The central objective of PUMA's corporate strategy is to become the most desirable Sportlifestyle brand in the world. To accomplish this goal, PUMA aims to achieve desirability by combining design and innovation, a clear distribution channel strategy, and brand building marketing initiatives.

Innovation has been a constant throughout PUMA's history and a cornerstone of PUMA's growth over the past several years. By incorporating diverse sport and lifestyle influences into our products and by always asking ourselves how can we do things differently, we have forged a unique look and aesthetic. This ensures that PUMA continues to develop fresh and exciting product, we have adopted an organizational structure that is geared towards recognizing and incubating ideas throughout the company. The result should always be truly innovative product that reflects our long tradition of top performance combined with distinctive and unique PUMA signature design.

PUMA's distribution is equally important in contributing to brand desirability by making sure the right products get to their targeted consumers in the proper channels. Our distribution system also works together with product lifecycle management that enables us to control brand visibility and extend PUMA's market potential.

Desirability is further enhanced by marketing that develops the brand as an icon at the center of Sportlifestyle, creating sustainable brand equity.

PUMA supports these efforts with a continuous drive to improve operational efficiency. Our decentralized organization allows for the placement of our competencies in locations where they will be most effective and enables PUMA to realize speed and efficiency throughout the supply chain, and ultimately to better serve both our wholesale customers and our end consumers.
Dear Stakeholder,

Questions about ethics in business as well as the social and environmental impacts of a company’s actions are considered more and more vital for the success of a company in the long term.

The concept of sustainable development - the term sustainable stands for an economically successful and ethically responsible society as well as an intact environment - highlights the need to focus equally on social, environmental and financial aspects in our day-to-day business.

More than fifty years ago we decided to use the jumping cat as our logo. Today this animal needs more respect and sustainable protection than ever. We understand the protection of the environment, both production- and product-related, as well as the fair treatment of our suppliers and their employees as necessities on our way to sustainability alongside others.

Sustainability-oriented customers, organizations and financial analysts are increasingly asking us what we are doing in our daily business to ensure that the aspects of sustainable development are covered. These questions are certainly appropriate.

With this new report you will find our answers covering social and environmental aspects. From our product-related report “Insights” (2001) to our first sustainability report “Perspective” (2003) we have gone a long way to issue this third report: “Momentum”. We have chosen the title "Momentum" because it shows our movement towards increased social and environmental care. This action has included, for example, the phasing out of harmful substances and auditing and reauditing nearly all our suppliers worldwide for their social, environmental, and health and safety performance. Based on our previous audit experiences, we reworked the audit methodology and our internal rating system to include some aspects previously not covered. In January 2004 PUMA joined the Fair Labor Association as a graduating member in order to provide independent and external monitoring activities. We invited our stakeholders to two annual multi-stakeholder conferences and issued a new company-wide Code of Ethics to supplement our existing Code of Conduct.

On the other hand our efforts have by no means reached an end. While we work in close cooperation with the vast majority of our suppliers to implement our Code of Conduct, we also have to be honest to ourselves and to our stakeholders. Not all issues have been solved in the way they should have been. But we also recognize an increasing awareness of improving environmental & social standards at our points of production worldwide.

Times have changed rapidly. Unlike in the past, multinational companies can no longer get away easily with ignoring basic standards for business reasons. PUMA welcomes and supports this development.

We are fully aware that sustainable development implies continuous improvement, and the ongoing dialogue with our stakeholders helps us to identify the areas in which our next efforts should be directed.

This report has been prepared in accordance with the 2002 GRI (Global Reporting Initiative) guidelines. It represents a balanced and reasonable presentation of our organization’s economic, environmental, and social performance. In our opinion this is the most complete and demanding set of non-financial reporting guidelines. We are proud that PUMA is the first company in the sporting goods sector to prepare a report in accordance with the GRI guidelines.

Finally PUMA would like to thank our key stakeholders for their valuable and professional feedback and input and IMUG* for their independent commentary statement.

Best regards,

Jochen Zeitz
Chairman and CEO, PUMA AG

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* Institut für Markt, Umwelt und Gesellschaft
The S.A.F.E. concept encompasses issues of human rights, product safety and ecological concerns, and dictates a set of internal standards in effect throughout the supply chain. These standards apply equally to our first-tier suppliers, subcontractors and licensees.

The present report, covering the year 2004, shall give the reader an impression of the means and provisions PUMA uses to fulfil its high standards. Starting with general statements about our policy, we will continue with a presentation of our corporate profile, giving the reader an overview of the brand mission, products, as well as financial facts and figures. After further defining the S.A.F.E. concept, we will then describe our process of stakeholder dialogue. At that point we will introduce Charity Cat, an employee community involvement initiative, and outline our ideas for the future.

We would also like to invite the reader to provide us with comments on this report, either by sending us the attached feedback sheet, or by completing the online questionnaire available in the CSR section of our website http://about.puma.com.

"The product of the mass and velocity of a moving body determines the momentum, an impelling force." The PUMA AG Sustainability Report 2005 wants to show how we have gathered momentum in the field of Corporate Social Responsibility (CSR).

"One way to keep momentum going is to have constantly greater goals."

MICHAEL KORDA (EDITOR SIMON & SHUSTER), 1919

Proactively adapting to the challenges of a rapidly changing globalized world, PUMA and its suppliers form, in a figurative sense, the mass that is driven by velocity. Together we strive for rapid innovation in every sense - social, ecological and economical.

In its bid to be the most desirable Sportlifestyle company, PUMA affirms its corporate values of passion, self-belief, entrepreneurship and openness in its strong sense of social and environmental accountability. Likewise the S.A.F.E. concept builds on the principles of transparency, dialogue, evaluation, social accountability, and sustainability.

"One way to keep momentum going is to have constantly greater goals."
A Preface

Sport is a microcosm of life - all principles applying to sport are also of significance for life and society as a whole. We cannot commit fouls in a football game without risking a yellow card, and we cannot throw a boomerang without expecting it to come back. Taking the possible consequences of our behaviour into consideration is what sustainable development as well as sportsmanship is all about. PUMA AG as a sports and lifestyle company does not only promote the will to win, but also fair play. PUMA AG as a global player not only strives towards immediate economic success, but also toward ensuring its position on the global market on a long-term basis. Human rights and sustainable development are thus not foreign words for PUMA AG but represent a fundamental part of its corporate policy.

Environmental Policy

Each human being is in direct contact with his environment. As such, environmental protection is enormously important to PUMA and also poses challenges ahead. Our aim is not only to make environmentally compatible production of our sporting goods transparent to our partners and stakeholders, but also to continuously improve our standards. There are four main challenges facing PUMA now:

- **Fully Integrate Environmental Policy into Corporate Strategy**
  A long-term economic perspective very much depends on our ability to foster the protection of the environment and sustainable development as important parts of our corporate strategy. Eliminating the content of harmful substances in PUMA products and production, as well as controlling the release of environmentally relevant substances into water, air and soil, are core components in achieving this goal.

- **Find Win-Win Solutions for both Financial and Environmental Interests**
  Enforcing the highest environmental standards, both product- and production-related, benefits PUMA economically by keeping PUMA consumers loyal and by generating new PUMA consumers. Furthermore, the recycling of waste materials as well as using sustainable energy sources can create immediate financial benefits, for example through lower cost of waste disposal.

- **Better Articulate the Environmental Policy to different levels of PUMA’s Organization and Suppliers**
  Sustainable development cannot be achieved by an individual department or brand acting alone. It requires all the individuals and stakeholders involved to serve a common goal. After clearly articulating our environmental policy, we must also work together to fulfill our standards. By creating strategic partnerships with our suppliers, we help each other achieve this aim together.

- **Strive for Continuous Improvement**
  The protection of the environment is an ongoing process. Continuous improvements are required to live up to our environmental accountability to consumers, suppliers, employees and the generations to come.

Social Policy

**PUMA and its Principles**

As a global brand PUMA acknowledges its responsibility towards its customers, employees, business partners and shareholders - in short, its stakeholders.

Manufacturing in almost 50 countries across the world, the implementation and observation of workplace standards as defined by the ILO (International Labor Organization) forms a core element of our social policy. As the foundation of our S.A.F.E. concept we developed a Code of Conduct as early as 1993.

Following recent developments in the field of corporate social responsibility and after several severe corporate scandals pertaining to corporate governance, as well as with reference to the 10 principles of the UN Global Compact, we have added a Code of Ethics to complement our existing workplace Code of Conduct.

**Code of Conduct**

PUMA’s code forms an essential part of all business contracts and is available in more than 30 languages. It is displayed in every partner factory across the world so that workers are informed about their rights.

**Business Code of Ethics**

After evaluating the need for a written corporate policy against bribery and corruption PUMA created the PUMA Code of Ethics last year. This Business Code of Ethics sets out in writing PUMA’s commitment to ethical, individual and corporate behaviour. It lists our most important principles and contains guidelines for the interaction with all our stakeholders.
Brand Mission and Corporate Strategy

Founded in Herzogenaurach, Germany, in 1948, PUMA is one of the world's largest providers of athletic footwear, apparel and accessories. Embodied by cutting-edge design, innovative marketing concepts, unique athletes and teams and a management that is dedicated to constant innovation and change, the central objective of PUMA's corporate strategy is to become the most desirable Sportlifestyle company.

To accomplish this goal, PUMA aims to achieve desirability by combining design and innovation, a clear distribution channel strategy, and brand-building marketing initiatives. Innovation has been a constant throughout PUMA's history and a cornerstone of PUMA's growth over the past several years. By incorporating diverse sport and lifestyle influences into our products and by always asking ourselves how we can do things differently, we have forged a unique look and aesthetic identity. To help ensure that PUMA continues to develop fresh and exciting product, we adopted an organizational structure that is geared towards recognizing and incubating ideas throughout the company. The result should always be truly innovative products that reflect our long tradition of top performance combined with a distinctive and innovative product offering.

The course was set for lasting future success as early as 1993; in subsequent years, the strategic development of the brand was implemented by means of systematic corporate planning. In 1993 PUMA CEO Jochen Zeitz introduced a three-phase business plan. In Phase I and II a solid financial footing was established and brand equity was improved. After successfully completing the objectives of Phase I and II, reaching 1 billion Euros in branded sales ahead of schedule, PUMA in 2002 initiated Phase III. The goal of Phase III is to further explore the potential of the PUMA brand by generating desirable and profitable growth.

