



2005/2006 Sustainability Report

<b>INTRODUCTION</b>	<b>03</b>
What's new	03
Foreword by Jochen Zeitz	04
<b>COMPANY</b>	<b>06</b>
PUMA at a glance	08
Inside PUMA	14
<b>S.A.F.E.</b>	<b>24</b>
Foreword by Reiner Hengstmann	26
Concept	28
Audits and beyond	30
Reportage: Three trips, one mission	44
Environment	50
FLA Accreditation	55
<b>PEOPLE</b>	<b>56</b>
Stakeholder interview with Klaus Leisinger	58
Talks at Banz	60
Stakeholders Statements	61
<b>CORPORATE PHILANTHROPY</b>	<b>64</b>
PUMA's engagement in Africa	66
Charity Cat	67
<b>CHALLENGES</b>	<b>68</b>
Pilot projects	70
Counterfeits by Edward Kelly	72
Targets	74
<b>EXTERNAL VERIFICATION</b>	<b>76</b>
TÜV Verification	76
GRI Content Index	78
<b>OUTLOOK</b>	<b>84</b>
<b>CONTACTS / IMPRESSUM</b>	<b>85</b>

## WHAT'S NEW?

### February 2007 - The Fair Labor Association (FLA) accredits PUMA



The Fair Labor Association (FLA) accredits the labor compliance program of PUMA. PUMA had been a graduating member of the FLA for the past three years. The full accreditation signifies that PUMA has successfully passed this implementation period and includes PUMA's three ranges (Footwear, Apparel and Accessories) as well as licensed production worldwide. Accreditation means that PUMA's internal S.A.F.E. program is in substantial compliance with all of the FLA's monitoring standards and benchmarks.

### February 2007 - Greenpeace rates PUMA "green" on restricted substances



Greenpeace grades corporations and products from red to green according to their policies and the use of hazardous substances. PUMA was upgraded from "amber" to "green" in February 2007. This acknowledgement of PUMA's efforts by one of our most critical stakeholders gives us reason to believe that we are on the right track towards a more sustainable and environmentally friendly business.

### October 2006 - PUMA joins the United Nations Global Compact



PUMA joined the Global Compact in October 2006, thereby adopting and supporting the ten universal social and environmental principles initiated by former United Nations Secretary General Kofi Annan in 1999. The Global Compact aims to bring companies together with UN agencies for more sustainability around the globe.

### September 2006 - PUMA included in Dow Jones Sustainability Index (DJSI)



PUMA is one of the forty six new sustainability leaders selected for inclusion in the Dow Jones World Index as well as in the European Dow Jones STOXX Sustainability Index. Admission into the DJSI results from successfully passing the "Corporate Sustainability Assessment" conducted by the independent Swiss research agency SAM (Sustainable Asset Management).

## POLICIES

PUMA's existing social and environmental policies remain active and are summarized in the PUMA Code of Conduct and PUMA Code of Ethics. They are explained in detail in our S.A.F.E. handbooks for social and environmental standards. A copy of our S.A.F.E. codes and handbooks can be downloaded at [www.about.puma.com](http://www.about.puma.com).



### Dear Stakeholder,

Two years have gone by since our last Sustainability Report. During this time, our S.A.F.E. team (Social Accountability and Fundamental Environmental Standards) has worked tirelessly to support PUMA in its engagement for a more sustainable business. As I always mention to our shareholders, we approach our corporate development and strategy like a marathon rather than a sprint. This exactly applies to our sustainable development: we may not have resolved all relevant issues yet, but we are continuously making progress. Moreso, the fields of social accountability and the environment involve ongoing processes where new challenges always emerge and appropriate solutions need to be found.

The reporting years 2005 and 2006 have been of high importance to our company. In 2005, PUMA introduced Phase IV of its long-term corporate development plan in which we plan to further expand our business into new categories, and possibly as well non-PUMA brands. We introduced three new categories in 2006 (Denim, Golf and Moto) and expanded our geographical reach with new joint ventures and subsidiaries. In 2006 the sporting goods industry was in the limelight during the football World Cup and was able to benefit from worldwide enthusiasm for the sport. For the first time in the company's history a national football team equipped by PUMA, the "Squadra Azzurra" from Italy, became world champion. With a strong portfolio of twelve teams, PUMA was the leading equipper of the tournament. PUMA supplied all five teams from Africa and has been enlarging its portfolio of African teams ever since. The company started its involvement in 1997 with Cameroon and is committed to supporting the development of African Football. Our partnership with United for Africa underlined our strong commitment for the continent. We are planning further projects within Africa and will inform our stakeholders in due time.

As a global sportlifestyle company PUMA needs to further reflect on its responsibility towards its stakeholders and the environment around the world. What we have learned in the past two years is how crucial it is to integrate Corporate Social Responsibility policies into the corporate strategy in order to be considered a leader in sustainability. There is surely always room for improvement in that matter and we intend to push the issue of sustainability even more into our business development.

We live in a world where people are increasingly concerned about the goods they consume on a daily basis. Organic foods, beverages or cosmetics for example are booming industries; to lead a sustainable lifestyle is more important to many of today's consumers than finding the cheapest price possible. The same thing applies to our products: many concerned customers contact us regularly, asking for information on PUMA's sustainable initiatives. We hope that this report will answer all of our stakeholders' concerns and questions.

Market analysts also emphasize the importance of a company's sustainable worth. Socially responsible investment is growing as an important driver of long-term performance. PUMA's first listing in both the Financial Times Stock Exchange FTSE4Good in 2005 and the Dow Jones World Index as well as in the European Dow Jones STOXX Sustainability Index in 2006 not only acknowledges our involvement for sustainability, but also clearly affirms that we are on the right path with our transparent approach and our responsibility in the social and environmental fields.

The growing public awareness for social and especially environmental issues today involves one more dimension: climate change is not a vague and abstract phenomenon anymore. We are all starting to actually feel the global warming with all its ramifications. However, we cannot go back in time but need to find ways through innovative technologies to sustain our modern lifestyles without harming the environment. Since 2004 PUMA has produced PVC-free products and has established a precise restricted substances policy over the years to which all suppliers around the world must comply. Our efforts have been rewarded recently, as when Greenpeace upgraded our company from an "amber" to a "green" rating. This confirms that our hard work towards phasing out harmful chemicals is not only acknowledged but also supported by one of our most critical stakeholders.

In the past years our sustainability work was mainly driven by the aspect of social accountability in all production facilities. However, due to the unknown risks caused by global warming as well as possible oil and water shortages, we as a global brand have to intensify our focus in the field of environmental protection. It goes without saying that we will continue to enforce our supplier Code of Conduct and we will carry on with our zero tolerance policy regarding child labor. But we have realized that we want to make a stronger contribution to the protection of our planet by reinforcing our environmental standards.

We created this report in accordance with the 2006 GRI 3 (Global Reporting Initiative) guidelines. It also features some additional stories and background information we hope you will find interesting to read. For instance, for the first time in our company history a journalist and a photographer accompanied our S.A.F.E. team to three different factory audits in Turkey, China and Vietnam. In our quest to be as transparent as possible we thought it would be a good idea to have not only our internal S.A.F.E. but also an external member of the media to report on the conditions of our production facilities.

Although it is clear to us that not all issues have been resolved, we would like to communicate more on our work regarding sustainable development and continue our approach of transparency.

Finally I would like to thank our employees and suppliers for their support, our key stakeholders for their continuous feedback and valuable criticism as well as TÜV Rheinland for their independent external verification of our report.

Jochen Zeitz  
CEO and Chairman



INTRODUCTION	03
What's new	03
Foreword by Jochen Zeitz	04
<b>COMPANY</b>	<b>06</b>
PUMA at a glance	08
Inside PUMA	14
S.A.F.E.	24
Foreword by Reiner Hengstmann	26
Concept	28
Audits and beyond	30
Reportage: Three trips, one mission	44
Environment	50
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PEOPLE	56
Stakeholder interview with Klaus Leisinger	58
Talks at Banz	60
Stakeholders Statements	61
CORPORATE PHILANTHROPY	64
PUMA's engagement in Africa	66
Charity Cat	67
CHALLENGES	68
Pilot projects	70
Counterfeits by Edward Kelly	72
Targets	74
EXTERNAL VERIFICATION	76
TÜV Verification	76
GRI Content Index	78
OUTLOOK	84
CONTACTS / IMPRESSUM	85

## PUMA AT A GLANCE

PUMA was founded in 1948 by Rudolf Dassler in Herzogenaurach, Germany, and is today one of the leading sportlifestyle companies in the world. The brand focuses on bringing distinctive designs and a global outlook to each product range by blending influences of sport, lifestyle and fashion. In order to achieve these goals, our brand template emphasizes PUMA's distinctiveness, individualism, spontaneity, internationalism and sporting heritage.

