Corporate Governance Report

For Porsche, responsible, transparent and efficient corporate governance is an integral part of the Company's corporate culture.

The conversion of Dr. Ing. h.c. F. Porsche AG into Porsche Automobil Holding SE, concluded on 13 November 2007, was an important step in the furtherance of Porsche's corporate governance structure. Designed for international operations, this corporate organizational form allows a modern and efficient corporate charter and thus creates the best possible prerequisites for the continuous development of the Porsche Group.

Corporate statutes of Porsche Automobil Holding SE

The legal basis for the corporate statutes of Porsche Automobil Holding SE is formed by the European SE provisions and the German SE Implementation Act as well as the German Stock Corporation Act. The differences this leads to compared to the statutes of a stock corporation mainly pertain to the formation and composition of the supervisory organ. The dual management system with a strict separation of Executive Board and Supervisory Board, the principle of parity co-determination in the Supervisory Board as well as the co-administration and control rights of the shareholders in the general meeting continue to be the main core elements of the company statutes of Porsche Automobil Holding SE.

Corporate management by the Executive Board

The Executive Board has sole responsibility for the management of Porsche Automobil Holding SE and the Porsche Group and represents the Company in transactions with third parties. Its main tasks pertain to the strategy and management of the Porsche Group as well as the implementation and monitoring of an efficient risk management system. If the Executive Board has two members, as is currently the case, decisions have to be made unanimously. The activity of the Executive Board is regulated in more detail in rules of procedure.

The Executive Board informs the Supervisory Board regularly, without delay and comprehensively about the planning, business development and the risk management of the Company and consults with the Supervisory Board on the strategy of the Porsche Group. Certain transactions stipulated in the bylaws of the Porsche Automobil Holding SE and the Executive Board's rules of procedure may only be carried out by the Executive Board subject to the prior approval of the Supervisory Board. These include, among others, the acquisition and the sale of the companies of a certain size, the establishment and closure of plant locations, the introduction or discontinuation of business divisions as well as legal transactions with ordinary shareholders or Supervisory Board members of Porsche Automobil Holding SE.

Monitoring of management by the Supervisory Board

The Supervisory Board appoints the members of the Executive Board, and also advises and monitors the Executive Board in their managerial activities. The structure already ensures the fundamental independence of the Supervisory Board in its control of the Executive Board since a member of the Supervisory Board may not at the same time belong to the Executive Board and the competencies of the two bodies are strictly segregated.

For the Supervisory Board, the change in legal form to an SE brought with it substantial changes in the legal basis. The German co-determination law in which the size and composition of the Supervisory Board of a German stock corporation is regulated does not apply to SEs. Instead, the size and composition of the Supervisory Board is governed by the European SE provisions. These are supplemented by the co-determination agreement entered into with representatives of the European Porsche employees. This defines the competencies of the employees in the works' council of Porsche Automobil Holding SE and the procedure for the election of the SE works' council and the representation of the employees in the SE Supervisory Board as well as the relevant rulings in the bylaws. Shareholders and employee representatives are equally represented on the Supervisory Board of Porsche Automobil Holding SE, following the basic principles of German co-determination. The Supervisory Board takes its decisions with a simple majority of the votes cast by the participating Supervisory Board members. In the event of a tie, the Supervisory Board chairman, who always has to be a member of the Supervisory Board elected by the shareholders, casts the deciding vote.

The Supervisory Board has formed an executive committee which acts as personnel committee; in urgent cases, it also decides on transactions requiring the approval of the Supervisory Board. Other committees are formed as required.

Rights of the shareholders

The shareholders exercise their rights in the general shareholders meeting. When passing resolutions, each ordinary share of Porsche Automobil Holding grants one vote. There are no shares with multiple or preferential voting rights. Nor are there maximum voting rights. Every shareholder is entitled to take part in the general shareholders meeting, to express an opinion on items on the agenda, to table motions and to demand information about company matters if this is needed to properly judge an item on the agenda. The general stockholder meeting elects members of the Supervisory Board; in the election of employee representatives they are bound by the proposals of the employees. Among other things, the general shareholders meeting adopts resolutions on the exoneration of the Executive Board and the Supervisory Board, the appropriation of profits, capital measures and amendments to the statutes.

Financial reporting and annual audit

The financial reporting of the Porsche Group is prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union. The standards published by the International Accounting Standards Board (IASB), London, that are applicable as of the balance sheet date as well as the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) that are valid for the fiscal year have been taken into account. The financial statements of Porsche Automobil Holding SE as parent company of the Porsche Group are based on the accounting provisions of the German Commercial Code. Both sets of financial statements are audited by an independent auditor.

