Porsche Group worldwide

Annual General Meeting in Stuttgart
January 26, 2007
Interim Report 1st six months
March 2007
Financial Press Conference on 2006/07 fiscal year
December 2007
Analyst Conference on 2006/07 fiscal year
December 2007

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This annual report is available in German and English.
In case of doubt the german version is binding.

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PORSCHE

Annual Report 2005/06

PORSCHE

Annual Report 2005/06

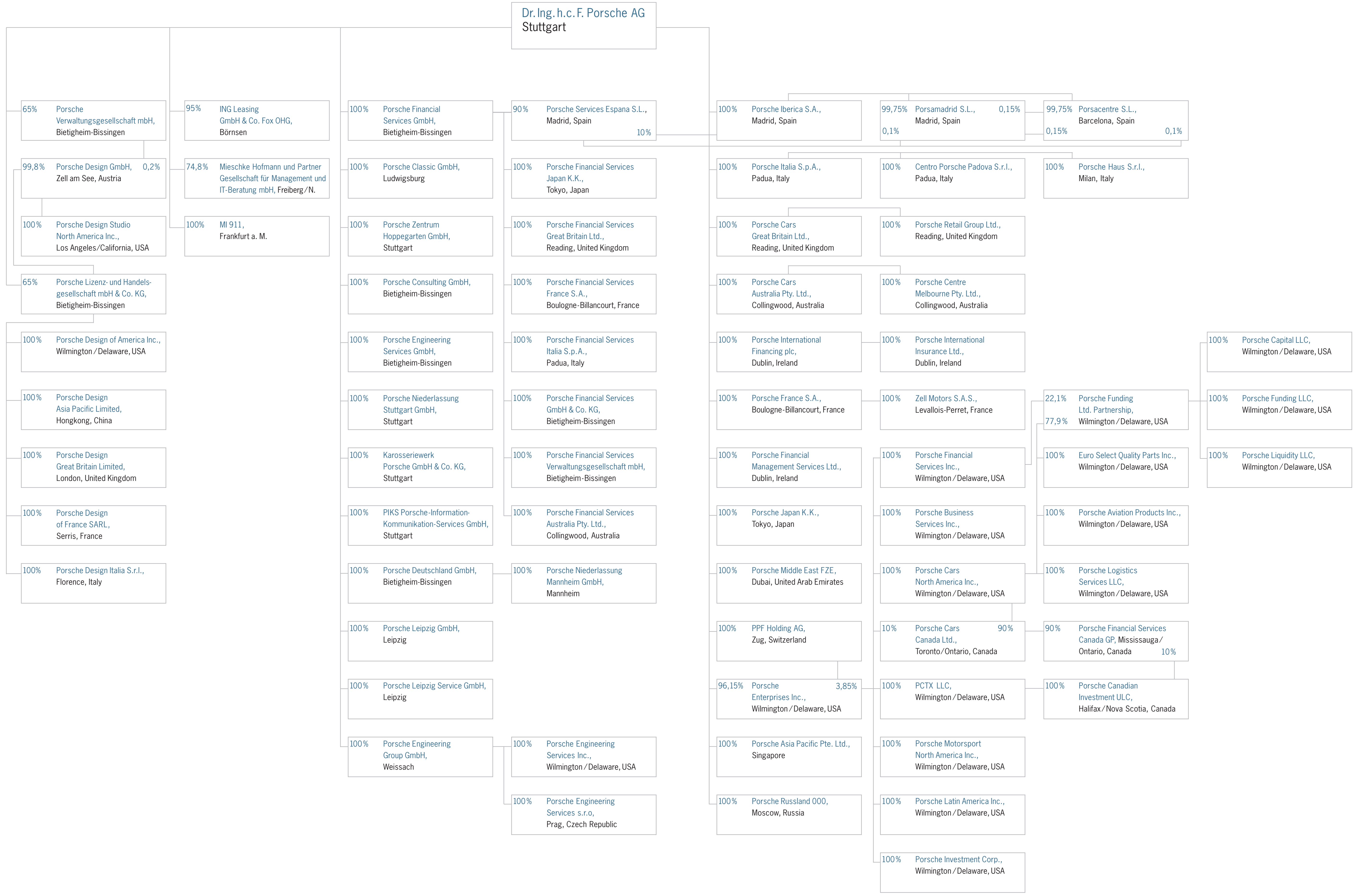
Porsche Group Highlights

Porsche Group Highlights

		1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	
		HGB	HGB	HGB	HGB	HGB	HGB	HGB	IFRS	IFRS	IFRS	
Sales	**€ million**	**2,093.3**	**2,519.4**	**3,161.3**	**3,647.7**	**4,441.5**	**4,857.3**	**5,582.0**	**6,147.7**	**6,574.0**	**7,273.0** [3]	**Sales**
Domestic	€ million	671.9	735.5	955.6	893.2	1,001.3	1,121.0	1,482.5	1,213.6	1,267.0	1,234.0	Domestic
Export	€ million	1,421.4	1,783.9	2,205.7	2,754.5	3,440.2	3,736.3	4,099.5	4,934.1	5,307.0	6,039.0	Export
Vehicle Sales (new cars)	**units**	**32,383**	**36,686**	**43,982**	**48,797**	**54,586**	**54,234**	**66,803**	**76,827**	**88,379**	**96,794**	**Vehicle Sales (new cars)**
Domestic Porsche	units	9,670	9,174	10,607	11,754	12,401	12,825	13,896	12,176	13,902	13,921	Domestic Porsche
Export Porsche	units	22,713	27,512	33,375	37,043	42,185	41,409	52,907	64,651	74,477	82,873	Export Porsche
Vehicle Sales Porsche	units	32,383	36,686	43,982	48,797	54,586	54,234	66,803	76,827	88,379	96,794	Vehicle Sales Porsche
911	units	16,507	17,869	23,090	23,050	26,721	32,337	27,789	23,704	27,826	34,386	911
Boxster	units	15,876	18,817	20,892	25,747	27,865	21,897	18,411	12,988	18,009	27,906	Boxster
Carrera GT	units	–	–	–	–	–	–	–	222	660	368	Carrera GT
Cayenne	units	–	–	–	–	–	–	20,603	39,913	41,884	34,134	Cayenne
Production	units	**32,390**	**38,007**	**45,119**	**48,815**	**55,782**	**55,050**	**73,284**	**81,531**	**90,954**	**102,602**	**Production**
Porsche total	units	32,390	38,007	45,119	48,815	55,782	55,050	73,284	81,531	90,954	102,602	Porsche total
911	units	16,488	19,120	23,056	22,950	27,325	33,061	29,564	26,650	28,619	36,504	911
Carrera GT	units	–	–	–	–	–	–	7	270	715	290	Carrera GT
Boxster	units	15,902	18,887	22,063	25,865	28,457	21,989	18,788	13,462	20,321	30,680	Boxster
Cayenne	units	–	–	–	–	–	–	24,925	41,149	41,299	35,128	Cayenne
Employees	**at year-end**	**7,959**	**8,151**	**8,712**	**9,320**	**9,752**	**10,143**	**10,699**	**11,668**	**11,878**	**11,384**	**Employees**
Personnel expenses	€ million	464.4	528.2	574.9	631.3	709.9	799.4	849.5	949.7	964.8	1,037	Personnel expenses
Balance Sheet												**Balance Sheet**
Total assets	€ million	1,249.7	1,490.9	1,916.1	2,205.4	2,891.6	5,408.7	6,315.0	9,014.3	9,710.1	14,628.8	Total assets
Shareholders' equity	**€ million**	**298.1**	**415.8**	**587.4**	**782.0**	**1,053.3**	**1,466.8**	**1,754.5**	**2,920.8**	**3,420.2**	**5,376.1**	**Shareholders' equity**
Fixed assets	€ million	565.3	579.6	525.6	577.7	731.8	2,207.7	2,663.3	2,380.1	2,428.4	5,680.8	Fixed assets
Capital expenditures	€ million	234.8	175.8	155.0	243.7	293.8	1,119.5	1,295.2	1,111.1	919.0	4,224.2	Capital expenditures
Depreciation	€ million	107.6	157.1	183.7	196.6	132.7	278.8	392.2	381.5	510.5	488.8	Depreciation
Cash flow	€ million	205.5	305.0	407.8	424.7	418.4	781.5	1,007.9	1,120.4	1,335.3	1,873.0	Cash flow
Extended cash flow	€ million		413.1	592.5	506.5	764.4	1,067.3	1,389.6	1,511.7	1,332.1	2,100.6	Extended cash flow
Income before tax	**€ million**	**84.5**	**165.9**	**357.0**	**433.8**	**592.4**	**828.9**	**933.0**	**1,137.0**	**1,238.0**	**2,110.0** [3]	**Income before tax**
Net income	€ million	71.3	141.6	190.9	210.0	270.5	462.0	565.0	690.0	779.0	1,393.0 [3]	Net income
Dividends paid in total	**€ million**	**13.0**	**21.9**	**21.9**	**26.4**	**45.0**	**297.0**	**59.0**	**69.5**	**87.0**	**157.0**	**Dividends paid in total**
Dividends per share [1]												Dividends per share [1]
Ordinary share	€	0.72	1.23	1.23	1.48	2.54	2.94 + 14.00	3.34	3.94	4.94	5.94 + 3.00	Ordinary share
Preference share	€	0.77	1.28	1.28	1.53	2.60	3.00 + 14.00	3.40	4.00	5.00	6.00 + 3.00	Preference share
DVFA/SG earnings per share [2]	€	4.10	4.80	13.00	13.70	17.20	27.80	35.20	–	–	–	DVFA/SG earnings per share [2]
Earnings per ordinary share	€	–	–	–	–	–	–	–	39.63	44.68	78.10	Earnings per ordinary share
Earnings per preference share	€	–	–	–	–	–	–	–	39.69	44.74	78.22	Earnings per preference share

[1] The years up until 1999/2000 have been adjusted according to the share split in fiscal year 2000/01.
[2] Deutsche Vereinigung für Finanzanalyse und Anlageberatung/Schmalenbach-Gesellschaft (German society of investment analysts). The years up until 1999/2000 have been adjusted according to the share split in 2000/01.
[3] incl. figures from discontinued operations of CTS Group

Overview of the Porsche Group (Capital Investment)



PORSCHE

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Content

Gasoline direct injection

The use of state-of-the-art gasoline direct injection in the new Cayenne engines reduces fuel consumption by up to 15 percent.

Porsche is excellently positioned for the Future

The waves of attention triggered by Porsche's acquisition of a stake in Volkswagen has now receded. Anyone who has examined our arguments openly and without prejudice over recent months can only agree with the industrial logic behind this far-reaching commitment. In purely investment terms, the participation has already paid off for Porsche. The value is now around one billion Euro higher, as can easily be seen from the increased stock-exchange rate for VW's shares. Porsche has two seats on the VW Supervisory Board, and can thus contribute its knowledge and experience to the Group. We are supporting the Group's Board of Management in its restructuring efforts and are seeking an open dialog at all levels.

Anyone who invests over three billion Euro in a holding must fully accept and uphold their responsibilities. Those who know us are aware that our commitment is not geared to short-term return, but is given with the future in mind. The stake has not only allowed Porsche to place its long-standing development and manufacturing partnership with VW on an even firmer foundation, but has also created the basis for more intensive and successful collaboration in the future. There is no doubt that the long-term objectives for our investment are being systematically pursued – to the benefit of both companies.

Porsche AG will increase its voting rights in Volkswagen to 25.1 percent to secure a generally applicable blocking minority once, as anticipated, the VW Act becomes invalid. Almost all legal experts believe that the European Court of Justice will declare key sections of the Act to be invalid, with this decision expected in fall 2007. We share the doubts about these provisions, particularly as they already prevent us from exercising in full our shareholders' rights at Volkswagen. Regardless of this, we remain firmly convinced that Volkswagen will return to the Champions League of the international automotive industry faster than is generally expected. Our involvement will also contribute to this.

The concern voiced by some critics that we might lose sight of our own business given the scope of the tasks at Volkswagen is unfounded. I can assure you that Porsche will remain the focus of our thoughts and actions, as, incidentally, was also the case during the decision-making process itself. We will do our very best to continue our company's success story in the future. And the outlook is favorable.

The next step in our product campaign will take place at the beginning of 2007 with the market launch of the new Cayenne. This model boasts an even more attractive design, new direct-injection petrol engines with optimized consumption and additional options for enhancing driving performance even further. These are our trump cards for offering our customers even greater added value. We are convinced that the new Cayenne will receive an extremely warm reception on the markets.

Since its introduction in 2002, our sporty off-road vehicle has sold over 140,000 units – a success that significantly exceeded even our own expectations. And this volume was achieved without any ex-works price rebates or discounts like the ones that are the order of the day for our competitors, particularly in the USA. The decline in sales of the Cayenne in North America can be largely offset by growth in other regions. Today, Porsche is represented in over 100 markets and thus has a wide international sales base. This is also one of the reasons for our company's current success.

We are counting on this powerful distribution network for the introduction of the Panamera in 2009. This will be our fourth model series after the 911, the Boxster/Cayman and the Cayenne. This attractive, four-door, premium-class sports coupé will offer sufficient room for four adults with luggage while still bearing the distinguishing marks of a genuine Porsche. As with the Cayenne, the Panamera will give us the opportunity to tap into entirely new customer groups for the company and the Porsche brand.

Until then, our growth will rely on the new Cayenne and our two sports car model series. Customers love the current generations of the Boxster, the Cayman and particularly the 911. Our strategy of providing variants has broadened our product range even further.

The 911 model series made the biggest contribution to our total sales in the review year. In the second half of the 2005/06 fiscal year, the current 911 Turbo, for example, provided the public with impressive proof of Porsche's present technical prowess in sports car construction. The enthusiasm generated by this vehicle is also reflected in the number of orders placed. In the first full sales year alone, Porsche is expecting sales of 6,000 units for the 911 Turbo. And through the 911 Targa we have demonstrated the optical potential of the 911 model series.

We are also more than satisfied with sales of the Boxster model series. The Cayman S, launched in December 2005 and joined in July 2006 by the basic version, gives us two extremely attractive mid-engined sports coupés. The Cayman captures the imagination with both its technical details and its unusual visual appearance. This thoroughbred sports car, which has filled the gap between the Boxster and the 911 Carrera, accounted for about 50-percent of sales in the Boxster model series in the last fiscal year.

Equally unfounded is the danger that growth could be at the expense of product quality. On the contrary: in major quality rankings, such as the J.D. Power study, Porsche now occupies top rankings. That is also a sign that we are fully in control of our production processes, whether in Zuffenhausen or Leipzig. Quality will remain a top priority at Porsche.

We demonstrate the same consistency when it comes to protecting our financial activities. Porsche takes profit margins much more seriously than unit numbers. The top position we enjoy as the world's most profitable automobile manufacturer guarantees our independence and our room for maneuver. As conscientious business people who look to the long term, we also know how important it is to be conservative in balancing our accounts, to use our financial resources efficiently and to look ahead to protect ourselves from possible future risks – such as currency fluctuations.

This far-sighted approach is also appreciated on the international capital markets. Launched at the beginning of 2006, our two bonds for financing the VW holding met with an extraordinarily high level of demand from investors and were hugely over-subscribed. They offered first-class conditions, even though Porsche does not have the relevant rating.

We can assure our customers, employees, partners and shareholders that we will not be resting on our laurels. It is easy to get used to sustained business success but it is imperative to fight hard for this success each and every day.

And hard work does pay off in the end. During the last fiscal year, our profits rose disproportionately to reach new dimensions. The reasons for this included specific factors such as the sale of our subsidiary CTS and the inclusion of the Volkswagen holding in our accounts. But even leaving aside these factors, profits from Porsche core business rose more steeply than sales. This shows that we know our business at Porsche. It is also clear that Porsche cannot achieve these record growth rates every year. One-off balance-sheet effects only influence profits in the short term. Nevertheless: we will maintain our course as far as profits are concerned.

You may rest assured that we will continue to put Porsche's success above everything else. That also holds true for our stake in Volkswagen, which will bring us good dividends in the future.

Dr. Wendelin Wiedeking
President and Chief Executive Officer

Company Boards

Members of the Supervisory Board

Prof. Dr. Helmut Sihler
Kaufmann
Chairman

Hans Baur*, Diplom-Ingenieur
Trade union secretary
Deputy Chairman

Maria Arenz*, Attorney
(until September 25, 2006)
Department head

Dr. Ludwig Hamm*, Diplom-Ingenieur
(from September 26, 2006)
Department head

Jürgen Kapfer*
Project manager

Uwe Hück*
Head of the works council of the Group
Head of the works council
at Zuffenhausen and Ludwigsburg

Dr. techn. h.c. Ferdinand Piëch
Chairman of the supervisory board
of Volkswagen AG

Dr. Hans Michel Piëch
Attorney

Dr. Ferdinand Oliver Porsche
Investment management

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
of Landesgirokasse

* Elected 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
(until July 31, 2006)
Diplom-Kaufmann
Sales and Marketing

Klaus Berning
(from November 2, 2006)
Sales and Marketing

Report of the Supervisory Board

During the fiscal year the Supervisory Board was kept informed in detail of the company's position, business progress and business policy by means of written and verbal reports from the Executive Board, and in joint meetings, and on the basis of this information has monitored the activities of company management. The Supervisory and Executive Boards have discussed the recommendations and suggestions arising from the German Corporate Governance Code on several occasions and have issued a declaration of conformity in accordance with § 161 German Stock Corporation Law (AktG). Comments on the declaration of conformity have been included in the 2005/06 annual report. The Supervisory Board also examined fundamental issues of corporate planning, in particular financial, investment and human resources planning.

Members of the Supervisory Board attended its meetings with only a few exceptions, and in the event of absence sometimes cast their votes on resolutions in writing. The Supervisory Board has appointed a standing committee to perform the mediating function in accordance with § 27 Paragraph 3 German Co-determination Law (MitBestG) and also a subsidiary function as a human resources committee. The Supervisory Board has conducted an efficiency test in the form of a self-assessment.

Business activities requiring the approval of the Supervisory Board were discussed in detail at the four regular meetings of the Supervisory Board and the four meetings of the standing committee before resolutions were taken. At these meetings the Supervisory Board satisfied itself that the Executive Board is duly conducting the company's business and has taken all the necessary measures in good time and effectively.

In addition, at an extraordinary meeting the Supervisory Board looked in great depth at the investment in Volkswagen AG planned by the Executive Board and based on this gave its approval of this measure. Dr. Ferdinand Piëch did not participate in the resolution concerning the investment in Volkswagen AG. A second extraordinary meeting dealt with the sale of CTS Fahrzeug-Dachsysteme GmbH, which was likewise approved by the Supervisory Board.

Between the meetings, the Supervisory Board was informed continuously, comprehensively and without delay by the Executive Board on market developments and the progress of corporate divisions. Prime importance was attached to monthly reports containing and explaining significant current quantity and financial data with reference to the budget and previous year's figures. The Supervisory Board has examined the main planning and decision-making documents and satisfied itself that these are correct and adequate.

The Supervisory Board was also provided with a dependent company report prepared by the Executive Board in accordance with § 312 AktG. This audit did not give rise to any objections. The auditor audited the dependent company report and issued the following opinion:

"Based on our audit and assessment in accordance with professional standards, we confirm that

1. the actual disclosures contained in the report are correct,

2. the payments made by the company in connection with transactions detailed in the report were not unreasonably high."

Following its own examination, the Supervisory Board approved the result of the audit of Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, at its meeting on November 15, 2006 which was also attended by the auditor. Based on the results of the examination by the Supervisory Board, it has concluded that no objections need to be raised against the final declaration of the Executive Board in the dependent company report.

The financial statements of Porsche AG and the consolidated financial statements prepared by the Executive Board for the 2005/06 fiscal year were examined, with reference to the bookkeeping and the combined management report for the AG and the Group, were audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, who had been elected by the shareholders’ annual general meeting held on January 27, 2006. The audit included the Executive Board’s measures for the early identification of risks that could endanger the company’s success or survival. The auditor did not have any reservations and certified this by rendering an unqualified opinion.

The financial statements of Porsche AG, the consolidated financial statements and the combined management report on which Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, rendered their unqualified opinion, as well as the audit reports of the auditor were submitted to the Supervisory Board for review. The Supervisory Board, following examination of the documents submitted to it in accordance with § 170 Paragraphs 1 and 2 AktG and the audit reports, has concluded on the basis of the results of its examinations that no objections need to be raised, and has approved the results of the audit report of Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart.

At the meeting of the Supervisory Board on November 15, 2006 at which the financial statements were ratified and the consolidated financial statements approved, the auditors signing the financial statements were present for the relevant point on the agenda and reported on their audit of the financial statements and consolidated financial statements. The Supervisory Board has approved the financial statements and the consolidated financial statements for the 2005/06 fiscal year. The annual financial statements are thus ratified. The Supervisory Board agrees with the management report prepared by the Executive Board. After its own review, the Supervisory Board also agreed to the Executive Board’s proposal for the appropriation of profit.

The Supervisory Board expresses its gratitude to the Executive Board, the employees' elected representatives and all employees in acknowledgement of their dedicated work in the past fiscal year.

Stuttgart, November 15, 2006

The Supervisory Board
Prof. Dr. Helmut Sihler
Chairman

Group Management Report
and Management Report
of Dr. Ing. h.c. F. Porsche AG

Lightweight construction

The highly torsion-resistant bodyshell of the Cayman models guarantees maximum driving enjoyment.

Once more, Porsche has closed a fiscal year with record sales, turnover, production and profit. Special influences – such as its investment in Volkswagen – prompted a clearly disproportionate jump in profits.

Economy Soaring

The global economy experienced significant growth during the reporting year. The US economy provided the main impetus, coupled with unabated growth in China. Also, both Japan and the Euro zone recovered from the weak phase they had endured. Thanks to the strong earnings situation of many companies and the fact that interest rates have remained moderate, the factors buoying the economy were far stronger than any negative effects caused especially by the rise in the price of oil, which at times was extreme, and a more restrictive monetary policy in the USA and Europe.

The development in the Euro zone was positive on the whole, as Germany and Italy regained their strength after a long period of zero growth. As a result, the economy in the Euro zone gained pace at a rate unparalleled for many years now. The recovery that started in the second half of 2005 developed into a real upswing in the spring and summer of 2006.

Germany played the leading role for the European economy, making up around 28 percent of economic output in the EU. The German economy displayed more growth in 2006 than experts had initially forecast. In August 2006, just a few days after the end of the Porsche 2005/06 fiscal year, growth forecasts were adjusted and in some cases corrected upwards by more than two percent for the whole of 2006. With companies more competitive, Germany continued to benefit greatly from the upturn in the global economy.

One particularly pleasing aspect for the German economy was the revival of domestic demand after years of stagnation. This growth was attributable equally to capital expenditure and spending by private consumers. These two developments may be special effects resulting from the government's plan to increase VAT by 3 percent and abolish the first-time home-buyers grant in 2007. Nevertheless, the dynamism of the global economy shows that any possible negative effects from these tax measures should not be overestimated.

Porsche Sets a New Record

Once again, Porsche generated record unit sales in the reporting year. This growth was driven by the new models in our sports car range. There was an extraordinary level of demand for the 911 from customers all over the globe. The success of this series peaked again shortly before the end of the fiscal year in June 2006 with the market launch of the new 911 Turbo. Furthermore, both versions of the new mid-engined coupe Cayman met with a high level of acceptance during their first year of sale. As expected, sales of the Cayenne declined somewhat after the first model generation of the sporty all-terrain vehicle reached the end of its life cycle.

At the same time, unit sales for the Cayenne in the reporting year matched the high level of the 911. 34,134 vehicles from Porsche's third series were sold, after sales of 41,884 units in the previous fiscal year. Unit sales break down into 13,077 standard-version vehicles with six-cylinder engines and 15,088 Cayenne S vehicles. A total of 5,969 units were sold from the Cayenne Turbo and the new Cayenne Turbo S series, the latter of which was launched in January 2006.

The course for growth set by the 911 was extremely impressive. The model achieved growth of 23.6 percent with sales of 34,386 units – a new unit sales record. The start of sales of the GT3 and the Turbo in June 2006 more or less marked the completion of the launch of the new generation of the classic 911 on global markets in the reporting year. After the close of the fiscal year 2005/06 this was followed by the 911 Targa model, which has been available from dealers since November 2006. As far as the 911 Carrera is concerned, the S version was particularly popular, with 66.6 percent of all Carrera customers going for the higher-performance model. 43.4 percent of customers chose one of the Cabriolet versions and 41.1 percent of Carrera unit sales related to the new all-wheel drive versions of the 911 that were brought to market in October 2005.

The new Cayman S has been introduced gradually onto international markets since November 2005. By the end of the reporting year, unit sales for the mid-engined coupe – allocated to the Boxster series – totaled 12,868. In July 2006 the standard version of the Cayman was added to the range and 1,134 vehicles were sold before the end of the fiscal year 2005/06. The entire Boxster series benefited significantly from the success in unit sales, increasing by 55.0 percent to 27,906 units. The Boxster and Boxster S held their own in the roadster segment, which was characterized by tough competition at a global level. 8,430 standard-version vehicles were sold in the reporting year. The higher-performance Boxster S accounted for 5,474 of these, equivalent to 39.4 percent of sales. In the previous year, sales of the S version made up 45.9 percent in total. The Boxster series was enhanced in the new 2006/07 fiscal year to include modern, lower-consumption VarioCam Plus engines in both roadster versions.

Including the high-performance sports car Carrera GT, which was phased out in May 2006 and of which 368 vehicles were sold (previous year: 660 units), the Porsche Group sold a total of 96,794 vehicles in the fiscal year 2005/06. Compared to the 88,379 units sold in the previous year, year-on-year growth amounted to 9.5 percent.

Once again, group unit sales in the reporting year were lower than the number of vehicles actually produced. This was mainly due to the fact that vehicles used for internal use within the Porsche Group are not recorded as new car sales. These include company cars and leased cars for employees, test vehicles, vehicles for the company fleet, test cars for the press, presentation vehicles and demo vehicles as well as replacement cars for customers for the sales companies and for dealers within the Group. These vehicles are generally sold as used cars and are thus not included in new car sales at the Porsche Group.

High-level Demand Around the Globe

There was a great deal of global demand for Porsche vehicles in the reporting year. While North America remained the largest market in terms of unit sales, sales rose at an especially fast pace in developing markets such as China and Russia. The high growth rates on these export markets are attributable to the popularity of the Cayenne there. Porsche was also able to capitalize on the success of the previous fiscal year in the Middle East, Latin America and southern and eastern Europe. In total, unit sales on the export markets outside of North America rose by 12.7 percent to 45,442 units.

In North America unit sales reached a new record figure of 37,431 vehicles (previous year: 34,143 units), constituting growth of 9.6 percent. This success was driven by the sports car series. The 911 rose by 42.2 percent to 13,783 vehicles. The Boxster series completed the fiscal year up 51.9 percent at 11,164 units. This figure includes 6,119 vehicles from the new Cayman S range that was launched in the USA in January 2006 and the Cayman range, sales of which started in July 2006. At 12,336 units, sales of the Cayenne were weaker in the reporting year (down 26.1 percent). It should be noted, however, that Porsche did not use rebates to push sales even in the Cayenne's fourth year on the market. Unit sales of the Carrera GT amounted to 148 units in North America (previous year: 412 units). At 38.7 percent, the share of the North American region in Porsche's total unit sales remained unchanged.

The weak situation in Germany at the beginning of the reporting year in particular did not prevent Porsche from matching the unit sales figure for the previous year. 13,921 vehicles were sold, thus even increasing the figure marginally by 0.1 percent. With growth of 16 percent, the 911 recorded sales of 6,365 vehicles. The Boxster series was up by 42.7 percent to 4,003 units, 1,706 of which related to the new Cayman S and Cayman models. 3,508 Cayenne vehicles were sold, down by 36.7 percent in a year-on-year comparison. In addition, 45 Carrera GTs were sold after 69 units in the previous fiscal year.

Sales Revenue Continues to Grow

Sales in the Porsche Group increased by 10.6 percent to a new record of 7.273 billion Euro (previous year: 6.574 billion Euro) in the reporting year. It should be noted that CTS Fahrzeug-Dachsysteme GmbH was sold to Magna International Inc., Aurora, Ontario, Canada. The sale of CTS Fahrzeug-Dachsysteme GmbH, which recorded sales of 318 million Euro in the previous fiscal

year, took effect as of the second half of the fiscal year 2005/06. Thus only the sales recorded up until this date – a figure of 150 million Euro – were included in this fiscal year.

Once again, the majority of group sales were recorded in the vehicles division. This figure amounted to 6.733 billion Euro (excluding CTS) and represents growth of 14.1 percent. The financial services entities recorded sales of 389.5 million Euro, mainly from leases, loans and credit cards. Porsche AG accounted for 6.12 billion Euro of total sales.

After the end of the fiscal year, Porsche Engineering Services (PES) in Wilmington, Delaware, was sold to Magna International Inc., Aurora, Ontario, Canada. Until September 2006, PES belonged to Porsche Engineering Group GmbH in Weissach and primarily processed development contracts for the American market. Since PES was taken over by Magna International, all of Porsche's development projects for external customers worldwide have been centralized in Weissach.

Increased Production

The number of vehicles produced rose considerably during the reporting year. Including the 16,297 Cayman and Cayman S models assembled in Finland and the total of 14,383 Boxster and Boxster S models, 102,602 vehicles rolled off the production lines. This is equivalent to growth of 12.8 percent in a year-on-year comparison.

A significantly higher number of vehicles were manufactured, especially with respect to the new sports car generations. Production of the 911 in Stuttgart-Zuffenhausen was stepped up by 27.6 percent to 36,504 units. This already included 2,150 vehicles from the new 911 Turbo range, sales of which started in June 2006. On account of the high demand for the models from the 911 and Boxster series, almost all Boxster and Cayman production was carried out by our partner in Finland. Production of the Cayenne in the Leipzig plant fell by 14.9 percent to 35,128 vehicles in connection with the product life cycle. In addition to the sporty all-terrain vehicle, 290 Carrera GTs were manufactured in Leipzig in the reporting year (previous year: 715) before production of the model ceased in May 2006.

High Development Costs

The expenses for internal developments continued at a high level in the reporting year. On the one hand, development work was downsized after the market launch of the new sports car generation spread over the two previous fiscal years. On the other hand, expenses were incurred for new model versions such as the 911 GT3, the 911 Turbo and the 911 Targa. There were also expenses for the Cayman and Cayman S as well as for the development of the new Cayenne. The sporty all-terrain vehicle will be launched on the global markets gradually from the beginning of 2007. In addition, the first development costs for the four-door sport coupe Panamera have already been incurred.

More Jobs Created

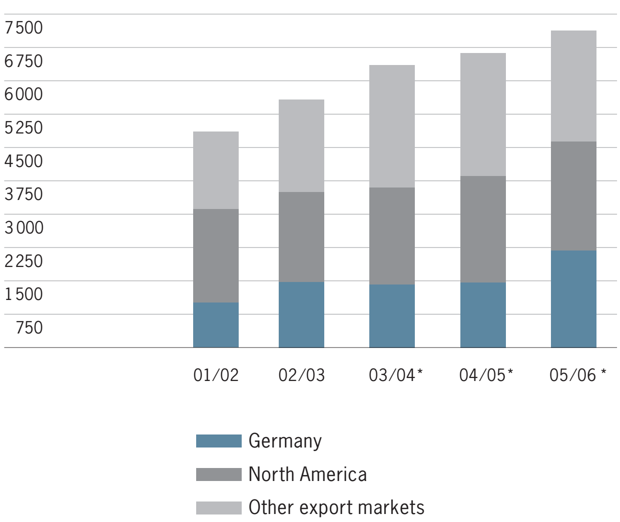
The Porsche Group once again created jobs in the fiscal year 2005/06. Adjusted for the sale of CTS Fahrzeug-Dachsysteme GmbH, the headcount rose by 3.8 percent to 11,384 as of the cut-off date. CTS Fahrzeug-Dachsysteme GmbH had 910 employees in the previous year and has now been sold. Most of the new jobs created in the Porsche Group during the reporting year were in the area of research and development and in the services sector. On a standalone basis, the headcount of Porsche AG totaled 8,257 employees as of the cut-off date (7,995 in the previous year).

Directly after the end of the fiscal year, the headcount of the Porsche Group was reduced by a further 126 to 11,258 employees on account of the sale of Porsche Engineering Services (PES) in Wilmington, Delaware, in September 2006.

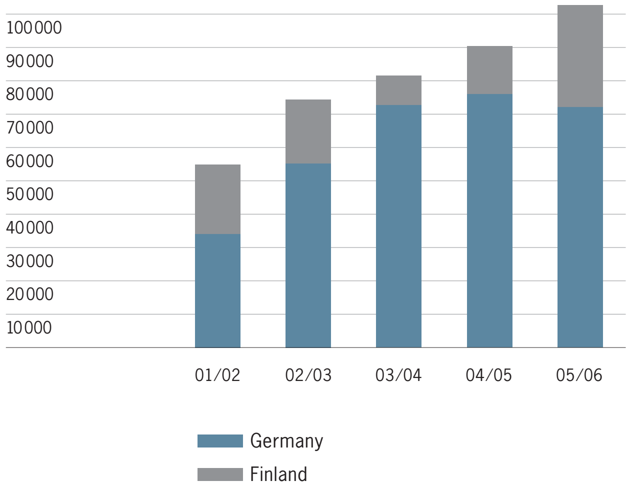
Increased Productivity

Porsche has been continuously testing its processes for years now. Process optimization is a cornerstone on which company policy and the agreed-upon objectives of the executives are based. Activities to optimize business processes are initiated and implemented primarily using the Porsche improvement process (PVP) and Porsche process optimization (PPO). The annual potential for improvement ranges from three to six percent.

Revenue in million Euro *Calculated according to IFRS



Porsche Vehicle Production in units



For years now, the PVP has involved searching for potential for optimization in all areas, which is then realized in the course of PVP projects and workshops. In the past year alone, the business areas successfully carried out around 200 projects and workshops with the support of the PVP organization. To complement this, the concept of PPO was introduced in 2004. Its aim is to tap potential for further growth in the future using the resources currently available. In the reporting period the processes for planning and controlling vehicle projects were optimized for all divisions and series – also with respect to the fourth series.

Porsche Clocks Up Record Result

Once again Porsche succeeded in increasing the Group's extremely high pre-tax result of 1.238 billion Euro in the previous fiscal year even further. One pleasing development here was that the result from the vehicle division increased at a stronger rate than the corresponding sales revenue, mostly thanks to a better model mix in terms of profit margin. The unusually high rise in the result in the reporting year to a total of 2.110 billion Euro is due, however, to special factors and non-recurring effects.

These extraordinary effects include the sale of CTS Fahrzeug-Dachsysteme GmbH, which resulted in a book gain of 80.7 million Euro, and the Porsche income from the equity investment in Volkswagen AG.

As the equity investment in Volkswagen is consolidated at equity, pro rata net income of Volkswagen AG must be allocated to the Porsche Group. Porsche's share of 21.2 percent of the ordinary shares corresponds to 15.4 percent of the ordinary and preference shares issued by Volkswagen AG. The amount disclosed by the Porsche Group as income totaled 203.4 million Euro. The dividend for the equity investment of 21.2 percent of the ordinary shares held in Volkswagen AG at the end of the fiscal year amounted to 68.3 million Euro. This dividend was recorded as income from equity investments at Porsche AG. Income from hedging transactions in connection with the purchase of a further 3.9 percent in Volkswagen AG amounted to a figure well in excess of 100 million Euro.

Porsche achieved an excellent earnings level in the reporting year in comparison with its competitors thanks to improved productivity, a stringent approach to costs and prudent hedging with respect to major currencies such as the US dollar. The Group's net income for the year (earnings after taxes) rose to 1.393 billion Euro after 779 million Euro in the previous year. Our equity investments in Germany and abroad contributed to the positive earnings development.

The pre-tax result calculated in accordance with German Commercial Code (HGB) rose to 1.668 billion Euro at Porsche AG; in the previous year this figure stood at 872 million Euro. Net income for the year increased from 528 million Euro to 1.254 billion Euro. In addition to the operating business, the dividends from the equity investments of 506.8 million Euro, the book gain from the sale of CTS Fahrzeug-Dachsysteme GmbH and hedging results all played a role here.

Further information on the result of operations is provided in the consolidated financial statements including the notes as well as the section on finances.

Capital Expenditures and Depreciation

Capital expenditures continued to run at a high level in the reporting year. This was due to the expansion in business volume, the preparation of new model versions and the renewal of equipment in the Porsche plants, as well as to a large number of construction projects within the Group. In Zuffenhausen, these measures include the extension of the vehicle assembly line and expansion of the engine factory in preparation for the production of the Panamera. The Weissach plant incurred costs for a new drive center and a motor sport center. The first steps towards expanding the Leipzig factory involved new staff parking spaces and other infrastructure measures. Additionally, construction of the new museum at Porscheplatz in Zuffenhausen is also underway. As a result, capitalized investments for construction in the reporting year exceeded 40 million Euro not including the purchase of real estate.

407.4 million Euro was invested in property, plant and equipment and intangible assets (previous year: 370.7 million Euro). At our financial services entities, capital expenditures on spending on leased assets amounted to 551.9 million Euro after 543.6 million Euro in the previous year. Capital expenditures on property, plant and equipment and intangible assets at Porsche AG accounted for a figure of 361.7 million Euro in the fiscal year 2005/06. This included various rationalization projects such as the ongoing modernization of the IT systems, the replacement of existing assets, and measures related to environmental protection. A figure of 3.123 billion Euro was invested for the purchase of the 21.2 percent equity investment in Volkswagen AG. Porsche also concluded hedges that relate to the purchase of a further 3.9 percent of the ordinary shares in Volkswagen AG.

At 488.8 million Euro, depreciation, amortization and write-downs in the Group remained more or less at the level of the previous year despite increased production of sports cars. The financial services entities recorded depreciation, amortization and write-downs of 164.8 million Euro (previous year: 174.6 million Euro).

Bonds Placed Successfully

In January 2006, Porsche placed two bonds on the market via Porsche International Financing plc, Dublin. One of the bonds is a Euro bond with a nominal volume of two billion Euro, split into two tranches with a nominal volume of one billion Euro each and terms of five and ten years. The other bond was a hybrid bond denominated in US dollars with a nominal volume of one billion US dollars. Demand from investors for the two bonds was extremely high so that they were oversubscribed several times over. As Porsche does not have a rating, this phenomenon bears special testimony to the company's excellent reputation on the international financial markets.

The hybrid bond is subject to annual interest of 7.2 percent. The nominal interest on the two tranches of the Euro bond is 3.5 percent p.a. (five-year term) and 3.875 percent p.a. (ten-year term). The hybrid bond does not have a maturity date. Porsche can terminate the bond for the first time after five years. Interest remains at the same level over the entire term, thus providing planning certainty. As a result the investor bears the risk of interest rate fluctuation. Porsche decides if and when the bond is to be repaid. On the whole a very opportune time was chosen to issue the bond.

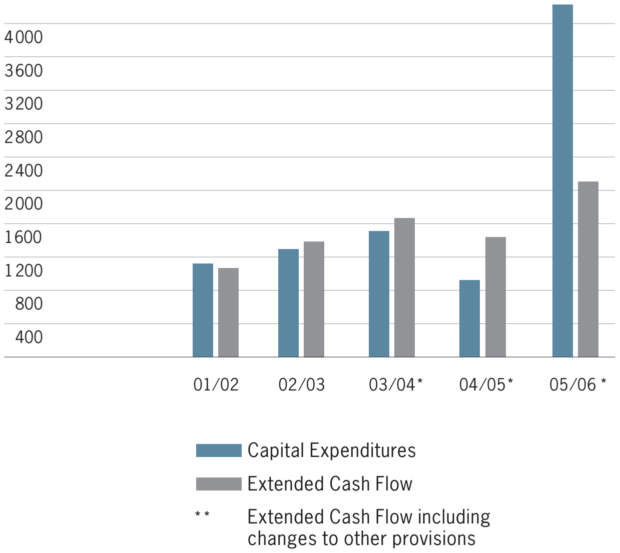
Financial Structure: Increased Cash Flow

The extended cash flow – including changes to other provisions – rose in the course of the reporting year. At 2.101 billion Euro, the figure was significantly higher than that of the previous year (1.332 billion Euro). Net liquidity was characterized by inflows from operating activities and would have increased substantially had it not been for the equity investment in Volkswagen AG. The purchase of 21.2 percent of Volkswagen's ordinary shares meant that net liquidity fell to 1.881 billion Euro (previous year: 2.355 billion Euro).

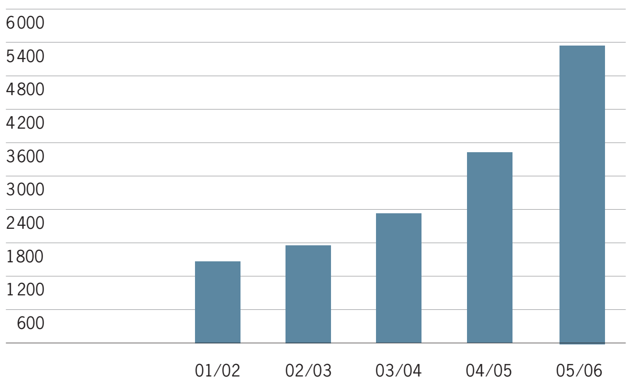
Group equity went up by 1.956 billion Euro to 5.376 billion Euro, also reflecting the issue of the hybrid bond that is reported as equity in the balance sheet.