### Virtual Headquarters

We consider ourselves to be a global company with German roots. We operate on a global level and have four different virtual headquarters. To fully understand what we mean by "virtual structure" try to imagine the world as a place with neither temporal nor geographic limitations, and where people are able to network their knowledge and communication via internet and other technologies.

PUMA's International Brand and Marketing department is located in the USA allowing it to act faster on new fashion trends. The Boston headquarter is also responsible for Footwear and Apparel design and development. The three main offices in the USA have more than 350 employees overall and cover not only the corporate team but also the management of PUMA's concept stores in the United States.

As one of the main fashion cities in the world, London provides PUMA with a strategic headquarters location. About 80 employees there are responsible for PUMA's Accessories business, the high fashion sector "Black Label," and entertainment marketing.

The headquarter for Asia is located in Hong Kong. As most of our production is based in Asia, the main area of responsibility in Hong Kong is sourcing. Approximately 400 employees there are developing samples, monitoring production orders and performing quality checks. The majority of PUMA's S.A.F.E. team is also based in Asia, continuously monitoring the production, working conditions, environmental and social responsibilities. Brand marketing for the Asian region is also managed from the Hong Kong office.

The company's original headquarter in Herzogenaurach, Germany, is with more than 800 employees still the largest PUMA location. Many departments call this office home including Research and Development, Sourcing and Strategic Planning, Logistics, Sales and Distribution, Corporate Communications and Human Resources.

### Phase IV Strategy

Following completion of Phase III in 2005 (one year earlier than expected) PUMA presented the Phase IV goals of its long-term development strategy in July 2005. This strategy includes a five-year plan for the years 2006-2010. With the objective of becoming "the most desirable sportlifestyle company," PUMA aims to bolster its position as one of the few true multi-category brands, and seeks to make effective use of the many opportunities offered by the sportlifestyle market in all categories and regions. Being a multi-category brand means addressing various business segments that offer PUMA the possibility to achieve sustained value increases through utilization of its unique brand positioning.

Phase IV will therefore be characterized by further expansion. Qualitative growth and a long-term strengthening of brand appeal will receive priority over "growth at any cost."

Expansion is planned in three areas:

- Expansion of product categories
- Regional expansion
- Non-PUMA brand expansion

### Facts and Figures

#### Registered Office:

Herzogenaurach, Germany

#### Stock:

PUMA's common shares are traded at XETRA on the Frankfurt and Munich stock exchanges and over the counter ("OTC") as American Depositary Receipts (ADRs).

#### Shareholders:

Number of shares as of July, 2007, 16,026,464. Main shareholder: SAPARDIS S.A., a subsidiary of the French Luxury Group "PPR", 62,1%. 37,9% of the PUMA shares are free flowed, including Bear Sterns Int. Ltd. > 3% and Morgan Stanley > 5%.

#### Chairman of the Board & CEO:

Jochen Zeitz

#### Board of Management:

Jochen Zeitz (Chairman)

Martin Gänslar (Deputy Chairman until June 30th 2007, after this date function as consultant)

Dieter Bock (Finance)

#### Group Executive Committee:

The Group Executive Committee exists to broaden the company's leadership structure and to enhance PUMA's corporate agility. The Group Executive Committee consists of the Board of Management as well as the following Global Functional Directors:

Klaus Bauer (Operations)

Antonio Bertone (Brand Management)

John Mollanger (Business Units)

Reiner Seiz (Sourcing)

**Supervisory Board:**

PUMA's Supervisory Board consists of six members; four of whom represent the interests of the firm's stockholders while the remaining two serve as employee representatives.

**François-Henri Pinault (Chairman)**

Paris, France  
Chairman and CEO of PPR S.A.

**Thore Ohlsson (Deputy Chairman)**

Falsterbo, Sweden  
President of Elimexo AB

**Jean-François Palus**

Paris, France  
CFO of PPR S.A.

**Grégoire Amigues**

Paris, France  
Global Strategic Head of PPR S.A.

**Erwin Hildel (Employees' Representative)**

Herzogenaurach, Germany  
PUMA AG

**Oliver Burkhardt (Employees' Representative)**

Möhrendorf, Germany  
PUMA AG

**Business:**

PUMA is engaged in the development and marketing of a broad range of sport and lifestyle articles including Footwear, Apparel and Accessories.

**Distribution:**

PUMA distributes its products in more than 80 countries.

**Total Revenue:**

PUMA's revenue for the fiscal year 2006 was €2.37 billion.

**Employees:**

7,742 by the end of 2006.

**Brands:**

PUMA & Tretorn.

	Worldwide		Licensee		PUMA Group		Worldwide	Licen-	PUMA
	€ mio.	%	€ mio.	%	€ mio.	%	see	Group	
<b>- by regions</b>									
EMEA*	1,357.0	49.3%	198.3	51.4%	<b>1,158.7</b>	48.9%	5.3%	8.1%	<b>4.9%</b>
America	779.6	28.3%	55.5	14.4%	<b>724.1</b>	30.6%	38.8%	-35.1%	<b>52.0%</b>
Asia/Pacific	618.5	22.4%	132.0	34.2%	<b>486.5</b>	20.5%	14.2%	-61.8%	<b>147.8%</b>
<b>Total</b>	<b>2,755.1</b>	100.0%	<b>385.9</b>	100.0%	<b>2,369.2</b>	100.0%	15.4%	-36.7%	<b>33.3%</b>
<b>- by segments</b>									
Footwear	1,512.9	54.9%	92.9	24.1%	<b>1,420.0</b>	59.9%	14.1%	-38.5%	<b>20.8%</b>
Apparel	981.9	35.6%	186.5	48.3%	<b>795.4</b>	33.6%	18.6%	-47.3%	<b>67.8%</b>
Accessories	260.3	9.4%	106.5	27.6%	<b>153.8</b>	6.5%	11.6%	1.8%	<b>19.6%</b>
<b>Total</b>	<b>2,755.1</b>	100.0%	<b>385.9</b>	100.0%	<b>2,369.2</b>	100.0%	15.4%	-36.7%	<b>33.3%</b>

\* Europe, Middle East and Africa

**Manufacturing Facilities:**

PUMA uses outsourced production facilities in over 40 countries.

**Official Company Language:**

English.

**Financial Reporting:**

PUMA abides by the Internationally Accepted Accounting Standards, and reports its earnings on a quarterly basis.

**Corporate Governance**

Effective implementation of the Corporate Governance Code is an important element of PUMA's corporate policy. Transparent and responsible corporate management is a prerequisite for achieving corporate objectives and sustained increase in corporate value. The Board of Management and the Supervisory Board work closely together for the benefit of the entire company to ensure efficient value-based management and controls for the company on the basis of good corporate governance. PUMA follows the recommendations of the "Government Commission on the German Corporate Governance Code". For more information on Corporate Governance please refer to our annual financial report and our website [www.about.puma.com](http://www.about.puma.com)

**Anti-Corruption Policies**

In addition to our PUMA Code of Ethics (page 19), PUMA's sourcing organization World Cat has implemented a detailed Behavior Code during the reporting period covering conflict of interests and anti-corruption policies.

