Annual Report 98

PUMA®

Our Mission is to
Become one of the Most
desirable Performance Sports Brands
in the World

		1998	1997	Deviation
Net sales	**DM m.**	**591.7**	**547.1**	**8.1%**
- Footwear	DM m.	396.1	379.0	4.5%
- Apparel	DM m.	167.8	142.9	17.4%
- Accessories	DM m.	27.8	25.2	10.2%
Gross profit	**DM m.**	**211.7**	**200.1**	**5.8%**
- in %		**35.8%**	**36.6%**	
Income from operations	**DM m.**	**9.2**	**71.0**	**-87.1%**
- in %		**1.5%**	**13.0%**	
Profit before tax [1]	**DM m.**	**6.7**	**73.2**	**-90.8%**
- in %		**1.1%**	**13.4%**	
Net Income	**DM m.**	**7.9**	**67.8**	**-88.3%**
- in %		**1.3%**	**12.4%**	
Shareholders' equity	**DM m.**	**191.0**	**189.0**	**1.0%**
Working capital [1]	**DM m.**	**138.0**	**136.1**	**1.4%**
Cash flow, gross	**DM m.**	**19.4**	**79.5**	**-75.6%**
Cash flow provided by operating activities	**DM m.**	**-0.032**	**-14.5**	**-99.8%**
Cash and cash equivalents	**DM m.**	**69.4**	**69.3**	**0.2%**
Income per share	**DM**	**0.51**	**4.40**	**-88.3%**
Shareholders' equity per share	**DM**	**12.41**	**12.28**	
Stock exchange rate at year end [2]	**DM**	**22.00**	**36.40**	**-39.6%**
Stock exchange value	**DM m.**	**338.6**	**560.2**	**-39.6%**
Number of shares	**million**	**15.390**	**15.390**	

1) In 1998 before special effects
2) closing rate at the stock exchange Frankfurt am Main

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Jochen Zeitz

Dear shareholders, customers and employees

1998 was a difficult year. We began the year knowing that our investment plan would lead to significantly lower earnings. As early as November 1997 we informed our shareholders of our plan to make short-term sacrifices to benefit from a better quality product and strengthened brand identity in the future. We did not anticipate that the market conditions would decline so dramatically to have an additional affect on our result and earnings. And, that swift corrective action was necessary in quarter 4 to adjust to the new market parameters.

What the results do not show is the strengthening of company and brand over the last year and the wealth of new ideas generated. In the last few months, positive signs have become evident that do not register on the balance sheet but will help build brand momentum in future years. We will continue to invest against the market trend and take further steps towards our mission: to become one of the most desirable performance sports brands in the world.

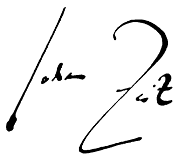
In 1998 we have added a new energy to our sports endorsement portfolio. Serena Williams, Vince Carter, Oscar de la Hoya and Japheth Kimutai are examples of young, exciting athletes who capture the imagination of our target market. Agreements with the NFL, through LOGOATHLETIC, and the WTA are further proof of our sports performance credentials.

Investment in creative and technical expertise in 1998 improved our ability to develop a new level of product and to present unique performance technologies.

We have built a great team and spirit in the United States with which we can seriously attack the market, giving us access to the 50 % of the world sports trade that we have previously left untouched. The proportion of my time I have spent in the United States recently is equal to its importance to the brand.

We cannot expect a market turnaround in 1999. Markets in Latin America, Eastern Europe and Asia, with the exception of Japan, will continue to pressure our earnings. However, in some key markets - the US and Western Europe especially - the brand momentum will accelerate.

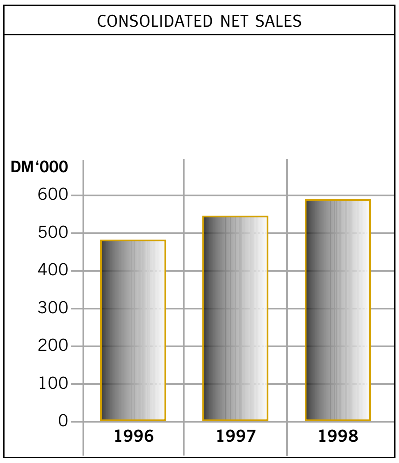
By focusing and maintaining our investment, we will encourage the markets where PUMA operations have proven that they can efficiently convert the global plan into local success. Other markets, like Germany and UK will have to improve. Swift action will address problems in markets not performing to standard. And, with new technologies and enhanced procedures, we intend to prepare our global organisation for the new millenium.

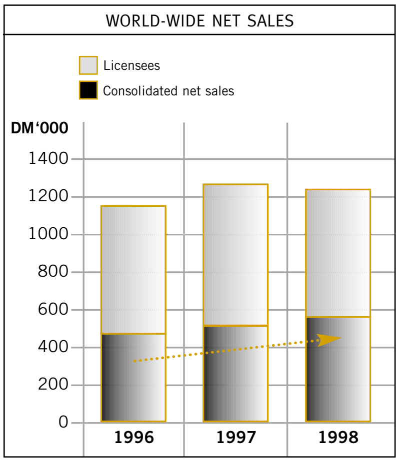


Jochen Zeitz

Report of the Board of Management

HIGHLIGHTS





In the 1998 financial year, after four consecutive years with record results, PUMA introduced Phase II of its corporate development plan based on aggressive investment. As announced, PUMA has markedly increased its investments in advertising and promotional activities in order to strengthen the brand in the long term. As planned, the realization of these measures in conjunction with the associated investments reduced the 1998 results by DM 53.0 million. These investments have had a positive effect on sales, particularly within the US market, where a sales increase of 74 % was achieved in 1998. PUMA will benefit from these investments in the long run by sound and profitable growth.

The announcement of PUMA's heavy investment phase, the economic downturn in Asia, Latin America and Eastern Europe, as well as the general slowdown within the sporting goods industry, led to further pressure on results. Therefore, initial expectations for 1998 were not fulfilled.

As a result of the changed market situation, PUMA decided to restructure its operations. The restructuring charge and other one-time expenses associated with the difficult market environment, affected the results in the fourth quarter of 1998. Nevertheless, this is expected to show a positive impact as early as 1999. The one-off charge was counterbalanced by an extraordinary tax income from the capitalization of existing tax losses carried forward.

PUMA will continue to work towards becoming one of the most desirable performance sports brands in the world.

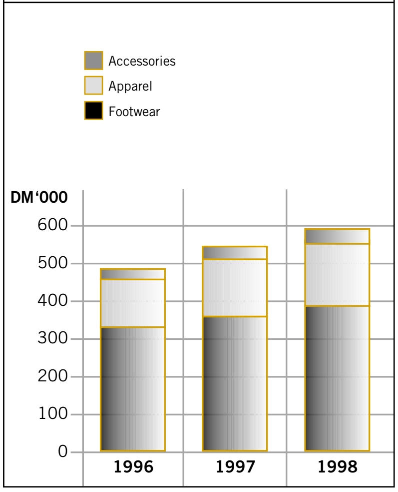
Highlights

- Consolidated net sales increased by 8.1 %, from DM 547.1 million to DM 591.7 million
- World-wide turnover including licensees decreased by 2.3 % from DM 1,295.7 million to DM 1,266.3 million due to the decline in Asia
- US turnover rose by approximately 74 % currency-adjusted
- Sales increase in apparel 17.4 % - a 28.4 % (26.1 %) proportion of consolidated sales
- Gross profit margin declined from 36.6 % to 35.8 % due to difficult market environment
- As planned, the increase in expenses for marketing (from 10.3 % to 15.8 % of net sales) and product development (from 2.6 % to 5.0 % of net sales) reduced the bottom line results by a total of DM 53.0 million
- Financial crises and difficult market situation place an additional pressure on results
- One-off restructuring charge was compensated for by deferred tax income
- Net earnings per share DM 0.51 /EUR 0.26 (DM 4.40 /EUR 2.25)
- Dividend level remains unchanged with a total of DM 3.1 million

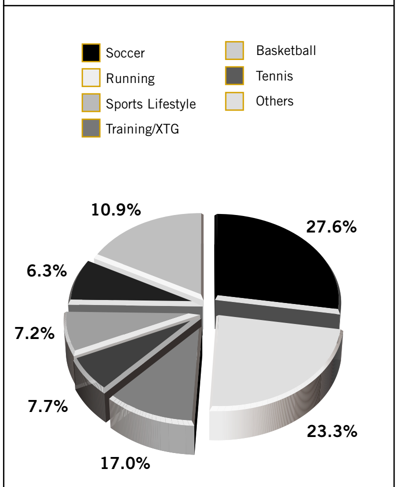
Management Income Statement

	January 1 - December 31, 1998						January 1 - December 31, 1997						Deviation in %		
	World-wide		Licensees		PUMA Group		World-wide		Licensees		PUMA Group		World-wide	Licensees	PUMA Group
	Mio.DM	%	Mio.DM	%	Mio.DM	%	Mio.DM	%	Mio.DM	%	Mio.DM	%	%	%	%
Net sales by region															
Western Europe	566.1	44.7	220.4	32.7	345.7	58.4	558.9	43.1	227.0	30.3	331.9	60.7	1.3	-2.9	4.1
Eastern Europe	44.6	3.5	12.9	1.9	31.7	5.3	42.0	3.2	14.2	1.9	27.8	5.1	6.1	-9.1	13.9
America	172.4	13.6	54.3	8.0	118.1	20.0	162.1	12.5	65.7	8.8	96.4	17.6	6.4	-17.3	22.5
Asia/Pacific	450.1	35.5	376.2	55.8	73.8	12.5	505.6	39.0	428.9	57.3	76.7	14.0	-11.0	-12.3	-3.8
Africa/Middle East	33.1	2.6	10.7	1.6	22.4	3.8	27.0	2.1	12.8	1.7	14.2	2.6	22.5	-16.2	57.3
Total	1.266.3	100.0	674.6	100.0	591.7	100.0	1.295.7	100.0	748.6	100.0	547.1	100.0	-2.3	-9.9	8.1
Net sales by product segments															
Footwear	632.1	49.9	236.0	35.0	396.1	66.9	646.4	49.9	267.4	35.7	379.0	69.3	-2.2	-11.7	4.5
Apparel	537.6	42.5	369.8	54.8	167.8	28.4	534.5	41.3	391.6	52.3	142.9	26.1	0.6	-5.6	17.4
Accessories	96.6	7.6	68.8	10.2	27.8	4.7	114.8	8.9	89.6	12.0	25.2	4.6	-15.9	-23.2	10.2
Total	1.266.3	100.0	674.6	100.0	591.7	100.0	1.295.7	100.0	748.6	100.0	547.1	100.0	-2.3	-9.9	8.1
Cost of Sales															
Footwear					256.0	64.6					242.1	63.9			5.8
Apparel					106.8	63.6					90.1	63.1			18.5
Accessories					17.1	61.7					14.9	59.1			15.1
Total					380.0	64.2					347.1	63.4			9.5
Gross Profit															
Footwear					140.1	35.4					136.9	36.1			2.3
Apparel					61.0	36.4					52.8	36.9			15.6
Accessories					10.6	38.3					10.3	40.9			3.1
Total					211.7	35.8					200.0	36.6			5.9
Royalty and commission income					48.0	8.1					50.6	9.2			-5.2
Gross Profit including royalty and commission income					259.7	43.9					250.6	45.8			3.6
Selling, general and administrative expenses															
Marketing expenses					-93.6	-15.8					-56.1	-10.3			66.9
Expenses for product development					-29.7	-5.0					-14.2	-2.6			109.5
Other expenses					-127.2	-21.5					-109.4	-20.0			16.3
Total					-250.5	-42.3					-179.6	-32.8			39.4
Income from operations					9.2	1.5					71.0	13.0			-87.1
Financial result					-2.5	-0.4					2.1	0.4			-216.2
Profit before taxes and special effects					6.7	1.1					73.1	13.4			-90.8
Special effects															
One time expenses					-60.7	-10.3					0.0	0.0			
Deferred income taxes					65.3	11.0					0.0	0.0			
Total					4.6	0.8					0.0	0.0			
Current taxes					-4.6	-0.8					-5.5	-1.0			-16.8
Net income					6.7	1.1					67.7	12.4			-90.0
Minority interest					1.2	0.2					0.1	0.0			1073.0
Net income after minorities					7.9	1.3					67.8	12.4			-88.3
Number of shares					15.390						15.390				0.0
Net income per share (DM)					0.51						4.40				-88.3
Net income per share (EUR)					0.26						2.25				-88.3

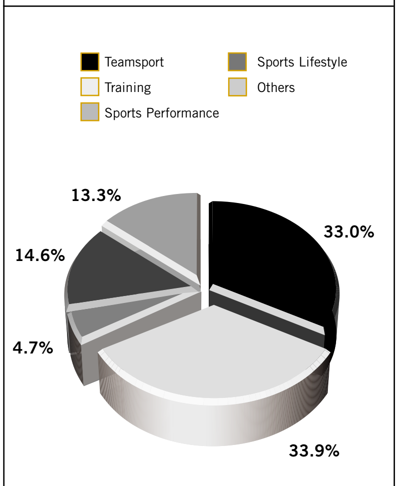
CONSOLIDATED NET SALES BY PRODUCT SEGMENTS



CONSOLIDATED NET SALES BY FOOTWEAR



CONSOLIDATED NET SALES BY APPAREL



Net sales

Consolidated net sales increased by 8.1 % from DM 547.1 million to DM 591.7 million despite the general industry slowdown. The following markets contributed to the growth and demonstrated a positive response to the investment plan: US, Australia, France, Italy and Switzerland. Currency adjusted, consolidated sales rose by 9.1 %.