Capital Expenditures and Extended Cash Flow in million Euro**

*Calculated according to IFRS



Equity in million Euro



Decision in Favor of Panamera Production in Leipzig
Porsche plans the large-scale expansion of the Leipzig plant for the four-door sport coupe Panamera due to appear on the market in 2009. A new production hall with an area of around 25,000 square meters and a logistics center with an area of 23,500 square meters will be built there. Capital expenditures on the new buildings and manufacturing facilities will total 150 million Euro.

The engines of the Panamera will come from the headquarters in Zuffenhausen. The painted bodyshells will be supplied by the Volkswagen factory in Hanover. Porsche decided in favour of the Hanover plant because it is one of the newest and most modern in the Volkswagen group. It has one of the largest press shops in Europe and a highly flexible paint shop that offers a larger range of colors than the other Volkswagen plants.

The assembly of the Panamera will create roughly 600 new jobs at Porsche Leipzig, with recruiting commencing in 2008. There will also be a knock-on effect of 600 new jobs at suppliers in the Leipzig region. At Porsche's locations in Zuffenhausen and Weissach, the Panamera will result somewhere in the region of 400 new jobs by 2009. 500 employees will produce the painted bodyshells in the Volkswagen plant in Hanover. After the 911, the Boxster series including the Cayman, and the Cayenne, Porsche intends to use its fourth series to broaden its customer basis further and step up market penetration in order to safeguard long-term growth.

Thanks to Employees, Business Associates and Shareholders
Once again, the reporting year called for exceptional commitment on the part of Porsche's employees in all divisions, in Germany and abroad. The renewed expansion of the production of sports cars, the preparation of new models, and the global presentation of the Cayenne Turbo S, 911 Turbo, Cayman and Cayman S to journalists, dealers and customers were just some of the special challenges faced by our staff. Others included further sales and marketing and development activities. The Executive Board would like to thank all those involved for their dedication. As a token of our appreciation, as in previous years, we will share the good operating result with all of those staff members who are covered by collective bargaining agreements and have been with the company for at least a year.

We would also like to thank our shareholders, who have once again displayed their trust in the company's promising prospects, the employees' elected representatives, who worked together with the management on far-reaching strategic decisions, as well as our suppliers and business associates in the sales organizations. Without their support it would not have been possible for Porsche to achieve its ambitious goals, let alone to far outperform these goals.

Risk Management System
According to § 91 Paragraph 2 German Stock Corporation Act (AktG), Porsche is required to operate a risk management and early warning system. Trade law also calls for reports to be issued on future developments and the opportunities and risks associated with them. Annual planning meetings are therefore held to examine and evaluate the opportunities and risks associated with all business activities. Objectives are then drawn up and the degree to which they are fulfilled is monitored during the year by the Group-wide controlling and reporting system. If any changes to or deviations from the

market or competitive situation develop, this monitoring system records and analyzes them immediately, as well as supplying details without delay to the company's decision-takers. This procedure allows negative trends to be identified without loss of time and immediate countermeasures to be taken. In addition to the regular reporting process, internal ad-hoc reporting takes place if unexpected risks occur. The company's Risk Management and Internal Auditing business areas monitor the adequacy and efficiency of the entire risk management system centrally. If scope for improvement is detected, details are supplied without delay to the Executive Board and the improvements then implemented. This monitoring process also includes the continuous documentation of all risk management and early warning activities and examination of their suitability and practicability.

Continuous Monitoring of Business Processes

The auditors of the financial statements have, as in previous fiscal years, evaluated the early warning system as implemented in the reporting year, and confirmed that it complies with legal requirements and that the system has not indicated the presence of any occurrences at Porsche that could have a significant and lasting effect on the company's assets or its financial and earnings situation. Risks can never be completely eliminated. Natural catastrophes or an escalation of terrorist activities, potential pandemics or legislative changes for taxes and customs in individual export markets could affect sales of Porsche vehicles. Recessionary 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, as the largest sales regions, are particularly critical for Porsche. By means of continuous, intensive market observation, however, and the early warning indicators that it has installed, Porsche is able to identify any incipient drop in sales without undue delay, and modify its production plans or divert sales flows as a means of limiting the negative effects with which the company would otherwise be confronted. A further increase in crude oil and raw material prices could also restrict Porsche's profitability. Raw materials and crude oil form the basis for several components. Any price increase leads indirectly to a rise in materials and production costs. Porsche monitors the raw materials markets and endeavors to minimize the cost risk by way of long-term supplier agreements. Like any other manufacturing company, Porsche is also affected by the development in energy prices stemming from market and fiscal policy. The rise in fuel prices and the increasing demands to reduce fleet consumption and exhaust emissions are leading to ever-increasing standards for engine and product development.

In the financial area, Porsche's strategy is to hedge in the medium term against movements of the most important foreign currencies and to ensure a stable basis for its planning, taking the Group's medium- and long-term sales targets for vehicles, Tequipment, spare parts and 'Selection' articles into account. To protect itself against exchange rate movements, Porsche makes use of familiar tools such as options and futures, in cooperation with top-ranking partners. The nature and extent of these agreements are laid down by internal guidelines and processed centrally by the company's Treasury department. Porsche also pursues a policy of maximum financial security with regard to the assurance of liquidity. Bond issues have been undertaken, but are held in reserve and currently earn interest since there is adequate liquidity available from operative business. Possible interest risks are secured by the conclusion of interest swaps or options. The Group operates an intensive receivables management system in order to limit the risk of default.

Another business area that requires ongoing precautionary measures is leasing. Its expansion, in parallel with increased vehicle sales for some years now, has increased the residual value risk involved in the disposal of vehicles returned to Porsche financial services entities at the end of the relevant lease agreements. 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 vehicle lease agreements. Residual risks are taken into account in the Porsche Group balance sheet. Another risk which Porsche and other companies face is the loss of qualified staff and executives. Thanks to the attraction of Porsche as an employer and its current personnel development programs, however, employee satisfaction

remains high, and this reduces the risk of losing know-how through workforce fluctuation.

Risks also ensue in relation to information technology. Unauthorized attempts to access or misuse data could severely disrupt operating procedures. The company 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. This program is 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 processes could, however, suffer serious and lasting disruption through unexpected events that cannot be completely ruled out, 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, the company has developed communication strategies that allow it 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 communicated. As is the case with any other company, Porsche may become involved in court or arbitration proceedings. At present there are no proceedings which could have a material impact on the economic position of the Group.

Extensive Quality Assurance Measures
Automobile manufacturers now work very closely with their suppliers on product development and series production, so that synergy benefits arise. However, despite the economic advantages, this creates for the manufacturer a situation of increased dependence on the supplier. Late deliveries, failure to deliver, or quality deficiencies quickly lead to disruption of production at the car manufacturer's plants, with a negative effect on profits. Porsche has limited risks of this kind by adopting comprehensive supplier selection, monitoring and management procedures. An in-depth analysis and assessment of the suppliers' technical competence and financial viability is undertaken before they are selected and classified. If a supplier does not fully satisfy Porsche's carefully compiled requirement profile, but a contract is nevertheless to be awarded, skill development measures are implemented. As and when regular deliveries start, a thorough check is made on the quality of the 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. To safeguard against supplier insolvencies and the related interruptions in supply, Porsche records and monitors its suppliers' credit ratings. Suppliers threatened by insolvency can thus be identified at an early state and appropriate countermeasures can be taken. 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 law, and product recalls may even be necessary. Identifying and analyzing product defects in the various sales markets allows Porsche to detect any reduction in product quality, and its causes, at an early stage. An interdisciplinary task force has been set up and meets weekly to discuss product quality, analyze the causes of product defects, and initiate appropriate remedial action. This 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 is also made for warranty claims.

As far as the development of new products is concerned, there is a fundamental risk that customers will have no demand for the new product. Porsche counters this risk with market surveys and studies concerning trends. Furthermore there is always the danger that development targets will not be met, or at least not by the deadlines specified. To reduce this risk, Porsche monitors project progress on a constant basis, comparing progress with the requirements originally defined. Last but not least, the infringement of third parties' rights can disrupt design and development work or production. Porsche takes preventive measures here too. To protect itself from possible infringements of rights, it conducts research that systematically determines and evaluates the industrial property rights of third parties.

Dependent Company Report Drawn Up

As mentioned in the report for the previous fiscal year, the structure of the holders of Porsche AG ordinary shares has changed in recent years as a result of restructuring of their holdings. As in the previous year, in accordance with § 312 German Stock Corporation Act (AktG) Porsche has been recommended by its legal advisors to draw up a report on relations with companies associated with holders of ordinary shares (a dependent company report). The conclusions of this report are as follows: "In accordance with the circumstances known to it when the legal transactions stated in the report were conducted, Dr. Ing. h.c. F. Porsche AG has rendered or, as the case may be, received reasonable payment. There were no measures calling for submission of a report in accordance with § 312 Paragraph 1 Sentence 2 German Stock Corporation Act (AktG)".

Outlook

Although the effect of crude oil price increases on demand is difficult to quantify, expansion of the world economy is likely to continue and the prospects for 2007 are basically favorable. The leading economic analysts in Germany expect a growth rate in the global economy of three percent. The upswing in the Euro zone could even gain momentum and lend additional impetus to the global economy.

However, these positive forecasts are based on the assumption that the oil price will not rise further, but fall to substantially below the peak levels of 2006. The amount of oil used should be lower than the amount produced, despite the high level of growth in China and other emerging countries. The assumption here, however, is that there will be no serious bottlenecks in production which – in light of the geopolitical risks in the Middle East and Iran in particular, and also of the risk of natural catastrophes – may quickly turn out to be incorrect. The oil price remains one of the largest risks for the global economy.

The effect of the more restrictive US monetary policy on the development of the US economy is still difficult to assess. The more interest rates rise, the more probable it is that real estate prices in the USA will have to be adjusted considerably. The price of real estate has stimulated private consumption in recent years, and now the opposite effect may be observed. The large deficit in the balance of payments of the USA remains a risk which could lead to a noticeable weakening in the US dollar and a continuing rise in interest rates. A subsequent collapse of the US economy could also have a major impact on the global economy. Without these negative effects, the economy of the USA is expected to weaken just gradually, but retain its upward development on the whole.

Both in Japan and in Europe, the prospects are generally positive enough to be able to compensate for the effects on the global economy of any slight cooling off in the USA. If at all, the factors stimulating growth are only expected to weaken marginally, as the global economy is growing at a somewhat slower pace and the monetary policy of the European Central Bank is returning to a more restrictive course. The development of the Euro exchange rate will play a decisive role in the economic prospects of the Euro zone. If the dollar weakens, especially those companies in Germany that are heavily dependent on exports would be particularly hard hit. The development of the largest national economy in the EU hinges on the effect of political decisions, particularly the increase in VAT that will come into force in 2007. Economic analysts expect that there may be no growth in demand in the area of private consumption next year.

Despite these economic uncertainties, Porsche is confident about its corporate prospects for the 2006/07 fiscal year. Its range of sports cars is the youngest in company history, and the presentation of the Cayman has boosted the attractiveness of the Boxster series even further. On the other hand the roadster segment was recently affected by a major global drop in demand. Sales of the Cayenne in the first half of the 2006/07 fiscal year will also suffer from phase-out of the first model generation. However, in 2007 the sales figures for our sporty all-terrain vehicle will increase once again with the market launch of the new Cayenne.

In view of the further increase in the size and appeal of its product range, but also its ongoing penetration of new markets, particularly in Asia, Porsche aims to achieve unit sales in the current fiscal year that at least match the high level of the previous year. We expect the result to remain at a high level. At the same time it should be noted that the result of the 2005/06 fiscal year was shaped by special effects and non-recurring effects. In addition, it is important to remember that much higher expenses will be incurred in the 2006/07 fiscal year than in the reporting year in connection with the development of the sport coupe Panamera.

Stuttgart, October 11, 2006

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


S GO 180

Declaration of Conformity with the Corporate Governance Code

The Background
On February 26, 2002 the Federal German Government Commission on the Corporate Governance Code introduced a code of behavior 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.

In November 2002, May 2003 as well as in June 2005 and June 2006 the Corporate Governance Code was updated. For the period between October 24, 2005 and July 23, 2006, the following declaration of conformity is based on the version of the code from June 2, 2005. For the corporate governance practice of Porsche AG since July 24, 2006, the following declaration of conformity is based on the version of the code from June 12, 2006 which was published in the electronic version of the Federal Gazette (Bundesanzeiger) on July 24, 2006.

Declaration of Conformity by Porsche AG
Porsche AG complies with the vast majority of the non-mandatory regulations of the Code. However, it does not comply with a number of regulations, primarily as a result of company-specific factors. These regulations, which were not complied with in the past and which will not be complied with in future, are listed below, together with the reasons for current and future non-compliance:

"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."

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.

"The supervisory board should establish an audit committee which, in particular, deals with 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 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."

The special features of Porsche's shareholder structure require that all members of the Supervisory Board receive the same quality and volume of information on all important topics. It has always been characteristic Porsche 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 financial statements with the auditor.

"Shares in the company or related financial instruments held by members of the executive and supervisory boards should be reported if they 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."

All the ordinary shares are owned by the Porsche and Piëch families; the share ratios are published as required by share trading legislation.
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 § 15a German Securities Trading Act (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."

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.

"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."

This recommendation does not allow for the special character of Porsche AG'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 AG and undertake supervisory functions as co-owners. We see no conflict of interests here.

"Shareholders and third parties are mainly supplied with information by the consolidated financial statements. They are to be informed during the fiscal year by means of interim reports."

The company issues interim reports. However, Porsche rejects quarterly reporting on principle; the reasons have been explained in detail.

"The total compensation of each member of the executive board is to be disclosed by name, divided into non-performance-related, performance-related and long-term incentive components, unless decided otherwise by the General Meeting by three-quarters majority."
"Disclosure should be made in a compensation report which as part of the corporate governance report describes the compensation system for executive board members in a generally understandable way.
(...) In the case of pension plans, the allocation to accrued pension liabilities or pension funds are to be stated each year. The substantive content of severance awards for executive board members should be disclosed if in legal terms the awards differ significantly from the awards granted to employees. The compensation report should also include information on the nature of the fringe benefits provided by the company."

We show the salaries of the members of the Executive Board subdivided into fixed and performance-related components. Porsche AG does not operate a stock option scheme. We do not comply with the recommendation of the Code to show the payments to board members to be shown individually. 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 board members' salaries are based. In any case, the German Directors Remuneration Disclosure Act (VorstOG) applicable for the financial statements and consolidated financial statements for the fiscal year beginning after December 31, 2005 leaves it up to the annual general meeting to pass a resolution with a three-quarters majority of the share capital entitled to vote against the publication of the salaries of the individual board members.
A resolution to this effect was adopted unanimously at the annual general meeting of Porsche AG on January 27, 2006. As a result, the required information can be omitted for five years.

"Members of the supervisory board should be elected individually."

In view of our specific shareholders' structure, we consider this recommendation to be unreasonable under normal circumstances.

"Payments to the members of the supervisory board should be reported individually in the corporate governance report, subdivided by component."

We show payments to the Supervisory Board in the notes to the financial statements presented in the annual report 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 by laws.

"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."

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 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 a family-owned business and is therefore not complied with.

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

Finances

Modular glass roof

Twice as large as the Carrera’s sliding roof: the new Targa’s lightly tinted glass roof.

As a result of a better model mix, Porsche is increasing its profit from vehicle sales more dramatically than its turnover.

New Records Set
In 2005/06 the Porsche Group once again concluded a fiscal year with record results in key financial areas. Unit sales, sales revenues and earnings all improved yet again in comparison with the previous year. As a consequence, the consolidated balance sheet total rose by 4.919 billion Euro to 14.629 billion Euro. In terms of the effects on the income statement, the following figures only contain activities from continuing operations.

Capital expenditures on intangible assets, property, plant and equipment and leased assets totaled 959.3 million Euro, following 914.3 million Euro in the previous year. Of this sum, 551.9 million Euro was spent on vehicles leased by our financial services entities, compared with 543.6 million Euro in the previous year.

A figure of 3.123 billion Euro was invested for the 21.2 percent equity investment in Volkswagen AG. Porsche also concluded share price hedges that relate to the purchase of a further 3.9 percent of the ordinary shares in Volkswagen AG. Amortization and depreciation fell from 490.8 million Euro to 488.8 million Euro in the reporting year.

As of the balance sheet date, July 31, 2006, the Porsche Group's fixed assets amounted to 5.681 billion Euro, compared with 2.428 billion Euro in the previous year. The share of fixed assets in the balance sheet total amounted to 38.8 percent (previous year: 25.0 percent). The share of the Porsche Group's fixed assets covered by equity was 95 percent; the equivalent figure in the previous year was 141 percent. The main reason for this is the aforementioned purchase of the equity investment in Volkswagen AG.

Inventories increased from 571.8 million Euro to 594.1 million Euro. Trade receivables accounted for 205.0 million Euro; in the previous year this figure was 307.7 million Euro. The rise in receivables from financial services from 1.567 billion Euro to 1.684 billion Euro reflects the expansion of this business segment. Other receivables and assets amounted to 1.574 billion Euro (previous year: 1.024 billion Euro) and contain financial instruments, for the most part comprising currency, interest rate and share price hedges to a value of 1.294 billion Euro.

The share price hedges serve on the one hand to secure the acquisition of further shares in Volkswagen AG, and on the other hand to obtain short-term liquidity. Deferred tax assets amounted to 141.3 million Euro after 184.8 million Euro in the previous year.

Further Increase in Liquidity
Cash and cash equivalents amounted to 4.750 billion Euro (prior year: 3.626 billion Euro). Net liquidity, i.e. cash and cash equivalents less financial debts but excluding financial services transactions, only fell to 1.881 billion Euro despite the acquisition of the equity investment in Volkswagen AG (previous year: 2.355 billion Euro). The extended cash flow rose to 2.101 billion Euro (previous year: 1.332 billion Euro). The cash outflow from investing activities of continuing operations totaled 3.609 billion Euro (prior year: 683.1 million Euro).

Significantly Higher Equity
The Porsche Group's equity went up by 1.956 billion Euro to 5.376 billion Euro in the reporting year. The equity ratio rose to 36.8 percent after 35.2 percent in the previous year. This reflects the issue of a hybrid bond with a nominal volume of one billion US dollars that is allocable to equity.

Pension provisions together with other provisions amounted to 2.300 billion Euro in the reporting year (previous year: 2.123 billion Euro). All known risks were taken into consideration. At 181.8 million Euro, deferred tax liabilities are almost unchanged on the level of the previous year of 180.3 million Euro. Trade payables increased to 482.8 million Euro (previous year: 443.0 million Euro). Other liabilities totaled 1.290 billion Euro (previous year: 287.7 million Euro). The principal reason for the large increase is the rise in the amount of financial instruments used.

Financial liabilities in the reporting year totaled 4.760 billion Euro (previous year: 3.092 billion Euro), and thus reflects the expansion in financial services business activity and the issue of new bonds. For the refinancing of this financial services business, asset-backed structures in specific countries were mainly used, their volume amounting to 1.799 billion Euro.

Loans for Maintenance of Liquidity
Of the financial liabilities, more than 2.651 billion Euro related to bonds. Porsche International Financing plc, Dublin, issued a new bond in the reporting year. This is a Euro bond with a nominal volume of two billion Euro, split into two tranches with a nominal volume of one billion Euro each and terms of five and ten years.

Earnings Remain Strong

Porsche's earning power remained strong in the reporting year. Once again Porsche succeeded in increasing the Group's extremely high pre-tax result of 1.238 billion Euro in the previous fiscal year even further. One pleasing development here was that earnings from the vehicle division increased at a stronger rate than the corresponding sales revenue, mostly thanks to a better model mix in terms of profit margin. The unusually large jump in earnings in the reporting year to a total of 2.110 billion Euro is due, however, to special factors and non-recurring effects. This also applies to the rise in the net income for the year to 1.393 billion Euro after 779 million Euro in the previous year. These extraordinary effects include the sale of CTS Fahrzeug-Dachsysteme GmbH, which resulted in a book gain of 80.7 million Euro, and the Porsche income from the equity investment in Volkswagen AG.

As the equity investment in Volkswagen is consolidated at equity, pro rata net income of Volkswagen AG must be allocated to the Porsche Group. Porsche's share of 21.2 percent of the ordinary shares corresponds to 15.4 percent of the ordinary and preference shares issued by Volkswagen AG. The amount disclosed by the Porsche Group as income totaled 203.4 million Euro. The dividend for the equity investment of 21.2 percent of the ordinary shares held in Volkswagen AG at the end of the fiscal year amounted to 68.3 million Euro. This dividend was recorded as income from equity investments at Porsche AG. Income from hedging transactions in connection with the purchase of a further 3.9 percent in Volkswagen AG amounted to a figure well in excess of 100 million Euro.

Porsche AG's pre-tax profit went up from 872 million Euro to 1.668 billion Euro; its after-tax profit improved from 528 million Euro in the previous year to 1.254 billion Euro.

The increase in overall unit sales also had a positive effect on the Group's sales revenue, which went up by 10.6 percent to 7.273 billion Euro. This figure also includes the sales of 150 million Euro recorded by CTS Fahrzeug-Dachsysteme GmbH up until the date of sale. Other operating income climbed from 192.6 million Euro to 1.045 billion Euro. On the other hand other operating expenses increased from 1.164 billion Euro to 1.709 billion Euro. Apart from the rise linked to the operating business, this extraordinarily large increase is attributable to share price hedges in connection with the purchase of a further 3.9 percent in Volkswagen AG. Despite the marked increase in unit sales, the cost of materials only rose from 2.748 billion Euro in the previous year to 3.274 billion Euro, and accounted for 44.9 percent of total operating performance as opposed to 43.4 percent in the previous year. This item reflects the changed model mix and also the success of our cautious currency hedging policy.

Although the Porsche Group's personnel expenses rose from 912.1 million Euro to 1.037 billion Euro, the share of total operating performance fell from 14.4 to 14.2 percent. Financial income rose to 196.5 million Euro (previous year: 20.0 million Euro) and is heavily influenced by the equity investment in Volkswagen AG. The tax expense of 713.6 million Euro led to a tax ratio of 35.2 percent (prior year: 37.0 percent). The main reason for this is the more or less tax-free income from the equity investment in Volkswagen AG.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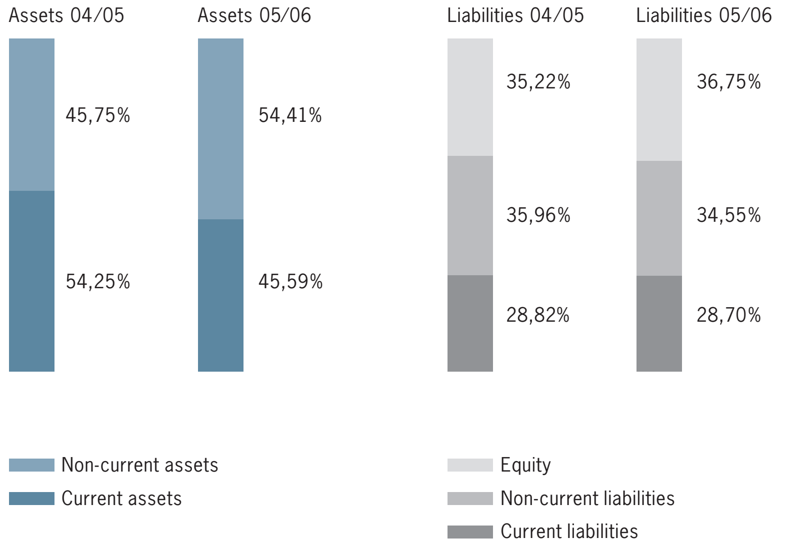
Group Balance Sheet Structure Proportions in percent



Foreign Currency and Cash Management

The foreign currencies most important to Porsche fluctuated significantly again during the past fiscal year. In view of this situation, the strategy of securing the currencies most important to the company in the medium term and thus creating a stable planning platform once again proved to be worthwhile. The currency hedging strategy is based on analysis of the principal national economies and on technical currency and analytical models. After this, various instruments are implemented to protect Porsche against exchange rate risks.

Hedging agreements are concluded only with banks of high standing, so that the credit risk is minimized. We also secure loans made to group entities by means of interest hedges. Share price hedges are used on the one hand to hedge further purchases in Volkswagen AG and also to obtain short-term liquidity.

Currency and cash management organization is in accordance with the standard drawn up by German industry, and is subject to strict internal control, with directives stating the nature and extent of these transactions and the procedures to be adopted. The basic principle of segregation of functions is adhered to, and special data processing systems are employed for the valuation and monitoring of all transactions. Porsche's investment policy complies with the basic principle that investment security takes clear precedence over any attempt to secure an unusually high return on investment. We therefore deposit our cash with banks of impeccable creditworthiness in the form of overnight or fixed-term deposits. In addition, Porsche also invests in money market funds and makes use of special security investment funds when liquidity has to be deposited in the medium or even long term.

Porsche Stock

Porsche shares benefited significantly from the acquisition of a stake in Volkswagen and, at 831 Euro, reached an interim all-time high.

There was an overall improvement in the mood on the international stock exchanges during the review year. However, there were also significant ups and downs during the twelve-month period. The fact that Porsche stock prices generally developed well was primarily due to the continued improvement in the company's earnings situation. In addition, economic recovery in the Euro zone and stable economic development in the US have encouraged investors. On the other hand, serious global political uncertainties and soaring oil prices continued to generate doubt about the future growth of the global economy.

On the basis of positive forecasts for the economy in the core Euro zone, the German Stock Market Index (Dax) registered an increase at the beginning of the 2005/06 fiscal year and indeed considerably exceeded the 5,000-point mark. Thus, in Germany, a trend on the Stock Exchange already observed during the previous year continued. However, when the German Stock Market Index went beyond the 6,000-point mark at the beginning of April, many market participants became somewhat mistrustful. Sales – triggered by rising oil prices and anxiety about inflation in the US – pushed the Dax back down to below 5,300 points. Nevertheless, this reaction was soon seen to have been disproportionate. The data concerning economic conditions in Germany and also in important Euro countries such as France and Italy were accurate. By the end of the review year, not even an oil price of over 70 Dollars a barrel could stop the Dax: on July 31, 2006 the Index reached 5,682 points. In the new Porsche 2006/07 fiscal year, the upward trend continued, and the 6,000-point mark once again was surpassed.

Despite this favorable development, in global terms a certain restraint, particularly among private players, was nevertheless detectable on the capital markets. The reason was increasing uncertainty about the future world political situation, including a growing fear of terror and violence. Israel's military intervention in Lebanon occurred only a few days after the end of the 2005/06 fiscal year and during the same period in August 2006, the British police succeded at the last minute in averting a series of planned terrorist attacks on airplanes departing from the UK to the US.

Despite all geopolitical and economic uncertainties, the rate of Porsche's stock rose significantly in the review year. It began at 649 Euro on August 1, 2005 and had risen to 767 Euro by July 31, 2006, representing a growth level of 18.2 percent. The Porsche stock even beat the Dax and left the sectoral index way behind. While the Dax's increase over the accounting period was 16.2 percent, the Automobile Industry Index (CDAX-Automobile) increased by only 11.1 percent.

Porsche stock's increase in value particularly reflected investor approval of the holding in Volkswagen AG. The initial skepticism shown by financial analysts and investors in the English-speaking world quickly gave way to a widespread consensus that Porsche, and thus also Porsche stock, would benefit from secured collaboration with Volkswagen. This realization was also reflected in the increased rate of Volkswagen's stock. Porsche supported this opinion-forming process on the capital markets by explaining the industrial logic behind collaboration between the two companies and thus the mutual benefit for each party. Moreover, from the perspective of many investors, Porsche distinguished itself from its competitors, as the company continued to achieve a highly profitable growth rate by manufacturing premium sports vehicles.

Holding in Volkswagen Fuels Porsche Stock Prices

Porsche stock experienced sharp growth, which set in after the successful Annual General Meeting and subsequently experienced a brief final spurt toward the end of the business year. The General Meeting held in Stuttgart at the end of January 2006 not only provided shareholders with detailed figures for the 2004/05 fiscal year, but also presented the strategy behind Porsche's investment in Volkswagen. Porsche received considerable praise for its objective of strengthening collaboration with Volkswagen in important business areas to the benefit of both companies. A further significant benefit was the appointment of Dr. Wendelin Wiedeking, President of the Porsche Executive Board to the Supervisory Board of Volkswagen AG. This appointment raised the expectations of many analysts and investors that Dr. Wiedeking would in this capacity be able to proactively shape the necessary process of change at Volkswagen. Both these factors sent the Porsche share rate soaring from a good 600 Euro at the beginning of 2006 to over 800 Euro. On Wednesday, April 26, 2006, Porsche shares reached an interim all-time high of 831 Euro.

Even Porsche shares were not immune to the general downward trend that set in on the stock exchange worldwide in May. However, after announcing good business figures in the second half of June – which forecast new records in sales, turnover and profits for the full 2005/06 fiscal year – and presenting new model versions, the rate once more reached a level

of 750 Euro. In the final days of the review year, the rate for Porsche's stock rose further to 767 Euro and then, at the beginning of the new 2006/07 fiscal year, it reached more than 800 Euro.

The stock also benefited from Porsche's close contacts with participants on the financial markets. The company's development was, for example, explained in detail to institutional investors and analysts at roadshows held at the most important financial centers at home and abroad as well as during intensive discussions at Porsche's headquarters in Zuffenhausen. These activities resulted repeatedly in a commitment to Porsche stock. Investors and analysts were above all impressed by the sales successes achieved in particular by the new sports cars. They were no less enthusiastic about the prospects arising from reinforced cooperation with Volkswagen. Consequently, the overwhelming majority of financial market experts continued to recommend the purchase of Porsche stock. Some investment banks increased their stock price forecasts for Porsche shares to 900 through 1,000 Euro; one institution went as far as to indicate a target of 911. Other analysts went even further, with the highest target set in this accounting year running 1,100 Euro.

Outstanding Long-term Increase in Value
In the long term, an excellent performance can be expected from Porsche stock. Looking at the quoted price for the past ten fiscal years, i.e. the quoted price on the last day of each annual period from July 31, 1996 to July 31, 2006, the price has risen from 43.46 Euro to 767.00 Euro, an increase of 1,665 percent compared with the Dax's increase of only 228 percent.

The increase in value of a shareholding with Porsche stock over the same ten-year period was equally positive. If a sum of 10,000 Euro had been invested in the sports car manufacturer's shares on July 31, 1996, it would have increased to 176,484 Euro (including dividends) by July 31, 2006.

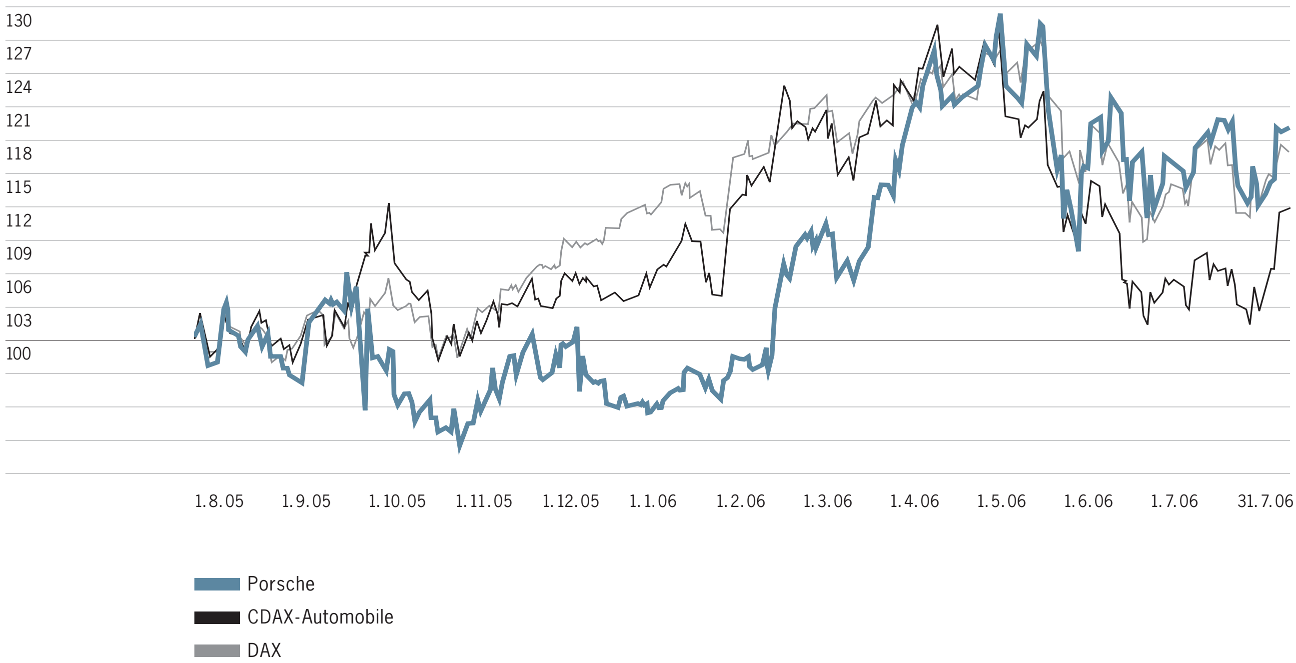
Increased Profit per Share
Porsche AG's earnings situation improved yet again, as is reflected in the increased profit per share. At 78.22 Euro, the profit per share exceeds the prior-year value by 44.74 Euro.

Dividends are also set to swell: the shareholders' general meeting will be recommended to distribute a dividend of 8.94 Euro for each common-stock share – 5.94 Euro plus a 3.00 Euro special dividend – and 9.00 Euro for each preferred-stock share – 6.00 Euro plus a 3.00 Euro special dividend – for the fiscal year 2005/06. The previous year saw dividends of 4.94 Euro per common-stock share and 5.00 Euro preferred-stock share. The sum to be distributed as dividends to common- and preferred-stock shareholders rose by 80.5 percent to 157 million Euro in the previous fiscal year. The distribution quota stands at 10.6 percent (previous year: 11.2 percent).

Intensive Investor Relations
The high interest in Porsche has again grown significantly since the company's participation in Volkswagen AG. Porsche responded to the need for information and paid even greater attention to investors and financial analysts in the 2005/06 fiscal year. This communication often took the form of direct contact with the financial market participants, in numerous individual meetings, at roadshows, vehicle demos, trade fairs and events for private investors. Equal emphasis was placed on comprehensive reporting in the media. In all its contacts, the company attached great importance to "speaking with one voice", in other words to coordinated communication with both the general public and the financial world.

Current figures and the company's strategy were explained to analysts and investors at several special conferences, including driving presentations of new models – for example, the presentation of the Cayenne Turbo S in Dubai and the new 911 Turbo in Spain. There was also the analysts' conference in December 2005, at which the annual accounts were presented. In addition, personal meetings were held throughout the review year with institutional investors at the company's headquarters in Zuffenhausen. On-site company presentations played a special role in contacts with institutional investors.

Development of Porsche Share compared to DAX and CDAX-Automobile in percent



These presentations were held at the most important financial centers and proved highly successful.

Finally, there was a lively exchange with private shareholders, who addressed questions to the company's Investor Relations staff. Porsche AG also introduced itself at several shareholder forums to which private investors were invited by shareholder associations and banks. In 2006, the Annual General Meeting for the fiscal year 2004/05 again took place at Porsche's headquarters in Stuttgart and was very well attended by approximately 3,000 shareholders and guests.

Stable Shareholder Structure

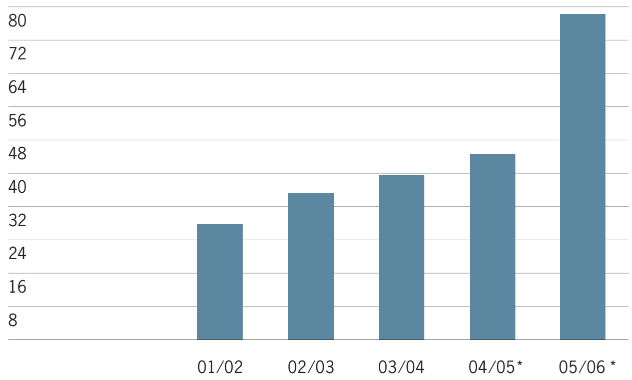
More than ever, a stable circle of shareholders represents a corporate asset that should not be underestimated, since it provides a firm foundation on which to develop a sustainable growth-based corporate strategy. Frequent fast changes in ownership, on the other hand, make it difficult for business activities to develop consistently. Porsche AG attaches great value to this stability, with an unchanged distribution of its equity of 45.5 million Euro into 8,750,000 common-stock shares and 8,750,000 listed preference-stock shares. The common stock is held by members of the Porsche and Piëch families, a circumstance that in the past fiscal year again provided the necessary basis for the company's operative activities. More than half of the preference shares are held by institutional investors such as investor funds, banks and insurance companies. These are based mainly in Great Britain, the USA and Germany, and to a lesser extent also in other European countries and Asia. Slightly less than half of the Porsche preference stock is widely distributed among private investors, primarily in Germany. Holders of Porsche AG's common stock also hold preference stock.

Independent Views on Capital Market Topics

For years, Porsche has been expressing independent views on the capital market, and continued to do so during the review year. We objected, for example, to plans by the German Federal Government concerning the obligatory inspection of six-monthly reports by auditors and their submission to the German Federal Financial Authority (BaFin) in the future. These plans arose in the course of transposition of the EU Transparency Directives into national law. We also criticized the principle whereby the so-called accounting oath to be taken by the Executive Board should amount to an absolute confirmation of the accuracy of the figures. The EU requirement only provides for a best-knowledge declaration. Porsche rejected these more stringent regulations and called for one-to-one transposition of the EU Transparency Directive. This view was in essence also shared by the German Industrial Federation (Bundesverband der Deutschen Industrie – BDI) and the German Chamber of Commerce and Industry.

In the previous fiscal year Porsche brought an action for legal review before the Hesse Administrative Court in Kassel in its altercation with the German Stock Exchange about the publication of quaterly reports. At the time this Annual Report went to press, the Court had not yet reached a decision. As a result, it is still unclear whether the provision in the German Stock Exchange Regulations whereby the publication of quarterly reports is a prerequisite for admission to the German Stock Exchange's Prime Standard is legally valid. In Porsche's opinion, it is not.

Earnings per Preferred Share in Euro



* Now calculated according to IFRS, previously by the DVFA/SG formula.

Porsche has never published quarterly reports since the company was first quoted on the Stock Exchange in 1984. For this reason, the German Stock Market Index struck Porsche off the M-Dax list and refused the company Prime Standard ranking, even though Porsche meets all the other requirements. This refusal to submit quarterly reports has been a matter of principle. Porsche does not wish to be forced into the associated short-lived position but prefers the integrity of a policy based on credible substance and continuous information. The development in the price of Porsche stock demonstrates that the company's refusal to submit quarterly reports has not had an adverse effect. Moreover, Porsche is included in highly reputable international indices, including the "Morgan Stanley Capital International" Index, the "Dow Jones STOXX 600", and the British "FTSE4Good" Index, which comprises share-issuing companies that pursue a corporate policy oriented toward ecological, ethical and social criteria.

Finally, Porsche has also taken a clear stance with regard to the legal pressure on companies listed on the Stock Exchange to publish the salaries of their Executive Board members, as called for by the Federal Government in June 2005. In Porsche's view, the publication of individual Executive Board members' salaries does not provide any extra information that could be relevant to investors' purchase or selling decisions. On the contrary, when taking an investment decision, the investor needs only to be in a position to decide whether the total amount paid to the Executive Board is in reasonable proportion to the company's success. Porsche is firmly convinced that it is still sufficient to state the total sum earned by the members of the Executive Board and the proportions thereof that are fixed or performance-related.

Porsche's position is supported by expert legal opinions, which confirm that a legal obligation to disclose the individual salaries of Board members is unconstitutional. Both the German Constitution and the European Human Rights Convention guarantee every citizen the basic right to decide on the disclosure of personal information. According to our legal experts, mandatory disclosure is a clear infringement of this right. Porsche's Annual General Meeting concurred with this opinion and, at the meeting in January 2006, decided to refrain from publishing the Board members' individual salaries.

Great Faith on the Capital Market

The great faith enjoyed by Porsche on the international capital markets was demonstrated by the company's successful issue of two bonds in January 2006. One of these was a Euro bond of over two billion Euro, comprising two tranches of over one billion each with maturities of five and ten years respectively. The other was a US Dollar hybrid bond of over one billion US Dollars. Both bonds placed on the market by Porsche International Financing met with an extraordinarily high level of demand from investors and were hugely over-subscribed. This success was all the more remarkable in that Porsche does not have a rating and so demonstrated the excellent reputation enjoyed by the company on the international financial markets.

The hybrid loan will bear interest at a rate of 7.2 percent per annum; however, it has a perpetual maturity and may only be terminated by Porsche after a period of not less than five years. Interest will be constant over the entire term. This allows planning security; the rate change risk is borne by the investor. Porsche will decide if and when the bond is to be repaid. For the two tranches of the Euro bond, interest will be at 3.5 percent (for the five-year maturity) and 3.875 percent per annum (for the ten-year maturity).

Models

Porsche Ceramic Composite Brake

Modified interior cooling channels of Arcus pattern ensure improved brake cooling and improved pedal feel.


PORSCHE

The launch of Porsche's most powerful sports cars, the 911 Turbo and the GT3, means that the new generation of the 911 series is almost complete. The new Targa followed at the beginning of the 2006/07 fiscal year.

One of the main reasons for the success of Porsche's business policy is the continual modernization of the model range. Several new sports cars and a top-of-the-range model of the Cayenne SUV were launched in the course of the review year. In addition, dealers can expect the new Cayenne at the beginning of 2007. Consequently, the Porsche model range not only continues to symbolize attributes such as sportiness and exclusivity – it is also the youngest model range in the company's history.