Consolidated Balance Sheet Structure	2006		2005		+/-%
	€ mio.	%	€ mio.	%	
Cash and cash equivalents	459.2	26.8%	475.5	36.0%	-3.4%
Inventories	364.0	21.2%	238.3	18.0%	52.7%
Trade receivables	373.8	21.8%	277.5	21.0%	34.7%
Other current assets	105.8	6.2%	80.1	6.1%	32.1%
<b>Current assets</b>	<b>1,302.8</b>	<b>76.0%</b>	<b>1,071.4</b>	<b>81.1%</b>	<b>21.6%</b>
Deferred income taxes	63.3	3.7%	48.6	3.7%	30.2%
Other non-current assets	348.8	20.3%	201.0	15.2%	73.5%
<b>Non-current assets</b>	<b>412.1</b>	<b>24.0%</b>	<b>249.6</b>	<b>18.9%</b>	<b>65.1%</b>
<b>Total assets</b>	<b>1,714.8</b>	<b>100.0%</b>	<b>1,321.0</b>	<b>100.0%</b>	<b>29.8%</b>
Current bank liabilities	65.5	3.8%	45.1	3.4%	45.4%
Tax provisions	38.5	2.2%	24.2	1.8%	59.4%
Other current liabilities	414.6	24.2%	315.2	23.9%	31.5%
<b>Current liabilities</b>	<b>518.7</b>	<b>30.2%</b>	<b>384.5</b>	<b>29.1%</b>	<b>34.9%</b>
Deferred income taxes	13.0	0.8%	20.0	1.5%	-35.2%
Pension provisions	21.9	1.3%	22.6	1.7%	-3.1%
Other non-current liabilities	112.2	6.5%	18.5	1.4%	505.8%
<b>Non-current liabilities</b>	<b>147.2</b>	<b>8.6%</b>	<b>61.2</b>	<b>4.6%</b>	<b>140.5%</b>
<b>Shareholders' equity</b>	<b>1,049.0</b>	<b>61.2%</b>	<b>875.4</b>	<b>66.3%</b>	<b>19.8%</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,714.8</b>	<b>100.0%</b>	<b>1,321.0</b>	<b>100.0%</b>	<b>29.8%</b>
<b>Working capital</b>	<b>401.6</b>		<b>255.7</b>		<b>57.1%</b>
<b>- in % of sales</b>	<b>16.9%</b>		<b>14.4%</b>		

Personnel Expenses	2006	2005
	€ mio.	€ mio.
Wages and salaries	201.3	147.8
Social security contributions	30.2	23.0
Expenses from option programs	16.9	12.5
Expenses for pension schemes and other personnel expenses	19.1	16.1
<b>Total</b>	<b>267.5</b>	<b>199.4</b>

Taxes on Income	2006	2005
	€ mio.	€ mio.
<b>Current income taxes</b>		
Germany	13.2	35.7
Other countries	104.4	93.4
<b>Total current income taxes</b>	<b>117.6</b>	<b>129.1</b>
<b>Deferred taxes</b>	<b>-9.5</b>	<b>-11.9</b>
<b>Total</b>	<b>108.1</b>	<b>117.2</b>

Business phase	Expansion					Momentum				Investment				Restructuring				
	2006	2005	*2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993				
	€ mio.	€ mio.	€ mio.	€ mio.	€ mio.	€ mio.	€ mio.	€ mio.	€ mio.	€ mio.	€ mio.	€ mio.	€ mio.	€ mio.				
<b>Sales</b>																		
Brand sales <sup>1)</sup>	2,755.1	2,387.0	2,016.6	1,691.5	1,380.0	1,011.7	831.1	714.9	647.4	622.5	594.0	577.2	554.2	541.3				
- Change in %	15.4%	18.4%	19.2%	22.6%	36.4%	21.7%	16.2%	10.4%	4.0%	4.8%	2.9%	6.6%	2.4%					
Consolidated sales	2,369.2	1,777.5	1,530.3	1,274.0	909.8	598.1	462.4	372.7	302.5	279.7	250.5	211.5	199.5	210.0				
- Change in %	33.3%	16.2%	20.1%	40.0%	52.1%	29.3%	24.1%	23.2%	8.1%	11.7%	18.4%	0.7%	-5.0%					
- Footwear	1,420.0	1,175.0	1,011.4	859.3	613.0	384.1	270.9	209.0	202.5	193.8	176.2	154.4	143.5	141.9				
- Apparel	795.4	473.9	416.0	337.0	238.5	169.5	163.5	139.0	85.8	73.1	64.4	50.3	49.9	59.8				
- Accessories	153.8	128.6	102.9	77.7	58.3	44.5	28.0	24.7	14.2	12.9	9.9	6.8	6.2	8.4				
<b>Result of operations</b>																		
Gross profit	1,199.3	929.8	794.0	620.0	396.9	250.6	176.4	141.7	108.2	102.3	94.0	79.0	69.5	62.8				
- Gross profit margin	50.6%	52.3%	51.9%	48.7%	43.6%	41.9%	38.2%	38.0%	35.8%	36.6%	37.5%	37.4%	34.8%	29.9%				
License and commission income	37.0	55.7	43.7	40.3	44.9	37.2	28.9	23.9	24.5	25.9	25.5	26.0	27.1	21.4				
Operating result / EBIT	366.2	397.7	359.0	263.2	125.0	59.0	22.8	16.3	4.7	36.3	33.3	31.0	23.1	-26.2				
- EBIT marge	15.5%	22.4%	23.5%	20.7%	13.7%	9.9%	4.9%	4.4%	1.5%	13.0%	13.3%	14.7%	11.6%	-12.5%				
Result before taxes on income / EBT	374.0	404.1	364.7	264.1	124.4	57.4	21.2	14.4	3.4	37.4	33.2	26.5	17.3	-35.4				
- EBT marge	15.8%	22.7%	23.8%	20.7%	13.7%	9.6%	4.6%	3.9%	1.1%	13.4%	13.2%	12.5%	8.7%	-16.8%				
Net earnings	263.2	285.8	258.7	179.3	84.9	39.7	17.6	9.5	4.0	34.6	42.8	24.6	14.9	-36.9				
- Net marge	11.1%	16.1%	16.9%	14.1%	9.3%	6.6%	3.8%	2.6%	1.3%	12.4%	17.1%	11.7%	7.5%	-17.6%				
<b>Expenses</b>																		
Expenses for marketing and retail	419.6	272.0	214.6	163.9	125.1	86.9	67.0	61.0	47.9	29.0	-	-	-	-				
Costs of product development and design	56.7	42.0	36.9	29.9	24.2	19.9	18.2	15.2	15.2	7.3	-	-	-	-				
Personnel expenses	267.5	199.4	163.4	126.6	103.0	81.1	64.4	51.5	41.3	35.2	-	-	-	-				
<b>Balance sheet</b>																		
Total assets	1,714.8	1,321.0	942.3	700.1	525.8	395.4	311.5	266.6	222.9	176.6	147.7	106.5	100.0	121.9				
- in % of Total assets	61.2%	66.3%	58.4%	54.7%	48.0%	44.7%	42.1%	42.1%	43.8%	54.7%	41.7%	-12.8%	-38.1%	-43.5%				
Working capital	401.6	255.7	148.4	155.7	114.0	110.3	78.8	76.6	70.6	69.6	21.2	17.8	6.6	34.1				
- thereof: inventories	364.0	238.3	201.1	196.2	167.9	144.5	95.0	85.1	63.4	58.4	41.9	36.9	33.3	44.0				
<b>Cashflow</b>																		
Free cashflow	10.4	134.4	256.6	107.4	100.1	3.0	9.1	0.8	-12.1	-8.6	39.5	17.7	39.7	-4.6				
Net cash position	393.6	430.4	356.4	173.8	94.3	-7.8	4.8	1.1	7.8	22.0	34.5	4.7	2.5	-50.7				
Investment (incl. Acquisitions)	153.9	79.8	43.1	57.3	22.5	24.8	9.4	14.3	15.7	4.1	2.9	1.8	1.4	2.9				
<b>Profitability</b>																		
R O E (Return on equity)	25.1%	32.6%	47.0%	46.8%	33.7%	22.5%	13.4%	8.5%	4.1%	35.8%	-	-	-	-				
R O C E (Return on capital employed)	57.7%	102.0%	156.5%	120.7%	81.1%	32.8%	20.6%	17.8%	6.8%	41.4%	-	-	-	-				
C F R O I (Cashflow return on invest)	23.9%	32.0%	42.1%	43.5%	32.2%	20.3%	13.8%	11.1%	4.6%	18.3%	-	-	-	-				
<b>Additional information</b>																		
Orders on hand on Dec. 31	1,119.7	1,069.1	822.6	722.0	531.1	360.1	232.1	187.2	133.5	130.8	111.4	90.9	94.4	85.2				
Number of employees on Dec. 31	7,742	5,092	3,910	3,189	2,387	2,012	1,522	1,424	1,145	1,078	807	745	703	714				
Number of employees on yearly average	6,831	4,425	3,475	2,826	2,192	1,717	1,524	1,383	1,149	1,041	795	728	725	1,012				
<b>PUMA share</b>																		
Price of the PUMA share on Dec. 31 (in €)	295.67	246.50	202.30	140.00	65.03	34.05	12.70	17.20	11.25	18.61	26.29	18.41	14.93	7.75				
Earnings per share (in €)	16.39	17.79	16.14	11.26	5.44	2.58	1.14	0.62	0.26	2.25	1.98	1.76	1.06	-2.63				
Average outstanding shares (in million)	16,054	16,066	16,025	15,932	15,611	15,392	15,390	15,390	15,390	15,390	15,390	14,000	14,000	14,000				
Number of shares outstanding on Dec. 31 (in million)	16,114	15,974	16,062	16,059	15,846	15,429	15,390	15,390	15,390	15,390	15,390	14,000	14,000	14,000				
Stock market value	4,764.3	3,937.6	3,249.3	2,248.2	1,030.5	525.4	195.5	264.7	173.1	286.4	404.6	257.7	209.0	108.5				

\*restated

1) including sales of licensees

INSIDE PUMA

Employment

PUMA's workforce increased steadily on a year-to-year basis from 2005 to 2006. PUMA had 5,092 employees (Full Time Equivalences) overall (55% non-retail and 45% retail) at the end of 2005. End of 2006, 7,742 people were employed of which 57% were non-retail and 43% retail. Overall this is a growth of 21%. A further increase in 2007 is expected.



