

## COMPENSATION REPORT

## FINANCIAL POSITION

T.6 CASH FLOW STATEMENT (German GAAP, HGB)

	2017	2016	
	€ million	€ million	+/- %
Cash flow from operating activities	-2.2	-21.3	-
Cash flow from investing activities	-68.3	-63.0	8.5
Free cash flow	-70.5	-84.3	-
Cash flow from financing activities	116.8	109.8	6.4
Change in cash and cash equivalents	46.3	25.5	-
Cash and cash equivalents at beginning of the financial year	73.1	47.6	53.6
Cash and cash equivalents at year-end	119.4	73.1	63.3

The positive development of working capital significantly contributed to the improvement of [REDACTED]. [REDACTED] increased slightly from € -63.0 million to € -68.3 million. This resulted in an overall improvement in [REDACTED] of € -84.3 million in the previous year to € -70.5 million in 2017.

The [REDACTED] showed a cash inflow of € 116.8 million in 2017 [previous year: € 109.8 million]. The increase compared to the previous year resulted from taking out a loan to finance the new building.

This led to an overall increase in cash and cash equivalents from € 73.1 million to € 119.4 million. Moreover, PUMA SE also has various financing credit lines at its disposal. As of December 31, 2017, the credit lines amounted to € 320.7 million and were not used as at the reporting date.

**OUTLOOK**

For the financial year 2018 PUMA SE expects a slight increase in net sales and income before tax.

The proposal of a one-off dividend of € 12.50 per share for the financial year 2017 will lead to a significant reduction in the equity ratio in the financial statements of PUMA SE according to German Commercial Code.

**COMBINED NON-FINANCIAL REPORT**

Due to the CSR Guideline Implementation Law, PUMA was obligated to submit a non-financial explanation for the first time in financial year 2017.

Sustainability is an important element in PUMA's company strategy. Social, economic and, environmental sustainability have been core values at PUMA for years. Therefore, PUMA publishes its Annual Report each year on the day of the Annual General Meeting, which contains the sustainability report for the past year, including the combined non-financial report, in addition to the Combined Management Report and the Consolidated Financial Statements. Furthermore, important sustainability information can be found on PUMA's website in the sustainability section (<http://about.PUMA.com/en/sustainability>). PUMA is planning to publish its sustainability report for financial year 2017 on Thursday, April 12, 2018, the day of PUMA SE's Annual General Meeting.

**RELATIONSHIPS WITH AFFILIATED COMPANIES**

At the end of the dependent company report given by the Managing Directors for the financial year 2017, the following statement was given: "Under the circumstances which were known to the Managing Directors at the time when the transactions listed in the report on relationships with affiliated companies were made, PUMA SE received an appropriate consideration in all cases. There were no reportable measures taken or not taken in the reporting period."

**THE MANAGING DIRECTORS**

The compensation of the Managing Directors, which is determined by the Administrative Board, consists of non-performance-based and performance-based components. The non-performance-based components consist of a fixed salary and non-cash compensation, whereas the performance-based components consist of bonuses and components with a long-term incentive effect. Along with job assignments and performance of each individual Managing Director, the criteria for calculating the total remuneration are the economic situation, long-term strategic planning and related targets, the long-term durability of targeted results and the Company's long-term prospects.

A fixed salary is paid out monthly as non-performance-based basic compensation. In addition, the Managing Directors receive non-cash compensation, such as company cars, pension contributions and insurance premiums. In principle, these benefits are granted to all Managing Directors in an equal manner and are included in the non-performance-based compensation. The fixed compensation for the three Managing Directors amounted to € 2.1 million in the financial year [previous year: € 1.9 million]. Non-cash compensation totaled € 0.1 million [previous year: € 0.1 million].

The bonus component of performance-related compensation is mainly based on the PUMA Group's operating income (EBIT) and free cash flow and is staggered according to the degree to which targets are met. In addition, qualitative individual goals are set. An upper limit is also agreed. In the financial year, variable bonuses came to € 3.9 million [previous year: € 2.5 million].

Pro-rata provisions totaling € 8.4 million [previous year: € 2.1 million] were set up for the existing compensation program [virtual shares/monetary units] with long-term incentives [from the years 2014 to 2017] for Managing Directors in financial year 2017 according to the vesting periods. Under the perfor-

mance-based program, 70% of the compensation will be based on the medium-term performance of PUMA SE's share and 30% will be based on the medium-term performance of Kering S.A.'s share in relation to benchmark companies. Further information on this program can be found in Section 19 of the Notes to the Consolidated Financial Statements. In addition, a payment of € 0.4 million [previous year: € 0.0 million] was made in connection with the *Stock Option Program 2012*, which expired at the end of April 2017.

Managing Directors have pension commitments as part of deferred compensation, which are paid from the aforementioned performance-based and/or non-performance-based remuneration for which the Company has taken out reinsurance for pension commitments. The proportion of the pension capital that is already financed through contributions to the pension liability insurance is deemed to be vested. During the financial year, € 0.4 million was allocated for Managing Directors [previous year: € 0.4 million]. The present value of the pension benefits granted to active Managing Directors in the amount of € 4.5 million as of December 31, 2017 [previous year: € 2.6 million] was offset against the pledged asset value of the pension liability insurance policy, which was of an equal amount.