The generation change for the sports cars, which began in mid-2004, continued in the 2005/06 fiscal year. For the 911 model series, Porsche unveiled new versions of the 911 Carrera 4 (S) and the 911 GT3 as well as a new top-of-the-range 911 Turbo. The 911 GT3 RS and 911 Targa 4 (S) will be introduced in the course of the 2006/07 fiscal year rounding off the current generation of Porsche sports cars. In addition, Porsche added to the attraction of the Boxster series in the summer of 2006 by fitting new engines featuring VarioCam Plus technology to the Boxster and Boxster S models. Summer 2006 also saw the launch of an entry-level Cayman as a stable-mate for the very successful Cayman S launched in November 2005.

The Cayenne series has successfully established itself on the market alongside the sports cars. Since it was introduced in 2002, around 140,000 Cayenne models have been sold, exceeding all expectations. The Cayenne Turbo S, introduced in January 2006, and the Cayenne S Titanium Edition (designed exclusively for North America, Porsche's largest sales market) did much to reinforce the sporty image of the series. At the beginning of 2007, Porsche is set to renew the entire Cayenne model range and thereby continue to build on its position in the SUV market.

As the image and technology flagship, the Carrera GT dominated the supersports car segment with a host of new technologies, a fascinating design and impressive performance combined with excellent quality and practicality for everyday use. In May 2006, the last of the 1,282 Carrera GTs rolled off the line in Leipzig.

The Model Range
The model range, including models and derivatives introduced by Porsche in the review year and the current 2006/07 fiscal year, is as follows:

Boxster
Boxster S

Cayman
Cayman S

911 Carrera Coupé and Cabriolet
911 Carrera S Coupé and Cabriolet
911 Carrera 4 Coupé and Cabriolet
911 Carrera 4S Coupé and Cabriolet
911 Targa 4 and Targa 4S
911 Turbo
911 GT3
911 GT3 RS

Carrera GT (production ended May 2006)

Cayenne
Cayenne S
Cayenne S Titanium Edition (for the North American market only, manufactured until November 2006)
Cayenne Turbo
Cayenne Turbo S

The following sections take a closer look at the characteristics of the models introduced since the beginning of the review year.

Four all-wheel drive variants were added to the 911 series in autumn 2005. The 911 Carrera 4 and Carrera 4S coupés and cabriolets debuted at the Frankfurt International Motor Show. The models continue the two-power variant strategy that was begun with the 911 Carrera coupé: the entry-level 911 Carrera 4 is powered by the 3.6-liter boxer engine developing 239 kW (325 hp), whilst the S version comes with the more powerful 3.8-liter boxer engine with a power output of 261 kW (355 PS).

A characteristic feature of the 911 Carrera 4 models is the permanent all-wheel drive with viscous multi-disk clutch. Varying amounts of power are distributed automatically to the front and rear wheels, facilitating even more effective utilization of the engine's power, for example when accelerating out of corners. All-wheel drive also improves driving stability and thereby active safety, particularly on undulating or loose ground such as sand and gravel, or on snow and ice.

The body of the 911 Carrera 4 models has been widened by 44 millimeters at the rear, giving it a characteristic look that clearly distinguishes it from the rear-wheel drive models. Wider wheels and modified wheel offsets not only help to blend the wheels in harmony with the rest of the vehicle but also help optimize driving dynamics and driving safety. One particular feature of the new all-wheel drive models is the further-enhanced driving stability system PSM. Two new functions have been added. When the throttle is released suddenly, the brake system is filled with brake fluid, so it is ready to brake sooner. The brake assistant also makes an additional contribution to greater active safety. In addition, a powerful tandem brake booster increases braking power.

The design of the 911 Carrera 4 also forms the basis for the new 911 Targa 4 and the 911 Targa 4S, which were presented at the Mondial de l'Automobile Paris in September and October 2006. The models bring the 911's 40-year-plus tradition right up-to-date with an attractive new edition. On the 911 Targa 4 (S) the glass roof concept uniquely combines the advantages of draft-free open-top driving with the features of a coupé including a more rigid body and a greater sense of security. Even closed, the Targa models, with their bright interiors, offer a unique driving experience conveying the comfort and security of a conservatory.

From the outside, the glass roof lends the Targa 4 a unique appearance; at the same time, however, it speaks the specific design language of the 911. The rear side windows taper back to a point, stretching the car's silhouette, while the elegant design of the taut roof line is accentuated by the polished anodized aluminum side moldings along the roof frame. The sliding roof, made from composite safety glass, can be opened rearwards by up to 50 cm. Adjustment is stepless and can be done at any speed. The maximum roof opening area is 0.45 square meters. A special system of seals keeps wind noise down to the level of the coupé, whilst a wind deflector minimizes any unpleasant air turbulence in the interior. The glass rear screen can be opened up for easy, convenient storage access.

For the first time, the Targa 4 and Targa 4S come exclusively with permanent all-wheel drive and a body that has been widened at the rear by 44 millimeters. Thanks to its rigid body, the new 911 Targa 4 (S) offers the same sporting agility and exhilarating driving experience on twisting roads as the 911 Carrera 4 (S) Coupé models.

Strikingly fashioned Top-of-the-range Model

The new Turbo, launched in June 2006, is the sixth generation of the top-of-the-range 911 model and has set new standards in terms of driving dynamics. The key elements of the state-of-the-art technology are the twin exhaust gas turbochargers with variable turbine geometry, which are being used for the first time, and the equally new electronically-controlled all-wheel drive system, Porsche Traction Management (PTM). Together, both systems ensure an even sportier driving experience. The turbocharged engine, with a maximum output of 353 kW (480 hp), delivers outstanding performance. Acceleration from 0 to 100 km/h takes 3.9 seconds with the manual gearbox and a mere 3.7 seconds with the newly tuned Tiptronic S. Top speed for both variants is 310 km/h.

The new 911 Turbo's excellent performance is matched by an extremely efficient braking system that has been made

even more powerful. The ceramic braking system, Porsche Ceramic Composite Brake (PCCB), has also been further enhanced and features larger brake disks on the front axle. Despite the fact that engine power has been increased and handling properties much improved, it has actually been possible to reduce the weight of the 911 Turbo, which in turn has reduced fuel consumption for example by using aluminum for the doors and luggage compartment lid.

The exterior design has been made sportier and more dynamic too. Strikingly modeled air intake ducts with integral LED turn signals and front foglights positioned on the outer edges give the front-end its shape. The rear too makes an even more powerful impression than its predecessor thanks in particular to a 22 millimeter increase in width and high-mounted exhaust tailpipes. The side air intakes to the rear of the doors are also a new design and lend the 911 Turbo its distinctive character. Another neat, individual feature are the new 19-inch forged wheels in a two-tone finish with polished front face.

Also making its debut on the roads during the review year was the 911 GT3. Based on the current generation 911 and the current 911 GT3 Cup racing vehicles, the model is a combination of production sports car and close-to-production racing car, genes that give it a unique agility. In Europe, the GT3 has been available since July 2006, in North America since October 2006.

The striking body design performs all the aerodynamic tasks necessary to translate the GT3's potential into sporty performance. Visually, the features that most distinguish the model from the 911 Carrera are its 30 millimeter lower stance, the fixed rear wing and the individual design of the 19-inch wheels. For the first time, the 911 GT3 has an individual rear-end design. The large twin tailpipes are centrally mounted, adding a muscular dimension to the rear section.

The engine has a power output of 305 kW (415 hp) and delivers a maximum torque of 405 Nm. Its key features include dry-sump lubrication with an external oil tank, titanium connecting-rods, forged pistons, VarioCam and small tappets capable of withstanding high engine speeds. For the first time, the chassis is equipped with actively adjustable dampers. The Porsche Active Suspension Management (PASM) has been specially tuned for the 911 GT3 and, combined with the standard-fitted sports tires, provides for incredibly sporty handling.

The interior of the new 911 GT3 is characterized by Alcantara trim on components such as the steering wheel, gear lever knob, handbrake lever grip and seat center panels. Available as an option at no extra cost is the Clubsport package featuring a bolt-in rear roll cage and a 6-point harness for the driver's side. For competing at FIA GT events, there are front roll-cage bars for the roof and A-pillars. The standard sports seats can be replaced with lightweight carbon fiber bucket seats.

The racing-oriented variant of 911 GT3 model is the new 911 GT3 RS. With evolved body, transmission and chassis elements, the RS variant is a close-to-production road-legal race car. It combines the classic characteristics of a purebred vehicle developed specially for dynamic handling performance with the engineering achievements of the 911 series. The new 911 GT3 RS has been available since October 2006 in Europe and other countries, apart from North America, where it is scheduled to go on sale in March 2007.

Typical features of the 911 GT3 RS are the lightweight design, with aluminum and carbon fiber elements, a powerful, high-revving naturally-aspirated engine generating 305 kW (415 hp), an actively-controlled chassis with variable damping system, a wide track and refined aerodynamics. Special tuning of individual components creates the ideal basis for circuit use. Visually, it is most easily recognized by its wide body, rear wing, individual coloring and GT3 RS logo on the sides.

In addition to its improved dynamic handling properties, the new 911 GT3 RS is also more practical for everyday use. There are also more options for personalizing the vehicle. The Porsche Active Suspension Management (PASM) variable damping system now enables the chassis to adapt to the prevailing conditions. In addition, more individualized touches can be added to both the interior and communications features than before. Additional options are leather and carbon fiber

trim, the Porsche Communication Management (PCM) with navigation system, a telephone module and the Chrono Package Plus.

Boxster and Cayman deliver Impressive Performance
Since summer 2006, the new engines of the Boxster and Boxster S have been based on those of the 911 Carrera and Cayman models. As before, the Boxster is powered by a 2.7-liter, 6-cylinder boxer engine. The new valve timing system, the VarioCam Plus, has increased power output to 180 kW (245 hp). This new feature has also had a positive effect on fuel consumption, which amounts to just 9.3 liters per 100 kilometers with a standard manual gearbox. The Boxster S has the engine from the Cayman S, a 3.4-liter power unit developing 295 hp – 15 hp more than the predecessor model. 0 to 100 km/h takes just 5.4 seconds, whilst top speed is 272 km/h. With the standard-fitted manual gearbox, the Boxster S burns just 10.6 liters of fuel per 100 kilometers.

It's not just the performance figures of the new engines that impress. Thanks to VarioCam Plus, they also consistently provide plenty of torque in the low and mid-engine speed ranges. By optimizing the exhaust system, particularly the internal structure of the rear mufflers and the air cleaner, it has been possible to improve the charge cycle process. This has a positive effect on power output, weight and emissions.

The position of the service tray in the rear luggage compartment of the Boxster and Boxster S has also been improved. The coolant expansion tank is now in the engine compartment; consequently the filler openings for coolant and engine oil are now located behind an easily accessible flap in the luggage compartment. The latter can be better utilized.

Externally, the new **Cayman** can be distinguished from the Cayman S by its striking black lip spoilers at the front, the titanium-colored logo at the rear, black anodized brake calipers and a one-piece trapezoidal-shaped exhaust tailpipe. The design of the striking coupé shape provides for excellent aerodynamics, the drag coefficient being 0.29. The enclosed shape makes the body extremely torsionally and flexurally stiff, which is crucial for precise, dynamic driving feel. With the 6-cylinder boxer power unit, the Cayman delivers a power output of 180 kW (245 hp). The Cayman has been available since summer 2006.

The standard 17-inch wheels have individual Cayman styling featuring a 5-open-spoke design. The 18 and 19-inch wheels from the Cayman S can be ordered as optional equipment. The 17-inch Boxster II wheel and 18-inch Boxster S wheel are also available.

At the beginning of the current fiscal year, the range of personalization options available for the sports cars was updated and expanded. In addition to the optional two-tone forged 19-inch Turbo wheel and the new exterior color Meteor Gray Metallic, which replaces the previous Seal Gray Metallic, all sports car models now have a wider, comprehensive range of personalization options. The 10-spoke 19-inch Carrera Sport wheel can be fitted with a wheel center cap featuring a full-color Porsche crest. The aluminum shift lever/handbrake lever package replaces the aluminum shift lever option. The optional tire pressure monitoring system, which continually monitors the individual tires, is now fitted as standard in North America.

Exclusive Editions of the Cayenne
In January 2006 an impressive top-of-the-range model, the Turbo S, boasting a power output of 383 kW (521 hp) joined the Cayenne series. The "S" stands for even more sportiness and guarantees an exhilarating drive – both on and off-road. The higher power output has been achieved thanks to the enlarged and optimized intercoolers and improved engine management. The Cayenne Turbo S sprints from 0 to 100 km/h in 5.2 seconds, and its top speed is 270 km/h.

Visually, the top-of-the-range model can be recognized by its standard-fitted 20-inch Cayenne SportTechno wheels and its high-gloss four-tube sports tailpipes.

July 2006 saw the launch of the Cayenne S Titanium Edition, a special-edition model for the North American market. The vehicle

unites all the features that have helped make the Cayenne such a success since its launch in 2002. Consequently, the most popular optional features – bi-xenon headlamps, electric tilt/slide glass sunroof and the Porsche Communication Management (PCM) with DVD navigation system – are fitted as standard. One special feature of the Cayenne S Titanium Edition is the exterior components in Titanium Metallic, brought together exclusively for this vehicle to create a harmonious overall concept. The model's exclusivity is also immediately evident on the inside, too. The two interior color combinations of Black with Sand Beige and Black with Steel Gray accentuate the sporty character and the special design.

Porsche will be introducing the new Cayenne models at the beginning of 2007. With their new design, more powerful engines and additional personalization options, they are set to make this model series an even more attractive choice.

With the new-design air inlets and new main headlamps, the new Cayenne models have an even more dynamic appearance than their predecessors. Viewed from the rear, the integral tailpipes immediately attract attention, expressing power and sportiness. The aerodynamics have also been substantially improved, resulting in better fuel consumption and performance figures.

The displacement of the 8-cylinder engines has been increased from 4.5 to 4.8 liters. A combination of gasoline direct injection and VarioCam Plus technology has enabled power output on the Cayenne S to be increased to 283 kW (385 hp) and on the Cayenne Turbo to 368 kW (500 hp). On the Cayenne model, engine displacement has increased from 3.2 to 3.6 liters, whilst output has risen to 213 kW (290 hp). Despite the substantial increase in power output, fuel consumption has been cut by up to 15 percent.

All new Cayenne models are fitted as standard with a Sport button. When the button is activated, the engine responds more spontaneously, the Tiptronic S performs sportier gearshifts and the optional air suspension with PASM switches to its Sports program. For the first time, the Cayenne S will also be available with a sports exhaust system which makes the engine sound even more powerful and sportier at the touch of the button. Available as an option with Porsche Dynamic Chassis Control (PDCC) is a new roll stabilization system. The system detects the lateral inclination of the vehicle, for example when cornering, and compensates for this with stabilizers.

For the first time, 21-inch wheels will be available as optional equipment for all Cayenne models. These wheels, in addition to their very sporty look, ensure even better on-road performance. Inside, the optional leather trim now has enhanced stitching details for an even more attractive finish. Another first for the Cayenne series is the natural leather trim option available in the Chestnut Brown/Black color combination.

Added convenience is provided by the automatic tailgate. It opens and closes fully automatically at the touch of a button, with no effort required. In addition, the new optional luggage compartment management system provides a rail system, a telescopic bar and two strap reels, so that a wide variety of objects can be safely stowed ready for transport. A pull-out partition net in the luggage compartment protects passengers from items of luggage in the event of sudden braking.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Sales

Porsche Centers all over the world are investing in a uniform brand image. A refusal to go in for short-lived trends ensures safety in planning.

In the 2005/06 fiscal year, Porsche once again impressively succeeded in promoting a positive perception of the brand. The model policy met the high expectations of Porsche customers in terms of sportiness, dynamism and driving enjoyment coupled with excellent everyday performance and value for money.

The great esteem which Porsche sports cars enjoy was confirmed in 2005 by achievements such as a first-place ranking for the 911 Carrera in the sports car category in both the highly respected best cars readers' poll, carried out by the magazine "auto motor & sport" as well as "Auto Trophy". The 911's timeless design also received a special accolade in the review year. The German Design Council presented the 911 Carrera with the Gold Design Award of the Federal Republic of Germany for "the judicious and sophisticated modernization of a unique style icon".

The latest addition to the Porsche family has been greeted with enthusiasm by both the public and the specialist press. The Cayman S, launched in November 2005, successfully filled the gap between the Boxster and the 911. Readers of "Auto Bild" magazine spontaneously nominated it "Germany's No. 1 car". And at the "New York International Auto Show", the Cayman S was selected by a jury of 46 specialist journalists as the "World Performance Car" for 2006.

In the roadster segment, the new Boxster models continued to arouse interest in the review year with their unique combination of driving fun, power and everyday performance. The American "Automobile Magazine" honored the Boxster with its "All-Star" award, while "Car and Driver" magazine included the roadster in its list of the year's top ten vehicles, the "10 Best List".

Porsche also came top in another, very significant category in the 2005/06 fiscal year: namely quality. In the renowned and internationally highly respected US J.D. Power quality study – the "Initial Quality Study 2006" – the Porsche brand was not only ranked first, but the Cayman S was named the best car across all segments. The other Porsche models were also highly ranked in their respective categories. An extensive survey of over 60,000 new vehicle purchasers, in which market research institute J.D. Power assessed quality defects and problems in new vehicles from the customer's perspective, took account of product and design quality for the first time.

The result of the second study carried out by the J.D. Power Institute in the review year was equally impressive. Porsche also emerged as the overall winner in this further examination of the attractiveness of cars. Meanwhile, in its "APEAL 2" study, J.D. Power asked car purchasers what they particularly liked and disliked about their automobiles. The Porsche customers surveyed were happy with all aspects of their sports cars.

Speedy Implementation of Brand Architecture

The ongoing improvement of the brand's global image has continued apace. Many Porsche Centers again made investments in the 2005/06 fiscal year, with the result that, for the first time, more than half of all dealerships were located in buildings that comply with Porsche's architectural design strategy. Beginning in the review year, Porsche is now represented by dealerships, many of them first-time dealerships, at numerous locations in Russia and China in particular. By systematically separating the Porsche showrooms from those of other vehicle brands, over 90 percent of dealers now offer their customers an exclusive brand presence.

The brand architecture has been whole-heartedly embraced by customers and dealers alike as a result of its functionality. By ignoring fashions and short-lived trends, it is entirely in tune with Porsche's overall values and allows dealers to make long-term plans as well as secure investments in the brand. In the review year, the brand architecture design was also supplemented by a design for used car centers. The latter ensures that used cars are presented at separate locations in high-quality surroundings.

Selective New Car Dealer Network

Europe's select dealer network, which reflects the quality of the brand, was again expanded further in line with the agreement reached with the EU Competition Commission in 2004. The specimen contracts for the sales and service organization that had been agreed upon with the Commission guarantee that the sales process will be conducted exclusively in separate showrooms by dedicated staff. Other sales subsidiaries at non-contract locations may still only be set up with Porsche's approval.

In the 2005/06 fiscal year Porsche certified some workshops as official members of the service network following a thorough audit. These workshops meet the brand's authorization criteria and quality standards. This certification further guarantees that customers are assured of top-quality service in the workshops concerned.

The successful “Porsche Approved” program for used cars was once again developed further. An efficient, professional approach to the sale of pre-owned cars is not only a precondition for profitability in this business area but also makes a positive contribution to new car sales, with the result that its importance is growing within the sales network. The “Porsche Approved” program visualizes all the processes involved in pre-owned car sales and defines uniform standards for the sales organization. It is accompanied by training measures to ensure that the required standards are implemented by all dealers. Customers benefit from the opportunity to purchase high-quality pre-owned cars at competitive prices from well-trained staff. These offers are accompanied by appropriate service packages, including pre-owned car warranties.

The Porsche online pre-owned search facility is proving increasingly popular as an information and sales channel. The system, which has now been introduced in 14 countries, is being accessed with rapidly-growing frequency. A significant percentage of enquiries lead to a sale.

Comparison with the Best: The KPI System

Porsche’s “Key Performance Indicator system” – “KPI system” for short – integrates Porsche dealers and importers in their role as the key pillar to sales success even more closely in the continuous improvement of all processes. The KPI system offers a comprehensive dealership performance analysis that extends beyond key operating data such as net profit, turnover and net equity. It provides additional information from other important sources and is regularly updated and augmented.

Moreover, it permits performance comparisons and establishes the company’s position in relation to competitors. Positive results with the KPI system have already been achieved by subsidiaries and dealerships in Germany, Great Britain, France, Italy, Australia, Japan and Spain. In Germany, the system was given a top ranking in a dealer satisfaction analysis conducted by the Bamberg Automotive Trade Institute. Porsche Middle East will be the next region to adopt this important tool.

Flexible Information Management

The “Porsche Partner Network” (PPN) allows Porsche dealers and workshops across the world to conduct their business processes electronically and to enjoy online access to transaction systems, training sessions and other information. In the review year, all markets were for the first time offered these services via a secure Internet platform. Combining all the systems reduces complexity for employees and creates synergy potential. At the moment, the PPN is being extended by a “content management system”, which allows for the integration of all publication processes in Porsche’s sales organization on the PPN platform. The objective is the prompt supply of information.

The “Porsche Vehicle Sales Assistant (PVA)”, a multimedia IT sales support system, was also installed by further dealers in the international organization during the review year. PVA allows vendors to incorporate all steps – from advice on the range of financial services through to the conclusion of a sales agreement – in an integrated system. This significantly enhances the sales process and the quality of the advice supplied.

The “Fitting Lounge” is a version of the “Porsche Vehicle Sales Assistant” providing a separate zone in the dealership for highly individual customer advice work. The “Lounge” enables customers to design their fully individualized Porsche. The numerous design options for the exterior and interior of their Porsche are displayed on a Car Configurator. Since the PVA system has already proved its worth in Germany, Great Britain, Japan and individual markets in Latin America and the Asia-Pacific region, it was installed during the review year in France, in other markets in Asia-Pacific and the Middle East.

Vehicle Customization more Popular than ever

With its Exclusive program featuring Custom Tailoring and Tequipment, Porsche offers its customers the opportunity to customize their cars in a highly individual, exclusive manner, either ex-works or by retrofitting. These business areas uphold Porsche’s classic brand values: innovation, sportiness, design and individuality. They bear out the company’s competence as a supplier of sports vehicles that are distinguished by an unsurpassed degree of individual character.

In the review year, the two business fields Exclusive and Tequipment were integrated in the sales organization to provide the maximum customizing possibilities from a single source. The trend towards individually equipped vehicles continued unabated. Products for customizing the new Porsche 911 Carrera 4 models, the new Cayman S and the Boxster were in particularly high demand, but the wide range of products for the Cayenne also contributed significantly to most welcome growth in the Exclusive and Tequipment business areas.

“Exclusive” brings Extensive Scope for Customization
Porsche Exclusive offers a wealth of opportunities for vehicles to be supplied ex-works with modified or additional technical and visual features, both internally and externally. The program covers all models; any car can reflect its owner’s personal tastes and preferences.

The Tequipment range offers a wide variety of options for configuring a Porsche to one’s very own requirements.

For the interior, Exclusive can supply high-value materials such as leather, aluminum, wood or carbon fiber. There is continued strong demand for aluminum-look parts that recall the lightweight construction of earlier Porsche competition cars. Externally, exclusive wheels, stainless steel exhaust tailpipes and aerokits add to the car’s individuality in much the same way as technical customization in the form of a sports exhaust system or an increase in power output. More than half of all purchasers of the 911 equipped their vehicles with Exclusive options.

During the review year, items from the Exclusive program in particular demand were the reduced gear-lever travel kit and the stainless steel exhaust tailpipe for the 911, Boxster and Cayman S and the sports exhaust system and Carrera S increased power output for the 911. The SportDesign package for the Boxster was also a big hit and the new products from the Custom tailoring program were also extremely popular. These include the aluminum-look exterior package for the Cayman S.

As in the past, the Cayenne proved groundbreaking in terms of the customizing possibilities offered for a sporty off-road vehicle. The SportDesign package, the 20-inch painted Cayenne SportTechno wheels, the sports exhaust tailpipe and the increase in engine output emphasized the car’s dynamism. Items new to the program and much in demand during the review year included embossed Porsche insignia on the headrests. The Cayenne’s interior can be given a personalized note by the use of materials such as carbon fiber, leather and wood. A wish expressed by many younger Cayenne drivers has been fulfilled in the form of Porsche “Rear Seat Entertainment”. The mobile, TV entertainment system for rear-seat passengers, which was first offered in the previous year, quickly became a sales hit.

Vehicle Retrofitting with Tequipment Products
Porsche’s Tequipment program offers an extensive choice to all customers wishing to retrofit individualized equipment to their vehicles. All Tequipment products comply with Porsche’s high quality standards. The program’s growth in the review year was in part due to products for the new Porsche 911 Carrera 4 models, the Cayman S and the extended program for the Boxster and Cayenne. The new products for the Cayman S, which were already in strong demand shortly after the model was launched, include the exterior aluminum-look package, the sports exhaust tailpipe with its original design and also accessories such as the luggage partition and the sun/privacy screen. New items in the program are complete sets of sports wheels with racing car tires for the 911. The vehicle tracking system for locating a stolen vehicle is now available for the sports cars in all 25 EU countries and in Norway and Switzerland.

Spare Parts Business further improved
Porsche has set up a team for planning worldwide stocks of original parts, Tequipment and Classic parts. For the first time in the automobile industry, the classical structure for after-sales products based on markets has been abandoned. The manu-

facturer is taking over worldwide planning and order processing in the wholesale sector and is responsible for stocks in the retail organization. The result is the significantly increased availability of after-sales products in all areas from the supplier to the end customer as well as a reduction of warehouse stocks. This method applies the just-in-time principle in the same way as the production process. As a result, Porsche received first class ratings for its spare parts supply in an ADAC study conducted in Germany.

The introduction of new models and the growth of market shares in servicing also led to a need to extend logistics in the USA, Australia and Italy. In those markets, new warehouses have been commissioned to ensure the timely supply of spare parts to customers and the markets.

The “Porsche Integrated Workshop Information System” (PIWIS) was successfully introduced on all markets and has replaced the classic print media, which comprised up to 100,000 pages of documentation relating to the workshops. The dealer organization now has a highly integrated system that provides workshops with all the information required for carrying out maintenance and repair work. In future, the information will be in real time and available online. Simultaneous access to PIWIS is possible for all dealer organization employees. For customers, this means less time lost during servicing and repair work in the workshop and correspondingly lower costs.

In the future, PIWIS will be extended by a further quality information system, which will support the commercial organization with an enhanced and shorter vehicle handover process. Moreover, criticisms can be submitted directly to the central office, a procedure which will help to uphold high quality standards.

In the case of the new 911 Turbo, After Sales pursued a policy of optimum insurance classification, thus improving the insurance rating by two type classes. This means that the model has taken the lead over competitors with insurance costs approximately 34 percent lower than those of its rivals, resulting in a significant reduction in operating costs.

Modern vehicle technology also has an impact on documentation. The objective is to make a Porsche as easy as possible to operate. Particular attention must therefore be paid to operating instructions as well as ergonomics. Studies have investigated how operating instructions are used and as a result, unnecessary information has been removed and diagrams relating to vehicle improved.

Ongoing professionalization in China and extension of the service network in Russia were additional focal points.

Furthermore, the business processes of European and North American dealers were examined in the review year during a mystery-shopping program. The results served to improve sales and service processes. Ideas for optimizing customer care were developed and introduced under new sales and service concepts.

A further focus of the After Sales area in the 2005/06 fiscal year was market development in China and Russia. A service audit improved the professionalism of the dealer organization in China and the necessary certification in accordance with the requirements of the “China Compulsory Certification” (CCC) was obtained. Four Porsche technicians worked with Chinese dealers for 12 to 18 months as an on-site task force to obtain a standard of qualification that complies with Porsche’s service philosophy. In Russia, the service network was further expanded in the review year and the supply of spare parts improved. In addition, plans were made for a central spare parts warehouse in Moscow.

Long-term Customer Relations

Porsche strives to develop long-term relationships with its customers. A customer relations management system was therefore set up and a pilot project on the North American market introduced in November 2005. Since then, over 130 people who are in direct contact with customers or who are

responsible for customer-related processes have been working on a single platform with interrelated processes. Since January 2006, the processes have been transferred to further markets. The basic principles for the successful implementation of the strategy in the German market were defined in the first half of the 2006/07 fiscal year.

In addition, Porsche AG's central enquiries and complaints management system, Customer Commitment, processed over 3,000 enquiries in the review year in cooperation with the competent departments and markets. Communication standards were improved, thereby guaranteeing the uniformity of responses to customers.

The Popular Tradition of Collection from the Factory
As far back as 1954, Porsche was one of the first automobile manufacturers to offer customers the option of collecting their cars from the factory. This attractive offer remained extremely popular in the review year. Over 4,000 customers decided to take delivery of their vehicles in Zuffenhausen. A factory tour and an accompanying program make collecting the car an even more enjoyable experiance. Detailed insights into production, such as the "marriage" between engine and chassis, are a highlight for many customers. The factory visit culminates in the handover of the car with an individually tailored briefing.

With well over 50,000 guests and 450 events, the Porsche plant in Leipzig was once again a popular venue in the year under review. During the 2005/06 fiscal year, over 50 renowned companies took the opportunity to combine a conference with an attractive supporting program. Factory tours, presentations on Porsche's success or a drive in a Porsche on the plant's own circuit – all these options proved highly popular. Visitors also enjoyed the new option of co-piloting a Porsche, putting the car through its paces and testing drive performance on the plant's own circuit. At the weekends, the Leipzig plant primarily attracts customers who wish to try out their driving skills in safety training sessions on one of the various test tracks, while customers wishing to collect the vehicles they have purchased from the plant tend to visit on weekdays.

The Porsche Travel Club celebrates its Tenth Anniversary
The Porsche Travel Club has been offering adventure holidays in Porsche vehicles for ten years. Experienced tour operators accompany groups on selected itineraries in the world's beauty spots.

The Club presents its varied program in an extensive brochure now also available on the Internet at www.porsche.de/travelclub. The program is full of packages offering a peek behind the scenes at Porsche, as well as driving training, exclusive weekend trips and touring at home and abroad in trips lasting several days.

New options in the review year included a trip in a Cayman S over the mountain passes of the Dolomites as well as a carefully-planned tour through the western Alps. At New Year, a highlight was crossing the Andes in Argentina and Chile. Demand for the highly popular weekend trips increased, as did interest in customized incentive trips for companies wishing to express their appreciation to selected customers or successful employees.

Over 3,000 international customers took part in the Porsche Travel Club's program of events, which has thus expanded even further. The growth strategy includes an ongoing increase in travel destinations as well as the international expansion of Travel Club projects in the Group. Thus, the US subsidiary is currently planning its own Porsche Travel Club.

Sports Driving School remains a Magnet
The Porsche sports driving school has been in existence since 1974. Customers and friends of the brand have been able to hone their driving skills and also experience the sheer enjoyment of driving on racing tracks and off-road, both nationally and internationally. The figures speak for themselves: there have been over 7,000 enthusiastic participants over the last ten years. Subsidiaries and importers offer this unique experience in over ten markets in Europe, America and Asia. Internationally standardized training units enable participants to improve their driving safety. Training options are offered at several performance levels.

In the “on-road training” sessions, customers experience thrilling moments on famous racetracks and in selected driving safety centers as well as the entry and test tracks at the Leipzig plant. In addition, participants can train away from the asphalt track at “off-road events” in Leipzig, held on a site covering over 100 hectares. Customers seeking even more adventure can book a desert tour in Dubai to find out what it’s like to drive on sand dunes; these trips are graded according to various levels of difficulty. And the special winter programs held in Finland, Austria and Italy help participants to handle their cars safely even in cold weather.

Porsche Clubs keep on growing

Passion for Porsches is also fostered by the official Porsche Clubs. The clubs give Porsche owners a pleasant sense of community and have a friendly relationship with the company. For Porsche, that is a good enough reason to pay particular attention to these valuable brand ambassadors on the market. The central club coordination unit oversees over 500 Porsche clubs, which have more than 115,000 members in over 60 countries. It is one of the largest brand organizations in the world with one of the richest traditions. Today, every fifth Porsche owner worldwide is a club member.

The Porsche Clubs’ commitment to fostering tradition was impressively confirmed in the review year by major jubilee events, such as the 50th anniversary of the Porsche Club Vienna or the 30th anniversary of the Porsche Club Japan. Porsche Club Sweden came up with a special idea for its 30th birthday, celebrating the occasion in connection with a most unusual event: this year’s European Porsche Club Parade in Gothenburg. More than 280 cars from 17 nations assembled in the Swedish city for a program of typically Swedish activities. The international meeting of the presidents of the Porsche Clubs was another highlight in the review year. Over 200 participants from many countries came to Berlin to discuss and develop their ideas on club work in workshops. The presentation of the new Porsche 911 Turbo completed the program.

Porsche Clubs all over the world are impressive proof of the fascination that the brand holds. Every fifth Porsche worldwide is driven by a Club member.

In 2005, Porsche Germany successfully inaugurated the “Porsche Sports Cup”, a race series appealing both to club members and to customers with motor racing ambitions. Over 700 drivers took part in six race series on various racetracks in Germany. Cars registered for use on the roads and Porsche sports cars modified for racing may take part. The club coordination unit will also be launching the Porsche Sports Cup in other countries with the aim of organizing an international Porsche Sports Cup championship.

The Porsche Classic Clubs held spectacular events in the review year. “Porsche 356 Registry USA” invited friends of the Porsche 356 to a five-day meeting in the Rocky Mountains in Colorado, where participants were treated to an interesting mix of a concours d’elégance, a rally and a technical workshop. In Europe, the Le Mans Classic was one of the highlights of the Classic Club scene. The legendary racetrack welcomed exactly 911 Porsche cars and over 2,000 participants, an attendance that exceeded all expectations.

Markets

All-wheel drive

Engine power in the new 911 Turbo is distributed via the electronically-controlled multi-disk clutch depending on requirements and within fractions of a second.

Once again Porsche set a new sales record in its most important retail market, North America. However, the highest growth rates achieved by the company were in new markets such as China and Russia.

In the review year, overall economic conditions for the automobile industry were not ideal, as the prices of crude oil and gasoline rose to previously unimaginable levels. The ensuing discussion on energy consumption intensified not only in Europe but also in the USA, Porsche's largest market. Moreover, many countries have also increased their taxes. This affected the off-road segment in particular.

The number of Porsche's direct and indirect competitors is constantly on the rise. There is barely a niche left in the automobile market where the battle for market shares is not being fought out. Many competitors see the granting of ever more generous discounts as the only way out of growing warehouse stocks and overproduction.

Porsche, on the other hand, concentrates on value-focused growth. What counts are not the pure sales figures but the profit margins and the establishment of long-term customer relations. Unique products that can be individualized, a professional, exclusive sales network and highly trained employees are what make Porsche attractive.

We are constantly analyzing demand in the individual markets. Where there are significant changes, production is adapted so that the number of cars produced for a market is always in line with the actual customer demand. This prevents warehouse stocks reaching critical levels and the need for discounts. These measures add even more to our products' value, as they are not available in all locations, which means that they can easily be sold as used cars later and will hold their value well.

Policy of Internationalization continued
The international approach taken by Sales also makes it easier to achieve the objective of a balance between supply and demand. In the review year, Porsche was present in over 100 countries for the first time. Falling demand on one market can often be compensated for by another region. Thus, higher gasoline prices led to a fraught market situation for off-road vehicles in Western Europe and North America, but in oil-exporting regions, such as the Middle East and Russia, they gave the economy a boost.

The systematic expansion and professionalization of the sales and commercial organization in growth regions ensures that the Asia-Pacific area, China, the Middle East, Africa, Russia, Eastern and Southern Europe and Latin America are not merely insignificant future markets for Porsche, as they are for many of its competitors. They account for 13 percent of deliveries to customers and have thus become a veritable pillar for Porsche's business. The company's dependence on the German home market, which accounted for only 15 percent, and the North American market (39 percent), continues to fall.

However, the established markets remain guarantors for Porsche's success. The systematic prospecting of even the smallest market potential, constant optimization of commercial processes and high levels of customer care guarantee that all market opportunities are exploited. Only in this way was it possible for Porsche to keep growing in supposedly saturated markets during the review year: North America, Italy, Japan and Australia recorded growth of up to 16 percent.

Overall, with 95,342 units, Porsche was able to increase deliveries to customers by six percent, with very satisfying distribution over all model series. The introduction of the all-wheel versions of the 911 and the new 911 Turbo toward the end of the fiscal year gave the model series a new impetus: it now accounts for 35 percent of the volume (33 percent in the previous year). With 33,088 units, we have never sold as many 911 models. In many markets, the 911 dominates in its market segment.

This also applies to the Porsche Cayenne. Although it is already in its fourth year on the market and as a result is very advanced in its product lifecycle, it held a leading position on various markets in the segment for gasoline-powered premium sports utility vehicles. Demand is slowly declining, but with 34,818 units delivered to customers, it exceeded the original, ambitious sales target of 25,000 vehicles per year.

The Boxster was able to hold its own in a dwindling market. While some competitors recorded a high double-digit drop in sales, the Boxster continued to increase its market share in its segment and proved a real classic. The model series was given a boost by the new Cayman S, which was even more popular than expected. The market launch was accompanied by first-class marketing campaigns and events. Although it was only available for six months, with 11,610 units delivered, more Caymans were sold than planned.

With the Carrera GT, the sales organization impressively demonstrated its competence in selling high-performance vehicles. In just over two production years, 1,270 vehicles were sold, a result without parallel in this exclusive and expensive segment. This makes the Carrera GT the most successful high-performance sports car of all time.

America

North America: Deliveries at New Record Levels

In the review year, North America remained Porsche's largest market by far. The continued stable economic climate and the introduction of numerous new models helped Porsche to reach a new record level of deliveries to customers of 36,669 vehicles sold (previous year: 33,974 units). 3,614 vehicles were sold in April alone – a record for any single month since the establishment of Porsche Cars North America.

A total of 13,217 units of the Cayenne were delivered in the review year (previous year: 16,831 units). Even if the Cayenne was no longer able to follow up the success of the previous year owing to the poor overall economic situation, the sporty off-road model remains the top-selling Porsche in North America.

Sports car sales rose by 37 percent to 23,452 units, with sales of the 911 rising following the introduction of the all-wheel versions to 12,534 units (previous year: 10,327 units). The Boxster held its own in a declining market segment with 6,110 deliveries. The launch of the Cayman S was highly successful, and there have been no fewer than 4,396 deliveries of the prize-winning mid-engined coupé since its market launch in January 2006. In its last year of production, the Carrera GT high-performance sports car was supplied to 217 customers.

The sales network in North America was further expanded with the addition of five dealers, bringing the total to 214. Porsche now has 202 dealers in the USA and 12 in Canada.

Latin America: Sales up again

The economy in Latin America gained further stability during the review year. Thus, Porsche was able to increase its deliveries to customers by 33 percent to 2,006 units in the review year. Alongside the sports cars, the Cayenne made a significant contribution to this satisfying development: 1,278 units were delivered in the review year (previous year: 1,010 units).

As well as the growth markets of Mexico and Brazil, numerous smaller countries such as Chile and Peru reported double-digit growth. Activities of the Porsche Sports Driving School and the Porsche World Roadshow as well as numerous local driving events and the Porsche clubs, which are very active in Latin America, underpinned the brand's vitality.

Latin America's importers and dealers once again invested in new or larger locations over the review year. Construction projects were concluded in Torreon, Guadalajara (Mexico) and Rio de Janeiro (Brazil).

Europe

Germany: 911 in the focus

Porsche delivered 14,014 new vehicles to German customers, almost matching the previous year's excellent result of 14,154 units. Deliveries of the 911 to customers were up by approximately six percent to 6,301 vehicles. This success was primarily due to the new all-wheel versions of the 911. The first sales months of the new 911 Turbo confirmed the high interest in the 911 model series. The introduction of the Cayman S boosted the entire Boxster/Cayman model series. Sales rose by 30 percent compared with the previous year to 3,827 units.

The Cayenne defended its leading position in the gasoline-powered market segment for sports utility vehicles with gasoline engines, and with 3,836 sales it made a significant contribution to Porsche Germany's operational success.

In order to protect their strong position in individual segments, German dealers have invested around 100 million Euros in the brand's architecture over the last four fiscal years. The dealer network has been expanded to 86 locations. Success has been due largely to the systematic implementation of a market-based sales strategy, which contributes to the high level of stability in the way Porsche holds its value. In addition, the dealers continued to become increasingly professional, particularly in the areas of distribution, management, marketing, after sales and human resources.

An introductory campaign and a targeted appeal to customers and potential customers accompanied the launch of the new models Cayman S, Cayenne Turbo S, 911 GT3, 911 Turbo and Cayman. In total, over 110,000 guests and customers at German Porsche Centers were approached. In addition, for example, the 911 Turbo was presented at exclusive and high-quality evening performances under the motto "Masterwork". Moreover, 14 Porsche Centers presented the top model jointly in the theater in Füssen. Approximately 32,000 guests attended the various introductory events.

The "Porsche Sports Cup" sports tournament was further expanded in the review year. It bridges the gap between amateur and professional racing sports and, apart from the fun of driving, offers an experience for the whole family that includes Porsche hospitality, Porsche World, Children's World and exclusive vehicle presentations. The number of participants in the Porsche Sports Cup grew to over 700 over the 2005 season. The 2006 Sports Cup season was held over six weekends on famous circuits, including the Formula 1 racing tracks the Hockenheim Ring and the Nürburg Ring and Spa Francorchamps in Belgium.

Great Britain: Still achieving High Sales Levels
Despite a difficult overall political situation, Porsche Cars Great Britain was able to maintain high sales levels with 9,802 vehicles delivered (previous year: 10,286 units). The number of deliveries in Great Britain and Ireland, Porsche's third-largest market, has grown almost threefold since the 1999/2000 fiscal year. The new 911 models contributed to this with 3,386 deliveries. The all-wheel drive versions, the S versions and the top-of-the-range models were particularly in demand.