In addition to consolidated sales, a substantial portion of worldwide turnover is handled by licensees, which are not consolidated. Total **worldwide brand sales,** including licensee sales, declined by 2.3 % from DM 1,295.7 million to DM 1,266.3 million. Currency adjusted, the decline was 1.2 %. The decline in license turnover was mainly due to the troubled market situation in Brazil and South-East Asia.

Product Sales

In 1998, footwear accounted for 66.9 % (69.3 %), apparel for 28.4 % (26.1 %) and accessories for 4.7 % (4.6 %) of **consolidated net sales**. The breakdown for **world-wide turnover** is: 49.9 % (49.9 %) footwear, 42.5 % (41.3 %) apparel and 7.6 % (8.8 %) accessories.

Consolidated **footwear** sales totaled DM 396.1 million in 1998, versus DM 379.0 million in the previous year, for an increase of 4.5 %. This growth is primarily due to the sports lifestyle product group, which has gained a particularly high acceptance in the USA.

Soccer and running shoes account for more than 50 % of footwear sales and are thus the most important contributors. In addition to the soccer and running product groups, sports lifestyle, basketball, tennis and cross training are strategically important sales carriers. Indoor and outdoor sports as well as other product groups with local or regional importance round out the overall footwear product range.

Worldwide footwear sales, including licensee sales, declined from DM 646.4 million to DM 632.1 million.

Consolidated **apparel** sales rose by 17.4 % from DM 142.9 million to DM 167.8 million and thus experienced another increase in sales revenue. The product groups include team sports, training, sports performance, sports lifestyle and other apparel. PUMA aims at increasing the apparel proportion to 40 % of consolidated sales within the coming years.

At DM 537.6 million, apparel sales, including licensee turnover, maintained the previous year's level.

Consolidated **accessories** sales increased from DM 25.2 million to DM 27.8 million, or by 10.3 %. Team sports articles such as bags, balls, goalkeeper gloves, shinguards and other equipment were the most important product categories.

Worldwide, accessories sales amounted to DM 96.6 million in comparison to DM 114.8 million in the previous year.

Regions

As part of the reorganization in 1998, PUMA now categorizes sales by the following regions: Western Europe, Eastern Europe, America, Asia/Pacific and Africa/Middle East. PUMA subsidiaries service mainly the key markets which include Western Europe, North America and Australia. These regions have a direct effect upon consolidated sales. Asia and Latin America, on the other hand, are largely license markets.

In 1998, the Western Europe region contributed 58.4 % (60.7 %), Eastern Europe 5.3 % (5.1 %), America 20.0 % (17.6 %), Asia/Pacific 12.5 % (14.0 %) and the Africa/Middle East region 3.8 % (2.6 %) of **consolidated net sales.**

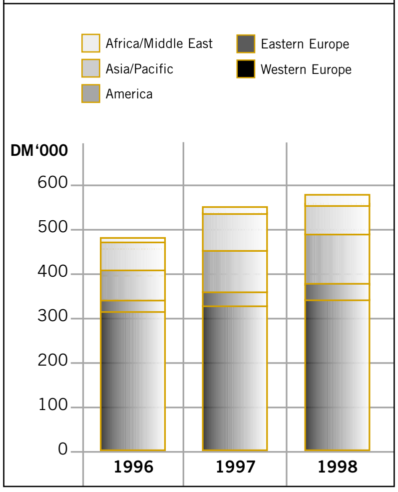
Including the licensees' turnover, **world wide brand sales** were as follows: Western Europe 44.8 % (43.2 %), Eastern Europe 3.5 % (3.2 %), America 13.6 % (12.5 %), Asia/Pacific 35.5 % (39.0 %) and the Africa/Middle East region 2.6 % (2.1 %) .

Consolidated net sales in Western Europe increased by 4.1 % from DM 331.9 million to DM 345.7 million, whereby double-digit growth rates were achieved in France, Italy and Switzerland. Sales in other European countries either increased only slightly or maintained the previous year's level.

As one of the most important markets in Western Europe, **Great Britain** is serviced by a distributor/licensee. PUMA intends to take over the operative business during the year 1999 and set up a subsidiary company for this market. Great Britain, however, will only have a partial impact on the PUMA Group since footwear sales were already included in AG sales, as distribution turnover.

In 1998 **Eastern Europe** was reported as a separate sales area for the first time, for which responsibility is assumed by PUMA Austria. Despite the difficult market situation throughout this region, consolidated sales increased from DM 27.8 million to DM 31.7 million, which corresponds to an increase of 13.9 %. A significant improvement was recognizable in Poland during mid-1998, where the new PUMA Polska took over distribution responsibility from the former distributor as a fully owned subsidiary of Austria PUMA Dassler Ges.m.b.H. In all, however, sales expectations for Eastern Europe have not been met.

CONSOLIDATED NET SALES BY REGIONS

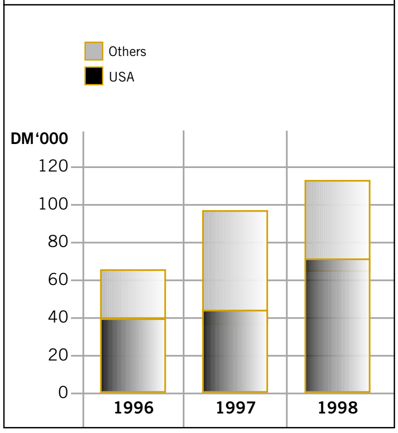


Sales in the **Asia/Pacific** region declined by 3.8 % from DM 76.7 million to DM 73.8 million. PUMA Australia, which is also responsible for the Pacific region, contributed considerably to consolidated sales. An increase of about 10 %, currency adjusted was achieved in Australia. As a result of the Australian dollar being markedly weaker than the year before, sales proceeds in DM remained at the previous year's level.

Including the markets in South-East Asia and Japan, which are serviced by licensees, sales under the PUMA brand in this region declined by 11.0 % from DM 505.6 million to DM 450.1 million. In Japan, PUMA's largest single market, sales remained at the previous year's level.

A former licensee in South-East Asia suffered substantial financial losses through the Asian crisis and PUMA subsequently terminated the agreement at the end of June 1998. New license agreements covering six countries were concluded in October 1998.

NET SALES IN THE AMERICAS



Consolidated sales in the **America** region improved by 22.5 % from DM 96.4 million to DM 118.1 million. This improvement is attributed to sales growth in the US, as Latin America experienced declining sales.

Sales in the US rose by about 74 % to USD 44.1 million, whereby both footwear and apparel are on an upward trend. Increased product and marketing efforts are beginning to bear fruit, permitting the first increase in sales since 1994. In the coming years, PUMA will continue to gear its efforts toward the largest worldwide market for sporting goods, aiming at using existing potential and increasing market share in the long term.

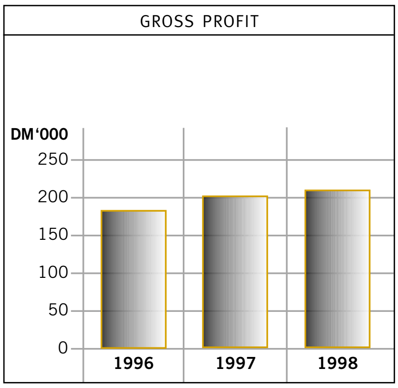
In July 1998, PUMA acquired a stake in LOGOATHLETIC, Inc., based in Indianapolis, Indiana, USA. For 25 years, this company has been one of the leading licensees of US American sports leagues, such as the National Football League (NFL), Major League Baseball (MLB), National Basketball Association (NBA) and the National Hockey League (NHL).

In addition to this financial stake, PUMA has granted LOGOATHLETIC license rights. This will permit LOGOATHLETIC to market PUMA license products in the US market, particularly for the NFL. This cooperation will provide further positive impetus for PUMA in the USA, as of the beginning of the second half of 1999. In all, 11 of the 34 teams in the NFL will use PUMA products as of the 1999/2000 season. Furthermore, this co-operation has served to gain entry into traditional American sports and underscores the PUMA image as an authentic performance sports brand within the American market.

In the **Africa/Middle East** region, consolidated net sales increased by 57.3 % from DM 14.2 million to DM 22.4 million. Distribution responsibility for these markets has been assumed by the Austrian subsidiary since January 1, 1998.

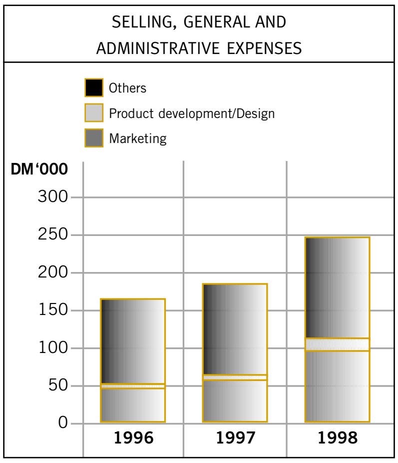
Profitability

Gross profits increased by 5.8 % from DM 200.1 million to DM 211.7 million. The gross profit margin declined from 36.6 % to 35.8 % from the previous year. As a consequence of the difficult market and industry environment, the gross profit margin was effected as realizable sales prices declined. In addition, excess inventories resulted in higher close-out sales compared to prior years. Nevertheless, a gross profit margin increase is expected for 1999.



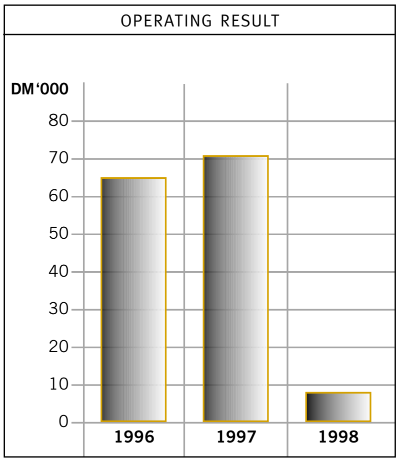
Royalty and commission income declined by 5.2 % from DM 50.6 million to DM 48.0 million, almost exclusively as a result of the critical South-East Asian region.

In 1998 **selling, general and administrative expenses**, including depreciation, increased markedly by DM 70.9 million to DM 250.5 million compared to DM 179.6 million in 1997. The increase is mainly associated with the significant rise in marketing and product development investments of DM 50.0 million.
Marketing expenses increased by 66.9 % from DM 56.1 million to DM 93.6 million, which is 15.8 % of net sales (in 1998) as against 10.3 % (in 1997). Investments in the fields of **product development and design** were further extended in 1998 from 2.6 % to 5.0 % of net sales and have almost doubled.
Other selling, general and administrative expenses, netted against other operating income, increased from DM 109.4 million to DM 127.2 million; the previous year's amount was positively influenced by higher other operating income.