Phase III was completed on year ahead of schedule in 2005. Plans for Phase IV were announced in July 2005. Following a clear set of guiding principles: Desirability, Sustainability, Product Lifecycle Management, Corporate Values, Organizational Excellence and Value Creation. PUMA will focus on three areas: Category Expansion, Regional Expansion and Non-PUMA Brand Expansion.

However, PUMA also strongly believes that financial success is hinged on the ability to contribute positively to the environment in which the company operates. By investing in relationships and surroundings PUMA is plying the way for long-term growth. As PUMA has demonstrated in the past, its goals are not governed exclusively by financial considerations.

Products

PUMA’s unique industry perspective delivers the unexpected in Sportlifestyle footwear, apparel and accessories, through technical innovation and revolutionary design. With clear product and market segmentation, PUMA is able to appeal equally to athletes as well as lifestyle consumers.

Over the years, PUMA has stayed true to its four cornerstones: heritage, sport, technological innovation, and design. The brand brings distinctive designs and a global outlook to each product range by blending influences of sport, lifestyle and fashion. This fusion is known as “Sportlifestyle”. PUMA views sport as a philosophy on life - one that emphasizes fitness, wellness and simply living an active life. Since sport can be different things to different people, PUMA approaches it in a greater-lifestyle context, while not compromising performance. This is exactly what the brand means when it speaks of “Sportlifestyle”.

Employees

For a Sportlifestyle company such as PUMA with its multi-cultural workforce - even in Germany there are employees with 22 different nationalities - it is vitally important to follow the principles of equal opportunity, respect and tolerance and prohibit discrimination on the grounds of religion, ethnicity or lifestyle. PUMA has a special company policy to support the employment of handicapped persons and an ombudsman is elected regularly at our head office to represent disabled employees.

Labor/Management Relations

In several countries (e.g. Germany, Austria, France and the UK) our employees are represented by workers’ councils or workers’ representatives. In accordance with German law, the workers’ council has the right of co-determination and sends two members to the supervisory board. In 2004 employee turnover at our head office was 5.3% and the female:male ratio was 52.5% to 47.5%, while 34% of our management team are women.

Training & Education

The importance of lifelong learning and investment in people is vital for a powerful and efficient workforce. Training budgets are available for all categories of employees. The average amount of money per employee spent on training adds up to € 400 per year.

PUMA’s goal is to recognize and promote the performance and achievement potential of each employee. To this end, supervisors hold periodic performance appraisal meetings with employees to evaluate work performance and set goals for the future. The PUMA performance appraisal meeting also forms the basis for determining suitable individual training needs and activities.

In addition to on-the-job training, PUMA provides employees with skills upgrade training, for example enhanced communication, presentation and intercultural skills. Moreover, PUMA offers the opportunity to take part in language classes and product training.

We encourage our employees to expand their qualifications and knowledge through tuition assistance for “job-related” or “job-relevant” external courses.

The basis for success within a highly competitive world is to invest in motivated and talented employees. Therefore, PUMA employs apprentices, interns and trainees.

Executive Statement | Introduction | Policy Statements | Corporate Profile | S.A.F.E. Concept | Stakeholder Dialogue | Targets Old and New | Charity Cat | Our ideas for the future | GRI Content Index
Within the PUMA group, company physicians and specialists for job safety advise and support the management in planning, executing and maintaining industrial premises as well as design of workplaces.

Worldwide, we encourage our employees to follow a healthy way of living and therefore offer a variety of programs. They are defined according to cultural and national circumstances. In our headquarters in Germany for example employees have access to a gym and are offered wholesome meals in the canteen. A physical therapist ensures the correct handling of equipment and offers courses to enhance back strength.

Furthermore, a formal health & safety committee including a company physician and a health & safety engineer is operating. Health checks are offered by the company physician, accidents are registered, regular meetings are held by the committee and targets are set and monitored. As such, PUMA follows the ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases as provided by German Law.

Standard procedures exist in most countries to record and report occupational accidents and diseases. There has been no case of any registered occupational disease at PUMA during the last 10 years.

The importance of occupational health and safety to PUMA reflects in the relevant paragraph of our Code of Conduct. PUMA ensures a high focus on health and safety standards at PUMA’s suppliers by the supplier audits included in the PUMA S.A.F.E. concept. Auditors request high standards at the point of production and support factories in developing their own health and safety management systems.

For example, the S.A.F.E. team requires suppliers to install their own health and safety committees (ideally with worker participation) and encourages factories to equip sewing machines with needle guards. With training and a small investment, the apparel factories can prevent the majority of needle injuries.

Corporate Governance

PUMA AG is a publicly listed corporation with a registered head office in Herzogenaurach, Germany. At the end of 2004 there were approximately 16.062 Mio. shares outstanding, all of which were freely floated. (In May 2005 “Mayfair Vermögensverwaltungsgesellschaft mbH” has acquired a total of 16.91% shareholding in PUMA AG Rudolf Dassler Sport.) Annual shareholder meetings are held at the head office, where shareholders have the opportunity to ask questions to the board of directors and make suggestions. PUMA follows the German Corporate Governance Code with two deviations which are published on PUMA’s website http://about.puma.com/.

The German Corporate Governance Code (DCGK) sets the significant legal regulations and recommendations for the guidance and monitoring of German companies listed on the stock exchange and includes standards governing responsible corporate management.

PUMA’s Sourcing Structure

PUMA AG acts as the parent company for the sourcing organizations World Cat Europe (Germany), World Cat Far East (Hong Kong) and World Cat America (USA). PUMA also holds licensee contracts for selected products and countries, for which it earns royalty income. Sourcing is generally carried out by the World Cat Organizations, however licensees also place direct orders to selected, audited and accredited supplier factories. World Cat has outsourced production to independent supplier factories. These are mainly located in Europe and the Far East, but also in North and South America, Africa and the Middle East.
### Financial Facts & Figures

#### Consolidated Balance Sheet Structure

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>+/- %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ million</td>
<td>%</td>
<td>€ million</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>369.3</td>
<td>39.7%</td>
<td>190.6</td>
</tr>
<tr>
<td>Inventories</td>
<td>201.1</td>
<td>21.6%</td>
<td>196.2</td>
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<tr>
<td>Accounts receivables</td>
<td>189.6</td>
<td>20.4%</td>
<td>175.6</td>
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<td>Other short-term assets</td>
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<td>0.0%</td>
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<tr>
<td><strong>Total current assets</strong></td>
<td>760.3</td>
<td>81.8%</td>
<td>564.3</td>
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<tr>
<td>Deferred income taxes</td>
<td>51.6</td>
<td>5.6%</td>
<td>36.5</td>
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<td>Long-term assets</td>
<td>117.7</td>
<td>13.7%</td>
<td>99.4</td>
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<tr>
<td><strong>Total assets</strong></td>
<td>929.6</td>
<td>100.0%</td>
<td>700.1</td>
</tr>
<tr>
<td>Bank borrowings</td>
<td>12.9</td>
<td>1.4%</td>
<td>16.8</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>269.8</td>
<td>29.0%</td>
<td>204.8</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>282.8</td>
<td>30.4%</td>
<td>221.6</td>
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<tr>
<td>Pension</td>
<td>21.2</td>
<td>2.3%</td>
<td>18.5</td>
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<tr>
<td>Tax provision</td>
<td>33.7</td>
<td>3.6%</td>
<td>27.1</td>
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<tr>
<td>Other provisions</td>
<td>53.8</td>
<td>5.8%</td>
<td>40.0</td>
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<td><strong>Provisions</strong></td>
<td>108.7</td>
<td>11.9%</td>
<td>94.5</td>
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<tr>
<td><strong>Total long-term interest bearing borrowings and minorities</strong></td>
<td>2.4</td>
<td>0.0%</td>
<td>0.8</td>
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<tr>
<td>Shareholders' equity</td>
<td>535.8</td>
<td>57.6%</td>
<td>383.0</td>
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<tr>
<td><strong>Total liabilities and shareholders' equity</strong></td>
<td>929.6</td>
<td>100.0%</td>
<td>700.1</td>
</tr>
<tr>
<td>Working capital</td>
<td>148.4</td>
<td>15.7%</td>
<td>155.7</td>
</tr>
<tr>
<td>- in % of sales</td>
<td>8.7%</td>
<td>12.3%</td>
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</table>