The record results achieved by the Boxster/Cayman model series in the 2004/05 fiscal year (3,596 units) were significantly outperformed, with 4,428 vehicles delivered. The Cayman S, which far exceeded expectations with 1,629 deliveries since its launch in fall 2005, made an important contribution to this. In studies in the specialist press on customer satisfaction, the Cayman S received the best grades. It was singled out in "Autocar" magazine as the favorite model, ahead of its German and British competitors. In the highly contended SUV segment, the turbo versions of the Cayenne were particularly able to hold their own. The results for the Cayenne model series, amounting to 1,966 vehicles, were, however, lower than in the previous year.

Currently the greatest challenge for Porsche Cars Great Britain is to steer the brand successfully through a difficult economic environment, distinguished by an economic decline, a sharp drop in consumer trust and tax policies that do not favor car ownership. The focus of sales in Great Britain and Ireland has to be consistent market activities, introductory events – in the review year these concerned the all-wheel versions of the 911 model series and the Cayman S – and the expansion of existing Centers and development of new Centers. The brand has also been further strengthened by events held by the Porsche Sports Driving School, which were attended by over 7,620 people.

The Porsche Retail Group's own dealer operations in the Greater London area are among the leading dealerships worldwide, in terms of both profitability and brand image. These five Porsche Centers alone accounted for 26 percent of all sales in Great Britain. There are 34 Porsche dealers in total in Great Britain and Ireland.

Italy: Quality-based Growth
With 5,270 vehicles sold in the review year (previous year: 5,157), Porsche was yet again able to post a new record in Italy. Sales of the 911 model series rose by 26 percent to 2,457 units. This strong growth was due above all to the all-wheel versions of the 911 Carrera and the 911 Turbo. Very satisfactory sales of the Cayman S led to an increase in the Boxster series as a whole, with 1,348 units delivered (up by 64 percent). With 1,443 vehicles delivered, the Cayenne maintained its strong position in the market segment for sports utility vehicles with a gasoline engine.

Porsche Italia also improved the quality of its dealer network. In order to enhance the professionalism of its After Sales division, 22 service locations were set up, and these satisfy all Porsche standards.

France: Success in Difficult Circumstances
Despite difficult overall political conditions and an increasingly critical attitude to premium cars, with 2,614 units delivered in the 2005/06 fiscal year, Porsche France almost equaled its record level of the previous year (2,874 units).

With 982 deliveries to customers, sales of the 911 surpassed the previous year's figures by ten percent. The Boxster and Cayman were also highly successful. With 715 deliveries, the entire model series exceeded the previous year by 84 percent. The Cayenne, with a total of 915 units (previous year: 1,574 vehicles), was the most successful sports utility vehicle with a gasoline engine. This is an extraordinary result in light of the changed tax regulations.

The Porsche Gala at the Grand Palais in Paris was one of the highlights of Porsche's approach to customers; the Palace had been closed for twelve years for renovation and was only available for a short period prior to its official opening in 2007. Porsche France was the first automobile company to use the venue. The Cayman S was unveiled to 3,000 invited guests at the event, where the entire current model range and historical vehicles were also on display.

The French dealers made further investments in ensuring that their appearance was worthy of the brand. Thus, in the 2005/06 fiscal year, five new Porsche Centers were opened in Lille, Monaco, La Réunion, Saint-Maur (eastern Paris) and Toulon.

Spain and Portugal: More Successful
Porsche was able to expand its position on the Iberian Peninsula, although high gasoline prices, relatively high inflation rates, increasing interest rates and low consumer trust made business difficult. The main activities include systematic prospecting among target groups, strengthening of the brand image and expansion of the dealer network with new Centers in Leiria and Castellón. Further building projects are planned, including, for example, on the Algarve.

Overall, with 2,618 deliveries to customers, sales in the 2005/06 fiscal year exceeded the strong levels of the previous year (2,576 units). Sports car sales rose, with 608 units sold for the Boxster/Cayman model series (up 63 percent) and 656 units for the 911 (up 20 percent). The Cayman S, with 287 sales since its introduction in November 2005, was greeted by particularly high demand. The crowd-pullers for the 911 were the S models, which accounted for approximately 68 percent of deliveries to customers.

The Cayenne maintained its position with 1,350 units sold (previous year: 1,647 vehicles). Numerous marketing and advertising campaigns as well as driving events in Spain and Portugal supported sales of the Cayenne, so that it continued to be by far the most successful gasoline-powered premium SUV in the region.

Switzerland: World Premiere in Geneva
New products such as the Carrera 4 models, which are traditionally a highly sought-after version of the 911 in Switzerland, helped AMAG, the Porsche importer for Switzerland, to keep its sales at an almost constant level, with 1,692 vehicles delivered (previous year: 1,769 units).

A total of 768 units of the 911 were delivered in the review year, 19 percent more than in the previous fiscal year, in which only the less popular models with rear-wheel drive were offered in Switzerland. Following the world premieres of the 911 Turbo and the GT3 at the Geneva Motor Show in March, demand exceeded all expectations. The introduction of the Cayman S in Switzerland went equally well and led to further growth for the Boxster model series. In total, 385 vehicles were delivered to customers (previous year: 289 vehicles).

The Cayenne also continued to play a significant part in Porsche's success in Switzerland. In the fourth year following its launch, 529 Cayenne models were sold (previous year: 811 units). Accounting for 35 percent of sales, the powerful Turbo and Turbo S models were particularly in demand.

Refurbishment of the Porsche Centers in Lugano, Berne and Sierre in accordance with the current design guidelines contributed to the gradual improvement of Porsche's presence.

Since the Swiss market is becoming increasingly significant, Porsche is aiming to change its distribution structures. From June 2008, Porsche Switzerland, a wholly-owned subsidiary, will assume responsibility for the import and sales of vehicles, replacement parts and accessories. However, AMAG will continue to be Porsche's most important trading partner.

Austria: Carrera 4 Models are particularly Successful
The importer was able to consolidate its market position in the 2005/06 fiscal year. In total, 786 vehicles were delivered (previous year: 888 units). Although this market proved a difficult one for the Cayenne, 255 models were sold in the review year (minus 36 percent). At the same time, sales of the 911 were extremely positive. Thus, a total of 371 units of the 911 were sold, almost 13 percent more than in the previous fiscal year. The all-wheel variants were a particular hit, with 205 of these sold. A total of 159 Boxsters and Caymans were delivered to customers; the figure for the previous year was 158.

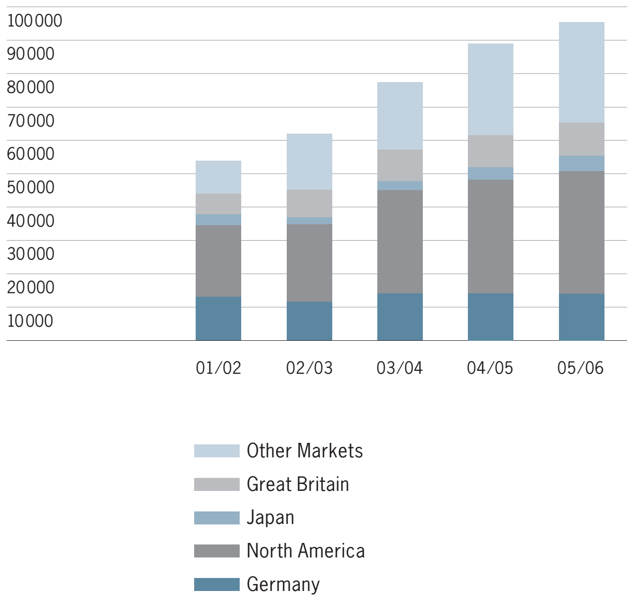
The new models in particular were presented to customers in Austria at exclusive marketing events. These included the Porsche Driving World, which was held at the Salzburg Ring over seven days in May 2006 and was attended by 250 guests.

Belgium: Important Target surpassed yet again
With 1,080 vehicles (previous year: 1,177 units), Porsche was able once again to surpass the thousand-unit mark on the Belgian market, which is under the care of the importer D'leteren S.A. The 911 model series, with 480 vehicles sold (up 17 percent), played the largest part in this, closely followed by the Cayenne, 300 units of which were sold (previous year: 564 vehicles). The Cayman S was extraordinarily successful. With 138 vehicles sold in the review year, the model accounted for the largest share of the entire Boxster model series, of which 292 vehicles were sold (previous year: 197 units). The introduction of the Cayman will ensure continued high demand in the 2006/07 fiscal year.

The Brussels Motor Show at the beginning of 2006 was a particular highlight. For the first time, Porsche's stand included offices for sales representatives from each Belgian dealership, and 93 vehicles were sold as a direct result of the event.

Netherlands: Record Result almost matched
With sales of 1,085 vehicles (previous year: 1,181 units), the result for the 2004/05 fiscal year, which had reflected a disproportionate increase of 41 percent, was almost matched. So once again, the review year was very successful. The sports cars accounted for a particularly large share of this success. The high level of acceptance of the Carrera 4, Turbo and GT3 models ensured that 513 vehicles from the 911 model series were sold (previous year: 421 units). 123 units were sold of the Cayenne, a big hit in the Netherlands, while the entire Boxster model series accounted for 192 sales (previous year: 114 vehicles). Overall, sales of sports cars in the review year exceeded those for the previous year by 31 percent.

Vehicle Deliveries in units



Overall political and economic conditions, which remained difficult, influenced the market for the Cayenne in particular. However, with 375 vehicles sold (previous year: 641 units), the sporty off-road vehicle confirmed its importance within Porsche's product range.

Importer Pon's Automobilhandel B.V. sells Porsche vehicles in the Netherlands. The relocation of the Eindhoven Porsche Center and the opening of an additional dealership in the Arnhem area not only made the dealer network more professional but also extended it in line with the high level of growth.

Southern and Eastern Europe:
A Growth Region keeps on growing
The positive development seen in this region during recent years continued in the review year. With a total of 2,413 units, 570 more vehicles were sold than in the previous year. With 1,177 units (previous year: 1,202), the Cayenne, which is the cornerstone of this business area, remained stable.

A new development is the sustained success of the sports car models in Southern and Eastern Europe. With 734 units of the 911 model series, deliveries more than doubled (previous year: 429 vehicles). The Boxster and the new Cayman S found even more supporters in the region: 498 vehicles delivered translates into an impressive increase of 139 percent.

The sustained expansion of the dealer network in Southern and Eastern Europe contributed to this. In November 2005, an importer was appointed for Minsk in Belarus, thereby marking the inclusion of another Eastern European market.

The dealer network was also expanded in the region's established markets. In Ukraine, dealerships selling Porsche vehicles were set up in both Dnipropetrovsk and Odessa. In Turkey, new dealerships were opened in Antalya and Istanbul, and a new business was set up in Izmir.

Northern Europe:
Success in a Stable Environment
The economically and politically stable Scandinavian region continued to contribute to the Porsche brand's worldwide growth. With 1,227 vehicles delivered, sales were up by six percent over the previous year. The markets of Iceland, Norway, Sweden, Finland and Denmark benefited considerably from the high demand for the Carrera 4 models, which allowed the 911 model series to grow by an amazing 41 percent to 432 vehicles delivered.

In the Boxster model series, the Cayman S was a sales hit, exceeding expectations with 176 vehicles sold. A total of 270 vehicles in the Boxster model series were sold (previous year: 81 units).The Cayenne maintained its position. With 520 vehicles delivered (previous year: 763 units) it is still the top-selling vehicle within the product range.

In Scandinavia too, progress has been made in making the dealer operations more professional. Newly built Porsche Centers were opened in Göteborg (Sweden) and Helsinki (Finland), while in Norway a contract was concluded for a Porsche Center in Stavanger. There are also plans for new Porsche Centers in Reykjavik (Iceland) and Copenhagen (Denmark).

The “Porsche Carrera Cup Scandinavia”, which is held under the auspices of the Swedish Touring Car Championship, had its third season in 2006 and made a further contribution to the brand’s presence in Scandinavia.

Russia: The Newest Company with Record Results
The subsidiary Porsche Russia, which was only formed in November 2004, succeeded in more than doubling its sales figures in its second year of business. 1,071 vehicles were delivered (up by 177 percent). With 131 units, sales of the 911 and Boxster/Cayman model series doubled compared with the previous year, even though road conditions are comparatively poor. The Cayenne was still the main draw with a record result of over 900 sales (up 184 percent).

An important prerequisite for this success was the expansion of the dealer network. At present, there are ten dealers and a further four operations are being planned. In addition, new buildings are under construction in Stavropol, Volgograd and St. Petersburg. By the end of the 2006/07 fiscal year, the network will have grown to 16 dealers.

The Moscow Porsche Center has become the largest dealership in Russia and has an area of over 6,000 square meters. This Porsche branch should commence operations in the first six months of 2007, with exterior work being completed by the end of 2006. As the headquarters for the Porsche Russia subsidiary, it offers an integrated trade and national training center and a comprehensive vehicle and parts warehouse.

Middle East and Africa:

The Sports Car Business goes up
Thanks to continued high oil prices and the increasing purchasing power to which these give rise, as well as several newly opened Porsche Centers, Porsche is also growing in the markets of the Middle East and Africa. The subsidiary “Porsche Middle East and Africa”, established in 1999 with a registered office in Dubai (which currently oversees 19 Porsche Centers in 17 markets), delivered 4,419 vehicles in the review year (previous year: 3,811 units). As a result, this region comes fifth in the international sales statistics, behind North America, Germany, Great Britain and Italy. In only six years, total sales on this market have increased almost ninefold.

Growth has been fuelled by the sporty off-road vehicle, the Cayenne. In the 2005/06 fiscal year, sales figures increased more than sixfold to a good 3,000 units since its market introduction in the middle of 2003 (previous year: 2,863 vehicles). Sales of the classic sports car also increased: in the 1999/2000 fiscal year, a total of approximately 550 models from the 911 and Boxster model series were sold, while this figure came to 1,358 units in the 2005/06 fiscal year (previous year: 921).

With 339 units sold, the Cayman S was particularly popular. The high-performance sports car, the Carrera GT, was also in high demand, with 90 units delivered to customers in this region.

In the course of 2006, new Porsche Centers were opened in Pakistan, Bahrain, Jordan and Oman. The policy of expanding the existing sales and service network and developing new markets will be systematically pursued in the region over the coming years, from India in the east to the various African states in the west.

Asia

Japan: Record Sales in a Stagnating Market
Porsche succeeded once again in the 2005/06 fiscal year in sustaining sales growth in a market for imported vehicles that has been stagnating for eight years. 3,542 vehicles were delivered to customers, which represented an increase of 16 percent.

The continued high demand for the Cayenne models made a significant contribution to this success. 1,151 units were sold, six percent more than in the previous year. In addition, the Cayman sold 554 units in Japan, demonstrating that it is the right product for this market. Sales for the entire Boxster series rose by 81 percent to 1,290 units. In addition, four Porsche Centers were renovated and adapted to the Porsche Corporate Identity.

Asia-Pacific/China: Sales exceed all Expectations
With 2,877 deliveries to customers, growth of 36 percent was achieved in the Asia-Pacific/China region. The systematic expansion of the dealer network as well as intensive training of our new partners in China played a particularly important role in this success.

Porsche is represented in eleven Chinese cities by twelve Porsche Centers. A further two are already being built. The Porsche Centers in Wuhan, Shenyang and Dalian were opened in the review year. A further eight locations should be added in the 2006/07 fiscal year.

Vehicle sales in China increased more than threefold in the review year, with 1,613 units sold (previous year: 526 vehicles). A particular success was the high number of sports cars sold – 303 (previous year: 148 units) – in a country with no history of motor sports and a clear preference among the target group for luxury limousines. Sales of the Cayenne increased by 247 percent to 1,310 vehicles.

In the other Asia-Pacific markets, with 1,264 vehicles (previous year: 1,356 units), sales stabilized at more or less the previous year's levels, despite the continued uncertain political conditions in some countries. This positive result was due in particular to Hong Kong with 485 sales, Taiwan with 176, Singapore with 157 and the significantly growing sales in the South-Korean market, where there were 172 deliveries (previous year: 130 units).

The Carrera Cup Asia Pacific was one of the most important marketing instruments for positioning the brand in the 2005/06 fiscal year. In the 2006 season, four races were held in China, in order to create a foundation for Porsche's long-term success there.

Australia

Growing Market Shares
By systematically prospecting the market, Porsche Cars Australia (Australia and New Zealand) was able to significantly improve its position among competitors, selling 1,415 vehicles in the review year compared with 1,219 in the previous year. A total of 473 units of the 911 were delivered to customers. The successful market launch of the Cayman S led to sales increases of 70 percent for the Boxster model series, with 465 units sold. And with 477 vehicles delivered, sales of the Cayenne continued to match the previous year's high level.

In order to further optimize the brand's presence, new Porsche Centers were opened in Adelaide and Darwin. To respond more effectively to the high expectations of customers in Australia with an interest in motor sports, the product portfolio for the Porsche Driving Experience was extended by the "GT3 Cup Experience" program. Accompanied by a professional trainer, participants are given an initial taste of motor racing in a GT3 Cup vehicle. The above-average number of participants at the Carrera Cup Australia was evidence of the customers' huge interest in motor sports and the importance of this Cup for communicating the Porsche brand values.

Services

Financial services relating to automobile purchases are a vital pillar of Porsche's range of services. Subsidiaries such as Porsche Consulting have furthermore established themselves very successfully on the market.

Porsche offers its customers all financial services connected with the purchase of new and pre-owned cars. Leasing, hire purchase, financing, motor insurance and attractive credit card terms are all provided securely, quickly and easily by Porsche dealers. This allows Porsche to respond flexibly to its customers' requirements. Leasing contracts, for example, can be matched to customers' needs in terms of the specific services or contract duration.

Porsche Financial Services GmbH is represented by its own subsidiaries on all important markets. These subsidiaries attend to more than 31,500 new sales and over 69,000 active leasing and financing agreements for customers all over the world. All companies have been able to expand business consistently over the past years. In the review year, the number of follow-up contracts and, by extension, of satisfied customers who made renewed used of Porsche's financial services rose again. Over one third of new-vehicle purchasers worldwide currently benefit from Porsche's financial services products.

At the end of the 2005/06 fiscal year, some 12,000 customers worldwide were using Porsche credit cards, and this means that the number of new sales increased again. Clients can chose between the Porsche Card and the Porsche Card S, which offers a number of additional services. Apart from Germany, the credit cards are also available in Great Britain, Italy, Japan, and the USA. Porsche also offers its customers individual insurance cover under a package developed with the Haftpflichtverband der Deutschen Industrie (HDI) and tailored to the needs of Porsche drivers.

Porsche Consulting moves Successfully into Healthcare
Porsche Consulting GmbH was again able to expand its position on the consulting market considerably. The company, which has its headquarters in Bietigheim-Bissingen, increased its turnover in the 2005/06 fiscal year by 34.6 percent to 31.9 million Euro; in Germany it already ranks among the 20 largest management consulting companies. The number of employees rose from 106 to 135.

Approximately 82 percent of Porsche Consulting's turnover comes from other companies, while the remaining 18 percent comes directly from projects with Porsche AG. The parent company's commissions are of special importance to Porsche Consulting, as they provide the opportunity to develop and try out new consulting approaches. In total, the company advised more than one hundred clients and its foreign share rose to 23.5 percent.

Porsche Consulting follows the model of the lean, low-expenditure company. The consultants are distinguished by their emphasis on implementing concepts as well as their objective of making perceptible improvements to the client companies. They have demonstrated that the fundamental principles of the management approach practiced by a lean company may be transferred to other branches as well. For this reason, their customers no longer include just motor vehicle manufacturers and suppliers but, increasingly, companies in mechanical engineering, electro-technology and the food, construction, furniture and household appliance industries. The first projects in the retail and banking sectors have also been successfully implemented.

Furthermore, the first consulting agreement with a hospital generated considerable media attention. Porsche's advisers successfully optimized processes and procedures in the heart surgery department of Freiburg University Clinic. They achieved significant improvements for doctors and clinical staff as well as for patients. The company subsequently received further commissions from the health sector.

Porsche Consulting products also include the Porsche Academy, where, for example, managers received training in group and individual seminars. In addition, seminars giving an insight into the practices of particularly successful companies are also organized.

MHP IT Consultants at New Locations
In the review year, Mieschke Hofmann und Partner (MHP), Gesellschaft für Management- und IT-Beratung mbh celebrated its tenth anniversary. The Porsche subsidiary is one of the most successful German consultancy firms for process and information technology with particular expertise in SAP solutions. The company increased its turnover in the 2005/06 fiscal year by 9.5 percent to 39.2 million Euro. The number of employees rose by 70 to just under 300.

Its main office in Freiberg am Neckar and branches in Ludwigsburg and Essen were supplemented in the review year by locations in Munich and Bietigheim-Bissingen. MHP now takes care

Porsche Consulting is working successfully in hospitals: consultants optimized processes and procedures in the Heart Surgery department at Freiburg University Hospital.

not only of Porsche AG but also approximately 250 other well-known companies, especially manufacturers, suppliers and dealers in the motor vehicles sector. They have also won clients in other sectors.

Mieschke Hofmann und Partner is one of Germany's most successful consultancy companies for process and information technology.

With fully integrated concepts, MHP covers the complete process chain from planning through implementation to the management of IT solutions. The goal is to become the leading process and IT experts on the German motor vehicles market. Porsche AG has a 74.8-percent holding in MHP.

PLH with Other License Partners

Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG (PLH) with its head office in Bietigheim-Bissingen includes the brands "Porsche Design" and "Porsche Design Driver's Selection" as well as the Porsche Design Studio in Zell am See. The company, formed in 2003, has approximately 100 employees. Porsche AG has a 65-percent stake in PLH, while the remaining 35 percent is held by the shareholders of FaPo Beteiligungen GmbH, Stuttgart.

"Porsche Design" is one of the leading luxury brands for quality accessories. The products stand for a timeless, functional, purist design and convincing technological innovation. The range includes watches, writing utensils, jewelry and leather goods. In the review year, the line in writing utensils was successfully expanded: the new "Shakepen P'3140" received a "Red Dot Award" for its outstanding design.

The "Flat Six" line of watches, which was added to the three pre-existing lines, was presented at the "Baselworld 2006" watches and jewelry trade fair. New license partnerships have been concluded with kitchen manufacturers Poggenpohl and lighting manufacturer Zumtobel. Porsche Design's products are sold exclusively in its own shops, 'shop-in-shops', at high-class department stores and up-market, specialist retailers. Porsche has opened its own shops in, among other places, New York, London and Florence, and has franchise shops in Tokyo, Kuala Lumpur and Bangkok.

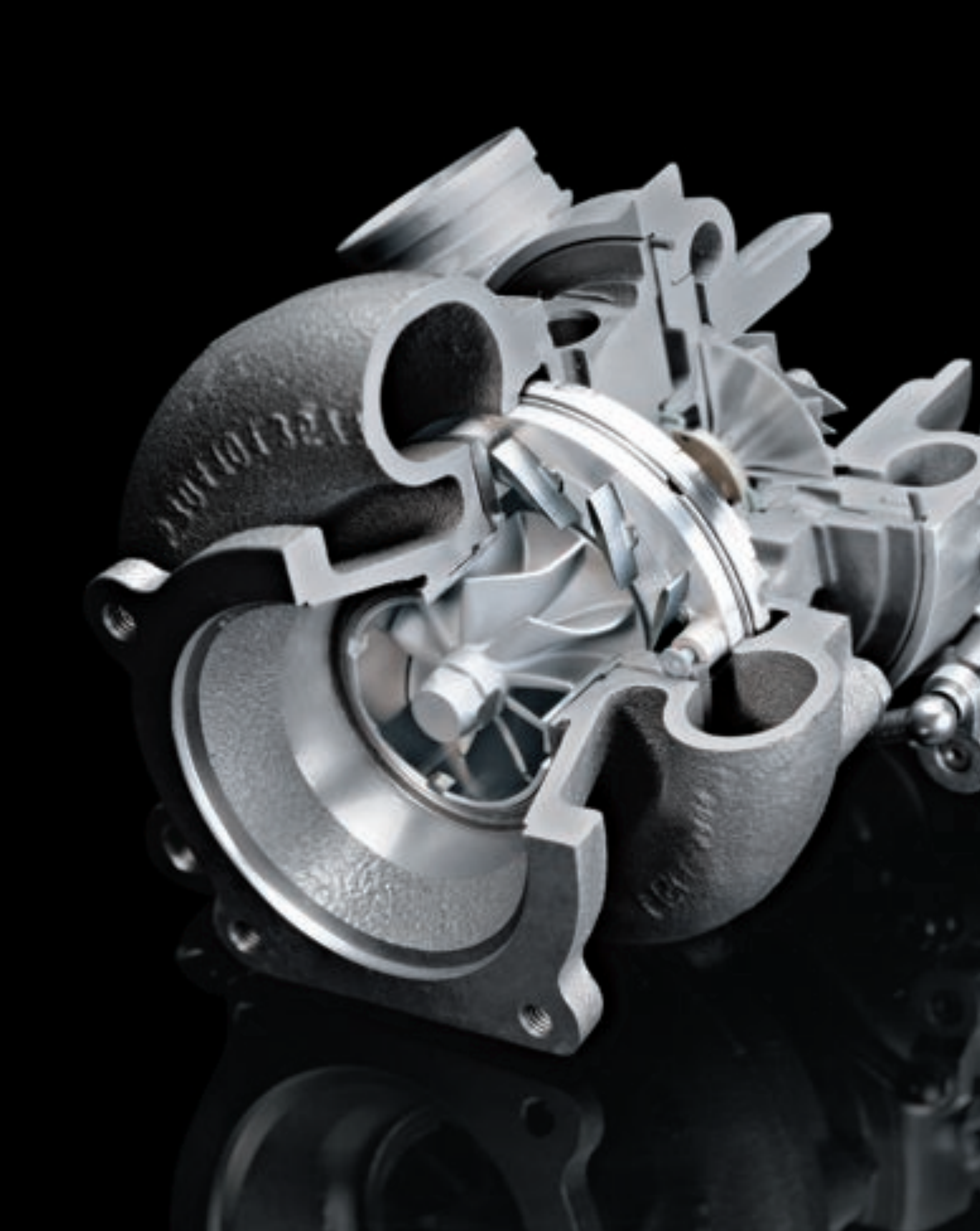
"Porsche Design Driver's Selection" is a brand with a vehicle-relevant program. The collection, which comprises scale-model cars, lifestyle accessories and special luggage, is distinguished by its quality, sporty design and functionality. The highlight of the year was the new sports watch collection, including the "Cayman Twin Speed" multi-function watch, the "911 Speed Chronograph" and the "911 Speed Chronograph special edition". Porsche's 2006 official calendar was also well received by the public. "Porsche Design Driver's Selection" products are available in Porsche Centers and Porsche AG's online shops.

The Porsche Design Studio was founded in 1972 in Stuttgart by Professor Ferdinand Alexander Porsche, the grandson of Porsche's founder and designer of the 911. Two years later, it moved to Zell am See. The Studio is one of Europe's most famous design firms, and many of its objects have become design classics. Today, it evokes the distinctive, unmistakable and timeless signature that distinguishes all Porsche's products. In addition, it also works for other companies in industrial and product design. In the course of the review year the Porsche Studio designed items such as a hi-fi micro system, a high-performance locomotive, an airplane passenger seat and an insulin pen for diabetes patients.

Communication

Variable turbine geometry

Developed specifically for the new 911 Turbo, it combines the advantages of a small and a large turbocharger to deliver a unique performance level.



Porsche's enthralling technology was presented to journalists at a technical workshop in the Weissach development center. One highlight was the newly developed variable turbine geometry.

A significant factor in Porsche's corporate success is the excellent reputation that the company enjoys. Public relations promotes Porsche's high standing by raising social acceptance of the product, the company and the brand. The results of surveys on the company's image impressively confirm the success of this communication strategy in stimulating the public perception of Porsche. In January 2006, Porsche ranked among the leaders in the renowned "Image profile" study for the fourth time in succession. This study is complied for "Manager Magazin" every two years by Emnid, the market research institute. Compared with the previous ranking two years earlier, Porsche increased its lead and clearly outperformed 176 major companies from a total of 16 sectors.

International rankings also acknowledge the excellence of Porsche's image. In the review year, Porsche took pole position for the best reputation among luxury car brands in a US survey conducted among top earners. The premium brand outshone its competitors from all over the world in the representative survey conducted by the Luxury Institute, New York. The brand's 'uniqueness and exclusivity' were among the reasons cited by the Institute for Porsche's success.

With its clear views and courageous standpoints, Porsche repeatedly expresses its independence on economic and socio-political topics. Forgoing subsidies and the refusal to publish quarterly reports are issues on which Porsche has taken an unequivocal stance, thereby earning the public's respect. Its explicit commitment to Germany as a manufacturing location has also strengthened its reputation.

Supporting the Next Generation

In global competition, knowledge is the biggest trump held by German industry. That is why Porsche's social commitment extends to supporting young engineers. Once again, we awarded the Ferry Porsche Prize to the best school-leavers from Baden-Württemberg whose main subjects were physics/technology and mathematics. This year, 198 young people received awards. A further five scholarships for a four-week traineeship at an international Porsche sales subsidiary were awarded at the prize ceremony at the Weissach Development Center. Moreover, creativity is highly rewarded at Porsche. Thus, the company also fosters young, international producers of advertising films. In June 2006, the prize in the "Porsche International Student Advertising Film Competition" was awarded for the third time by the Ludwigsburg-based Film Academy. A first-class, international jury of specialists rewarded four exceptional creative achievements with three main prizes and a special prize. All four winners also received a "David" trophy in recognition of their work. The trophy is designed to recall Porsche's own principle that a small company can not only take on large enterprises but can also triumph over them.

Driving Presentations for Enthusiastic Journalists

Driving presentations of Porsche's new models are always very popular with press representatives. In the 2005/06 fiscal year, there were two highlights on the agenda – events that no participants will ever forget: the presentation of the Cayenne Turbo S in Dubai and the 911 Turbo in Andalusia. With an output of 521 hp, the world's most powerful sports utility vehicle was presented to journalists in the Dubai desert on the Arabian Peninsula in February 2006. A circular route across numerous small and large sand dunes required advanced driving skills from the press representatives. Seemingly unstoppable, the Cayenne Turbo S's performance on this tricky terrain was more than impressive.

The same could also be said – although on asphalted roads – for the new 911 Turbo, which Porsche unveiled in May 2006 in the scenic setting of Andalusia. Journalists were invited to accompany rally champion Walter Röhrl on test-drives along a closed road. The former champion gave a breathtaking demonstration of the 911 Turbo's potential when being driving at its limits.

The numerous press and television representatives who attended also wrote most knowledgeably about the driving presentations of the Cayman S in October 2005 in Siena and the basic version of the Cayman in July 2006 in Königstein. The positive reports about both versions of Porsche's new mid-engined coupé appeared in both cases over several weeks in the international media. Equally informative and impressive was Porsche's Technical Workshop in the review year. This is held each spring at the Weissach Research and Development Center. This year the event focused entirely on the 911 Turbo, and the company's engineers explained the new sports car's fascinating technology and aerodynamics to selected specialist journalists.

Impressive Exhibition Attendance

The Frankfurt International Motor Show has often provided a platform for thrilling new Porsche models. In the review year, our company delivered one of the exhibition's highlight: the

world premiere of the new Cayman S. The new mid-engined coupé was presented to the specialist public and interested visitors in September 2005 amid resounding applause. The new model's design clearly immediately appealed to onlookers. A mere six months later, the spotlight turned to the new 911 Turbo at the Geneva Motor Show. Once again a product from Zuffenhausen was given an enthusiastic welcome by the auto-loving public. Apart from the 911 Turbo, Porsche presented two further highlights in Switzerland: the 911 GT3 and the Cayenne Turbo S.

In the 2006/07 fiscal year, Porsche exhibited another design icon, the 911 Targa, at the Paris Motor Show in September and October 2006, and celebrated the world premiere of the new racing car, the RS Spyder, at the American Le Mans Series.

Lively Dialog with the Financial Market
Over recent years, the dialog with players on the financial market has become increasingly important, and this trend was reinforced by Porsche's participation in the Volkswagen Group. It is for this reason that the Investor Relations section, which is part of the PR department, maintains open and direct contacts with analysts, institutional investors and private shareholders. Whether in Zuffenhausen, at roadshows in the world's most important financial centers or during the various model driving presentations, the success of Porsche's shares and the bond issues were the pivot of communication in Porsche's dialog with market players. In all its contacts, the company attached great importance to "speaking with one voice" to both the general public and the financial world.

Intensive Crisis Prevention
Crises of various kinds can descend on a company suddenly and unexpectedly. In particular a manufacturer of exclusive products with a demanding circle of customers is expected to act quickly and comprehensively and provide ample information in a crisis situation. For that reason, Porsche has drawn up a crisis management plan with a suitable communication concept for emergencies: this plan sets out binding rules for behavior and allocates responsibilities right down to subsidiary and importer level. Depending on the nature of the incident, an individual plan of action enters into force. This clearly defines the managers involved in the company's various business areas, their deputies and the persons whose task it is to make contact with public authorities.

With a view to crisis prevention, various possible scenarios are staged on several occasions as "dry runs" to allow the staff members concerned to become as familiar as possible with the prescribed measures. To make crisis management as fast and efficient as possible, the number of persons involved is deliberately kept small. This also applies to the possible constitution of an action team to deal with the crisis. All these factors are intended to ensure that the response to an emergency is given with the competence associated with the name of Porsche.

Tennis Grand Prix in the new "Porsche Arena"
For many years, Porsche has regarded sports events as an extremely important communication medium. Few other brands have such a close affinity with the notions of athleti-

cism and performance. The Porsche Tennis Grand Prix is the highlight of the year's sporting calendar. In October 2006, this top-class ladies' tennis tournament was held for the first time in the new "Porsche Arena" and not in Filderstadt. The premiere in the Stuttgart arena included some of the world's best women tennis players. As well as cash prizes, there was a 911 Targa 4S for the tournament champion.

The Porsche Tennis Grand Prix was held in the "Porsche Arena" for the first time. January 2007 sees the company's first Annual General Meeting in the new hall in Stuttgart.

In October 2005, Porsche paid a fee of ten million Euro to secure the naming rights for the newly-erected arena located right beside the Hanns-Martin-Schleyer-Halle in Stuttgart-Bad Cannstatt for a twenty-year period. The logo above the Hall entrance comprises Porsche's red emblem combined with a bold arena silhouette in metallic gray. From January 2007, the "Porsche Arena" will also be the venue for Porsche's Annual General Meeting. The Arena's highly versatile layout offers seats for up to 7,500 visitors. It is also suited to sports such as handball, basketball and ice-skating, not to mention concerts.

In addition to tennis, Porsche supports an ice hockey team, the "Bietigheim Steelers" from Bietigheim-Bissingen, where many of the company's subsidiaries are located.

Porsche Museum under Construction
The new Porsche museum building at the company's headquarters in Zuffenhausen, began in October 2005 is rightly considered a spectacular architectural project. The Viennese firm of architects Delugan Meissl opted for an extraordinary design: a dynamically structured, monolithic body seems to sway over the ground at first floor level. Its appearance should strike onlookers as unusual and extremely appealing. Covering an area of approximately 5,000 square meters, the new museum will present 80 valuable historical models in rotation as well as other exhibits from the company's history. The museum is scheduled to open in 2008.

Broad Cultural Commitments
Porsche has a long tradition of supporting outstanding cultural events. This year, our company enabled the Stuttgart State Opera to make unique guest appearance in Tokyo. The famous ensemble gave three performances of Mozart's opera "The Magic Flute" in February 2006 in Japan's capital, and these were received with tremendous enthusiasm. A further highlight was the performance of Carl Orff's choral work "Carmina Burana" in Leipzig's Nikolaikirchhof on Whit Sunday 2006. This melodious contribution to Leipzig's city festival was made possible by a donation from Porsche.

From May to October 2006, Porsche's Stuttgart site hosted an exhibition by the artist Jürgen Goertz. The exhibition's focus was the piece entitled "Moments of Movements", which Goertz, who was considered one of the most important sculptors of his generation, took over 13 years to create. The basis of his work was the bare chassis of a 911 from 1993.

Well-informed Customers and Employees
The customer magazine "Christophorus", one of the first publications of its kind in the motor vehicle industry, has proved an important instrument for promoting customer loyalty since 1952. In the review year, the magazine underwent further improvements. It now provides more detailed information on the technology of the new Porsche models and its lifestyle themes have a closer connection to the Porsche brand. The magazine appears every two months and is now published in eight languages, including Mandarin Chinese, Japanese and Korean, which were added recently. A ninth version, this time in Russian, will be launched in spring 2007.

As well as its customers, Porsche keeps its employees well informed. The employees' newspaper "Carrera" has been published since September 19, 1984, the date of Professor

Nadia Petrova (right, with Tatiana Golovin, her opponent in the final) was the first winner of the Porsche Tennis Grand Prix in the new “Porsche Arena” in Stuttgart.

Porsche made it possible: Stuttgart State Opera gave an extraordinary guest performance in Tokyo’s Orchard Hall with Mozart’s “The Magic Flute”.

the workforce informed each month in a highly visual manner of the most important events in the company. It thereby makes an important contribution to employee motivation. Well-informed employees feel that they are taken seriously, and their knowledge of events gives them a sense of identification with the company and their shared goals. The employee TV program “Carrera TV” broadcast on a monthly basis provides topical and interesting news about the company.

Marketing Communication

In the 2005/06 fiscal year, a number of Porsche’s publicity films received awards at international level. At the “39th US International Film and Video Festival” in Hollywood, the Zuffenhausen company received a total of seven awards. The specialist jury assessed 1,250 films from 26 countries in various categories. The festival has been held regularly since 1968 and ranks amongst the most important events in the field of company and product films. Four Porsche films scooped first prize in their categories. Gold went to the emotional product films “True to yourself” about the Cayman S and “No” about the 911 Carrera 4 models, as well as the technical films “Masterwork” and “Porsche 911 GT3”, which focused on the 911 Turbo and the 911 GT3.

In addition, four of Porsche’s entries received prizes at the 22nd International Industrial Film Festival in Vienna. Porsche’s image film “Okay, then” won in the “Corporate Video” category and the entry “Rivals”, which depicted the development of the Cayman S, received a gold medal in the “Technology, Research & Development and Environment” division. In the “Services” category, the film “Driving Identities”, which focused on the development work undertaken by the Porsche Engineering Group, came in at first place. And in the category “Marketing, Product and Process Information”, the film “No” about the Carrera 4 received a silver medal.

Successful Campaigns

The Dialog Marketing Program’s successful pre-launch campaign for the Cayman S, which led to very high numbers of Internet hits and registration rates, was followed by the launch campaign for the new Porsche mid-engined coupé. Under the motto “True to yourself”, the Cayman S was presented as a logical extension of Porsche’s core brand values that ideally fills the gap between the Boxster and 911 in Porsche’s product range. The campaign’s overall tone aimed at the somewhat younger, more urban target group for this new Porsche model. This also opened up the possibility of implementing innovative advertising measures and using the Internet more intensively.

Under the motto “ultimate performance”, the introductory campaign for the Cayenne Turbo S evokes both this model’s apparently boundless performance capabilities and the wide range of models and driving scope for the Cayenne model series. In this way, the attention garnered by the new Cayenne Turbo S could be utilized for the entire product series.

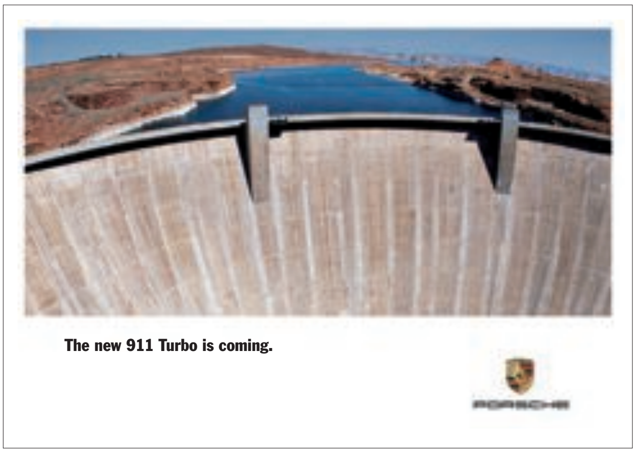
Overture of a Masterpiece

Launch publicity got underway just under six months before the 911 Turbo, the current jewel in the crown of the 911 model series, celebrated its debut at Porsche dealers. To heighten the excitement, the first advert did not show the car but depicted an imposing dam symbolizing the new 911 Turbo’s pent-up, yet controlled, power.

The market launch of the new 911 Turbo set standards: 2.2 million visitors logged onto the campaign website in five months, thereby exceeding all expectations.

The short headline “The new 911 Turbo is coming” gave onlookers the impression that the next 911 Turbo generation would also be a milestone among high-performance sports cars. The curious discovered the whole world of innovation and technology focusing on the new top model on the Internet.

The technological achievement was successfully launched worldwide under the motto “Masterwork” in the early summer. The first measure was a thrilling product demonstration at the introductory event for the worldwide distribution organization



An imposing image of a dam was an attention-grabbing element of the launch campaign for the new 911 Turbo generation.

in Sitges, Spain. Supported by classical orchestras, lavish backdrops and tailor-made films, dealers worldwide adepted this motto at their own impressive premiere exhibitions for the 911 Turbo.

With the introduction of the new 911 GT3 in spring 2006, Porsche presented the model that traditionally comes closest to the brand's core. The motto "True to yourself" emphasized this message in communications. The occasion was used not only to place the new 911 GT3 in its true light but also to emphasize the sporty potential of the 911 model series.