Risk management

Porsche has a group-wide risk management system which helps management to recognize major risks at an early stage, thus enabling them to initiate counter-measures in good time. The risk management system at Porsche is continuously tested for efficiency and continually optimized to reflect changed conditions. For details, please refer to the pages 19 to 22.

Communication and transparency

Porsche attaches great importance to transparent communication and regularly keeps shareholders, financial analysts, shareholder associations, the media and the general public informed about the situation of the Company and its business development. This information can be sourced at the website www.porsche-se.com which contains all press releases and financial reports as well as the statutes of Porsche Automobil Holding SE and information about the general stockholder meeting.

Besides the regular reporting, Porsche announces details of circumstances that are not in the public domain in accordance with Sec. 15 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] which, when they become known, could significantly impact on the share price of the Porsche share. These ad hoc announcements are also presented on Porsche's homepage.

Directors' Dealings
Pursuant to Sec. 15a WpHG, members of the Executive Board and Supervisory Board as well as certain persons in management positions and persons closely related to them must disclose the purchase and sale of Porsche shares and related financial instruments. Porsche Automobil Holding SE publishes such announcements about transactions of this kind on the Porsche homepage.

Declaration of conformity with the corporate governance code

The background
On 26 February 2002 the Federal German Government Commission on the Corporate Governance Code introduced a standard of good and responsible corporate governance for Executive Boards 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 or are not applied.

For the period until 8 August 2008 the declaration below refers to the version of the Code amended 14 June 2007 and for the period since 9 August 2008 to the version of the Code amended 6 June 2008 which was published in the electronic Federal Gazette on 8 August 2008.

Declaration of compliance of Porsche Automobil Holding SE
The Executive Board and Supervisory Board of Porsche Automobil Holding SE declare in accordance with Sec. 161 AktG that the Company has essentially complied and does comply with the recommendations of the Government Commission of the German Corporate Governance Code announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette. However, it has not and does not comply with the following recommendations, primarily as a result of company-specific factors.

"If the company takes out a D&O (directors and officers' liability insurance) policy for the executive board and supervisory board, a suitable deductible should be agreed." (No. 3.8 (2) German Corporate Governance Code).

This recommendation is not complied with. Porsche insures the D & O risk under its general asset and liability insurance and 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 consequences for members of the Executive and Supervisory Boards depending on their individual circumstances in respect of private income and assets. In the worst case, a less wealthy member of the Supervisory Board might find himself/herself in serious financial difficulties which, in view of the fact that all members have the same duties and obligations, is not fair.

"At the proposal of the committee dealing with management board contracts, the full supervisory board shall resolve and regularly review the management board compensation system including the main contract elements." (No. 4.2.2 (1) German Corporate Governance Code).

The structure of the remuneration system for the Executive Board of Porsche is discussed and checked regularly in its entirety by the Supervisory Board. Resolutions on the remuneration system, including the main contract elements, are taken by the executive committee which at the same time acts as personnel committee. We see no reason to diverge from this tried-and-tested segregation of duties in future.

“In concluding Management Board contracts, care shall be taken to ensure that payments made to a management board member on premature termination of his contract without serious cause do not exceed the value of two years’ compensation (severance payment cap) and compensate no more than the remaining term of the contract. The severance payment cap shall be calculated on the basis of the total compensation for the past full financial year and if appropriate also the expected total compensation for the current financial year.” (No. 4.2.3 (4) German Corporate Governance Code)

“Payments promised in the event of premature termination of a management board member’s contract due to a change of control shall not exceed 150 percent of the severance payment cap.” (No. 4.2.3 (5) German Corporate Governance Code)

The implementation of the new recommendations in No. 4.2.3 (4) and the recommendation based thereon in (5) of the German Corporate Governance Code involves considerable legal and practical complications. We have therefore decided not to implement the new Code recommendation.

“Disclosure [of the total remuneration of each member of the management board] should be made in a compensation report which as part of the corporate governance report describes the compensation system for management board members in a generally understandable way.” (No. 4.2.5 (1) German Corporate Governance Code).

The individual remuneration of the members of the Executive Board at Porsche is not published. In our opinion, the associated disadvantages, particularly the inevitable upward leveling of the board members’ salaries and the invasion of the individuals’ right to privacy, outweigh the advantages to investors of such a practice. The investors are, in any case, unaware of the criteria on which differences between Executive Board members’ salaries are based. The annual general meeting of Porsche AG unanimously passed the legally required resolutions waiving publication on 27 January 2006 as did the extraordinary stockholder meeting of Porsche AG on 26 June 2007.

The basic principles of the remuneration system for the members of the Executive Board are explained in the notes to the consolidated financial statements. In our opinion, an explanation above and beyond that in a separate compensation report does not provide the investor with any additional insights.