#### Business Phase

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>+/- %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ million</td>
<td>%</td>
<td>€ million</td>
</tr>
<tr>
<td><strong>Sales</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand sales&lt;sup&gt;1&lt;/sup&gt;</td>
<td>2,016.6</td>
<td>1,015.1</td>
<td>19.2%</td>
</tr>
<tr>
<td>- Change in %</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated sales</td>
<td>1,530.3</td>
<td>1,274.0</td>
<td>20.1%</td>
</tr>
<tr>
<td>- Change in %</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Footwear</td>
<td>1,011.4</td>
<td>899.3</td>
<td>20.2%</td>
</tr>
<tr>
<td>- Apparel</td>
<td>410.0</td>
<td>337.0</td>
<td>24.8%</td>
</tr>
<tr>
<td>- Accessories</td>
<td>102.9</td>
<td>77.7</td>
<td>33.9%</td>
</tr>
<tr>
<td><strong>Result of operations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td>794.0</td>
<td>620.0</td>
<td>25.9%</td>
</tr>
<tr>
<td>- Gross profit margin</td>
<td>51.9%</td>
<td>48.7%</td>
<td></td>
</tr>
<tr>
<td>License and commision income</td>
<td>42.7</td>
<td>48.3</td>
<td></td>
</tr>
<tr>
<td>Operating result / EBIT</td>
<td>365.0</td>
<td>263.2</td>
<td>11.7%</td>
</tr>
<tr>
<td>- EBIT Marge</td>
<td>23.9%</td>
<td>20.7%</td>
<td></td>
</tr>
<tr>
<td>Result before taxes on income / EBIT</td>
<td>370.7</td>
<td>294.1</td>
<td>24.2%</td>
</tr>
<tr>
<td>- EBIT Marge (Return on sales before tax)</td>
<td>24.2%</td>
<td>20.7%</td>
<td></td>
</tr>
<tr>
<td>Consolidated group profit</td>
<td>257.3</td>
<td>178.3</td>
<td>45.0%</td>
</tr>
<tr>
<td>- Marge (Return on sales after tax)</td>
<td>16.8%</td>
<td>14.1%</td>
<td></td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>109.4</td>
<td>91.0</td>
<td></td>
</tr>
<tr>
<td>Advertising and selling cost</td>
<td>185.3</td>
<td>158.7</td>
<td></td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>157.5</td>
<td>128.6</td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>452.3</td>
<td>378.5</td>
<td>16.9%</td>
</tr>
<tr>
<td>Balance sheet composition and ratios</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>929.6</td>
<td>700.1</td>
<td>32.8%</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>57.6%</td>
<td>54.7%</td>
<td></td>
</tr>
<tr>
<td><strong>Net working capital</strong></td>
<td>148.4</td>
<td>155.7</td>
<td></td>
</tr>
<tr>
<td>- thereof: inventories</td>
<td>201.1</td>
<td>196.2</td>
<td></td>
</tr>
<tr>
<td><strong>Cashflow</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Free cashflow</td>
<td>256.6</td>
<td>107.4</td>
<td>141.7%</td>
</tr>
<tr>
<td><strong>Net cash position</strong></td>
<td>356.4</td>
<td>173.8</td>
<td></td>
</tr>
<tr>
<td>Investment (incl. Acquisitions)</td>
<td>43.1</td>
<td>57.3</td>
<td></td>
</tr>
<tr>
<td><strong>Additional information</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orders on hand on Dec. 31</td>
<td>822.6</td>
<td>722.0</td>
<td></td>
</tr>
<tr>
<td>Number of employees on Dec. 31</td>
<td>3,910</td>
<td>3,189</td>
<td></td>
</tr>
<tr>
<td>Number of employees on yearly average</td>
<td>3,475</td>
<td>2,826</td>
<td></td>
</tr>
<tr>
<td><strong>PUMA share</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price of the PUMA share on Dec. 31</td>
<td>202.30</td>
<td>140.00</td>
<td></td>
</tr>
<tr>
<td>Earnings per share (in €)</td>
<td>16.06</td>
<td>11.26</td>
<td></td>
</tr>
<tr>
<td>Average outstanding shares (in million)</td>
<td>16,025</td>
<td>15,932</td>
<td></td>
</tr>
<tr>
<td>Number of shares on Dec. 31 (in million)</td>
<td>16,052</td>
<td>18,059</td>
<td></td>
</tr>
</tbody>
</table>

<sup>1</sup> Sales by regions and segments are based on sales of licensees.
Pillars of Responsibility

Encompassing issues of human rights, product safety and ecological concerns, the S.A.F.E. concept is articulated as a set of internal standards in effect throughout the supply chain. In keeping with the adage that “responsibility starts at home”, these standards are primarily upheld by the S.A.F.E. Audit Team, a group that monitors partner manufacturers and works with the rest of the company in promoting the S.A.F.E. concept. Recognizing the growing importance of corporate responsibility, we recently expanded the S.A.F.E. team in the Far East by an additional two persons, along with movements of some staff into the core sourcing structure. These movements facilitated further integration of the S.A.F.E. concept into key business processes and reflect the growing importance of the Far East as a worldwide sourcing region.

Transparency

To ensure that social and environmental compliance become key components of our business, we opened our operations to external monitoring in 2004 through membership in the Fair Labor Association (FLA). The FLA is a non-profit organization that catalyzes the efforts of companies, non-governmental organizations, colleges & universities in monitoring international labor standards. The FLA conducts random, unannounced external monitoring of up to 5% of a brand’s suppliers. Through the FLA, our commitment and implementation of the S.A.F.E. concept was evaluated (see the special chapter on FLA audits, page 33), the results of which have been used to improve our own internal audit process.

Communications

Internal transparency was also assured through increased publication of the S.A.F.E. News, the internal PUMA newsletter addressing environmental and social compliance issues, to quarterly frequency. The circulation of S.A.F.E. News was also expanded to licensees to ensure that our key business partners are in step with our corporate responsibility. Our recent growth has presented a unique challenge as more people joined the organization, making it imperative to intensify internal communications.

Another aspect of transparency is apparent in the area of our products. To ensure our products are free of any substances harmful to human health as well as to the environment we use independent testing institutes and laboratories. We have added SGS and Bureau Veritas to our list of global institutions that test for restricted substances.

Telephone
Social Accountability

In 2004, we proactively sought venues for dialogue with stakeholders. We focused on stakeholders who we believe to be credible experts in their field of interest and who are most relevant to PUMA. In particular, we initiated major engagements throughout the year by bringing together key players in social and environmental compliance within our own structure and with external stakeholders. Increased participation by parties that normally wouldn’t have had the chance to constructively interact, such as non-governmental organizations (NGOs) and factory managers, marked these dialogues. This inclusiveness and openness has become the standard in all stakeholder engagements that we organize.

In April 2004, PUMA became the first sporting goods company to meet with the organizers of the Play Fair at the Olympics Campus to share the results of internal investigations as well as to discuss areas for cooperation and improvement. This round-table discussion was a milestone in PUMA’s efforts toward harmonious and productive engagement with its stakeholders. Convened by the Fair Labor Association (FLA), topics discussed included steps in increasing S.A.F.E. interview accuracy and worker comfort, the roles of worker committees vs. unions, ensuring that the former do not undermine the establishment of the latter, the possibility of signing an Ethical Purchasing Standards declaration, and the continued use of the FLA as a sectoral solution to workers issues.

In 2004, the S.A.F.E. team held its annual review meeting which was attended by all the brand’s Branch Managers and Sourcing Directors. Notably, the FLA and the Hong Kong Christian Industrial Committee (HKCIC) were present to discuss further introduction to S.A.F.E. sourcing practices such as the continuation of trainings and the institution of supplier feedback measures for internal S.A.F.E. audits. We planned increased dialogue between workers and factory management along with production-related environmental monitoring with a special focus on China.

In 2003 meeting, these proceedings were moderated by the German Round Table on Codes of Conduct - a discussion group between the GTZ (Gesellschaft für Technische Zusammenarbeit), the BMG (Federal Department of Economic Cooperation and Development), NGOs, unions and companies PUMA. In particular, we initiated major engagements throughout the year by bringing together key players in social and environmen-

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Following our first multi-stakeholder meeting in November 2003, we arranged a second multi-stakeholder meeting at the Banz monastery in Bad Staffstein, Germany, in late 2004. As with the 2003 meeting, these proceedings were moderated by the German Network of Business Ethics, DMWE. Major suppliers from Asia were in attendance, as well as NGOs like the Clean Clothes Campaign, the HKCIC, Oxfam, the International Textile and Leather Union, the FLA and the International Labor Organization. PUMA Vice Chairman Martin Gansler and sourcing organizations World Cat Far East and World Cat Europe also participated.

This dialogue highlighted work planned for 2005 and beyond as we shared our strategies leading up to the 2008 Beijing Olympics. Using the Objectives, Strategies, Activities and Measures (OSAM) framework, the following objectives were deliberated:

- Improvement of health and safety and labor issues in factories
- Increase the involvement of workers in labor issues
- Decrease excessive overtime work
- Improve cooperation with and support of suppliers and encourage them to form CSR partnerships
- Raise awareness and enhance in-house support for S.A.F.E.
- Continue and enhance stakeholder engagement and cooperation
- Increase percentage of A- and B-graded factories and eliminate C-level factories

In order to effectively achieve these goals, the need to multiply the efforts of the S.A.F.E. team through more pro-active dialogue and activities with NGOs and other interested third parties was recognized. Here, the FLA proved to be an instrumental channel as new partners in compliance monitoring were identified and sought out.

As the dialogue became wider and deeper in scope, momentum was gathered through the participation of the S.A.F.E. team in various CSR conferences. These conferences are viewed not only as a venue to present our progress in achieving sustainable compliance, but these were also viewed as venues for further dialogue and learning. Furthermore, PUMA is a member in the following groups and associations:

- World Federation of the Sporting Goods Industries (WFSGI) - Committee on Environment and Social Issues
- The committee’s mission statement is to coordinate the activities of the environmental problems related to the industry around the world, to promote WFSGI standards on the ecology within the industry and to gather all information with respects to the ecology regulations affecting the industry
- Local Chamber of Industry and Commerce, Nuremberg, Germany
- The German Round Table on Codes of Conduct - a discussion group between the GTZ (Gesellschaft für Technische Zusammenarbeit), the BMG (Federal Department of Economic Cooperation and Development), NGOs, unions and companies
- FLA (Fair Labor Association) - as a member of the FLA, PUMA (with its suppliers) is subjected to regular independent and unannounced monitoring visits
Our growth in the past year was coupled with the widening of the supplier base across Footwear, Apparel and Accessories by 29% in aggregate. In total, there were 337 audits conducted in 2004 compared to 263 the previous year. Of these, 171 were re-audits of factories that have long been part of our active factory list. A separate chapter provides an in-depth look at the results of our internal audits. Our internal S.A.F.E. database contains information on all authorized PUMA suppliers. Starting from 2002, all S.A.F.E.-audit reports are archived electronically in this database which is regularly updated and evaluated. New techniques in social concerns and stricter standards for environmental concerns emerged since 2002, and these changes were introduced into the S.A.F.E. manual, which is distributed to all direct suppliers and licensees.

Social Accountability

Social accountability implies that we shoulder the responsibility for all our direct and indirect employees working in our contracted supplier factories. In detail this means that existing rules and regulations, conventions and laws must be strictly followed, for example the ILO core conventions (Forced Labor), 87 (Freedom of Association and the Right to Organize), 98 (Right to Organize and Collective Bargaining), 100 (Equal Remuneration), 105 (Abolition of Forced Labor), 111 (Discrimination), 138 (Minimum Age), 182 (Worst Forms of Child Labor). In close cooperation with its manufacturers, PUMA aims to guarantee a socially responsible workplace. The social standards that have been laid down in our Code of Conduct contain the most important social principles based on the conventions of the International Labour Organization (ILO).