Prize-winning Websites

Interest in Porsche's websites increased even further in the review year. Supported by the company's re-designed Internet pages, which are now hosted worldwide, this development was reflected in rising numbers of website visitors. With approximately 30 million pages viewed and an average of 2.1 million visits per month, interest in Porsche's website reached a new record. By the end of the review period, twelve subsidiaries as well as 26 sites from importers could be accessed via the www.porsche.com portal. This now includes the company's first-ever full web presence in Mandarin for the Chinese market.

Sales continue to increase in the e-business area. The complete overhaul of the "Porsche Design Driver's Selection" online shop provides the basis for further positive development in this area. The shop went online in Germany at the beginning of the 2006/07 fiscal year. Further markets followed in the course of 2006.

To speak with one voice to customers through all distribution channels, great importance was again given to the design of the Dealers' website in line with global design guidelines. Over 460 dealers worldwide currently have their own website under the Porsche brand platform.

Apart from impressive growth in quantitative terms, the contents of Porsche's website also won acclaim in the course of the review year. The extensive campaign websites for the launch of the 911 Carrera Cabriolet models ("911 freedom of movement") and the Cayman S ("True to yourself") received prizes from the design world.

Both received the sought-after "Red Dot Design Award 2005" for high design quality. The Cayman S campaign website was also a finalist at the internationally renowned "Cyber Lions 2005" award in Cannes and the "2005 New York Festival". The "Opus 911" campaigns website for the introduction of the 911 Turbo in February 2006 marked a milestone for the Porsche website. Skilful networking of complex 3D presentations, live film scenes and technical animation presented the 911 Turbo in an innovative and emotionally appealing manner. The impressive result was 2.2 million visits in five months.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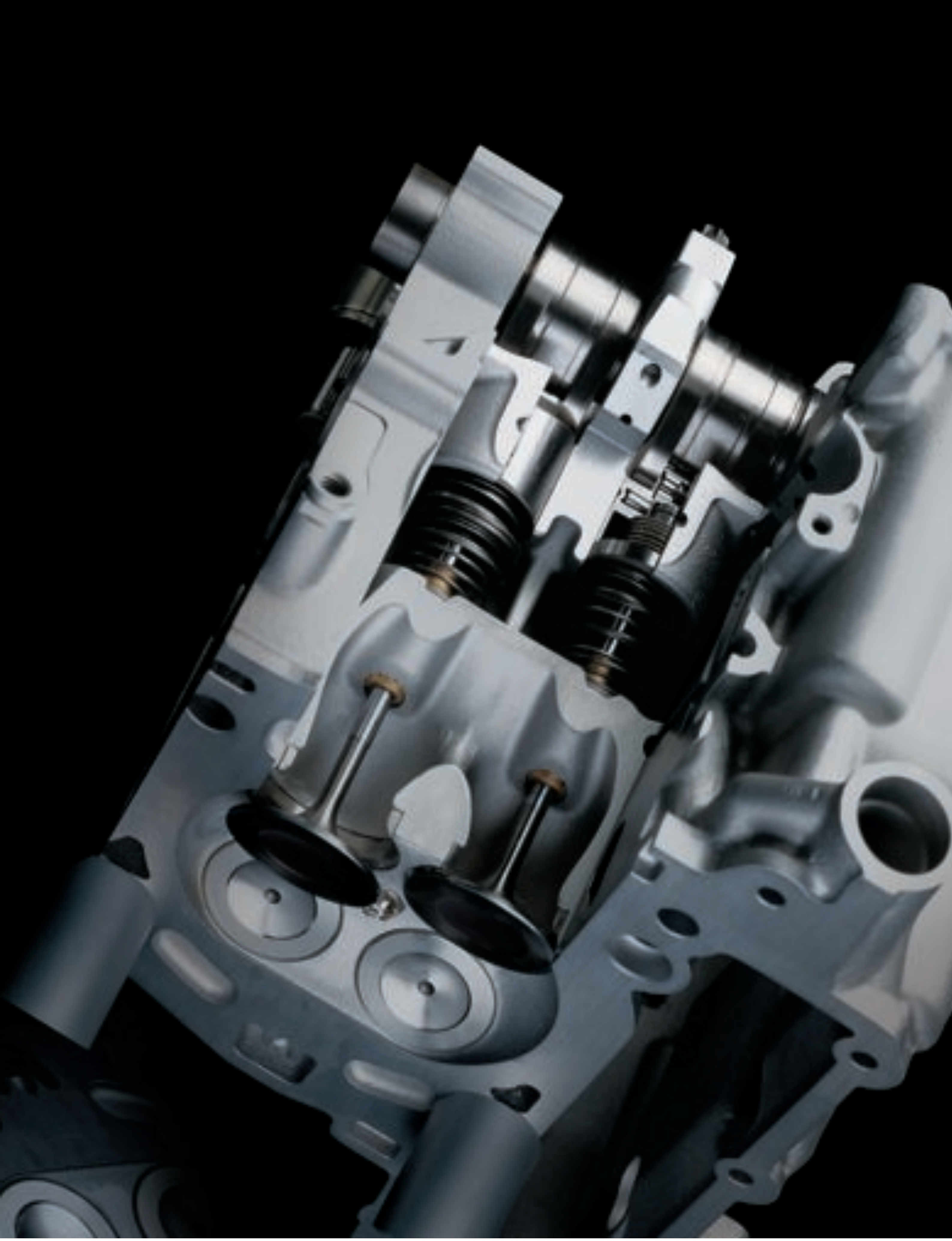
Production

VarioCam Plus

In the new Boxster generation for example, variable valve timing increases engine efficiency, thus resulting in increased output with a reduction in consumption.



For the first time, Porsche built more than 100,000 vehicles in a single year. The fact that 36,500 of these were 911 models underlines the workforce's achievements at the Zuffenhausen parent plant.

Demand for Porsche's new sports car models has never been higher than in the 2005/06 fiscal year. The Cayenne, in the twilight stage of its production cycle, is still extremely popular worldwide, and Porsche therefore produced a total of 102,602 vehicles in the review year, a year-on-year increase of 12.8 percent.

A total of 36,504 911 models were manufactured in Stuttgart-Zuffenhausen. The Boxster is built at the Zuffenhausen plant and by our Finnish partner. Due to high demand for both the 911 and Boxster model series, production of the Boxster model series in the review year was undertaken almost entirely by our partner. In total, 14,383 Boxster units were built. At 16,297 units, Cayman production exceeded all expectations. In Leipzig, 35,128 units in the Cayenne model series were produced as well as 290 Carrera GT models. A total of 1,282 units of this high-performance sports car were built in the last two fiscal years. Production of the Carrera GT ceased in May 2006.

High demand was not the only challenge facing our Production department. While Zuffenhausen was operating at the highest level, production of further versions, with volumes running as high as the planned unit figures, began simultaneously. This was particularly true of the 911 model series, which was complemented by further top-of-the-range-models such as the 911 Turbo. A new entry in the product range was the Cayman. Comprehensive production management from supplier management to the completed vehicle ensured a problem-free roll-out.

One particularly interesting feature is that all Porsche models in Zuffenhausen are built on one assembly line. This not only requires maximum flexibility and performance from employees but also involves a high level of willingness on the part of the workforce to participate in training at various levels. The production processes for the new models were demonstrated to industrial workers under a comprehensive training program. Overall, demanding processes were completed without any problems, and the targets were achieved for all production launches.

All opportunities for increasing capacity were taken up at Porsche's main plant. These included the first steps for extending the assembly line and for realizing the opportunities to optimize production processes throughout the value chain. It was thus possible to produce more cars with almost unchanged staff numbers.

It also proved possible to significantly increase overall productivity, because all opportunities arising from the Location Security Agreement concluded in the summer of 2005 were used to make working hours more flexible. Porsche's work-time model enables Production to respond quickly to market fluctuations. In the 2005/06 fiscal year, this involved longer shifts, which were made possible by eliminating credited hours that had accrued in employees' working time accounts in previous years.

More pronounced teamwork played a particularly important role. In the review year, more than 1,300 assembly workers were organized in teams. These teams offer the best opportunity for structuring work in a flexible manner, while simultaneously meeting the highest quality standards and continuously improving processes.

Alongside problem-free production processes, quality improvement is the most important maxim for the Production department. In the review year, the quality of the vehicles was the best yet in Porsche's history. This improved quality was due to a wide range of technical and organizational measures.

Manufacturing Processes further improved

Optimizing all manufacturing processes invariably means improving quality as well as increasing productivity. Thus, for example, a fully automatic apparatus for welding doors was installed. The equipment measures the opening with a laser and allows the door assembly process to be adapted to a vehicle's tolerance. This in turn ensures the exact alignment of all joints.

The new aluminum door developed for the 911 Turbo, which features a significantly smaller number of individual parts compared with a steel door was also integrated into this manufacturing process. A new, fully automatic camera-equipped testing unit ensures 100 percent monitoring of the vehicle's underside. Complete and exhaustive inspection of all seals and gaskets is thus possible.

These measures were supplemented by the comprehensive deployment of the "electronic job card". Touch screens at all work stations along the assembly line are used for direct quality documentation. The completion of very specific work tasks must be confirmed and, if this does not occur, the assembled automobile is electronically locked, further assembly stopped and production cannot be completed. This system

ensures that only Porsche cars of the best quality ever leave the factory. In the review year, a new repainting facility was integrated into the manufacturing process. It requires less space and, more importantly, consumes considerably less energy than the previous facility.

Finally, significant productivity advances were achieved in the assembly of wheels with the installation of a “tire-filling bell”. Wheel rims and tires are no longer supplied, assembled, filled and fitted to the given sports car in several different stages; instead, all measures are carried out in a single, integrated process.

Transport transferred to the Railways
Porsche has further intensified its collaboration with Deutsche Bahn AG. Since spring 2006, components and engines for Valmet, the Finnish production partner, have been transported by rail. This avoids almost 7,000 road truck journeys over a distance of approximately five million kilometers. To meet Porsche’s requirements in terms of quality, costs and transit times, Deutsche Bahn’s subsidiary Railion AG commissioned the development of special wagons and mega-trailers that can either be hauled by a commercial vehicle or transported by rail.

The trailers are loaded at the Zuffenhausen plant and at suppliers’ factories in southern Germany, transported by truck to the container terminal in Kornwestheim and then brought to the Baltic port of Rostock by train. From there they are shipped to Finland and then delivered by road to our partner, Valmet. As early as February 2001, Porsche began implementing an environmentally-friendly transport and logistics strategy with a strong focus on rail transport. Since then, all vehicles for overseas export have been sent by rail from the Kornwestheim loading station to the North Sea port of Emden. On the return journey, the carriages are loaded with Boxster and Cayman models from Finland destined for customers in southern Europe. This measure alone saves of 15,000 truck journeys over a distance of almost 20 million kilometers per year.

Porsche also makes use of trains at its Leipzig plant. Once a day, the pre-built bodyshells are delivered by train to the plant’s own railway station, from where they join the production lines. Cayenne models intended for shipping overseas are also transported by rail to Emden. There will be a further significant increase in the volumes conveyed by rail at the Leipzig plant once production of the four-door Panamera sports coupé gets underway there in 2009.

To ensure a consistent logistics concept within the Group, the operative logistics departments for the After Sales organization, previously located in Distribution have been relocated to Production and Logistics. This marks a further step toward concentrating logistical tasks in a Group-wide logistics organization. Moreover, in the review year, individual subsidiaries set up new central warehouses in the regions for supplying the markets with spare parts. Here, too, new structures have been created to provide customers with an improved service. According to a survey carried out by ADAC, Porsche already receives top marks in terms of customer.

Even Better Service for Customers
In the 2005/06 fiscal year, following three years of preparation, the first step of the comprehensive “PIA program” was put in place. PIA stands for “Porsche Integrated Order and

Resource Management". The aim of the program is to optimize the customer-to-customer process. The order management program, which Porsche uses to steer and monitor the entire process from the importer's ordering system to handover of the finished vehicle, was launched in January 2006.

The system calculates a fixed production and delivery deadline for each order at the time of signature. The major advantage for customers is that they have around two weeks longer to modify their order and that the effects of changes are immediately visible. All Porsche Centers will eventually be incorporated into the order management system.

Porsche's clear commitment to Germany as a production location increases the prestige of its vehicles. The "Made in Germany" mark of quality is of critical importance for the Panamera.

The new system will also enable improved control of requirements planning for the overall volume of orders and the planned production dates. This in turn will allow fluctuations in requirements and the necessary capacity modification, while production activities involving Porsche's own plants and suppliers can be better planned and controlled.

Resource management was also considerably improved in the review year. The transparency and intelligibility of available supplier capacities were significantly enhanced through close cooperation with Purchasing and the introduction of an innovative resource management system. In addition, computer-based determination and use of all relevant plant capacities contributed to further advances in transparency regarding operational capacity in the production alliance. Transparent supplier and production capacities facilitate both the early identification of bottlenecks and a faster, more precise and more dependable feasibility study of the numbers of vehicles and accessories that can be produced.

The Panamera to be built in Leipzig
In May 2006, Porsche AG's Executive Board decided that the four-door Panamera sports coupé will be built in Leipzig. The Leipzig plant is therefore being considerably expanded to produce this vehicle, which should be on the market in 2009. There are plans for a further assembly hall with an area of approximately 25,000 square meters, and for extending the existing assembly hall to include a pilot and analysis center and a training workshop. In addition, a 23,500-square-meter logistics center is being built in the immediate vicinity of the new hall. Construction work began in September 2006.

Overall investment will total approximately 150 million Euro. As was the case for construction of the Leipzig plant, Porsche will again forgo its entitlement to subsidies, this time in the region of 30 million Euro. The decision in favor of Leipzig is testimony to Porsche's faith in its local employees' skills and is furthermore a contribution to the regeneration of the new German Federal states. Porsche's commitment to Germany as a manufacturing location also increases the value of its automobiles, since the "Made in Germany" mark of quality is just as important for the Panamera as it was for the Cayenne.

While the painted bodyshells are supplied by the Volkswagen factory in Hanover, one of the most modern in the VW Group, the engines come from Porsche's parent plant in Zuffenhausen. The engine plant is being extended for this purpose. Vertical integration at Porsche for the Panamera is 15 percent. Since the company works predominantly with German suppliers, however, around 70 percent of the vehicle's added value comes from Germany.

Top Quality from Leipzig
Porsche's Leipzig plant, which opened its doors in August 2002, is among the world's most modern factories. In the review year, the Collective Wage Agreement, one of the essential conditions for flexible and productive manufacturing, was extended by a further five years.

After the end of Carrera GT production, the employees were once more integrated into Cayenne assembly. Temporary staff

on leasing contracts were no longer used. Since then, the production line has been cut back and the resources used for other purposes.

Young employees were specifically prepared for future managerial responsibilities in a two-year career advancement program entitled “MAX s.p.e.e.d.”. In environmental protection, an audit by TÜV Süddeutschland (the South German technical inspection authority) in accordance with the DIN EN ISO 90001 and 14001 standards was carried out successfully and certification validated until 2007. At the break-in and control track, a new retention pool was constructed for wastewater. In winter, the pool allows rainwater containing anti-freeze to be disposed of via the wastewater channel, while in summer it serves for watering landscaped areas. In addition, washing facilities exclusively for off-road vehicles requiring less fresh water than in the past were built at the customer center.

Efficiency increased

The new Locations Security Agreement was signed by Porsche’s Executive Board and Works Council in July 2005, and was quickly implemented in the review year. The agreement runs until 2010 and applies to all employees at the Zuffenhausen, Ludwigsburg and Weissach locations. While respecting valid collective wage agreements, it creates the prerequisites for more efficient, and therefore more flexible and more productive work processes. As a result, the rest periods for piece workers laid down in the wage agreement can now be credited directly to interruptions in the production process. Where necessary, a further twelve special shifts per year can be worked. As the 2005/06 fiscal year showed, this and other measures led to significant advances in productivity, with the result that Porsche was able to build considerably more automobiles in Zuffenhausen with the same staff numbers.

The “flexi-time model” that had already been applied in Production was modified and is now directly tied to demand. A working-time model, which remunerates working time over a year or a project for up to three years on a flexible basis and in line with the defined tariffs, was agreed for salaried employees. This put an end to the old procedure of filing for overtime and the associated extra pay. These arrangements also apply for employees in the Weissach development center where new processes have been specified leading to a further reduction in development times and a continued increase in cost efficiency.

Despite the agreed measures on increasing productivity, jobs are secure until 2010, since Porsche will be investing over 600 million Euro in the three locations over the next five years. All cars in the 911 model series, including all derivatives, will continue to be built in Zuffenhausen, as will all engines for current and future models. In addition, an investment will be made in a new paint shop in Zuffenhausen. Over 250 million Euro will be invested in Weissach by 2010, primarily in buildings, test rigs and systems.

Porsche and the Environment

Decisions regarding environmentally-friendly disposal are made during the design phase for future vehicle models.

For years Porsche has been proving that developing, producing and, of course, driving sports cars can be both economical and environmentally friendly. The company's declared objective is to minimize adverse effects on the environment in all its activities and furthermore to support international activities. Porsche has named environmental protection as one of its corporate objectives, and an environmental management system has been a firm feature of company policy since 1995.

One basic principle of the company's environmental policy is to ensure that vehicles meet the highest levels in environmental and safety technology. Resources should be used sparingly and economically, and products and product procedures should be constantly examined with regard to their environmental compatibility. By virtue of the long lifespan of its vehicles, Porsche already makes an active contribution to the efficient use of resources and energy. Naturally, all applicable regulations are implemented. The public is regularly informed of all company events with an environmental dimension and an open and mutually trusting dialog is conducted with the authorities and competent organizations.

Environmental guidelines assist in implementing environmental policy principles. Environmental policy encompasses employees, service providers and suppliers. They all pursue the objective of continually improving our environmental performance. Porsche's employees in particular have been aware for decades that cars only have a future if they fulfill ecological requirements. The environmental management system, an extremely practical and sustainable instrument, is used as a means of evaluating environmental performance at all locations as well as for planning and implementing further measures.

In 1996, the Zuffenhausen location voluntarily undertook to permit regular inspections of its environment-related activities in accordance with the European Eco-Management and Audit Scheme (EMAS). The same applies for the international standard ISO 14001. The Weissach and Leipzig locations are also certified in accordance with ISO 14001. The inspection audit at the locations in June 2006 examined and confirmed the effectiveness of the environmental management system.

In Harmony with Climate Protection

For over 30 years, one of the most important aims in environmental protection has been to reduce exhaust emissions. Major progress has been made since the introduction of the regulated three-way catalytic converter for motor vehicles with a gasoline engine. Over the last 20 years this technology has made it possible to minimize the impact on the environment in particular by imposing binding thresholds on emission components such as hydrocarbons, carbon dioxide and nitrogen oxide. Today, gasoline engines are considered clean engines, while diesel engines have been increasingly criticized due to their levels of nitrogen oxide and particulates, particularly since the introduction of the European Clean Air Directive at the beginning of 2005.

Growing industrialization in countries such as China and India – and the associated rise in energy consumption – lends further impetus to the efforts of various states to introduce energy efficiency programs. Some states have anchored regulations concerning vehicle consumption in their legislation. In the European Union, the automobile industry has given a voluntary undertaking to continue reducing fuel consumption.

Long before targets for reducing consumption were defined, Porsche introduced concrete measures to cut fuel consumption in its vehicles. Moreover, such developments are often the basis for a sports car's typical characteristics. These include extraordinary acceleration, optimum braking performance, a high top speed with a moderate engine output and outstanding agility on corners.

In general, sports cars are distinguished by their low weight, optimized aerodynamics, efficient and compact transmission and minimal frictional losses due to rolling motions. The most recent example, embodying these very principles, was launched by Porsche in the review year: the new 911 Turbo.

An analysis of the vehicle's characteristics confirms this statement. The 911 Turbo, with a total weight of only 1,585 kilograms (manual), or 1,620 kilograms (automatic Tiptronic S), is a real lightweight in its class. The automobile is supplied as standard with four-wheel drive. Other standard equipment includes a wealth of devices that enhance safety and comfort. These features go far beyond those of the predecessor model but it was nevertheless still possible to reduce the vehicle weight.

In order to field criticism of the higher energy requirement for aluminum, the 911 Turbo's new aluminum doors were subjected to a "lifecycle analysis". The result was that the fuel saved during the vehicle's lifespan on the basis of its reduced weight far exceeded the extra energy consumed during production.

The Porsche 911 Turbo also has exemplary aerodynamic properties. Despite its wide chassis, high cooling air requirements and large wheels, a drag coefficient (cD value) of 0.31 still applies. The engine's technical data represent absolute optimum values and naturally comply with all global emissions laws. In order to meet customers' rising demands, Porsche has been using turbocharging technology since the 1970s. Even today, this technology ensures by far the lowest consumption rates.

To reduce rolling friction, Porsche collaborates closely with a tire manufacturer. Wear and tear on tires ultimately plays the greater role in performance losses. The collaboration has enabled the optimal combination of various requirements such as safety in all weather conditions, driving performance and lifespan coupled with good rolling resistance levels. This work has made a significant contribution to reducing CO_2 emissions.

Customers and Environmental Protection

Customers also benefit directly from the development of more environmentally-friendly vehicles. Through the systematic application of state-of-the-art technologies, Porsche has succeeded in reducing both the volume and frequency of servicing work on an ongoing basis, despite the fact that equipment ranges are becoming ever more diversified. All current models only require a service every 30,000 kilometers. As far as the environment is concerned, this constitutes a saving of resources in the use of operating fluids and wearing parts, while for the customer it saves time and money.

Moreover, to their owners' pleasure, Porsche's vehicles have a particularly long lifespan. This cuts down on the disposal of end-of-life vehicles and recycling, which in turn reduces the environmental impact. Nevertheless, the company takes its responsibilities seriously. In cooperation with Porsche's dealership organization, the structures imposed by the European Union for taking back and recycling old cars have been put in place. Indeed, as far back as 1998, Sales published an environmental handbook for Porsche's dealership organization containing information on how to deal with old cars. It is continually updated in order to ensure environmentally-friendly recycling. The information is also available online to recycling companies.

Porsche is already well within the recycling rate of 85 percent of vehicle mass that will be required by the EU Directive for End-of-Life Vehicles from 2008. In order to achieve the rate of 95 percent required from 2015, suitable procedures are being developed for materials that cannot currently be recycled.

The "designed for recovery" principle is already being applied to the development of future vehicle models. Hence, even at this early stage, consideration is given to ensuring the environmentally-friendly disposal of vehicles at the end of their life.

High-Level Expenditure

At all locations, considerable sums were once again spent on environmental protection in the 2005/06 fiscal year. Expenditure of 15.5 million Euro ensured environmentally-friendly waste management, water protection, noise reduction, clean air precautions, nature conservation, care of the countryside and soil contamination prevention. A considerably larger sum, however, has been invested to make all the model series more environmentally-friendly as they are developed further. This expenditure, which primarily concerns measures for reducing fuel consumption and emissions, amounts to approximately 1.7 percent of the company's turnover.

Employees

Porsche has many faces

Each and every day, Porsche employees work hard to serve their customers on every continent of the globe. Every single employee makes an important contribution to enduring customer loyalty as a strategy toward the worldwide expansion of the company. Porsche now operates in more than one hundred countries. Growth has gained particular momentum in the young future markets of the Middle and Far East and Latin America.


PORSCH
STUTTGART

Successful HR development is reflected in very low staff fluctuation and a high level of satisfaction among employees at all Porsche locations.

Porsche's extraordinary success over recent years would be unthinkable without its employees' dedication and high level of motivation. The strong identification of the workforce with the company and its products, combined with participation in the company's success, create the foundation for a corporate culture notable for an exceptional level of employee satisfaction.

Our employees' outstanding performance is further confirmed by the fact that, in the 2005/06 fiscal year, a record result was yet again achieved with a virtually unchanged number of employees. On the review date, July 31, 2006, 11,384 persons were employed by the group (previous year: 10,895). Porsche AG took on extra employees for the development of the Panamera, which is why the workforce increased slightly to 8,257 (compared with 7,995 in the previous year).

Location Security Agreement Implemented

The company agreement for improving competitiveness and securing locations was concluded at the end of the 2004/05 fiscal year by the Executive Board and the General Works Council. It contains numerous measures aimed at making work procedures and processes even more productive and flexible.

These measures were consistently implemented in the review year. In Production, manufacturing processes were optimized by numerous individual measures so that work time could be used more efficiently and productivity significantly increased. Comprehensive investments guarantee the future viability of jobs and product quality.

For the employees, the criteria defined in the Location Security Agreement for making work time more flexible were detailed and implemented under a General Works Agreement. As a result there is now even greater flexibility in terms of working hours, while the employees' regular weekly work time remains unchanged. This further reduces the cost burden of overtime.

Porsche has been systematically running staff development programs for many years. The success of these programs is demonstrated by consistently low staff fluctuation levels and high employee satisfaction.

The strategic management process was developed further. The new management guidelines have now become components of programs such as “Porsche Career Promotion for Junior Employees” or “Porsche Management Development” as well as managerial skills programs.

University graduates continue to be recruited primarily through trainee programs and marketing measures at universities. In the review year too, almost all entry-level posts were filled by employees from the trainee programs. In the light of demographic trends and falling numbers of university graduates, these activities were intensified, for instance through the inclusion of other tertiary institutions in the marketing program and the development of a “Talent Relationship Management” scheme.

Junior employees were also prepared specifically for more advanced positions by the “Porsche Career Promotion for Junior Employees” and “Globalution” programs. Numerous participants have already taken over managerial functions in assembly, projects and specialist areas, and two new groups were started in the review year.

During the review year, assessment of the first managerial level marked the start of the Porsche Group's third assessment phase. The aim is to establish the potential of managers for taking on more advanced roles and to prepare them for their future tasks by means of targeted development plans. In the long term, key functions should in principle be occupied by personnel from the company's own ranks.

Also in the 2005/06 fiscal year, candidates at the first and second levels were identified in the group-wide plans for promoting junior employees, and vacant posts were occupied by successors appointed from within the company. This ensures first-class management, which will keep Porsche on the path to success.

To ensure competitiveness throughout the entire company, programs for certain target groups were further extended. Examples are PC qualifications and team leader training. The PC qualification program, in which industrial employees are trained to use computers and the Internet, has proved very popular. It was extended to all locations during the year under review. New project and team leaders for the Panamera model series were trained in a special program for their future tasks during the review year.

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Linda Walterschen Service Advisor

Customers at Porsche Middle East in the United Arab Emirates appreciate Linda Walterschen's friendly disposition.

Vicky Tam Sales Administrator

Vicky Tam is pleased about the growing number of customers at the Porsche Center Shanghai. More and more people in China are being captivated by the Porsche brand.

Rommel Ureña Workshop Manager

Rommel Urena knows about the technology in Cayenne models and Porsche sports cars like the back of his hand. He has been managing the workshop at the Porsche Center Panama for many years.

Nicky Wood Senior Sales Consultant

Handing over the keys to customers collecting a Porsche for the first time in their lives is always an exciting moment for South African Nicky Wood.

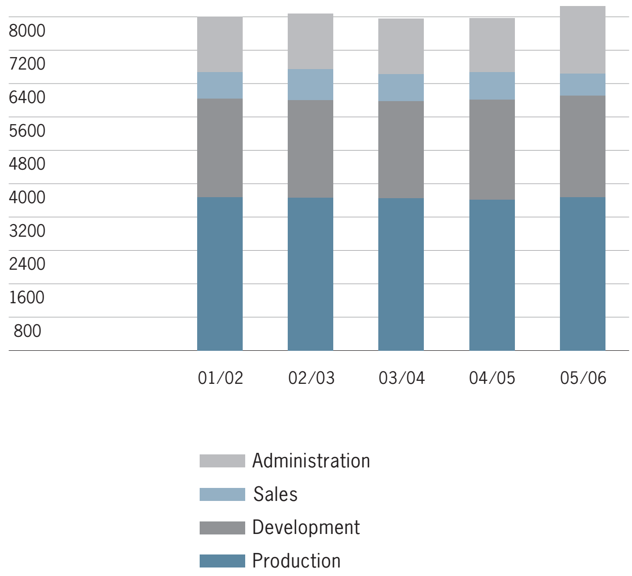
Takeshi Ota Supervisor

When preparing vehicles for delivery to buyers in Japan, Takeshi Ota's sharp eye plays a vital role: not even a speck of dust should dampen the customer's delight.

Mohideen Hinayathullah Mechanic

Mohideen Hinayathullah knows every nut and bolt in the Cayenne and the current sports car models. Working as a mechanic at Porsche is a dream come true for Indian-born Mohideen.

Workforce Porsche AG



Positive Experience with Part-time Work for Older Employees
Following renegotiation of the conditions for part-time work for older employees in 2005, 114 employees took up the attractive package in the review year and concluded a part-time work contract.

Since the vacant positions are mainly filled with qualified trainees, the average age of the workforce is decreasing. Know-how transfer also promotes the younger generation's development. The part-time hours model for older employees ensures the company's competitiveness and relieves the strain on the labor market. Thus, part-time work for older employees is a successful bridge between the generations, i.e. between employees who are beginning their well-earned retirement and young people, who will be looking for a job at Porsche once they have completed their training.

A total of 1,052 employees have signed up for part-time working since the model was introduced. On July 31, 2006, 222 of these employees were at the zero hours phase. In the 2006/07 business year, employees aged 55 or more also have the option of signing a part-time work agreement.

Health Measures: Looking to the Future
In the review year, a "Corporate Pandemic Preparedness Plan" to enable a prompt and efficient response to epidemic diseases was drawn up for the first time. It is based on the World Health Organization's pandemic plan.

Environmental protection has been continually improved. In the context of an environmental management system, employees' skills have been defined in areas of particular relevance to the environment and their qualifications and knowledge further improved. Company representatives were appointed in the areas of waste, waterway protection, dangerous substances and emissions protection. They are responsible for providing expert advice during the plant planning, approvals and operation phases. They furthermore monitor compliance with environmental regulations and support the process of continual improvement in environmental protection.

A Thank-you to our Employees
The ambitious objectives which Porsche set itself in this accounting year have been achieved and even surpassed. The Committee is aware that this was only possible due to the above-average commitment and high level of flexibility on the part of the workforce and a strong awareness of the quality of their own work. The Board expresses its personal thanks to all our employees for their hard work.

This success could not have been achieved without a fair balance of interests based on a readiness to compromise. The Board would therefore also like to thank all the employees' elected representatives, who acted with sound judgement in looking after their colleagues' best interests, and thereby adopted the successful approach of a pragmatic and open dialog.

Porsche AG's Personnel Expenses (according to IAS)

	2005/06 Mio €	2005/06 %	2004/05 Mio €	2004/05 %
Wages and salaries (basic)	**356.6**	**100.0**	**337.0**	**100.0**
Paid leave	**85.4**	**23.9**	**79.0**	**23.4**
Paid vacation	49.0		48.4	
Paid public holidays	13.7		9.8	
Sick pay	11.2		12.4	
Other periods of absence and recuperation	11.5		8.4	
Social contributions	**88.4**	**24.8**	**82.2**	**24.4**
Social security contributions	84.8		79.1	
Workers' compensation contribution	3.6		3.1	
Fringe benefits	**203.1**	**57.0**	**146.3**	**43.4**
Chrismas and special bonuses	176.5		121.2	
Employee capital-forming savings plan	2.3		2.3	
Vacation bonus	22.8		21.3	
Other expenditures	1.5		1.5	
Pensions and other retirement benefits	**40.5**	**11.4**	**19.0**	**5.6**
Partial retirements until 2005	**0.0**	**0.0**	**6.8**	**2.0**
Partial retirements from 2006 to 2009	**9.2**	**2.6**	**12.7**	**3.8**
Training expenses*	**11.2**	**3.1**	**13.4**	**4.0**
Social services*	**13.5**	**3.8**	**12.5**	**3.7**
Amounts counted twice	**– 7.6**	**– 2.1**	**– 7.5**	**– 2.2**
Total benefits expense	**443.7**	**124.5**	**364.4**	**108.1**
Personnel expenses (basic and benefits)	**800.3**	**224.5**	**701.4**	**208.1**
thereof for other expenses	– 6.3	– 1.8	– 5.5	– 1.6
Personnel expenses according to the income statement	**794.0**	**222.7**	**695.9**	**206.5**

* excluding costs charged to others

Purchasing

Efficient procurement processes and stable partnerships with suppliers are factors in Porsche's success.

The start of series production for the new models and the decision in favor of a fourth model series represented a challenging situation for Purchasing in the 2005/06 fiscal year. Even at this early stage of the Panamera's development, the structures for production must be established and suppliers selected. In this manner, Porsche makes sure that the suppliers' know-how and technical capabilities can be absorbed into the Panamera concept.

Criteria for selecting suppliers not only constitute demanding cost targets but also place exacting requirements in terms of quality and technology. Porsche will be drawing on both known, highly competent partners and new, innovative suppliers with convincing product concepts. Purchasing, development, logistics and quality assurance work together to produce a comprehensive profile of potential partners. Porsche will be entering into long-term cooperation with suppliers selected in this way.

Dynamic Raw Materials Markets
Like the rest of the sector, Porsche had to face massive price increases in metal and fossil raw materials in the review year. In particular, the prices of precious metals such as platinum, palladium and rhodium increased dramatically. Energy costs also increased significantly in the last two quarters of the 2005/06 fiscal year.

Purchasing responded to this negative development with appropriate measures, first to ensure the dependability of supplies and, second, to optimize materials costs. These objectives were achieved and significant savings made in materials costs, which largely offset the price increases in raw materials. Suppliers played an important part in this by presenting ongoing alternatives for optimizing both their products and manufacturing processes.

Developing the Supplier Base
Given the high external added value, efficient procurement processes and stable partnerships with suppliers are key success factors for Porsche. For this reason, the further development and improvement of internal purchasing processes and structures is crucial.

One result of these optimization measures is the "Supplier Management" unit set up in the review year. Its core tasks concern the systematic optimization of the supplier base and management of developments to be undertaken by individual suppliers. Experienced experts from various business areas solved quality, capacity and cost problems in collaboration with the suppliers. Within a short period, numerous improvements of benefit to both Porsche and the suppliers themselves were introduced.

By using special sensors in the development and production processes, it is possible to identify any difficulties systematically and in good time. This not only remedies problems but also enables a preventive approach to potential problems. Qualification and training measures, for example, are undertaken during product development before series production gets underway. Porsche regards this as a further, essential component in its partnership with the suppliers.

The successes of "Supplier Management" are confirmed by the results of regular supplier assessments and automobile quality. In the review year, a number of suppliers achieved better results in terms of quality, delivery service and cost management. This translates into a continued overall improvement in the partners' performance.

For monitoring the suppliers' financial stability, risk management was optimized by the introduction of an improved range of instruments for identifying risks. Ongoing monitoring and analysis of the suppliers' financial capacity means that financial problems can be identified in good time and enables the partners to find solutions. This minimizes adverse effects on Porsche's production.

More Efficient Procurement Processes
In the review year, optimization measures were supplemented by a project intended to improve procurement processes.
The objective is to optimize communication with the suppliers and to integrate them more fully into the product development processes. The systematic and reciprocal exchange of information speeds up operational procurement procedures. Since the project supports the purchasing not only of production materials but also of other products, it represents an important step toward a unified improvement of activities in the purchasing department. Moreover, it offers the opportunity to construct a new integrated information system that provides a comprehensive and transparent picture of the suppliers.
As in previous business years, Porsche will continue to analyze processes and utilize identified potential to optimize purchasing procedures.

Research
and Development

Emission control

In the new 911 GT3, exhaust gases from all six cylinders are collected in a highly efficient unit that produces a unique and sonorous sound.

With their presentation of the 911 Turbo and 911 GT3, Porsche's development engineers set technological standards for "Made in Weissach". Work on the Panamera sports coupé has now begun.

Top of the agenda for engineers at the Weissach Research and Development Center in the 2005/06 fiscal year was the development of the top-of-the-range model for the 911 series, namely the 911 Turbo, and the new Cayenne. Another focal point was work on the fourth model series, the Panamera sports coupé. The concept phase for the latter, involving intensive use of virtual development tools and initial component trials, was successfully completed in the course of the review year. Production development commenced with the new 2006/07 fiscal year.

A new attractive addition to the 911 model line, the 911 Targa, also went into series production. Other new developments were the GT3 and GT3 RS, both attractive options for customers who are also motorsport enthusiasts. Porsche has also added to the attraction of its Boxster model line, with the roadsters now having more powerful yet more economical engines. Finally, in the Cayman model series, the Cayman S has been joined by an entry-level version, the Cayman.

Over in the Pre-development division, the source of most of Porsche's engineering innovations, a host of projects got underway in the 2005/06 fiscal year. The new features on the 911 Turbo, such as the turbocharger with variable turbine geometry, aluminum doors and the new all-wheel drive system, are all examples of components which started out in Pre-development. The key philosophy here is all about tailoring innovative ideas consistently to the interests of the customer and at the same time bringing those ideas efficiently to fruition.

Another key aspect of development activities is the optimization of processes and procedures. A continuous improvement process ensures that, in terms of contents, speed, flexibility and cost-efficiency, the Development division will continue to operate at optimum levels in the future as well.

911 Turbo: A Wealth of Innovative Technologies

The turbo has a long tradition at Porsche. The 930, the world's first turbocharged production sports car, was unveiled to the public at the Paris show in 1974. More developments followed, providing impressive proof that the 911 Turbo is the company's technology demonstrator.

The goal with the new Turbo model was to maintain the lead position amongst the competition. Though the standard was already very high thanks to its successful predecessor, considerable advances have been achieved. Virtually all aspects of the vehicle have been improved, ranging from vehicle styling, through variable turbine geometry, the controlled all-wheel drive system, the brakes, the lightweight construction, the active and passive safety features, to fuel consumption and emissions. Together, these new technical features have made the 911 Turbo into a car that offers outstanding performance, excellent handling, a high level of everyday practicality and an ability to stir up high emotions.

The 911 Turbo has an impressive power output of 353 kW (480 hp). Combined with the Tiptronic S, the vehicle accelerates from 0 to 100 km/h in 3.7 seconds, for the first time returning a faster time than the manual transmission variant which completes the sprint in 3.9 seconds. A speed of 200 km/h is reached after 12.8 seconds (12.2 with the Tiptronic S). Top speed for both transmission variants is 310 km/h.

These performance figures have been made possible, inter alia, by the use of variable turbine geometry. It combines the advantages of small and large turbochargers in one single unit. This technology has already been in use on diesel engines, but up till now could not be deployed with petrol engines on account of the much higher exhaust gas temperatures. For years, several car manufacturers have tried, without success, to develop variable turbine geometry for petrol engines for series production applications. Porsche made the breakthrough by using innovative materials from the aerospace industry and the latest structural mechanics and fluid dynamics simulation processes. With the use of variable turbine geometry in the new 911 Turbo, Porsche is demonstrating that a high degree of innovation capability and high sales returns are not necessarily contradictory.

Variable turbine geometry offers considerable benefits to the customer. The exceptional amount of engine torque on offer has improved the engine's flexibility enormously. In addition, turbocharger response, already very good, has improved even further. The key element of variable turbine geometry is the so-called guidance system with eleven adjustable guide vanes. They are controlled by an electric motor which receives its information from the engine control unit via some ingenious control software. When closed, the guide vanes simulate a small turbine, when open a large one. For good response at low engine speeds, the system is adjusted to simulate a small turbine. During the acceleration phase, the behavior of the turbine is adapted by the opening of the guide vanes, thus achieving the desired boost pressure.

As an option, the new 911 Turbo can be fitted with the Sport Chrono Package Turbo, which provides features such as an overboost in full acceleration conditions. When the Sport button is pressed, boost pressure is raised briefly in the mid-engine

speed range. Acceleration from 80 to 120 km/h in the second highest gear takes 3.5 seconds instead of 3.8 on manual transmission versions, and 3.3 seconds instead of 3.5 with the Tiptronic S. This overboost is particularly ideal for intermediate acceleration and can shorten overtaking maneuvers.

Optimum Power Distribution
The outstanding acceleration performance of the 911 Turbo is only possible if power transfer can be well-controlled at all times. Consequently, the vehicle features new all-wheel drive technology, the Porsche Traction Management (PTM), as standard. It is based on the experiences gained with the traction management system on the Cayenne. Additional drive to the front wheels is now provided actively by means of an electronically controlled, electromagnetically-actuated multi-disk clutch. Power can therefore be distributed optimally even when there is no difference in rotational speed.

Thanks to this new technology, power transfer can be optimally adapted to the prevailing driving conditions, whilst fast response times ensure that the front axle is engaged in less than 0.1 seconds. If required, and in certain driving situations – such as when the rear wheels are spinning on ice – all the power is transferred to the front wheels.

The Porsche Traction Management's control system is based on a host of parameters which are evaluated in the PTM control unit. These include engine torque, steer angle, wheel rotational speed, lateral acceleration and vehicle dynamics signals such as oversteer and understeer. These data are used to calculate the optimum power distribution between the front and rear axle and control the multi-disk clutch.

This complex and highly dynamic system ensures even better agility and dynamic performance as well as maximum stability – and consequently a high degree of active safety – at high speeds. In practice, this means no more wheel spin, even on wet roads, and the 911 Turbo always remains safely on course even at maximum speeds. For customers with more sporty ambitions, there's the option of a mechanical rear axle lock. It assists the PTM, by providing additional dynamic handling ability and traction, increases lateral acceleration and improves circuit performance.

To achieve this outstanding performance, however, a lightweight design is essential. In the course of the development process, therefore, each individual component was investigated for any weight reduction potential. Consequently, many modifications to design details were implemented. The main area of focus, however, was the vehicle body, where various lightweight components have been used. The front lid, made from aluminum, now weighs 51 percent less. The composite fiber rear lid weighs just 4.5 kilograms, 62 percent less than an equivalent steel version.