Operating results declined from DM 71.0 million to DM 9.2 million; as a percentage of net sales, this equals 1.5 % in comparison to 13.0 % in the previous year.

The **financial result** changed from positive DM 2.1 million to negative DM 2.5 million. This item includes the interest result as well as the participation result of associated companies. In the interest result, interest income of DM 3.4 million (DM 5.0 million) compared to interest expenses to the amount of DM 3.9 million (DM 2.9 million). The change in interest result is caused by a higher utilization of credit lines due to higher working capital and the outflow of funds for the investment in LOGOATHLETIC, Inc. The participation result of DM -1.8 million refers to the result proportion of LOGOATHLETIC, Inc. after adjustment due to the valuation in accordance with PUMA`s uniform accounting and valuation principles.



The **result before taxes and special effects** declined from DM 73.1 million to DM 6.7 million. The gross yield in 1998 was 1.1 %. compared to 13.4 % in 1997.

Special effects from structural adjustments and tax income from tax deferrals. The 1998 result was influenced by special effects, whereby one-off restructuring charge and other expenses associated with the general market downturn (DM 60.7 million) were off-set by a one-off tax income from deferred taxes (DM 65.3 million) in connection with the first time application of IAS 12 (revised). The composition of one-off expenses and tax income is explained in ”Structural adjustments/Restructuring“ (page 17) and ”Deferred taxes“ (page 16).

Current income tax declined from DM 5.5 million to DM 4.6 million. The taxes largely concern withholding tax on foreign royalties at the AG, and income tax at some subsidiaries.

The **net income** including special effects declined from DM 67.7 million to DM 6.7 million. **Net income after minority interests** amounts to DM 7.9 million in 1998 in comparison to DM 67.8 million in 1997, or a net yield of 1.3 % (12.4 %).

Net income per share was DM 0.51 (EUR 0.26) in 1998, in comparison to DM 4.40 (EUR 2.25) in 1997.

Dividend payment

The Board will propose a dividend of 4 % nominal or DM 0.20 per share for 1998 to the shareholders at the Annual General Meeting. This represents a total of DM 3.1 million. The proposal is based on the level of the previous year and anticipates better results in 1999.

Net worth and financial position/generation of capital

Overall, the Company's net worth and financial position is assessed as positive. The balance sheet total increased by 26.2 % from DM 345.4 million to DM 436.0 million, in particular due to the first-time capitalization of deferred taxes (DM 65.3 million). Total equity amounts to DM 191.0 million as against DM 189.0 million in the previous year. The equity ratio was 43.8 % (54.7 %).

On December 31, 1998, **net liquid funds** (balanced with bank debts) amount to DM 15.3 million. The working capital, without the impact of special effects from restructuring, changed from DM 136.1 million to DM 138.0 million, or from 24.9 % to 23.3 % of net sales. Including the commitments from the structural measures taken and one-off expenses which are mainly reflected in other short term liabilities, the working capital amounts to DM 97.2 million. (DM 136.1 million or 16.4 % (24.9 %).

Inventories increased by DM 9.7 million or 8.5 % to DM 124.0 million; inventories grew markedly at the US subsidiary due to the large growth in sales and the favorable orders position for deliveries in the first quarter of 1999. Excluding inventories for the US, inventories were reduced by 2.5 %.

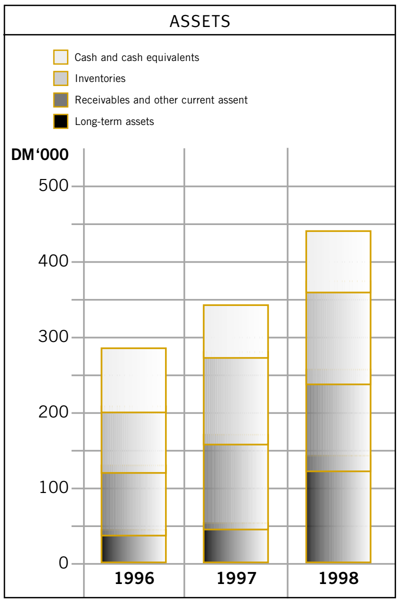
At DM 119.9 million, **receivables and other short-term assets** were at the previous year's level (DM 119.4 million).

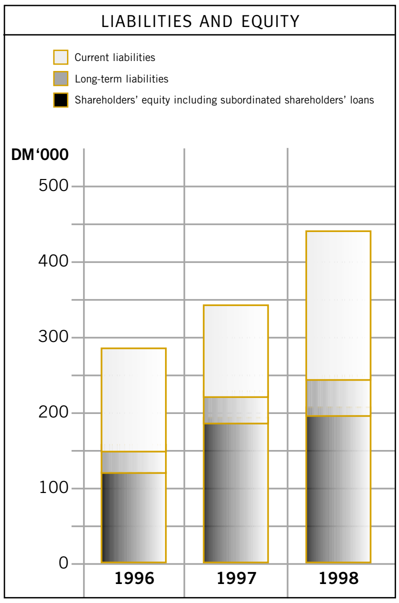
Tangible fixed assets declined from DM 38.7 million to DM 37.9 million. Investments to the amount of DM 10.3 million compared to disposals and depreciation of (net) DM 11.1 million. **Other long-term assets** increased from DM 3.8 million to DM 19.5 million, largely as a result of the participation (22.3 %) in LOGOATHLETIC, Inc. which was acquired in 1998.

In the 1998 financial year, the Company's **cash flow** before changes in working capital amounted to DM 19.4 million (DM 79.5 million). Taking the changes in working capital, including interest and tax payments as well as the one off expenses already paid in 1998 into account, the **cash flow provided by operating activities** was DM -0.032 million (previous year: DM -14.5 million).

A total amount of DM 23.7 million was spent on investments, of which DM 19.4 million were used for the acquisition of the participation in LOGOATHLETIC.

The resources required were financed by raising short-term bank loans (DM 31.0 million). Financial resources (cash and cash equivalents) as at December 31, 1998 changed only insignificantly in comparison with the previous year from DM 69.3 million to DM 69.4 million.





Structural adjustments/restructuring

In order to adapt to the industry slowdown, PUMA decided to restructure its operations in 1998. The one-off restructuring charge affected the result in 1998, however, it is an essential precondition for further extending PUMA's market position in a highly competitive sporting goods market.

The structural changes concern the following areas:

<u>Expenses for restructuring:</u>
Due to the unsatisfactory development in Germany, the Profit Center PUMA Germany was restructured. It has assumed clear responsibility for itself, independent of the international organization. Adjustments in Chile and Canada were also necessary. Furthermore, existing promotional contracts were renegotiated or adjusted in line with the change in current market value.

<u>Decentralization of international sales:</u>
Previously, international sales responsibility was assumed centrally. It has now been relocated to the respective regions in order to be closer to the market. In addition to PUMA Austria, which is responsible for Eastern Europe and Africa/Middle East, PUMA North America will be responsible for Latin America. The distribution responsibility for the Asia/Pacific region was transferred to Japan and Australia, while responsibility for Western Europe remains in Germany.

<u>Independent sourcing organization in Europe:</u>
In addition to the existing sourcing organization, World Cat in Asia, which is responsible for production in the Far East, the procurement area Europe will be an independent organization within PUMA AG, known as World Cat Europe.

In all, the one-off restructuring charge and risk provisions amount to DM 60.7 million (or DM 3.95 per share) which can be compensated for by a one-off tax benefit.

The one-off restructuring charge is as follows:

• Restructuring expenses	12.4 DM m.
• Current assets adjustments	14.0 DM m.
• Expenses from promotion contracts	15.5 DM m.
• Expenses for cancellation or restructuring of various license and distribution agreements	9.4 DM m.
• Other expenses and risk provision	9.4 DM m.
Total:	**60.7 DM m.**

Deferred taxes

As at December 31, 1998/January 1, 1999, PUMA's tax loss carry-forwards amount to DM 137 million, of which DM 80 million are in Germany, and DM 25 million in the USA. The remaining amount is spread over the subsidiaries in various countries. Until and including the 1997 financial year, in accordance with International Accounting Standards, there was an option to capitalize the resulting tax benefit. According to IAS 12 (revised), it is now required that tax benefits be recorded on the 1998 balance sheet if the use of the losses carried forward is likely.

In addition to the loss carry-forwards already mentioned, temporary valuation differences between the tax valuation and valuation according to IAS were drawn upon in order to determine deferred taxes. As far as active deferred taxes on losses carried forward before January 1, 1998 were concerned, the option was exercised to disclose these in the 1998 income statement. Total tax benefit was DM 65.3 million.

The assets item thus set up is depreciated through setting off against profits arising in subsequent years. The income statement thus shows, beginning with the year 1999, an imputed tax expense. The expected average tax rate will be between 40 % and 45 %. No outflow of funds is connected with this. Tax payments in the respective countries are not made before the asset item is fully depreciated through future profits and the resulting tax liability.

The Year 2000

The major accounting and management information systems within the PUMA Group have been made Year 2000 compatible. All adjustments will be completed in the current year in order to ensure the smooth transition of the Year 2000 conversion for the processing of financial and operational data and operating procedures.

Expenses incurred for the aforementioned adjustments will not have any material effect on the PUMA earnings situation. Services already rendered in this respect have been recognized in the 1998 financial statements.

Tests as to whether suppliers' and distributors' computer systems meet the demands for Year 2000 compatibility are currently being made. At present, it is not yet possible to come to a final assessment of the problems that may be incurred here. It is, however, realistic to assume that all necessary measures are and will be taken in order to exclude potential risks in due time.

Introduction of the Euro

The introduction of the new single currency "Euro" came into effect on January 1, 1999. Until December 31, 2001 the respective national currencies remain sub-currencies until, after an expected transition period of six months, the national currencies lose validity. During the transition period from January 1, 1999 to December 31, 2001, at latest, however, on December 31, 2001, all local currencies must be converted to Euro.

PUMA has set up a working group to co-ordinate the measures geared at the Group-wide conversion to the Euro. In addition to conversion from local currency to the Euro, the harmonization of prices within the European states is the most important task of the working group. From a current point of view, smooth transition operations seem to be ensured.

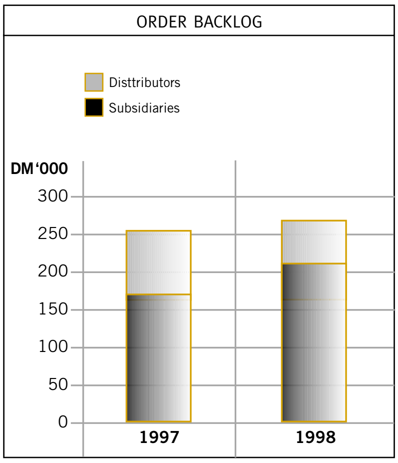
According to plan, PUMA has been able to process transactions in Euro since January 1, 1999. PUMA plans the conversion from local currency to Euro to take place at the turn of the year.

OUTLOOK

Order backlog

The order backlog as of December 31, 1998 was DM 261.2 million, or 1.9 % above last year. The order backlog of PUMA companies increased by 23.2 %. However, orders from third party distributors declined.

The development clearly shows that PUMA is successful with its strategic investments in connection with the required financial strength. The strongest growth in orders of more than 100 % was reported from the strategically important US market. A very favorable trend in orders was also experienced in France, Benelux, Italy, Switzerland and Austria. In Germany, the portfolio remained unchanged as against the previous year.

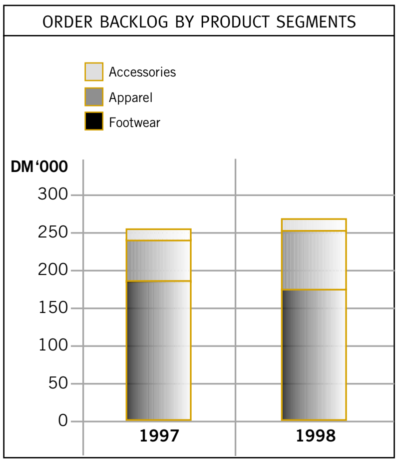


Subsidiary in Great Britain

Besides America, Europe is the most important region. As a part of strategic reorientation, it was decided to include the operating activities in Great Britain in a new subsidiary. Previously, this market has been served by a distributor (shoes) and licensee (apparel and accessories).

