a harmonious chassis. The Boxster 550 Spyder 50th anniversary model today represents its legitimate heir.



For this reason the anniversary model was shown together with the 550 Spyder in the Porsche DNA sales campaign.

The associated sales website was also designed to create further interest in the Porsche brand. It was well received by the international specialist press and also gained a number of awards. It consisted of the two sections "Porsche DNA" and "DNA Test", the first of which was subdivided into brand values and equivalent models. Communication of the brand values (tradition, sportiness, technology, styling and rationality) was realized by means of video clips and text. In the equivalent models section the forerunners of the 911, Boxster and Cayenne model lines were contrasted with the current vehicles. Visitors to the site had the opportunity to get to know all the details of the distinctive characteristics through viewing a variety of films, images and texts.

Visitors could then take a test in the DNA Test section to see which vehicle would suit them best. The test consisted of questions on sportiness, technology, styling and rationality. At the end of the test, visitors were shown the five vehicles most likely to appeal to them and given opportunity to explore further and search online for their local dealer.

#### **Increased Interest in Cayenne Models**

Already strong interest in the third Porsche model line increased still further with the launch of the six-cylinder Cayenne. During the year under review, marketing communication was devoted to exploiting the originality of the Cayenne in order to create the broadest possible sales platform for the entire model line. The objective was to communicate the new vehicle's superb qualities to the customer – the best dynamic handling and agility in the SUV segment, a powerful engine, very good off-road capabilities and excellent versatility for family and leisure use.

#### **Communicating the 911's Dynamics and Precision**

"911 Precision" was the key focus when the new 911 model generation was launched. The campaign focused on communicating the car's precision in a unique way – in every detail, every movement and every moment. Emphasis was therefore placed on communication of the unique selling points of the 911 Carrera and the 911 Carrera S. The objective was to

sharpen the profile of this model line and the brand as well as highlighting certain key features such as the power train, chassis, styling, sound and the harmonious design typical of Porsche.

In line with the policy of integrated communications, the "Precision" theme was continued in the launch advertisements: "Crude but Workable Engines. And in their Midst, a Precision Instrument. The new 911." This was accompanied by a demonstration of the special position of the newest version of the 911: precision technology harmoniously combined by Porsche's engineers as an opportunity for a driving experience that sets the 911 apart from all competitors.

The preparatory launch advertisement was designed to set the scene before the actual launch of the new 911. The strength and precision of the new model were symbolized in the advertisement by an eagle, which is a symbol for supremacy, freedom, strength, precision and dynamics.

In addition to this emphasis on technology and precision, marketing communication had a strongly emotive content. The advertising films for the 911 were particularly effective in putting across the emotive aspects of the campaign. The 911 launch was also accompanied by Internet activities. The net-based launch campaign had two phases. The first described the origins of the new 911, with insights into the work of the designers, developers and engineers. Short video sequences showed trials conducted in the blazing heat of South Africa and in freezing temperatures in Canada.

Visitors to the web page had interactive opportunities to discover more details about the 911 and to send their friends a virtual postcard. The second phase of the launch campaign permitted a more detailed look at the 911, even before it had been shown to dealers – there was a 360 degree tour of the vehicle, a look at the interior and a test drive through the Portuguese countryside.

With all the methods it adopted, Porsche aimed to increase product familiarity but also to ensure the communication and strengthening of brand values by way of a variety of channels.

**Communication activities emphasized the features shared by our model lines.**



A key factor in the success of the marketing campaign was rigorous international coordination of dialog marketing, which assured consistent positioning of the 911 among all the relevant target groups.

#### **40th Anniversary of the 911: Award-winning Dialog Marketing**

During the review year, the new 911 model family was not the only focus of dialog and direct marketing. The “First 40 years of the 911” campaign started to mark the occasion of the 40th anniversary of the Porsche classic in 2003 was also continued from the preceding fiscal year. The aim was to draw the attention of customers and other interested parties to the 911 “40th Anniversary” special edition model, as well as to the whole model line. In this context, we published several hundred messages – often very personal ones – from 911 owners and other 911 enthusiasts in the form of pictures or anecdotes on the Internet.

The special Internet presentation to mark this 40th anniversary was produced in five different languages and 15 country-specific versions, and received two major awards. It won the silver “Ottocar” in September 2003 at the “Ottocar Awards”, a competition staged by the German Automotive Industry Association (VDA) and Autovision. The special Internet presentation also took first place in the “Image Webpages” category of the “Jahrbuch der Werbung 2004” (“2004 Advertising Handbook”) competition. These prizes provide impressive endorsement that our dialog marketing strategies and the form they take are well received not just by Porsche customers and enthusiasts, but also by panels of marketing and advertising experts acting as competition judges.

#### **Porsche on the Internet: Interactive Features in Strong Demand**

Porsche’s website played a key part in our integrated communications during the year under review as well. We increased the information content of the web pages and also focused increasingly on transaction opportunities – such as the online accessory shop – or interactive applications such as the Car Configurator. The success of this approach was confirmed by the considerable increase in the number of visitors to the

Porsche web pages – once again significantly surpassing the figures for the previous year. During the year under review, the Porsche website received 152 million page hits, equal to a 40 percent increase compared with the preceding year. During the same period the site received 15 million visitors. Porsche’s online used-car search facility, the International Porsche Locator, also developed positively, with approximately 280,000 inquiries per month.

At the end of the review year, [www.porsche.com](http://www.porsche.com) provided links to twelve subsidiary companies and 17 other country-specific importers’ sites, representing 98.5 percent of vehicle sales world-wide. To ensure a consistent approach to customers at all sales levels, we continued work on integrating all dealer sites. A large number of the dealers represented offer a broad range of services, from booking workshop appointments to used car trade-ins and information on forthcoming events.

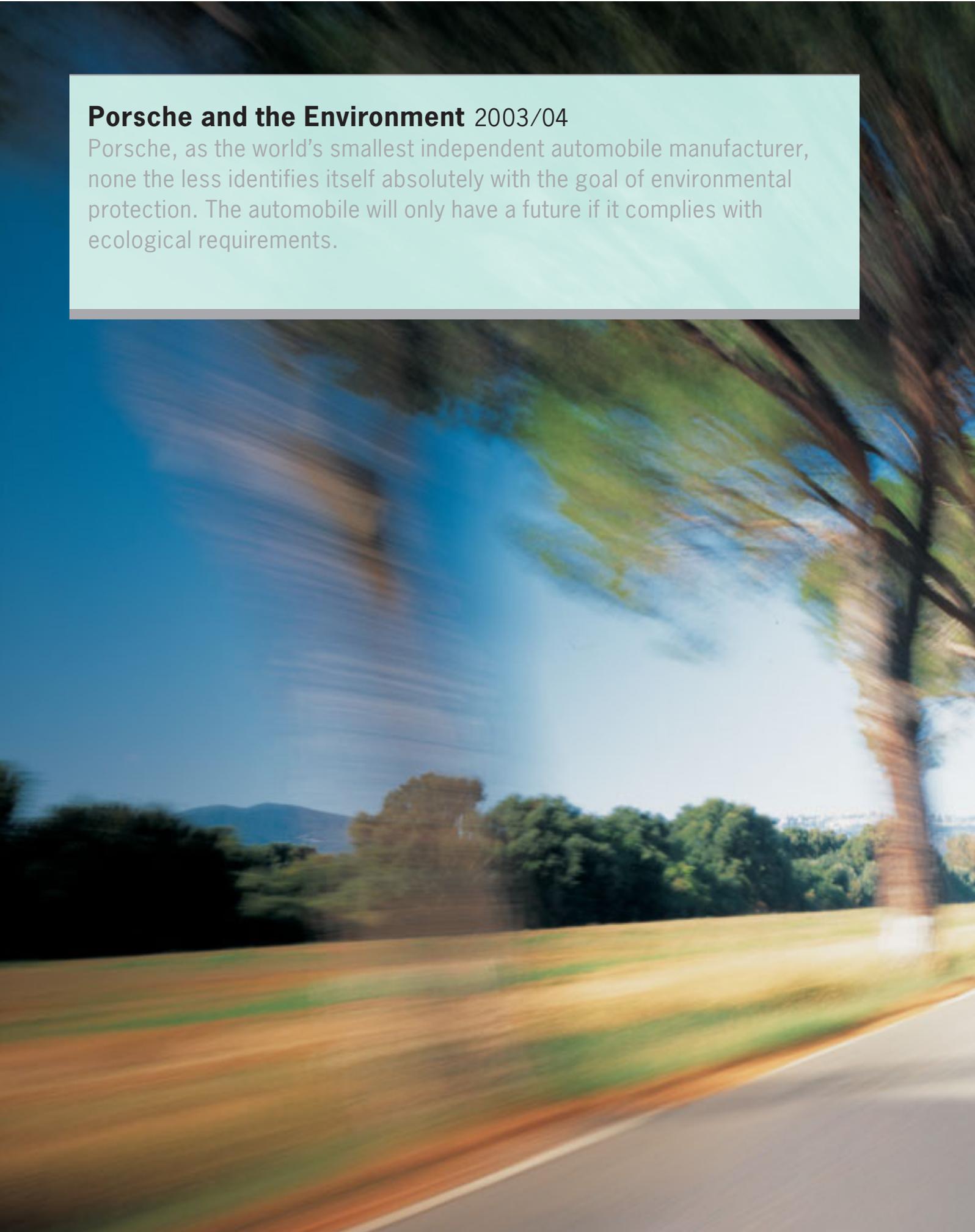
Investors can also read the most recent annual report in an attractive, complete online format and view corporate results from previous years. The “Investor Relations” section is an ideal supplement here, with a live shares chart and a news section.

As part of the integrated communications strategy, there were two other special Internet presentations for the automobile exhibitions in Frankfurt and Leipzig during the review year. Site visitors could view detailed information on the exhibits and pictures from live webcams, as well as animated 360-degree vehicle tours and videos.

We also introduced an additional module for the Porsche Car Configurator to permit individual selection of the “Exclusive Custom Tailoring” option. Porsche’s use of this new module sets an international benchmark in interactive version management. In addition to configuration of all standard and custom features, it is now possible to specify any item from the Exclusive program online. Dealers can use this tool to view additional Exclusive features, to enhance their sales approach and thus increase profitability.

## **Porsche and the Environment** 2003/04

Porsche, as the world's smallest independent automobile manufacturer, none the less identifies itself absolutely with the goal of environmental protection. The automobile will only have a future if it complies with ecological requirements.







We shall step up our environmental protection activities and remain a reliable partner for our customers, our neighbors and society in general.

**Environmental protection has a long company tradition**

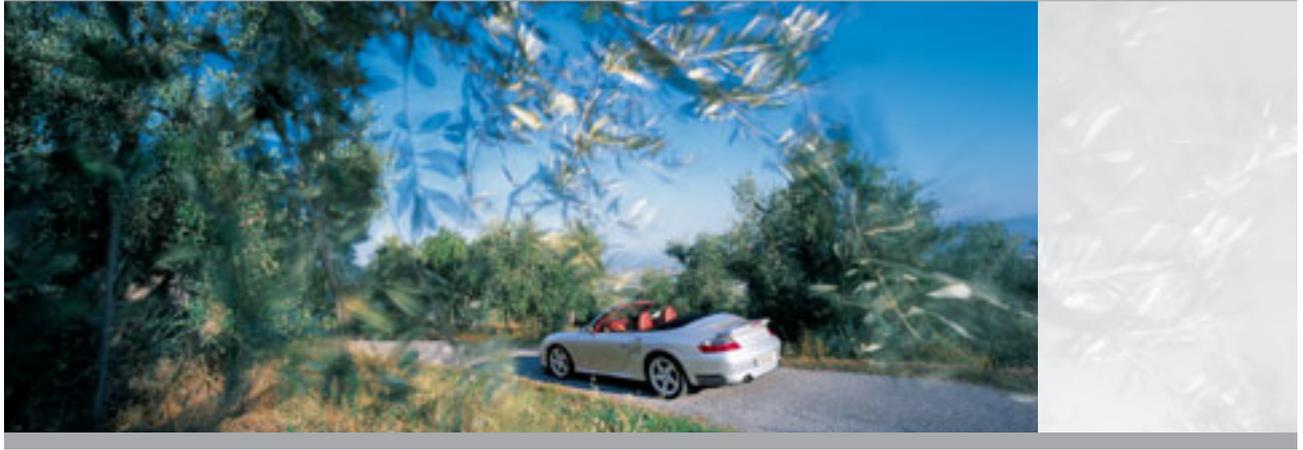
Porsche has a long history of environmental protection – in both the research and development area and in manufacture, sales and distribution. For several decades our employees have been aware that the automobile only has a future if it meets ecological standards.

Since 1991, all Porsche's environmental activities have been coordinated by the "Environment and Energy" department, which has cross-company responsibility for all environmental issues. The Ministry for Transport and the Environment in the Federal German State of Baden-Württemberg attested a few years ago to the "exemplary and integrated implementation of environmental protection in all areas of the company and the excellent level of employee integration into these activities".

Porsche exports its vehicles to almost every country in the world and must comply with local environmental legislation. For many years the company has proved that it is perfectly possible to design, build, produce and, of course, operate a thoroughbred sports car by methods that are both environmentally friendly and economically viable. In this respect, the classic 911 is an example of evolutionary development in automobile construction. This is true not only in relation to its performance and comfort specifications and the driving experience it provides, but also in terms of its fuel consumption and reduced pollutant emissions. Three hundred of the most recent generation of Porsche Carrera 911s emit fewer unburned hydrocarbons than a single Porsche 911 built in 1966, which was when the first legislation governing exhaust emissions was introduced.

**Political Guidelines for the Reduction of Pollutants**

Since the beginning of the 1970s, European environmental policy has concentrated on the reduction of harmful exhaust



emissions: carbon monoxide (CO), unburned hydrocarbons (UHC) and oxides of nitrogen (NO<sub>x</sub>) in the case of gasoline engines and particle emissions (PM) from diesel engines. However, according to information available at the moment, the Euro 4 directive which comes into force on January 1, 2005 does not impose any further restrictions on pollutant emissions from gasoline engines. Engineers can therefore dedicate their efforts to other environmental issues, in particular the reduction of fuel consumption and CO<sub>2</sub> emissions. It should also be noted that the debate about the Euro 5 standard for diesel engines, which aims to reduce the NO<sub>x</sub> emissions of diesel engines to levels similar to those of four-cycle spark-ignition engines and also to further decrease particle emissions, does not affect Porsche vehicles because they are all powered by low-emission gasoline engines.

Porsche focuses on this type of power unit for two fundamental reasons. First, the sporty, emotive driving experience that Porsche customers expect cannot be realized with a diesel engine, the nominal power output of which is developed at no more than 4,500 revolutions per minute, in other words well below the nominal engine speeds of up to 8,000 rev/min reached by Porsche engines. In addition, a diesel engine of equivalent power output is considerably heavier than a gasoline engine. This weight increase would not only worsen the car's fuel consumption but also have a distinctly adverse effect on dynamic, sports-style driving, a situation that would apply not only to our sports cars but also to the Cayenne.

It should also be remembered that the modern gasoline engine, thanks to the adoption of the closed-loop, three-way catalytic converter, is extremely environmentally acceptable. The diesel engine performs less well in many areas of exhaust emission, notably toxic constituents of the exhaust gas and soot particles.

In recent years, climatic protection has continued to move towards center stage in European and German environmental policy. The European Climate Change Program (ECCP) aims to reduce CO<sub>2</sub> emissions and other greenhouse gas emissions cited in the Kyoto Protocol as responsible for man-made climate change. The objective is to reduce the CO<sub>2</sub> emissions

of all EU countries by eight percent in order to comply with the guidelines set out in the Kyoto Protocol. The ambitious nature of the EU Commission's proposal is demonstrated by the fact that the Kyoto objectives have so far only been achieved in areas suffering from economic recession.

ACEA, the association representing the European automobile industry, made a voluntary commitment as early as 1998 to achieve a 25-percent reduction in average CO<sub>2</sub> emissions from all its vehicles by 2008. As the ACEA annual reports for 2002 and 2003 show, the vehicles produced by European manufacturers meet the agreed intermediate targets.

Previous experience has, however, clearly shown that the ambitious targets of the Kyoto Protocol can only be met if other sources of CO<sub>2</sub> emissions such as electricity generating plants, industry and domestic households also make their contribution.

These tools will set levels for an improvement in energy efficiency for all industrial facilities and consumers and therefore result in lower energy and fuel consumption. Reducing the carbon content in fuels also plays an important part, as does the changeover to alternative fuels produced from biomass, since these achieve CO<sub>2</sub> neutrality. The third point concerns the retention of CO<sub>2</sub> emissions in the terrestrial biosphere. Soil recultivation, reforestation and improved methods of cultivation can help to retain almost half of man-made CO<sub>2</sub> emissions at very little cost. What remains is the trading procedure in emissions certificates between countries, industries and companies as a fourth tool for achieving the targets set in the Kyoto Protocol.

A further political guideline is the EU directive on the recycling of end-of-life vehicles, according to which at least 75 percent of the vehicle weight must be re-usable. This proportion is set to rise in 2006 to 85 percent and again in 2015 to 95 percent. The use of a range of heavy metals in automotive construction will be limited or prohibited. The discussion of the manufacturer's responsibility for the lifetime environmental effects of vehicles is conducted using terms such as "Integrated Product Policy" (IPP) or "Extended Producer Responsibility" (EPR).



### High Performance and Environmental Protection in One

Since the first official exhaust emission test took place at Porsche on a 911 in 1966, the company has often been at the forefront of developments in the environmental protection area. All its vehicles, for instance, already comply with the Euro 4 European exhaust emissions limits which do not come into force until January 2005. In the high-performance sports car class, the Carrera GT provides proof that the highest levels of performance are perfectly compatible with respect for the environment. The Cayenne, in turn, is one of the few sport utility vehicles (SUV) that meet the stringent exhaust emission standard, whereas SUV models with diesel engines, which Porsche does not sell, do not meet these standards.

Despite our position as the smallest independent automobile manufacturer in the world, Porsche supports the European automotive industry's commitment to the reduction of CO<sub>2</sub> emissions. In the case of the new 911 Carrera (1997), engine output has been increased still further and fuel consumption has also been reduced, despite the fact that the overall weight of the vehicle increased slightly because of added features. Since 1966, the fuel consumption of the 911 has been reduced by 36 percent, but engine performance has increased by 150 percent.

Although high-performance engines naturally have higher overall levels of fuel consumption and so produce more CO<sub>2</sub>, Porsche's vehicles are only responsible for a small proportion of all car CO<sub>2</sub> emissions. On a global scale, the proportion is less than 0.1 percent and within the EU and in Germany it is less than 0.2 percent. Porsche none the less endorses the commitment to sustained effort aimed at optimizing CO<sub>2</sub> emissions.

Porsche vehicles are also particularly long-lasting: two thirds of all Porsche cars ever built are still on the roads today. They are often carefully maintained as valuable classic cars. Even though this means that recycling old vehicles is not a matter of great urgency for Porsche, the company naturally takes its responsibility in terms of the EU end-of-life directive very seriously. Vehicle longevity and recycling potential are carefully considered during the design and development phases – the Boxster, 911 Carrera and the Cayenne are all 85 percent recyclable.