The S.A.F.E. audits serve as the main intervention tool in assessing supplier compliance to social standards. The audits mainly follow ILO guidelines and the SA 8000 standard (developed by the NGO Social Accountability International). In the area of health and safety, we work towards the strict observance of international standards.

Our policy has been to work with all our factories through focused remediation instead of simply dropping them from our active lists. Currently, only factories that obtain D ratings after the initial audits are automatically dropped. However factories caught flagrantly or repeatedly violating our standards and are uncooperative are summarily dropped.

This effort to work with factories, workers and external stakeholders means that the S.A.F.E. team should not only act as auditors but also as facilitators for the healthy exchange of ideas and also as technical consultants. Given the limitations of the S.A.F.E. team, a major step was taken to multiply our effort by engaging with external auditors from various partner organizations such as the FLA and other interested third parties.

However, it was noted that in some cases the root causes of enduring problem areas tend to remain despite ongoing discussions between S.A.F.E. team members, the internal sourcing department and factory management. Hence we have realized that while monitoring is an important component to measure compliance, preventive and continuing remediation measures are important sustainable means of ensuring supplier compliance to our standards.

With this in mind, we sought participation in industry-level projects that addressed so-called soft concerns such as, for example, freedom of association. In particular, we expressed support for the German Code of Conduct Round Table joint project on improving worker – management dialogue, which will be further concretized in 2005. PUMA also started participation in two FLA projects - Hours of Work Project, which seeks to understand the roots of excessive overtime, and the Sustainable Compliance Project which focuses specifically on China.

With our membership in the FLA, PUMA's own S.A.F.E. system came under review. Independent monitors arranged by the FLA visit factories and assess not only factory compliance but PUMA's own monitoring and remediation processes and results. A separate chapter looks in-depth at developments in this area.

Furthermore, some of our supplier factories have also achieved external certifications for social or environmental management systems, such as ISO 14001, SA 8000, WRAP (Worldwide Responsible Apparel Production) or Oekotex certificates (see chart).

In the area of product safety, Greenpeace included PUMA footwear and perfume in a ranking study that aims to assess the harmful chemical content of everyday objects. We have upheld commitments to remove harmful chemicals from our footwear and perfume ranges, thus earning an amber rating from this non-profit organization.

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The S.A.F.E. manual is not merely a book of standards, but also an educational tool to help factories meet international health & safety, labor, and environmental standards. Essentially, this means that this year factories have had to comply with stricter standards than in previous years.

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Sustainability

The concept of sustainability can be viewed both as a process and as an end in itself. To achieve sustainable development, one must implement responsive and comprehensive systems and processes that constantly drive towards this ultimate goal. To keep momentum going, appropriate structures must be in place. The identification of interim goals in our areas of corporate responsibility must accurately reflect the situation in our markets, our suppliers and within our own sphere of influence.

As a key mechanism in ensuring the sustainability of the S.A.F.E. improvement process, we have designated at all suppliers a Compliance Officer/Representative. This person serves as the main point of contact in the factory and is the primary advocate for the S.A.F.E. concept. These demands require a person that has the requisite influence within the organization to carry out changes in process and goals.

With sustainability as an end in itself, we initiated several projects to ensure that our products have negligible environmental and health impact. We eliminated all PVC from our products. We also joined the industry-wide call against restricted substances through the RSL Steering Group, an initiative of several global acting brands. New product safety standards in Europe, the Americas, and Asia are promptly communicated throughout the acting brands. New product safety standards in Europe, the Americas, and Asia are promptly communicated throughout the supply chain.

As an example of our sustainability initiatives, we have initiated a number of projects to ensure that our products have negligible environmental impact. We have eliminated all PVC from our products and joined the industry-wide call against restricted substances through the RSL Steering Group, an initiative of several global acting brands. New product safety standards in Europe, the Americas, and Asia are promptly communicated throughout the supply chain. By frequently updating our standards and emphasizing our long-term commitment for sustainable development, we hope to better understand our environmental footprint at the production site.

Our suppliers need models that have succeeded in some aspects of sustainability at their level and within their local context. Seeking out these model factories has been a major task for S.A.F.E. this year, particularly in our major sourcing areas. Suppliers that employ best practices in all areas of corporate responsibility are virtually nonexistent. Therefore, model factories are assessed on only particular areas, such as environmental management, health and safety or chemical handling.

Sustainable development can only be achieved in a learning environment for all PUMA’s stakeholders. It is imperative that capacity building is a sharing of experience among our suppliers. In the area of training, admittedly we have not been very active in meeting the preventive needs of workers and factories. However, with the increased breadth of our network, it is targeted that a comprehensive training program would be in effect in 2005 to include social standards training, health and safety aspects and worker-management dialogue.

Factories in the Far East also committed to a waste management project. This is significant because some countries in the region have yet to fully develop advanced local waste disposal practices. We encourage suppliers with high environmental impacts such as dye-houses, for example, to obtain ISO 14001 certification (internationally accepted environmental management certification scheme). But more importantly we look at how well the factory maintains its commitment to sustainable development through continuous improvement.

Taking sustainability to heart not only involves a few reference projects, but also the inculcation of ecological issues throughout the brand and the supply chain. We began collecting environmental data from our production partners in 2004. As we gain the capability to track our environmental performance, we hope to better understand our environmental footprint at the production side.

PUMA’s core business is in providing high quality products. Therefore, it is our responsibility that our products, no matter where they are produced, will always have the same quality and will be produced with minimum pollution of the global environment. Due to the fast development of new products and the use of different materials to fulfill customer requirements, and following the precautionary principle, we must be careful that the use of these materials has marginal impact on the environment as well as the human being himself.

In countries like China production capacity is rapidly growing. It is essential that this economic growth is accompanied by suitable infrastructural development including mechanisms to ensure the protection of the environment. The section about environmental protection in our internal S.A.F.E. manual is regularly updated and distributed to our contracted factories. By frequently updating our partners regarding the latest developments with respect to environmental issues, we ensure compliance with all legal requirements and emphasize our long-term commitment for sustainable development.

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S.A.F.E., Products and the Environment

Through the development and the use of innovative materials we hope to achieve sustainability improvements throughout the product life cycle. For example, the manufacturing of pure white cotton, inclusive of farming and the whole cleaning process, involves a substantial amount of chemicals like pesticides and fertilizers as well as a large amount of water (manufacturing one kilogram of pure white cotton requires 3000 litres of water). We started using organic cotton in our Mahanuala product line in 2004. Organic cotton, sometimes called “green cotton”, is raised without the use of pesticides, defoliants and fertilizers. Roughly 30,000 PUMA items were produced and sold solely from organic cotton in 2004. The further development of our organic cotton project will, however, also depend on consumer demand. To make sure that our globally produced items are free of harmful substances, PUMA’s S.A.F.E. influence has to start early in the product life cycle. Before the final material is chosen for production, the corresponding designer, developer and line manager discuss with the S.A.F.E. team product-related ecological issues. Packaging materials, which potentially contribute to waste problems, are also discussed.

Possible ecological risks:
- Water usage, pesticides, consumption of fossil resources, energy consumption, water pollution, air pollution, soil pollution, use of chemicals, waste
- Production of yarn, spinning, weaving, knitting
- Confection
- Shoe assembly
- Production of natural and/or man made fibres
- Production of leather, textile, fibres, rubber, PUR
- Upper production, tanning, spinning, weaving
- Dyeing, printing, finishing
- Sole production
- Packaging and distribution
- Usage of products
- Disposal, landfill, incineration
- Packaging and distribution
- Usage of products
- Disposal, landfill, incineration

TEXTILE

Possible ecological risks:
- Water usage, pesticides, consumption of fossil resources, energy consumption, water pollution, air pollution, soil pollution, use of chemicals, waste
- Production of yarn, spinning, weaving, knitting
- Confection
- Shoe assembly
- Production of natural and/or man made fibres
- Production of leather, textile, fibres, rubber, PUR
- Upper production, tanning, spinning, weaving
- Dyeing, printing, finishing
- Sole production
- Packaging and distribution
- Usage of products
- Disposal, landfill, incineration
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When a final agreement between all involved parties is reached, PUMA contracted factories are advised to produce the first product samples following the S.A.F.E. standards. To verify compliance with these standards, factories submit test results covering restricted substances. Furthermore, S.A.F.E. arranges frequent tests at renowned international testing labs such as SGS International or Bureau Veritas to double-check compliance with our restricted substance list. Only when all materials comply with the PUMA S.A.F.E. standards, final production will commence.

In 2004 S.A.F.E. carried out approximately 4,000 tests for different parameters in various materials with a standard margin of error of less than 5%. In case of a failure, S.A.F.E. reacts immediately by locating the problem and looking for ways to solve it.

Based on the experience during the past years, major problems with harmful substances like toxic Aryl compounds, which can be created in the production process of Azodyes (used for textiles), were identified. By engaging with external stakeholders also in this field, we aim to identify possible weaknesses of our internal systems and look at options on how we can further improve our existing standard.

Production Related Environmental Issues

Periodic audits are done by the S.A.F.E. teams in the factories to ensure that production-related environmental issues are considered equally important to product-related questions. The use of chemicals containing harmful substances is limited in the production process and ways to eliminate such substances are constantly sought. Among the programs successfully carried out by PUMA are the elimination of talc as a component in footwear production. This includes primers, paints, cleaners, adhesives or cements, and solvents in general which have a wide range of health effects. Besides being harmful to human health, the presence of VOC's in the air can lead to respiratory diseases through the creation of ozone.

Therefore PUMA aims to reduce the VOC-content in contracted footwear factories through a special program. Following the EU target for 2007 we strive to bring VOC consumption down to an acceptable level of 25 grams per pair of shoes. From the January 2003 value of 72 grams per pair, the VOC level already dropped to 48 grams per pair in December 2004, an improvement of 33%. Continuous efforts are made through the use of water-based adhesive in applicable processes. Factories started to use hot melt adhesives in processes where it can replace VOC based adhesives.