The fully owned subsidiary "PUMA UNITED KINGDOM LTD" will take over responsibility for distribution in 1999. The available net assets and the entire infrastructure will be taken over from the previous partner in order to ensure continuance of operations. The operating business will be integrated into the PUMA Group during the year 1999.

The take-over will only have a partial effect on sales since the distribution sales (shoes) have already been invoiced via PUMA AG, and were included in consolidated sales. The sales proportion concerning apparel and accessories will have a positive impact on consolidated sales. In accordance with the PUMA strategic orientation and the current market situation in Great Britain, further marketing investments will be necessary with respect to the new subsidiary. A positive contribution to earnings in the first year of consolidation is unlikely.



Outlook

Improvement in sales and earnings expected

Although an improvement in the sporting goods market is again unlikely in 1999, PUMA expects a growth in sales of at least 15 % through the continuation of brand investments. Increases are planned to take place in the USA in particular, at some European subsidiaries and through the extension of the consolidated group by the newly founded PUMA UNITED KINGDOM LTD. The gross profit margin is expected to improve in comparison to 1998.

Marketing expenses to be incurred in 1999 will again exceed the industry average. In terms of percentage of sales, however, a slight decline is expected. Expenses for product development will continue to be on a high level.

In all, PUMA expects a distinct improvement in operating results.

By maintaining its high investments in marketing and product development, PUMA continues to aim to become one of the most desirable performance sports brands in the world.

The PUMA share

In all, the stock market developed favorably in 1998 after considerable turmoil in the world financial markets. The German stock index (Deutsche Aktienindex = DAX) increased by approximately 18 %, from 4,249 to 5,002 points.
The Midcap German stock index (MDAX) developed less significantly and grew by 3,023 points at year-end closing, which is 6 % more than at the closing of the previous year.

Declining developments with respect to the stock exchange index were recorded in the entire sporting goods industry. Triggered off by the changed market and industry environment, expectations were not met in the overall sporting goods industry. Parallel to this trend, corrective price adjustments to the shares of sporting goods suppliers were made. Share performance in the sporting goods industry lost approximately 13 % in comparison with the previous year-end closing (source: Merrill Lynch).

PUMA shares were faced with a price loss of approximately 40 % in the course of the year. In the first weeks of the current year, PUMA values again increased by more than 20 %.

PUMA expects a distinct improvement in performance in 1999. In the long term, PUMA is consistently pursuing its objective of becoming one of the most desirable performance sports brand in the world. As a result, earnings power will experience sustained improvement and shareholder value will also see an increase over the longer term.

Investor relations

At PUMA, investor relations are an important element of the shareholder value concept. Providing shareholders and potential investors with comprehensive and early information about all important events in the Company is a matter of course. In 1997, for example, the public was informed early about the planned investment program. The unexpected deterioration in performance as well as the resulting restructuring measures in the fourth quarter of 1998 were also communicated immediately. By means of an open investor relations strategy, PUMA permits the capital market to make timely adjustments to changing situations.

Shareholders are given regular information about the situation and performance of the Company through quarterly reports, press releases, the Company Annual Report and on the Internet at puma.com. The information needs of institutional investors and financial analysts are additionally taken into account by individual and group talks and telephone conferences which are held at regular intervals.

Suggestions and ideas for further improvement of investor relations are highly appreciated. Contact: PUMA AG, Investor Relations, Herzogenaurach, Phone: ++49/(0)9132 81 0.

The analysts meeting (DVFA) and the press conference for the financial year will take place on March 12, 1999. The Shareholders Meeting will be held at the Company's premises on May 5, 1999 (Herzogenaurach) .

Analysts' reports

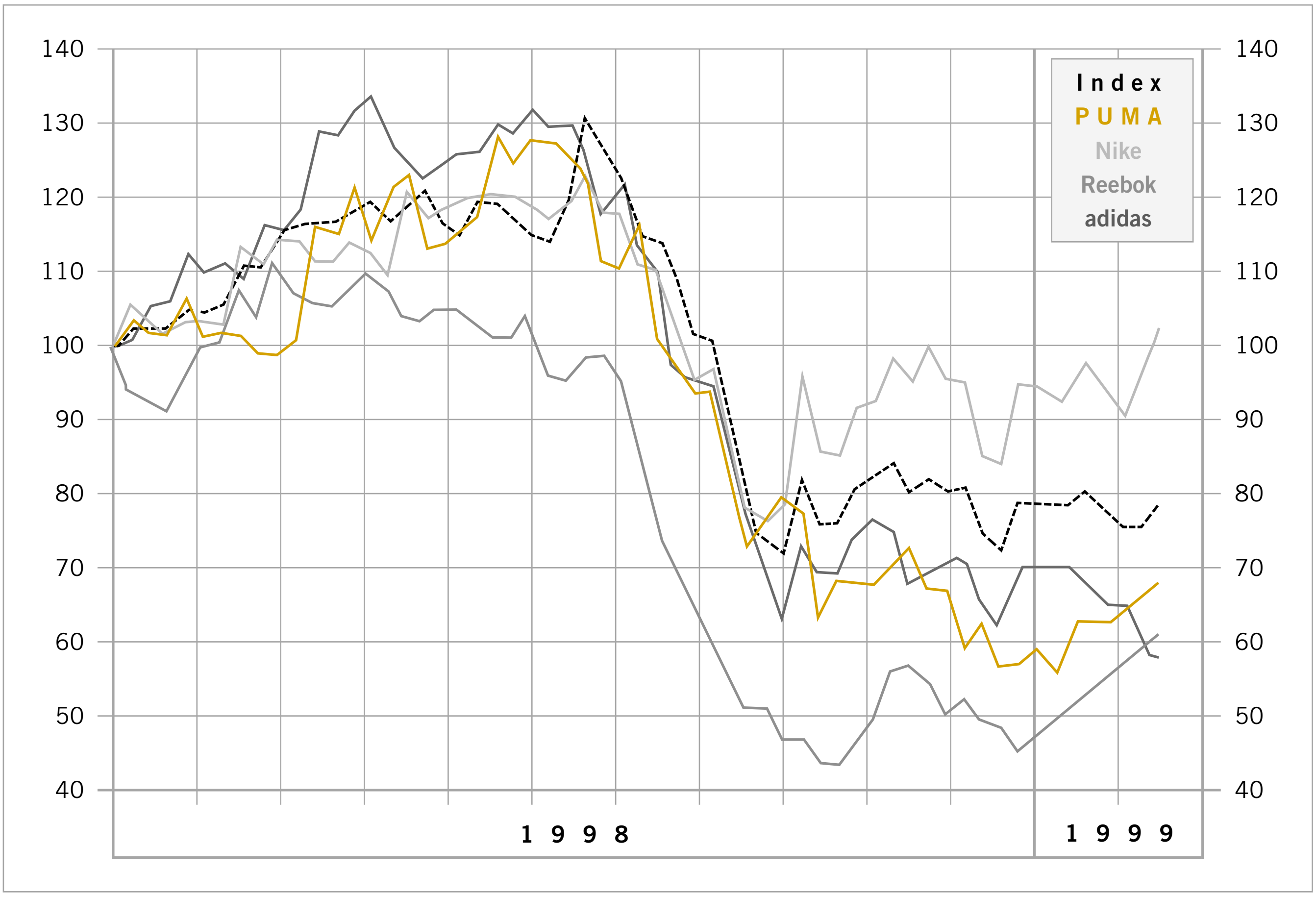
The following financial analysts or companies published reports on PUMA in 1998: Goldman Sachs & Co., Deutsche Morgan Grenfell, Merrill Lynch, Banque Paribas, Cazenove & Co., Enskilda Securities, Oppenheim Finanzanalyse GmbH, SG Securities (London), Commerzbank, Morgan Stanley and ABN Amro.

Key data per PUMA share in DM (IAS)

	1998	1997	1996	1995	1994	1993
End of year price	22.00	36.40	52.20	36.00	29.20	15.15
Highest price Listed	50.50	67.40	57.30	44.60	37.60	21.00
Lowest price Listed	21.95	36.10	37.00	29.20	15.30	15.00
Income per share [1]	0.51	4.40	3.88	3.44	2.08	-5.15
Cash flow per share [2]	0.00	-0.94	4.95	2.52	6.38	-0.10
Shareholders' equity per share	12.41	12.28	7.83	-1.90	-5.34	-7.41

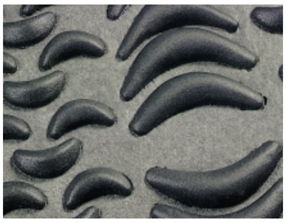
1) In 1996 adjusted for extraordinary income
2) Cash flow provided by operating activities

Share performance INDEX sporting goods industry (source: Merryll Lynch)



The Company

Brand, Product and Marketing



Brand
In 1998 PUMA strengthened its brand profile through targeted investments in product development and marketing, and it continues to pursue its strategy of becoming one of the most desirable performance sports brands worldwide.

Product
By doubling its product development budget from 2.6 % of sales in 1997 to 5 % in 1998 PUMA was able to develop and optimize product concepts such as CELLERATOR and KING for soccer. New functional materials and technologies have been introduced in apparel, footwear and accessories. For example: The CELL midsole technology that has been developed over the last 10 years offers enhanced stability and cushioning comfort. The powerframe technology in CELLERATOR footwear provides unique benefits to the player and compelling sales stories for the retailer.

In order to increase competence and expertise in the product area, PUMA will continue to invest in human resources; and expand its design and development centres in the Far East, the USA and in Germany.

USP (Ultimate Sports Performance) fabric technologies have transformed apparel ranges into intelligent equipment for optimum sports performance. In 1999, soccer, running and training lines are being produced with innovative materials which draw off moisture from the skin; and thus are an optimal means to regulate body heat, as well as provide protection from the elements.

Marketing
Continued strong investments in marketing and communication in 1998 created a greater momentum for the brand. Marketing costs increased from 10 % of sales in 1997 to almost 16 % in 1998.

The increased brand presence at the World Cup in France, with 22 % of the individual players and a total of five PUMA teams, was accompanied by an international communications campaign featuring the CELLERATOR soccer concept.

In running and athletics, PUMA athletes excelled in major events televised around the world. Major new contracts with champion athletes, including Daniel Komen, Wilson Kipketer, Moses Kiptanui and Japheth Kimutai, underscored PUMA's ascendance within middle distance track athletics.

PUMA and the WTA (Women's Tennis Association) tour have agreed on a long-term contract which makes PUMA „Official Worldwide Tennis Shoe and Tennis Apparel Company of the W.T.A. Tour". PUMA is the presenting sponsor of the WTA tour on EUROSPORTíS television broadcasts across Europe.

PUMA also contracted the NBA's number five draft pick, Vince Carter in 1998. Carter started his career with the Toronto Raptors in February 1999.

PUMA's brand anthem TV commercial for Spring 1999 stars Oscar de la Hoya, Didier Deschamps, Serena Williams, Wilson Kipketer, and Kien Lieu, as young, energetic athletes who perfectly project the new personality of the brand.