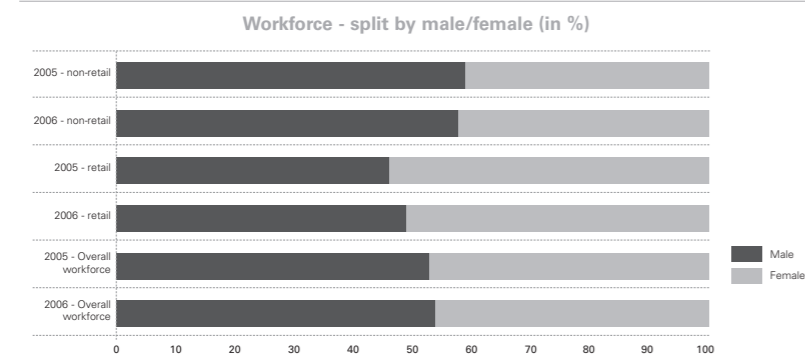
In 2005, 72% of the PUMA headcount was employed full time. In 2006 the percentage increased slightly to 76%. There is a significant difference in employment status between the retail and non-retail operations: While in the retail business about half of the workforce works part time, only 4-5% of the non-retail workforce does not work with full time status.

PUMA enforces stable and secure working conditions but also offers a small amount of temporary employment to flexibly handle peak workloads. In 2005 93% of the staff were employed on a permanent basis, a percentage that increased by one percentage point in 2006.

As the retail business required setting up new stores, the percentages of permanent staff in the retail business are slightly lower with 91% in 2005 and 92% in 2006 respectively.

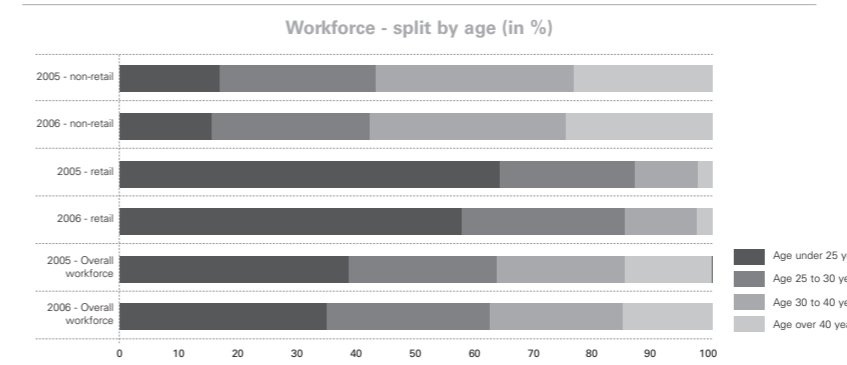
Gender

PUMA is dedicated to equal opportunity employment. Consequently the share of female and male workers is well balanced. In 2006 46% of the PUMA overall workforce was female with 51% female employees in the retail part and 42% in the non-retail business.



Age

PUMA is a highly attractive employer for young people and offers excellent job opportunities and career starts. It is crucial for the sustainable growth of a sportlifestyle company like ours to constantly add new young talent with fresh ideas to our team. However, it is just as important to maintain the knowledge of the more experienced workforce within the company.



The age group of 25 years and below decreased from 39% in 2005 to 35% in 2006. Meanwhile the more experienced workforce (40+ years old) remained constant with 14% from 2005 to 2006. In the retail business many employees are younger than 25 (64% in 2005, 58% in 2006). In the non-retail business the 30 to 40 years old employees make up the largest age cluster with 34% in 2005 and 2006, followed by the age group of 25 to 30 years old (26% in 2005 and 2006 respectively).

Management

In 2006, 3% of the non-retail workforce held top management positions. Another 12% had management positions. These figures remained almost constant as compared to 2005. There are no top management positions in the retail business according to the GRI definition.

Development by Regions

Workforce development in the Asia/Pacific regions is particularly noteworthy. PUMA has expanded its activities in this region significantly in the past few years. Correspondingly the workforce in retail and non-retail business increased about 6% up to 15% altogether in 2006.

Moreover, PUMA has also manifested its presence in the retail business in the Americas. At the moment it constitutes of 55% of the total retail workforce worldwide while another 35% of the retail employees are working in the region EMEA.



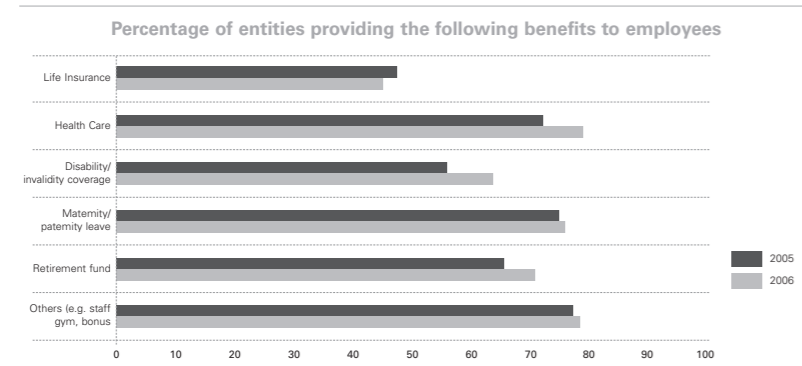
**Employee Turnover**

In a fast paced environment like the sportlifestyle industry, a high employee turnover rate is not at all unusual. Importing fresh, new and creative ideas into the company is part of the PUMA strategy. About a third of our workforce is younger than 25 years, a generation that clearly wants to maintain mobility and flexibility. Considering the large share of young employees it is not astonishing that turnover is higher among the younger workforce. However, PUMA aims at strengthening the loyalty of its workforce in 2007. The number of employees who left the company increased from 2005 to 2006. The number of employees in the non-retail business who left the company in 2005 increased from 12% to 16% in 2006.

The EMEA region saw the highest turnover rate (2005: 14%; 2006: 18%) followed by the Americas with 13% and 15% respectively. According to expectations, turnover in the retail business was higher than in the non-retail business. There were no significant differences in turnover between males and females.

**Benefits**

PUMA is dedicated to providing the correct and appropriate benefits to employees. However, benefit programs vary when comparing the different countries in which PUMA operates. All in all the rate of local PUMA companies offering benefits improved strongly across all divisions from 2005 to 2006. This is true for the retail as well as for the non-retail business. PUMA also provides a stock ownership plan for selected employees.



**Occupational Health and Safety**

Health and safety is one of PUMA's top priorities worldwide. As a sportlifestyle company, PUMA offers its employees various programs to engage in sports activities and to promote a healthy lifestyle. Employees are, for example, encouraged to participate in company-sponsored marathon runs and a gym is available in our head office, where there is also a physical therapist offering free courses to improve back strength.

**Health and Safety Committees**

PUMA operates a formal health and safety committee with a specialized labor physician and a health and safety engineer at the headquarter in Germany. The PUMA works council not only actively participates in this health and safety committee, but also develops and signs related company agreements such as a non-smoking policy agreement. Worldwide, ten additional entities of PUMA AG have organized their own health and safety committees representing over 25% of all total PUMA entities. This figure should be seen in context of PUMA's large number of smaller national offices (with less than 50 employees) where one person organizes occupational health and safety issues, on a less formal level.

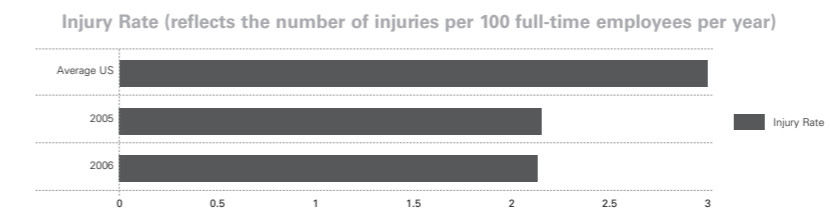
At the point of production, regular audits are conducted at all our suppliers worldwide with the strong focus on occupational health and safety (OHS). As part of the PUMA S.A.F.E. standards, suppliers are required to organize their own health and safety management including OHS committees and trained first aid personnel as well as additional training for health and safety where appropriate. Out of 290 active factories monitored in 2006, 92% had formal training on OHS and at least one competent person in charge of the maintenance of health.