The first Environment Handbook was distributed throughout the Porsche business organization in 1998, and has been completely revised during the period under review. It contains all the necessary information on the environmentally acceptable recycling of end-of-life vehicles. In line with statutory requirements, Porsche is working with the dealers to put in place the structures needed for the recovery and recycling of end-of-life vehicles. In order to achieve a recycling quota of 95 percent of the vehicle's weight by 2015, the company is already developing procedures for materials that are not currently recycled.

Design changes and the most modern technologies have permitted a steady reduction in the number of maintenance intervals and the amount of work involved, despite the constant increase in the cars' features and technical components. The sparing use of operating materials and parts subject to wear has an environmentally friendly effect.

### Corporate Environmental Policy

The development and production of modern sports cars calls for special care in terms of environmental policy in all areas of development and at the production plants and logistics centers. The company works continuously on its program of sustained development while taking due account of ecological, economic and social considerations. For this reason, not only our employees but also all service companies and component suppliers are involved in our environmental policy.

Since 1996, Porsche AG has organized its numerous environmental activities by means of an environmental management system at the Zuffenhausen production plant. In June 1996, Porsche was the first company in the European automotive industry to receive validation from the European Eco-Management and Audit Scheme (EMAS). This was repeated in 1999 and 2002 and upgraded to the internationally recognized standard DIN EN ISO 14001. The new production plant for the Cayenne and the Carrera GT in Leipzig was integrated into the existing Porsche environmental management system at the planning and design phase and certified according to ecological criteria when it was opened.



In addition to the company's environmental guidelines, increasingly severe political constraints pose a tough challenge for environmental management. Current examples include the Flora Fauna Habitat Directive and the Solvent Directive. As a general rule, we ensure as a matter of course that all statutory obligations are complied with in advance.

The continuous improvement of ecological standards is the common denominator of all objectives laid down in the 2002 certification and which we need to achieve by the next validation process in 2005. We invoke the aid of all our employees continuously in order to promote corporate environmental protection. Internal environmental audits, which we carry out on an annual basis in all areas at both plants, serve as a monitoring tool.

An environmental process audit is used to analyze production and document scope for improvement in technical and administrative areas. The "Environment Weeks" held annually are one of the key tools for supplying the workforce with information and raising awareness.

Suppliers and service companies are permanently involved in our environmental activities. In 2004, the German Automotive Industry Association (VDA) once again distributed a questionnaire to all component suppliers in order to ascertain whether they had set up environmental management systems and undergone an EMAS or DIN ISO 14001 audit. The service providers working for Porsche receive environmental protection guidelines as part of their contracts.

In the environmental protection area, Porsche is today already providing the stimuli for the enhancement of tomorrow's environmental efforts. We work together with our employees to expand our environmental activities and will continue to act as a responsible partner for customers, communities in the areas surrounding our production plants and society in general in all matters concerning the environment.

#### **Community Activities**

Porsche regularly provides the public with information about the company's environmental activities. Our employees take part in many public events and debates on the subject of

environmental protection in the automotive industry and are members of national and international committees.

Porsche AG initiated the establishment of the Stuttgart forum "Auto und Umwelt" ("The Car and the Environment"), which celebrated its tenth anniversary in 2004. The city, the Stuttgart motor-vehicle and components supply industries and the university are all working together to develop shared perspectives on the subject of the car, the city and the environment.

#### **Environmental Protection Costs**

Environmental protection is generally so closely intertwined with many other development and production activities that it is often not an easy matter to determine the cost of the necessary measures exactly. There are also still no international standards for the definition and evaluation of these costs. However, Porsche has for many years endeavored to calculate the cost of environmental protection as accurately as possible.

If we take the guidelines provided since 1980 by the German Federal Office of Statistics as a starting point, which call for the calculation of environment-related overheads and expenditure on the basis of the German Environmental Statistics Act, the cost of Porsche AG's environment-related overheads during the period under review total EUR 7.96 million. This sum covers the following areas: waste management, protection of water resources, noise reduction, prevention of air pollution, nature conservation, preservation of the countryside and soil detoxification.

It is considerably more difficult to identify the costs of environmental protection associated with vehicle and engine development: during the year under review more than 300 employees were working at the Weissach development center alone on various tasks associated with environmental protection.

The total cost of environmental protection at Porsche AG for the year 2003/2004 amounts to approximately 1.7 percent of Group turnover – a high level compared with our competitors. More than 70 percent of this sum went to the development area for product-related environmental protection.

---

## Purchasing 2003/04

Trouble-free, quality-assured vehicle production also depends on the careful choice of outside suppliers.

---

### **Porsche values close partnership**

Because of the comparatively low degree of production depth within Porsche and the high level of externally sourced components incorporated into our products, building and maintaining functional partnerships with our suppliers is an essential factor for our business. We therefore focused during the report year not only on promoting and enhancing existing relationships but also on integrating our suppliers into our vehicle development and manufacturing processes.

### **Suppliers closely involved in 911 Production**

For Purchasing, dominant features of the 2003/04 fiscal year were the launch of the 911 Carrera and the 911 Carrera S. With the start of series production of the new 911 model generation, integrating our suppliers into our production processes became more crucial than ever. The process of converting our design and development outputs into reliable production models began with the careful selection of effective partners and their involvement in our development program at an early stage. As a result of these efforts, our suppliers achieved the targeted delivery performance and product quality specifications in full right from the 911 production start-up phase. We repeated this success in the current year when production of the new Boxster and Boxster S started. In close cooperation with its partners from the component supplier industry, Porsche has now laid the foundation for the continued success of its sports cars.

The performance of our suppliers for the 996 models that remain in production (such as the 911 Carrera 4S, 911 Turbo and GT3) and all Cayenne variants has also been kept at a consistently high level. In terms of quality, delivery service and cost containment, our partners have fully satisfied our high expectations.

### **Systematic Supplier Management**

The streamlining of the material group structure carried out during the previous fiscal year has proved successful from both an engineering and a commercial point of view. By focusing on clearly defined areas of technology and procurement, we have improved our ability to access global markets and technologies and have created a framework within which we expect to achieve cost savings.

To support our suppliers at all levels, Porsche has implemented a systematic approach to supplier management. These activities were stepped up in the year under review and we expect them to make a substantial contribution to the ongoing development of our supplier base. Both preventative and precautionary measures are taken to promote the optimization of quality, delivery service and material costs.

### **Electronic Procurement expanded**

The purchasing operation has intensified its efforts to carry out group-wide purchasing of indirect materials, operating resources and services. The use of standardized processes and structures has greatly improved efficiency, which in turn has reduced the cost of procurement to the company. We will be pursuing this path rigorously in the future.

The implementation of e-business solutions has a particular role to play in this context. Porsche is currently working on the introduction of electronic ordering procedures in all business areas, following a period of user training. During the year under review, we began the parallel task of extending these applications.



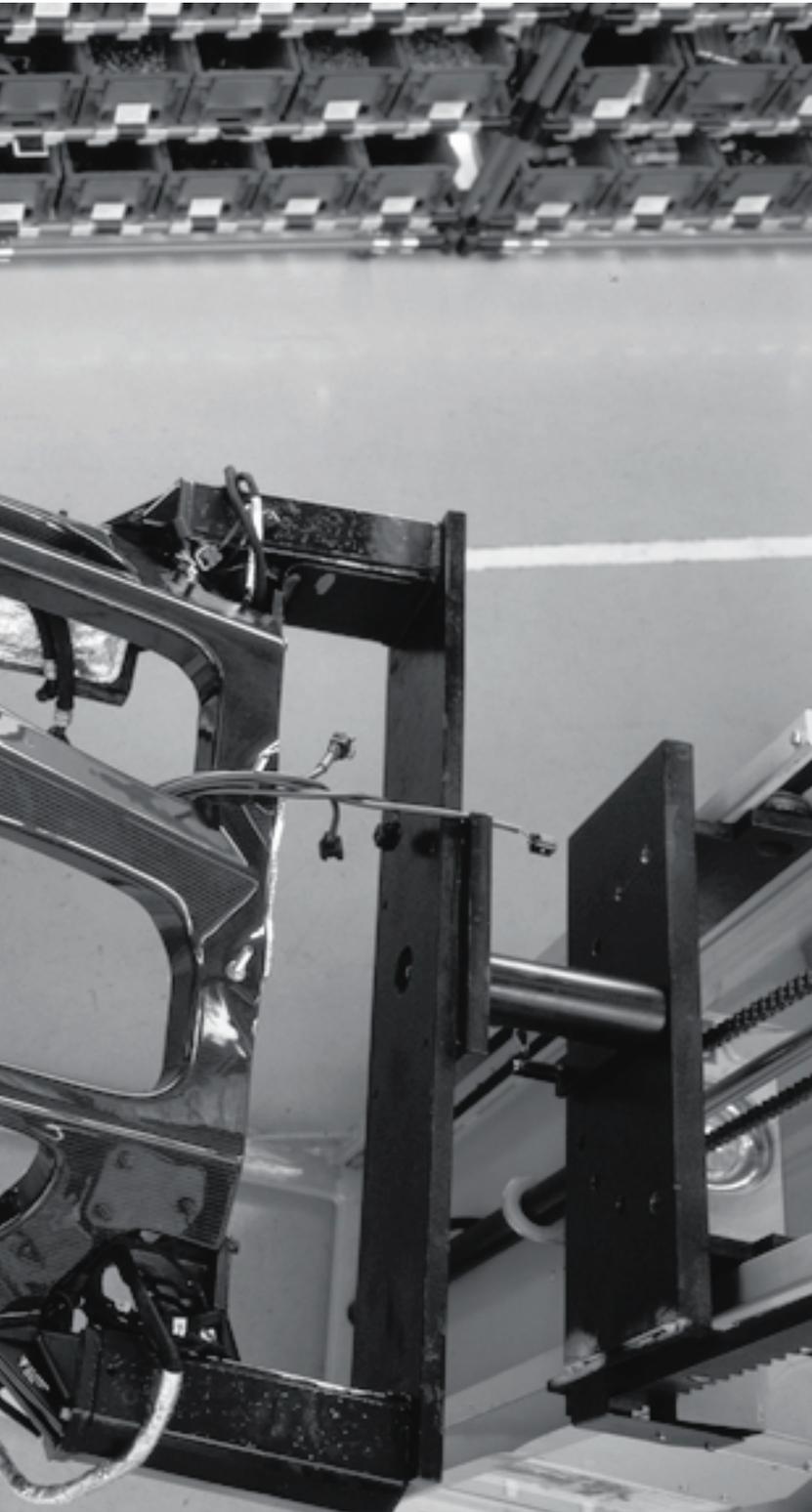
## **Carrera GT**

Building this high-performance sports car imposes very severe demands on the workforce.



**Pre-assembly:**

Key steps in the pre-assembly process center on installation of the engine. The wiring harness, brake lines and radiator surrounds are attached (large photo). Before this, the rocker shafts are inserted (small photo, left). The engine and transmission are then “married” to the vehicle by attaching them to their mounts (small photo, right).



The Carrera GT spearheads the range of Porsche sports cars. With its 612 bhp V10 engine and its uncompromisingly lightweight construction, this high performance sports car incorporates the spirit of the brand's great motor racing tradition. The design of the Carrera GT, which has a top speed of 330 kmh, reflects its above-average performance potential as well as its stylistic affinity with the other sports cars produced by the company. Only 1,500 units of this limited-edition sports car are being produced on a dedicated assembly line at the Porsche plant in Leipzig. Building a Carrera GT requires a great deal of specialist knowledge and painstaking craftsmanship, and only the highest quality materials are used for this car – as well as probably the most advanced technologies used in sports car production anywhere. These and the following pages illustrate some of the key stages in production – from pre-assembly through to final testing. They show the craftsman's precision in every stage of the Carrera GT production process.







**Measuring:**

The Porsche badge is set into the wheel hubs, the wheel alignment checked and the driver's airbag inserted into the steering wheel (small photos from left to right).

At the next assembly station, measurements are taken with a reference gauge in order to ensure that the outer body components are correctly positioned on the chassis (large picture).

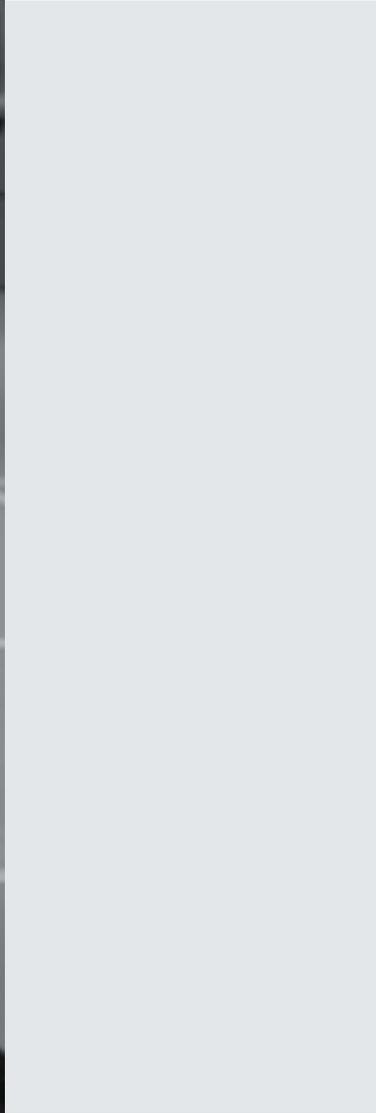
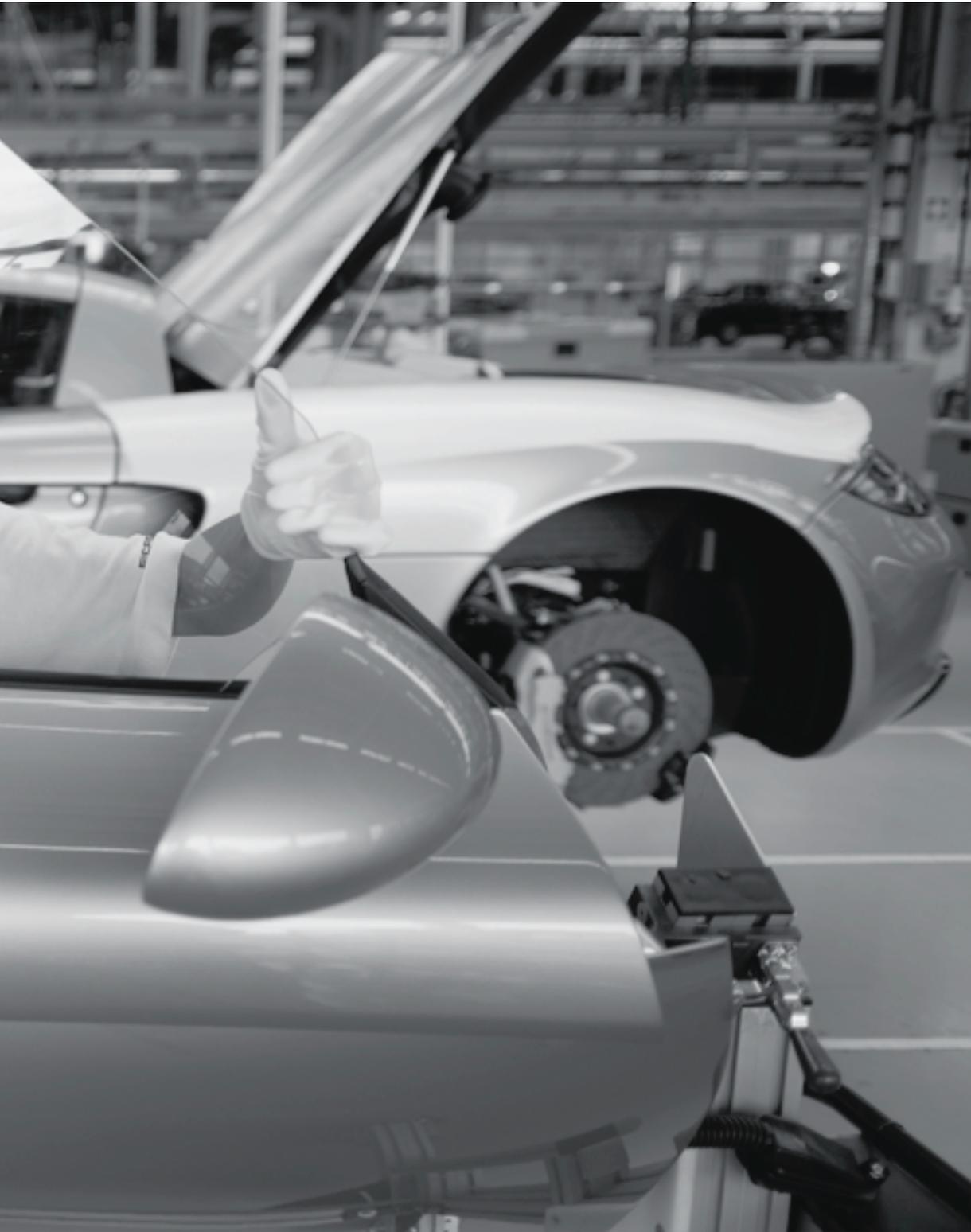


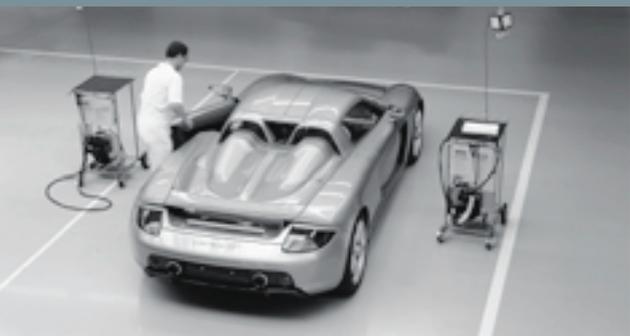


**Testing:**

After the side window has been fitted in the door (large photo), one of the next tasks is to attach the front axle assembly to the monocoque bodyshell and test the panel gap widths at the front, after which the Carrera GT can be finally inspected in the light tunnel and leave the testing area (small photos from left to right).







---

## Employees 2003/04

Surveys and rankings confirm that Porsche has a high reputation as an employer in Germany.

---

### **Outstanding Performance by the Workforce**

During the review year, Porsche was once again able to rely on its employees' exceptionally willing performance. This strength made it possible for us to adapt successfully to changing market conditions in a difficult economic environment. The production startup and launch of the new 911 represented a particularly tough challenge, which was tackled by the workforce with style and elan and ensured the addition of yet another chapter to the company's success story.

The extent of this great willingness to achieve is also demonstrated by the fact that the workforce – not including the fully consolidated subsidiary CTS Top Systems GmbH – was only slightly larger than in the preceding year, but a significant increase in workload was none the less coped with successfully. On July 31, 2004 the number of employees in the company – excluding CTS Group – was 10,729 (the figure for the preceding year was 10,699), including CTS, the figure was 11,668. At Porsche AG the number of employees remained almost constant at 7,992 (previous year 8,078).

### **Management Philosophy places Emphasis on Autonomy**

The company reworked its management guidelines and adapted them to suit new requirements which the company's growth is engendering. The new guidelines reflect the evolution of our corporate culture and they are also designed to propagate the corporate philosophy through the management style. The new management guidelines emphasize the commitment to quality products and processes, lean production and support for our employees. They enable Porsche to establish clear principles for day-to-day working practice – now and in the future.