Solid Waste Reduction

S.A.F.E. encourages its contracted factories to have a sound solid waste management program. During every audit, auditors check the factories and, if necessary, support them in finding solutions toward reduction, segregation, reuse and recycling of waste. Solid waste management does not end inside the factory premises and proper disposal routes need to be ensured.

Our goal for the future is a combination of reducing waste in the factories and avoiding toxic substances in general. While following this goal we encourage factories to implement their own waste management system that includes the recycling and reuse of waste. To date 73% of our suppliers segregate waste for recycling purposes, a slight increase since 2003, when we had reported a figure of 70%. The reduction of hazardous production waste and its final elimination is among our long-term goals for the future.

When we started our program in 2000, the average value of VOC was 80 grams per pair. We were able to reduce this to 25 grams per pair in 2004. This is an improvement of 40% in 4 years.

Environmental Management at PUMA's Main Office in Herzogenaurach

Although PUMA has completely outsourced production, some environmental aspects are also taken into consideration at our head office in Germany.

With the construction of a new building in 2004, solar panels to collect energy for heating water for bathrooms and showers.

Furthermore, we use energy efficient lighting systems. These include applying energy saving lamps as well as motion detectors which switch off lighting when not needed. Materials with high insulation resistance ensure minimal loss of thermal energy. In this respect, existing buildings were recently refitted with efficient insulation materials.

To save water, all new toilets have been equipped with water stop buttons and all surface water collected from the building feeds back to the natural water cycle.

Energy and waste management in the factories

Adequate ventilation in the production floor ensures that workers are safe from chemical vapor. Factories are required to measure and comply with legal requirements for all airborne contaminants. Tests are usually conducted by local authorities or accredited local laboratories.

One example for recycling was realized in Ho Chi Minh City (HCMC), Vietnam. PUMA participated in a project initiated by HCMC Student Assistance Center, an organization for disadvantaged students in cooperation with Saigon Paper, a paper manufacturing company in Vietnam. The program aimed to help finance studies of poor but deserving students by arranging waste paper collections from participating companies, and selling to Saigon Paper. World Cat Vietnam Branch launched this project in June 2004 with seven footwear suppliers for PUMA. Moreover, with this program, PUMA and its partners were able to find the best way to dispose paper waste. For the year 2005 and beyond, PUMA is planning a larger scale project in China that aims to cooperate with local government agencies and local footwear factories in the area of waste reduction, recycling, and energy conservation.

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Reducing Greenhouse Gases Emission

Because PUMA out-sources its entire production to different suppliers around the globe, it is a great challenge to monitor the total energy use and greenhouse gases generated during the production of PUMA products. Although PUMA has some control over quality and part of production, control over the overall operation of every factory is rather limited.

Nevertheless, PUMA encourages all of its suppliers to cooperate in the proper care of the environment. Besides, every PUMA factory is deemed responsible in complying with energy conservation and reduction of greenhouse gases emission. All PUMA suppliers, as energy consumers and greenhouse gas generators, have the obligation to conform with this UN convention.

Greenhouse gases constitute carbon dioxide, methane, nitrogen oxides, water vapor and other pollutants in the atmosphere. The most predominant of these gases is carbon dioxide, which is mainly produced by burning fossil fuels like oil to produce electricity or to run motor vehicles. In the Kyoto Protocol it was agreed to reduce emission of greenhouse gases to the atmosphere to at least 5% under the 1990 levels by the period 2008 - 2012.

In line with the PUMA S.A.F.E. manual, PUMA does not allow the use of CFC, halogenated fluorocarbons. These chemicals are known to significantly damage the ozone layer.

Another critical aspect of energy consumption and greenhouse emissions is traffic. To eliminate unnecessary traveling, PUMA has installed video conferencing facilities in all major PUMA offices worldwide. As of today, there are 19 conference rooms fitted with video conference equipment. Furthermore, in 2004 we measured for the first time our transportation means to get a clear picture in this respect.

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<tr>
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The table above indicates that our airfreight rate represents less than 2% of the total freight. However our aim will be to further reduce the percentage of airfreight as this way of transport is neither environmentally friendly nor economically efficient.

Energy Conservation Programs

1. Energy recovery from process waste water (See graph below). Process water is pre-heated through a heat exchanger in the wastewater sump.
2. Heat exchanger installed in gas chimney to maximize energy recovery.
3. Thorough and periodic maintenance of insulation system of steam, condensate and hot water lines and fittings insuring no heat is lost to the environment.

Model Supplier Factory Data

To better understand the environmental impacts of our supplier factories, we collected environmental data for one apparel factory:

Name of Supplier: Erenko Tekstil
Address: Corlu, Turkey
Workforce: 200 - 250
Production Capacity: 450,000 pieces per month
Certification: ISO 14001, November 2003 to November 2006

In the year 2004 4,301 MWH of electrical energy and 2,266 MWH of energy from natural gas were used for the total energy consumption at Erenko. Broken down to one product this equals to 1.2 KWH / product and 0.28 KG CO2 per product (including dyeing process and assuming electricity generation is from oil).

Energy Conservation Programs:

1. 100% recycling of wastewater (390,360 m3 / year)
2. Natural Gas - 140,694 KG - 0.08KG/piece of product
3. Factory free of restricted substances like asbestos, PCBs, mercury, CFCs and other Halon compounds.
4. 100% recycling of solid waste: Nylon 7.56 metric tons, Paper 10.32 metric tons, Fabric 29.76 metric tons

To further intensify our understanding of the production-related environmental performance of our suppliers, comparable environmental data will be collected at larger factories as part of our routine S.A.F.E. audits. In a second step, best practice examples will be communicated throughout our supplier base to achieve sustainable improvements where feasible.
SAFE Monitoring: Process and Performance

Building a relationship based on trust, integrity and expertise with our partners underpins the SAFE audit and monitoring process. SAFE conducts audits with potential suppliers prior to commencing a business relationship. PUMA uses a 4-rank grading system for its SAFE audit, with a factory successfully passing with a score of 85% or more. A factory may be included in our active list despite the results of the audit depending on the supplier’s willingness to improve on the deficiencies found as well as the overall health of the business relationship. The ranking system is described as follows:

A - Very good performance. The factory complies with nearly all the required environmental and social standards. These factories are subject to routine audits every other year. These factories have the potential for model/best practice processes in specific areas such as waste management or worker representation.

B - Good to satisfactory performance. Possible non-compliance issues of minor importance that can be easily rectified. A follow-up audit is to be carried out annually.

C - Non-compliant. Serious non-compliance issues regarding environmental and/or social standards were detected during the audit and must be rectified. Depending on the commitment of the supplier and key sourcing staff, a second audit will be scheduled to assess whether there will be continuing cooperation with the factory. Further inaction with corrective measures will result in the termination of the business relationship.


PUMA’s growth in the past year brought about an overall 28.6% expansion of the supplier base across Footwear, Apparel and Accessories. In total, there were 337 audits conducted in 2004 compared to 263 the previous year covering 37 out of 47 countries all over the world. Of these audits in 2004, 171 were re-audits. Direct suppliers made up 55% of active factories covered in 2004, with licensee or subsidiary factories making up the balance. The SAFE audits screened out 49 factories whose social and environmental performance was highly deficient. These factories were either made inactive or the business relationship never commenced. These represent 69% of all factories made inactive in 2004, indicating that social and environmental performance is as much a key parameter as other business metrics such as delivery time, price, service and quality.

Nevertheless, some of these factories have communicated the desire to improve, so doors remain open. In keeping with our thrust to help our suppliers achieve their social and environmental responsibility, 17 factories (6 direct suppliers, 11 licensees) were given re-audits that were highly remedial in nature with eleven suppliers achieving a satisfactory B rating after an initial D or C rating.

These audits covered the majority of our total active supply chain (349 active factories), excluding dropped D-factories and factories that scored an “A” the previous year as well as those that were only used for one season or were located in low risk countries such as Italy or Japan, which were mostly licensee factories.
## Breakdown of Factories by Country, Region Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Product Category</th>
<th>World Cat</th>
<th>2004 World Cat</th>
<th>Licensee</th>
<th>Total</th>
</tr>
</thead>
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<tr>
<td></td>
<td></td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
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<tr>
<td>Bulgaria</td>
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<td>3</td>
<td>2</td>
<td>5</td>
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<td></td>
<td>Accessories</td>
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<td></td>
<td>Footwear</td>
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<tr>
<td>Czech Republic</td>
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<td></td>
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<td>Poland</td>
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<td>Spain</td>
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<td>Footwear</td>
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<td>UK</td>
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<td>Ukraine</td>
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<tr>
<td>Total</td>
<td></td>
<td>36</td>
<td>42</td>
<td>3</td>
<td>81</td>
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Executive Statement | Introduction | Policy Statements | Corporate Profile | Stakeholder Dialogue | Targets Old and New | Charity Cat | Our ideas for the future | GRI Content Index

In general, 66% of re-audited factories maintained their initial the globe, making up 67% of our active supplier base in 2004.

In total, B-rated factories grew by 30%, followed by C-rated factories at 6% and then A-rated factories at 4.7%. Of the regional groups Africa, the Americas and Europe eliminated all D-rated factories. The Americas increased its A-rated factories five-fold, while the Americas increased by 80% (noting however that there were only four active factories in 2003). The Far East retained its number of A rating factories.

Comparative Growth per Region 2003 vs. 2004

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<tbody>
<tr>
<td>A</td>
<td>4%</td>
<td>-31%</td>
<td>0%</td>
<td>80%</td>
<td>500%</td>
</tr>
<tr>
<td>B</td>
<td>30%</td>
<td>40%</td>
<td>26%</td>
<td>300%</td>
<td>150%</td>
</tr>
<tr>
<td>C</td>
<td>6%</td>
<td>-9%</td>
<td>2%</td>
<td>0%</td>
<td>300%</td>
</tr>
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Reflecting the challenges of ethical sourcing amidst rapid expansion, several potential suppliers (mostly in the Far East) received D ratings. It is important to note that PUMA’s expanding sense of responsibility demanded the exploration of constructive engagement with these factories. Only uncopetitive potential suppliers were dropped.

No supplier situation is entirely perfect and some factories have greater strengths and weaknesses in some areas as opposed to others. Overall, improvements were mostly in health & safety and labor issues.