**Injury Rates**

For German based employees, PUMA headquarter tracks work related accidents leading to an absence from work of over three days. Since our most recent sustainability report "Momentum" accident data has now also been collected from international PUMA entities. The figures below reflect over 90% of all PUMA employees worldwide including data from some major joint venture partners.

All numbers on injuries, diseases, lost days, fatalities, and absenteeism are recorded with regard to the respective local laws and are based on 100 employees except fatality figures which are total numbers.

OHS data PUMA offices worldwide	2006	2005
Injury Rate	2.18	2.20
Occupational Disease Rate	0.03	0.00
Lost Day Rate	55.17	31.25
Fatalities	1*	0
Absentee Rate	2,219.59	2,146.84



While we are pleased to report that the injury rate has gone down since 2004, an increase of the lost day rate (days lost due to injuries) and occupational diseases indicate room for improvement. The figures of the absentee rate are mentioned to set the above figures into perspective. As a benchmark, we have also included the average industry figure (2005) for sporting goods retailers in the USA (Source: www.bls.gov).

### Preventative efforts

Nearly all PUMA entities have trained staff in case of a fire: whereas some smaller divisions have two trained people, larger entities have trained up to 20% of their employees to support evacuation. Fire evacuation drills for all staff are standard procedure in most PUMA entities. In 2005 69% of the entities conducted fire evacuation drills. This number increased to 79% in 2006, meaning that about half of the employees participated at least in one fire evacuation drill.

In addition, more than 6% of the workforce also actively participated in emergency first aid training. Across the globe, about 12% of the PUMA workforce receives preventive medical examinations or preventive treatments (about 4%). While they are offered and recommended to each new hire in some countries (e.g. Germany, South Africa) they are mandatory in other countries (Russia) and sometimes even followed by annual (e.g. Brazil, Japan) or even semi-annual (e.g. Greece) check-ups.

While in 2005 only 3 of 31 PUMA entities (9%) had programs implemented solely dedicated to serious communicable injuries, already 13 divisions (34%) had such programs running in 2006. This includes the retail as well as the non-retail part of the organization. These programs range from education and training to counselling and prevention to risk-control for the workforce and in some divisions even their families. Additional entities reported planning and implementing similar programs for 2007/2008.

PUMA staff travelling to countries with a high risk of certain diseases (e.g. hepatitis or malaria) is vaccinated by a specialized labor physician. PUMA suppliers in sub-Saharan Africa have special HIV prevention programs in place including the free distribution of condoms.

### Labor/Management Relations

Collective bargaining agreements and works councils help to formalize labor/management relations for larger entities. In 2005, 38% of the PUMA workforce was represented by a collective bargaining agreement, meaning that 16 of the surveyed entities operated under collective bargaining agreements. In 2006, the number of entities operating under a collective bargaining agreement slightly increased by one to 17, leading to a slight decrease of 36% of the covered workforce.

In general, more non-retail employees (2005: 53%; 2006: 47%) were covered by collective bargaining agreements than retail employees (2005: 19%; 2006: 21%). On a country level, more employees in the EMEA countries (2005: 47%; 2006: 43%) were covered by collective bargaining agreements than employees in Asia/Pacific (2005: 15%; 2006: 20%).

Out of the 31 entities surveyed in 2005, eleven had implemented a works council rising to 12 entities out of 38 in 2006. All in all, 32% of the entities had a works council in 2006 representing 19% of the overall workforce.

The PUMA organization has been going through rapid change in the past and will continue to do so in the future. Significant changes are usually announced early enough to provide time for appropriate change management and transition activities. Phase IV of our long-term company strategy was communicated half a year prior to its launch in 2006.

### Notice Periods

PUMA complies with legal requirements in all countries regarding contractual notice periods. These vary widely and go beyond legal minimum requirements in most countries. Depending on country and legislation they can range from one week to six months. In 2005, 65% of the entities representing 47% of the workforce reported minimum notice periods between one and four weeks. An additional 19% of the entities reported minimum notice periods between two and three months and an additional 6% reported minimum notice periods of 6 months. In 2006 only 61% of the entities with 48% of the employees reported minimum notice periods between one and four weeks. An additional 24% of the entities reported minimum notice periods between two and three months. Finally, only 5% of the entities reported minimum notice periods of 6 months. These figures show how contractual notice periods have overall become longer from 2005 to 2006, thus protecting the employee as well as decreasing the retention risks for PUMA.

In 34% of the 2005 surveyed entities (42% in 2006) dates fixed for change activities followed legal minimum requirements. Another 9% of the entities (11% in 2006) followed a collective bargaining agreement or labor contracts (31% in 2005; 21% in 2006). The remaining entities did not report significant change activities.

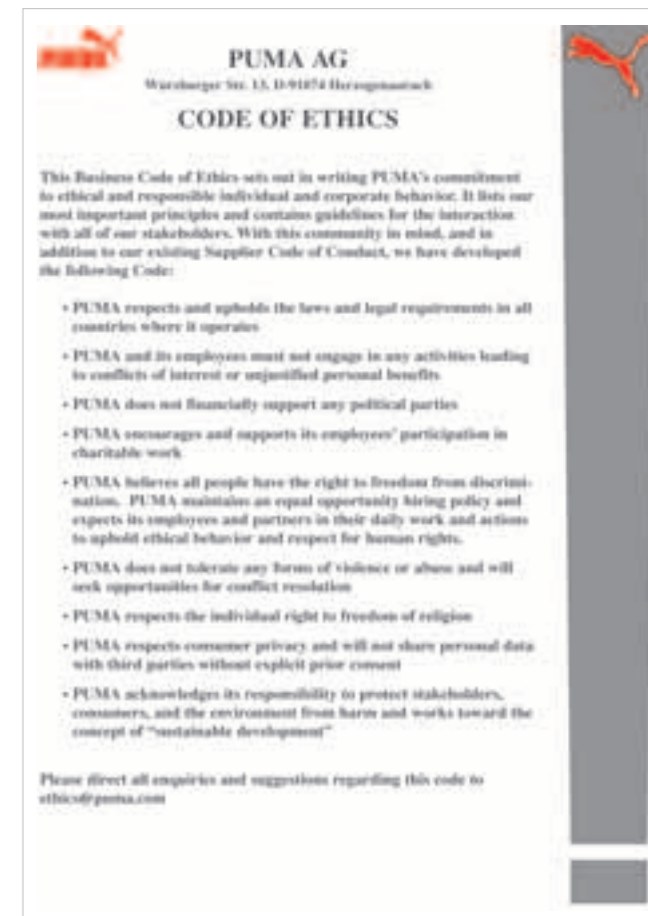
### Training and Education

Lifelong learning and employee development is the key to a motivated and high performing workforce. PUMA offers on-the-job as well as off-the-job training. The average number of training hours for both management and employees overall increased: the management from 3.7 hours in 2005 to 4.5 hours in 2006 and for employees from 0.6 hours in 2005 to 1.3 hours in 2006. Training activities in EMEA more than doubled while Asia/Pacific and the Americas remained constant.

Various initiatives such as internal and external training, pre-retirement planning, assistance to non-working life, sabbatical periods, retraining and job placement services are offered to the retail as well as to the non-retail part of the organization. Due to the different nature of the retail business there has been no need for sabbatical periods, retraining or job placement services yet. PUMA will always handle possible cases of redundancies in a socially acceptable way.

### Interns

In addition, PUMA has developed an intern policy ensuring fair intern conditions. All interns working for PUMA therefore have to be enrolled at a university, college or similar institution. This ensures a common understanding of the role of interns and tasks among all involved. Since September 2006, PUMA offers the new apprenticeship "Master of Trade" in Germany. In 2006 an initiative to implement an employee suggestion system began, and will most probably be implemented in 2007.



### Performance Appraisal

A professional performance management system is key to the global PUMA Human Resources strategy. Most countries have a general policy that employees will receive at least one performance appraisal per year. This is already common practice in the work environment of most entities including the respective training of managers. Overall, 74% of managers participated in a performance appraisal in 2005. In 2006 the number of performance appraisals even increased to 79% globally. On an employee level performance appraisals have been successively implemented in the last few years. While in 2005 only 23% of the overall workforce received a performance appraisal in 2006 already 57% of the employees were appraised. This tendency is visible for the non-retail workforce but even stronger for the retail workforce where the number of appraisals rose from 9% in 2005 to 67% in 2006.