Consolidated Financial Statements

IAS

International Accounting Standards

Consolidated Balance Sheets

	Notes	Dec. 31, 1998 DM '000	Dec. 31, 1997 DM '000
ASSETS			
Cash and cash equivalents	3	69,400	69,275
Inventories	4	123,990	114,274
Receivables and other current assets	5	119,867	119,440
Total current taxes		**313,257**	**302,989**
Deferred income taxes	6	**65,339**	**0**
Property and equipment, net	7	**37,874**	**38,663**
Goodwill and other long-term assets	8	**19,505**	**3,795**
		435,975	**345,447**

	Notes	Dec. 31, 1998 DM '000	Dec. 31, 1997 DM '000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term bank borrowings	9	54,096	26,167
Accounts payable		47,694	32,097
Other current liabilities	10	98,967	65,499
Total current liabilities		**200,757**	**123,763**
Pension accruals	11	**24,095**	**23,429**
Other long-term liabilities	12	**19,210**	**7,029**
Minority interest	13	**910**	**2,194**
Subscribed capital PUMA AG		76,950	76,950
Reserves PUMA AG		62,956	89,139
Accumulated profit brought forward		51,097	22,943
Shareholders' equity	14	**191,003**	**189,032**
		435,975	**345,447**

Consolidated Income Statements

	Notes	1998 DM '000	1997 DM '000	1996 DM '000
Net sales	15	591,662	547,104	489,863
Cost of sales		-379,950	-346,988	-305,957
Gross Profit		211,712	200,116	183,906
Royalty and commission income		47,953	50,560	49,868
		259,665	250,676	233,774
Selling, general and administrative expenses	16	-244,121	-173,358	-162,568
Depreciation and amortisation		-6,384	-6,280	-6,004
Income from operations before special effects		**9,160**	**71,038**	**65,202**
One-off charge	17	-60,739	0	0
Financial result, net	18	-2,464	2,120	-341
Profit before taxes		-54,043	73,158	64,861
Income taxes				
- current taxes	19	-4,555	-5,485	-5,132
- deferred income taxes	19	65,339	0	0
Extraordinary income	20	0	0	24,075
Net income		6,741	67,673	83,804
Minority interest		1,173	93	0
Net income after minorities		**7,914**	**67,766**	**83,804**
Net income per share (DM)		**0.51**	**4.40**	**5.45**
Net income per share (EUR)		**0.26**	**2.25**	**2.79**

Consolidated Statements of Cash Flow

	1998 DM '000	1997 DM '000	1996 DM '000
Operating activities:			
Profit before taxes	-54,043	73,158	64,861
Adjustments for:			
One time expenses	60,739	0	0
Depreciation and amortisation	8,184	6,280	6,004
Unrealised foreign exchange losses (gains), net	3,256	847	-544
Interest income	-3,405	-4,994	-2,848
Interest expenses	4,069	2,874	3,192
Gains on sales of property and equipment	-86	-24	-408
Increases in pension provision	666	1,377	2,350
Income from reversal of badwill	0	0	-1,435
Operating result before working capital changes	19,380	79,518	71,172
Increase (decrease) in receivables and other current assets	-8,465	-26,888	-13,352
Increase (decrease) in inventories	-25,452	-25,263	10,397
Increase (decrease) in accounts payable and other current liabilities	28,052	-33,461	18,705
Cash provided by operations	13,515	-6,094	86,922
Interest paid	-3,939	-2,874	-3,192
Income taxes paid	-4,555	-5,485	-5,132
One time expenses paid	-5,053	0	0
Cash flow provided by operating activities	**-32**	**-14,453**	**78,598**
Investing activities:			
Purchase of participations	-19,376	-1,091	-2,111
Purchase of property and equipment	-11,274	-6,860	-3,544
Proceeds from sale of property and equipment	4,881	1,247	1,035
Increase (decrease) in other long-term assets	-1,252	-133	11
Interest received	3,299	4,511	3,242
Cash flow used in investing activities	**-23,722**	**-2,326**	**-1,367**
Financing activities:			
Increase (decrease) in long-term liabilities, net	-425	1,352	2,270
Increase (decrease) in short-term borrowings, net	30,980	6,231	-50,614
Increase in convertible bonds, net	122	1,027	0
Dividends paid	-3,078	-3,078	-7,720
Capital increase, net	0	0	64,502
Repayment of subordinated shareholders' loans	-2,855	-4,745	-50,779
Cash flow used in financing activities	**24,744**	**787**	**-42,341**
Effects of exchange rates on cash	**-865**	**826**	**769**
Effects of changes in the consolidation circle on cash	0	2,023	5,610
Net decrease (increase) in cash and cash equivalents	**125**	**-13,143**	**41,269**
Cash and cash equivalents at beginning of year	69,275	82,418	41,149
Cash and cash equivalents at end of year	**69,400**	**69,275**	**82,418**

Notes to the Consolidated Financial Statements

1. General information

Under the brand name "PUMA", PUMA Aktiengesellschaft Rudolf Dassler Sport and its foreign subsidiaries are engaged in the development and marketing of a broad range of sports and leisure articles including footwear, apparel and accessories. The Company is a joint stock company under German law and has its registered head office in Herzogenaurach in Germany.

The following consolidated financial statements of PUMA AG and its subsidiaries (hereinafter shortly referred to as the "Company" or "PUMA") were prepared in accordance with the "International Accounting Standards" (hereinafter briefly "IAS") issued by the International Accounting Standards Committee (IASC), and duly examined by the Company's auditor. All IAS and SIC interpretations have been applied for the financial years as of January 1, 1998. Since 1993 the Company has prepared financial statements on the basis of IAS; all deviations from the stipulations of the German Commercial Code as of January 1, 1993 were offset without affecting operating profits. As of the 1998 financial year, the consolidated financial statements prepared on the basis of IAS are regarded as exempt consolidated financial statements pursuant to Article 292a, Section 2, HGB. Accordingly, consolidated financial statements in accordance with German accounting principles are no longer prepared. However, as the parent company of the PUMA group, PUMA AG is required to prepare individual financial statements on the basis of German commercial law; these individual financial statements may be obtained from the Company.

The International Accounting Standards deviate in certain items from the accounting stipulations and principles generally valid in Germany and mainly laid out in the German Commercial Code. Major deviations refer to the treatment of deferred taxes (DM 65 million) resulting from temporary valuation differences and future tax benefits from losses to be carried forward. Other deviations refer to the treatment of US trademarks and other rights (DM 19 million) which were sold in 1989 and repurchased in 1995 and not capitalized for IAS purposes. The remaining differences are immaterial.

The consolidated financial statements have been prepared in compliance with the EU Directive 83/349 on the basis of the interpretation of the directive by the Contact Committee for Accounting Directives of the European Commission.

2. Major consolidation, accounting and valuation principles

Consolidation principles

The consolidated financial statements are based on the individual financial statements of PUMA AG and its consolidated subsidiaries which were certified by independent auditors.

The capital consolidation with affiliated companies is based on the book value method. The elimination of the carrying values of shares owned by the parent company against the amount which these shares represent in the equity of a subsidiary was effected in former years at the date of first consolidation and since 1996 at the date of acquisition.

Capital consolidation with the associated company LOGOATHLETIC, Inc. is based on the equity method and the book value method, referring to the time of acquisition in July 1998.
Intra-group receivables and liabilities have been off set. Any differences from exchange rate to the extent that they arose in the reporting period, were included in consolidated earnings.

Within the course of consolidation of earnings, inter-company sales and all major intra-group income were offset against the respective expenses as incurred. The commission income included in the financial statements of World Cat Ltd. and not yet realized in the group has been eliminated as intercompany profit. As in previous years, further elimination of intercompany profits was waived because amounts were not material.

Companies included in consolidations

In addition to PUMA AG, all major operating subsidiaries and an associated company were included in consolidation. As in previous years, inclusion of some non-active companies was waived since these companies have no affect on the group's financial, net worth and earnings position.

The following companies are included in the consolidated financial statements:

PUMA AG Rudolf Dassler Sport (holding company), Herzogenaurach/Germany
PUMA Australia Pty. Ltd., Moorabbin/Australia
(sub-group), including
- White Diamond Australia Pty. Ltd., Moorabbin/Australia
- White Diamond Properties, Moorabbin/Australia

Austria PUMA Dassler Ges.m.b.H., Salzburg/Austria
(sub-group), including
- PUMA Polska SP.ZO.O, Warsaw/Poland
- PUMA JUGOSLAVIJA d.o.o. Belgrad, Yugoslavia

PUMA Benelux B.V., La Leusden/Netherlands
PUMA FRANCE S.A., Illkirch/France
PUMA North America, Inc., Westford/Massachussetts/USA
(sub-group), including
- PUMA Canada, Missisauga/Ontario/Canada

PUMA (Schweiz) AG, Lengnau b. Biel/Switzerland
World Cat Ltd., Kowloon Bay/Hong Kong
(sub-group), including
- World Cat (S) Pte. Ltd./Singapore
- World Cat Trading Co. Ltd., Taichung/Taiwan

PUMA FAR EAST Ltd., Kowloon Bay/Hong Kong
PUMA Italia S.r.l., Milan/Italy
PUMA CHILE S.A., Santiago/Chile
LOGOATHLETIC, Inc., Indianapolis/Indiana/USA

The initial inclusion of PUMA Polska in the consolidated financial statements has not resulted in any major impact on the net worth, financial and earnings position.

In July 1998, the Company acquired a 22.3 % stake in LOGOATHLETIC, Inc./USA. LOGOATHLETIC is among the leading companies in the licensing business for US-American sports leagues. The associated company is valued on the basis of the equity method. It is planned to transfer the participation which is presently held by the AG to the PUMA North America Inc., subsidiary in the current year. PUMA AG participates in the other companies either directly or indirectly at 100 % (with the exception of PUMA CHILE = 51 %).

A list of investment holdings as of December 31, 1998 including the inactive companies is deposited at the Fürth (Bavaria) Commercial Register under HRB 3175.

Currency translation

Foreign currency receivables and liabilities are translated and disclosed in individual financial statements at their buying or selling rates as at the balance sheet date.

All assets and liabilities of foreign subsidiaries whose functional currency is not DM were translated into Deutsch Mark at the middle rates valid on the balance sheet date. Income and expenses were translated at annual average rates. The differences from currency translation of net assets were netted against the shareholders' equity without affecting income if a change in the exchange rate occurred.

The following currency translation rates were used to convert the annual financial statements of foreign subsidiaries into Deutsch Mark:

	Annual average rates			Middle rates as at the balance sheet date	
	1998	**1997**	**1996**	**31.12.1998**	**31.12.1997**
100 HKD	22.8	22.3	19.5	21.6	23.1
1 USD	1.763	1.723	1.503	1.673	1.792
100 FRF	29.8	29.7	29.4	29.8	29.9
100 ATS	14.2	14.2	14.2	14.2	14.2
1 CHF	1.214	1.194	1.217	1.222	1.233
100 AUD	111.3	127.7	117.7	102.4	117.1
100 NLG	88.7	88.9	89.2	88.8	88.7
1000 ITL	1.0132	1.0156	---	1.0100	1.0177
100 Pesos (Chile)	0.3857	0.4140	---	0.3541	0.4141
100 PLN	50.45	---	---	47.84	---

Hedge Accounting

A significant proportion of the Company's purchase and sales activities is processed in US dollars, whereby purchase transactions predominate. The resulting assets and liabilities are subject to exchange rate fluctuations from the date of their origin until realization. To the extent that foreign currency positions were used as financial instruments to hedge against currency risks (hedge accounting), the differences from currency translation are set off against equity without affecting operating results.

Derivative financial instruments

The Company buys most of its products from suppliers in Asia with invoicing being made in US dollars. Sales are largely invoiced in other currencies. In addition, the Company earns royalty income mainly in Japanese YEN (JPY), USD and British pounds (GBP).

Risks involved in exchange rate fluctuations are minimized on the basis of derivative hedging transactions. If this is deemed necessary, existing foreign currency receivables and liabilities have been offset. As of the balance sheet date, there are exclusive forward exchange contracts concluded with renowned international banks; therefore, the credit risk on the balance sheet date is considered low or unlikely. The contracts are used exclusively for the purpose of hedging contracts concluded or expected to be concluded. As of December 31, 1998, there were currency futures contracts for the purchase of the US dollar and the sale of JPY and GBP. As a rule, the time to maturity of all these instruments is within one year.

In principle, the Company hedges its net demand or surplus of the respective currencies on a rolling basis twelve months in advance. The net demand or surplus is derived from the demand in a given currency less expected income from the same currency.

The Company does not employ financial instruments for trading or speculative purposes.

Management expects no major adverse effects from the use of derivatives on the Company's financial position.

The following derivative financial instruments existed as at the balance sheet date:

	Nominal amount DM '000	Market value DM '000
Forward exchange transaction	126,852	7,469

The nominal amount is in accordance with the amounts of each forward exchange transaction agreed between the parties. The market value is the amount to which the respective financial instrument would be traded on the market between interested parties on the balance sheet date.