Lightweight construction is normally associated with higher costs. To find an optimum solution to this conflict of aims, a development project for an aluminum door was undertaken. As a result, it has been possible to drastically reduce the number of components. Compared with a steel shell, which has 15 panel components, five bolt connections and 85 weld spots, the aluminum shell has just five aluminum parts and ten bolt connections. This simplified design, along with associated tool investment savings and shorter production and assembly times, have reduced costs considerably. Weight reduction per vehicle is around 14.4 kilograms compared with a steel shell. The new structure also has

excellent properties in terms of frontal and side impact performance. In addition, vehicle acoustics have been improved and a high-quality bonus sound achieved.

Thanks to this combination of measures, not only has the additional weight of the new equipment been compensated for, but the vehicle is actually five kilograms lighter. Consequently, despite its astonishing performance, the sports car uses just 12.8 liters (Tiptronic S: 13.6) of fuel per 100 kilometers.

Aerodynamic optimization was a further focal point of the development work on the 911 Turbo. Despite the need for more air to meet engine cooling, intercooler and brake cooling requirements, and despite the wide rear wheels and the consequently wider body, the drag coefficient (Cd value) is the same as the previous model, namely 0.31, and rear axle lift has been reduced. This has been achieved by the new-design rear wing. Though the area of the so-called bi-plane wing has only increased by 23 percent, Porsche's developers have succeeded in increasing the aerodynamically effective area by 200 percent.

High Levels of Active and Passive Safety
Porsche's safety philosophy demands that if engine power output increases so must braking performance. Consequently, the new 911 Turbo has been given an even more powerful braking system. On the front axle, borrowed from the Carrera GT, are six-piston fixed-caliper brakes with a 42 percent larger pad area. The diameter of the ventilated brake disks has also been increased by 20 millimeters to 350 millimeters. At the same time, the new brake design has also assigned more power to the rear brakes. Here, four-piston calipers act on the brake disks, which, like the front ones, are 350 millimeters in diameter. In addition, a brake system prefilling function and the brake assist feature ensure that braking distances are reduced.

The Porsche Ceramic Composite Brake (PCCB) is available as an option. This system's outstanding braking characteristics are due to its enhanced, larger-sized (380 mm) brake disks. It also offers even faster response, excellent fading stability, total corrosion resistance and an even longer service life. In addition, the PCCB weighs around 17 kilograms less than the braking system with gray cast iron brake disks. The considerable advantages that the PCCB has to offer mean that many 911 Turbo customers choose this option.

Like the entire 911 range, the new top-of-the-range model has high levels of passive safety. A total of six airbags protect the occupants. In addition to the two full-size airbags for driver and front passenger, Porsche has, for the first time worldwide, fitted two head airbags in the doors. In a side impact, these head airbags are deployed simultaneously with the thorax airbags located in the front seat backrests.

On the Tiptronic S automatic gearbox, there are two new dynamic handling functions, "Fast Off" and "Fast Back". When the driver releases the throttle quickly, the "Fast Off" function prevents upshifting. For the first time, this function is also implemented even if the accelerator is not released completely. The result is improved driving dynamics, particularly on winding roads. When adopting a sporty driving style and making rapid switches from the throttle to the brake, the new additional "Fast Back" function facilitates faster downshifting when braking. When braking before a corner, for example, "Fast Back" supports automatic gear matching for dynamic acceleration out of the corner. In addition, gearshift and response times on the latest-evolution 5-speed Tiptronic S have been shortened and acceleration capability and driving dynamics much improved.

The exterior design of the 911 Turbo is evidently more sporty. The interior, with leather trim as standard, has also been completely re-designed and is based on the current-generation 911 Carrera. The instruments, featuring aluminum-colored dials and Turbo logo in the rev counter, have characteristic 911 styling. White LEDs have been used to improve illumination of the dials at night. The center round instruments in the display feature a boost pressure indicator which for the first time is shown as a bar graph. The new interior design also includes a special Turbo-design gear lever.

Like the predecessor model, the new 911 Turbo also comes as standard with Porsche Communication Management (PCM) and DVD navigation, offering much faster data access and greater data capacity. The PCM system's screen has been enlarged to 5.8 inches. The BOSE® Surround Sound System features 13 loudspeakers and a seven-channel digital amplifier. The PCM can be fitted with an optional telephone module and electronic logbook. Other standard equipment details include automatically dimming interior and exterior mirrors and an anti-theft alarm system that monitors the interior and exterior by means of radar sensors.

Despite excellent driving performance and significantly improved engine characteristics, the new 911 Turbo consumes only 12.8 liters of fuel per 100 km.

Like the other new models in the 911 series, the 911 Turbo's running costs are lower than those of its predecessor. It has been possible to reduce costs for servicing, fuel, insurance and tax by 20 percent, making them the lowest costs in the high-performance sports car class. Furthermore, the service intervals have been increased from 20,000 to 30,000 kilometers or two years, whilst repair costs have been cut by implementing a number of individual measures. This, in turn, is reflected in a better insurance classification, meaning that insurance premiums are 33 percent lower than those for the previous model.

911 Targa 4: Driving under a Glass Roof

Since model year 1996, the roof of the 911 Targa has been made of glass. Special protective tinted glass has been developed for the new Targa 4 (S) which, in strong sunlight, will ensure that temperatures in the passenger compartment do not rise above those occurring in a coupé. An electrically-operated, steplessly-adjustable blind offers protection from the cold and sun and can be operated in any roof position. A fold-open glass rear screen has also been developed for the Targa 4 (S), making loading easier. The rear screen can either be operated from a button inside the vehicle or from the key's remote control. Closing is electrically assisted.

For the very first time, the 911 Targa has been fitted exclusively with permanent all-wheel drive. This technology offers advantages in critical handling-limit situations in wet weather, on road surfaces with varying levels of grip or in sudden load change conditions in tight corners. The 911 Targa 4 and Targa 4 S are powered by the familiar 6-cylinder boxer engines with a choice of two power outputs – 239 kW (325 hp) and 261 kW (355 hp). The 5-speed Tiptronic S gearbox is available as optional equipment. Below the window line, the body of the new 911 Targa 4 (S) is the same as that of the all-wheel drive 911 Carrera 4 coupés.

Like all 911 models, it is a lightweight structure made from high-strength and super-high strength steels. The 911 Targa 4 models boast high levels of active and passive safety. A contributing factor to the car's safety performance are the engines, which deliver a lot of torque and power for swift overtaking maneuvers, the excellent brakes and the latest-evolution Porsche Stability Management (PSM). The Porsche Ceramic Composite Brake (PCCB) is also available as optional equipment. The car's passive safety performance is such that it far surpasses the legal requirements in many of the countries in which it is sold. In addition, the new 911 Targa 4 (S) comes as standard with six airbags.

The Cayman's Sporty Character

The new Cayman, launched in the summer of 2006, completes the line-up for this model series, the Cayman S having already been launched back in the autumn of 2005. The familiar 2.7-liter boxer engine used in the Boxster has been completely revised and now outputs 180 kW (245 hp). One particular feature of the new engine is the VarioCam Plus, technology that has been borrowed from the 911 and provides even more torque and more power at low and mid engine speeds. Despite this increase in torque and power, emissions and fuel consumption have been further reduced.

The latest evolution of the Tiptronic, the 5-speed Tiptronic S, in combination with the Sport Chrono Package – both features are available as optional equipment for the Cayman – ensures optimum sporty gearshift characteristics. The electronically and hydraulically-operated gearbox has variable gearshift programs to facilitate an even more sporty driving style than was possible with the previous Tiptronic.

The Cayman's chassis is identical in design to that of the Boxster, but has sportier tuning. This special uprating, combined with a torsionally and flexurally-resistant body, means the Cayman offers truly individual handling with plenty of safety reserves but does not compromise on ride comfort. As an option, the Cayman can also be fitted with the electronically-controlled damping system, the Porsche Active Suspension Management (PASM).

With a drag coefficient of 0.29, the Cayman is, aerodynamically speaking, ahead of the competition. Here, the know-how is hidden in the detail. By making various improvements, it has been possible to reduce lift at all four wheels, compared with the Boxster. At the rear, the new bi-plane wing extends by around 80 millimeters at speeds above 120 km/h. These aerodynamic effects are supplemented by virtually full underbody paneling.

The Boxster sets the Standards in its Class
In the summer of 2006, Porsche unveiled the revised models of the now classic Boxster series. The new models feature VarioCam Plus engines delivering even more power. This evolution has elevated the roadster to the sporty pace-setter in its segment. The engines are the same as those used for the two Cayman models, the VarioCam Plus function ensuring an increase in torque over a wide engine speed range for an even more dynamic driving experience. Fitted with the 2.7-liter power unit, the Boxster now delivers 180 kW (245 hp) whilst fuel consumption has been cut by 0.3 liters/100 km. The Boxster S is powered by the 3.4-liter engine from the Cayman S which boasts an output of more than 217 kW (295 hp) and can accelerate the car from 0 to 100 km/h in 5.4 seconds.

911 GT3: Successful Racing Formula
The new Porsche 911 GT3, launched in May 2006, is a sports car in its purest form, a combination of a production sports car and a close-to-production racing car. The vehicle has been developed for customers who expect a sports car that can deliver outstanding performance on the circuit. The most powerful naturally-aspirated engine in the 911 family (305 kW/415 hp), the latest-evolution chassis and aerodynamic refinements lend the new 911 GT3 a unique level of agility and performance. In line with the tradition, years of motorsport experience have gone into its development. Consequently, it stands up there among the ranks of legendary models such as the 911 Carrera RS 2.7 from 1973 and the 911 Carrera RS from the 964 model series.

From a design point of view, the 911 GT3 fulfils its definition as a purebred production sports car and close-to-production racing car. As on the previous model, the Clubsport package is available as a no-cost option and includes a bolt-in roll cage, a red six-point harness for the driver's side, a fire extinguisher with bracket and fittings for a battery master switch. In order to utilize all ergonomic advantages, the Clubsport package is only available in conjunction with the lightweight carbon fiber bucket seats derived from the Carrera GT. This combination offers a high level of safety and excellent lateral support.

The concept of a lightweight, high-revving naturally-aspirated engine combined with a close ratio manual gearbox is a successful formula in the world of racing too. For this reason, development work on the power unit for the new 911 GT3 focused on high specific output and the high-revving concept which had already been introduced on the previous model. The new 911 GT3 is right up there amongst the cream of its direct competitors. Its specific output is the highest of any naturally-aspirated engine ever installed in road-legal vehicles.

The chassis of the new 911 GT3 comes as standard with Porsche Active Suspension Management (PASM) with actively adjustable dampers. The system has been specially tuned for the new 911 GT3. The basic tuning is comparable with the Sport mode on the 911 Carrera models and provides the right conditions for outstanding driving dynamics, even on circuits with partially uneven surfaces such as the North Loop at the Nürburg Ring.

The 911 GT3 RS is the racing-oriented model variant of the 911 GT3. Lighter and with evolved body, transmission and chassis elements, the 911 GT3 RS is a close-to-production road-legal racing car which serves as the homologation model for 911 GT3 racing vehicles. The new 911 GT3 RS is thereby continuing the series of uncompromisingly sporty model derivatives approved for road use.

Its characteristic features, which also distinguish it from the 911 GT3, include a wide body based on the 911 Carrera 4, a large carbon fiber rear wing in a carbon finish, special front and rear aprons and the standard Clubsport package. The lightweight carbon fiber bucket seats, derived originally from the Carrera GT and providing racing-standard lateral support, are also fitted as standard. Since these bucket seats cannot accommodate thorax airbags, they are combined with energy-absorbing impact elements (known as "door pads").

The chassis with standard-fitted actively adjustable dampers (PASM) is substantially the same as that on the current 911 GT3. One difference, however, is that the new 911 GT3 RS features split wishbones on the rear axle. This has made it possible to extend the wheelbase by five millimeters for even better driving stability. To improve roll stability and cornering potential, the rear axle track on the new 911 GT3 RS has been increased by 34 millimeters over that of the 911 GT3. It has been possible to reduce the weight of the new 911 GT3 RS by 20 kilograms compared with the 911 GT3.

The Top-of-the-range Cayenne Turbo S
As the new top-of-the-range model in the Cayenne series, the Cayenne Turbo S emphasized Porsche's claim in the review year to offer the sportiest and most powerful model in the Sport Utility Vehicle (SUV) segment. Generating 71 hp more output and featuring other specific modifications, the Cayenne Turbo S is clearly positioned above the Cayenne Turbo. The Cayenne Turbo S features a 4.5-liter V8 twin-turbo engine with a power output of 383 kW (521 hp). The increase in output has been achieved by installing much larger, optimized intercoolers and improved engine management.

To cope with the higher demands from the engine, several detailed improvements have also been made to the Cayenne Turbo chassis. 6-piston monobloc aluminum brake calipers and ventilated two-part brake disks with optimized brake ventilation have been fitted to the front axle, for example. At the rear are 4-piston monobloc aluminum brake calipers, also with ventilated disks. The Cayenne Turbo S features 20-inch SportTechno wheels in place of the 18-inch wheels fitted to the Cayenne Turbo.

New Technology for the New Cayenne
After four very successful years, the Cayenne has been completely revised. All engines feature petrol direct injection and larger displacements. The result is more power and more torque, whilst fuel consumption has fallen by up to 15 percent.

The Cayenne now has a displacement of 3.6 liters and a power output of 213 kW (290 hp). The Cayenne S and Cayenne Turbo develop 283 kW and 368 kW (385 hp and 500 hp) respectively from a displacement of 4.8 liters. As a result, 0 to 100 km/h acceleration in the Cayenne Turbo is now an improved 5.1 seconds, whilst top speed is 275 km/h. The Cayenne and Cayenne S have a drag coefficient (Cd value) of 0.35, the Cayenne Turbo 0.36.

Externally, new front and rear aprons, new exterior mirrors, main headlamps and rear lights and the aerodynamically optimized roof spoiler lend the vehicle an even more dynamic appearance and are signature features of the latest Cayenne development stage. In addition, the headlamps have been fitted with a dynamic cornering light function.

Much is new on the chassis too. The Porsche Dynamic Chassis Control (PDCC) offers a roll stabilization function for even more dynamic, comfortable and pleasurable driving. This is available as an optional feature in conjunction with air suspension. Despite the comprehensive upgrade, the weight of the vehicles has not changed. The result, once again, is the typical Porsche combination of outstanding driving dynamics, excellent practicality for everyday use and acceptable fuel consumption figures.

Porsche is also developing a Cayenne-based hybrid version in conjunction with VW and Audi. This is scheduled to be unveiled at the end of the decade. The environmentally-friendly drive concept, consisting of a petrol engine, an electric motor and an additional battery will further reduce fuel consumption, particularly around town. The braking energy stored in the battery can be used by the electric drive either to assist the combustion engine or, at low speeds, to drive the vehicle using solely electrical power.

Oil Analysis as an Early Indicator of Wear
Since 2002, intensive analysis of oil samples has been a focal point of laboratory work at the Porsche Development Center. The purpose of the work is to see what conclusions can be drawn from the oil about the behavior and condition of engines. The research involves identifying and quantifying the metal particles found in the oil as a result of the abrasion of moving parts in a test engine which has been subjected to extreme loads during in-house test runs. The particles in question occur in extremely low concentrations – analysts talk of “traces”. The aim is to be able to detect any damage at an early stage and to make analysis easier. This in turn will shorten development time and reduce the number of parts required.

The successful application of this method has been helped by the unique structure of the Development Center at Weissach. Fast and direct response is facilitated by the close proximity of the laboratory to the test rigs and the short, unbureaucratic information channels that exist between laboratory and the engine development group.

However, the potential of oil analysis has not yet been exhausted. The next innovative steps are already emerging. Complex statistical procedures are to be used to obtain additional, as yet unidentified information from the analysis data, the aim being eventually to be able to identify abrasion on engine components which so far it has not been possible to identify. Development engineers are also working on an inline element measuring procedure. This involves measuring the trace element sample from the engine oil directly in the engine's oil circuit on the test rig and virtually in real time. This will make it possible to detect the start of wear at an earlier stage, to reduce test times and to gain an even better understanding of the wear processes in engines.

Electronics intensively tested

The number of electronic components in modern vehicles is continually increasing. And with this rise come increased complexity and more possibilities for faults to occur. It is therefore extremely important that the function of an electronic component is reliably verified together with all the other components before it is used in series production applications.

A committee of specialists was formed at Porsche to decide which new components are to be used and when. During the development process, all new components are regularly tested together with existing electronic components. This enables the engineers to see whether the components communicate correctly with each other or whether they interfere with each other. This avoids having to make changes during development which are both costly and present an additional error risk. It also ensures that the customer gets a reliable product that has been comprehensively tested.

Computer Tomography for Hidden Areas

The optimization of processes and methods is an on-going goal of the Development Division. One example is the use of computer tomography. Since 2005, it has been possible for components from prototypes to undergo non-destructive examination using an industrial CT scanner designed for the complex applications encountered in the Development Center. The equipment enables areas to be analyzed which up till now were hidden inside parts or in the material itself and consequently could only be tested to an unsatisfactory degree or by destroying the component. Examples of applications include the inspection of wall thicknesses in cylinder heads and cracks and gas bubbles in castings and the examination of complex assemblies.

Being able to detect defective parts at an early stage will help avoid failures and expenditure later on in the value chain. This way, both time and money are saved and the quality of the development process is improved.

Weissach invests in the Future

"Innovation, processes, communication, synergies". This was the guiding mantra behind the extension project for the Development Center. One crucial factor required for fast, efficient development work is good communication between the individual units. To uphold and build on this, the existing communications between all units involved in development processes were analyzed. This analysis was supplemented by an examination of the amount of resources and space required and a forecast of the facilities likely to be required in the future. It also involved bringing previously off-site divisions back on-site and integrating them meaningfully into the Development Center. This way, synergies can be released in an optimum manner.

A plant development plan for the next ten years – with an option for beyond this period – includes, as the core divisions, vehicle and powertrain development and the motorsport department. Together with their associated departments, they form an ensemble whose integration density is at once unique and flexible.

Under construction at present is the "Powertrain Center", a building with offices and workshops for engine development and the Panamera model series. Already completed are two office buildings which are connected with the hub of the Development Center, namely the "hexagon" building, by transparent bridges, thereby already putting into practice the theory that short distances promote communication. There's also a parking level for prototypes featuring the latest security technology. A new tire center has been completed.

Testing on the limit requires customer-specific test conditions and sophisticated levels of safety. In the interests of quality assurance, therefore, the in-house test circuit has been extended to include additional functions and higher standards of safety. The motorsport department, with its works racing and client racing arms, has been completely re-structured and housed in new buildings.

Environmental protection and operational safety were the impetus behind the construction of a new hazardous goods warehouse and relocation of the fuel pumps. Also incorporated into the works development plan is the already-constructed multi-purpose building which accommodates workshops for body development, quality assurance, computing and overall logistics.

Weissach continues to develop. That much is visibly evident from the new buildings, but can also be perceived in its processes, activities and results, the overall aim being to hold onto and build on the lead that Porsche already enjoys where vehicle development is concerned.

The many varied development projects undertaken give rise to numerous innovations which are then protected with new protection rights – patents and design patents. A total of 23 specific patents were registered for the new 911 Turbo. In addition, all development projects were accompanied by active patent monitoring. At present, attention is being focused on the new model series, the Panamera. In total, Porsche currently has more than 4,500 patents and design patents. Royalties continue to be high, equaling last year's levels.

Development for Customers

Porsche has a long tradition of providing development services for other automobile manufacturers and companies all over the world. 75 years ago, Ferdinand Porsche set up a design office in Stuttgart. He designed cars such as the Auto Union racing car

and the VW Beetle for his customers and made the name of Porsche a synonym for technical excellence. Porsche Engineering continues this tradition, founded in 1931, to the present day. Customer development is a cornerstones of Porsche's identity and an important component of Porsche AG. However, the public does not hear much about this. By maintaining the strictest confidentiality, Porsche Engineering always takes the greatest care to protect its customers' product strategies and brand identities.

The Porsche Engineering Group GmbH (PEG) in Weissach manages all global development projects for customers. In the review year, PEG included the subsidiaries Porsche Engineering Services GmbH in Bietigheim, Porsche Engineering Services Inc. in Troy and Porsche Engineering Services s.r.o. in Prague. Immediately after the end of the 2005/06 fiscal year, in September 2006, PES Troy with its 120 employees was sold to Magna International Inc. Over 500 people were employed at the Porsche Engineering locations at the end of the review year. In addition, resources including over 2,300 developers at the Porsche Research and Development Center in Weissach were also available.

PEG supports customers throughout the entire product development process from the design stage right up to series production, assisting in the development of components, systems, assemblies and complete vehicles. Backed by the in-depth knowledge of the series manufacturer, Porsche Engineering always focuses on the vehicle as a whole, even when working on the smallest construction parts. On request, development work can also be carried out at the customer's premises.

In Demand Worldwide

Porsche Engineering's development competence and its many years of experience are in demand worldwide. Porsche Engineering positions itself actively and successfully as a premium service provider with special competence in profitable business areas and niches. Good customer relations extending over many years and professional prospecting of the market are success factors for winning new projects and form the basis for long-term and profitable operations.

Apart from several large projects in the review year, numerous small and medium projects with a duration of less than six months were successfully concluded. Development focused on the fields of complete vehicles, chassis, drive and electrics/electronics. Industrial engineering activities, a field covering engineering services for companies outside the automobile sector, has been constant for years. Styling dimensions were increasingly developed for utility vehicles.

Along with Europe, Asia will remain one of the most important markets. Early entry has already given Porsche Engineering a promising position on the Chinese market. In the review year, a body project and a large-scale engine and chassis project with a term spanning several years was concluded in this market.

For the coming fiscal year and beyond, a high uptake of the resources at the Weissach Development Center can be expected for Porsche's own development. Nevertheless, customers will continue to turn to competence from Weissach for their development work in the coming business year.

Motor Sport

Monocoque

A super lightweight: the monocoque in the new RS Spyder racing car is made entirely of carbon fiber.


RS Spyder
MICHELIN

Porsche's new RS Spyder, driven in the "American Le Mans Series", caused a sensation. Even in its first season, the racing car succeeded in scooping top prize.

The name of Porsche is synonymous with unparalleled success on the world's most famous racing and rally circuits. Porsche sports cars have broken records in the 24-hour races in Le Mans and Daytona and in the 12-hour race in Sebring. The 911 won the Monte Carlo Rally and the world's toughest off-road marathon from Paris to Dakar. Porsche built the engines for cars that won three Formula 1 World Championships for drivers and two for constructors.

The brand continued its success story in the review year. The new RS Spyder won the Prototype class 2 in the most important American championship, the "American Le Mans Series". The Porsche 911 GT3 in various versions was a winner at major championships in the classes for slightly modified near-series Gran Turismo sports cars. Manufacturer competitions are enjoying greater popularity than ever. In order to remain equally successful in the future, Porsche opened a new motor sport center in Weissach in the summer of 2006.

The RS Spyder's Triumph in North America
The RS Spyder is the first Porsche built exclusively for racing since the Le Mans winner 911 GT1 of 1998. Porsche has been entering the single-seater with an output of some 480 hp and a weight of 775 kg, in the "American Le Mans Series" (ALMS) since October 2005 in cooperation with the Penske American team.

Penske Motorsports entered two RS Spyders in the Le Mans Prototype 2 class in this, the most important of American championships. By choosing this category, which is only open to customer teams, Porsche faces competition at a high technical level and is limiting costs in using the RS Spyder.

The first racing season for the racing prototype entirely designed and built by Porsche closed with a major triumph. Porsche and Penske won the drivers', team and manufacturers' championship with the RS Spyder. Six class victories lined the route to ultimate victory. The team landed a spectacular coup during the third round in Ohio at the end of May. The light, agile RS Spyders overtook the stronger prototypes in the higher class 1 on the twisting circuit to score a double overall victory in a race in which only factory teams took part.

Development of a derivative model of the RS Spyder was concluded by the end of the review year. While the 3.4-liter, V8 engine, the Porsche-developed sequential six-speed transmission and the chassis remained largely unchanged, the specialists redesigned the racing car's carbon-fiber outer skin and its interior aerodynamics. Experience in the racing business also led to numerous minor changes to improve ease of service on the racing track.

The 911: Top in Gran Turismo Sport
The Porsche 911 is one of the most successful cars in motor sport in the shape of closed, two-door Gran Turismo racing cars based on a production vehicle. The impressive list of this sports car's victories and championships grew even longer during the 2005/06 fiscal year.

A racing version derived from the current 911 has been developed and will be available to customers in 2007. Distinguishing features of this new 911 GT3 RSR include a racing engine with an extra 200 cubic centimeters bringing the cubic capacity to 3.8 liters, developing an output of 358 kW (485 hp). Weighing in at 1,225 kg, the vehicle has 14-inch rear tires, two inches wider than its predecessor. Overall downforce has been increased by seven percent without a rise in the drag coefficient.

The new 911 GT3 RSR passed its first endurance test at the end of July 2006 with a double victory in its class in the 24-hour race at Spa Francorchamps in Belgium. This vehicle has enabled Porsche to set the course for the continuation of this successful series. It will be available to customers from spring 2007 and will be used at the beginning of the racing year in the 12-hour race in Sebring (Florida).

Victories in Important GT Championships
As in previous years, the company's cooperation with customers in the "American Le Mans Series" (ALMS) again proved a recipe for success in 2005. Porsche supported selected customer teams in the further development of the racing car and the use of factory drivers. The German driver Jörg Bergmeister and his American colleague Patrick Long drove a 911 GT3 RSR (type 996) to victory in the GT2 drivers' championship. Their success marked the Porsche drivers' sixth overall victory in the seven-year history of the championship, with Porsche drivers occupying all top ten places in 2005.

A customer team, "Petersen Motorsports/White Lightning Racing", once again reached champion status in the review year. Since 1999, Porsche teams have taken the award every year except 2001. Due to the high level of commitment of US customers, Porsche beat the competition for the GT2 manufacturers' title hands down, as in the previous six years.

In the FIA GT championship, Porsche's drivers Marc Lieb and Mike Rockenfeller carried off the drivers' title with six victories in eleven races in a 911 GT3 RSR prepared by the British "Group M Racing Team", with 21-year-old Rockenfeller making headlines as the youngest champion in the history of this major Gran Turismo championship.

The "Group M Racing Team" finished the 2005 season as champions, which meant that the Porsche 911 won its sixth FIA GT title in succession, while Porsche was once again distinguished in the manufacturers' championship. In 2006, private Porsche teams remained among the top achievers in the driver and team competitions in the FIA GT championship and the ALMS, although they had to face extremely stiff competition.

The Le Mans series is still a new racing championship that since 2004 has revived the tradition of the 1,000-kilometer race. Five of these marathons were held in 2005. At the races in Monza (Italy), Silverstone (Great Britain) and the Nürburg Ring (Germany), Porsche's driver Marc Lieb and his French colleague Xavier Pompidou crossed the finishing line as champions in the GT2 class in a Porsche 911 GT3 RSR. The German-French duo's "Sebah Automotive Team" carried off the team award.

Apart from these three championships, which are the most significant, Porsche customers won various other motor sport series and championships. These included American Craig Stanton winning the GT driver's title in a 911 GT3 Cup at the "Grand American Rolex Sports Car Series". The Portuguese drivers Pedro Bastos and Miguel Christovao won the cup in the Spanish competition for near-series racing cars in a Porsche 911 GT3 Cup. In the well-established Belgian championship for touring and Gran Turismo racing cars, the Belgians Franz Lamot and Rudi Penders won in their class with a 911 GT3 RSR. After 13 racing victories, Sebastien Dumez and Raymond Narac were pleased to carry off the GT2 title in the French Gran Turismo championship. The two Frenchmen also drove a 911 GT3 RSR. In Japan, Manabu Orido and Nobuteru Taniguchi drove their 911 GT3 Cup to a clear victory for the Advan-Denag team in the "Super Taikyu Series".

Among the Victors at all the Long-distance Classics

Five significant and well-established long-distance races take place each year, and Porsche ranks among the record-breakers at most of these. At the beginning of February 2006, the Americans Ian Baas, Randy Pobst, Spencer Pumpelly and Michael Levitas extended the list of Porsche victories in this class to a record 60 with a 911 GT3 Cup in the 24-hour race from Daytona (Florida).

In March 2006, Porsche's driver Marc Lieb together with the Americans John Fogarty and Johannes van Overbeek drove to second place in their class in the 12-hour race in Sebring in a 911 GT3 RSR for the "Flying Lizard Team" and finished a commendable tenth in the overall rankings.

The 24-hour race on the famous Nürburg Ring's North Loop ended with a double victory for Porsche sports cars in June 2006. The "Manthey Racing Team" supported by Porsche was the overall winner in a 911 GT3 and set a new distance record of 3832.08 kilometers. A total of seven Porsche 911 models finished in the top ten.

On the same weekend, the Danish "Seikel Motorsport Team" appeared to be heading toward a clear victory in the GT2 class until just before the end of the 24-hour race in Le Mans. However, a broken gearlever put paid to a dream of victory for the Germans Dominik Farnbacher and Pierre Ehret and the Dane Lars-Erik Nielsen. Nevertheless, the trio was still able to secure second place.

The 24-hour race on the famous track at Spa in the Belgian Ardennes was the finale in the quintet of long-distance classics. The slightly modified near-series Gran Turismo racing vehicles started here in four classes on the last weekend of July 2006. The brand-new Porsche 911 GT3 RSR had a double victory in its category provided an idea of the performance to be expected in 2007.

Twelve Racing Series with Races in 18 Countries

The Porsche Cups provide a basis for Porsche's motor sport activities. No other manufacturer has a comparable customer sports system that offers everything from a ready-to-use 911 to a perfectly organized racing series. In 2006, twelve Porsche Cups were held with races in 18 countries on four continents – more than ever before.

The Porsche Cups are held at three competition levels with varying conditions and correspondingly different levels of expenditure, but are united by a single philosophy: all participants begin in technically identical racing versions of the 911. Porsche organizes the Cups at a professional level and positions them in a high-prestige environment such as the Formula 1 World Championship or the most important touring car race series in the host countries.

The Porsche Cups are demanding challenges for professional and up-and-coming racing drivers alike and provide an excellent platform for sponsors. Since 1993, the top brand Cup, the "Porsche Michelin Supercup", has been the only Gran Turismo racing series in the world to feature in the program of accompanying events for the Formula 1 World Championship. A race was held in Bahrain in 2006 for the first time. Two races in Indianapolis, USA and nine in parallel with the European Formula 1 races rounded off the 2006 calendar of events for this prestigious racing series.

While in 2005 the 400-hp 911 GT3 Cup based on the 911 Carrera was only entered in the Porsche Michelin Supercup, in 2006 it also took part in the Porsche Carrera Cups in Germany, France, Great Britain, Asia and Australia.

In 2005, Porsche launched a third cup level, the GT3 Cup Challenge, to stand alongside the Carrera Cups. The concept and the regulations are largely identical to those of the Carrera Cups, in which professional drivers are not allowed to take part. In all countries other than the USA, the racing vehicle is the GT3 Cup based on the 996. Because of massive demand from US customers, in 2006 as many as 45 new 911 GT3 Cup models (basis: 997) were sent to America. GT3 Cup Challenges were also held in the USA, Brazil, New Zealand and Italy in 2006. From 2007, Italy will receive its own Porsche Carrera Cup.

In the winter of 2006/07, following the resounding success of the Porsche Cup, a further 210 cars bearing the 911 GT3 Cup emblem were built – another new record for Porsche in motor sports.

New Motor Sport Center in Weissach

At the end of July 2006, the new motor sport center in Weissach was completed after a construction period of just one year. The company is thus responding to the tremendous increase in the level of its sports commitment and is setting the course for further expansion. At the heart of the center are a workshop area, racing car production, the logistics center and the truck terminal. An office building for administration and the development department as well as a parking lot complete the new motor sports complex which has a workforce of 210 people.

The new motor sports center offers a usable area of 10,550 square meters, twice the area of the former sports department. The workshops include separate areas for maintaining the cup and client racing cars, for the RS Spyder, the 911 GT3 RSR and development projects. In the manufacturing area, specialists build small series of racing cars and prototypes. Approximately 20,000 parts are stored in the logistics center. This illustrates the close intermeshing of series-production and motor sports. The new series models 911 GT3 and 911 GT3 RS are supplied with replacement parts from Weissach.


Mobil


5
City of Arabia

Notes to the Consolidated Financial Statements as of July 31, 2006

Consolidated Income Statement of the Porsche Group for the Period from August 1, 2005 to July 31, 2006

	Notes	2005/06 T€	2004/05 T€
Continuing operations			
Sales	(1)	**7,122,667**	**6,255,771**
Changes in inventories and own work capitalized	(2)	172,967	70,007
Total operating performance		**7,295,634**	**6,325,778**
Other operating income	(3)	1,045,127	192,580
Cost of materials	(4)	– 3,273,507	– 2,747,601
Personnel expenses	(5)	– 1,037,475	– 912,107
Amortization and depreciation of intangible assets, property, plant and equipment and leased assets	(14)	– 488,758	– 490,753
Other operating expenses	(6)	– 1,709,318	– 1,163,676
Profit from ordinary activities		**1,831,703**	**1,204,221**
Share of profit of associates	(7)	203,357	0
Other financial income	(8)	– 6,863	20,049
Financial income		**196,494**	**20,049**
Profit from ordinary activities of continuing operations		**2,028,197**	**1,224,270**
Profit from ordinary activities of discontinued operations		**81,803**	**13,730**
Profit from ordinary activities		**2,110,000**	**1,238,000**
Income taxes from continuing operations	(9)	– 713,578	– 452,898
Income taxes from discontinued operations	(9)	– 3,422	– 6,102
Income taxes	(9)	– 717,000	– 459,000
Net profit from continuing operations		**1,314,619**	**771,372**
Net profit from discontinued operations	(10)	**78,381**	**7,628**
Net profit		**1,393,000**	**779,000**
thereof profit allocable to minority shareholders	(11)	– 3,445	– 3,504
thereof profit allocable to hybrid capital investors	(12)	28,451	0
thereof profit allocable to shareholders of Porsche AG	(12)	1,367,994	782,504
Earnings per ordinary share from continiung operations (diluted and basic)	(12)	**73.66**	**44.24**
Earnings per ordinary share from discontinued operations (diluted and basic)	(12)	**4.44**	**0.40**
Earnings per preference share from continiung operations (diluted and basic)	(12)	**73.72**	**44.30**
Earnings per preference share from discontinued operations (diluted and basic)	(12)	**4.50**	**0.46**

Consolidated Balance Sheet of the Porsche Group as of July 31, 2006

		Notes	July 31, 2006 T€	July 31, 2005 T€
Assets	Intangible assets	(14)	250,295	293,587
	Property, plant and equipment	(14)	1,178,352	1,141,082
	Investments in associates	(14)	3,263,733	0
	Other financial assets	(14)	27,755	26,574
	Leased assets	(14)	960,650	967,107
	Trade receivables	(16)	1,990	21,252
	Receivables from financial services	(17)	1,248,750	1,183,421
	Other receivables and assets	(18)	172,659	245,784
	Securities	(19)	713,072	378,016
	Deferred tax assets	(9)	141,251	184,764
	Non-current assets		**7,958,507**	**4,441,587**
	Inventories	(15)	594,080	571,772
	Trade receivables	(16)	202,981	286,414
	Receivables from financial services	(17)	434,889	383,881
	Other receivables and assets	(18)	1,401,294	778,396
	Securities	(19)	2,048,521	1,493,080
	Cash and cash equivalents	(20)	1,988,550	1,754,930
	Current assets		**6,670,315**	**5,268,473**
			14,628,822	**9,710,060**
Equity and liabilities	Subscribed capital	(21)	45,500	45,500
	Capital reserve	(21)	121,969	121,969
	Revenue reserves	(21)	4,396,914	3,234,135
	Translation differences	(21)	– 1,821	10,532
	Capital allocable to shareholders		**4,562,562**	**3,412,136**
	Hybrid capital	(21)	809,977	0
	Minority interests	(21)	3,594	8,057
	Equity		**5,376,133**	**3,420,193**
	Pension provisions	(22)	658,743	596,264
	Other provisions	(23)	628,512	684,973
	Deferred tax liabilities	(9)	181,764	180,349
	Financial liabilities	(24)	3,529,650	1,985,042
	Trade payables	(25)	3,875	2,821
	Other liabilities	(26)	51,219	42,577
	Non-current provisions and liabilities		**5,053,763**	**3,492,026**
	Tax provisions	(23)	238,026	163,713
	Other provisions	(23)	1,012,522	842,020
	Financial liabilities	(24)	1,230,497	1,106,861
	Trade payables	(25)	478,942	440,173
	Other liabilities	(26)	1,238,939	245,074
	Current provisions and liabilities		**4,198,926**	**2,797,841**
			14,628,822	**9,710,060**

Consolidated Statement of Cash Flows of the Porsche Group for the period from August 1, 2005 to July 31, 2006

		Notes	2005/06 T€	2004/05 T€
		(13)		
1. Operating activities	Net profit from continuing operations		1,314,619	771,372
	Amortization and depreciation		488,758	490,753
	Change in pension provision		69,663	44,451
	Cash flow		**1,873,040**	**1,306,576**
	Changes in tax provision and other provisions		227,530	25,362
	Extended cash flow		**2,100,570**	**1,331,938**
	Ohter non-cash expenses/income		– 390,128	62,824
	Changes in deferred taxes		138,910	– 18,303
	Gain/loss from disposal of intangible assets, property, plant and equipment and leased assets		– 67,758	– 62,079
	Dividends received from investments in associates		68,280	0
	Change in inventories, trade receivables and other assets		– 164,192	– 215,563
	Change in trade payables and other liabilities (without tax provision and other provisions)		413,424	58,324
	Cash flow from operating activities from continuing operations		**2,099,106**	**1,157,141**
	Cash flow from operating activities from discontinued operations		**– 18,598**	**18,306**
	Cash flow from operating activities in total		**2,080,508**	**1,175,447**
2. Investing activities	Cash received from the disposal of intangible assets, property, plant and equipment and leased assets		440,647	411,354
	Cash received from changes to consolidated group		168,436	0
	Cash paid for investments in intangible assets, property, plant and equipment and leased assets		– 954,167	– 908,807
	Cash paid for investments in financial assets		– 3,122,658	0
	Changes in receivables from financial services		– 141,277	– 185,686
	Cash flow from investing activities from continuing operations		**– 3,609,019**	**– 683,139**
	Cash flow from investing activities from discontinued operations		**– 6,110**	**– 5,388**
	Cash flow from investing activities in total		**– 3,615,129**	**– 688,527**
	Change in investments in securities		– 955,467	– 242,799
	Cash flow from investing activities including investments in securities		**– 4,570,596**	**– 931,326**

		Notes	2005/06 T€	2004/05 T€
		(13)		
3. Financing activities	Cash payments to shareholders		– 86,975	– 69,475
	Cash payments to minority shareholders		– 1,096	– 630
	Cash repayments of bonds		– 257,446	0
	Cash payments to hybrid capital investors		– 28,451	0
	Capital payments		809,977	5,706
	Cash received from the issue of loans/ cash repayments of loans		19,185	67,568
	Cash received from the issue of bonds		1,884,740	0
	Cash received from stock options		187,090	0
	Cash received from other financial liabilities		179,083	92,063
	Cash flow from financing activities from continuing operations		**2,706,107**	**95,232**
	Cash flow from financing activities from discontinued operations		**22,612**	**– 11,606**
	Cash flow from financing activities in total		**2,728,719**	**83,626**
4. Cash and cash equivalents	Changes in cash and cash equivalents (subtotal of 1 to 3)		238,631	327,747
	Exchange-rate related changes in cash and cash equivalents		– 5,011	– 31,607
	Cash and cash equivalents as of August 1, 2005 and August 1, 2004		**1,754,930**	**1,458,790**
	Cash and cash equivalents as of July 31, 2006 and July 31, 2005		**1,988,550**	**1,754,930**
Presentation of gross liquidity	Checks, cash on hand and bank balances		1,988,550	1,754,930
	Securities		2,761,593	1,871,096
	Gross liquidity		**4,750,143**	**3,626,026**

Statement of Changes in Equity of the Porsche Group as of July 31, 2006

	Subscribed capital	Capital reserve	Revenue reserves	
			Revenue reserves	Other comprehensive income
	T €	T €	T €	T €
As of July 31, 2004	**45,500**	**121,969**	**2,377,705**	**368,067**
Currency change			– 30,197	
Other transactions not affecting income			– 5,706	
Translation differences				
Financial instruments pursuant to IAS 39				– 188,763
Income and expenses recognized directly in equity			– 35,903	– 188,763
Profit after tax			782,504	
Net profit for the period			746,601	– 188,763
Dividends paid			– 69,475	
As of July 31, 2005	**45,500**	**121,969**	**3,054,831**	**179,304**
Currency change			4,321	
Translation differences				
Investment in associates			– 55,147	61,308
Financial instruments pursuant to IAS 39				– 126,907
Income and expenses recognised directly in eqyity			– 50,826	– 65,599
Profit after tax			1,367,994	
Net profit for the period			1,317,168	– 65,599
Changes to consolidated group			– 1,815	
Issue of hybrid capital				
Share in profit hybrid capital				
Dividends paid			– 86,975	
As of July 31, 2006	**45,500**	**121,969**	**4,283,209**	**113,705**

Translation differences	Capital allocable to shareholders	Hybrid capital	Minority interests	Group equity
T €	T €	T €	T €	T €
1,098	**2,914,339**		**6,457**	**2,920,796**
	– 30,197		28	– 30,169
	– 5,706		5,706	0
9,434	9,434			9,434
	– 188,763			– 188,763
9,434	– 215,232		5,734	– 209,498
	782,504		– 3,504	779,000
9,434	567,272		2,230	569,502
	- 69,475		– 630	– 70,105
10,532	**3,412,136**	**0**	**8,057**	**3,420,193**
	4,321		78	4,399
– 12,353	– 12,353			– 12,353
	6,161			6,161
	– 126,907			– 126,907
– 12,353	– 128,778		78	– 128,700
	1,367,994	28,451	– 3,445	1,393,000
– 12,353	1,239,216	28,451	– 3,367	1,264,300
	– 1,815			– 1,815
		809,977		809,977
		– 28,451		– 28,451
	– 86,975		– 1,096	– 88,071
– 1,821	**4,562,562**	**809,977**	**3,594**	**5,376,133**

Principles

Basis of Presentation

Dr. Ing. h.c. F. Porsche Aktiengesellschaft (“Porsche AG”) is headquartered at Porscheplatz 1 in 70435 Stuttgart, Germany. The business objective of Porsche AG and its subsidiaries (“Porsche Group”) is the production and sale of vehicles and engines of all kinds as well as of parts and components for such and other technical products. The business objective also includes the performance of development and design work, in particular in the field of vehicle and engine construction, consulting in the field of development and production as well as all other activities that are technically or economically related, including the exploitation of intellectual property rights.