In our previous report, 18 specific non-conformance areas in health & safety and labor issues were drawn from our S.A.F.E. standards and identified as the main reasons behind non-compliance of C-rated factories. Expanding on this method, 25 specific non-conformance areas were identified based on the growing importance of procedural and environmental issues. Noting that there is no perfect factory, these areas were used to screen the most prevalent issues.

Major Non-Conformance Areas
1. Excessive Overtime - work beyond legal OT limits/standards
2. Rest Day - frequent work on designated rest day
3. Minimum Wage - includes minimum wage guarantee for piece-rate workers
4. Overtime Pay - computation of OT pay
5. Benefits - social insurance, maternity benefits, other legal benefits
6. Fire Safety - fire extinguishers, fire exits and signs, etc.
7. Housekeeping - general cleanliness
8. Personal Protective Equipment - PPE availability and instruction
9. Ventilation - air quality
10. Electrical - electrical wiring & signs, etc.
11. Environment - waste management
12. Wage Delay - unreasonable delay in payment
13. Salary Computation - standards of computation
14. Penalties - restrictions, discipline, etc.
15. Health - clinic/first aid-related
16. Organization - representation, suggestions and complaints, etc.

Shortcomings

New techniques in social ratings and stricter standards for envi- ronmental concerns have been introduced into the S.A.F.E. manual since 2002. We distributed this manual then to all direct suppliers and licensees. We consider the S.A.F.E. manual not merely as a book of standards, but also a consulting tool to help factories in meeting international health & safety, labor, and environmental standards. This means that this year factories have to comply with stricter standards than with those set in previous years. For example, we now apply severe deductions in the audit rating system for violations against minimum wage provisions. In terms of progress, it is clear that B rated factories grew all over the globe, making up 67% of our active supplier base in 2004. In general, 66% of re-audited factories maintained their initial ratings, with a quarter of suppliers achieving better rankings. Of those with improved ratings 63% earned B ratings, and 31% achieved an A rating. However, 9% of suppliers, driven by stricter standards for environment, as well as equal negligence in health & safety and social concerns, saw decreased ratings.
On a regional basis, there may be differences between same rank active factories that can be attributed to the differences in culture, the legislative and regulatory environment as well as management systems.

Stricter standards resulted in higher incidence of failure areas across the board. Nevertheless, there were obvious areas of improvement such as the use of personal protective equipment and electrical safety in Europe/Africa. The Far East has improved with regard to organization (freedom of association), overtime, rest days, and health.

Active B-rated factories in the Americas have eliminated failures related to benefits, young labor, overtime pay, salary computation and wage delay. Both the B-rated factories in Americas and the Far East have eliminated minimum wage issues from their areas of improvement.

The Americas is the only region with no active C- or D-rated factories. In Europe and Africa there are only few C-rated factories left, which were given the options of improving or else facing elimination from our supplier base. Notably the problem of excessive overtime was not found in these factories. Problems focused more on technical health and safety issues as well as procedural issues, for example incomplete personnel files. In the Far East, in line with being the largest sourcing region, a number of C and some isolated D factories were noted with a variety of shortcomings (see table on page 29). Those willing to improve were given a chance, while a large number of potential licensee factories were ultimately screened out. We are proud to say that child labor has been successfully eliminated from all our suppliers, including those rated C or D.

The importance of control over direct suppliers and the impact on social and environmental compliance are obvious, given the greater number of A-rated World Cat factories across all regions. Reflecting the shift of the global fashion industry to Far East sourcing, licensee suppliers in the Far East comprise almost half of all B factories, compared to less than 30% of B factories for the other regions. World Cat and licensee suppliers across all regions are comparable in terms of areas of non-compliance.

Across the globe fire safety and other health and safety provisions as well as freedom of association are areas where further improvements are desirable. However, other key issues vary across the regions, stressing that remedial measures cannot simply be universally applied across the world. This shows that PUMA’s responsibility is not only providing information on the latest standards, but also identifying with suppliers and other stakeholders the key systemic issues that underpin the ratings our suppliers earn.

It is clear that these issues provide the framework for the rest of the work that PUMA will undergo in the coming years. This involves not only intensified monitoring activities, but also the need to develop participatory solutions among suppliers as well as other stakeholders such as welfare bodies, local governments and NGOs. These activities are part of targets planned for 2005 to 2008.
FLA Audits in PUMA contracted factories

As a step forward in the monitoring process of its contract factories and to show its desire for transparency, PUMA joined the Fair Labor Association (FLA) as a graduating member in January 2004. (Being a graduating member means that PUMA has committed to implement the FLA standards within a period of two years.) By joining the FLA, PUMA became a part of an alliance of different brands and universities that are all committed to a rigid program of implementing of the FLA Code of Conduct, monitoring factories in compliance with the code, and organizing a remediation process for the non-compliance issues. With the FLA PUMA has found a system which ideally compliments our internal monitoring efforts by providing independent and external verification of our S.A.F.E. system.

Membership in the FLA stipulates that up to 5% of PUMA’s contracted factories are audited each year by independent and external FLA accredited monitors. These audits are conducted unannounced.

In 2004, FLA conducted audits at nine factories producing for PUMA. Six of these factories are also producing for other brands that are members of the FLA. Four of these factories are located in China, and one each is located in Indonesia, Vietnam, Thailand, Turkey and Bangladesh. Six factories are involved in apparel production and one each produces footwear, bags and gloves. These nine facilities employ a total of about 8,200 workers. (In total roughly 190,000 employees are working in factories producing for PUMA’s brands that are members of the FLA. Four of these factories are located in China, and each one is located in Indonesia, Vietnam, Thailand, Turkey and Bangladesh. Six factories are involved in apparel production and one each produces footwear, bags and gloves. These nine facilities employ a total of about 8,200 workers. (In total roughly 190,000 employees are working for our contracted supplier factories).

The S.A.F.E. audits dealt mainly with actual non-compliance issues inside the factory premises. However the FLA audits were much wider in scope and went beyond the confines of the factory to identify risk areas. The FLA included, for example, local stakeholder groups in their investigation.

The FLA audits do not use a rating system. Taking the FLA findings as a basis, we rated the factories based on PUMA’s system to find out how the ratings would differ from those of the S.A.F.E. audit. In general, the consequent ratings from the findings by the FLA were lower than those by the S.A.F.E. audit. Though three FLA ratings were close to the S.A.F.E. rating, six others were very much lower, which indicates that there were either substantive or other issues not identified during the S.A.F.E. audit.

Thus, the audits by the FLA provided a new perspective to the PUMA S.A.F.E. audit. As a result, new and more issues, for example regarding the application of local labor law, have been identified in the subsequent S.A.F.E. audits. As of now we cannot claim that the S.A.F.E. audit has eliminated all issues of non-compliance, but a steady improvement of awareness on social compliance by the factories has been recognized.

As one aspect of PUMA’s membership in the FLA and in line with our S.A.F.E. principle of transparency, PUMA has decided to make its full list of suppliers available to the public via the FLA. Should you be interested in obtaining the list, please contact the Fair Labor Association directly at www.fairlabor.org.
In meeting society's demands for corporate responsibility, it is clear that business in general does not have all the answers. In truth there is a cacophony of voices, including those that presume that corporate social responsibility is nothing more than a fad. In PUMA we do not think this is the case - our stakeholders are a permanent feature of our business. By seeking dialogue, we build a learning environment between the company and those that can help us become a better corporate citizen. With the open sharing of ideas and experience, we hope to find the sage wisdom that would indicate we are succeeding in our push towards sustainability.

Leading voices in CSR attended our stakeholder dialogues and were given a set of questions to express their impression of our performance and our sense of accountability. Most importantly, this exercise helped us gauge the expectations of our stakeholders. These opinions are not the only ones that carry weight with our actions, and given the importance of the health of our relationships with all our stakeholders we strive to create more venues for dialogue. It is also clear that apart from the greater frequency of dialogue, there needs to be more sectors invited. What is also clear is that we need toarticulate our actions and intentions not on a grander scale per se, but indeed with greater clarity, humility and wider scope.


MARY EVANS: I think that PUMA's activities in business ethics are, in general, one of the most outstanding examples for the global search for good corporate behavior. It is not just lip service or a marketing gimmick, but a very serious effort to develop the company's responsibility profile steadily into a benchmark for the sportswear industry, and beyond. Also, it should be absolutely clear that these efforts on ethics and sustainability have always been understood as a continuing process, which at PUMA neither has reached its final positioning, nor covers all the ethical responsibilities yet which are addressed by critics. Thus, PUMA is undoubtedly on a very good way, and probably an ethical leader compared with their competitors. But it is also clear that many questions are still open, for addressing as well as for solutions, in detail as well as on the conceptual level. What makes PUMA so interesting however from the business ethics perspective, is the permanent pro-active search for improvement, and that will mark a difference in ratings as long as PUMA is engaged in the process.

PUMA: As a multinational company, do you think that PUMA is a globally balanced corporate citizen? Where are you in opinion our strengths and weaknesses, in case there are any?

LA Martinez: Do you mean evenly distributed in terms of presence, or balanced in terms of issues and priorities? To assess this, I guess one would have to ask stakeholders from different continents... From a European perspective, PUMA is well-connected with the European NGOs and other stakeholders and these relationships represent, in my view, one of PUMA's strengths.

ZELDENRUST: Given the enormous problems still out there for workers in this industry we'd hesitate to give any company this description. For us, what's important is that companies should actively engage in efforts to improve workers rights to the point where international standards are truly respected. PUMA is indeed making an effort, which is appreciated, but we believe it can and should do more - especially on key issues like wages, and freedom of association.

PUMA: Who do you think are PUMA's primary stakeholders (in terms of who you perceive the company pays most attention to)?

ZELDENRUST: Pay or should pay? For us, the workers are the most important stakeholders. We want to underline that not all stakeholders are equal, and there's a need to differentiate between those directly affected by actions of a company, e.g. workers or inhabitants of communities, and those who are not directly affected but for some reason are engaged in the debates.

LÖHR: As from my perception, PUMA takes into account the stakes of their customers, capital owners, suppliers, employees, and NGOs like CCC. This is probably a very reasonable hierarchy for the strategy of a brand name company like PUMA. However, in certain cases, these ranking may vary. And, it is very interesting that governments do not come across the mind at first glance.