Corporate HR is currently delivering an internationalization strategy as well as globally aligned tools to further increase the percentage of employees receiving formal performance appraisals. Future focus will lay on talent management, retention development and building a high performance workforce that will be capable of sustainable growth of the company in the future.

### Internationality

PUMA has a multicultural workforce including 27 different nationalities working for PUMA in Germany (retail and non-retail).

### Anti-Discrimination

With its Code of Ethics and Code of Conduct, PUMA is committed to providing a discrimination free work environment and promoting equal opportunities. Due to the new Equal Opportunity Law that came into effect in Germany in August 2006, PUMA audited all HR processes for being free of discrimination and immediately trained all employees without exception. The AGG (Allgemeines Gleichbehandlungsgesetz) completes our current regulations; our equal opportunities representative is in charge of managing all employees' concerns. By the end of March 2007, 99% of all employees in Germany had completed their training about how to ensure a discrimination free work environment.

### Minimum Wages

Minimum wages only exist in some countries. In 2005, about 42% of the local entities in countries where minimum wages exist did pay exactly these minimum salaries at least to some employees while 58% paid higher wages to every employee. In 2006, 75% of the local PUMA entities where legal minimum salaries exist paid salaries above legal requirements.

### Supervisory Board

According to German law the PUMA Supervisory Board includes two out of the five representatives in order to represent employees' issues. These members are directly elected by the employees. Until 2007 one of them was female.

## Environment

Alongside the social and economical aspects, protection of the environment is one of the three main pillars of sustainable development.

### Head Office Germany

At PUMA, environmental issues are addressed at several levels. Our own offices and operations represent the first level, as we have the highest potential for influence there. At our German head office in Herzogenaurach, we collect key environmental performance data such as:

- Energy consumption
- Water consumption
- Waste creation
- CO<sub>2</sub> emissions

The regular collection of key environmental performance data enables us to monitor our environmental performance over time, identify any positive or negative trends, benchmark against others and identify potential savings.

Environmental performance data Head Office	Per Employee	Per Employee	Total	Total
	2006	2005	2006	2005
Direct Energy consumption (kWh)	2,881.63	3,018.62	1,533,028	1,503,274
Natural Gas consumption (kWh)	2,309.75	2,313.41	1,228,788	1,152,076
Business Travel (km)	26,103.06	33,931.30	13,886,829	16,897,787
Paper consumption (kg)	79.16	65.85	42,115	32,794
Water consumption (m <sup>3</sup> )	9.14	7.87	4,862	3,921
Total Waste (kg)	176.92	211.53	94,122	105,344
CO <sub>2</sub> - Emissions direct energy usage (tons)	0.47	0.47	248	233
CO <sub>2</sub> - Emissions indirect energy usage including travel (tons)	7.915	13.298	4,211	6,623

\* Data calculation based on the VfU Indicator Calculation Files 2005

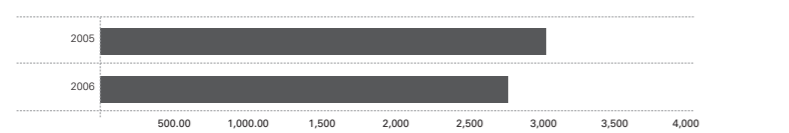
**Roof greening as part of environmental efforts at the head office in Germany**



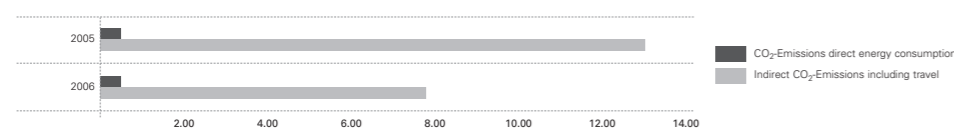
We were able to slightly reduce the amount of energy used on a per employee basis from 2005 to 2006. Significantly lower travel activities resulted in a considerably lower carbon dioxide emission footprint (see Graphs below). According to our energy provider, roughly 10% of the energy we used was created from renewable energy resources such as solar energy and biomass.

While the amount of water used per employee increased, the amount of waste produced decreased in the reporting period, as building reconstruction efforts led to an above-average waste amount in 2005. We continue to recycle over 60% of the waste coming from our head office. The other 40% is incinerated and used to make thermal energy at a waste power plant. This renewed energy is then distributed to the community heating system for the city of Nuremberg.

Direct Energy Consumption (kwh/employee)



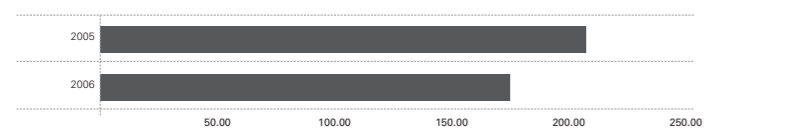
Indirect CO<sub>2</sub> Emissions (Tons per employee)



Water Consumption (m<sup>3</sup>/employee)



Total Waste (kg/employee)



In our previous sustainability report "Momentum" we reported our environmental efforts such as waste segregation for recycling purposes, energy efficient building and lighting measures, water stop functions for bathrooms, and video conferencing facilities to help reduce travelling. Our new efforts to reduce the environmental impact at our head office since 2005 include:

- Replacement of our old heating system by a much more efficient gas fired block type combining heat and power plant
- Overseeing a university diploma thesis which created key environmental measurements
- Introducing a battery collection system for recycling purposes
- Using cafeteria waste for bio gas/energy creation

We will continue to measure our environmental performance data from our head office and aim to reduce the environmental impact where possible. PUMA is planning to build new facilities in Herzogenaurach over the next several years and we aim to create even more environmentally efficient buildings.

**PUMA Offices Worldwide**

As this was our first-ever survey on environmental performance on an international level, the data quality and figures varied widely between different country offices. The different sizes of our offices range from just a few employees up to several hundred employees. On top of this, regional and climatic specifics further added to the diversity. With the 2006 data coverage already increasing in comparison to 2005, our aim will be to capture more precise figures for future reports.

Nevertheless, we decided to report on the average figures available in order to give an indication on the average energy and water consumption, as well as average waste figures, per employee:

Comparing the average figures from our offices worldwide with the data for the head office in Herzogenaurach indicates a global savings potential for all three environmental indicators.

Environmental Performance data PUMA Offices Worldwide	2006	2005
Average data per Employee		
Electric energy (kwh)	4,409	5,203
CO <sub>2</sub> (tons from electric energy)	2.25	2.65
Water (m <sup>3</sup> )	11.54	11.32
Waste (tons)	0.45	0.48

**Product and Production-related Aspects**

The third and probably most important level of characterizing PUMA's environmental footprint relates to PUMA products and their manufacturing.

Since PUMA outsources all production to external independent manufacturers, our efforts to guarantee that all products are free from harmful substances and to minimize the environmental footprint of production and distribution are detailed at a later stage of this report.



INTRODUCTION	03
What's new	03
Foreword by Jochen Zeitz	04
COMPANY	06
PUMA at a glance	08
Inside PUMA	14
<b>S.A.F.E.</b>	<b>24</b>
Foreword by Reiner Hengstmann	26
Concept	28
Audits and beyond	30
Reportage: Three trips, one mission	44
Environment	50
FLA Accreditation	55
PEOPLE	56
Stakeholder interview with Klaus Leisinger	58
Talks at Banz	60
Stakeholders Statements	61
CORPORATE PHILANTHROPY	64
PUMA's engagement in Africa	66
Charity Cat	67
CHALLENGES	68
Pilot projects	70
Counterfeits by Edward Kelly	72
Targets	74
EXTERNAL VERIFICATION	76
TÜV Verification	76
GRI Content Index	78
OUTLOOK	84
CONTACTS / IMPRESSUM	85



In 2005 we approached one of our Footwear suppliers in China and asked them to attend a special training program focusing on Human Resources policies such as compliance procedures, grievance issues, and general Human Resource management practices. The intention of this project was two-fold: to improve the relationship between management and workers by having better policies in place as well as tackling the yearly staff turnover problem in Chinese factories.

“We are open to new things but please do not bring any third parties into my factory!” was the factory manager’s first reaction. “There is really no need for this sort of project because we already have everything in place,” said the Human Resources department. After many discussions and pointing out the benefits the factory could gain with this project, the management finally agreed to participate.

During the assessment, the high labor turnover was identified to be the top priority issue. The factory worked with the Fair Labor Association (FLA) to design an action program that included a retention strategy.