The consolidated financial statements of Porsche AG as of July 31, 2006 were prepared in accordance with International Financial Reporting Standards (IFRS). 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 requirements of the standards applied were satisfied in full. The financial statements thus give a true and fair view of the net assets, financial position and results of operations of the Porsche Group.

This version of the consolidated financial statements complies with the requirements of § 315a German Commercial Code (HGB). It forms the legal basis for group accounting according to international accounting standards in Germany in conjunction with the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the adoption of international accounting standards and applies for fiscal years beginning after January 1, 2005.

The financial statements of the subsidiaries are prepared as of the balance sheet date of the consolidated financial statements, which is the balance sheet date of Porsche AG. For associates, the most recently audited financial statements and the published interim report as of June 30 are used as a basis.

In the interest of clarity, individual items have been combined in the balance sheet and in the income statement and disclosed separately and explained in the notes.

Porsche’s fiscal year comprises the period from August 1 of a year until July 31 of the following year. The consolidated financial statements have been prepared in Euro. Unless stated otherwise, all figures in the notes are presented in thousands of Euro (T€). The income statement has been prepared using the total expenditure format.

The consolidated financial statements and Group management report prepared as of July 31, 2006 and the full list of equity investments have been filed with the commercial register of Stuttgart district court (HRB 5211).

With reference to § 264 Paragraph 3 HGB and § 264b HGB, the financial statements of the following German subsidiaries are not published: 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- und Handelsgesellschaft mbH & Co. KG und Porsche Engineering Group GmbH.

The consolidated financial statements and Group management report of Porsche AG were released to the Supervisory Board by the Executive Board by resolution dated October 13, 2006.

Consolidated Group

The consolidated financial statements of Porsche AG include all entities in which Porsche AG has the power to govern the financial and operating policies, either directly or indirectly (control concept). First-time inclusion is as of the date on which the acquirer obtains the possibility of control. An entity is no longer included when control of the entity is lost.

The group of fully consolidated entities includes Porsche AG and 20 German (previous year: 22) and 53 international (previous year: 57) subsidiaries, including a special purpose securities fund and variable interest entity.

CTS Fahrzeug-Dachsysteme GmbH, Bietigheim-Bissingen, CTS Technik und Design GmbH Bietigheim-Bissingen, CTS CarTopSystems Belgium N.V., Antwerp, Belgium, CTS CarTopSystems N.A. Inc., Rochester Hills/Michigan, USA and CTS CarTopSystems N.A., Bowling Green LLC, Bowling Green/Kentucky, USA, were sold effective February 1, 2006 and have thus been removed from the consolidation group.

The special purpose securities fund SUV Funding Limited, Island of Jersey, United Kingdom was closed effective July 26, 2006.

The equity method is used for investments on which Porsche AG can exercise significant influence. This assumed to be the case when between 20 and 50 percent of the voting rights are held. The first-time inclusion using the equity method is as of the date on which the acquirer can exercise a significant influence and ends when significant influence is lost.

Volkswagen AG has been included for the first time as an associate in the consolidated financial statements as of January 28, 2006. Based on its shareholding, the following assets, liabilities, revenues and profits of the Volkswagen group are allocated to Porsche AG as of July 31, 2006:

	in T€
Non-current assets	11,047,770
Current assets	9,701,676
Non-current liabilities	8,126,237
Current liabilities	8,830,796
Revenues	7,993,436
Income	182,852

The 200-day average market price of Volkswagen AG is around 3,152 million Euro for the shares held by Porsche AG.

The complete list of equity investments of Porsche AG and the Porsche Group is filed with the commercial register of Stuttgart district court (HRB 5211).

Consolidation Principles

Capital consolidation is performed in accordance with the purchase method pursuant to IFRS 3 (“Business Combinations”). Purchased assets and liabilities are measured at their fair value on the date of acquisition. The purchase costs of the shares acquired are then offset against pro rata revalued equity of the subsidiary. Any remaining positive difference from offsetting the purchase price against the identified assets and liabilities is shown as goodwill. To the extent that the identified assets and liabilities exceed the purchase price of the investment, it is recorded in the income statement immediately in the year of acquisition.

Expenses and income as well as receivables, liabilities and provisions between the consolidated entities are offset. Intercompany profits from the disposal of assets within the Group which have not yet been resold to third parties are eliminated. Deferred taxes are recognized for consolidations with effect on income taxes. In addition, guarantees and warranties assumed by Porsche AG or one of its consolidated subsidiaries in favor of other subsidiaries are eliminated.

Investments in associates included using the equity method are carried at cost at the time of first-time inclusion. The rulings for full consolidation apply by analogy to the measurement using the equity method. In subsequent periods, the carrying amount is rolled forward to reflect changes in equity of the associate on the Porsche Group. An impairment test is carried out if there is any indication that that investment is impaired.
Due to immateriality, the company elects not to eliminate intercompany profits from trade relations with associates.

Currency Translation

The financial statements of consolidated subsidiaries prepared in foreign currency are translated to the Euro in accordance with IAS 21. The functional currency is the local currency for all consolidated entities, since these subsidiaries are independent operations from a financial, economic and organizational perspective. Assets, liabilities and contingent liabilities are translated at the mean rate as of the balance sheet date, while equity is translated at historical rates with the exception of income and expenses recorded directly in equity. The income statement is translated using average annual exchange rates. Exchange rate differences resulting from the translation of financial statements are recognized as a separate item directly under equity until the disposal of the subsidiary.

Foreign currency items in the financial statements of the entities included in consolidation are measured at the historical rates. Exchange rate gains and losses as of the balance sheet date are recorded in the income statement.

The following key exchange rates for the Porsche consolidated financial statements were used for currency translation:

		Closing rate		Average rate	
		July 31, 2006	July 31, 2005	2005/06	2004/05
United States of America	USD	1.2772	1.2120	1.2226	1.2705
Canada	CAD	1.4413	1.4888	1.4119	1.5761
United Kingdom	GBP	0.6842	0.6899	0.6844	0.6863
Australia	AUD	1.6689	1.5937	1.5566	1.6802
Japan	JPY	146.0100	136.0700	140.8397	136.0043

Accounting Principles and Measurement

The assets and liabilities of Porsche AG and the German and foreign subsidiaries included by way of full consolidation are recognized and measured uniformly according to the recognition and measurement methods applicable in the Porsche Group as of July 31, 2006. The same applies to the investment included in the consolidated financial statements using the equity method.

The comparative information for fiscal year 2004/05 is based on the same accounting and measurement methods that were applicable for the fiscal year 2005/06.

The preparation of consolidated financial statements is subject to assumptions and estimates that have an effect on recognition, measurement and disclosure of assets, liabilities, income and expenses. All findings currently available are taken into account. Significant assumptions and estimates are made for uniform useful lives within the Group and the recoverable amounts recognized for non-current assets, the recoverability of receivables, determination of the percentage of completion for long-term construction contracts and the recognition and measurement of provisions. In individual cases, actual amounts may differ from the estimates. The carrying amounts of the assets and liabilities affected by estimates can be gathered from the break-downs of the individual balance sheet items.

Intangible assets

Intangible assets include goodwill and recognized development costs, patents, software, licenses and similar rights with a finite useful life. They are recognized if a future inflow of economic benefits is probable and expenses can be clearly allocated.

Patents, software, licenses and similar rights are recognized at cost pursuant to IAS 38 and amortized over their useful life on a straight-line basis unless there are any impairments. The useful life generally ranges from three to five years.

Acquired goodwill is reported as an asset. Goodwill is not amortized on a systematic basis. **Development costs** are capitalized for vehicles provided that clear allocation of expenses is possible and all the other criteria of IAS 38 are met. The development costs capitalized include all production overheads allocable directly and indirectly to the development process that are incurred as of the time at which all recognition criteria are met. Capitalized development costs are amortized from the production start using the straight-line method over the expected product life cycle of usually six years. Research and non-capitalizable development costs are expensed as incurred.

Property, plant and equipment
Property, plant and equipment are measured at cost less systematic depreciation over their useful life as well as impairment losses. Costs for repairs and maintenance are recognized as current expenses. Systematic depreciation, mainly using the straight-line and unit of production methods of depreciation, reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Special tools and equipment are depreciated according to units of production. For plants used in shift operation depreciation is increased by additional payments for shifts.

Systematic depreciation is mostly based on the following useful lives:

	Years
Office and factory equipment	25 to 40
Technical equipment and machines	7 to 20
Other equipment, furniture and fixtures	3 to 13

Self-constructed items of property, plant and equipment are recognized at cost of conversion.
In addition to directly allocable costs, they include a proportionate share of production-related overheads. Financing costs are not included as a component of cost.

Leased assets
Leased assets result from leases where substantially all risks and opportunities incidental to ownership remain with the Porsche Group as the lessor. These are vehicles from operating leases. They are measured at cost less systematic straight-line depreciation over their expected useful life or the shorter contract period taking account of estimated residual values.

Impairment test
An impairment test is performed at least once a year for goodwill, but for other intangible assets with finite useful lives as well as property, plant and equipment, leased assets and financial assets only when there is an indication that the asset may be impaired. An impairment loss is recognized if the recoverable amount of the asset falls short of the carrying amount. If the recoverable amount of the asset falls short of the carrying value, an impairment loss is recognized. The recoverable amount is generally determined separately per individual asset. If this is not possible, it is determined on the basis of a group of assets or the legal entity. The recoverable amount is the higher of an asset's net selling price and its value in use. The net selling price is the amount obtainable from the sale of an asset at customary market conditions less the costs of disposal. Value in use is determined using the discounted cash flow method or capitalized earnings method on the basis of the estimated future cash flows expected to arise from the continuing use and its disposal. The cash flows are derived from the long-term business planning and current developments are taken into account. They are discounted to the balance sheet date using market-oriented discount rates for similar risks (before tax) of an average of 8.85 to 10 percent.

If the reason for impairment losses recorded in previous years ceases to exist, the impairment loss is reversed to a maximum amount of amortized cost. This does not apply to goodwill.

Inventories

Inventories include materials and supplies as well as work in process and finished goods. Inventories are stated at the lower of cost or net realizable value as of the balance sheet date. Valuation allowances are recorded on slow-moving inventories.

In addition to direct costs, costs of conversion include an appropriate portion of necessary materials and production overheads as well as production-related depreciation, administrative and social security costs. Finance cost is not capitalized as part of cost of purchase or conversion.

Where necessary, the average method is used as a simplified method of measurement.

Long-term construction contracts

Future receivables from long-term construction contracts are recognized according to the percentage of completion method. The percentage of completion per contract to be recognized is calculated by comparing the accumulated costs with the total costs expected ("cost-to-cost" method). If the result of a construction contract cannot be determined reliably, income is only recognized at the amount of the contract costs incurred ("zero profit method"). If the total of accumulated contract costs and reported profits exceeds advance payments received, the construction contracts are recognized as an asset as future receivables from long-term construction contracts under trade receivables. Any negative balance is reported under trade payables. The principle of valuing assets at net realizable value is observed.

Financial instruments

Pursuant to IAS 39, a financial instrument is any contract that gives rise to a financial asset at one entity and a financial liability or equity instrument at another entity.

If the trade date of a financial asset differs from the settlement date, the settlement date is authoritative for initial recognition.

Initial measurement of a financial instrument is at cost. Transaction costs are included. Subsequent measurement of financial instruments is either at fair value or amortized cost.

With respect to measurement, IAS 39 distinguishes between the following categories of financial assets:

- Financial instruments recognized at fair value with effect on income,
- Held-to-maturity investments,
- Loans and receivables originated by the entity, and
- Available-for-sale investments.

By contrast, financial liabilities are divided into the two categories

- Financial instruments recognized at fair value with effect on income and financial instruments held for trading, and
- Other liabilities.

Depending on the category, measurement of financial instruments is either at fair value or amortized cost. Fair value corresponds to market price provided the financial instruments measured are traded on an active market. If there is no active market for a financial instrument, fair value is calculated using appropriate actuarial methods such as recognized option price models or discounting future cash flows with the market interest rate.

Amortized cost corresponds to costs of purchase less redemption, impairment losses and the reversal of any difference between costs of purchase and the amount repayable upon maturity.

Primary financial instruments

Loans and receivables originated by the entity, held-to-maturity investments and financial liabilities are measured at amortized cost unless they are associated with hedging instruments.
In particular, these include trade receivables and payables, receivables from financial services, other receivables and assets, held-to-maturity investments, financial liabilities and other liabilities.
Provided they are financial instruments as defined by IAS 39 and not associated with a hedging instrument, the liabilities have been disclosed at their fair value or amortized cost. Fair value is recognized if exercising the fair value option requires the liabilities to be recognized at fair value with an effect on income. Amortized cost is recognized for all other liabilities as defined by IAS 39.
The liabilities from finance leases which are also disclosed under financial liabilities are recognized at present value in accordance with IAS 17.

Available-for-sale investments are measured at fair value.
Unrealized gains and losses from subsequent measurement are recognized in equity after considering deferred taxes until the investment is disposed of or an objective impairment occurs.
Equity investments disclosed as financial assets and not measured at equity also constitute available-for-sale investments and are measured at fair value. If no active market is available and fair value cannot reasonably be expected to be determined, they are measured at cost.

Securities held for trading are also measured at fair value. Gains and losses from subsequent measurement are recognized in the net profit or loss.

Securities which are held to maturity are accounted for at cost. Gains and losses from subsequent measurement are recognized in the net profit or loss.

Financial assets are regularly subjected to an impairment test if there is an indication that the value of the asset may be permanently impaired. An impairment loss is immediately recorded as an expense. Any loss previously recorded in equity for available-for-sale investments is then also posted to the income statement. Any increase in value at a later date is accounted for debt instruments by reversal of the impairment loss with an effect on income.

Derivative financial instruments

Derivative financial instruments in the Porsche Group primarily relate to forward exchange contracts and foreign currency options, interest derivatives and share price hedge options. They are used to hedge interest and currency risks from existing balance sheet items or highly probable future transactions as well as to obtain liquidity at short notice. Derivative financial instruments are measured at fair value. Provided the criteria for hedge accounting are satisfied, they are recognized as a cash flow hedge. As cash flow hedges, derivative financial instruments are stated at fair value. Changes in value are recorded in other comprehensive income, taking into account deferred taxes. When the underlying contract is concluded, they are reclassified from other comprehensive income with an effect on income.

Deferred taxes

Deferred taxes are recognized on all temporary differences between the tax accounts and the IFRS carrying amounts and on consolidation measures. Deferred tax assets are recognized on unused tax losses if they are likely to be used. Valuation allowances are recorded on deferred tax assets whose realization in the foreseeable future is not likely.

Deferred taxes are measured on the basis of the tax rates that apply or that are expected to apply based on the current legislation in the individual countries at the time of realization.

Deferred tax assets and liabilities are offset against each other, where permissible.

Hybrid capital

Based on the bond conditions of the hybrid capital issued as of January 30, 2006, this is accounted for as an equity component of the Group in accordance with IAS 32. This means that the deductible interest is not disclosed under interest expenses but treated like a dividend obligation to the shareholders.

Pension provisions

The pension provisions are determined using the projected unit credit method. This method considers not only the pensions and future claims known on the balance sheet date but also future anticipated increases in salaries and pensions. If pension obligations are reinsured using plan assets they are disclosed net.

The calculation is based on actuarial opinions taking account of biometric assumptions. The actuarial gains and losses are recognized with an effect on income if the actuarial gains and losses not recognized at the beginning of the fiscal year exceed ten percent of the present value of the obligation at the beginning of the fiscal year (corridor method). The service cost is disclosed in personnel expenses, and the interest portion of the addition to the provision in the financial result.

Tax provisions and other provisions

Tax provisions and other provisions are set up if there is a current legal or constructive obligation to third parties which is expected to lead to a future outflow of resources that can be estimated reliably.

Provisions for warranty claims are set up taking account of the past or estimated future claims pattern.

Non-current provisions are stated at their settlement amount discounted to balance sheet date.

Income and expenses

Sales revenue, interest and commission income from financial services is generally not recognized until the products or merchandise have been delivered or services provided and the risks have been transferred to the customer. Discounts, customer bonuses and rebates are deducted from sales revenue. Sales revenue for long-term construction contracts is recognized according to the stage of completion.

Production-related expenses are recognized upon delivery or utilization of the service, while all other expenses are recognized as an expense as incurred. The same applies for non-capitalizable development costs. Provisions for warranty claims are recognized at the time of sale of the products. Interest and other borrowing costs are recorded as an expense in the same period. Interest expenses incurred for financial services are disclosed under cost of materials.

Contingent liabilities
A contingent liability is a possible obligation to third parties that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Porsche Group. A contingent liability may also be a present obligation that arises from past events but is not recognized because an outflow of resources is not probable or the amount of the obligation cannot be measured with sufficient reliability.

New Accounting Policies

a) Accounting policies adopted for the first time in the fiscal year

The following accounting provisions were mandatory for the first time for the 2005/06 fiscal year:

Improvements Project
The following standards were revised by the IASB as part of the “Improvement Project” and adopted for the first time in the consolidated financial statements as of July 31, 2006:

IAS 1 “Presentation of Financial Statements”
IAS 2 “Inventories”
IAS 24 “Related Party Disclosures”
IAS 31 “Interests in Joint Ventures”
IAS 40 “Investment Property”

The most important changes from the improvement project pertain to the application of IAS 1 “Presentation of Financial Statements” according to which production companies have to classify their balance sheet by maturity. Assets and liabilities are split into short and long-term items according to their residual term and whether they belong to the normal business cycle. The main changes include: Receivables from financial services, trade receivables, securities and other receivables and assets were subdivided into current and non-current positions. In this context, prepaid expenses were reclassified to other receivables and assets in accordance with customary international practice and split by maturity. Provisions, financial liabilities, trade payables and other liabilities were subdivided into current and non-current positions. In this context, the deferred income item was reclassified to other liabilities in accordance with customary international practice and split by maturity.

IFRS 5

IFRS 5 regulates the presentation of non-current assets and liabilities held for sale and discontinued operations. Generally speaking, discontinued operations are presented together. The effects of the first-time application of IFRS 5 can be seen from the income statement, cash flow statement, segment reporting and notes to the consolidated financial statements.

Other accounting provisions that have to be adopted for the first time

The Group also had to apply IFRS 2 “Share-based Payment”, IFRS 4 “Insurance Contracts”,
IFRIC 1 “Changes in Existing Provisions for Decommissioning, Restoration and Similar Liabilities”,
IFRIC 2 “Members’ Shares in Co-Operative Entities and Similar Instruments” and IFRIC “Changes to SIC-12: scope of SIC-12 – Special Purpose Entities”. There were no effects.

b) Accounting policies that have been published but whose adoption is not yet mandatory

The following accounting standards which have been published by the IASB but which are not yet mandatory have not been early adopted:

IFRS 7 “Financial Instruments: Disclosures”:
IFRS 7 governs the disclosure requirements for financial instruments for industrial entities as well as banks and similar financial institutions. IFRS 7 replaces IAS 30 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions” as well as the disclosure requirements contained in IAS 32 “Financial Instruments: Disclosure and Presentation”. IFRS 7 is applicable for fiscal years beginning on or after January 1, 2007. The amendment will extend the disclosures on financial instruments required in the notes.

Amendments to IAS 1 “Presentation of Financial Statements”:
The amendments will extend the disclosures on equity required in the notes. The amendment is applicable for fiscal years beginning on or after January 1, 2007.

Amendments to IAS 19 “Employee Benefits”:
This amendment will allow entities to record in full actuarial gains and losses from defined benefit plans directly in equity in the period in which they arise. The ruling is applicable for fiscal years beginning on or after January 1, 2006.

Amendment to IAS 21 “The Effects of Changes in Foreign Exchange Rates”:
The amendments are applicable for the first time for fiscal years beginning on or after January 1, 2006.

Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”,
cash flow hedges for highly probable future intercompany transactions:
The amendments are applicable for fiscal years beginning on or after January 1, 2006.

Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” –
optional measurement at fair value:
The amendments are applicable for fiscal years beginning on or after January 1, 2006.

Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 4 “Insurance Contracts” – financial guarantees and loan commitments:
Following the revision of IAS 39 and IFRS 4, financial guarantees fall under the scope of IAS 39 only. In the past, financial guarantees had been subject - depending on their structure – either to IAS 39 or to IFRS 4. The amendments are applicable for fiscal years beginning on or after January 1, 2006.

IFRS 6 “Exploration for and Evaluation of Mineral Resources” and amendments to IFRS 1 and IFRS 6:
These amendments are applicable for the first time for fiscal years beginning on or after January 1, 2006.

IFRIC 4 “Determining whether an Arrangement contains a Lease” and IFRIC 5 “Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”:
These interpretations are applicable for the first time for fiscal years beginning on or after January 1, 2006.

IFRIC 6 “Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment”:
The interpretation is applicable for fiscal years beginning on or after January 1, 2006.

IFRIC 7 “Applying the Restatement Approach under IAS 29 “Financial Reporting in Hyperinflationary Economies”:
This interpretation is applicable for the first time for fiscal years beginning on or after January 1, 2007.

IFRIC 8 “Scope of IFRS 2”:
The amendments are applicable for the first time for fiscal years beginning on or after May 1, 2006.

IFRIC 9 “Reassessment of Embedded Derivatives”:
The interpretations are applicable for the first time for fiscal years beginning on or after June 1, 2006.

IFRIC 10 “Interim Financial Report and Impairment”:
This interpretation is applicable for the first time for fiscal years beginning on or after November 1, 2006.

These changes to the accounting principles are not expected to have a major effect on future consolidated financial statements.

Development of intangible assets

	Franchises, industrial and similar rights T€	Development costs T€	Goodwill T€	Advance payments made T€	Total T€
Cost					
As of August 1, 2004	**350,227**	**110,657**	**45,350**	**13,531**	**519,765**
Currency differences	– 506	–	–	– 5	– 511
Changes to consolidated group	–	–	–	–	–
Additions	15,348	33,655	–	14,332	63,335
Reclassifications	6,391	–	–	– 5,803	588
Disposals	18,817	–	–	–	18,817
As of July 31, 2005	**352,643**	**144,312**	**45,350**	**22,055**	**564,360**
Amortization and depreciation					
As of August 1, 2004	**158,802**	**33,735**	**–**	**–**	**192,537**
Currency differences	– 435	–	–	–	– 435
Changes to consolidated group	–	–	–	–	–
Additions	62,803	18,394	–	–	81,197
Impairments	–	–	–	–	–
Disposals	2,526	–	–	–	2,526
As of July 31, 2005	**218,644**	**52,129**	**–**	**–**	**270,773**
Cost					
As of August 1, 2005	**352,643**	**144,312**	**45,350**	**22,055**	**564,360**
Currency differences	– 318	–	–	– 8	– 326
Changes to consolidated group	– 42,116	–	– 34,530	–	– 76,646
Additions	32,309	31,494	–	19,613	83,416
Reclassifications	22,989	–	–	– 21,177	1,812
Disposals	11,863	–	–	42	11,905
As of July 31, 2006	**353,644**	**175,806**	**10,820**	**20,441**	**560,711**
Amortization and depreciation					
As of August 1, 2005	**218,644**	**52,129**	**–**	**–**	**270,773**
Currency differences	– 218	–	–	–	– 218
Changes to consolidated group	– 32,727	–	–	–	– 32,727
Additions	49,286	26,110	–	–	75,396
Impairments	1,177	–	–	–	1,177
Disposals	3,985	–	–	–	3,985
As of July 31, 2006	**232,177**	**78,239**	**–**	**–**	**310,416**
Net carrying amount July 31, 2005	**133,999**	**92,183**	**45,350**	**22,055**	**293,587**
Net carrying amount July 31, 2006	**121,467**	**97,567**	**10,820**	**20,441**	**250,295**

Development of property, plant and equipment

	Land, land rights and buildings incl. buildings on third-party land	Technical equipment and machines	Other equipment, furniture and fixtures	Advance payments and assets under construction	Total
	T€	T€	T€	T€	T€
Cost					
As of August 1, 2004	**632,881**	**421,487**	**1,676,810**	**136,140**	**2,867,318**
Currency differences	– 934	– 85	– 256	–	– 1,275
Changes to consolidated group	–	–	–	–	–
Additions	27,847	31,065	193,365	55,114	307,391
Reclassifications	15,211	10,556	64,499	– 90,854	– 588
Disposals	1,107	5,422	38,034	344	44,907
As of July 31, 2005	**673,898**	**457,601**	**1,896,384**	**100,056**	**3,127,939**
Amortization and depreciation					
As of August 1, 2004	**257,076**	**329,777**	**1,171,988**	**–**	**1,758,841**
Currency differences	– 546	– 5	– 179	–	– 730
Changes to consolidated group	–	–	–	–	–
Additions	18,769	27,871	215,792	–	262,432
Impairments	–	–	–	–	–
Disposals	755	4,766	28,165	–	33,686
As of July 31, 2005	**274,544**	**352,877**	**1,359,436**	**–**	**1,986,857**
Cost					
As of August 1, 2005	**673,898**	**457,601**	**1,896,384**	**100,056**	**3,127,939**
Currency differences	– 488	– 44	– 1,137	45	– 1,624
Changes to consolidated group	– 2,175	– 23,854	– 28,894	– 292	– 55,215
Additions	50,827	18,249	160,654	94,228	323,958
Reclassifications	17,575	11,938	61,271	– 92,596	– 1,812
Disposals	5,079	4,704	42,264	27	52,074 As
As of July 31, 2006	**734,558**	**459,186**	**2,046,014**	**101,414**	**3,341,172**
Amortization and depreciation					
As of August 1, 2005	**274,544**	**352,877**	**1,359,436**	**–**	**1,986,857**
Currency differences	– 387	– 28	– 887	–	– 1,302
Changes to consolidated group	– 162	– 14,131	– 14,865	–	– 29,158
Additions	19,034	26,459	200,744	–	246,237
Impairments	–	–	–	402	402
Disposals	2,086	4,715	33,415	–	40,216
As of July 31, 2006	**290,943**	**360,462**	**1,511,013**	**402**	**2,162,820**
Net carrying amount July 31, 2005	**399,354**	**104,724**	**536,948**	**100,056**	**1,141,082**
Net carrying amount July 31, 2006	**443,615**	**98,724**	**535,001**	**101,012**	**1,178,352**

Notes to the Consolidated Income Statement

(1) Sales

	2005/06 T€	2004/05 T€
Divisions		
Vehicles	6,056,241	5,278,254
Parts and accessories	426,250	366,837
Other	640,176	610,680
	7,122,667	**6,255,771**

The breakdown of sales by geographical segment and business division can be seen under segment reporting.

(2) Changes in inventories and own work capitalized

Own work capitalized is principally a result of the capitalization of vehicles and development costs.

(3) Other operating income

Other operating income includes income from the reversal of provisions, book gains on the disposal of leased assets, insurance claims, exchange gains, income from share price hedge options and income from the reversal of impairment losses. The increase in other operating income mainly results from income from share price hedge options. The exchange gains for the fiscal year totaled T€ 9,373 (previous year: T€ 7,405).

(4) Cost of materials

	2005/06 T€	2004/05 T€
Cost of materials and supplies and of purchased merchandise	2,819,864	2,430,763
Cost of purchased services	453,643	316,838
	3,273,507	**2,747,601**

If the function of expense method is used, the cost of sales would amount to T€ 3,734,615 (previous year: T€ 3,530,167).

(5) Personnel expenses

	2005/06 T€	2004/05 T€
Wages and salaries	878,052	784,001
Social security, pension and other benefit costs	159,423	128,106
	1,037,475	**912,107**
Employees (annual average) *, **		
Wage earners	4,178	4,241
Salaried employees	6,736	6,347
Trainees and interns	380	343
	11,294	**10,931**

*) including employees under the phased retirement scheme

**) without employees of the CTS group

(6) Other operating expenses

Other operating expenses include expenses for warranty commitments, administration and sales, expenses for currency hedges, rent, expenses for various risks and expenses for share price hedge options. The increase in other operating expenses mainly results from expenses from share price hedge options. Exchange losses amount to T€ 66,413 (previous year: T€ 9,473).

(7) Share of profit of associates

The share of profit of associates breaks down as follows:

	2005/06 T€	2004/05 T€
Share of profit	182,852	–
Income from first consolidation	541,263	–
Adjustment to the recoverable amount	– 520,758	–
Share of profits and losses of associates	**203,357**	**–**
thereof share of profit of associates from discontinued operations	122,616	–

The recoverable amount was set at the value in use. The investments in associates are allocated to the segment "Germany" and "Vehicles".

(8) Other financial income

	2005/06 T€	2004/05 T€
Income from equity investments	–	401
Other interest and similar income	181,098	171,906
Other interest and similar expenses	– 158,448	– 125,554
Interest expenses from compounding of provisions	– 40,468	– 31,590
Interest and similar expenses	– 198,916	– 157,144
Other financial result	10,955	4,886
	– 6,863	**20,049**

The interest income is mainly attributable to fixed-interest securities and time deposits. In addition, it includes income on interest-bearing receivables and loans. Interest and similar expenses comprises interest expenses from operations, the issue of bonds and compounding of provisions.
The other financial result stems exclusively from the disposal of investments classified as available for sale.

(9) Income taxes

The income tax expense disclosed comprises the following:

	2005/06 T€	2004/05 T€
Current taxes	572,230	463,027
Deferred taxes	141,348	– 10,129
Income tax from continuing operations	**713,578**	**452,898**
Income tax from discontinued operations	**3,422**	**6,102**
Income taxes	**717,000**	**459,000**

On account of tax rate changes, additional income of T€ 17 compared to the previous year was recorded from deferred taxes (previous year: T€ 1,009).
The current tax expense was reduced by T€ 2,196 (previous year: T€ 1,548) owing to previously unused tax losses. This did not lead to any material changes for deferred taxes in either reporting period.
Current taxes relating to other periods amounted to T€ 4,632 (previous year: T€ 12,079).
The write-ups of deferred taxes in the reporting year amounted to T€ 1,690 while write-downs came to T€ 2,893. In the previous year, write-ups and write-downs of deferred taxes had not been necessary.
The deferred taxes offset against equity without effect on income changed by T€ 38,375 in the reporting year (previous year: T€ 128,325).
The tax rate for deferred taxes is determined on the basis of the current legal situation. An average income tax rate of 39% (previous year: 39%) applies for the German entities. The income tax rates applied for foreign entities range from 0% to 41% (previous year: from 0% to 41%).
There are unused tax losses and credits of T€ 8,848 (previous year: T€ 29,469), for which no deferred tax assets have been recorded. The unused tax losses in the reporting year can be carried forward indefinitely. In the previous year T€ 2,793 could be carried forward indefinitely, while the remainder could only be carried forward for a limited period of three years.

In addition, deferred tax assets of a total of T€ 3,443 (previous year: T€ 1,126) were recognized on unused tax losses and of T€ 244 (previous year: T€ 14) on unused tax credits. No deferred taxes were recorded on accumulated profits at subsidiaries of T€ 18,614 (previous year: T€ 30,336), as these profits are to be used for the expansion of business activities at the different locations.

The following reconciliation shows the differences between the theoretical income tax expense expected based on the calculated tax rate and the current income tax expense:

	2005/06 T€	2004/05 T€
Expected income tax expense	**822,900**	**482,820**
Tax rate related differences	– 30,381	– 28,066
Difference in tax base	– 85,632	4,090
Recognition and measurement of deferred tax assets	768	967
Taxes relating to other periods	9,896	– 961
Other differences	– 551	150
Reported income tax expense	**717,000**	**459,000**

The deferred tax assets and liabilities break down by balance sheet item as follows.

	Deferred tax assets		Deferred tax liabilities	
	July 31, 2006 T€	July 31, 2005 T€	July 31, 2006 T€	July 31, 2005 T€
Intangible assets, property, plant and equipment, leased assets and financial assets	232,796	218,683	430,723	284,343
Other assets	300,821	150,655	387,423	340,564
Unused tax losses and tax credits	444	785	–	–
Provisions	255,652	252,897	642	–
Liabilities	194,082	13,639	205,520	7,337
Subtotal	**983,795**	**636,659**	**1,024,308**	**632,244**
Offsetting	– 842,544	– 451,895	– 842,544	– 451,895
Balance pursuant to consolidated balance sheet	**141,251**	**184,764**	**181,764**	**180,349**

(10) Net profit from discontinued operations

The sale of the CTS Group was presented in accordance with the accounting rules for discontinued operations as defined by IFRS 5.
Net profit from discontinued operations breaks down as follows:

	2005/06 T€	2004/05 T€
Sales	149,992	318,202
Expenses	– 148,072	– 303,208
Earnings before financial income	1,920	14,994
Financial income	– 810	– 1,264
Profit before tax from ordinary activities from discontinued operations	**1,110**	**13,730**
Income taxes	– 1,363	– 6,102
Current net profit from discontinued operations	**– 253**	**7,628**
Profit from the sale of the CTS group, before taxes	80,692	–
Taxes on the profit from the sale of the CTS group	2,059	–
Profit from the sale of the CTS group, after tax	**78,633**	**–**
Net profit from discontinued operations	**78,381**	**7,628**

The sales price was T€ 168,954; the full amount was settled in cash. In connection with the sale, there was an outflow of cash and cash equivalents of T€ 518.

The main assets and liabilities that were sold were:

	July 31, 2006 T€
Intangible assets, property, plant and equipment and deferred tax assets	69,400
Other assets without cash and cash equivalents	135,152
Provisions	39,354
Liabilities	76,915

(11) Minority interests

The Group's earnings after tax contain losses allocable to minority interests of T€ 3,445 (previous year: T€ 3,504).

(12) Earnings per share

		2005/06	2004/05
Earnings after tax from continuing operations	T€	1,314,619	771,372
Earnings after tax from discontinued operations	T€	78,381	7,628
Minority interests	T€	3,445	3,504
Profit allocable to Hybrid Capital Investors	T€	28,451	–
Profit allocable to shareholders of Porsche AG	T€	1,367,994	782,504
Profit allocable to ordinary shares from continuing operations	T€	644,544	387,176
Profit allocable to ordinary shares from discontinued operations	T€	38,928	3,551
Profit allocable to preference shares from continuing operations	T€	645,069	387,700
Profit allocable to preference shares from discontinued operations	T€	39,453	4,077
Average number of ordinary shares outstanding	Number	8,750,000	8,750,000
Average number of preference shares outstanding	Number	8,750,000	8,750,000
Earnings per ordinary share from continuing operations (diluted and basic)	€	73.66	44.24
Earnings per ordinary share from discontinued operations (diluted and basic)	€	4.44	0.40
Earnings per preference share from continuing operations (diluted and basic)	€	73.72	44.30
Earnings per preference share from discontinued operations (diluted and basic)	€	4.50	0.46

Earnings per share are calculated by dividing the profit allocable to the shareholders of Porsche AG by the total number of shares outstanding in the fiscal year. There were no measures that have a dilutive effect.

Notes to the Consolidated Statement of Cash Flows

(13) Notes to the Consolidated Statement of Cash Flows
The cash and cash equivalents presented in the cash flow statement relates to the balance sheet item cash and cash equivalents only, i.e. cash on hand, checks and bank balances with a maturity of less than three months. The effects of exchange rate changes on cash and cash equivalents amount to T€ – 5,012 (previous year: T€ – 31,607) within the Group.

The cash flow statement shows how the cash and cash equivalents of the Porsche Group have changed during the reporting year as a result of cash inflows and outflows. For this purpose the cash flows are divided into operating activities, investing activities including investment in securities, and financing activities in the cash flow statement.

Cash inflows and outflows from investing and financing activities are presented using the direct method. The cash inflows and outflows from investing activities in the current fiscal year include additions to property, plant and equipment and financial assets as well as additions to intangible assets. Changes in leased assets and changes in receivables from financial services are also disclosed here. The cash inflows and outflows from investing activities including investment in securities supplement the investing activities in the current fiscal year by changes in investment in securities. Financing activities contain cash outflows for dividend payments and the repayment of loans as well as cash inflows from the issue of bonds and other financial liabilities.

The cash flow from operating activities, on the other hand, is derived indirectly from the earnings after tax. This involves eliminating all non-cash expenses – mainly depreciation or amortization and changes in provisions – as well as non-cash income from earnings after tax and adding changes in operating assets and liabilities.

To improve the informative value of the consolidated cash flow statement, the change in deferred taxes of the cash flow from operating activities was disclosed separately in the reporting year and in the previous year. The numbers of the changes in other assets and provisions were adjusted accordingly.

The changes in the balance sheet items from which the cash flow statement is derived are adjusted for non-cash effects from currency translation and changes in the consolidated group. Changes in the balance sheet items concerned can therefore not be reconciled directly with the figures in the published consolidated balance sheet.

The cash flow from operating activities includes:

	2005/06 T€	2004/05 T€
Interest paid	– 140,133	– 103,144
Interest received	138,258	147,968
Income taxes paid	– 440,425	– 635,304
Income taxes reimbursed	25,596	9,637
Dividends received	68,281	378

(14) Fixed Assets
Intangible assets include development services acquired, tool cost subsidies, capitalized development costs for vehicles, goodwill, licenses and software.

Total research and development, i.e. research and non-capitalizable development costs as well as the investments in capitalized development costs developed as follows:

	2005/06 T€	2004/05 T€
Research and development costs	443,113	338,136
Amortization	– 26,110	– 18,394
Investments in capitalised development costs	31,494	33,655
	448,497	**353,397**

Goodwill in the Porsche Group developed as follows:

	T€
Carrying amount as of August 1, 2005	**45,350**
Changes to consolidated group	– 34,530
Additions in fiscal year 2005/06	–
Disposals in fiscal year 2005/06	–
Carrying amount as of July 31, 2006	**10,820**
Carrying amount as of August 1, 2004	**45,350**
Changes to consolidated group	–
Additions in fiscal year 2004/05	–
Disposals in fiscal year 2004/05	–
Carrying amount as of July 31, 2005	**45,350**

To date, the goodwill has not been impaired. The development of fixed assets in the Group is presented on the following pages. The information on amortization and impairment also contains amortization of discontinued operations.

Development of financial assets

	Investments in associates* T€	Other equity investments T€	Other loans T€	Total T€
Cost				
As of August 1, 2004	**–**	**21,865**	**96**	**21,961**
Currency differences	–	–	–	–
Changes to consolidated group		–	–	–
Additions	–	4,573	40	4,613
Reclassifications	–	–	–	–
Disposals	–	–	–	–
As of July 31, 2005	**–**	**26,438**	**136**	**26,574**
Amortization and depreciation				
As of August 1, 2004	–	–	–	–
Currency differences	–	–	–	–
Changes to consolidated group	–	–	–	–
Additions	–	–	–	–
Impairments	–	–	–	–
Disposals	–	–	–	–
As of July 31, 2005	**–**	**–**	**–**	**–**
Cost				
As of August 1, 2005	**–**	**26,438**	**136**	**26,574**
Currency differences	–	–	–	–
Changes to consolidated group	–	–	–	–
Additions	3,263,733	1,172	11	3,264,916
Reclassifications	–	–	–	–
Disposals	–	–	2	2
As of July 31, 2006	**3,263,733**	**27,610**	**145**	**3,291,488**
Amortization and depreciation				
As of August 1, 2005	**–**	**–**	**–**	**–**
Currency differences	–	–	–	–
Changes to consolidated group	–	–	–	–
Additions	–	–	–	–
Impairments	–	–	–	–
Disposals	–	–	–	–
As of July 31, 2006	**–**	**–**	**–**	**–**
Net carrying amount July 31, 2005	**–**	**26,438**	**136**	**26,574**
Net carrying amount July 31, 2006	**3,263,733**	**27,610**	**145**	**3,291,488**

* net addition

Development of leased assets and of total fixed assets

	Leased assets T€	Total fixed assets T€
Cost		
As of August 1, 2004	1,290,677	4,699,721
Currency differences	– 3,741	– 5,527
Changes to consolidated group	–	–
Additions	543,638	918,977
Reclassifications	–	–
Disposals	472,750	536,474
As of July 31, 2005	1,357,824	5,076,697
Amortization and depreciation		
As of August 1, 2004	368,244	2,319,622
Currency differences	– 1,234	– 2,399
Changes to consolidated group	–	–
Additions	174,613	518,242
Impairments	–	–
Disposals	150,906	187,118
As of July 31, 2005	390,717	2,648,347
Cost		
As of August 1, 2005	**1,357,824**	**5,076,697**
Currency differences	– 56,484	– 58,434
Changes to consolidated group	–	– 131,861
Additions	551,948	4,224,238
Reclassifications	–	–
Disposals	533,097	597,078
As of July 31, 2006	**1,320,191**	**8,513,562**
Amortization and depreciation		
As of August 1, 2005	**390,717**	**2,648,347**
Currency differences	– 15,166	– 16,686
Changes to consolidated group	–	– 61,885
Additions	164,801	486,434
Impairments	–	1,579
Disposals	180,811	225,012
As of July 31, 2006	**359,541**	**2,832,777**
Net carrying amount July 31, 2005	967,107	2,428,350
Net carrying amount July 31, 2006	**960,650**	**5,680,785**

In its financial services division, the Porsche Group acts as lessor, primarily leasing its own products. The remaining terms of the minimum lease payments from non-cancellable operating leases of T€ 406,706 (previous year: T€ 345,167) are as follows:

	July 31, 2006 T€	July 31, 2005 T€
Due within one year	179,354	118,191
Due in one to five years	227,352	226,976
	406,706	**345,167**

The development of leased assets in the fiscal year is shown in the statement of changes in fixed assets. The leases also contain renewal and purchase options as well as escalation clauses.