Porsche has its own unique approach here – as in so many other areas – which clearly distinguishes it from the competition. One distinctive feature is particularly worthy of mention: despite being a relatively small producer, Porsche is independent and has every intention of remaining so in future. This independence has played a key role throughout the history of the company and was always emphasized by Professor Ferry Porsche.

### **Targeted Executive Training**

Porsche employs the "strategic management process" in its executive training – a concept which integrates the recruitment and support of executives, the development of senior management, the regulation of succession and agreement on objectives.

The Porsche Junior Staff Promotional Program (PNF) prepares junior managers systematically to enable them to cope with more advanced tasks. Three groups have already successfully completed the two-year program and another group started on it during the period under review. PNF participants can take on numerous managerial functions in line management, for projects or in specialist areas. In addition, the Group-wide "Globalution" program was once again implemented throughout the company with the aim of preparing junior staff members for international projects.

During the review period, the Porsche Executive Assessment and Development Scheme (PFE) continued its assessment of the third level of management. This scheme runs according to a three-year cycle: all Group executives are assessed on their potential for performing higher-level tasks and individual development program step are determined. The PFE process is not only useful for determining suitable personal locations but also provides Porsche AG with important information when optimizing succession planning and the placement of executives within the Group. This in turn ensures that the company meets its target of filling key positions in the Group from within its own ranks.



The Porsche workforce's willingness to achieve high levels of performance, which was again evident during the start-up phase of the new 911, is one of the foundations of the company's exceptional success.

#### **Attractive Employer for New Generation of Academics**

Surveys and poll rankings show that Porsche remains one of the most attractive employers in Germany for upcoming academics. In a survey published in August 2004 in the magazine "Wirtschaftswoche", prospective engineers and students of economics placed Porsche fourth in the popularity rankings. The study's conclusion was that a strong brand makes for good positioning. This assessment also demonstrates that targeted university marketing and the promotion of particularly talented students by the "Pole Position" internship program is paying dividends.

The company also promoted prospective new recruits in another area. Following the positive experience gained in recent years, Porsche further extended its cooperation with the university careers center "femtec GmbH", a company established by the Technical University of Berlin and the European Academy for Women in Politics and Business. In order to recruit the best young female engineers, Porsche once again provided employment placements in the year under review for many "femtec" interns from well-known technical universities.

#### **Successful Introduction of New Occupational Profiles**

On July 31, 2004 Porsche employed 196 technical/industrial trainees and 13 commercial trainees. In addition, there were 20 students who successfully completed a diploma course in electrical engineering, information management or industrial engineering under a training contract concluded between Porsche and the Stuttgart Career Academy.

During the period under review, three new occupational profiles were introduced into the technical training scheme: vehicle mechatronics engineer specializing in car technology, vehicle mechatronics engineer specializing in vehicle communications technology – these being the new occupational designations for vehicle mechanic and vehicle electrician respectively – and vehicle interior trimmer. The innovations should ensure that skilled workers receive improved training in accordance with changed requirements in professional practice, particularly with regard to essential knowledge in the electrical systems and electronics areas. The workshop in the training center has been reorganized accordingly, with the aim of providing more

assembly areas so that trainees can have earlier access to practical experience with vehicles. The training is specifically designed to provide trainees and Porsche students with optimum career qualifications. Once again, students achieved very good results in the final examinations, and numerous trainees received commendations and prizes.

Extremely positive feedback resulted in PC courses once again being offered to industrial staff during the period under review. More than 750 employees have so far taken part outside working hours in free training courses for the "PC and Internet driver's license".

#### **Porsche Expertise for China**

There were further developments in international human resources management standards. Targeted temporary work placements for professionals and executives promoted the sustained transfer of knowledge between Group companies and individual specialist areas as well as facilitating the development of Porsche expertise at new plant locations. In addition, short-term placements in subsidiary companies permitted talented junior staff and trainees to acquire deeper insights into the structure of the entire Group.

During the period under review, experienced sales executives made their first visit to China to support the creation of a dealer network there and establish Porsche sales and marketing standards in the increasingly important Chinese market.

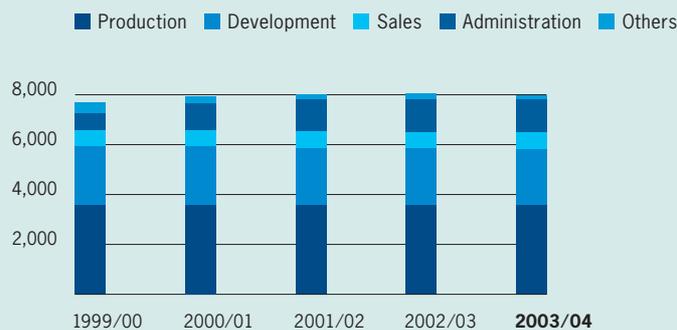
#### **Continued Success of Older Employees'**

##### **Part-time Work Scheme**

In the year under review, the quota of 120 part-time positions for employees nearing retirement age agreed by the Executive Board and the works council was completely filled. The scheme provides for jobs to be refilled in good time, ideally by taking on trainees for an indefinite period, since this procedure facilitates the transfer of knowledge between older workers and the younger people succeeding them, who gain new career perspectives as a result.

894 Porsche employees have signed a contract of this type since the introduction of the part-time employment scheme

## Workforce Porsche AG



for older workers. On July 31, 2004, 117 of these employees were in the “release” phase. In the current fiscal year, employees aged 55 or over will once again have the option of a part-time contract within the framework of the labor-management contract and the revised German Pensions Act.

### Health is a Key Issue

Healthy employees are a basic prerequisite for a company's economic success. As prevention is an important part of on-site medical care, Porsche AG is taking part in the “Prevention First” pilot project, a program for the prevention of muscular, skeletal, heart and circulatory disorders. This will be offered to employees in future with the company and the health insurers contributing to the cost.

Porsche also places a high priority on workplace safety, as this is part and parcel of social responsibility. The company is working on all the time on improvements to preventive measures. These measures also yield increases in productivity and cost reductions. Occupational safety plays an important role in all planning phases and in plant maintenance. Senior management in production attaches great significance to the monthly accident reports, and also to regular safety training for employees.

Clearly defined objectives for occupational health and safety in agreements with employees also ensure that the planned measures are sustainable and intelligible.

### Active for the Environment

In its environmental policy, Porsche declares its support for the preservation of natural resources, the avoidance of harmful environmental effects and the development of environmental protection measures in all areas. Employees, service providers and suppliers are all involved in order to continuously improve our achievements in this field. The company's principal objective is sustainable development accompanied by compliance with economic, ecological and social targets.

In the past financial year, employees were once again motivated to display their environmental awareness. There was keen interest in the fifth Environment Week held at the head office in

Zuffenhausen in July 2004 – an event which is now an established feature of the Porsche AG annual calendar. The motto of this year's event was “Constantly on the Move” and employees were once again given practical information about corporate environmental protection.

### Successful Continuation of Ideas Management

By means of the newly concluded plant agreements, the Executive Board and the works council are setting an example for the targeted promotion of employees' innovation potential. The basis for the company's success and its competitive edge is a high degree of commitment on the part of the workforce. The success of this initiative is obvious, as the number of improvement suggestions and the values of the resulting savings have more than doubled by comparison with the preceding fiscal year.

### Thanks to our Employees

The outstanding ability and undiminished commitment of our employees in adapting to the international markets' changing conditions provide the basis for Porsche AG's sustained success and positive prospects. The workforce's identification with the company and its unceasing desire to achieve ambitious targets time and again are factors that safeguard our independence and strong competitive position in automobile markets. The Executive Board wishes to express its sincere thanks to all the company's employees for their outstanding performance.

This expressly includes the elected employees' representatives, who work tirelessly for the interests of the workforce while balancing these against the company's justified economic interests. This has made a substantial contribution to the acceptance of management decisions and therefore to Porsche's overall success.

## Porsche AG's Personnel Expenses

	2003/04		2002/03	
	€ million	%	€ million	%
<b>Wages and salaries (basic)</b>	<b>332.9</b>	<b>100.0</b>	<b>311.1</b>	<b>100.0</b>
<b>Paid leave</b>	<b>80.5</b>	<b>24.2</b>	<b>78.5</b>	<b>25.2</b>
Paid vacation	47.4		43.9	
Paid public holidays	13.5		15.8	
Sick pay	11.9		11.2	
Other periods of absence and recuperation	7.7		7.6	
<b>Social contributions</b>	<b>84.9</b>	<b>25.5</b>	<b>79.4</b>	<b>25.5</b>
Social security contributions	80.4		75.3	
Workers' compensation contribution	4.5		4.1	
<b>Fringe benefits</b>	<b>141.5</b>	<b>42.5</b>	<b>136.7</b>	<b>43.9</b>
Christmas and special bonuses	116.4		112.2	
Employee capital-forming savings plan	2.3		2.2	
Vacation bonus	20.9		20.7	
Other expenditures	1.9		1.6	
<b>Pensions and other retirement benefits</b>	<b>46.5</b>	<b>14.0</b>	<b>51.5</b>	<b>16.6</b>
Partial retirements until 2005	3,5	1,1	1,5	0,5
Partial retirements from 2006 to 2009	23.7	7.1	0.0	0.0
Training expenses*	13.2	4.0	14.0	4.5
Social services*	13.5	4.1	11.4	3.7
Amounts counted twice	- 7.6	- 2.3	- 7.3	- 2.3
<b>Total benefits expense</b>	<b>399.7</b>	<b>120.2</b>	<b>365.7</b>	<b>117.6</b>
<b>Personal expenses (basic and benefits)</b>	<b>732.6</b>	<b>220.2</b>	<b>676.8</b>	<b>217.6</b>

\* excluding costs charged to others

---

## Production 2003/04

Porsche is highly competent in the production of various model versions in relatively small numbers.

---

### Parallel production mastered successfully

Completing the changeover to the new 911 model generation smoothly and preparing for production of the new Boxster – these were among the major challenges that our production staff had to tackle during the year under review. The Zuffenhausen plant not only began production of the new Carrera models but also built additional versions of existing models such as the 911 GT3 RS, the 911 Turbo S and the special-edition “550 Spyder” Boxster. Most versions of the previous 911 model family – especially high-value versions such as the Turbo, GT2 and GT3 continued in production. Producing two vehicle generations in parallel makes severe demands on space management, quality assurance, supplier management, and employee training, since the large number of vehicle variants calls for a multiplicity of components and component suppliers.

Porsche has a great deal of experience in managing the small-scale production of a variety of model versions on a single assembly line, rather than setting up a separate line for each. It is the key to the company’s ability to achieve model diversity efficiently and offer an attractive model mix. Although the task presented a number of difficult challenges, they were mastered successfully. In doing so, Porsche proved yet again that its sports car production know-how is second to none.

We completed the production start-up of the Carrera GT during the year under review at Porsche’s second German production plant in Leipzig. Series production of this high-performance sports car began in September 2003; the scheduled production level was reached in April 2004.

The level of activity at the Leipzig plant is amply illustrated by the fact that we have introduced two-shift production for the Cayenne. This has enabled us to satisfy the fast-growing

demand for our high-performance SUV without delays and with the required quality standards maintained, despite the additional surge in demand generated by the launch of the new Cayenne V6. We continuously improved all processes in Leipzig during the Cayenne’s second production year. In particular, we further refined the interaction of external service providers and our assembly operations.

### Production Volumes increased

High demand during the review year led to increased production volumes. A total of 81,531 units left the production line – an increase of 11.3 percent. Of this total, 31,250 vehicles were produced at our main plant in Zuffenhausen, 41,419 in Leipzig, and 8,862 by our partner factory in Finland. The breakdown for the various models is as follows: we produced 26,650 units of the 911 model, including 3,432 of the latest model generation, known internally as the 997. As in the previous fiscal year, higher-value 911 variants accounted for a large share of this classic vehicle’s total production – 66 percent to be precise, including the S version of the new 911 Carrera.

Boxster models remain in production both in Zuffenhausen and at our Finnish partner plant – a successful collaboration which will continue with the new Boxster. During the year under review, we produced 13,462 Boxsters; 8,862 of them were assembled in Finland.

In addition to the Cayenne – with 41,149 units – Leipzig produced the Carrera GT during the review year. The first 270 of the limited production run of 1,500 high performance sports cars have already left the plant.

### Training for 911 Production Start-up

“Fit for the 911” was the maxim for the event held at our main plant to introduce all production employees to the new 911. A change of model affects everyone, and it is only by ensuring that each employee is fully motivated and well informed, especially during the changeover period, that we can ensure that cars of the highest possible quality leave the production lines. The event marked the culmination of an extensive training program during which we carried out team and special task-focused training for approximately 2,500 employees.



Employees were prepared for the start of production of the new 911 model by a comprehensive training program designed to give them the necessary additional qualifications.

By providing in-depth training on new components, work operations, and machines, we were able to ensure high standards of workmanship during and after the changeover. Such standards are imperative in areas such as the characteristic decorative stitched seams inside the car. Quality assurance in the upholstery shop begins with the workers on the sewing machines, where a computer now monitors the tension and number of stitches. We also introduced new tools for locating the seams and custom designed machinery such as a new door-panel heat sealing machine.

Despite all these technological developments, our employees remain at the heart of the manufacturing process. New production technologies, however effective, are only one side of the coin and successful manufacturing is only possible when you have a highly qualified workforce.

#### **Network Management in Demand**

To guarantee first class workmanship on the 911 and smooth-running logistics right from the outset, we involved our suppliers very closely in our production planning. This has paid dividends. Thanks to extensive collaboration with our suppliers and our own thorough preparatory work at the plant, we achieved troublefree, high-quality production (in line with the growing expectations that our products are obliged to satisfy) well before series production started.

In addition to collaboration with our suppliers, we devoted close attention to the production and value-creation alliance between Zuffenhausen, Leipzig and our Finnish partner's plant during the year under review. To ensure a high standard of professionalism within this alliance, production management had to coordinate the capacities of external suppliers as well as those of both Porsche production plants. During the review year, Porsche made allowance for increased logistical complexity by installing a new organizational business area within the Production division, with competences extending to all locations. Within the Porsche production alliance, it uses optimized processes to control the available capacity at suppliers and production facilities. The aim is to satisfy market demand at any given time by means of maximum flexibility, individuality and punctuality.

As part of the network management process, finished-vehicle transport movements were also examined intensively. It has proved possible to optimize direct deliveries to our European sales subsidiaries in a lasting manner by means of a vehicle monitoring system that tracks both transportation time to the market and the operating efficiency of the distribution chain itself.

#### **High Levels of Investment**

We invested several millions Euros in Zuffenhausen in the run-up to the production of the new 911. A completely new body-in-white production line was built alongside the existing one for the previous model. Much work was required to optimize the shop floor in order to fit the new machinery and equipment into the existing space.

We introduced new equipment and techniques in the upholstery shop for production of the 911's interior trim. Production staff also reconfigured the assembly of the bodyshell on to the running gear and driveline, in order to take advantage of threaded-connection techniques and supply logistics.

We installed new test rigs to allow us to simulate driving conditions repeatedly free from weather and traffic effects during series production. We applied for patents on a number of individual items of equipment that are unique in the automobile industry. New diagnostic rigs on the lines and new radio diagnostics for the entire assembly area complete with entirely new software are responsible for the quantum leap in vehicle electronics that the new 911 model generation represents.

In addition to the 911 production start-up, Porsche began production of the new V10 engine for the Carrera GT during the review year. The production area created for this engine is fully integrated into the Zuffenhausen plant. Despite its high complexity and low production volume, the productivity of the Carrera GT assembly operation benefits greatly from our existing expertise in the production of longer engine runs.



Quality assurance standards for this high performance power unit are exceptionally high. The most important threaded connection torque data and all performance data are recorded for every Carrera GT engine. All seals are fully tested while the engine is still on the assembly line and two operating-temperature tests (before and after installation of the gearbox) ensure the impeccable performance of each unit. By comprehensively documenting all key components, we are able to trace not only the engine but also its component parts throughout the entire manufacturing process.

#### **Engine Plant nearing Start-up**

Work on the new engine plant in Zuffenhausen proceeded according to plan during the year under review. The roof and exterior walls were completed in the winter of 2003. Work on the interior and the technical infrastructure began in spring 2004 and was completed in September 2004. Cayenne V8 engine production will be transferred to the new plant in December 2004 and will go on stream in January 2005.

The new engine plant will streamline our production flows and relieve the pressure on Plant 2 in Zuffenhausen. At the same time, separation of the new engine plant from the vehicle assembly area will achieve a sustainable improvement in the future performance potential of our entire manufacturing structure.

Following the Cayenne production start-up, Leipzig benefited from ongoing improvements in equipment, processes and systems during the year under review. In parallel with these developments, we increased the number of jobs in Leipzig and improved workforce training. As well as the Porsche production philosophy, we instill the principles of kaizen, or lean production, which have played a central role at Porsche since the successful restructuring of the company in the 1990s.

#### **Awards for Logistics and Quality**

At the 2004 annual congress of AKJ Automotive – an association of automobile and component supply companies, dedicated to the advancement of logistics and production solutions – Porsche received an award for the development of its procurement and transportation monitoring network.

This system creates a high degree of transparency and therefore speeds up transportation and improves security.

Porsche was awarded two first places in the universally respected quality survey published in April 2004 by the renowned US market research institute J. D. Power. The Porsche 911 was ranked top for quality in the “premium sports car” category, with an “initial quality award” in gold. The Zuffenhausen plant also received a “gold plant award”. Porsche also came top for quality in the “European automobile plant” category, and took second place in the world rankings after the Japanese Toyota plant in Tahara.



**The new engine manufacturing plant will improve work processes in Zuffenhausen still further.**

## **Research and Development** 2003/04

The final work leading up to the start of production of the new 911 and development of the second Boxster model generation were among the engineers' key activities.







Work processes and routines at our Development Center in Weissach were further optimized.

The main task for the Research & Development division in the review year was finalizing its work on the latest generation of the 911 and Boxster. The main objective was to deliver improved customer benefits in the performance, dynamic handling, agility, styling, presence and quality areas. These are necessary if Porsche is to strengthen its leading position in an increasingly competitive sports car market.

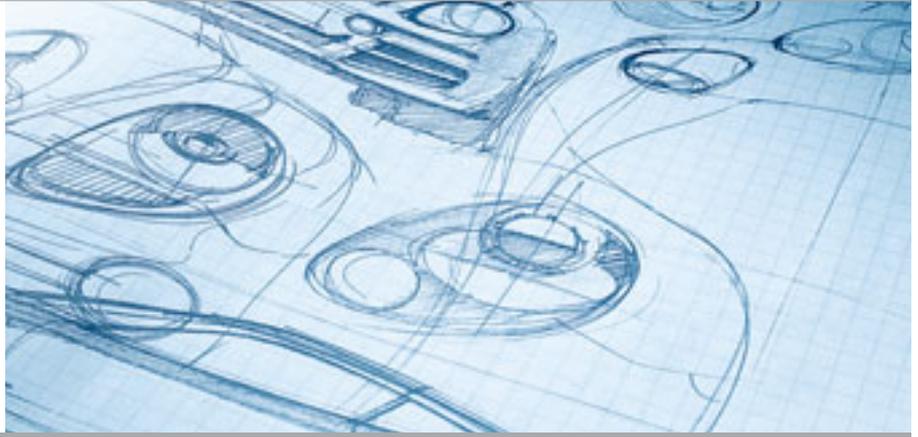
In addition to the main work of vehicle development, work on streamlining operations and procedures within the division continues. This included, for example, reducing development times, adapting procedures to take new factors such as vehicle software into account, quality assurance and the protection of corporate know-how.

