
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