After the completion of the project the factory reported that their turnover rate had decreased significantly.

The establishment of a new recruitment office greatly improved the factory’s retention process. The newly recruited workers now were better prepared to fulfill the job requirements than those prior to the project. Furthermore, this factory was one of the first PUMA suppliers in China to create a works council. The management soon noticed that having worker representation in the factory helped make employees feel more comfortable and therefore improved the working situation in general.

This positive example clearly shows that the overall success of a company is closely linked with the principles of sustainable development. Enterprises should make decisions based not only on short-term financial and economic factors but also on the social, environmental and other consequences of their activities.

Factories do have to understand that following globally accepted social and environmental standards is not only beneficial for the brands whom they supply. They need to understand that it is primarily in their own best interest, as illustrated by the example of the Chinese Footwear factory above.

We have recognized an imbalance between our social and environmental activities. While non-governmental organizations urged us to focus on the improvement on social standards in our supply chain, fewer resources were available to cover environmental issues. With the decision to join the UN Global Compact and support its ten principles, we aim to broaden

our CSR (Corporate Social Responsibility) efforts. The protection of the environment needs to be a second core field of activities for PUMA’s S.A.F.E. Team.

We started collecting relevant environmental data for this report from our suppliers to get a better understanding of their environmental impact. We implemented environmental management systems and environmentally friendly technologies in our new headquarters which saves both energy and natural resources. As a brand we also sought to take a leadership position by addressing issues of product safety, restricted substances and related environmental pollution within our supply chain.

In this report we also address the expectations that arose after our previous sustainability report “Momentum.” We will inform on how we chose a deeper and more strategic role in key issues like the protection of the environment and guaranteeing the right to freedom of association in developing countries. We will also report on our initial steps towards community relations and philanthropy. Capacity building, a key component to ensure code compliance, will be discussed in detail.

PUMA as a single corporate citizen cannot solve all issues on its own. We have worked closely with the Fair Labor Association and the World Federation of the Sporting Goods Industry (WFSGI) as well as other corporations, organizations, and individuals to find workable solutions. This report will try to give answers to the questions being asked by our stakeholders in previous years but please bear in mind that we have not been able to come up with suitable responses to all questions. However, we will continue our work towards a more sustainable and transparent business to address upcoming challenges appropriately.

I would like to invite you to comment on this report, either by mailing back the attached feedback form or via e-mail to [sustain@puma.com](mailto:sustain@puma.com).

Sincerely yours,

Dr. Reiner Hengstmann  
Global Head Social & Environmental Affairs

## CONCEPT

### The S.A.F.E. Audit System

The S.A.F.E. team enforces and monitors the company's social and environmental standards among its contract factories as well as those of its licensees. Starting with its first Code of Conduct in 1993, the S.A.F.E. concept was formally organized in 1999. Since then the monitoring of factories has become a standard routine in the regions Asia, Europe/Africa/Middle East and Americas.

During every audit, factories are rated and graded (A, B, C, D) based on the S.A.F.E. formalized rating system. Audit results are then documented and stored in our database. New factories have to pass the S.A.F.E. audit first before becoming an accredited PUMA factory. New factories failing the audit are automatically disqualified but have the right to request a second try after having implemented the required improvements.

Every audit engagement ends with a closing meeting with representatives of the factory where we discuss audit findings and evaluate possible corrective actions. Our aim is to identify the root cause of any non-compliance whereas our major goal is to help factories help themselves: by becoming aware of any weakness in their own systems or procedures as well as to identify the best options for corrective action. In most cases, the factories express appreciation, acknowledging that the audit helps to uncover issues that they had overlooked or taken for granted.

### Follow-up and Remediation

Follow-ups via email or on-site reports by PUMA technicians monitor the implementation progress of the corrective action plans. The factories document their corrective actions, particularly those pertaining to occupational health and safety. Though documentary evidence is acceptable in a first step, it does not substitute a following audit to verify that corrective action plans have satisfactorily been put in place.



### The S.A.F.E. Pocket Guide

In 2005, PUMA first introduced its S.A.F.E. Pocket Guide in English and Chinese. This Pocket Guide serves as an abridged version of the S.A.F.E. Manual containing core information on the PUMA social, health, safety and environmental standards as well as all contact data for factory workers to reach the S.A.F.E. team directly in case of any Code violations.

Copies of the Pocket Guide are sent to the factories for distribution to the workers. In addition our auditors distribute copies to those workers who are chosen for interviews during the audits. Thus, the Pocket Guide serves both as an information tool and a communication channel to the workers.

The Pocket Guide is now also available and distributed in Vietnamese, Thai, Bangladeshi, Urdu, Bahasa Malaysia, Bahasa Indonesia, Turkish, Spanish, and Arabic.

### Changes in the Audit Rating System

Since its first introduction in 1999, the S.A.F.E. audit rating system went through three major changes. The first change in 2001 simplified the rating process by combining the audit checklist and the rating sheet into an automated rating system based on yes/no answers. The purpose was to create an objective rating system, thus eliminating the influence of any subjective impressions.

In a second change in 2004, critical issues such as child labor and non-compliance with minimum wages were flagged as core issues where no remediation would be possible. Failure to comply with one of these core issues results in the strict but necessary penalty of being disqualified as PUMA supplier immediately.

The most recent update came into effect in 2006 when additional questions were added to the rating sheets to raise the bar on occupational health and safety as well as to better reflect FLA policies.

### Complaint Procedure

In providing contact information to the PUMA S.A.F.E. team both on our Code of Conduct posters (which are displayed at every PUMA supplier in the local language) and S.A.F.E. Pocket Guides, PUMA maintains a confidential communication channel with our indirect employees worldwide since 2005. In addition to this direct link, which has been used already by various employees of different factories, PUMA's membership in the FLA includes the right for any third party who feels PUMA's Code of Conduct may be violated, to raise a formal third party complaint via the FLA. The first formal third party complaint at the FLA level focused on freedom of association and was raised in 2006. This issue was resolved with the help of the FLA in early 2007.

Our direct complaint procedure resulted in worker requests on the issues of excessive overtime, duplicate record-keeping, delayed wages, problems submitting resignations, hiring of underage workers, harassment including inappropriate physical contact and verbal abuse, incorrect overtime premiums/unpaid overtime and coaching of workers prior to audits. All requests were followed up within a set amount of time and answers were provided to the originator of the complaint, where he or she has chosen to provide contact details.

## AUDITS AND BEYOND

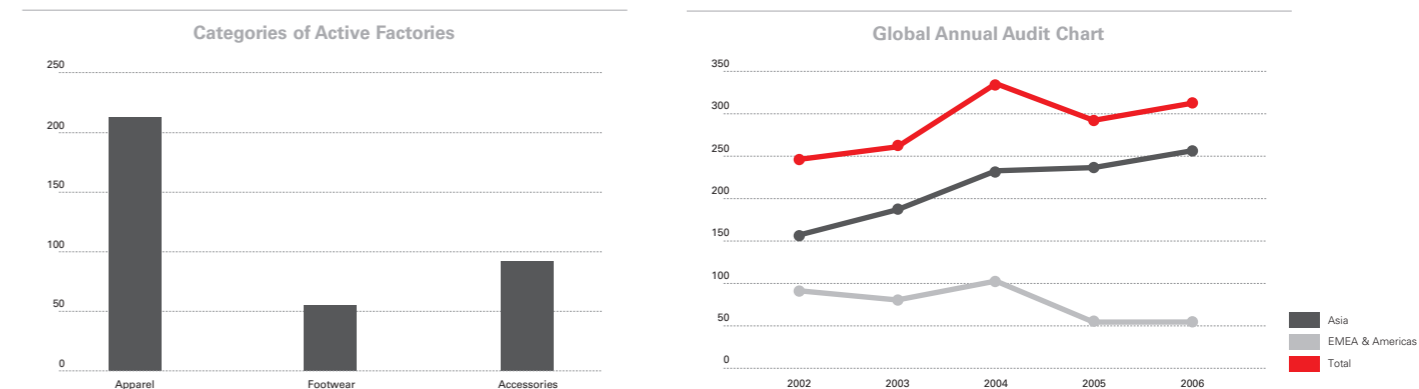
In step with our overall growth, PUMA's supply chain has consistently grown across all product classifications over the years. Our supply chain consists of sourcing through World Cat (PUMA's internal sourcing organization) as well as through some of our licensees and subsidiaries. As a consequence of PUMA's corporate strategy, there has been a general increase in World Cat sourcing as the company reacquired various licensee businesses. World Cat sourcing now makes up roughly half of our total number of active factories, whereas licensee and subsidiary production comprises the other half. Apparel factories make up 60%, Footwear 15% and Accessories 25% of the global supply chain based on total number of factories.