Hedging contracts outstanding as at December 31, 1998 cover the net demand for the coming 12 months.

Inventories

Inventories are valued at purchase cost , manufacturing cost, or at the lower net realizable values derived from the selling price as of the balance sheet date. The purchase costs of merchandise are determined using the average method. Inventory adjustments were carried out in a uniform manner throughout the group, depending on the age of the respective goods. Risks owing to fashion trends were adequately taken into account.

Receivables and other short term assets

Receivables and other assets are valued at their nominal amounts. All recognizable risks are sufficiently taken into account in the form of value adjustments.

Income taxes

Resulting from the first-time application of IAS 12 (revised) in 1998, tax deferrals were applied with respect to different assets and liability valuation in the commercial and tax balance sheet, consolidation procedures and, specifically, realizable taxable losses carried forward. The tax deferrals were computed on the basis of the respective national tax rates whereby, in Germany, the distribution tax rate was applied as the basis for calculation. The Company made use of the possibility to report the adjustments arising from first application and concerning the previous years with an affect on operating results in 1998. Total tax credit amounts to DM 65,339,000.

The deferred taxes on the liability side are set off against those of the assets side (largely from losses carried forward), and reported at their net amounts as an independent assets position. The tax deferral from tax losses carried forward results only in an asset if its use is probable.

The following table shows the consolidated net income in a so-called ”restatement” as it would have resulted for the 1997 and 1998 financial years, had the IAS 12 (revised) been applied:

Consolidated net income (loss) after restatement:

	1998 restated DM '000	1997 restated DM '000
Result before taxes on income	-54,043	73,158
Taxes on income		
- current taxes on income	-4,555	-5,485
- Income (prior year expense) from tax deferral	25,464	-25,053
Net loss for the year (1997 net profit)	**-33,134**	**42,620**
Minority interest	1,173	93
Consolidated net loss (1997 consolidated net profit)	**-31,961**	**42,713**
Earnings per share	**-2.08**	**2.78**

If the IAS 12 (revised) had been applied in the past, the total tax benefit of DM 65,339,000 would have been accrued as follows:

1998	25,464,000
1997	-25,053,000
previous years	64,928,000
Total	65,339,000

Accumulated profits and revenue reserves after restatement:

	1998 restated DM '000	1997 restated DM '000
Revenue reserves and profits brought forward (unrestated) as at 1.1.	**49,532**	**-18,957**
Change in accounting method concerning the first-time approach of deferred taxes	39,875	64,928
Revenue reserves and profits brought forward (restated) as at 1.1.	**89,407**	**45,971**
Dividend payment	-3,078	-3,078
Consolidated net profit restated	-31,961	42,713
Currency changes	-2,865	3,801
Revenue reserves and profits brought forward (restated) as at 31.12.	**51,503**	**89,407**

Tangible fixed assets and depreciation

Tangible fixed assets are valued at purchase costs. The depreciation period depends on the useful economic life. As a rule, the straight-line method is applied; depending on the asset concerned, the useful life is between 3 and 50 years. The following depreciation rates apply:

	Depreciation rates in %
Buildings	2 to 10
Machines, machine equipment and technical facilities and business and factory equipment	10 to 33

Cost of maintenance and repair is booked as expense at the time of origin. Major improvements and renewals are capitalized.

Leased items which are regarded as significant in terms of their amounts and which are classified as finance leasing are shown as tangible fixed assets.

Goodwill and other long term assets

The goodwill and intangible assets are valued at purchase costs reduced by accumulated depreciation.

Financial assets are valued at purchase costs. Value adjustments are effected in the event of a permanent impairment in value. The investment in LOGOATHLETIC is valued at equity.

Short term liabilities from bank loans

Short term liabilities also include long term loans with maturities of not more than one year.

Old age pensions

PUMA AG's pension accruals have been valued in accordance with IAS 19 using the "accrued benefit valuation method". The proportions of subsidiaries are insignificant and are valued according to the relevant country law. The deviation from IAS 19 is irrelevant.

Recognition of sales

Sales are recognized after the passing of risk and booked net of returns, discounts, rebates and sales-related advertising grants.

Advertising and promotion expense

The Company recognizes advertising expenses at the date of their origin. Promotion expenses are, in general, spread on an accrual basis over the term of the contract provided that the performance assessment does not lead to deviating results.

In 1998, advertising and promotion expenses amounted to DM 93,612,000 or 15.8 % of sales (DM 56,762,000 or 10.3 %). In addition to the direct costs they also contain other cost types (e.g. personnel costs).

Product development

The Company is constantly engaged in developing innovative products with a fashionable design in order to comply with market requirements and changes. Expenses are reported as costs at the time of origin. Capitalization does not occur since the criteria stated in IAS 9 have not been met.

In 1998, development costs amounted to DM 29,707,000 or 5.0 % of sales (DM 14,183,000 or 2.6 %).

Financial result

The financial result includes the net interest result and the result from associated companies. Expenses and income from exchange rate changes are disclosed in operating results if they were incurred in the operative business. In general, effects from exchange rate fluctuations are included in general expenses. If currency effects resulting from derivatives can be allocated directly to a mainstay business, they are disclosed in the respective income statement position.

3. Cash and Cash Equivalents

Cash and cash equivalents contain cash and credit with banks. To the extent that the credit is not required to finance current assets, sums that are not tied down are invested in the Euromoney market. As a rule, the maturity of time deposit investments is up to six months. Current interest rates are between 2.8 % and 5.3 %.

4. Inventories

Inventories and advance payments for inventories are classified into the following main categories:

	Dec.31,1998 Net DM '000	Dec.31,1997 Net DM '000
Raw materials and supplies	1,887	1,933
Finished goods and merchandise	94,458	89,110
Goods in transit	27,645	23,231
	123,990	**114,274**

Devaluation on inventories was effected from purchase or manufacturing costs to the lower realizable market value; at the respective balance sheet dates, these deductions amounted to a total of DM 27,153,000 (1998) and DM 15,169,000 (1997). Therefore, an essential part of inventories is valued at the net realizable value. In 1998 value adjustments to the amount of DM 10,553,000 were included in one-off expenses which became necessary due to the difficult market situation.

5. Receivables and other current assets

The item includes receivables, other short term assets and prepaid expenses. Receivables are shown net of itemized value adjustments; they are due within the course of the following financial year. Receivables from management of supervisory bodies do not exist.

	Dec.31,1998 DM '000	Dec.31,1997 DM '000
Trade receivables	108,455	104,518
Other receivables and other short-term assets	8,574	12,340
Prepaid expenses	2,838	2,582
	119,867	**119,440**

The market value of receivables and other current assets corresponds to the book value

6. Deferred income taxes

The item consists of the following:

	Dec.31,1998 DM '000				Dec.31,1997 DM '000
Tax credit	Loss carry forward current year	Losses carried forward previous year	Other deferred tax credits	Total	
Germany	6,335	12,420	17,768	36,523	0
Other countries	5,484	12,290	11,042	28,816	0
	11,819	**24,710**	**28,810**	**65,339**	**0**

Other deferred tax credits and liabilities result from timely differences. Major items included here are the different treatment of the USA trademarks, pension accruals and other accruals. In order to realise the potential tax claims, due to the structural adjustments initiated in 1998 and already implemented, sufficient taxable income is expected in future which exceeds the income from the reversal of existing taxable temporary differences. Other deferred tax credits include deferred tax liabilities to the amount of DM 3,777,000.

7. Property and Equipment, net

The composition of property and equipment, at book value, is as follows:

	Dec.31,1998 DM '000	Dec.31,1997 DM '000
Land and buildings including third party Land	25,624	28,332
Technical equipment and machines	1,472	1,643
Ohter equipment, office and factory equipment	10,778	8,688
	37,874	**38,663**

The book values for property and equipment derived from purchase costs. Accumulated depreciation for this item is DM 37,990,000 (DM 42,428,000).

Tangible assets include leased items to the amount of DM 1,983,000.

Individual items of property and equipment, including their development for the 1998 financial year, are shown in the appendix to the explanations on the consolidated financial statements.

8. Goodwill and other long-term assets

The item is made up as follows:

	Dec.31,1998 DM '000	Dec.31,1997 DM '000
Goodwill	363	2,565
Concessions, industrial and similar rights and assets and licenses in such rights and assets	1,077	781
Other financial assets	961	264
Investment in LOGOATHLETIC, Inc.	16,435	0
Other long-term assets	669	185
	19,505	3,795

The development for the 1998 financial year is shown in the appendix to the explanations on the consolidated financial statements

The associated company LOGOATHLETIC is consolidated at equity and valued at purchase costs (DM 19,376,000) less proportion at result for 1998 after adjustment due to the unified valuation and net of exchange rate changes which were, at DM 1,141,000, included in equity.

9. Bank borrowings

The residual maturity of existing short-term bank loans is less than twelve months.

The loans largely concern US$ (approx. 50 %), Australian dollar (approx. 10 %), Austrian shilling (approx. 20 %).

Credit lines granted to the Company amount to a total of DM 202 million which may be used in the form of bank loans and credits by way of guarantee. In addition to bank loans to the amount of DM 54,096,000, guarantee credits (largely letter of credits) amounted to DM 10,677,000. As at December 31, 1998, credit lines not yet drawn upon amounted to DM 140 million. In addition, liquid funds amount to DM 69,400,000. The funds needed for the take-over of the operative business in the United Kingdom is assessed to amount to approximately DM 40 to 50 million (required working capital and purchase price) and can be financed from existing credit lines or available liquid funds, respectively.

10. Accounts payable and other current liabilities

The market value of trade payables corresponds to the book value.

Other current liabilities are made up as follows:

	Dec.31,1998 DM '000	Dec.31,1997 DM '000
Other current liabilities		
Liabilities from taxes (no income taxes) and social securities contributions	3,908	3,373
Liabilities to Proventus	0	1,345
Leasing liabilities	713	815
Other liabilities	13,228	12,159
Accruals		
Accruals for structural adjustments and restructuring	26,144	3,896
Other accruals:		
Taxes	1,043	1,750
Personnel costs (without compensation payments)	4,862	5,505
Other accruals	49,069	36,656
	98,967	**65,499**

Accruals within the context of structural adjustments and restructuring include all obligations resulting from the measures initiated in 1998 and other one-off expenses associated with the difficult market environment, which are expected to be drawn upon within a one year period. They refer primarily to personnel costs, expenses for various promotion contracts and accruals for contingent liabilities.

Accruals for taxes contain capital taxes and income taxes. Deferred taxes are not included.

Other accruals have been set up to provide for all discernible risks. The item refers largely to accruals for invoices still outstanding, claims under bonuses and warranties, accruals for risks from litigation and other accruals.

11. Pension accruals

Pension claims are financed by means of pension accruals which, at the 1998 balance sheet date, amounted to DM 24,095,000 and to DM 23,429,000 in 1997. In addition to pension commitments of PUMA AG, this item also includes similar pension obligations concerning the Austrian subsidiary to the amount of DM 563,000 (DM 504,000), the subsidiary in France to the amount of DM 147,000 (DM 157,000) and DM 116,000 (DM 54,000) of PUMA Italy S.r.l.

Accruals set up for employee pension plans concern active employees, former employees with non-forfeitable pension rights who left the company and old age pension recipients. Calculations are made in line with the mortality tables of Dr. Klaus Heubeck which take the currently determined and future higher life expectations into account. In the previous year, the pensioner mortality was valued at only 85 % and the invalidity likelihood at only 75 %. The valuation was based on the projected unit credit method in accordance with IAS 19.

The PUMA AG pension plan encompasses general commitments which are, as a rule, based on maximum pension payments of DM 250.00 for each month and entitled employee; in addition, there are individual commitments which largely refer to non-forfeitable claims of retired PUMA AG board members (DM 4,529,000).

The rate of interest applied is 6 % (6.5 %) per annum. Future pension increases and fluctuation rates were valued, as before, at 2.5 % per annum in each case.