#### **New 911 with a Wealth of Improvements**

After nearly seven successful years for the first water-cooled 911, its highly advanced successor incorporates a host of technical, design and stylistic innovations. The new cars feature even better dynamic handling, greater comfort and safety and styling innovations. There is also an S model offering enhanced performance.

The 911 Carrera is powered by the reliable 3.6-liter engine, the output of which has been increased to 325 bhp. The swept volume of the 911 Carrera S engine has been enlarged to 3.8 liters, and its power output of 355 bhp clearly differentiates it from the base model.

Both models are equipped with a six-speed gearbox. This caters for the higher torque and the five percent increase in wheel circumference, and features further enhancements for greater power handling efficiency and a sportier feel to the gearshift. Gears can now be selected even faster and with greater accuracy, thanks to a 15 percent reduction in lever



throw and a hard wearing carbon fiber coating that increases the load capacity of the synchromesh components. In addition, the new gearbox is easier to repair.

Typical Porsche design features were further refined during the modernization of the 911 Carrera. Clean, exciting lines and close attention to detail are at the heart of the design, as reflected both in the overall appearance and in individual details. Taut surfaces and styling that emphasizes the car's power are features of the exterior. A wider track and a distinctive waistline lend the 911 Carrera an even more dynamic presence. Key exterior design elements are the round headlamps, auxiliary lights incorporated into the front bumper, more dominant fenders, double-arm outer mirrors, an aerodynamic rear spoiler and the distinctive rear-end body shape.

Separation of the side lights and headlamps results in a completely new night-time look. The sidelights are mounted low down at the outermost extremities of the nose. The headlamps are slightly higher than on the previous model, giving the low beams an additional six meters of throw. The rear lights also have a distinctive layout at night, due to their brilliant optics and a clear separation between the red and silver-grey areas.

Despite all the changes to the exterior, the greatest emphasis has been on excellent aerodynamics, in order to strengthen the 911 Carrera's leading position with respect to its aerodynamic drag coefficient (cD value). The base model has a cD of 0.28, which gives it even greater stability at very high speeds.

The design brief for the new interior was to enhance proven features, optimize the ergonomics and add new design accents. The quality surpasses that of the previous model thanks to improvements in panel fit, leather upholstery, seams and surface finishes.

The instruments are basically the same but their legibility has been optimized. The night-time design is impressive, with a brilliant control and instrument layout. The new steering wheel closely resembles that of the Carrera GT, and is now adjustable for height and reach. A lower seat and a more forward pedal positioning provides more room for taller drivers. The layout

of all switches has been standardized and improved ergonomically. For example, small ridges prevent the fingers slipping off the switches.

For the sports car driver, seats are especially important. They must be comfortable and provide secure lateral support. To meet these demands, Porsche has designed new seats that will be used in both the 911 Carrera and the Boxster.

The revised Porsche Side Impact Protection System (POSIP) now features three airbags for front seat occupants, thereby offering improved safety. In addition to the front airbag and a head airbag integrated into the door trim, occupants are protected from side impact by the thorax airbag in the side bolsters of the front seat backs. Deformation of the footwell in a head-on crash is reduced by a new high tensile steel structural member in the bulkhead. Combined spot welding and adhesive bonding together with repositioned weld points have strengthened the car's entire structure and increased passive safety.

The suspension has also been subjected to further development. Technical innovations include a wider track as well as a new generation of tires with greater contact area. The 911 Carrera has 18-inch wheels; the 911 Carrera S 19-inch wheels. For the first time, all wheels are manufactured by a special weight-saving technique. The car's weight has been reduced by replacing the spare wheel and jack with a canister of tire sealant and an electric air compressor.

The S model is fitted as standard with electronically controlled shock absorbers – Porsche Active Suspension Management (PASM). This lowers the body by ten millimeters and allows each shock absorber to adapt to the current driving environment (changing lane, cornering or load reversals). This system resolves conflicting demands of comfort in day-to-day driving and high-performance roadholding, for instance when lapping a racing circuit. The driver can select two different settings at the PASM switch in the center console. For all-out driving, 'Performance' suspension can be ordered that lowers the vehicle by a further 10 millimeters and permits a mechanical rear-axle differential lock to be activated.



An absolute innovation is the Sport Chrono Package Plus for the 911 Carrera, which provides even sportier settings. A 'sport' push button on the central console permits the driver to intervene extensively in the car's electronic control systems: the throttle opens faster for a given pedal movement, the engine-speed limiter cuts in later and more forcefully, the PASM switches to the sport mode automatically and the PSM permits a greater drift angle or level of wheel slip before taking stabilizing action. This equipment package includes an analog stopwatch in the center of the fascia and a PCM evaluation program for measuring and memorizing lap times.

The new variable-ratio steering is notable for its sensitivity and precision, and together with the suspension provides impressively accurate handling. In order to reduce weight, all rotating parts of the steering gear are made from aluminum, with die-cast magnesium or aluminum components in the actuating mechanism.

The booster action and venting of the braking system have been improved, with the result that less pedal effort is needed for instantaneous response. The 911 Carrera S is equipped with the even more powerful braking system from the 911 Turbo. The improved Porsche Ceramic Composite Brakes (PCCB) are available as an optional extra for both models.

The aim is for the 911 Carrera to be recognizable not only by its design and technology, but also by the unique Porsche sound it makes. For this reason, spurious noise sources such as tire and wind noise have been minimized, and a Helmholtz resonator incorporated in the air cleaner housing of the Carrera S. It goes without saying that worldwide statutory requirements are all complied with.

#### **The Turbo S: Speed and Comfort**

As well as the new 911 models, the 911 Turbo S extended the upper market-segment covered by the previous model line during the review year. This model is noted for the high power output (450 bhp) of its 3.6-liter engine, which accelerates this sports car to a top speed of 307 km/h (192 mph). Typically for Porsche, the quality of the brakes matches the power of the engine. The PCCB ceramic braking system is standard equip-

ment on the Turbo S. Cross-drilled, ventilated brake disks and six-piston monobloc fixed calipers ensure the highest level of braking performance.

"Speed and comfort" are just as typical features of the current Turbo as they were 30 years ago. Equipment such as PCM with navigation or the BOSE sound system, five-speed Tiptronic S automatic transmission or leather-upholstered, electrically adjustable seats with position memory show that, for all its sports performance, the comfort of this classic Porsche has not been neglected.

#### **The Second Boxster Generation**

A new Boxster was scheduled for introduction at the end of November 2004, eight years after this model's initial launch – even more confident, powerful and dynamic. The 2.7-liter six-cylinder engine now develops 240 bhp, and the Boxster S engine of unchanged 3.2-liter cubic capacity now produces 280 bhp. Both roadsters set new standards in their power-to-weight ratios, with 5.27 kilograms/bhp for the Boxster and 4.80 kilograms/bhp for the Boxster S. It goes without saying that Porsche easily outperforms the EU 4 and LEV (USA) emission limits, thanks to its use of the most up-to-date catalytic converter technology.

The new Boxster transmits power to the wheels via a redesigned five speed manual-shift gearbox; the Boxster S is fitted with a new six-speed gearbox. Five-speed Tiptronic S automatic transmission is an optional extra for both models.

Although its contours have been carefully refined, the new Boxster appears visibly wider on the road. The redesigned body rides on larger wheels with a wider track, both of which hint at the increased power of the two models. The front end is quite different from that of the 911 Carrera. The most striking changes are the new outside mirrors, separation of the headlamps from the auxiliary lights/fog lights, larger air inlets, and the new shape of the hood and fenders. These changes give the Boxster a more individual appearance. The rear has retained its unique shape, but looks even more imposing than before. The rear light clusters combine all three compartments and determine the new night-time styling that is typically Porsche.



Many technical and design innovations made it easier for the new model to take over from the first water-cooled 911.

One look at the new interior of the Boxster and it is clear that the next generation has arrived. The interior has been completely redesigned. A compact cowl shields the three-part instrument cluster, which is still dominated by the central rev counter. The gaps between the dials and the cowl are filled with a fine metallic mesh, through which the windshield can be seen. The instruments now use white LED lights of increased power and are therefore more legible in poor light and darkness. The yellow and red warning lamps are also more easily visible, as they contrast well with the white light of the LEDs.

New materials for the interior, including of course leather, contribute to the exclusive ambience. New production techniques now provide a better quality appearance to soft-lacquered interior elements, and other components have been enhanced with an aluminum-look finish. In this way, the difference between the two Boxster models is emphasized.

The shape, as well as the technology, of the new three-spoke steering wheel has been improved. The substructure consists of a magnesium-composite skeleton, which weighs ten percent less than the previous steel and aluminum construction. A sports and a multi-function steering wheel option are also available.

After comprehensive research, Porsche has developed a damping and suspension system for the new seats, which maintain the condition of the driver and passenger on long journeys. The higher backrests and wider seat base cushions offer more comfort, especially for taller occupants. Higher side bolsters provide the support required by the driver who wishes to maintain precise control of the when accelerating hard around bends. The lateral support provided by the optional sports seats has been increased by 50 percent. An adaptive sports seat system even allows the side bolsters to be individually adjusted to suit the driver. By using lightweight components throughout, the weight of the seat has been reduced by about six kilograms.

The windows of the Boxster are another new feature. For the first time, the side windows have been treated with a hydrophobic surface coating that repels water and dirt and thus improves visibility in poor weather. The top layer is fused to the glass and is extremely resistant to abrasion.

Flawless aerodynamics has always been an attribute of Porsche sports cars. The Boxster has now further strengthened its leading position in this area. One of the main aerodynamic improvements is obtained by enclosing the entire underbody of the new sports car. As a result, the cD value of the Boxster has been lowered to 0.29 and that of the Boxster S to 0.30.

The Boxster is now equipped with 17-inch wheels as standard and the Boxster S with 18-inch wheels. 19-inch wheels are an optional extra for both models. The key objective of chassis tuning was to improve dynamic handling. The design of the new models' chassis is basically the same as that of the previous generation, but our development engineers have revised every detail and setting. In conjunction with the optional PASM suspension, it is now possible to combine even more sportive driving with safety and comfort. For the basic Boxster model, PASM is offered together with an optional sports package that includes a six-speed manual-shift gearbox.

The braking performance of the Boxster S has again been improved with the first-time availability of PCCB ceramic brakes – a unique option for a car of this class. The Boxster's standard active safety package now incorporates the new PSM, which incorporates ABS, traction control, engine drag torque control and automatic differential braking. The optimized ABS components, together with the new tires, result in even shorter braking distances.

The new Boxster, with a head airbag built into the door, achieves another world first by being the first car in its class to be fitted with six airbags as standard. They include two new full-size front airbags and the newly developed POSIP system, consisting of a thorax airbag in the outer edge of the seat back and the unique head airbag in the door trim. This effectively shields the head from impact with the side window and from slivers of glass.

The classic roadster convertible top is part of the Boxster tradition and offers advantages over metal-panel folding tops that are decisive for a sports car bearing the Porsche name. The cloth soft top symbolizes the authentic character of the open car and, since it is lighter, lowers the vehicle's center of

Although the overall contours have only been revised with great care, the new Boxster none the less creates an impression of wider stance and concentrated power.



gravity and reduces roll when cornering. In addition, it occupies less space and allows occupants to adopt seating positions that enhance the open-air driving experience. A new soft top, with a lightweight, magnesium supporting structure developed from scratch for the Boxster, builds on these advantages. For the first time, the Boxster's soft top can be opened and closed while traveling at speeds up to 50 km/h (31 mph).

Reducing running costs were given particular priority during development of the new roadster. It has proved possible to reduce the costs of servicing, gas, tax and insurance by 13 percent compared with the previous model. This is partly due to an extension of servicing and oil change intervals from 20,000 to 30,000 kilometers (12,500 to 25,000 miles).

As well as road behavior, equipment and design, the sound of a Boxster is important, as it is for every Porsche sports car. The new air intake and exhaust tuning has a clearly noticeable influence on the sound of the engine. Above 3000 rpm, inlet manifold noise is deeper than before, and irritating frequency peaks have been eliminated. The engine sound is altogether deeper, beefier and more powerful, but not louder.

#### **Software is becoming increasingly important in Automobiles**

The importance of software in automobiles has increased rapidly in recent years. In the future, it will play a key role in the optimization of vehicle characteristics. For this reason, ensuring the quality and reliability of their software is a key issue for all automobile manufacturers.

Porsche R & D took action to satisfy these new requirements at an early stage. The company installs software to help the user but avoids overloading its vehicles with electronics. Software must be at the service of the driver but in no circumstances diminish the driving experience.

Porsche is also working to improve the software development process fundamentally without drastic changes in vehicle development. SPRINT (Strategies and Processes for the Integration and Testing of Electronics and Software Development) was created for just this purpose. Cars were previously equipped

with autonomous or only slightly networked electronic control units – for the engine, ABS or airbags, for example. Nowadays, vehicle electronics consist of interactively networked electronic control units that exchange data and influence one another. A network such as this can only be viewed and optimized as a whole. Every single development must be coordinated and validated from the definition phase through to trials on the actual vehicle. Today, the specific contents and their implementation deadlines are defined and coordinated right from the outset of development work.

The development status for individual devices as well as for the whole network is monitored continuously, to yield a forecast of their suitability for series production. Since all areas are synchronized right from the start, all the tests, up to and including the complete vehicle test, can be defined and coordinated and even the use of the test equipment can be optimized. Splitting the whole development process into individual phases with the relevant evaluation criteria enables deviations to be spotted quickly and corrective action taken. As a result, errors do not get through to customers and costly development changes to eliminate last-minute errors can be avoided.

The SPRINT process has already been introduced in the course of previous projects. Its full effect can be seen in the new 911 and Boxster. Porsche customers thus receive the best quality in today's world of highly integrated electronic systems.

#### **Automated Assembly of Prototype Bodysells**

Porsche is now optimizing its extensive development-process automation for the construction of bodysells for testing purposes. Automated welding robots, already common on the assembly line, are especially suitable for this. Expensive sheet metal components are only available for development in limited quantities; the robots are therefore programmed with component data and planned production patterns. This "offline robot programming" has been applied extensively to the assembly process, resulting in an accelerated run-up to prototype assembly and high process reliability. This innovative prototype assembly principle has established Porsche as an international leader in automobile manufacturing.

---

Long-established client relationships and intensive market penetration have enabled Porsche Engineering to acquire additional business.

---

#### **New record achieved in Industrial Property Rights**

High-caliber development projects have motivated engineers and designers to produce creative technical and design solutions. This has benefited both our products and our portfolio of industrial property rights. For the new 911 Carrera alone, we registered more than 130 patents and industrial and other designs relating to the engine, suspension and bodywork. In the year under review, the company registered 267 new industrial property rights (previous year: 243). This not only secured important innovations for Porsche in the field of premium automobiles, but also set a new record. Porsche now holds over 3,750 domestic and foreign industrial property rights. The revenue from licensing agreements also went up to its highest value yet.

#### **Development Work for Customers**

Porsche traditionally undertakes development work for other automobile makers and companies around the world. The general public knows little about this. The reason for this secrecy is to protect our customers' strategies and brand identities.

Since the consolidation of the customer development organization, all projects are managed and marketed centrally by the Porsche Engineering Group GmbH (PEG) from its headquarters at the Weissach Development Center. PEG currently has 550 employees at the Weissach, Bietigheim, Troy and Prague locations. In addition to the services provided by the subsidiaries PES GmbH in Bietigheim, PES Inc. in Troy, Michigan and PES s.r.o. in Prague, PEG can also call on the resources of the Porsche Development Center in Weissach, which employs a development staff of more than 2,300.

The Porsche Design Studio in Zell am See in Austria will in the future also be involved with automobiles, with the Porsche Development Center in Weissach as its customer. It will handle products for in-house production as well as external customer development projects. The design studio now belongs to the Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, which was established by Porsche AG and Porsche Design Management GmbH and is described in more detail in the "Services" chapter of this report.

#### **A Snapshot of the Whole Vehicle**

Porsche Engineering provides every service along the automotive value-added chain. Because of our experience, our work is consistently oriented toward Total Vehicle Development. Even when a single component is being developed, the engineer always seeks an optimal solution as part of the overall system.

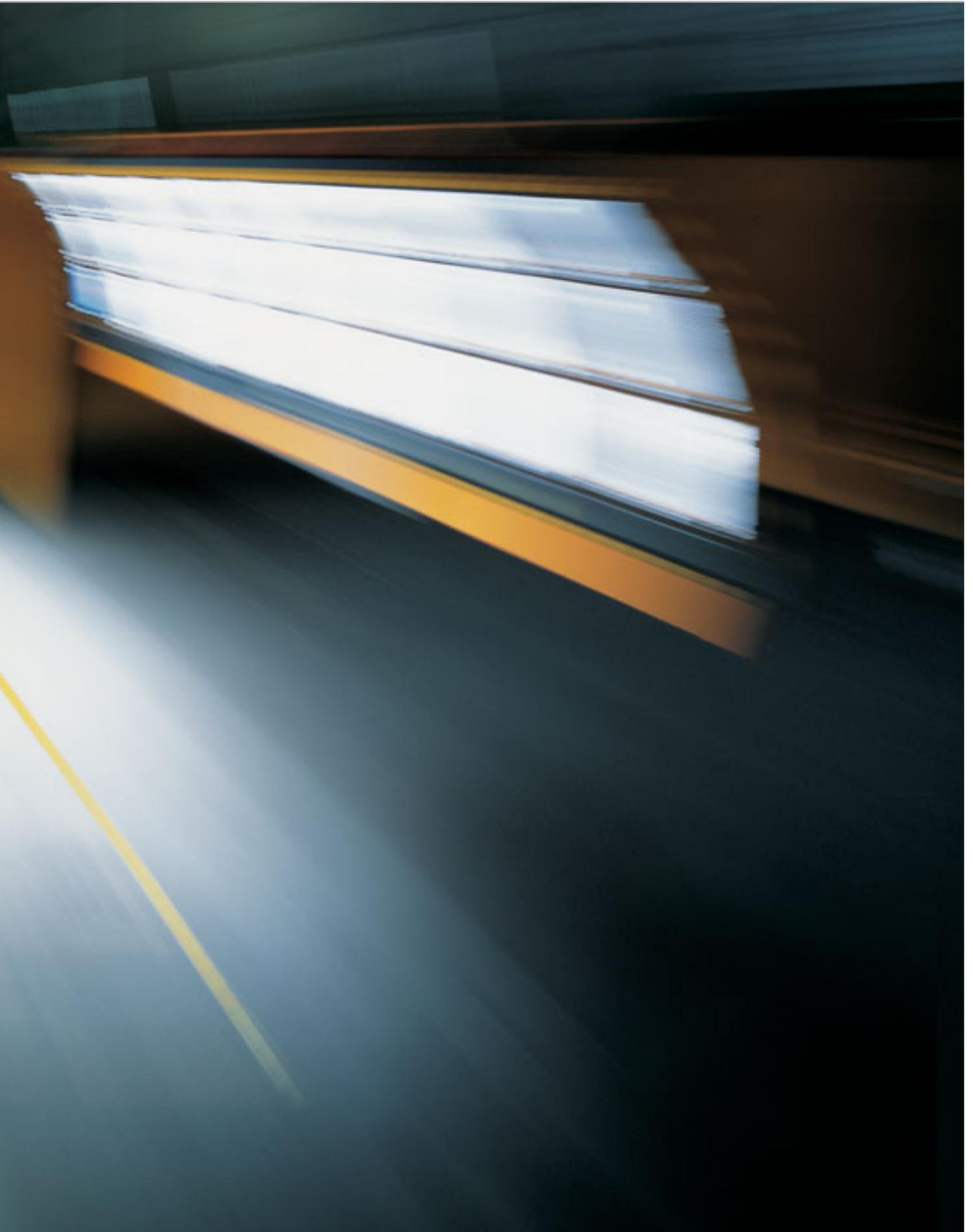
Porsche Engineering is therefore committed to efficient development processes. These start at the ideas stage and proceed through the whole chain of product development up to start-of-production and supervision of series production. Work is carried out either at Porsche Engineering or locally, depending on the customer's preferences. The important point is that project management is carried out centrally at the Weissach site. The process flows and frameworks at the Weissach Development Center are configured so that all the available test equipment from individual test rig to proving ground can be used for customer projects – all subject to the strictest secrecy.