PUMA: Are you aware of PUMA's programs/activities in the fields of environmental and social issues?

ZELDENRUST: On the social issues, yes.

VAN HEERDEN: Yes. I think though that there is a greater awareness of PUMA's social activities than their environmental activities (although these are interlinked). I am not sure how much awareness exists at the consumer level however and it may be useful for PUMA to test that.

LÖHR: Yes, PUMA is very well communicating with Dowie on the standard S.A.F.E. their monitoring and training programme, and on the development of their CSR strategy based on the strategic aims.

PUMA: Do you think that these programs/activities meet the minimum expectations of PUMA's primary stakeholders? Do you think that PUMA's efforts go beyond the expectations of primary stakeholders?

VAN HEERDEN: Yes, I think in principle the S.A.F.E. standards meet the expectation of PUMA's primary stakeholders (exception: living wage). However, the implementation of these standards needs to be further improved. To achieve sustainable compliance, PUMA needs to prioritize capacity-building programs. Engaging in capacity building would probably exceed the expectation of most of PUMA's stakeholders.

VAN DER NAALD: For Greenpeace, they do meet the minimum expectations and PUMA is showing leadership on the issue of chemicals policy and control. However, as with most other companies, PUMA is not taking leadership in promoting its vision and policy beyond its direct stakeholders, e.g. into a sector standard with competitors and governments.

LÖHR: I guess that these activities clearly meet the minimum expectations of the primary stakeholders. The efforts are appreciated highly by all parties. However, also stakeholders are aware about the problem that PUMA's activities in the social and environmental field are only on a good way yet, but not at the limit of all possibilities. There are areas like independent monitoring, which do not meet the NGO expectations yet. However, as long as there are NGOs as critics of companies, they will develop their arguments and expectations into higher qualities against PUMA. It is their business, and it is a good principle of the "watchdog function" to be never satisfied.

PUMA: Who do you think are the stakeholders that PUMA has less focused on? What do you think are their minimum expectations of PUMA?

ZELDENRUST: PUMA in a few countries has taken steps to directly work with unions and NGO's on the ground, this could be expanded. The big challenge for all of us is to involve the workers themselves more directly in activities related to code implementation.

VAN HEERDEN: PUMA has probably been less engaged with stakeholders from the environmental realm. Since pressures of environmental NGOs have been low in the past, one could conclude that minimal expectations are met.

VAN HEERDEN: PUMA has probably been less engaged with stakeholders from the environmental realm. Since pressures of environmental NGOs have been low in the past, one could conclude that minimal expectations are met.

PUMA: Which fields of engagements in your opinion need enhancement?

VAN HEERDEN: Community Relations and Social Marketing, such as addressing poverty or tsunami relief, seem less important
How others see PUMA:

FTSE4Good:

PUMA has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series.

Created by the independent financial index company FTSE Group, FTSE4Good is a financial index series that is designed to identify and facilitate investment in companies that meet globally recognized corporate responsibility standards. Companies in the FTSE4Good Index Series are doing more to manage their social, ethical and environmental impacts, and are better positioned to capitalize on the benefits of responsible business practice.

Kempen SNS SRI Universe:

PUMA was recently awarded membership in the Kempen SRI Universe. SRI (Socially Responsible Investment) refers to investment in companies that demonstrate responsible business conduct. Increasingly, investors have strong demands regarding a company’s non-financial performance, in addition to the traditional financial performance. These parties wish to invest exclusively in corporations that have concern for their employees, the environment and the community. The Kempen SNS Smaller Europe SRI Index (SRI Index) is the first index to track the performance of SRI smaller companies in Europe.

Storebrand:

"It is a pleasure to announce that Puma has earned “best in class” status for its leading environmental and social performance and therefore qualifies for investment in Storebrand’s SRI mandates.”

The Storebrand Group is a leading player in the Norwegian markets for pensions, life- and health insurance, banking and asset management. Storebrand’s symbol of excellence is awarded to the companies that have earned BEST IN CLASS status for leading environmental and social performance. Only those companies ranking in the top 30 percentile of Storebrand’s CSR performance analyses are considered BEST IN CLASS. These candidates also qualify for participation in Storebrand’s investment universe.

Statement from the Works Council of PUMA

In our last statement, the works council explicitly welcomed the progress in the development of the company during recent years. This development includes both that towards responsible handling of environmental resources and social minimum requirements in the production of our products, and that of PUMA’s moral responsibility toward all direct and indirect employees of the company with respect to the observance of social and environmental standards.

Our desire at that time was to have audits carried out gradually, by an independent institution, at short notice. We therefore consider it an extremely positive step that PUMA joined the Fair Labor Association (FLA) at the beginning of 2004. Unannounced, external audits of our production companies as a result of joining the FLA as well as the publication of the results on the internet both clearly show the determination and transparency of the company in the area of social and environmental responsibility.

In 2004, PUMA organized a meeting bringing together different non-governmental organisations (NGOs), industrial associations, employee representatives, the Clean Clothes Campaign (CCC), the Fair Labor Association (FLA), and supplier representatives. The aim was to establish joint future projects and control mechanisms as a basis for constant, successful cooperation.

We would particularly like to mention the commitment of all employees in the area of S.A.F.E. - Social Accountability & Fundamental Environmental Standards - who have played a significant role not only in maintaining existing environmental and social standards, but also in continuously improving on these standards.

The works council of PUMA AG will continue to actively support the company on this path.

Herzogenaurach, July 4, 2005
Katharina Wojaczek
One Step Forward

In assessing the concrete areas where we wish to move ahead, it is important to review our progress in the areas already designated in previous periods. Below is the current standing of key activities identified in 2002, as well as other items prioritized in 2004.

### SOCIAL

**Issue Auditing direct suppliers**

**2002** 100% of all suppliers audited

**2004** Audited 144 of 196 World Cat suppliers

**Target** 100% of all direct suppliers to be audited

**Comment** Ongoing audits required as a lot of new suppliers were added due to PUMA’s growth

**Fulfilled** 73% fulfilled

**Issue Auditing licensee suppliers**

**2002** 100% of all suppliers audited

**2004** Audited 126 of 153 licensee suppliers

**Target** 100% of all licensee suppliers to be audited

**Comment** Ongoing audits required as a lot of new suppliers were added due to PUMA’s growth

**Fulfilled** 82% fulfilled

**Issue S.A.F.E. standards distributed to all manufacturers, licensees, and sub-suppliers**

**2002** 100% of all partners received copy of S.A.F.E. manual

**2004** 100% of all partners received copy of S.A.F.E. manual

**Target** 100% of all partners to receive copy of revised S.A.F.E. manual to be completed by August 2005

**Comment** Ongoing revision of S.A.F.E. manual to be completed by August 2005

**Fulfilled** 100% fulfilled

**Issue Code of Conduct distributed to all manufacturers**

**2002** Code of Conduct is displayed and accessible at 95% of all suppliers

**2004** All manufacturers received Code of Conduct (in local language)

**Target** All Code of Conduct posted accessible and visible to all workers

**Comment** Ongoing process with new suppliers

**Fulfilled** 100% fulfilled

### SAFETY AND THE ENVIRONMENT

**Issue Social standards based on SA 8000**

**2002** Initial steps taken, but no audits based on SA 8000 planned

**2004** With membership in FLA, audits instead based on FLA workplace standards

**Target** External audit of 5% of PUMA’s suppliers by FLA (see below)

**Comment** Target will be replaced by new FLA target

**Fulfilled** 1% fulfilled (5 suppliers achieved SA 8000 certification)

**Issue Supplier training**

**2002** Training in the Far East almost completed

**2004** New round of training to start in 2005

**Target** 100% of all targeted suppliers attend training

**Comment** Vietnam training conducted in May 2005

**Fulfilled** 20% fulfilled

**Issue Introduction of a formalized appeal practice**

**2002** Re-audits started

**2004** 171 re-audits carried out in 2004

**Target** All factories to be re-audited

**Comment** Focus on factories with lower ratings

**Fulfilled** 80% fulfilled

**Issue Introduction of a formalized appeal practice**

**2003** Complaints directly addressed to S.A.F.E. team

**2004** FLA third party complaint mechanism can be used, most PUMA Codes of Conduct contain contact addresses of S.A.F.E. team

**Comment** FLA Audits for one licensee continued

**Fulfilled** Guide available, distribution in 2005

**Issue VDC Index (new)**

**2002** 72 gm / pair of shoe

**2004** 48 gm / pair of shoe

**Target** 25 gm / pair of shoe

**Comment** Research in alternative technologies, such as hot-melt

**Fulfilled** 50% fulfilled

**Issue Response to complaints (new)**

**2004** Several complaints directly addressed to S.A.F.E. team, some complaints taken from external reports campaigns

**Target** 100% complaints responded

**Comment** Contact information to be indicated in Code of Conduct

**Fulfilled** 100%

**Issue Application of solvent-based adhesive**

**2002** No effective technical solution available for football boots

**2004** Reduction achieved by using hot-melt technology

**Target** Further reduction targeted (see VDC index)

**Comment** Minimized use pending research in alternative technologies

**Fulfilled** 50% of targeted reduction

**Issue No noise level reduction in PUMA contracted supplier factories**

**2002** Inclusion of noise measurements in S.A.F.E. audits

**2004** Noise problems eliminated in Europe and Africa

**Target** Focus on achieving and maintaining noise level below 85db also in Asia

**Comment** Support existing noise reduction programs

**Fulfilled** 80% of factories comply

**Issue Pocket guide to be translated into different languages**

**2004** Guide available, distribution in 2005

**Target** Provide PUMA S.A.F.E. pocket guide to workers

**Comment** Not all workers aware of PUMA S.A.F.E. standards

**Fulfilled** 50% of targeted reduction

**Issue ISO 14001 certification**

**2002** First ISO 14001 certification of suppliers

**2004** 9 suppliers certified in ISO 14001

**Target** ISO 14001 certification for all larger factories using dye-houses, tanneries, or other environmentally relevant operations

**Comment** Not relevant / efficient for small sewing operations with less than 100 employees

**Fulfilled** 30% compliance (estimated)
Charity Cat was founded in 2003 as a team of roughly 20 PUMA employees who engage voluntarily in their spare time with various charitable projects.