The aforementioned valuation method was not applied to accruals set up for obligations similar to pensions which concern subsidiaries. These accrual positions were not adjusted to comply with IAS because amounts were insignificant.

Expenses arising from pension plans were DM 1,729,000 (DM 2,872,000).

12. Other long-term liabilities

Other long-term liabilities are made up as follows:

	Dec.31,1998 DM '000	Dec.31,1997 DM '000
Accruals	12,720	0
Liabilities		
Loans (convertible bonds)	2,620	2,498
Other liabilities:		
Leasing liabilities	2,360	2,727
Other long-term liabilities	1,510	1,804
	19,210	**7,029**

Accruals include largely expenses incurred for various promotion contracts and are associated with obligations resulting from the one-off restructuring charge.

The convertible bonds have been issued to staff members as a part of a Management Incentive Plan. Reference is made here to No. 14 below.

The leasing liabilities concern finance leasing in France and Australia; the maturities expire on March 31, 2003 at the latest.

13. Minority Intersest

The minority interest concerns the joint-venture-participation of PUMA Chile S.A. The portion in outside property is 49 %.

14. Shareholders' equity

As in the previous year, 15,390,000 ordinary bearer shares with full voting rights with a nominal amount of DM 5.00 each were issued as at 31 December, 1998. This equals a subscribed capital with PUMA AG to the amount of DM 76,950,000. The share price as at December 31, 1998 was listed at the Frankfurt am Main stock exchange at DM 22.00 or EUR 11.25.

Monarchy Enterprises Holdings B.V. including its subsidiaries is the sole major shareholder. In a letter dated December 14, 1998, Monarchy Enterprises Holding B.V. informed the Company that the participation ratio of 25.0 % was exceeded and now amounts to 25.00325 %. This was published in a journal for statutory stock market advertisements and reported to the Federal Official Gazette on December 18, 1998. The remaining portion is publicly held. It is not known to the Company that another shareholder holds over 5 % of the subscribed capital.

The equity capital developed as follows:

	Subscribed capital PUMA AG DM '000	Capital reserve PUMA AG DM '000	Revenue reserves PUMA AG DM '000	Difference from currency translation DM '000	Accumulated profits brought forward DM '000	Total DM '000
Dec. 31, 1996	**76,950**	**62,550**	**406**	**1,551**	**-20,914**	**120,543**
Dividend payout					-3,078	-3,078
Consolidated net profit					67,766	67,766
Transfer to revenue reserves			26,183		-26,183	0
Currency changes				3,801		3,801
Dec. 31, 1997	**76,950**	**62,550**	**26,589**	**5,352**	**17,591**	**189,032**
Dividend payout					-3,078	-3,078
Consolidated net profit					7,914	7,914
Transfer to revenue reserves			-26,183		26,183	0
Currency changes				-2,865		-2,865
Dec. 31, 1998	**76,950**	**62,550**	**406**	**2,487**	**48,610**	**191,003**

The capital reserve includes the premium from the capital increase of PUMA AG in 1996. The transfer to revenue reserves in 1997 and the withdrawals from revenue reserves result from the individual financial statements of PUMA AG which were prepared in accordance with German commercial law.

The balance profit of PUMA AG (German commercial law) amounted to DM 5,152,000 on December 31, 1998. As in the previous year, it is proposed to distribute a dividend to the 4 % of the nominal amount or DM 0.20 for DM 5.00 for each ordinary share. The payment will be made from untaxed equity; no tax credit is involved.

Conditional capital for the issuing of convertible bonds to management

The Shareholders' Meeting on April 17, 1996 (conditional capital 1996) and on April 24, 1997, (conditional capital 1997) decided on a conditional capital to the amount of DM 1,500,000 each. Each DM 5.00 convertible bond is entitled to be changed into a share of PUMA AG with a nominal amount of DM 5.00; statutory pre-emption rights are excluded.

Convertible bonds issued on the balance sheet date are held exclusively by management. No conversion has as yet occurred. The conditions are shown in the following table:

	1996		1997	
	Nominal value DM '000	Unit per DM 5.00	Nominal value DM '000	Unit per DM 5.00
Nominal amount	1,500	300,000	1,500	300,000
Convertible bonds issued	1,471	294,100	1,418	283,500
of which in circulation on Dec. 31, 1998	1,220	244,000	1,400	280,000
Authorization untill		April 17, 2001		Feb. 24, 2002
Conversion price		DM 64.40		DM 64.30
		EUR 32.93		EUR 32.88
Issue date		August 1, 1996		October 1, 1997
Blocking period		2 Years		2 Years
Period of validity		5 Years		10 Years
Interest rate p.a.		5 %		5 %

Authorized capital

On April 17, 1996, the Shareholders Meeting authorized the Board of Management to increase the share capital by an amount of up to DM 30 million ("authorized capital") after approval by the Supervisory Board through a one-off or repeated issuance of new ordinary shares against a contribution in cash. After using DM 6.95 million nominal for the capital increase on July 17, 1996, the remaining amount of DM 23.05 million may be drawn upon until April 17, 2001.

Stock repurchase

With the approval of the Supervisory Board, the Shareholders Meeting authorized the Board of Management on May 13, 1998 to acquire own shares up to 10 % of the share capital. Pursuant to applicable law this authorization ceases to be valid after 18 months as of the authorization date if no repurchase has been made within this period. No use has been made of this authorization to date.

15. Net sales

PUMA AG and its subsidiaries develop, procure and market sports and leisure goods worldwide. The product groups may be subdivided into the segments: "Footwear", "Apparel" and "Accessories" (bags, balls etc.). Net sales by product segments were as follows:

	Footwear DM '000	Apparel DM '000	Accessories DM '000	Total DM '000
Fiscal year 1998				
Sales (total)	436,282	185,679	29,867	651,828
Intercompany sales	-40,202	-17,864	-2,100	-60,166
Consolidated net sales	**396,080**	**167,815**	**27,767**	**591,662**
Fiscal year 1997				
Sales (total)	410,634	151,887	33,248	595,769
Intercompany sales	-31,626	-8,959	-8,080	-48,665
Consolidated net sales	**379,008**	**142,928**	**25,168**	**547,104**
Fiscal year 1996				
Sales (total)	362,130	129,493	22,794	514,417
Intercompany sales	-17,578	-3,566	-3,410	-24,554
Consolidated net sales	**344,552**	**125,927**	**19,384**	**489,863**
Gross profit in %				
1998	35.4	36.4	38.3	35.8
1997	36.1	37.2	40.5	36.6
1996	36.9	38.1	46.1	37.5

Broken down by geographical region, net sales were as follows:

	Europe DM '000	Asia/ Pacific DM '000	America DM '000	Africa/ Middl. East DM '000	Total DM '000
Fiscal year 1998					
Sales (total)	422,073	75,078	132,274	22,403	651,828
Intercompany sales	-44,758	-1,262	-14,146	0	-60,166
Consolidated net sales	**377,315**	**73,816**	**118,128**	**22,403**	**591,662**
Fiscal year 1997					
Sales (total)	399,967	78,164	103,394	14,244	595,769
Intercompany sales	-40,260	-1,430	-6,975	0	-48,665
Consolidated net sales	**359,707**	**76,734**	**96,419**	**14,244**	**547,104**
Fiscal year 1996					
Sales (total)	369,079	61,836	71,562	11,940	514,417
Intercompany sales	-20,719	-834	-3,001	0	-24,554
Consolidated net sales	**348,360**	**61,002**	**68,561**	**11,940**	**489,863**

The subsidiaries in the above geographical regions act as marketing and distribution companies; therefore, the allocation of the company assets is therefore of little informative value and we have thus refrained from doing so in the above table.

Intercompany sales between individual group companies have been eliminated and, as a rule, valued at purchase costs plus a cost mark up. Intercompany sales of PUMA AG with PUMA Italia S.r.l. and PUMA CHILE S.A., Chile, which were also eliminated, were invoiced in line with commercial practice.

16. Selling, general and administrative expenses

Selling, general and administrative expenses are made up as follows:

	1998 DM '000	1997 DM '000	1996 DM '000
Personnel costs	80,871	68,918	61,835
Other operating expenses			
Advertising and distribution costs	100,805	77,054	69,744
General and administrative expenses	77,265	61,165	59,139
Other operating income	-14,820	-33,779	-28,150
	244,121	**173,358**	**162,568**

Within administration and other operating expenses, DM 10,991,000 (1998), DM 10,526,000 (1997) and DM 8,417,000 (1996) are attributable to rental/leasing costs.

Other operating income includes largely the release of accruals, value adjustments which were not required, exchange gains and other operating income.

17. One-off charge

One-off restructuring charge includes the following items:

	1998 DM '000
Depreciation of current assets in as much as these exceed the depreciation amounts usual in the company	14,049
Other one-off expenses:	
Restructuring expenses	12,429
Expenses from promotion contracts	15,517
Expenses for cancellation or restructuring of various license and distribution agreements	9,350
Other expenses and risk provisions	9,394
	60,739

The item concerns expenses for measures and other one-off expenses associated with the downturn in the sporting goods industry. For reasons of clarity, these expenses were summarized in a special item in the income statement. For further details we refer to the management report.

18. Financial result, net

The financial result is made up as follows:

	1998 DM '000	1997 DM '000	1996 DM '000
Other interest and similar income	3,405	4,994	2,848
Interest and similar expenses	-4,069	-2,874	-3,189
Net interest income	**-664**	**2,120**	**-341**
Participation result LOGOATHLETIC	**-1,800**	**0**	**0**
(Portion for 1998 after adjustment due to unified valuation throughout PUMA)			
Financial result, net	**-2,464**	**2,120**	**-341**

19. Income Taxes

	1998 DM '000	1997 DM '000	1996 DM '000
Current income tax expenses			
Germany	-4,397	-3,831	-3,534
Other countries	-158	-1,654	-1,598
	-4,555	**-5,485**	**-5,132**
Income from tax deferrals			
from losses carried forward	36,531	0	0
from timing differences	28,808	0	0
	65,339	**0**	**0**
	60,784	**-5,485**	**-5,132**

Current income tax expenses in Germany refer almost exclusively to withholding tax on royalty income at the AG.

Income from deferred taxation includes futures tax benefits from existing loss carryforwards to the extent that their use is likely. In addition, tax deferrals are included which result from timing differences between the valuation of assets and liabilities in the consolidated financial statements and the valuation of the respective items for tax purposes.

The corporation tax loss carryforwards amount to a total of DM 137 million. DM 95 million of the total amount (DM 137 million) were recognized for capitalization since realization is ensured only to this extent.

Transition between profit before taxes and tax expense

	1998 DM '000	1997 DM '000
Result before taxes on income	**-54,043**	**73,158**
Computed corporation tax (1998 income) tax rate AG = 41,5% [1)]	22,422	-30,353
Effects resulting from different tax rates in other countries	1,529	3,217
Setting off against loss carry forwards	482	25,482
Withholding tax on foreign royalty income	-4,397	-3,831
Approach deferred taxes relating to subject matters prior to Janurary 1	39,875	0
Other effects	873	0
Tax income (1997 tax expense)	**60,784**	**-5,485**

1) Distribution burden incl. trade tax and solidarity surcharge

20. Extraordinary income

The 1996 extraordinary income contained income from the partial waiver of repayment of debtor warrants of the former major shareholder, netted against costs of capital increase in 1996.

21. Net income per share

The net income per share is calculated by dividing the consolidated net income through the weighted number of outstanding shares. The number of outstanding shares (15,390,000) has remained unchanged in comparison to the previous year and are in accordance with the weighted average. The diluted earnings per share due to existing convertible bonds do not lead to material changes in results.

22. Contingent liabilities

	Dec.31,1998 DM '000	Dec.31,1997 DM '000
Discounted bills of exchange	1,068	2,728
Guarantees and warranties	1,258	61

23. Other financial commitments

The Company has incurred other financial commitments within the scope of license, promotion and advertising contracts. In addition, the Company leases and rents offices, warehouses and facilities. The term of the leasing contract for the logistics center is 13 years, the term to maturity of all other rental and leasing contracts is between 1 and 5 years.