#### **Challenging Contracts completed**

In the year under review, we completed several high-profile contracts, in particular in the key areas of Total Vehicle Development and Electrics und Electronics. These were mainly small and medium-size projects of less than twelve months duration. We also successfully completed a medium-term project for an Asian customer. The Start-of-Production and Supervision of Series Production business areas were expanded.

Porsche Engineering enjoyed a good overall intake of orders during the year under review. Turnover and results exceeded those of the previous year. Thanks to long-standing customer relationships and focused marketing, we also acquired new projects. Asia continues to be an important market, and with its timely presence in China, Porsche Engineering is well placed for the future.





## **Motor Sport** 2003/04

The Porsche brand symbolizes a great motor-sport tradition. A large number of victories in important races during the review year have strengthened this fine reputation still further.





Near-series competition versions of the 911 are to be found on the starting grid of championship races all over the world, and captivate the motor-sport enthusiast with their supreme performance.

Porsche has made motor sport history and is a living example of motor sport tradition. Its name stands for 16 outright victories at the famous 24-hour race at Le Mans, numerous sports car world championship titles, victories in the Monte Carlo Rally and the fearsome Paris-Dakar Rally – not forgetting a Formula 1 team that won three drivers' and two constructors' world championships.

At the end of the 1990s, Porsche re-aligned its racing activities. Instead of participating with its own works team, the company made the decision to support customers' motor sport teams throughout the world. The focus of our efforts is on the track version of the roadgoing 911, which competes – and wins – in the Gran Turismo (GT) classes.

Porsche customers have won the world's most prestigious GT championships – such as the five endurance classics that draw enthusiastic crowds every year: Daytona, Sebring, Le Mans, Nürburg Ring and Spa-Francorchamps. One-brand trophy series are also enjoying growing popularity. With these events, Porsche offers its customers an excellent opportunity to take part in motor sport at a professional level.

Companies such as Michelin, Exxon Mobil and UPS have supported customer motor sport for many years and Porsche wishes to thank them for their continued sponsorship.



### **All Major GT Championships Won**

The American Le Mans Series (ALMS) has been established since 1999 in the USA and Canada as a race series for prototypes and GT sports cars. Each year there are up to ten events in the calendar, each of which is a “marathon sprint” lasting nearly three hours. Porsche customers have won five of the last six championships. Delivering race-ready 911s to our customers and supporting their teams with Porsche works drivers has been the recipe for continuing success.

Works drivers Lucas Luhr and Sascha Maassen won the drivers’ title in 2003 – as they did the previous year – in a 445 bhp 911 GT3 RS entered by the American Alex Job Racing Team, which also successfully defended the team championship. In 2004, the German Porsche works driver Timo Bernhard continued this run of successes. This was the third team success pulled off by the Alex Job Racing Team, for which he drives.

In Europe, too, Porsche customers led the field in near-series competition cars (N-GT). Works drivers Stéphane Ortelli and Marc Lieb gained the drivers’ title in the FIA GT Championship – the continent’s most important event for Gran Turismo cars. They alternated behind the wheel of the 911 GT3 RS entered by the private Freisinger Motorsport Team in nine races.

As well as the international championships, Porsche customers won nine important national championships, including the Japanese GT Championship. Porsche drivers also won championship titles in the United Kingdom, France, Italy, Sweden, and the Benelux.

### **Victories in the Endurance Classics**

The Porsche 911 GT3 was unbeatable in its class in the world’s five major endurance races. Its success series began in February 2004 with the 42nd 24-hour race at Daytona, Florida. This marathon event is considered extremely tough. During the long night the temperatures drop close to freezing point; during the day, the heat is oppressive. The course with its high banked corners makes extreme demands on the engineers’ suspension tuning skills – and on the durability of the technologies they use.

The American Orbit Racing Team, in a 911 GT3 RS driven by Mike Fitzgerald, Joe and Jay Policastro, Robin Lidell, and Johnny Mowlem, gained first place in the Gran Turismo class and second place overall. In the Super Grand Sport class, which permits fewer technical modifications to the vehicle, the Doncaster Racing Team from Canada triumphed with its 911 GT3 Cup, after a 24-hour duel with the 911 from the American TPC Racing Team. Canadians Jean-Francois Dumoulin and Robert Julien alternated behind the wheel of the winning car with Porsche works driver Marc Lieb.

These successes raised the number of overall and class victories for the 911 at Daytona to thirty-two, making the 911 the most successful car in the history of this endurance classic.

At the end of March 2004, Porsche works driver Sascha Maassen made motor sport history at the 12-hour race at Sebring, also in Florida. In the second most important endurance race in the motor sport calendar, the German driver took the chequered flag in the GT class for the fourth time in a row in a 911 GT3 RSR entered by the Alex Job Racing Team. How the Porsche driver achieved this success was just as remarkable. Originally, the team had planned to run with three drivers – Sascha Maassen, Jörg Bergmeister and Timo Bernhard, but the latter two both fell ill. Only Bernhard recovered sufficiently to take part and Maassen was therefore obliged to earn his record victory by spending an inordinate number of hours behind the wheel.

At the 32nd 24-hour race on the North Loop of the Nürburg Ring in June 2004, only Porsche owners were able to break the stranglehold of the well-funded manufacturers’ works teams. Three private 911s drove into the top ten of the endurance race which had the world’s largest starting field. 220 cars started, 160 crossed the finish line. Although unfavorable weather conditions made the going tough, Timo Bernhard, Arno Klasen and Lucas Luhr impressed the 220,000 spectators when they took the checkered flag in third place in a 911 GT3 entered by the Manthey Team.

In the same month, Porsche owners continued the marque’s run of successes at Le Mans. At the 72nd Le Mans 24-hour race, the American Peterson Motorsport team’s privately



**A treat to see – and hear – for motor racing enthusiasts: Porsche sports cars in action during the American Le Mans Series (left), the Carrera Cup in Scandinavia (below) and in Spa (right).**

entered 911 GT3 RSR crossed the winning line ahead of two GT-class Porsches in second and third place. This victory means that the GT3 has been undefeated in this French race since it first competed in 1999. The driving honors for the 24-hour marathon were shared by works drivers Jörg Bergmeister, Patrick Long and Sascha Maassen.

On 31 July, the Freisinger Motorsport Team entered three 911 GT3 RSR cars in the championship event at Spa-Francorchamps in the Ardennes in Belgium – the fifth and final classic endurance race of the year. 24 hours later, the three Porsches crossed the finish line in formation in positions one, two and three of the N-GT class. Stéphane Ortelli, Romain Dumas and Emmanuel Collard in the fastest Porsche gained third place overall – notching up yet another triumph for the successful Porsche customer team.

#### **More Manufacturer's Cups**

The Porsche Manufacturer's Cup race series offer interesting activities for customers active in motor sport. The Porsche Michelin Supercup has been held since 1993 as an exclusive peripheral program within the Formula 1 series. Carrera Cups are a feature of other race events such as the Deutsche Tourenwagen Masters (DTM) or the Australian V8 Championship. Porsche AG and its importers formulate the regulations, organize an attractive program during the race weekend, provide tech-

nical support, and look after the press. The regulations ensure that all vehicles are technically identical, making the Porsche Manufacturer's Cup a highly competitive and appealing racing series. Since 2003, these races have featured the 911 GT3 Cup model. This 390 bhp, 1.15 tonne sports car, which uses many of the same components as the roadgoing 911 GT3 RS, is delivered to customers in race-ready guise.

The story of the manufacturer's cups began in Germany in 1986 with the 944 Turbo Cup, which was superseded in 1990 by the Carrera Cup. A year later, the first Carrera Cup event was held in France, and in 1992 in Japan. In 2003, Porsche gave the go-ahead for Carrera Cups in Asia (Malaysia, South Korea, Thailand and China), the United Kingdom, and Australia. In 2004, we added the Carrera Cup in Scandinavia (Denmark, Finland and Sweden), bringing the current list of Carrera Cup events to seven, with races in fifteen countries.







---

# **Financial Statements** 2003/04

---

## Consolidated Balance Sheet of the Porsche Group as of July 31, 2004

	Notes	July 31, 2004 T€	July 31, 2003 T€
<b>Assets</b>			
Fixed Assets	(1)		
Intangible assets		435,585	345,688
Property, plant and equipment		1,109,472	900,549
Financial assets		20,686	41,857
Leased assets		1,497,760	1,375,167
		<b>3,063,503</b>	<b>2,663,261</b>
Current Assets			
Inventories	(2)	567,877	468,238
Trade receivables	(3)	271,084	211,299
Other assets	(4)	1,401,392	1,163,488
Marketable securities	(5)	1,352,773	450,307
Cash and cash equivalents	(6)	1,438,639	1,316,177
		<b>5,031,765</b>	<b>3,609,509</b>
Prepaid Expenses	(7)	<b>22,932</b>	<b>42,243</b>
		<b>8,118,200</b>	<b>6,315,013</b>
<b>Shareholders' Equity and Liabilities</b>			
Shareholders' Equity			
Capital stock	(8)	45,500	45,500
Capital surplus	(9)	121,969	121,969
Retained earnings	(10)	1,905,551	1,257,403
Net income available for distribution		244,000	330,000
Minority interests	(11)	6,447	- 342
		<b>2,323,467</b>	<b>1,754,530</b>
Provisions	(12)		
Provisions for pensions and similar obligations		457,067	401,702
Other provisions		2,103,403	1,686,790
		<b>2,560,470</b>	<b>2,088,492</b>
Liabilities			
Trade liabilities	(13)	368,250	336,829
Other liabilities	(14)	2,241,780	1,562,775
		<b>2,610,030</b>	<b>1,899,604</b>
Deferred Income	(15)	<b>624,233</b>	<b>572,387</b>
		<b>8,118,200</b>	<b>6,315,013</b>

## Consolidated Statement of Income of the Porsche Group for the Period August 1, 2003 to July 31, 2004

	Notes	2003/04 T€	2002/03 T€
Sales	(16)	<b>6,359,377</b>	<b>5,582,003</b>
Change in inventories and own work capitalized	(17)	154,367	- 118,878
<b>Total operating revenues</b>		<b>6,513,744</b>	<b>5,463,125</b>
Other operating income	(18)	248,091	147,293
Cost of materials	(19)	- 2,959,330	- 2,281,310
Personnel expenses	(20)	- 982,462	- 849,529
Amortization and depreciation		- 524,825	- 392,216
Other operating expenses	(21)	- 1,248,257	- 1,181,970
Income from investments in other companies	(22)	4,480	416
Interest income, net	(23)	41,658	29,535
Write-downs of marketable securities	(24)	- 5,099	- 2,344
<b>Income before taxes</b>		<b>1,088,000</b>	<b>933,000</b>
Taxes	(25)	- 476,000	- 368,000
<b>Net income</b>		<b>612,000</b>	<b>565,000</b>
Minority interests		4,116	- 438
Change in retained earnings		- 372,116	- 234,562
<b>Net income available for distribution</b>		<b>244,000</b>	<b>330,000</b>

## Balance Sheet of Dr. Ing. h.c. F. Porsche AG as of July 31, 2004

	Notes	July 31, 2004 T€	July 31, 2003 T€
<b>Assets</b>			
Fixed Assets	(1)		
Intangible assets		381,819	323,902
Property, plant and equipment		996,423	819,532
Financial assets		275,426	200,519
		<b>1,653,668</b>	<b>1,343,953</b>
Current Assets			
Inventories	(2)	242,243	222,620
Trade receivables	(3)	579,520	394,971
Other assets	(4)	331,951	230,571
Marketable securities	(5)	412,710	448,825
Cash and cash equivalents	(6)	1,303,352	1,028,499
		<b>2,869,776</b>	<b>2,325,486</b>
Prepaid Expenses	(7)	<b>6,344</b>	<b>7,067</b>
		<b>4,529,788</b>	<b>3,676,506</b>
<b>Shareholders' Equity and Liabilities</b>			
Shareholders' Equity			
Capital stock	(8)	45,500	45,500
Capital surplus	(9)	121,969	121,969
Retained earnings	(10)	1,655,403	1,140,378
Net income available for distribution		244,000	330,000
		<b>2,066,872</b>	<b>1,637,847</b>
Provisions	(12)		
Provisions for pensions and similar obligations		429,930	388,422
Other provisions		1,684,029	1,325,753
		<b>2,113,959</b>	<b>1,714,175</b>
Liabilities			
Trade liabilities	(13)	267,810	254,279
Other liabilities	(14)	79,424	68,184
		<b>347,234</b>	<b>322,463</b>
Deferred Income	(15)	<b>1,723</b>	<b>2,021</b>
		<b>4,529,788</b>	<b>3,676,506</b>

## Statement of Income of Dr. Ing. h.c. F. Porsche AG for the Period August 1, 2003 to July 31, 2004

	Notes	2003/04 T€	2002/03 T€
Sales	(16)	<b>5,164,152</b>	<b>4,852,262</b>
Change in inventories and own work capitalized	(17)	30,062	– 130,735
<b>Total operating revenues</b>		<b>5,194,214</b>	<b>4,721,527</b>
Other operating income	(18)	124,686	114,643
Cost of materials	(19)	– 2,672,977	– 2,293,855
Personnel expenses	(20)	– 727,714	– 671,115
Amortization and depreciation		– 237,991	– 188,782
Other operating expenses	(21)	– 930,328	– 805,308
Income from investments in other companies	(22)	59,078	114,355
Interest income, net	(23)	39,131	52,879
Write-downs of marketable securities	(24)	– 5,099	– 2,344
<b>Income before taxes</b>		<b>843,000</b>	<b>1,042,000</b>
Taxes	(25)	– 355,000	– 382,000
<b>Net income</b>		<b>488,000</b>	<b>660,000</b>
Change in retained earnings		– 244,000	330,000
<b>Net income available for distribution</b>		<b>244,000</b>	<b>330,000</b>

## Statement of Cash Flows for the Porsche Group for the Period August 1, 2003 to July 31, 2004

	2003/04 T€	2002/03 T€
<b>1. Operating Activities</b>		
Net income for the year	612,000	565,000
Depreciation	524,825	392,216
Change in provisions for pensions	50,199	50,652
<b>Cash flow</b>	<b>1,187,024</b>	<b>1,007,868</b>
Change in other provisions	478,751	381,686
<b>Extended Cash flow</b>	<b>1,665,775</b>	<b>1,389,554</b>
Other non-cash expenses/income	26,909	– 13,624
Gain/loss on the disposal of fixed assets	– 40,500	3,860
Net change in inventories, trade receivables, other assets and prepaid expenses	– 461,237	– 485,271
Net change in trade liabilities, other liabilities and deferred income	112,273	412,938
<b>Cash provided by operating activities</b>	<b>1,303,220</b>	<b>1,307,457</b>
<b>2. Investing Activities</b>		
Proceeds from disposals of fixed assets	478,357	309,375
Payments for investments in fixed assets	– 1,265,155	– 1,337,839
Payments for company acquisitions <sup>1)</sup>	– 76,355	–
<b>Cash used in investing activities</b>	<b>– 863,153</b>	<b>– 1,028,464</b>
<b>3. Financing Activities</b>		
Payments to shareholders	– 58,975	– 296,975
Decrease/increase in loan principal	– 19	– 39,471
Proceeds from bond issues	520,790	–
Proceeds from other financial liabilities	118,449	148,889
<b>Cash used in/provided by financing activities</b>	<b>580,245</b>	<b>– 187,557</b>
<b>4. Cash and Cash Equivalents</b>		
Net change in cash and cash equivalents (Subtotal 1–3)	1,020,312	91,436
Effect of exchange rate changes on cash and cash equivalents	4,616	– 7,643
<b>Cash and cash equivalents at August 1, 2003/August 1, 2002</b>	<b>1,766,484</b>	<b>1,682,691</b>
<b>Cash and cash equivalents at July 31, 2004/July 31, 2003</b>	<b>2,791,412</b>	<b>1,766,484</b>
<b>5. Components of the Cash and Cash equivalents at July 31, 2004/July 31, 2003</b>		
Checks, cash and cash in banks	1,352,773	1,316,177
Marketable securities	1,438,639	450,307
	<b>2,791,412</b>	<b>1,766,484</b>

<sup>1)</sup> Less acquired currency of 7.7 Million Euro.

## Porsche Group Statement of Changes in Shareholders' Equity as of July 31, 2004

	Capital stock T€	Capital surplus T€	Retained- earnings T€	Group- net income T€	Minority interests T€	Shareholders' equity T€
<b>As of July 31, 2002</b>	<b>45,500</b>	<b>121,969</b>	<b>780,781</b>	<b>518,000</b>	<b>533</b>	<b>1,466,783</b>
Dividend payment				- 296,975		- 296,975
Transfer to retained earnings from consolidated net income available for distribution 2002			221,025	- 221,025		-
Foreign currency fluctuations			21,035			21,035
Other non-operating transactions					- 382	- 382
Consolidated net income				565,000		565,000
Minority interests				- 438	- 493	- 931
Transfer to retained earnings			234,562	- 234,562		-
<b>As of July 31, 2003</b>	<b>45,500</b>	<b>121,969</b>	<b>1,257,403</b>	<b>330,000</b>	<b>- 342</b>	<b>1,754,530</b>
Dividend payment				- 58,975		- 58,975
Transfer to retained earnings from consolidated net income available for distribution 2003			271,025	- 271,025		-
Other non-operating transactions					366	366
Foreign currency fluctuations			5,007			5,007
Changes in consolidated group					11,485	11,485
Consolidated net income				612,000		612,000
Minority interests				4,116	- 5,062	- 946
Transfer to retained earnings			372,116	- 372,116		-
<b>As of July 31, 2004</b>	<b>45,500</b>	<b>121,969</b>	<b>1,905,551</b>	<b>244,000</b>	<b>6,447</b>	<b>2,323,467</b>

## Segment Reporting for the Porsche Group as of July 31, 2004

## Geographical Segment Reporting

	Germany		North America	
	2003/04 € million	2002/03 € million	2003/04 € million	2002/03 € million
Sales to third parties	2,295.9	1,992.1	2,179.5	2,127.6
Sales to other segments	3,484.8	3,203.9	4.3	5.2
Segment income	876.3	1,047.5	117.2	22.4
Interest income	73.4	84.0	20.0	19.8
Interest expenses	37.8	56.5	10.3	30.4
Income/loss from investments in associated companies	2.8	0.8	1.6	- 0.4
Extended cash flow	1,324.8	1,235.3	227.7	216.0
Segment assets	5,112.1	4,118.4	2,215.7	1,977.4
Segment liabilities	3,028.6	2,442.2	2,032.6	1,525.9
Capital expenditures <sup>1)</sup>	1,023.2	753.5	446.2	519.6

<sup>1)</sup> Capital expenditures include additions from purchase accounting in Germany of 156.7 million euro, 4.8 million euro in North America and 2.0 million euro in Europe excluding Germany.