“The compensation report shall also include information on the nature of the fringe benefits provided by the company.” (No. 4.2.5 (3) Sentence 2 German Corporate Governance Code)

The total remuneration of the Executive Board and its composition by fixed and performance-related shares is explained in the notes to the consolidated financial statements. We do not see any additional benefit for the investor in presenting an explanation of the fringe benefits provided by the Company in a separate compensation report.

“Depending on the specifics of the enterprise and the number of its members, the supervisory board shall form committees with sufficient expertise.” (No. 5.3.1 Sentence 1 German Corporate Governance Code)

“The supervisory board should establish an audit committee which, in particular, deals with issues of accounting and risk management and compliance, the necessary independence required of the auditor, issue of the audit mandate to the auditor, determination of audit priorities and agreed fee. The chair of the audit committee should possess specific knowledge of and experience with the application of accounting principles and internal auditing procedures.” (No. 5.3.1 Sentence 1 German Corporate Governance Code)

“The supervisory board is required to form a nomination committee composed exclusively of shareholder representatives and which proposes to the supervisory board suitable candidates for its election nominations to the annual general meeting.” (No. 5.3.3 German Corporate Governance Code).

Porsche has a highly qualified and dedicated Supervisory Board with just twelve members. It has always been characteristic Porsche practice that the entire Supervisory Board should be given very detailed information, especially on strategy issues, accounting and risk management, and should hold in-depth discussions on the financial statements with the auditor. The Supervisory Board also deals in-depth with the resolutions proposed to the annual general meeting including election nominations for Supervisory Board members. Besides the Executive Committee, which at the same time acts as a personnel committee and also decides on transactions requiring the approval of the Supervisory Board, no additional committees are to be formed as this neither reflects the way the Supervisory Board works, nor would it improve its work.

“In order to permit independent advice to and supervision of the executive board by the supervisory board, the supervisory board should have what it regards as a sufficient number of independent members. A member of the supervisory board is regarded as independent if he/she has no business or personal relationship with the company or its executive board that could lead to a conflict of interests.” (No. 5.4.2 Sentence 1 and German Corporate Governance Code)

This recommendation does not allow for the special character of Porsche Automobil Holding SE’s shareholder structure. There have been and still are many and varied relationships with holders of ordinary shares that are members of the Porsche and Piëch families. Members of both families sit on the Supervisory Board of Porsche Automobil Holding SE and undertake supervisory functions as co-owners. We see no conflict of interests here.

“Payments to the members of the supervisory board should be reported individually in the corporate governance report, subdivided by component.” (No. 5.4.6 (3) Sentence 1 German Corporate Governance Code)

We show payments to the Supervisory Board in the notes to the consolidated financial statements as a single sum. We do not state the sums paid to individuals because we see no additional advantage for investors in this in view of the level of payments involved and the requirements stated in the articles of incorporation and bylaws.

“Also payments made by the company to the members of the supervisory board or advantages extended for services provided individually, in particular advisory or agency services should be listed separately in the Corporate Governance Report.” (No. 5.4.6 (3) Sentence 2 German Corporate Governance Code)

The ability to access the expertise of the individual members of the families that are shareholders in the company on specific subjects represents a particular advantage for Porsche Automobil Holding SE. As explained in the notes to the consolidated financial statements and taking the legal requirements into account, 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 Company has taken a fundamental decision not to present individual information about the compensation for personal services rendered in the Corporate Governance Report.

“Beyond the statutory obligation to report and disclose dealings in shares of the company without delay, the ownership of shares in the company or related financial instruments by executive board and supervisory board members shall be reported if these directly or indirectly exceed one percent of the shares issued by the company. If the entire holdings of all members of the executive board and supervisory board exceed one percent of the shares issued by the company, these should be reported separately for the executive board and supervisory board. This information should be contained in the Corporate Governance Report.” (No. 6.6 German Corporate Governance Code)

All ordinary shares are owned by the Porsche and Piëch families; the share ratios are published by Porsche Automobil Holding SE as required by the WpHG. Notifications of purchases and sales of Porsche preference shares by members of the Executive or Supervisory Boards are published to the extent that this is provided for by Sec. 15a WpHG. Publication in any other form of the shares or related financial instruments held by members of these bodies has not taken place so far and is not envisaged in the future.

“The consolidated financial statements should be publicly accessible within 90 days of the end of the fiscal year; interim reports should be publicly accessible within 45 days of the end of the reporting period.” (No. 7.1.2 Sentence 4 German Corporate Governance Code)

Porsche has established a publication cycle corresponding to its non-standard fiscal year, which guarantees the company optimum publicity. We do not consider a deviation from this practice to be appropriate.

Stuttgart, 20 October 2008

Porsche Automobil Holding SE
Supervisory Board and Executive Board