There are performance-based pension obligations to former members of the Board of Management and their widows/widowers amounting to € 3.3 million [previous year: € 3.5 million] and contribution-based pension obligations in association with deferred payment from previous members of the Board of Management and Managing Directors of € 10.3 million [previous year: € 10.1 million]. Both items are accordingly recognized as liabilities under pension provisions, unless they are offset against asset values of an equal amount. Pension obligations to former members of the Board of Management and their widows/widowers amounted to € 0.2 million [previous year: € 0.2 million].

## RISK AND OPPORTUNITY MANAGEMENT

**ADMINISTRATIVE BOARD**

In accordance with the Articles of Association, the Administrative Board has at least 3 members; it currently consists of 6 members. The compensation of the Administrative Board is comprised of a fixed and a performance-based component. The total fixed compensation amounted to € 0.3 million (previous year: € 0.3 million).

In accordance with the Articles of Association, each member of the Administrative Board receives a fixed annual compensation in the amount of € 25.0 thousand. The fixed compensation is increased by an additional fixed annual amount of € 25.0 thousand for the Chairman of the Administrative Board, € 12.5 thousand for the Vice Chairman of the Administrative Board, € 10.0 thousand for each committee chairman

[excluding the Nominating Committee] and € 5.0 thousand for each committee member [excluding the Nominating Committee].

In addition, each Administrative Board member receives performance-based compensation equal to € 20.00 for each € 0.01 by which the earnings per share figure exceeds a minimum amount of € 16.00 per share. The performance-based compensation amounts to a maximum of € 10.0 thousand per year. The Chairman of the Administrative Board receives twice this amount [maximum € 20.0 thousand] and the Vice Chairman receives one and a half times this amount [maximum € 15.0 thousand] in compensation. Since earnings per share are below the minimum amount in the financial year, no performance-based compensation will be paid.

Entrepreneurial activities are always associated with uncertainties and risks. This is particularly true for the fast-paced sports and lifestyle industry in which PUMA operates. Due to the global nature of business in this industry, PUMA is constantly exposed to risks and opportunities that must be identified and managed. Here, we need an effective risk and opportunity management through which risks and opportunities can be systematically recognized and monitored. A risk is defined as one or more future events with unplanned, negative effects for plans through to the continued existence of the Company. Similarly, an opportunity is defined as one or more events with unplanned, positive consequences for PUMA.

The Managing Directors of PUMA SE have overall responsibility for the risk and opportunity management system. The *Risk Management Committee* [hereinafter *RMC*] is a management-level committee responsible for the design and monitoring of the risk and opportunity management system, thereby acting as the first point of contact for risk report preparation. The task of the operational coordination and implementation of the Group-wide risk and opportunity management system has been transferred to Group Internal Audit & GRC [Governance, Risk Management & Compliance]. Structured individual interviews [risk interviews] are conducted regularly across the group [currently twice annually] with executives at the management level below the Managing Directors [risk owners]. The objective of these interviews is to systematically identify, validate and categorize risks. The Group Internal Audit & GRC department provides a uniform framework for the assessment of risks. The assessment considers probability of occurrence, the potential effect and the control of the risk in question.

The risks identified and assessed during the risk interviews are presented to the RMC in an aggregated form [the *risk heat map*]. The RMC consists of a fixed group of executives from various corporate divisions, including the Managing Directors. The position of RMC Chairman is always filled by a Managing Director. The results of the RMC meetings are reported to the Audit Committee [sub-committee of the Administrative Board] by the Chair of the RMC and the Head of the Group Internal Audit & GRC department. An integrated GRC tool used to document the risk management processes is available to the Group Internal Audit & GRC department and to the risk owners.

PUMA also has a comprehensive reporting and controlling system, which is an essential component of its risk management approach. PUMA's reporting and controlling system is based on monthly financial reporting as well as the review and plausibility reports on reported information issued by Controlling.

Managers analyze opportunities and risks in annual planning discussions around the world, setting targets and defining courses of action based on the results. The comprehensive reporting system continuously monitors and generates reports on compliance with the set targets. This enables PUMA to promptly identify any deviations or negative developments and to initiate any necessary countermeasures in a timely manner.

**RISK AND OPPORTUNITY CATEGORIES****MACROECONOMIC DEVELOPMENTS**

As an internationally acting Group, PUMA is exposed to global macroeconomic developments and the associated risks. For example, economic developments in important sales markets may have an effect on consumer behavior. This can have positive or negative effects on the planned sales and results. Likewise, political changes, exchange rate fluctuations, changes to the legal framework and social developments may have an effect.

Overall, PUMA manages these challenges with geographic diversification and the development of alternative scenarios for the possible occurrence of serious events. This applies in particular to political development and possible change of legal framework conditions which are continuously observed by PUMA.

**BRAND IMAGE**

Brand image and brand desirability are of key importance for PUMA, as consumer behavior can have a negative effect on the brand as well as a positive one. Accordingly, PUMA has formulated the guiding principle of *We want to be the fastest sports brand in the world* in order to underline the Company's long-term direction and strategy. The *Forever Faster* brand promise does not just stand for PUMA's product range as a sports company, but also applies to all company processes.