## Business Segment Reporting for the Porsche Group

	Vehicles		Financial Services	
	2003/04 € million	2002/03 € million	2003/04 € million	2002/03 € million
Sales third parties	5,803.4	5,082.8	556.0	499.2
Sales other segments	141.4	22.0	32.1	12.5
Extended cash flow	1,180.6	1,063.7	417.7	281.7
Segment assets	6,192.2	4,399.4	2,741.2	2,426.5
Capital expenditures <sup>2)</sup>	618.2	590.6	878.6	712.5

<sup>2)</sup> Capital expenditures include additions from purchase accounting in the Vehicles segment of 45.3 million euro and 118.2 million euro in the Financial Services segment.

## Business Segment Reporting for the Porsche Group

## Balance sheet of each segment

	Vehicles		Financial Services	
	2003/04 € million	2002/03 € million	2003/04 € million	2002/03 € million
<b>Assets</b>				
Fixed assets	1,773.4	1,503.1	1,567.7	1,375.2
Current assets and prepaid expenses	4,418.8	2,896.3	1,173.5	1,051.3
	<b>6,192.2</b>	<b>4,399.4</b>	<b>2,741.2</b>	<b>2,426.5</b>
<b>Shareholders' Equity and Liabilities</b>				
Shareholders' equity	2,349.8	1,839.9	240.7	131.7
Liabilities	3,842.4	2,559.5	2,500.5	2,294.8
	<b>6,192.2</b>	<b>4,399.4</b>	<b>2,741.2</b>	<b>2,426.5</b>

Europe excluding Germany		Rest of the world		Eliminations		Porsche Group	
2003/04 € million	2002/03 € million	2003/04 € million	2002/03 € million	2003/04 € million	2002/03 € million	2003/04 € million	2002/03 € million
1,393.9	1,113.4	490.1	348.9	-	-	6,359.4	5,582.0
2.6	1.7	0.1	-	- 3,491.8	- 3,210.8	-	-
90.8	68.8	22.6	17.3	- 18.9	- 223.0	1,088.0	933.0
32.3	33.4	0.6	0.5	- 26.4	- 20.0	99.9	117.7
28.1	60.1	1.9	2.6	- 19.9	- 61.4	58.2	88.2
-	-	-	-	0.1	-	4.5	0.4
75.0	67.2	22.8	17.2	15.5	- 146.1	1,665.8	1,389.6
1,376.3	1,341.1	250.0	224.0	- 835.9	- 1,345.9	8,118.2	6,315.0
1,105.2	1,125.9	186.0	169.2	- 557.7	- 702.7	5,794.7	4,560.5
8.7	11.4	13.4	6.0	13.7	4.7	1,505.2	1,295.2

Eliminations		Porsche Group	
2003/04 € million	2002/03 € million	2003/04 € million	2002/03 € million
-	-	6,359.4	5,582.0
- 173.5	- 34.5	-	-
67.5	44.2	1,665.8	1,389.6
- 815.2	- 510.9	8,118.2	6,315.0
8.4	- 7.9	1,505.2	1,295.2

Eliminations		Porsche Group	
2003/04 € million	2002/03 € million	2003/04 € million	2002/03 € million
- 277.6	- 215.0	3,063.5	2,663.3
- 537.6	- 295.9	5,054.7	3,651.7
<b>- 815.2</b>	<b>- 510.9</b>	<b>8,118.2</b>	<b>6,315.0</b>
- 267.0	- 217.1	2,323.5	1,754.5
- 548.2	- 293.8	5,794.7	4,560.5
<b>- 815.2</b>	<b>- 510.9</b>	<b>8,118.2</b>	<b>6,315.0</b>

# Notes to the Financial Statements of the Consolidated Porsche Group and Dr. Ing. h.c. F. Porsche AG as of July 31, 2004

## Notes to the Financial Statements and Consolidated Financial Statements

### Principles of Accounting

The consolidated financial statements and the annual financial statements of Porsche AG are in euro and presented in accordance with the requirements of the German Commercial Code (HGB) and special accounting requirements of the German Stock Corporation Law (AktG) (German Generally Accepted Accounting Principles).

To improve the clarity of the balance sheets and income statements, certain items have been combined, but are shown separately in the notes. All amounts shown in the financial statements and in the notes, unless otherwise noted, are in thousands of euro ("T€"). The income statements are presented according to the total-cost method (German form of income statement in which "total costs and expenses" are shown rather than "cost of sales").

The notes to the Porsche Group and Porsche AG financial statements are presented together. Unless otherwise stated, the notes are applicable to the Porsche Group, as well as Porsche AG.

Referring to the regulations contained in Section 264 subsection 3 HGB and Section 264b HGB, the following domestic subsidiaries have not disclosed their annual financial statements: Porsche Deutschland GmbH, Porsche Niederlassung Stuttgart GmbH, Porsche Engineering Services GmbH, Porsche Financial Services GmbH, Porsche Financial Services GmbH & Co. KG, PIKS Porsche Information-Kommunikation-Services GmbH, Porsche Consulting GmbH, Porsche Leipzig GmbH, Porsche Leipzig Service GmbH, Karosseriewerk Porsche GmbH & Co. KG, Porsche Zentrum Hoppegarten GmbH, Porsche Classic GmbH, Porsche Lizenz- and Handelsgesellschaft mbH & Co. KG and Porsche Engineering Group GmbH.

### Consolidated Group

All domestic and foreign subsidiaries are included in the consolidated financial statements in accordance with the accounting principles prescribed by the German Commercial Code. Apart from Porsche AG, the fully consolidated Group includes twenty-one domestic and fifty-one foreign subsidiaries.

One associated company in which Porsche AG exercises significant influence is included in the consolidation using the equity method, generally based on the pro rata financial net worth according to the annual or consolidated financial statements.

As a result of establishing new companies, due to successive share purchases and changes in the control of subsidiaries, the following companies were included in the consolidated financial statements based on the purchase method for the first time: ING Leasing GmbH & Co. Fox oHG, Börsen, as of August 1, 2003, CTS Fahrzeug-Dachsysteme Gesellschaft mbH and CTS Technik and Design GmbH, both Hamburg, as of September 1, 2003, Porsche Lizenz- and Handelsgesellschaft mbH & Co. KG, Bietigheim-Bissingen, as of November 1, 2003, Porsche Financial Services Verwaltungsgesellschaft, Bietigheim-Bissingen, as of January 1, 2004, Porsche Russland OOO, Moscow, as of August 5, 2003, CTS CarTopSystems N.A., Inc., Rochester Hills/Michigan, and CTS CarTopSystems N.A. Bowling Green LLC, Bowling Green/Kentucky, both as of September 1, 2003, Porsche Design GmbH, Zell am See, as of November 1, 2003, Porsche Design Studio North America, Inc., Los Angeles/California, as of November 1, 2003 and Porsche Design of America, Inc., Wilmington/Delaware, as of February 1, 2004.

The investment in Revolution Powertrain LLC, Wilmington/Delaware was sold as of December 31, 2003.

A complete listing of the investments of Porsche AG and the Porsche Group is available at the Stuttgart Commercial Register (HRB 5211).

### **Principles of Consolidation**

The capital consolidation of the fully consolidated subsidiaries is recorded in accordance with GAS (German Accounting Standard) No. 4 using the fair value purchase method, which offsets the cost of acquisition against the proportionately revalued shareholders' equity of the subsidiary at the time of the initial inclusion in the consolidated financial statements.

Goodwill resulting from the initial consolidation is capitalized as an intangible asset. Associated companies are included in the consolidated financial statements using the book value method, pursuant to GAS No. 8.

Assets and liabilities of fully consolidated domestic and foreign subsidiaries use the same accounting and valuation methods as applied by Porsche AG.

To the extent valuations at associated companies do not conform to Porsche AG Group guidelines, no adjustment has been made. Investments not consolidated using the equity method are shown at acquisition cost.

Receivables and liabilities between the consolidated companies, as well as intercompany profits and losses from sales and services have been eliminated. Revenues and expenses resulting from intercompany transactions are eliminated from the Porsche Group's statement of income.

The net income of Porsche AG available for distribution equals the net income available for distribution in the consolidated financial statements.

### **Accounting Principles and Valuation Methods**

Acquired intangible assets are capitalized at acquisition cost and amortized using the straight-line method over the expected useful lives of the assets.

Additions to property, plant and equipment are valued at acquisition or manufacturing costs. Internally generated property, plant and equipment are capitalized at direct cost plus overheads in accordance with the German Income Tax regulations. Depreciation is generally determined in accordance with the estimated useful life guidelines established by the German financial authorities or, in some cases, based on a shorter expected useful life. For assets used in multiple shift production, depreciation is increased by shift mark-ups. As far as permissible by tax laws, the declining-balance method of calculating depreciation is applied, additions were made up to December 31, 2003 with a full year's depreciation. From that time on additions are depreciated pro rata temporis. The declining-balance method is replaced by the straight-line method (as permitted by Section 7 subsection 3 of the German Income Tax Law) in the year when the change causes higher depreciation expense. Special tools and fixtures are depreciated based on their actual usage. Leased vehicles capitalized in the consolidated financial statements are amortized over their future estimated useful life on a straight-line basis or over the shorter term of the lease considering the calculated residual value. Low value assets are fully depreciated in the year of acquisition.

At Porsche AG, shares in affiliated companies and investments are recorded at acquisition cost or, when deemed necessary, at a lower value. Shares in associated companies are accounted for in the consolidated financial statements using the equity-method after eliminating any intercompany profits.

In order to improve the informative value of the lease and finance activities, the balance sheet classification and disclosure in the notes has been adjusted in some respects for the current and prior year. In the consolidated balance sheet the leased assets are shown separately in the position fixed assets. Other assets and other liabilities were further sub classified. Receivables from financial services and other financial liabilities contained therein are explained separately.

## Notes to the Financial Statements of the Consolidated Porsche Group and Dr. Ing. h.c. F. Porsche AG as of July 31, 2004

Raw materials, consumables and supplies are valued at the lower of acquisitions cost or market value. The work and services in process and finished goods valuation includes direct material, direct labor, as well as material and manufacturing overheads, in accordance with the minimum amounts to be recorded according to Section 33 of the Guidelines to the German Income Tax Law (EStG). Merchandise is valued at the lower of the weighted average cost or market value as of the balance sheet date. Due to tax laws and in order to avoid unrealized profits, the periodic LIFO (Last-In, First-Out) method for the valuation of inventories is utilized.

Devaluations for old or obsolete inventory have been provided to an adequate extent.

Advance payments received, which are directly attributable to individual inventory items, are offset against these items in the balance sheet.

Receivables and other assets are recorded at their nominal value. Individual allowances have been recorded for known risks. A lump-sum allowance has been provided for the general credit risk inherent in receivables.

Marketable securities are valued at the lower of acquisition cost or market value at the balance sheet date.

Provisions for pensions and similar obligations are actuarially computed on the basis of an interest rate of 5 percent, using the entry age actuarial cost method and taking into account Prof. Dr. Klaus Heubeck's most recent mortality tables.

In the valuation of all other provisions, all known risks have been considered.

Liabilities are valued at their repayment value.

### **Foreign Currency Translation**

Receivables denominated in foreign currency are valued in the individual financial statements at the lower of the entry date or fiscal year-end exchange rates. To the extent receivables have been hedged by the use of forward exchange rate contracts, the forward rate has been used. In principle, liabilities in foreign currency are valued at the higher selling rate effective on the entry date or fiscal year-end. Financial assets are recorded using the exchange rate at the date of acquisition.

All assets and liabilities of foreign companies included in the consolidated financial statements are translated at the average of the buying and offering rates effective on the balance sheet date. Average annual exchange rates are used for the income statements. Net profit/loss and depreciation are translated using the rate as of the balance sheet date. Any resulting translation difference is recorded as other expense. Exchange rate differences arising from the capital consolidation and the consolidation of intercompany balances are recorded in shareholders' equity with no income statement effect.

---

---

**(1) Fixed Assets**

The development of fixed assets of the Porsche Group and Porsche AG is shown in the statement of fixed assets.

Intangible fixed assets include purchased development services, IT software, licenses and tooling subsidies as well as goodwill resulting from individual financial statements and capital consolidation.

A significant part of the investments relates to the subsidization of machines and tooling for the new 911 Carrera models and the Boxster models, to the subscription rights as well as to production and administration buildings.

The disposals of investments from associated companies in the Group contain pro rata annual results and disposals of equity book values of associated companies that are now, under the purchase method, included into the consolidated financial statements. The disposal from the sale of the investment in Revolution Powertrain LLC, Wilmington/Delaware, is included here.

# Notes to the Financial Statements of the Consolidated Porsche Group and Dr. Ing. h.c. F. Porsche AG as of July 31, 2004

## Consolidated Porsche Group Development of Fixed Assets

	Acquisition and manufacturing costs		
	August 1, 2003 <sup>1)</sup> T€	Additions <sup>2)</sup> T€	Disposals T€
<b>Intangible Assets</b>			
1. Franchises, industrial and similar rights and assets as well as licenses to such rights and assets	369,891	108,258	14,826
2. Goodwill	34,458	5,698	–
3. Advance payments	102,221	88,801	816
<b>Total Intangible Assets</b>	<b>506,570</b>	<b>202,757</b>	<b>15,642</b>
<b>Property, Plant and Equipment</b>			
1. Land, land rights and buildings including buildings on third party land	563,950	31,041	148
2. Technical equipment and machinery	371,551	40,153	8,153
3. Other equipment, factory and office equipment	1,408,218	253,823	33,492
4. Advance payments and assets under construction	152,794	92,875	303
<b>Total Property, Plant and Equipment</b>	<b>2,496,513</b>	<b>417,892</b>	<b>42,096</b>
<b>Financial Assets</b>			
1. Investments in associated companies	41,476	6,537	27,757
2. Other investments	302	32	–
3. Bonds	79	17	–
<b>Total Financial Assets</b>	<b>41,857</b>	<b>6,586</b>	<b>27,757</b>
<b>Leased Assets</b>			
<b>Total Leased Assets</b>	<b>1,552,296</b>	<b>877,958</b>	<b>574,729</b>
<b>Total Fixed Assets</b>	<b>4,597,236</b>	<b>1,505,193</b>	<b>660,224</b>

<sup>1)</sup> Differences to prior year are due to foreign exchange rate fluctuations.

<sup>2)</sup> Thereof for initial consolidation T€ 163,473, of ING Leasing GmbH & Co. Fox oHG T€ 118,244, of CTS Group T€ 39,132, the rest amount account of the others initial consolidations.

Reclassification T€	July 31, 2004 T€	Depreciation		Net Book Value	Net Book Value
		Accumulated T€	Current year T€	July 31, 2004 T€	July 31, 2003 <sup>1)</sup> T€
98,572	561,895	236,297	97,456	325,598	229,609
-	40,156	25,944	5,502	14,212	13,827
- 94,431	95,775	-	-	95,775	102,252
<b>4,141</b>	<b>697,826</b>	<b>262,241</b>	<b>102,958</b>	<b>435,585</b>	<b>345,688</b>
37,819	632,662	256,753	18,089	375,909	324,620
17,904	421,455	329,777	22,164	91,678	65,010
49,362	1,677,911	1,172,166	146,049	505,745	358,113
- 109,226	136,140	-	-	136,140	152,806
<b>- 4,141</b>	<b>2,868,168</b>	<b>1,758,696</b>	<b>186,302</b>	<b>1,109,472</b>	<b>900,549</b>
-	20,256	-	-	20,256	41,476
-	334	-	-	334	302
-	96	-	-	96	79
-	<b>20,686</b>	-	-	<b>20,686</b>	<b>41,857</b>
-	<b>1,855,525</b>	<b>357,765</b>	<b>235,565</b>	<b>1,497,760</b>	<b>1,375,167</b>
-	<b>5,442,205</b>	<b>2,378,702</b>	<b>524,825</b>	<b>3,063,503</b>	<b>2,663,261</b>

## Notes to the Financial Statements of the Consolidated Porsche Group and Dr. Ing. h.c. F. Porsche AG as of July 31, 2004

### Dr. Ing. h.c. F. Porsche AG Development of Fixed Assets

	Acquisition and manufacturing costs		
	August 1, 2003 T€	Additions T€	Disposals T€
<b>Intangible Assets</b>			
1. Franchises, industrial and similar rights and assets as well as licensees to such rights and assets	348,197	85,579	14,514
2. Advance payments	101,514	56,620	853
<b>Total Intangible Assets</b>	<b>449,711</b>	<b>142,199</b>	<b>15,367</b>
<b>Property, Plant and Equipment</b>			
1. Land, land rights and buildings including buildings on third party land	494,143	40,578	134
2. Technical equipment and machinery	347,784	21,114	7,896
3. Other equipment, factory and office equipment	1,348,610	213,209	27,323
4. Advance payments and assets under construction	152,272	76,050	303
<b>Total Property, Plant and Equipment</b>	<b>2,342,809</b>	<b>350,951</b>	<b>35,656</b>
<b>Financial Assets</b>			
1. Investments in affiliated companies	171,915	19,666	-
2. Other investments	30,173	55,241	-
<b>Total Financial Assets</b>	<b>202,088</b>	<b>74,907</b>	<b>-</b>
<b>Total Fixed Assets</b>	<b>2,994,608</b>	<b>568,057</b>	<b>51,023</b>

Reclassification T€	July 31, 2004 T€	Depreciation		Net Book Value	Net Book Value
		Accumulated T€	Current year T€	July 31, 2004 T€	July 31, 2003 T€
66,096	485,358	198,422	76,046	286,936	222,388
- 62,398	94,883	-	-	94,883	101,514
<b>3,698</b>	<b>580,241</b>	<b>198,422</b>	<b>76,046</b>	<b>381,819</b>	<b>323,902</b>
23,489	558,076	229,499	14,811	328,577	279,053
12,947	373,949	308,080	16,240	65,869	48,914
55,655	1,590,151	1,120,404	130,894	469,747	339,293
- 95,789	132,230	-	-	132,230	152,272
<b>- 3,698</b>	<b>2,654,406</b>	<b>1,657,983</b>	<b>161,945</b>	<b>996,423</b>	<b>819,532</b>
61,723	253,304	1,569	-	251,735	170,346
- 61,723	23,691	-	-	23,691	30,173
-	<b>276,995</b>	<b>1,569</b>	-	<b>275,426</b>	<b>200,519</b>
-	<b>3,511,642</b>	<b>1,857,974</b>	<b>237,991</b>	<b>1,653,668</b>	<b>1,343,953</b>

## Notes to the Financial Statements of the Consolidated Porsche Group and Dr. Ing. h.c. F. Porsche AG as of July 31, 2004

### (2) Inventories

	July 31, 2004		July 31, 2003	
	Group T€	Porsche AG T€	Group T€	Porsche AG T€
Raw materials, consumables and supplies	77,034	67,455	58,130	57,661
Work-in-process	56,950	54,529	39,717	39,315
Services-in-process	118,925	33	22,975	2,138
Finished goods and merchandise	467,267	122,882	414,199	125,564
Advance payments made	5,776	1,691	3,478	–
	<b>725,952</b>	<b>246,590</b>	<b>538,499</b>	<b>224,678</b>
Advance payments received	– 158,075	– 4,347	– 70,261	– 2,058
	<b>567,877</b>	<b>242,243</b>	<b>468,238</b>	<b>222,620</b>

The application of the LIFO valuation method resulted in a reduction in inventories of 3.7 million euro at Porsche AG and in the consolidated financial statements.