The Company's current financial commitments are as follows:

	Dec.31,1998 DM '000	Dec.31,1997 DM '000
from license, promotion and advertising contracts		
1999 (1998)	15,243	11,825
2000 - 2003 (1999 - 2002)	35,445	26,139
as of 2004 (as of 2003)	0	120
from rental and leasing contracts		
1999 (1998)	9,129	8,384
2000 - 2003 (1999 - 2002)	21,097	19,338
as of 2004 (as of 2003)	20,751	20,265

24. Employees

The number of employees, on an annual average, was as follows:

	1998	1997
Marketing/Distribution	581	491
Product development/Sourcing	350	341
Central areas	218	209
	1,149	**1,041**

25. Transactions with affiliated companies or persons

No transactions with affiliated companies or persons have been carried out in the 1998 financial year.

26. Disclosures on Supervisory Board and Board of Management

	1998 DM '000	1997 DM '000
Remuneration of Supervisory Board	140	140
Remuneration of Board of Management	3,172	2,886
Pension commitments concerning former board members	4,529	4,038

27. Management Incentive-Plan

In 1996, the Company introduced a Management Incentive Plan for the board of management, senior executives and other senior staff of PUMA AG and its subsidiaries.

The issuing of convertible bonds gives participants the opportunity to acquire PUMA shares at a defined amount within a given period of time. The shares are financed on the basis of conditional capital. We refer to No. 14 of this report.

Herzogenaurach, February 5, 1999

The Board of Management

Zeitz

Gänsler Heyd

Statement of Movements of Property and Equipment

	Purchase or manufacturing costs					Accumulated depreciation	Net book value		
	Balance on Jan. 1, 1998	Currency effect	Additions	Disposals	Balance on Dec. 31, 1998	Balance on Dec. 31, 1998	Balance on Dec. 31, 1998	Balance on Dec. 31, 1997	Depreciations current year
	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000
Property and Equipment									
Land, land rights and buildings including buildings on non-owned land	43,206	2,048	2,335	8,147	39,442	13,818	25,624	28,332	1,077
Technical equipment and machinery	2,678	-292	809	556	2,639	1,167	1,472	1,643	652
Other equipment furniture and fittings	35,207	-1,076	7,161	7,509	33,783	23,005	10,778	8,688	3,703
	81,091	**680**	**10,305**	**16,212**	**75,864**	**37,990**	**37,874**	**38,663**	**5,432**

	Purchase or manufacturing costs					Accumulated depreciation	Net book value		
	Balance on Jan. 1, 1998	Currency effect	Additions	Disposals	Balance on Dec. 31, 1998	Balance on Dec. 31, 1998	Balance on Dec. 31, 1998	Balance on Dec. 31, 1997	Depreciations current year
	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000	DM '000
Goodwill and other long-term assets									
Goodwill	3,055	-38	0	2,290	727	364	363	2,565	330
Other intangible assets	8,929	-93	969	267	9,538	8,461	1,077	781	622
Financial assets	281	-8	913	225	961	0	961	264	0
Investment in LOGOATHLETIC, Inc.	0	-1,141	19,376	0	18,235	1,800	16,435	0	1,800
Long-term receivables and other assets	185	0	484	0	669	0	669	185	0
	12,450	**-1,280**	**21,742**	**2,782**	**30,130**	**10,625**	**19,505**	**3,795**	**2,752**

Auditor's Report

We have audited the accompanying consolidated financial statements of PUMA Aktiengesellschaft Rudolf Dassler Sport, Herzogenaurach, ("Company"), as of December 31, 1998. The consolidated financial statements comprise the statements required by International Accounting Standards (IAS), including a cash flow statement, and are supplemented by a consolidated management report in accordance with the German Commercial Code (HGB). These consolidated financial statements and the consolidated management report are the responsibility of the Company's management. Our responsibility is to express an opinion, based on our audit, as to whether these consolidated financial statements comply with IAS, whether the consolidated management report complies with HGB, and whether the other requirements for the exemption as described in § 292a par. 2 HGB are met.

We conducted our audit pursuant § 317 HGB in accordance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and the consolidated management report are free of material misstatement. An audit includes, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements and the consolidated management report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and management report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in objections.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 1998, and the consolidated results of its operations and its cash flows for the year ended at that date in accordance with IAS. The consolidated management report gives a fair understanding of the Company's position and appropriately presents the risks of future development.

The requirements for the Company's exemption from the obligation to prepare consolidated financial statements in accordance with German law are met.

Frankfurt am Main, February 5, 1999

Coopers & Lybrand
Wirtschaftsprüfungsgesellschaft
Gesellschaft mit beschränkter Haftung

(Dahler)	(Neugebauer)
Qualified German	Qualified German
Public Accountant	Public Accountant

Report of the Supervisory Board

Dear Shareholders and Friends of the Company:

During the 1998 financial year, the Supervisory Board performed the tasks which are placed upon it by law and by corporate articles and, in so doing, monitored and advised the company management. In four general meetings on March 12, May 13, September 24 and November 17, 1998 we discussed the situation of the company and its affiliates together with the Board of Management; we obtained information about the course of business and fundamental matters of corporate policy and conferred with the Board of Management on these. We paid close attention to all matters on which decisions by the Board of Management required our approval. Furthermore, the personnel committee of the Supervisory Board consists of the chairman, Mr. Thore Ohlsson and Mrs. Katharina Wojaczek.

The focus of our discussions was the audit and approval of the 1997 annual financial statements, the authorisation of the Board to repurchase shares, the issuing of further convertible bonds to management, the participation in LOGOATHLETIC, Inc., current business developments and, in particular, the measures required for structural adjustments to changed market conditions and corporate planning for 1999.

Since 1993, the consolidated financial statements have, in addition, been prepared and published in keeping with the International Accounting Standards of the IASC (IAS). In accordance with the capital raising relief law (Kapitalaufnahme-Erleichterungsgesetz), consolidated financial statements need not be prepared according to German Commercial Law if exempt consolidated financial statements were prepared and published in compliance with internationally recognised accounting principles. The company made use of this simplification or exemption for the first time in the 1998 financial year.

The auditor, Coopers & Lybrand Wirtschaftsprüfungsgesellschaft GmbH, Frankfurt, audited the annual financial statements and the management report of PUMA AG on the basis of German accounting rules, and the exempt consolidated financial statements in accordance with the International Accounting Standards of IASC (IAS); an unqualified opinion was issued for both. The audit reports have been submitted to the Supervisory Board.

In the Supervisory Board's own examination, no causes for objection were found. At its meeting on March 4, 1999, in which the auditors participated, the Supervisory Board approved the findings of the audit of Coopers & Lybrand. The annual financial statements and the exempt consolidated financial statements prepared by the Board have been approved and thus established.

A changed and difficult market environment continuing in 1999 demands new requirements. In order to cope with this situation, structural adjustments and restructuring measures became necessary in various fields. The Supervisory Board has fully approved all these necessary measures. The 1998 financial statements have been burdened by these special influences.
According to the international accounting standards presently in force, tax losses carried forward must be capitalised for the first time in the 1998 financial year if their use is to be expected. Through the initial application of IAS 12 (revised) a tax credit results in the exempt consolidated financial statements which more than compensates for the special influences from the aforementioned structural adjustments and restructuring measures.

The Board's proposal for the appropriation of the net income for the year has been examined by the Supervisory Board, which concurs with it. No objections are to be raised by the Supervisory Board following the final result of its examination.

We are confident that the path taken by the company will, in the long-term, lead to success, even in light of the current difficult market environment and the prevailing crisis in various regions.

The Supervisory Board wishes to express its gratitude and appreciation to the Board of Management, the management of the group companies, the elected employees' representatives, and all staff members for their achievements in the highly competitive sporting goods market.

Herzogenaurach, March 4, 1999

On behalf of the Supervisory Board

Werner Hofer

Chairman

Board of Management

Jochen Zeitz
Nuremberg, Germany
- Chairman -
(Marketing, Sales, Finance, Administration, Human Resources)

Martin Gänsler
Gersthofen, Germany
- Deputy Chairman -
(Research, Development, Design and Sourcing)

Ulrich Heyd
Nuremberg, Germany
(Legal Affairs and Industrial Property Rights)

Supervisory Board

Werner Hofer (Chairman)
Hamburg, Germany
Lawyer
Member of other Supervisory Boards or similar boards:
- Electrolux Deutschland GmbH (Chairman)
- AEG Hausgeräte GmbH (Chairman)
- Ispat Hamburger Stahlwerke GmbH
- H&M Hennes & Mauritz AB

Thore Ohlsson (Deputy Chairman)
Falsterbo, Sweden
President and Manager of AB Aritmos
Member of other Supervisory Boards or similar boards:
- Tretorn AB (Vorsitzender)
- Multimedia Production AB (Chairman)
- SSRS Hotels
- SE-Bank
- AB Aritmos

Mikael Kamras
Stockholm, Sweden
President and Manager of Proventus Handels AB
Member of other Supervisory Boards or similar boards:
- Proventus AB
- SSRS Holding AB (Chairman)
- Von Roll Holding AG
- Swedish Orient Line AG
- Nesuah Zannex Ltd.

Arnon Milchan
Herzelia, Israel
Producer

Inge Baumann (Employees' Representative)
Münchsteinach, Germany
Worker

Katharina Wojaczek (Employees' Representative)
Aurachtal-Falkendorf, Germany
Works council chairperson

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in DM '000	1998	1997	1996	1995[3]	1994[3]	1993[3]
World-wide sales [1]	1,266,272	1,295,668	1,161,807	1,128,850	1,083,975	1,058,744
Consolidated net sales	**591,662**	**547,104**	**489,863**	**413,569**	**390,264**	**410,714**
- Footwear	396,080	379,008	344,552	301,905	280,600	277,454
- Apparel	167,815	142,928	125,927	98,429	97,566	116,875
- Accessories	27,767	25,168	19,384	13,235	12,098	16,385
Gross profit	211,712	200,116	183,906	154,545	135,922	122,816
- in %	35.8%	36.6%	37.5%	37.4%	34.8%	29.9%
Royalty and commission income	47,953	50,560	49,868	50,891	53,001	41,949
- in %	8.1%	9.2%	10.2%	12.3%	13.6%	10.2%
Operating profit	9,160	71,038	65,202	60,613	45,271	-51,256
- in %	1.5%	13.0%	13.3%	14.7%	11.6%	-12.5%
Financial result	-2,464	2,120	-341	-2,282	-5,228	-11,589
- in %	0.4%	0.4%	-0.1%	-0.6%	-1.3%	-2.8%
Profit before taxes [2]	**6,696**	**73,158**	**64,861**	**51,898**	**33,776**	**-69,155**
- in %	1.1%	13.4%	13.2%	12.5%	8.7%	-16.8%
Net income	6,741	67,673	83,804	48,186	29,135	-72,143
- in %	1.1%	12.4%	17.1%	11.7%	7.5%	-17.6%
Net income after minorities	7,914	67,766	83,804	48,186	29,135	-72,143
- in %	1.3%	12.4%	17.1%	11.7%	7.5%	-17.6%
Net income per share in DM [2]	0.51	4.40	3.88	3.44	2.08	-5.15
Total assets	435,975	345,447	288,822	208,265	195,622	238,397
Inventries	123,990	114,274	81,963	72,258	65,046	86,078
Accounts receivables	108,455	104,518	75,644	48,002	47,702	85,792
Working capital	137,996	136,118	41,497	34,738	13,000	66,600
Cash and cash equivalents	69,400	69,275	82,418	41,149	31,096	3,654
Bank debts	54,096	26,167	14,938	34,991	29,504	102,902
Shareholders' equity	191,003	189,032	120,543	-26,660	-74,602	-103,731
Subordinated shareholders' loan	0	0	2,855	86,673	113,919	107,652
Order backlog as of Dec. 31	261,166	255,753	217,960	177,848	184,561	166,722
Headcount as of Dec. 31	1,145	1,078	807	745	703	714
Numbers of shares						
Stock exchange rate at year-end	22.00	36.40	52.20	36.00	29.20	15.15

1) Including net sales by Licensees
2) adjusted for special effects from the restructuring (1998), adjusted for extraordinary income (1996)
3) Previous years numbers are adjusted according to IAS

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