Charity Cat’s involvement is based on five principles:
- Donations are only passed on to organizations whose justified individual needs have been assessed on site.
- Donations are not limited to financial contributions but also include in-kind contributions (clothing, toys, etc.).
- PUMA employees based in the relevant countries donate their time to ensure that the donations are used only for the intended purpose.
- Donors, both individual and commercial, are updated on the progress of projects on a regular basis and thus can participate in the activities.
- The work of Charity Cat is deliberately not used for corporate advertising.

Currently, Charity Cat funds have been drawn from private and commercial monetary and in-kind donations. Though not deliberately, children’s welfare is a major theme of projects with which group has been involved.

Charity Cat's first project was with a Romanian orphanage, that cares for and raises about 220 children from 12-24 years. Charity Cat invested in a renovation of the facilities including purchase of new furniture such as cabinets, chairs and tables. Sports equipment for table tennis, badminton and softball, as well as underwear, shoes, T-Shirts and craft supplies were all donated for the summer season. With the kind help of an Italian footwear supplier 250 pairs of PUMA Dassler Boots were donated to Centrul de Plasament, and a final donation of 500 pieces of apparel like jackets, jumpers, pants and shirts were provided.

Godparenthood
Another aim of Charity Cat is to provide direct and targeted help. After detailed research we have decided to use the organization Plan International to support a nine-year-old boy from Pakistan, a country in which PUMA has active suppliers. The boy is supported with a monthly financial contribution and Plan International sends regular reports about his life and development. At the moment ways are explored on how to make a school education possible for this child.

Women’s refuge
For our Christmas project in 2004 Charity Cat supported a local organization in need. The women’s refuge in Nuremberg, a city located close to the headquarters of PUMA in Germany was identified and, in cooperation with another company, on 1 January 2004 a donation of a large amount of clothes, bags, balls and writing materials was handed over to the women and their children.

Future plans include further involvement with SOS-Kinderdorf International, an innovative NGO that builds communities of foster care households. Previously, PUMA AG had donated one house for a SOS Children’s Village in Pakistan in cooperation with a supplier in Sialkot. Taking over responsibility for another house is intended, as consideration, as the local PUMA staff available is an ideal condition for Charity Cat’s involvement.

Project in which to channel these funds.

Charity Cat coordinated PUMA’s employee donation efforts. Charity Cat’s second project was a donation of uniforms for a group of gymnasts with a view to use the money for a new football court in cooperation with Plan International to support a nine-year-old boy from Pakistan.

As part of the PUMA Jamaica-Party for the Jamaica Olympic Team, athletes and PUMA staff played against each other in a table football competition. This event was realized in cooperation with the “Barmherzigen Brüder / (Merciful Brothers)”, an organization engaged in running workshops for handicapped persons.

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Kicker Tournament
At the moment, we are engaged in the following projects:

- **FLA: Sustainable Compliance**
  One of PUMA’s Chinese footwear suppliers joined the FLA project on sustainable compliance. This project aims to improve the whole management process in the factory. The main focus lies on the improvement of sustainable compliance and increased efficiency.

- **Turkey: Multistakeholder Initiative**
  The multistakeholder initiative combines six organizations specialized in the field of social compliance: Ethical Trading Initiative, Social Accountability International, Worker Rights Consortium, Clean Clothes Campaign and the Fair Labor Association. The organizations will work together with the following aims: maximize effectiveness and impact of involved organizations and learning how voluntary codes of labor practice contribute to better workplace conditions in global supply chains.

- **Round Table on Codes of Conduct**
  This is a multistakeholder Initiative between the German Federal Ministry for Economic Cooperation and Development, German Companies, Unions and NGOs which seek dialogue on the introduction and implementation of social standards. In 2005 a pilot project to improve workers management communication will be implemented in Romania.

- **Pilot project on El Salvador (planned)**
  The aim of this pilot project in cooperation with the CCC is an independent verification of social standards with special attention given to gender issues in El Salvador.

- **Focusing on workers’ training in Vietnam (internal)**
  S.A.F.E. is designing a worker education program focused on Vietnamese labor law. Supervisor training on better management techniques will be held in July 2005 in order to achieve more solid longer-term results.

Executive Statement | Introduction | Policy Statements | Corporate Profile | S.A.F.E. Concept | Stakeholder Dialogue | Targets Old and New | Charity Cat | Our ideas for the future | GRI Content Index
Conclusion and Outlook

One of the key concepts emerging from the maturing field of corporate social responsibility (CSR) is that responsibility is integral to the core of business - it is only in the manner by which it is expressed that it can be construed as peripheral. Corporate Social Responsibility is not only a philanthropic or charitable response, it is about building relationships with customers, staff, and shareholders based on quality, decency and solid values.

It is no longer a bonus for a company to be doing well by doing good, but it is expected for companies to do so. Amidst increasing pressure to improve the bottom line while acting as a good corporate citizen, we must be open and innovative in business practices even though immediate consequences may be unclear.

CSR is often seen as a challenge, but in PUMA we have come to welcome it as an opportunity. With this Third Sustainability Report we expose ourselves once again to the challenges and opportunities emerging from CSR. Throughout this report, we strive to show that CSR is not simply a promotional gimmick by highlighting the social and environmental aspects of our core operations, namely the monitoring of compliance to our Supplier Code of Conduct that covers workers rights as well as health and safety. Despite meager resources in terms of staff compared to total number of factories, we work with factory management and workers to help bring about improvements.

Conducting our philosophy of transparency and dialogue, we con-duct stakeholder dialogues with non-governmental organizations in the spirit of good faith, thus catalyzing former adversaries into allies. We give major attention to suppliers holding contractual relationships with PUMA when reporting about supplier auditing.

Our sense of responsibility initially grew out of the need to come into contact with PUMA's employees, we are committed to a course of action that covers workers rights as well as health and safety. Despite meager resources in terms of staff compared to total number of factories, we work with factory management and workers to help bring about improvements.

The medium-term period is crucial for the sporting goods industry as Germany hosts the Football World Cup in 2006 and Beijing hosts the Summer Olympics in 2008. These events inspire significant global interest, and likewise we have also lifted our internal spotlight to scan for challenges and opportunities that would arise. Clearly, a major concentration of our work in the coming years involves capability building in our supply chain for Social and Environmental Compliance. This comprises not only training on labor rights for workers and management, but also a more holistic approach that looks at the duties of workers and management. As labor instability continues to affect both our corporate supply chain and local economies as a whole, it is clear that workers and managers have to work toward building a sense of community. This course of covers not only workplace issues, but also the environment in which our factories operate.

As PUMA's success grows, we will also be communicating more of our corporate accountability efforts. In particular, we hope to work with more partners that can help us more effectively and efficiently address social and environmental issues. We believe that this would help us sustain our pilot projects and develop new programs as the need arises, ensuring that the “Momentum” built prior to 2008 will continue.

Building “Momentum” is a deliberate and purposeful act, and we hope that with this report we have exhibited our good faith and corporate accountability.

The Global Reporting Initiative

The Global Reporting Initiative is a non-profit organization who developed a complete set of reporting guidelines for sustainability reports.

After choosing the “Reference” approach to the 2002 guidelines of the Global Reporting Initiative for our last report, in these coming years involves capability building in our supply chain for Social and Environmental Compliance. This comprises not only training on labor rights for workers and management, but also a more holistic approach that looks at the duties of workers and management. As labor instability continues to affect both our corporate supply chain and local economies as a whole, it is clear that workers and managers have to work toward building a sense of community. This course of covers not only workplace issues, but also the environment in which our factories operate.

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Comments on MOMENTUM 2004 Sustainability Report of PUMA AG

PUMA AG has presented a report for the third time in which it provides information about its corporate social and ecological commitment. PUMA is the first producer of sports articles to prepare its report in accordance with GRI-guidelines: this report therefore marks a milestone on the road towards transparent, standardised and credible reporting.

The report stands out in particular because of its openness and transparency. Openness in terms of both that achieved as well as goals still awaiting achievement as well as mention of deficits requiring rectification. In this regard, the company explicitly states that none of its suppliers has yet achieved excellence in all areas of sustainability. The report is also the first to present the results of the company’s in-house S.A.F.E.-Audit and provides details of non-conformance areas. Another new aspect is that, towards the end, the report provides details of performance against targets. Readers are put in the picture as to the extent to which the company has performed over the year with respect to the targets it has set itself. In this sense, PUMA has created an instance of success monitoring through external observers.

PUMA’s voluntary commitments fulfil an appeal frequently expressed by NGOs to monitor its suppliers not by way of a single annual audit but rather to cultivate them via long-term and sustainable learning and development processes. PUMA has entered a voluntary commitment to act as both auditor and facilitator to encourage capacity building over the long term. This approach is forward-looking since shared learning processes are the only way of genuinely raising environmental and social standards in the global supplier network. However, PUMA also points out that the external audits performed by the FLA (Fair Labour Association) applied tougher criteria than did its own S.A.F.E.-Audits. This is an area offering room for improvement.

Reporting in accordance with GRI is seen as positive. Applying these ambitious standards spotlights certain weaknesses in the social and environmental figures. As an example, there are as yet no statements made concerning world-wide energy consumption or CO2-emissions. The company does however refer to its intention to introduce world-wide data gathering such that it will be in a position to deliver more information in its next report. The product-related improvements with respect to environmental impacts are presented comprehensively and may be taken as a benchmark for the industry.

The emphasis on stakeholder dialogue is apparent throughout. Both in the reports of dialogue events as well as the critical talks with various NGOs presented at the end of the report. A rare occurrence in the world of CSR reports is the inclusion of a statement by the works council, in which it issues an authentic avowal of dialogue and shared learning with critical stakeholders.

The report’s title, Momentum, provides a succinct expression of the report’s intention: PUMA is proving very forcefully and soberly that it is a company on the path towards sustainable business practices. Chances and challenges are explicitly stated and it is clear that this ambitious plan will only be achieved in a process of dialogue and shared learning with critical stakeholders.

Dr. Ingo Schoenheit
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