### (3) Receivables

	July 31, 2004		July 31, 2003	
	Group T€	Porsche AG T€	Group T€	Porsche AG T€
Trade receivables	271,030	39,839	209,580	26,652
Receivables from affiliated companies	–	539,681	–	367,612
Thereof due in more than one year	–	(85,585)	–	(44,519)
Receivables from companies in which investments are held	54	–	1,719	707
Total	<b>271,084</b>	<b>579,520</b>	<b>211,299</b>	<b>394,971</b>

Receivables from affiliated companies and companies in which investments are held arise from deliveries of goods and services, as well as from loans and profit transfers.

---

**(4) Other Assets**

	July 31, 2004		July 31, 2003	
	Group T€	Porsche AG T€	Group T€	Porsche AG T€
Receivables from financial services	919,643	–	808,855	–
Sundry other assets	481,749	331,951	354,633	230,571
Other assets	<b>1,401,392</b>	<b>331,951</b>	<b>1,163,488</b>	<b>230,571</b>
Thereof due in more than one year	(733,347)	(53,629)	(551,631)	(26,290)

The receivables from financial services basically consist of loans for factoring granted by financing subsidiaries. Sundry other assets contain accrued interest on marketable

securities, refunds from the financial authorities, premiums paid for foreign currency options, other advance payments and receivables which cannot be included in other items.

---

**(5) Marketable Securities**

Included in marketable securities are fixed-interest bearing securities and special annuity funds.

---

**(6) Cash and Cash Equivalents**

Included in this item are checks, cash on hand, as well as cash in banks.

---

**(7) Prepaid Expenses**

Included in prepaid expenses are advance payments for rent, marketing, maintenance, and other service contracts. Further

more, prepaid rental expenses arising from special lease prepayments are reflected in the consolidated financial statements.

---

**(8) Capital Stock**

The capital stock of Porsche AG amounts to 45.5 million euro and is made up of 8,750,000 common shares and

8,750,000 non-voting preferred shares. Each of the shares accounts for 2.60 euro of the capital stock.

---

**(9) Capital Surplus**

The capital surplus consists solely of share premiums.

---

**(10) Retained Earnings**

Retained earnings of Porsche AG contain only other retained earnings. Due to Section 58 subsection 2 AktG, 244.0 million euro half of the net income of Porsche AG was transferred to retained earnings in the current fiscal year. Furthermore, due to a resolution at the Annual Shareholders' Meeting, 271.025 million euro of net income available for distribution from the prior year was transferred to retained earnings.

Retained earnings of the Porsche Group include the retained earnings of Porsche AG, net results of the consolidated subsidiaries insofar as they originated after the initial consolidation, foreign currency translation differences arising from the capital consolidation and other consolidation operations. Thereof 35.3 million euro are due to differences resulting from capital consolidation.

## Notes to the Financial Statements of the Consolidated Porsche Group and Dr. Ing. h.c. F. Porsche AG as of July 31, 2004

### (11) Minority Interests

This position shows the portion of shareholders' equity which relates to third parties (minority interests).

### (12) Provisions

	July 31, 2004		July 31, 2003	
	Group T€	Porsche AG T€	Group T€	Porsche AG T€
Provisions for pensions and similar obligations	457,067	429,930	401,702	388,422
Provisions for taxes	483,989	403,126	408,006	354,357
Other provisions	1,619,414	1,280,903	1,278,784	971,396
	<b>2,560,470</b>	<b>2,113,959</b>	<b>2,088,492</b>	<b>1,714,175</b>

The provisions for pensions primarily reflect future liabilities for retirement benefits for the employees of Porsche AG. Pension obligations are fully covered by provisions.

Provisions for taxes include amounts for this fiscal year and provisions for prior years' taxes not yet assessed. In addition, in the consolidated balance sheet this position includes deferred tax liabilities from subsidiaries amounting to 182.3 million euro (prior year: 172.9 million euro), whereas 86.9 million euro (prior year: 78.3 million euro) of deferred tax assets resulting from the consolidation process were offset against the liabilities pursuant to Section 306 sentence 3 HGB.

Other provisions cover mainly the worldwide warranty, product liability and litigation risks, as well as unbilled vendor deliveries, uncertain claims and commitments in the personnel and social sector. Furthermore, provisions have been established for deferred maintenance and IT reorganization as well as for residual value risks in the lease business. Adequate provision has been made for all other determinable risks.

**(13) Trade Payables and  
(14) Other Liabilities**

	July 31, 2004		July 31, 2003	
	Total T€	Thereof due within one year T€	Total T€	Thereof due within one year T€
<b>Porsche Group</b>				
Trade payables	<b>368,250</b>	368,250	<b>336,829</b>	336,829
Bonds payable	818,457	–	300,000	–
Liabilities to banks	156,194	126,410	106,578	69,708
Advance payments received	13,859	13,859	36,478	31,546
Amounts payable to companies in which investments are held	1,210	1,210	5,018	5,018
Other financial liabilities	1,130,613	522,178	1,002,569	658,464
Other	121,447	119,006	112,132	111,494
thereof for taxes	(61,417)	(61,417)	(70,677)	(70,677)
thereof for social security	(14,504)	(14,504)	(13,327)	(13,327)
Other liabilities	<b>2,241,780</b>	782,663	<b>1,562,775</b>	876,230
<b>Porsche AG</b>				
Trade payables	<b>267,810</b>	267,810	<b>254,279</b>	254,279
Advance payments received	–	–	2,185	2,185
Liabilities from affiliated companies	54,822	54,822	21,549	21,549
Amounts payable to companies in which investments are held	1,210	1,210	5,018	5,018
Other	23,392	23,392	39,432	39,432
thereof for taxes	(2,347)	(2,347)	(16,059)	(16,059)
thereof for social security	(11,622)	(11,622)	(11,402)	(11,402)
Other liabilities	<b>79,424</b>	79,424	<b>68,184</b>	68,184

Bonds payable include 518.5 million euro with a remaining term exceeding five years. In the previous year there were no liabilities with a remaining term exceeding five years.

Other financial liabilities of the Group mainly result from the refinancing of the financial services business. They are secured by the assignment of receivables in the amount of 301.9 million euro (prior year: 214.0 million euro).

**(15) Deferred Income**

In the consolidated financial statements this position reflects, for the most part, special lease prepayments as well as the

value received from forfeited lease receivables of the financial services companies amounting to 536.8 million euro.

## Notes to the Financial Statements of the Consolidated Porsche Group and Dr. Ing. h.c. F. Porsche AG as of July 31, 2004

### (16) Sales

	2003/04		2002/03	
	Group T€	Porsche AG T€	Group T€	Porsche AG T€
<b>Business activities</b>				
Vehicles	4,875,226	4,703,613	4,317,187	4,208,153
Parts and accessories	655,486	316,725	365,533	294,222
Other	828,665	143,814	899,283	349,887
	<b>6,359,377</b>	<b>5,164,152</b>	<b>5,582,003</b>	<b>4,852,262</b>
	%	%	%	%
<b>Geographical regions</b>				
Domestic	22	20	27	24
North America	35	38	38	41
Other export markets	43	42	35	35
	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Other revenues mainly include revenues from customer development contracts and the service sector.

In the Group sales enclosed are 318,000 T€ from the purchase accounting of the CTS Group.

### (17) Change in Inventories and Own Work Capitalized

	2003/04		2002/03	
	Group T€	Porsche AG T€	Group T€	Porsche AG T€
Change in finished goods, work-in-process and services-in-process	58,205	1,235	- 144,437	- 156,294
Own work capitalized	96,162	28,827	25,559	25,559
	<b>154,367</b>	<b>30,062</b>	<b>- 118,878</b>	<b>- 130,735</b>

### (18) Other Operating Income

Other operating income includes revenue from gains on the disposals of fixed assets and of leased assets, income from the reversal of provisions, other services revenue,

intercompany cost transfers, rental income, insurance claim reimbursements and realized foreign currency exchange gains.

**(19) Cost of Materials**

	2003/04		2002/03	
	Group T€	Porsche AG T€	Group T€	Porsche AG T€
Cost of raw materials, consumables and supplies and purchased merchandise	2,539,189	2,516,385	1,790,229	2,105,666
Cost of purchased services	420,141	156,592	491,081	188,189
	<b>2,959,330</b>	<b>2,672,977</b>	<b>2,281,310</b>	<b>2,293,855</b>

Cost of purchased services in the consolidated financial statements mainly includes lease expenditures.

**(20) Personnel Expenses**

	2003/04		2002/03	
	Group T€	Porsche AG T€	Group T€	Porsche AG T€
Wages and salaries	813,845	596,221	694,749	538,675
Social security and pension expenses	168,617	131,493	154,780	132,440
thereof for pension expenses	(54,281)	(46,490)	(57,292)	(52,981)
	<b>982,462</b>	<b>727,714</b>	<b>849,529</b>	<b>671,115</b>
Average number of employees <sup>1)</sup>	Number	Number	Number	Number
Wage earners	4,794	3,870	4,431	3,991
Salaried employees	6,501	3,863	5,755	3,818
Apprentices and trainees	330	291	333	294
	<b>11,625</b>	<b>8,024</b>	<b>10,519</b>	<b>8,103</b>

<sup>1)</sup> includes employees in phased retirement

**(21) Other Operating Expenses**

Other operating expenses include costs for warranties, administration and distribution, marketing, advisory services,

maintenance, insurance and rent as well as currency losses and expenses for miscellaneous risks.

## Notes to the Financial Statements of the Consolidated Porsche Group and Dr. Ing. h.c. F. Porsche AG as of July 31, 2004

### (22) Income from Investments in Other Companies

	2003/04		2002/03	
	Group T€	Porsche AG T€	Group T€	Porsche AG T€
Income from investments	12	22,701	–	85,503
thereof income from investments in affiliated companies	–	(22,324)	–	(85,126)
Income from associated companies	4,468	–	416	–
Income from profit transfer agreements	–	36,377	–	35,613
Expenses from profit transfer agreements	–	–	–	– 6,761
	<b>4,480</b>	<b>59,078</b>	<b>416</b>	<b>114,355</b>

### (23) Interest Income, net

	2003/04		2002/03	
	Group T€	Porsche AG T€	Group T€	Porsche AG T€
Other interest and similar income	99,854	76,022	117,714	86,661
thereof from affiliated companies	–	(27,713)	–	(26,763)
Interest and similar expenses	– 58,196	– 36,891	– 88,179	– 33,782
thereof to affiliated companies	–	(– 10,729)	–	(– 1,598)
	<b>41,658</b>	<b>39,131</b>	<b>29,535</b>	<b>52,879</b>

Interest income mainly results from investments in fixed-interest bearing bonds and time deposits.

This item also contains income arising from interest-bearing receivables and loans.

### (24) Write-downs of Marketable Securities

Marketable securities were written down to the lower market value at the balance sheet date.

### (25) Taxes

	2003/04		2002/03	
	Group T€	Porsche AG T€	Group T€	Porsche AG T€
Taxes on income	470,393	352,113	363,387	379,634
Other taxes	5,607	2,887	4,613	2,366
	<b>476,000</b>	<b>355,000</b>	<b>368,000</b>	<b>382,000</b>

Provisions amounting to 20.0 million euro have been released from years for which tax assessments have been finalized.

Furthermore, Porsche AG cross-charged taxes amounting to 21.1 million euro (prior year: 11.0 million euro) to its subsidiaries with profit transfer agreements.

---

## **(26) Expenses and Income from Other Periods**

Within Porsche AG, expenses of 1.6 million euro (consolidated financial statements 4.3 million euro) and income of 28.3 million euro (consolidated financial statements 43.9 million euro)

relate to other fiscal years. These amounts mainly consist of income from the release of prior years' provisions and trade reimbursements.

---

## **(27) Commitments and Contingencies**

### **Porsche AG**

Within the scope of warranties, Porsche AG has guarantee obligations of 29.6 million euro. Furthermore Porsche AG has guaranteed the repayment of 300.0 million euro in bonds, plus interest thereon, issued by Porsche International Financing plc, Dublin. Porsche AG has given a guarantee to the investors of the US Private Placement amounting to 518.5 million euro. In addition, Porsche AG has guaranteed liabilities against banks amounting to 375.6 million euro arising from the worldwide cash pool agreement and the bond issued by SUV-Funding Ltd. As the shareholder of ING Leasing GmbH & Co. Fox OHG and of the Venture Capital Beteiligung GbR, Porsche AG is liable within the scope of the legal requirements. Of the liabilities

described above, an amount of 941.1 million euro relates to affiliated companies.

### **Porsche Group**

The guaranteed liabilities of the Porsche Group amount to a total of 375.0 million euro. Apart from Porsche AG's guaranteed liabilities, there are credit risks relating to loans extended by the enterprise, which total 41.7 million euro, commitments related to third parties' lease payments amounting to 22.2 million euro and guaranteed liabilities to banks amounting to 17.5 million euro.

There are no liens on real estate.

---

## **(28) Other Financial Commitments**

Porsche AG has other financial commitments totalling 210.9 million euro. They include other financial commitments arising from rental, lease and maintenance agreements of 33.0 million euro. The total amount includes commitments made to affiliated companies amounting to 13.7 million euro. Purchase order obligations for capital expenditures amount to 177.7 million euro. Purchase obligations from suppliers exist on the balance sheet date in line with the company's needs. In order to hedge its exposure to foreign currency risks, Porsche AG has entered into foreign currency contracts. Uniform guidelines ensure that these contracts are monitored and only entered into top-rate banks. Their use is limited to the protection of certain operating sectors and their related investments and financing transactions. Porsche AG has commitments relating to its subsidiaries and investments in the amount of 180 thousand euro.

The other financial commitments of the Porsche Group total 297.1 million euro. The Group's other financial commitments arising from rental, lease and maintenance agreements amounting to 105.0 million euro include payment obligations of 25.8 million euro for future lease installments of the vehicle leasing business of Porsche Group subsidiaries for which corresponding receivables from customers exist. The Group purchase order obligations for initiated capital expenditures amount to 183.6 million euro. In addition, there are other financial commitments of 8.5 million euro.

# Notes to the Financial Statements of the Consolidated Porsche Group and Dr. Ing. h.c. F. Porsche AG as of July 31, 2004

## (29) Key Figures of Significant Subsidiaries

	Capital Investment %	Shareholders' Equity <sup>1)</sup> T€	Net income/ Net loss <sup>1)</sup> T€	Sales T€	Employees <sup>2)</sup>
<b>Domestic</b>					
Porsche Deutschland GmbH, Bietigheim-Bissingen	100	9,000	23,240 <sup>3)</sup>	857,774	82
CTS Fahrzeug-Dachsysteme Gesellschaft mit beschränkter Haftung, Hamburg <sup>5)</sup>	100	52,042	19,495	371,547	862
Porsche Leipzig GmbH, Leipzig	100	500	1,210 <sup>3)</sup>	65,853	336
Porsche Engineering Group GmbH, Bietigheim-Bissingen	100	4,000	902 <sup>3)</sup>	39,129	29
Porsche Engineering Services GmbH, Bietigheim-Bissingen	100	1,278	709 <sup>3)</sup>	36,722	351
Porsche Financial Services GmbH, Bietigheim-Bissingen	100	24,000	4,274 <sup>3)</sup>	32,462	46
PIKS Porsche Information-Kommunikation-Services GmbH, Stuttgart	100	790	1,482 <sup>3)</sup>	30,190	95
Porsche Consulting GmbH, Stuttgart	100	700	4,044 <sup>3)</sup>	19,526	91
<b>Foreign</b>					
Porsche Cars North America, Inc., Wilmington/Delaware, USA	100 <sup>4)</sup>	159,877	60,502	1,813,240	209
Porsche Financial Services, Inc., Wilmington/Delaware, USA	100 <sup>4)</sup>	32,533	583	14,456	54
Porsche Funding Ltd. Partnership, Wilmington/Delaware, USA	100 <sup>4)</sup>	199,300	1,837	14,112	–
Porsche Engineering Services, Inc., Wilmington/Delaware, USA	100 <sup>4)</sup>	804	12	15,080	123
Porsche Cars Canada Ltd., Toronto/Ontario, Canada	100 <sup>4)</sup>	6,483	552	101,597	3
Porsche Cars Great Britain Ltd., Reading, England	100	73,173	22,662	572,633	98
Porsche Financial Services Great Britain Ltd., Reading, England	100 <sup>4)</sup>	40,393	4,586	35,361	5
Porsche Retail Group Ltd., Reading, England	100 <sup>4)</sup>	21,306	7,640	294,742	235
Porsche Ibérica S.A., Madrid, Spain	100	33,978	4,816	151,537	41
Porsche Italia S.p.A., Padua, Italy	100	47,846	8,357	264,986	52
Porsche France S.A., Boulogne-Billancourt, France	100	18,070	5,378	160,679	37
Porsche International Financing plc., Dublin, Ireland	100	10,258	1,076	1,443	–
Porsche Japan K.K., Tokyo, Japan	100	16,628	5,459	189,156	58
Porsche Cars Australia Pty. Ltd., Richmond, Australia	100	27,738	2,559	109,877	32
Porsche Middle East FZE, Dubai, United Arab Emirates	100	5,555	5,328	162,595	14

<sup>1)</sup> Shareholders' equity and net income from local financial statements/  
net income before profit distribution for fiscal year August 1, 2003  
to July 31, 2004.

Shareholders' equity and net income translated at fiscal year-end  
exchange rates, revenues translated at average annual exchange rates.

<sup>2)</sup> Employees at fiscal year-end

<sup>3)</sup> Net income before profit distribution (net income after tax)

<sup>4)</sup> Indirect investment

<sup>5)</sup> Basis interim financial statements, as of July 31, 2004

---

**(30) Notes to the Segment Reporting**

In the primary segment reporting the activities of the Porsche Group are divided into the following geographical segments: Germany, North America, Europe excluding Germany and rest of the world. In the secondary segment reporting, the activities are split into the Group's two major business segments: vehicles and financial services.

The primary segment reflects the opportunities and risks of the business activities of the Group and is based on the locations of the companies. Segment income equals the income before taxes. The transfer prices between the segments were based on market prices

Segment assets include fixed assets, current assets, and pre-paid expenses while segment liabilities consist of provisions, liabilities, and deferred income.