(15) Inventories

The inventories disclosed break down as follows:

	July 31, 2006 T€	July 31, 2005 T€
Materials and supplies	73,251	85,252
Work in progress	47,039	49,152
Finished goods and merchandise	473,790	437,359
Advance payments on inventories	–	9
	594,080	**571,772**

Of the total inventories reported as of the balance sheet date of T€ 594,080 (previous year: T€ 571,772), T€ 193,348 (previous year: T€ 191,744) is recognized at net realizable value. Reversals of impairment losses of T€ 1,678 (previous year: impairment loss of T€ 5,236) were recorded in income in the fiscal year. The reversals were necessary due to new information about salability.

(16) Non-current and current trade receivables

	July 31, 2006 T€	July 31, 2005 T€
Receivables from long-term construction contracts	6,867	40,816
Trade receivables	187,843	266,850
Receivables from entities in which equity investments are held	10,261	–
	204,971	**307,666**
thereof non-current	1,990	21,252
thereof current	202,981	286,414

The receivables from long-term construction contracts are calculated as follows:

	July 31, 2006 T€	July 31, 2005 T€
Costs of conversion including outcome of the long-term construction contracts	89,098	242,481
thereof services billed to customers	– 59,891	– 173,421
Future receivables from long-term construction contracts before advance payments received	29,207	69,060
Advance payments received	– 22,340	– 28,244
	6,867	**40,816**

The sales revenue from long-term construction contracts totals T€ 39,287 (previous year: T€ 59,908). Contracts and parts of contracts billed to customers are reported under trade receivables.

(17) Non-current and current receivables from financial services

	July 31, 2006 T€	July 31, 2005 T€
Receivables from financial services	1,683,639	1,567,302
thereof non-current	1,248,750	1,183,421
thereof current	434,889	383,881

The receivables from financial services contain receivables from customer and dealer financing including installments due for payment of T€ 519,803 (previous year: T€ 472,971) and receivables from finance leases of T€ 1,202,852 (previous year: T€ 1,131,145).
The accumulated allowances for outstanding minimum lease payments for finance leases that are subject to risk amount to T€ 39,016 (previous year: T€ 36,814).

Receivables from finance leases are a result of vehicle financing and break down as follows:

	July 31, 2006 T€	July 31, 2005 T€
Gross total investments in the lease	**1,351,430**	**1,275,639**
Due within one year	454,100	401,597
Due in one to five years	897,115	873,619
Due in more than five years	215	423
Unrealized finance income	– 148,578	– 144,494
Present value of outstanding minimum lease payments	**1,202,852**	**1,131,145**
Due within one year	385,059	332,972
Due in one to five years	817,730	797,778
Due in more than five years	63	395

Receivables from financial services are generally secured by the assignment of collateral, guarantees or land charges.
Non-guaranteed residual values accruing to the benefit of the Porsche Group amount to T€ 334,345 (previous year: T€ 313,372).

(18) Non-current and current other receivables and assets

	July 31, 2006 T€	July 31, 2005 T€
Derivative financial instruments	1,294,132	698,682
Other assets	259,064	287,482
Receivables of taxes on income	1,306	19,236
Other receivables	260,370	306,718
Prepaid expenses	19,451	18,780
	1,573,953	**1,024,180**
thereof non-current	172,659	245,784
thereof current	1,401,294	778,396

The item derivative financial instruments mainly includes forward exchange contracts, currency options, share options and combined options. A fractional amount of T€ 157,542 is due in more than one year (previous year: T€ 238,077).
Other assets mainly contain other taxes and advance payments; of these an amount of T€ 12,853 (previous year: T€ 6,229) is due in more than one year.
Prepaid expenses of T€ 19,451 (previous year: T€ 18,780) are principally attributable to the cut-off of other rent and marketing expenses as well as maintenance for hardware and software. An amount of T€ 2,264 is due in more than one year (previous year: T€ 1,408).

(19) Securities

	July 31, 2006 T€	July 31, 2005 T€
Shares	110,753	95,603
Investment shares	1,157,732	92,311
Fixed-interest securities	732,566	418,300
Other securities	760,542	1,264,882
	2,761,593	**1,871,096**
thereof non-current	713,072	378,016
thereof current	2,048,521	1,493,080

(20) Cash and cash equivalents
Cash and cash equivalents totaling T€ 1,988,550 (previous year: T€ 1,754,930) consist of checks, cash on hand and bank balances maturing within three months.

(21) Equity and minority interests
The development of equity and minority interests is presented in the statement of changes in equity.

Share capital
Porsche AG's share capital totals EUR 45.5 million and, as in the previous year, is divided into 8,750,000 ordinary shares and 8,750,000 non-voting preference shares which have been fully paid in.
A proportionate amount of the share capital of EUR 2.60 is allocable to each share. The preference shares carry an additional dividend of EUR 0.06.

Capital reserve
The capital reserve contains solely contributions from premiums and is unchanged since the previous year.

Revenue reserves and other comprehensive income
Revenue reserves relate exclusively to other revenue reserves. Revenue reserves include the profits of Porsche AG and its consolidated subsidiaries earned in previous years and the reporting year and not yet distributed as well as transactions without effect on income.

The changes in equity without effect on income were mainly attributable to dividend payments to the shareholders of Porsche AG of T€ 86,975 (previous year: T€ 69,475), changes to the consolidated group of T€ – 1,815 (previous year: T€ 0) and currency fluctuations compared to the previous year of T€ 4,321 (previous year: T€ – 30,197), as well as expenses and income recorded directly in equity and income from associates.

Differences from the currency translation of foreign subsidiaries' financial statements without effect on income amounting to T€ – 1,821 (previous year: T€ 10,532) are disclosed separately.
Other comprehensive income contains the measurement of financial instruments at market value without effect on income of T€ – 126,907 (previous year: T€ – 188,763). The amount disclosed is after deferred taxes.
The pro rata changes in equity from associates recorded without effect on income are recorded without effect on income in the consolidated financial statements of Porsche AG. The total amount of the amounts recorded directly in equity in the 2005/06 fiscal year from the use of the equity method leads to an increase in equity by T€ 6,161 (previous year: T€ 0).

The financial statements of Porsche AG as of July 31, 2006 report retained earnings of € 627,000,000. The following appropriation of retained earnings will be proposed at the shareholders' meeting.

Payment of a dividend of EUR 8.94 (EUR 5.94 + EUR 3.00 extra dividend) per ordinary share ISIN no. DE0006937709 (securities ident. no. 693770) on 8,750,000 ordinary shares for fiscal year 2005/06	€	78,225,000
Payment of a dividend of EUR 9.00 (EUR 6.00 + EUR 3.00 extra dividend) per preference share ISIN no. DE0006937733 (securities ident. no. 693773) on 8,750,000 preference shares for fiscal year 2005/06	€	78,750,000
Transfers to revenue reserves	€	470,025,000
Retained earnings	€	627,000,000

The dividend payment for 2004/05 gives rise to a tax credit from the corporate income tax system in place prior to 2001 of T€ 5,009.
For future dividend payments, tax reduction claims of EUR 70.1 million (previous year: EUR 75.1 million), based on the former corporate income tax system, can be realized in proportionate annual installments until fiscal year 2019/20. The proposed dividend payment for 2005/06 reduces the corporate income tax claim by T€ 5,009

Hybrid capital
The subordinated hybrid capital issued at the end of January 2006 with a nominal value of 1 billion US dollars represents group equity in accordance with the rulings of IAS 32. The currency translation of the hybrid capital is based on the exchange rate prevailing at the time of issue.

Minority interests
The drop in minority interests is largely due to the loss share of T€ 3,445 (previous year: T€ 3,504).

(22) Pension provisions

Employees of the entities included in the consolidated financial statements are entitled to benefits under the company pension plan. The benefits vary according to local legal, economic and tax conditions and are usually based on the employee service period and the beneficiary's salary. The direct and indirect obligations include both current pension obligations and future pension and retirement benefit obligations.
The company pension plan of the Group essentially relates to defined benefit plans, but there are also some defined contribution plans. The defined contribution plans principally concern German entities that are required by law to transfer contributions to the national pension insurance company. Contributions of T€ 49,974 were paid to the national pension insurance company in Germany (previous year: T€ 49,181).
The defined benefit plans are calculated using the projected unit credit method in accordance with IAS 19. The benefit obligations are recognized at service cost as of the measurement date. The benefit obligation for active employees increases annually by the interest cost plus the present value of the new benefit entitlements earned in the current fiscal year.
The majority of the benefits pertain to Porsche AG. In addition, personal retirement capital is accumulated in Germany by employee contributions to Porsche VarioRente.

The benefit obligations are calculated using actuarial methods. These include assumptions concerning future wage and salary trends and pension increases. These parameters are estimated annually by the Company. The measurement is based on the following assumptions for German entities:

Actuarial assumptions (Germany only)

	2005/06	2004/05
Discount rate	4.50%	4.00%
Future increase in salaries	3.50%	3.50%
Increase in pensions	1.75%	1.75%

On aggregate, the benefit obligations of foreign entities are not material.

The company uses the ten percent corridor rule to measure the pension provisions and determine the pension expenses. Actuarial gains and losses are not taken into account provided they do not exceed ten percent of the commitment or ten percent of the fair value of the existing plan assets.
The amount in excess of the corridor is distributed over the average residual service period of the active workforce and recorded in the profit and loss. Due to unrecognized actuarial losses, the pension provisions shown on the face of the balance sheet are lower than the present value of the pension commitment.

The net benefit obligations are as follows:

	July 31, 2006 T€	July 31, 2005 T€
Present value of benefit obligations financed by provisions	709,664	719,183
Present value of funded benefit obligations	49,004	44,131
Projected benefit obligations	758,668	763,314
Fair value of plan assets	– 37,309	– 32,476
Net obligations	721,359	730,838
Unrecognised actuarial gains (+) and losses (–)	– 63,572	– 134,574
Unrecognised past service costs	956	–
Carrying amount as of July 31, 2006 and July 31, 2005	**658,743**	**596,264**

The carrying amount posted to the balance sheet for pension provisions and similar obligations developed as follows compared to the previous year:

	2005/06 T€	2004/05 T€
Carrying amounts as of August 1, 2005 and August 1, 2004	596,264	550,817
Changes in consolidated group	– 6,842	–
Retirement benefit costs	71,085	49,303
Benefit payments made	– 17,331	– 16,193
Contributions to funds	1,213	44
Employee contributions to company pension plan	14,354	12,293
Carrying amounts as of July 31, 2006 and July 31, 2005	**658,743**	**596,264**

Amounts included in the income statement break down as follows:

	2005/06 T€	2004/05 T€
Service cost	39,143	22,871
Interest cost	30,172	28,087
Return on plan assets	– 2,125	– 1,655
Amortized actuarial gains (–) and losses (+)	3,866	–
Past service cost	29	–
Retirement benefit costs	**71,085**	**49,303**

The actual return on plan assets in the fiscal year amounted to T€ 2,811 (previous year: T€ 3,659).

(23) Non-current and current tax provisions and other provisions

	July 31, 2006		July 31, 2005	
	T€	T€ thereof due within one year	T€	T€ thereof due within one year
Tax provisions	**238,026**	**238,026**	**163,713**	**163,713**
Provisions for personnel	300,194	297,356	272,475	248,883
Provisions for ordinary operations	1,069,369	444,370	1,034,753	374,103
Sundry provisions	271,471	270,796	219,765	219,034
Other provisions	**1,641,034**	**1,012,522**	**1,526,993**	**842,020**

Provisions for personnel contain obligations for vacation and Christmas bonuses, profit participations and management bonuses, the German phased retirement scheme and long-service bonuses.
Provisions for ordinary operations consist above all of amounts for warranty claims, marketing services, bonuses and discounts. Sundry provisions principally comprise provisions for goods and services not yet invoiced, litigation risks and disposal obligations for old vehicles.

Other provisions developed as follows:

	As of Aug. 1, 2005 T€	Exchange rate differences T€	Addition T€	Interest T€	Utilization T€	Reversal T€	As of July 31, 2006 T€
Provisions for personnel	272,475	– 623	189,903	–	159,554	2,007	300,194
Provisions for ordinary operations	1,034,753	– 1,455	278,399	10,296	243,592	9,032	1,069,369
Other provisions	219,765	– 1,675	262,081	–	178,586	30,114	271,471
	1,526,993	**– 3,753**	**730,383**	**10,296**	**581,732**	**41,153**	**1,641,034**

(24) Non-current and current financial liabilities
Financial liabilities break down as follows:

	T€	Due within one year T€	Due within one to five years T€	Due after five years T€
July 31, 2006				
Bonds	2,650,516	303,472	1,144,648	1,202,396
Liabilities to banks	218,986	184,742	34,244	–
Other financial liabilities	1,890,645	742,283	1,148,362	–
	4,760,147	**1,230,497**	**2,327,254**	**1,202,396**
July 31, 2005				
Bonds	1,084,692	257,447	313,879	513,366
Liabilities to banks	186,821	164,774	22,047	–
Other financial liabilities	1,820,390	684,640	1,135,750	–
	3,091,903	**1,106,861**	**1,471,676**	**513,366**

The following items are reported under bonds:

	Currency	Issue volume local currency thousands in TLC	Carrying amount in T€	Market value in T€	Total term	Maturity	Nominal interest rate in %	Effective interest rate in %
Bonds								
Bond 2006	EUR	1,000,000	996,817	973,000	5	Jan. 11	3.500	3.580
Bond 2006	EUR	900,000	889,862	843,030	10	Jan. 16	3.875	4.020
Bond 2002	EUR	300,000	303,472	303,472	5	Jun. 07	5.250	5.250
Private placement 2004	USD	200,000	147,831	147,831	7	Mrz. 11	4.470	4.470
Private placement 2004	USD	150,000	110,199	110,199	10	Mrz. 14	4.980	4.980
Private placement 2004	USD	75,000	55,113	55,113	12	Mrz. 16	5.130	5.130
Private placement 2004	USD	200,000	147,222	147,222	15	Mrz. 19	5.330	5.330

The two bonds issued in the fiscal year 2006 are fixed-interest bonds which are measured at amortized cost.
The other bonds are also fixed-interest instruments. They are recorded at fair value with an effect on income. To hedge the risk of interest rate fluctuation, interest hedges were concluded which were also recognized at fair value.
Liabilities to banks serve short-term financing purposes. The nominal interest rate varies from 0.50% to 4.375% depending on the currency, maturity and contractual terms and conditions (previous year: 0.25% to 4.5%). They are recognized at amortized cost.
Other financial liabilities include liabilities for re-financing the financial services business which arose in the context of non-recourse financing, sale-and-leaseback and asset-backed securities programs.

The present values of the future minimum lease payments from sale and lease back transactions in connection with the refinancing of financial services break down as follows:

	July 31, 2006 T€	July 31, 2005 T€
Minimum lease payments	**75,427**	**80,113**
Due within one year	39,519	40,099
Due in one to five years	35,908	40,014

Collateral of T€ 401,465 (previous year: T€ 362,950) has been provided for other financial liabilities.

The total volume of asset-backed securities programs included therein comes to T€ 1,798,533 as of the balance sheet date (previous year: T€ 1,715,205). Interest is at inter-bank level. The average terms to maturity of the financing range from one to four years. Measurement is at amortized cost.

(25) Non-current and current trade payables

	July 31, 2006 T€	July 31, 2005 T€
Liabilities from long-term construction contracts	7,584	8,863
Trade payables	439,453	434,131
Liabilities to entities in which equity investments are held	35,780	–
	482,817	**442,994**
thereof non-current	3,875	2,821
thereof current	478,942	440,173

The liabilities from long-term construction contracts are calculated as follows:

	July 31, 2006 T€	July 31, 2005 T€
Costs of conversion including outcome of the long-term construction contracts	6,571	31,921
thereof services billed to customers	– 1,402	– 17,243
Future receivables from long-term construction contracts before advance payments received	5,169	14,678
Advance payments received	– 12,753	– 23,541
	7,584	**8,863**

(26) Non-current and current other liabilities

Other liabilities break down as follows as of the balance sheet date:

	T€	Due within one year T€	Due within one to five years T€	Due within more than five years T€
July 31, 2006				
Advance payments received on account of orders	59,054	59,054	–	–
Sundry other liabilities	139,574	128,759	10,581	234
Tax liabilities	12,777	12,777	–	–
Measurement of derivative financial instruments at market value	1,025,106	1.025,106	–	–
Deferred income	53,647	13,243	40,404	–
	1,290,158	**1,238,939**	**50,985**	**234**
July 31, 2005				
Advance payments received on account of orders	59,768	59,181	587	–
Sundry other liabilities	139,391	137,809	1,582	–
Tax liabilities	22,788	22,788	–	–
Measurement of derivative financial instruments at market value	13,390	13,390	–	–
Deferred income	52,314	11,906	40,408	–
	287,651	**245,074**	**42,577**	**–**

Sundry other liabilities mainly contain other taxes, payments received on account of orders and deposits received.

The deferred income item is made up of special rent payments of T€ 38,469 (previous year: T€ 34,527) and other deferred income items of T€ 15,178 (previous year: T€ 17,787).

(27) Financial Instruments

Hedging strategy

Owing to the international activities in the vehicles and financial services segment, changes in interest rates and exchange rates affect the net assets, financial position and results of operations of the Porsche Group. The risks result from foreign currency transactions in the course of ordinary operations, from financing and from investing activities. It is the objective of the Group's central treasury department to manage and thus minimize these financial risks for the continued existence and earnings power by concluding hedges for the Group. Guidelines are issued to govern discretionary decisions and internal controls and avoid a concentration of risk. The nature and volume of hedging transactions is generally chosen with regard to the underlying contract. Hedging transactions may only be concluded to hedge existing underlyings or planned transactions. Only approved financial instruments may be entered into with approved counterparties.

Currency risk

Currency risks from current receivables, liabilities and debts as well as from highly likely future transactions are generally hedged with forward exchange contracts, currency options or combined options.
Hedges for value fluctuations in future cash flows from anticipated highly likely transactions mainly relate to planned sales in foreign currency. As of July 31, 2006, currency hedges are in place in particular for the major currencies US dollar, pound sterling and Japanese yen.

Interest rate risk

The Porsche Group has issued fixed-interest bonds. The interest rate risks arising in this regard are hedged by interest derivatives.

Credit risk

The credit risk of financial assets is taken into account through adequate valuation allowances considering existing collateral. Various hedging measures are taken to reduce the credit risk for primary financial instruments, such as requesting collateral or guarantees and credit ratings based on information from credit rating agencies and historical data.

Hedging transactions are only entered into with first-rate banks on the basis of uniform guidelines and are monitored accordingly.

Measurement of financial instruments

The market value of financial instruments is determined by reference to stock market listings, reference prices or recognized calculation models.

The following term structure of interest rates was used were appropriate:

	EUR	USD	GBP
Interest rate for 6 months	3.33%	5.51%	4.87%
Interest rate for 1 year	3.55%	5.54%	5.04%
Interest rate for 5 years	3.94%	5.44%	5.09%
Interest rate for 10 years	4.17%	5.56%	4.99%
Interest rate for 15 years	4.33%	5.63%	4.85%

The market value of the financial derivatives is disclosed in the balance sheet under other receivables and assets or other liabilities. The currency hedges for the Canadian dollars and pound sterling are due within four years, and those for other currencies within three years.

		July 31, 2006		July 31, 2005	
		Nominal volume T€	Total market value T€	Nominal volume T€	Total market value T€
Assets	Currency hedge	8,276,098	389,003	10,729,102	645,645
	Interest hedge	1,292,744	34,692	2,001,750	41,944
	Share price hedge	2,628,055	870,437	116,501	11,093
		12,196,897	**1,294,132**	**12,847,353**	**698,682**
Equity and liabilities	Currency hedge	1,441,224	9,572	341,293	11,298
	Interest hedge	886,812	34,817	96,623	2,092
	Share price hedge	2,441,025	980,716	–	–
		4,769,061	**1,025,105**	**437,916**	**13,390**

Nominal volume of the derivative financial instruments:

		Nominal volume T€	Due within one year T€	Due within one to five years T€	Due within more than five years T€
	July 31, 2006				
Assets	Currency hedge	8,276,098	2,742,357	5,533,741	–
	thereof purchase of foreign currencies	182,043	92,063	89,980	–
	thereof sale of foreign currencies	8,094,055	2,650,294	5,443,761	–
	Interest hedge	1,292,744	356,349	586,395	350,000
	Share price hedge	2,628,055	2,628,055	–	–
		12,196,897	**5,726,761**	**6,120,136**	**350,000**
Equity and liabilities	Currency hedge	1,441,224	1,441,224	–	–
	thereof purchase of foreign currencies	766,353	766,353	–	–
	thereof sale of foreign currencies	674,871	674,871	–	–
	Interest hedge	886,812	11,949	542,104	332,759
	Share price hedge	2,441,025	2,441,025	–	–
		4,769,061	**3,894,198**	**542,104**	**332,759**

As of July 31, 2006, other comprehensive income contains a total of T€ 113,705 (previous year: T€ 179,304) recorded without effect on income from measurement at market value. Of the change in measurement at market value recorded in equity of T€ – 65,599 (previous year: T€ – 188,763), an amount of T€ – 21,075 (previous year: T€ 21,319) is due to the decrease (previous year: increase) in the reserve for the available-for-sale financial assets and T€ 44,524 (previous year: T€ – 210,082) to the decrease in the reserve for cash flow hedges.

An amount of T€ 155,266 was reclassified in the fiscal year from the reserve for cash flow hedges to the income statement (previous year: T€ 250,738). The increase came to T€ 29,449 (previous year: T€ 40,715). The profit on the disposal of available-for-sale securities totaled T€ 13,432 (previous year: T€ 7,696), while the loss on the disposal came to T€ 2,477 (previous year: T€ 2,808).

(28) Contingent Liabilities

	July 31, 2006 T€	July 31, 2005 T€
Guarantees	12,966	1,300
Warranties	81,919	68,357
Collateral for third-party liabilities	3,194	1,076

As a partner of Venture Capital Beteiligung GbR, Porsche AG is liable within the scope of the provisions of law.

Other financial obligations in the Group total € 330.0 million (previous year: € 250.0 million).
There are obligations from rent, lease and maintenance agreements of € 83.7 million in total (previous year: € 95.8 million). The Group's purchase commitment from initiated investment projects for property, plant and equipment amount to € 236.0 million (previous year: € 152.0 million). There are other financial obligations of € 10.3 million (previous year: € 2.2 million).
The terms to maturity of minimum lease payments under non-cancelable operating leases and rent agreements are as follows:

	July 31, 2006 T€	July 31, 2005 T€
Minimum lease payments	**83,713**	**95,845**
Due within one year	21,432	28,072
Due within one to five years	40,343	48,111
Due within more than five years	21,938	19,662

The total amount of rent and lease payments recorded as an expense in the fiscal year is T€ 30,408 (previous year: T€ 29,886).

No provisions were recognized for contingent liabilities as it is more likely than not that they will not occur.

(29) Events after the Balance Sheet Date
After the close of the fiscal year 2005/06, Dr. Ing. h.c. F. Porsche Aktiengesellschaft, Stuttgart, Germany, sold 100% of the shares in Porsche Engineering Services Inc., Wilmington/Delaware, USA to Magna International Inc. Ontario, Canada. This did not have a material effect on the net assets, financial situation and results of operations. It was therefore decided not to present Porsche Engineering Services Inc., Wilmington/Delaware, USA, as assets and liabilities held for sale in accordance with IFRS 5.

(30) Notes to the Segment Reporting
The objective of the segment reporting is to provide information about the main divisions of the Group. In accordance with IAS 14, the Group's activities are broken down by geographical region as the primary reporting format and by business division as the secondary reporting format. Segmentation is based on the internal reporting and organizational structure, taking account of the different risk and income structures of the various regions and divisions. The segmentation by region is based on the location of the customers. According to the different risk and income structure, the Group is divided into the regions Germany, North America, Europe without Germany and Rest of the world.
Segmentation by business division shows the vehicles and financial services divisions. The vehicles division includes the development, production and sale of vehicles as well as related services.
The financial services division comprises the financing and leasing business for customers and dealers.

Intersegment receivables and liabilities, provisions, income and expenses as well as intersegment profits and losses are eliminated in the column "consolidation". This column also includes the items not allocable to the individual segments.

The segment figures have been determined in accordance with the recognition and measurement methods used in the consolidated financial statements. The business relations between the entities of the Porsche Group are generally based on prices as agreed with third parties. Third-party sales show the share of each division in the Porsche Group's sales revenues.

Intersegment sales shows the sales effected between the segments.

Earnings before financial result and income tax constitute the segment result without the gain on sale from companies removed from the consolidated group. The segment result includes the result from lease transactions as well as the result from customer and dealer financing.

Segment assets include all assets except for income tax claims and assets allocable to financial transactions. Segment liabilities include all liabilities except for income tax liabilities and financial liabilities unless they were incurred directly for operating purposes.

Non-cash expenses mainly include additions to provisions and unrealized losses from measurement at market value.

Amortization and depreciation as well as capital expenditure primarily relate to property, plant and equipment, intangible assets and leased assets.

The secondary reporting format is supplemented by a condensed balance sheet for the vehicles and financial services divisions. Non-current assets in the financial services division mainly consist of leased assets. The current assets of the financial services division include receivables from credit financing, receivables from finance leases and leasing installments that are due for payment. The debt capital shows the financing of the financial services business – primarily via asset-backed security programs – and inter-company financing which is eliminated in the consolidation.

Segment information by region

	Germany	
	2005/06 million €	2004/05 million €
Third-party sales	2,187.1	1,934.5
Intersegment sales	4,074.7	3,558.4
Segment result from continuing operations	1,788.1	881.8
thereof share of profits and losses of entities accounted for using the equity method	203.4	–
Segment result from discontinued operations	2.1	20.3
Segment assets	8,397.3	5,313.1
thereof investments in entities accounted for using the equity method	3,263.7	–
Segment liabilities	5,769.0	2,897.8
Non-cash expenses	765.2	328.7
Amortization and depreciation	331.8	346.1
Capital expenditures (excluding financial assets)	437.0	409.3

Segment information by business division

	Vehicles	
	2005/06 million €	2004/05 million €
Third-party sales	6,733.2	5,902.7
Intersegment sales	141.0	151.2
Segment assets	8,610.7	5,536.1
Capital expenditures (excluding financial assets)	399.7	368.9

North America		Europe without Germany		Rest of world		Consolidation		Group	
2005/06 million €	2004/05 million €	2005/06 million €	2004/05 million €	2005/06 million €	2004/05 million €	2005/06 million €	2004/05 million €	2005/06 million €	2004/05 million €
2,510.6	2,174.4	1,704.9	1,607.1	720.1	539.8	–	–	7,122.7	6,255.8
1.4	0.8	3.5	11.2	0.5	0.4	– 4,080.1	– 3,570.8	–	–
170.9	140.0	189.7	97.1	37.0	25.2	– 152.5	60.1	2,033.2	1,204.2
–	–	–	–	–	–	–	–	203.4	–
– 0.3	– 5.3	0.1	–	–	–	–	–	1.9	15.0
1,567.2	1,665.0	3,923.2	1,097.2	260.4	259.2	– 219.3	1,375.6	14,628.8	9,710.1
–	–	–	–	–	–	–	–	3,263.7	–
1,324.6	1,338.0	886.6	913.2	191.1	198.1	1,081.4	942.8	9,252.7	6,289.9
–	17.4	19.4	19.7	0.8	0.6	– 158.1	– 239.6	620.5	126.8
156.0	150.6	6.1	11.6	2.3	2.5	– 7.4	– 0.3	488.8	510.5
494.0	477.5	16.7	19.5	7.1	6.6	4.5	6.1	959.3	919.0

Financial services		Consolidation		Group	
2005/06 million €	2004/05 million €	2005/06 million €	2004/05 million €	2005/06 million €	2004/05 million €
389.5	353.1	–	–	7,122.7	6,255.8
26.8	24.8	– 167.8	– 176.0	–	–
2,954.1	2,880.9	3,064.0	1,293.1	14,628.8	9,710.1
555.2	543.7	4.4	6.4	959.3	919.0

Segment information by business division
The balance sheets of the divisions also include assets that are not allocable to segment assets pursuant to IAS 14. Most of these are income tax items and financial assets. Ignoring the concept of maturities pursuant to IAS 1, the balances are as follows if all assets and liabilities are allocated:

Balance sheets of the divisions

	Vehicles		Financial services		Consolidation		Group	
	July 31, 2006 million €	July 31, 2005 million €	July 31, 2006 million €	July 31, 2005 million €	July 31, 2006 million €	July 31, 2005 million €	July 31, 2006 million €	July 31, 2005 million €
Assets								
Fixed assets	5,944.0	1,977.9	998.4	1,013.0	– 1,261.6	– 562.5	5,680.8	2,428.4
Current assets	6,410.3	5,400.2	1,955.0	1,868.9	582.7	12.6	8,948.0	7,281.7
	12,354.3	**7,378.1**	**2,953.4**	**2,881.9**	**– 678.9**	**– 549.9**	**14,628.8**	**9,710.1**
Equity and liabilities								
Equity	5,294.7	3,374.4	268.0	238.5	– 186.7	– 192.7	5,376.1	3,420.2
Debt capital	7,059.6	4,003.7	2,685.4	2,643.4	– 492.2	– 357.2	9,252.7	6,289.9
	12,354.3	**7,378.1**	**2,953.4**	**2,881.9**	**– 678.9**	**– 549.9**	**14,628.8**	**9,710.1**

(31) Related Parties
In accordance with IAS 24, persons or entities which are in control of or controlled by Porsche AG must be disclosed. Pursuant to a consortium agreement, the Porsche and Piëch families have direct and indirect control respectively of Porsche AG.

The disclosure requirements under IAS 24 also extend to persons who have the power to exercise significant influence over the Company, i.e. who have the power to participate in the financial and operating policies of the Company, but do not control it, including close family members. In the fiscal year 2005/06 this concerns members of the Supervisory Board and the Executive Board of Porsche AG as well as their close family members.

The volume of trade in the course of ordinary operations in the vehicles and parts business with the Porsche and Piëch families and their affiliated entities came to EUR 79.6 million (previous year: EUR 74.6 million), and trade in the design business to EUR 1.2 million (previous year: EUR 1.1 million) as well as financing arrangement services of EUR 10.1 million (previous year: EUR 0.0 million). The arm’s length principle was applied without exception.

Apart from that, the Porsche and Piëch families provided automotive services and delivered clocks and related spare parts to Porsche AG. These deliveries and services are not material for the Porsche Group and were charged at arm's length conditions without exception.

Other services worth T€ 21 were provided to members of the Executive and Supervisory Boards (previous year: T€ 17). They were charged at arm's length conditions.

Otherwise, no transactions requiring disclosure were conducted by entities of the Porsche Group with members of the Supervisory Board or Executive Board as persons in key positions or any other entities in whose executive or supervisory board any such persons are represented. The same applies for members of these persons' close families.

The disclosure duties pursuant to IAS 24 also contain the disclosure of persons and companies on which Dr. Ing. h.c. F. Porsche AG can exert a significant influence.

Related parties

	Supplies and services rendered		Supplies and services received	
	2005/06 T€	2004/05 T€	2005/06 T€	2004/05 T€
Porsche and Piëch families	90,933	75,684	561	436
Members of the board and the supervisory board	21	17	–	–
Volkswagen AG-Group – from January 28, 2006	49,188	–	319,758	–
	140,142	**75,701**	**320,319**	**436**

	Receivables		Liabilities	
	July 31, 2006 T€	July 31, 2005 T€	July 31, 2006 T€	July 31, 2005 T€
Porsche and Piëch families	3,163	468	78	71
Members of the board and the supervisory board	1	–	–	–
Volkswagen AG-Group – from January 28, 2006	10,261	–	31,691	–
	13,425	**468**	**31,769**	**71**

(32) Remuneration of Supervisory Board and the Executive Board

The remuneration of the Executive Board consists of basic salary and a variable component linked to profit. The remuneration of the Executive Board for the fiscal year 2005/06 totaled EUR 45.2 million (previous year: EUR 26.0 million). This figure includes profit-based components of EUR 40.1 million (previous year: EUR 20.7 million). Dr. Ing. h.c. F. Porsche AG has recorded pension provisions of EUR 26.5 million (previous year: EUR 27.7 million) for pension obligations to members of the Executive Board. The pension obligations to former executive board members and their surviving dependants total EUR 21.1 million (previous year: EUR 17.9 million). Benefit payments came to T€ 997 (previous year: T€ 973). The total remuneration of the Supervisory Board for the fiscal year 2005/06 amounts to EUR 1.3 million (previous year: EUR 1.0 million).

The pension provisions are disclosed in note 22 Pension Provisions and have been recorded in full in accordance with the rulings of the corridor method pursuant to IAS 19. There are no further obligations towards the Supervisory Board and Executive Board

(33) Auditor’s Fees

The auditor’s fees recognized in the fiscal year in accordance with § 314 Paragraph 1 No. 9 HGB for the audit of the financial statements and the consolidated financial statements break down as follows:

	July 31, 2006 T€
Audits of financial statements	680
Other assurance or valuation services	92
Tax advisory services	130
Other services	226
Total expenses	**1,128**

(34) Declaration on the German Corporate Governance Code
The Executive Board and Supervisory Board of Porsche AG have issued the declaration required by § 161 German Stock Corporation Act (AktG) in the annual report 2005/06. It is made permanently accessible to the shareholders on the homepage at www.porsche.de.

Stuttgart, October 13, 2006

Dr. Ing. h.c. F. Porsche
Aktiengesellschaft
Der Vorstand

Dr. Wendelin Wiedeking
Wolfgang Dürheimer
Holger P. Härter
Harro Harmel
Michael Macht

Significant Equity Investments

		Share in capital %	Net income [1] T€	Sales [1] T€	Employees [2]
Fully consolidated entities – Germany	Porsche Financial Services GmbH & Co.KG, Bietigheim-Bissingen	100	8,058	324,275	–
	Porsche Consulting GmbH, Bietigheim-Bissingen	100	7,158 [3]	31,873	134
	Porsche Financial Services GmbH, Bietigheim-Bissingen	100	2,195 [3]	24,245	45
	PIKS Porsche-Information-Kommunikation-Services GmbH, Stuttgart	100	2,230 [3]	35,220	102
	Porsche Deutschland GmbH, Bietigheim-Bissingen	100	34,263 [3]	985,169	93
Fully consolidated entities – other countries	Porsche Ibérica S.A., Madrid, Spain	100	7,080	174,138	41
	Porsche Italia S.p.A., Padua, Italy	100	11,811	396,576	56
	Porsche France S.A., Boulogne-Billancourt, France	100	6,843	191,944	39
	Porsche Cars Great Britain Ltd., Reading, United Kingdom	100	20,613	663,346	106
	Porsche Financial Services Great Britain Ltd., Reading, United Kingdom	100 [4]	7,881	47,739	4
	Porsche Retail Group Ltd., Reading, United Kingdom	100 [4]	10,165	343,613	279
	Porsche Cars North America, Inc., Wilmington/Delaware, USA	100 [4]	94,363	2,089,252	221
	Porsche Liquidity LLC, Wilmington/Delaware, USA	100 [4]	4,012	147,827	0
	Porsche Cars Canada Ltd., Toronto/Ontario, Canada	100 [4]	2,106	140,051	4
	Porsche Japan K.K., Tokio, Japan	100	7,629	230,531	63
	Porsche Cars Australia Pty. Ltd., Collingwood, Australia	100	4,626	113,839	33
	Porsche Middle East FZE, Dubai, United Arab Emirates	100	9,552	259,011	20
Entity accounted for using the equity method	Volkswagen AG, Wolfsburg	15,40	741,000	50,245,000	101,028

1) Equity and net income for the year from financial statements prepared in accordance with local law or earnings before profit transfer for the fiscal year from August 1, 2005 to July 31, 2006. Net income and sales denominated in foreign currency were translated at the average annual exchange rate.

2) Number of employees as of the end of the entity's fiscal year.

3) Before profit transfer (net income incl. tax allocation).

4) Indirect equity investment.

Audit Opinion

"We have audited the consolidated financial statements prepared by Dr. Ing. h.c. F. Porsche Aktiengesellschaft, Stuttgart, comprising balance sheet, income statement, cash flow statement, statement of changes in equity as well and to the consolidated financial statements, together with the combined management report for the fiscal year from August 1, 2005 to July 31, 2006. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.
We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to 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 consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities to be included in consolidation, the determination of the entities to be included in consolidation, 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 the Group 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, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks relating of future development."

Stuttgart, October 13, 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Oesterle	Strähle
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Membership in other statutory supervisory boards and comparable domestic and foreign control bodies

Members of the Supervisory Board of Dr. Ing. h.c. F. Porsche 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.
Eurotax Glass's Acquisition S.A.
Volksoper Wien GmbH

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. (Chairman)

Dr. Dr. h.c. Walther Zügel
1) Berthold Leibinger GmbH (Deputy Chairman)
SHB Stuttgarter Finanz- und Beteiligungs Aktiengesellschaft (Chairman)
Stihl AG (Deputy Chairman)
Stuttgarter Hofbräu Verwaltungs AG
Allgaier Werke GmbH
Schuler AG
caption AG

Hansjörg Schmierer
1) Berthold Leibinger GmbH
Mahle GmbH

Dr. Ferdinand Oliver Porsche
1) Voith AG
2) Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG
Eterna S.A.
Porsche Holding GmbH
Porsche Ges.m.b.H.
PGA S.A.

(Disclosures pursuant to § 285 Sentence 1 No 10 HGB)
As of July 31, 2006
1) Membership in German statutory supervisory boards
2) Comparable offices in Germany and abroad

Members of the Executive Board of Dr. Ing. h.c. F. Porsche AG

Dr. Wendelin Wiedeking

1) Volkswagen 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.
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

Holger P. Härter

1) EUWAX AG (Chairman)
Volkswagen AG

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 Engineering Service 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)

Harro Harmel

2) Porsche Consulting GmbH
Mieschke Hofmann & Partner Gesellschaft
für Management- und IT-Beratung mbH
Porsche Leipzig GmbH
Porsche Engineering Group GmbH
Porsche Engineering Service 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

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

Balance Sheet of Dr. Ing. h.c. F. Porsche AG as of July 31, 2006

		July 31, 2006 T€	July 31, 2005 T€
Assets	Fixed assets		
	Intangible assets	388,493	355,015
	Property, plant and equipment	1,054,317	1,010,498
	Financial assets	3,346,179	285,254
		4,788,989	**1,650,767**
	Current assets		
	Inventories	306,692	293,323
	Trade receivables	542,116	486,999
	Other receivables and other assets	921,425	428,711
	Securities	1,949,297	573,321
	Cash and cash equivalents	1,805,295	1,629,451
		5,524,825	**3,411,805**
	Prepaid expenses	**5,443**	**6,045**
		10,319,257	**5,068,617**
Equity and liabilities	Equity		
	Subscribed capital	45,500	45,500
	Capital reserve	121,969	121,969
	Retained earnings	2,897,953	2,093,928
	Net profit available for distribution	627,000	264,000
		3,692,422	**2,525,397**
	Provisions		
	Pension provisions	522,383	476,284
	Other provisions	1,810,054	1,616,065
		2,332,437	**2,092,349**
	Liabilities		
	Payments received on account of orders	513	0
	Trade payables	334,057	326,132
	Other liabilities	3,956,830	121,964
		4,291,400	**448,096**
	Deferred income	**2,998**	**2,775**
		10,319,257	**5,068,617**

1) The financial statements of Porsche AG have been prepared in accordance with German accounting standards (HGB) and are published in the Bundesanzeiger (Federal Gazette) and filed with the commercial register of the Stuttgart district court. They can be obtained from Porsche AG, Financial Press and Investor Relations, Porscheplatz 1, 70435 Stuttgart.

Income Statement of Dr. Ing. h.c. F. Porsche AG for the Period from August 1, 2005 to July 31, 2006

	2005/06 T€	2004/05 T€
Sales	**6,115,824**	**5,381,054**
Changes in inventories and own work capitalized	59,805	63,324
Total operating performance	**6,175,629**	**5,444,378**
Other operating income	765,316	134,949
Cost of materials	– 3,155,361	– 2,892,995
Personnel expenses	– 802,392	– 717,822
Amortization and depreciation	– 324,772	– 330,196
Other operating expenses	– 1,482,797	– 897,605
Income from investments	506,814	89,047
Interest income, net	– 14,437	45,923
Write-downs of securities	0	– 3,679
Profit from ordinary activities	**1,668,000**	**872,000**
Taxes	– 414,000	– 344,000
Net profit	**1,254,000**	**528,000**
Transfer to retained earnings	– 627,000	– 264,000
Net profit available for distribution	**627,000**	**264,000**

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