Within the secondary segment reporting, the Financial Services segment mainly includes the leasing and financing business of Porsche vehicles at customers and dealers as well as other financial services. Sales of this segment mainly contain the lease installments received as well as the interest portion of installment payments received from loans and lease contracts, which are shown as receivables in the current assets.

To enhance clarity, balance sheets for the Vehicles segment and for the Financial Services segment have been added to the segment reporting. Within the fixed assets of the Financial Services segment the leased vehicles represent the most significant part. The current assets contain receivables from loans, receivables from lease contracts, where the leased asset is assigned to the customer, as well as lease installments due. The debt capital reflects the method of financing of the financial services business, which mainly results from the assignment of the receivables and intercompany financing, which is eliminated in the course of the consolidation process.

---

**(31) Disclosure pursuant to in Section 160 subsection 1  
No. 8 German Stock Corporation Law (AktG)**

Porsche AG received the following message on January 7th, 2004

"Herein we inform on behalf and by order of Familien Porsche-Daxer-Piëch Beteiligung GmbH, who we represent from an solicitors point of view, with place of registration in Stuttgart, Kronenstraße 30, D-70174 Stuttgart, that according to Section 21 subsection 1 sentence 1 of the Securities Trade Act (WpHG), the voting right share of Familien Porsche-Daxer-

Piëch Beteiligung GmbH on the Dr. Ing. h.c. F. Porsche Aktiengesellschaft has exceeded the threshold of 5 percent, 10 percent, 25 percent, 50 percent and 75 percent of the voting rights on December 19th, 2003 and amounts to 100 percent. Thereof 74.33 percent is to be assigned to Familien Porsche-Daxer-Piëch Beteiligung GmbH due to admission to an existing syndicate contract according to Section 22 subsection 2 of the Securities Trade Act (WpHG)."

---

**(32) Declaration of Compliance**

The Executive Board and the Supervisory Board issue the declaration of compliance pursuant to Section 161 of the German Stock Corporation Law (AktG) in the Annual Report

2003/04. The declaration will be made available to Porsche shareholders in the internet on [www.porsche.de](http://www.porsche.de).

## Notes to the Financial Statements of the Consolidated Porsche Group and Dr. Ing. h.c. F. Porsche AG as of July 31, 2004

### (33) Total Remuneration for the Supervisory Board and the Executive Board

Remuneration for the Executive Board in fiscal year 2003/04 amounted to 30.4 million euro, which includes performance-related compensation of 25.4 million euro. Former members of the Executive Board received 964 thousand euro. Pension obligations to former members of the Executive Board and their surviving dependants are fully accrued at 13.9 million euro. Total remuneration for the Supervisory Board for 2003/04 amounted to 0.9 million euro.

Stuttgart, September 30, 2004

Dr. Ing. h.c. F. Porsche  
Aktiengesellschaft  
Executive Board

Dr. Wendelin Wiedeking  
Wolfgang Dürheimer  
Holger P. Härter  
Harro Harmel  
Michael Macht  
Hans Riedel

### Proposal for the appropriation of net profits

The financial statements as of July 31, 2004 of Porsche AG show net income available for distribution of 244,000,000 euro. It will be proposed at the Annual General Meeting of Shareholders that this amount be appropriated as follows:

Distribution of a dividend for the 2003/04 fiscal year of € 3.94 per common share ISIN Nr DE 0006937709 (security reference number 693 770) for a total of 8,750,000 common shares	€	34,475,000
Distribution of a dividend for the 2003/04 fiscal year of € 4.00 per preferred share ISIN Nr DE 0006937733 (security reference number 693 773) for a total of 8,750,000 preferred shares	€	35,000,000
Profits retained	€	174,525,000
		244,000,000

## Auditors' Report

"We have audited the individual and consolidated financial statements, the combined notes and Group notes, including the bookkeeping, and the consolidated Group and Porsche AG management report prepared by Dr. Ing. h.c. F. Porsche AG, Stuttgart, for the fiscal year from August 1, 2003 to July 31, 2004. The preparation of these documents in accordance with German commercial law is the responsibility of the company's management. Our responsibility is to express an opinion on the individual consolidated financial statements and the consolidated Group and Porsche AG management report based on our audit.

We have conducted our audit of the individual and consolidated financial statements in accordance with Section 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and the generally accepted standards for the audit of financial statements promulgated by the IDW ("Institut der Wirtschaftsprüfer in Deutschland": - "Institute of Public Auditors in Germany"). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the individual and consolidated financial statements in accordance with German principles of proper accounting and in the consolidated Group and Porsche AG management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the individual and consolidated financial statements and the consolidated Group and Porsche AG management report are examined primarily on a test basis within the framework of the audit. The audit includes the assessment of the annual financial statements of the companies included in the consolidated financial statements, the delimitation of the Group of consolidating companies, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and consolidated Group and Porsche AG management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the individual and consolidated financial statements give a true and fair view of Porsche AG's and the Group's net assets, financial position and results of operations in accordance with German principles of proper accounting. On the whole the consolidated Group and Porsche AG management report provides a suitable understanding of the Group's position and suitably presents the risks to future development."

Stuttgart, October 18, 2004

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft

Oesterle  
Wirtschaftsprüfer

Strähle  
Wirtschaftsprüfer

## Membership in other Supervisory Boards established in compliance with the relevant legal provisions and in similar domestic and foreign supervisory bodies: (The disclosures were made in accordance with Section 285 No. 10 HGB) Status: July 31, 2004

### Members of the Supervisory Board of Dr. Ing. h.c. F. Porsche AG

#### Prof. Dr. Helmut Sihler

- 2) Novartis AG

#### Hans Baur

- 1) Alcatel SEL AG

#### Dr. techn. h.c. Ferdinand Piëch

- 1) Volkswagen AG (Chairman)
- 2) Porsche Holding GmbH  
Porsche Ges.m.b.H

#### Dr. Hans Michel Piëch

- 2) Porsche Bank AG  
Porsche Holding GmbH  
Porsche Cars North America, Inc.  
Porsche Cars Great Britain Ltd.  
Porsche Italia S.p.A.  
Porsche Ibérica S.A.  
Porsche Ges.m.b.H.  
PGA Group S.A.S.  
Eurotax Glass's Holding AG  
Eurotax Holding AG

#### Prof. Ferdinand A. Porsche

- 2) Porsche Holding GmbH  
Porsche Ges.m.b.H.  
Eterna S.A.  
Familie Porsche AG Beteiligungsgesellschaft

#### Dr. Wolfgang Porsche

- 2) Porsche Cars North America, Inc.  
Porsche Cars Great Britain Ltd.  
Porsche Italia S.p.A.  
Porsche Ibérica S.A.  
Porsche Bank AG  
Porsche Holding GmbH (Chairman)  
Porsche Ges.m.b.H. (Chairman)  
PGA Group S.A.S.  
Eterna S.A.

#### Dr. Dr. h.c. Walther Zügel

- 1) Stihl AG (Chairman)  
Stuttgarter Hofbräu AG (Chairman)  
Stuttgarter Hofbräu Brau AG & Co. KG (Chairman)  
Berthold Leibinger GmbH (Chairman)  
Allgaier Werke GmbH  
Schuler AG

#### Hansjörg Schmierer

- 1) Berthold Leibinger GmbH

- 1) Membership in domestic statutory supervisory boards.
- 2) Similar positions in domestic and foreign bodies.

---

**Members of the Executive Board  
of Dr.Ing.h.c.F. Porsche AG**

**Dr. Wendelin Wiedeking**

- 1) Deutsche Telekom AG
- 2) Porsche Cars North America, Inc. (Chairman)  
Porsche Financial Services, Inc.  
Porsche Cars Great Britain Ltd.  
Porsche Italia S.p.A.  
Porsche Ibérica S.A.  
Porsche Japan K.K.  
Porsche Enterprises, Inc.  
Porsche Deutschland GmbH  
Porsche Engineering Group GmbH  
Porsche Financial Services GmbH  
Porsche Business Services, Inc.  
Eagle-Picher Industries, Inc.  
Novartis AG  
Porsche Engineering Services GmbH  
Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG (Chairman)

**Wolfgang Dürheimer**

- 2) Porsche Engineering Group GmbH (Chairman)  
Porsche Engineering Services GmbH (Chairman)  
PIKS Porsche-Information-Kommunikation-Services GmbH  
CTS Fahrzeug-Dachsysteme GmbH

**Holger P. Härter**

- 1) Sachsen LB  
EUWAX AG (Chairman)
- 2) Porsche Cars North America, Inc.  
Porsche Enterprises, Inc. (Chairman)  
Porsche Financial Services, Inc.(Chairman)  
Porsche Cars Great Britain Ltd.  
Porsche Italia S.p.A.  
Porsche Ibérica S.A.  
Porsche Japan K.K.  
Porsche Engineering Group GmbH  
Porsche Deutschland GmbH

- Porsche Financial Services GmbH (Chairman)  
Porsche Business Services, Inc. (Chairman)  
PIKS Porsche Information-Kommunikation-Services GmbH (Chairman)  
Mieschke Hofmann & Partner Gesellschaft für Management- und IT-Beratung mbH (Chairman)  
CTS Fahrzeug-Dachsysteme GmbH (Chairman)

**Harro Harmel**

- 2) Messe Berlin GmbH  
Femtec GmbH  
Porsche Consulting GmbH  
Mieschke Hofmann & Partner Gesellschaft für Management- und IT-Beratung mbH  
Porsche Leipzig GmbH  
Porsche Engineering Group GmbH  
Porsche Leipzig Service GmbH (Chairman)

**Michael Macht**

- 2) Porsche Consulting GmbH (Chairman)  
Porsche Leipzig GmbH (Chairman)  
Porsche Leipzig Service GmbH  
PIKS Porsche Information-Kommunikation-Services GmbH  
Gebr. Märklin & Cie. GmbH

**Hans Riedel**

- 2) Porsche Cars North America, Inc.  
Porsche Enterprises, Inc.  
Porsche Financial Services, Inc.  
Porsche Cars Great Britain Ltd. (Chairman)  
Porsche Italia S.p.A. (Chairman)  
Porsche Ibérica S.A. (Chairman)  
Porsche Japan K.K. (Chairman)  
Porsche Deutschland GmbH (Chairman)  
Porsche Financial Services GmbH  
Porsche Leipzig GmbH  
Porsche Leipzig Service GmbH  
Porsche Business Services, Inc.  
Porsche Lizenz- und Handelsgesellschaft mbH & Co KG

Imprint

Publisher: Dr. Ing. h.c. F. Porsche AG,  
Stuttgart-Zuffenhausen © 2004

Photographs: Stefan Warter, Berlin

dpa Picture-Alliance  
Porsche AG

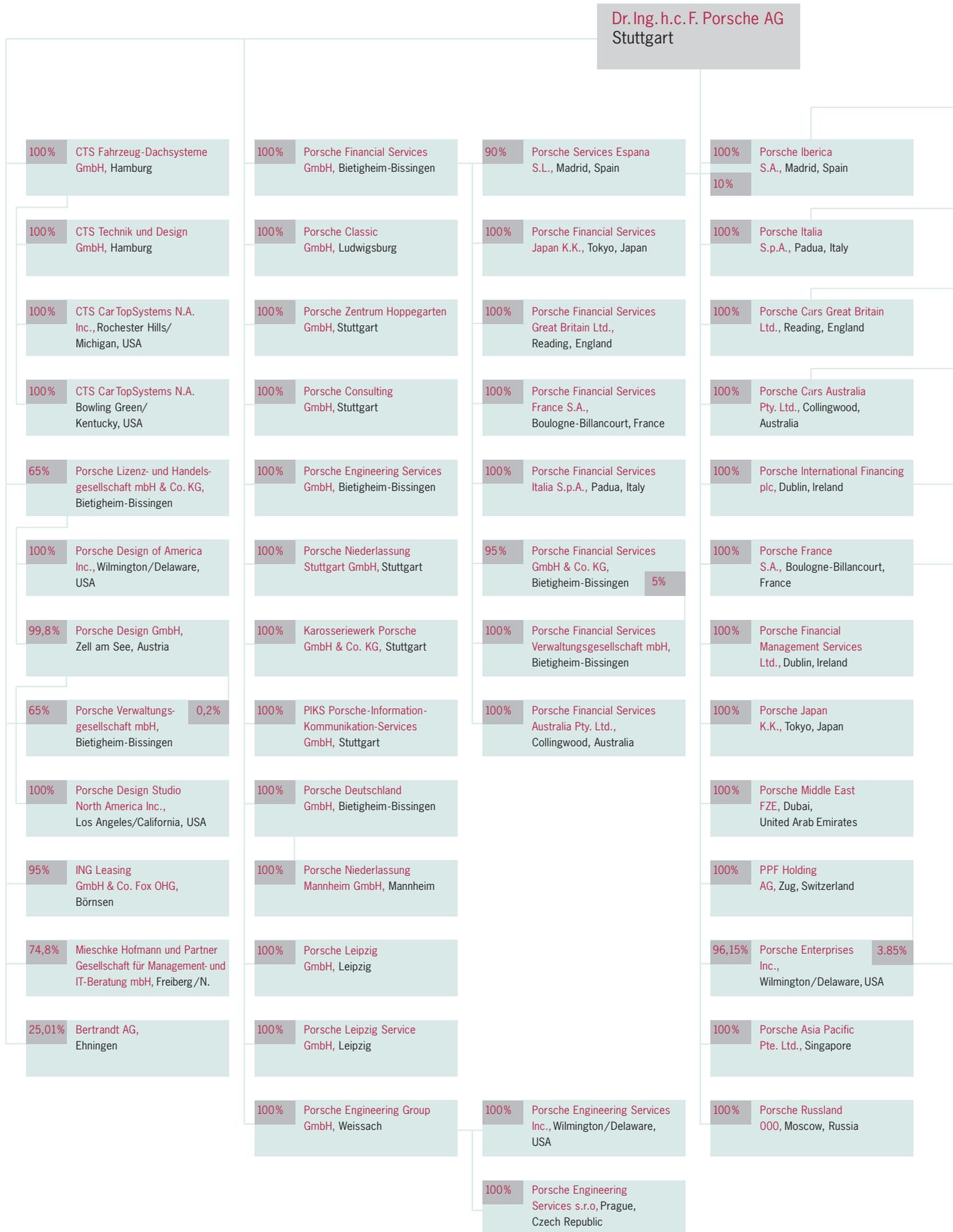
Translations: Colin Brazier, Munich

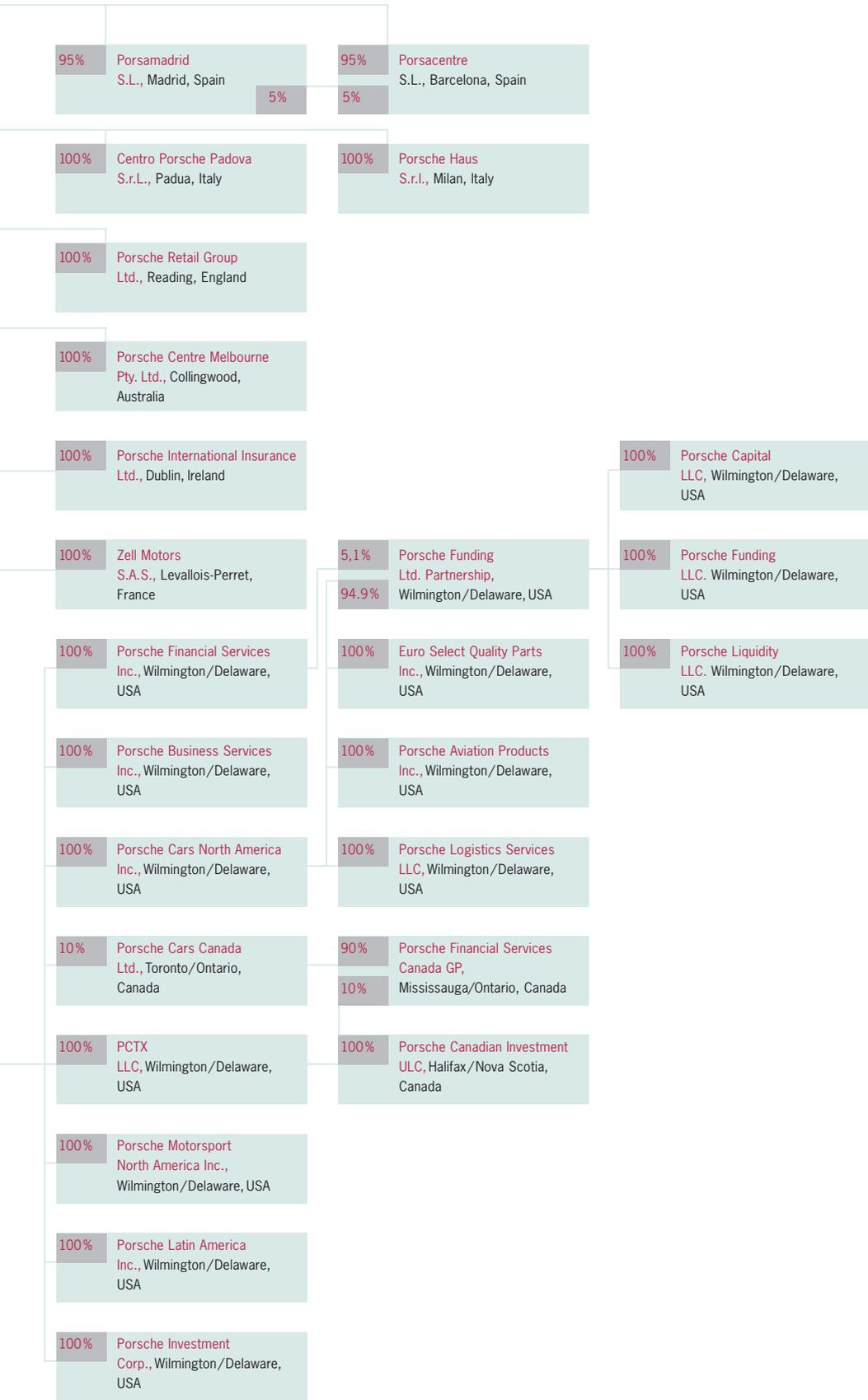
Design: Atelier Lagally, Stuttgart

Blocks: L&N-Litho, Waiblingen

Printed by: Druckhaus Münster, Kornwestheim

# Overview of the Porsche Group (Capital Investment)







**Annual General Meeting in Stuttgart**

January 28, 2005

**Interim Report 1<sup>st</sup> six months**

March 1, 2005

**Financial Press Conference on  
2004/05 fiscal year**

December 2005

**Analyst Conference on  
2004/05 fiscal year**

December 2005

**Contact us at**

Dr. Ing. h.c. F. Porsche Aktiengesellschaft  
Porscheplatz 1  
D-70435 Stuttgart

Telephone: +49(0)711 911-0

Fax: +49(0)711 911-5777

<http://www.porsche.com>

**Financial Press and Investor Relations**

Telephone: +49(0)711 911-5869

Fax: +49(0)711 911-6375

This annual report is available in German and English.  
In case of doubt the german version is binding.

Dr. Ing. h.c. F. Porsche  
Aktiengesellschaft  
D-70432 Stuttgart  
Telephone: +49(0)711 911-0