Global Active Factories 2006					
Region	Category	World Cat	Licensee	Total	
Asia	Apparel	72	63	135	
	Footwear	29	13	42	
	Accessories	34	45	79	
	<b>Total</b>	<b>135</b>	<b>121</b>	<b>256</b>	
EMEA	Apparel	25	34	59	
	Footwear	7	4	11	
	Accessories	5	2	7	
	<b>Total</b>	<b>37</b>	<b>40</b>	<b>77</b>	
Americas	Apparel	9	18	27	
	Footwear	2	2	4	
	Accessories		5	5	
	<b>Total</b>	<b>11</b>	<b>25</b>	<b>36</b>	
Global	Apparel	106	115	221	
	Footwear	38	19	57	
	Accessories	39	52	91	
	<b>Total</b>	<b>183</b>	<b>186</b>	<b>369</b>	

Breaking down the workforce employed in partner factories globally by World Cat sourcing and by licensees and subsidiaries, our direct sourcing efforts impact 67% of the workers. Apparel workers comprise the largest contingent, making up 45% of the global workforce working on PUMA goods. Most workers are to be found in Asia, comprising 69% of active factories, while workers in EMEA region make up 21% and the rest is employed in the Americas.

However, based on actual capacity share in our suppliers, PUMA has best influence only over workers in Footwear factories or 34% of the global workforce as our capacity share (hence influence) in Footwear factories is the highest.

Breakdown of Global Workforce, Suppliers				
	Apparel	Accessories	Footwear	Grand Total
World Cat	64,561	32,863	74,865	172,289
Licensees and Subsidiaries	50,627	21,693	11,865	84,185
<b>Total</b>	<b>115,188</b>	<b>54,556</b>	<b>86,730</b>	<b>256,474</b>



Global Audit by Sourcing Region 2002-2006						
Year	Classification	Total	% Share	Asia	EMEA	Americas
2006	A	42	13%	20	11	11
	B	200	64%	178	20	2
	C	50	16%	41	9	0
	D*	20	6%	19	1	0
	<b>Total</b>	<b>312</b>	<b>100%</b>	<b>258 (83%)</b>	<b>41 (13%)</b>	<b>13 (4%)</b>
2005	A	41	14%	20	12	9
	B	196	66%	170	15	11
	C	46	16%	40	6	0
	D*	12	4%	11	1	0
	<b>Total</b>	<b>295</b>	<b>100%</b>	<b>241 (82%)</b>	<b>34 (11%)</b>	<b>20 (7%)</b>
2004	A	45	13%	16	17	12
	B	208	62%	152	48	8
	C	50	15%	36	14	0
	D*	34	10%	31	3	0
	<b>Total</b>	<b>337</b>	<b>100%</b>	<b>235 (70%)</b>	<b>82 (24%)</b>	<b>20 (6%)</b>
2003	A	45	17%	16	24	5
	B	158	60%	125	30	3
	C	48	18%	34	13	1
	D*	12	5%	9	3	0
	<b>Total</b>	<b>263</b>	<b>100%</b>	<b>184 (70%)</b>	<b>70 (27%)</b>	<b>9 (3%)</b>
2002	A	43	17%	19	16	8
	B	132	53%	80	43	9
	C	49	20%	37	9	3
	D*	25	10%	22	3	0
	<b>Total</b>	<b>249</b>	<b>100%</b>	<b>158 (64%)</b>	<b>71 (28%)</b>	<b>20 (8%)</b>

\* D-Factories do not qualify as PUMA suppliers; reporting for statistical purposes only.

Due to improvements in our pre-audit supplier screening process, a larger number of factories passed our initial S.A.F.E. audit (A and B rating). This is reflected in the decreasing percentage of failed factories (C and D rating), which went from 30% in 2002 to 20% in 2006. Asia continues to dominate as a sourcing region, growing to about 83% of all global audits conducted and 69% of our active global production base in 2006. About 34% of all audits conducted in 2006 were with new factories, reflective of our expansion into countries such as India and Cambodia as well as those for new license production such as bodywear and eyewear.



Breakdown of Audit by Country - EMEA 2006													
Country	Product Category	World Cat					Licensee					Country Total	
		A	B	C	D	Total	A	B	C	D*	Total		
Czech Republic	Apparel						1					1	1
Egypt	Apparel							2	3			5	5
Hungary	Accessories		1			1						1	1
Madagascar	Apparel							1				1	1
Mauritius	Apparel							2				2	2
Poland	Apparel							1				1	1
	Footwear			1		1						1	2
Portugal	Apparel	2	1	2		5	1					1	7
	Accessories		1			1						1	1
Romania	Apparel		1			1		1				1	1
	Footwear			1		1		1				1	4
Slovakia	Apparel						1					1	1
South Africa	Apparel								1			1	1
	Footwear							2	1	1		3	4
Tunisia	Apparel	1				1						1	1
	Footwear							1	1			2	3
Turkey	Apparel	3	1			4	2	2				4	8
Ukraine	Apparel							1				1	1
	Accessories		1			1						1	2
<b>Total</b>		<b>6</b>	<b>6</b>	<b>4</b>		<b>16</b>	<b>5</b>	<b>14</b>	<b>5</b>	<b>1</b>		<b>25</b>	<b>41</b>

Breakdown of Audit by Country - Asia 2006													
Country	Product Category	World Cat					Licensee					Country Total	
		A	B	C	D	Total	A	B	C	D*	Total		
Bangladesh	Apparel	2	1	2		5							
	Accessories		1			1		1	1			2	8
Cambodia	Apparel		5			5							
	Footwear							2				2	7
China	Apparel		27	7	1	35		22	5	3	30		
	Footwear		9	4	1	14		3	3	4	10		
	Accessories	1	20	4	2	27	1	13	5	6	25		141
India	Apparel		4			4		3			3		
	Footwear					1		3	3		6		
	Accessories						1	2	2	1	6		19
Indonesia	Apparel							1			1		
	Footwear		2			2	1	1	1		3		
	Accessories		1			1		2			2		9
Malaysia	Apparel	2	4			6		6			6		
	Footwear							1	1	1	3		
	Accessories		1			1			2		2		18
Pakistan	Apparel							1			1		1
Philippines	Accessories		1			1							1
Singapore	Apparel	1				1							1
South Korea	Apparel						3	1			4		
	Footwear						1				1		
	Accessories						3	1			4		9
Taiwan	Apparel		1			1							
	Accessories	2	2			4		2			2		7
Thailand	Apparel		7			7		3			3		
	Footwear							1			1		
	Accessories							2			2		13
Vietnam	Apparel	2	5	1		8		1			1		
	Footwear		12			12							
	Accessories							3			3		24
<b>Total</b>		<b>10</b>	<b>103</b>	<b>18</b>	<b>4</b>	<b>135</b>	<b>10</b>	<b>75</b>	<b>23</b>	<b>15</b>	<b>123</b>		<b>258</b>

\* D-Factories do not qualify as PUMA suppliers; reporting for statistical purposes only.

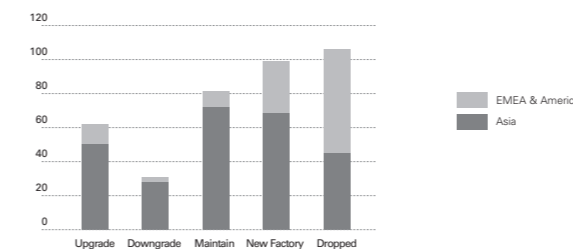
Breakdown of Audit by Country - Americas 2006													
Country	Product Category	World Cat					Licensee					Country Total	
		A	B	C	D	Total	A	B	C	D	Total		
Brazil	Apparel		1			1							
	Footwear	2				2							3
Colombia	Apparel							1			1		1
El Salvador	Apparel	1				1							1
Equador	Apparel	1				1							1
Guatemala	Apparel						1				1		1
Mexico	Apparel	2				2	2				2		4
Paraguay	Apparel	1				1							1
Venezuela	Apparel						1				1		1
<b>Total</b>		<b>7</b>	<b>1</b>			<b>8</b>	<b>4</b>	<b>1</b>			<b>5</b>		<b>13</b>

Factory audit performance is linked to the frequency PUMA monitors these suppliers. Measuring the S.A.F.E. performance results between 2005 and 2006 of 387 active factories (both newly added and existing) using the newly proposed grading system to be effective in 2007, we were able to get a clear picture of global compliance performance.

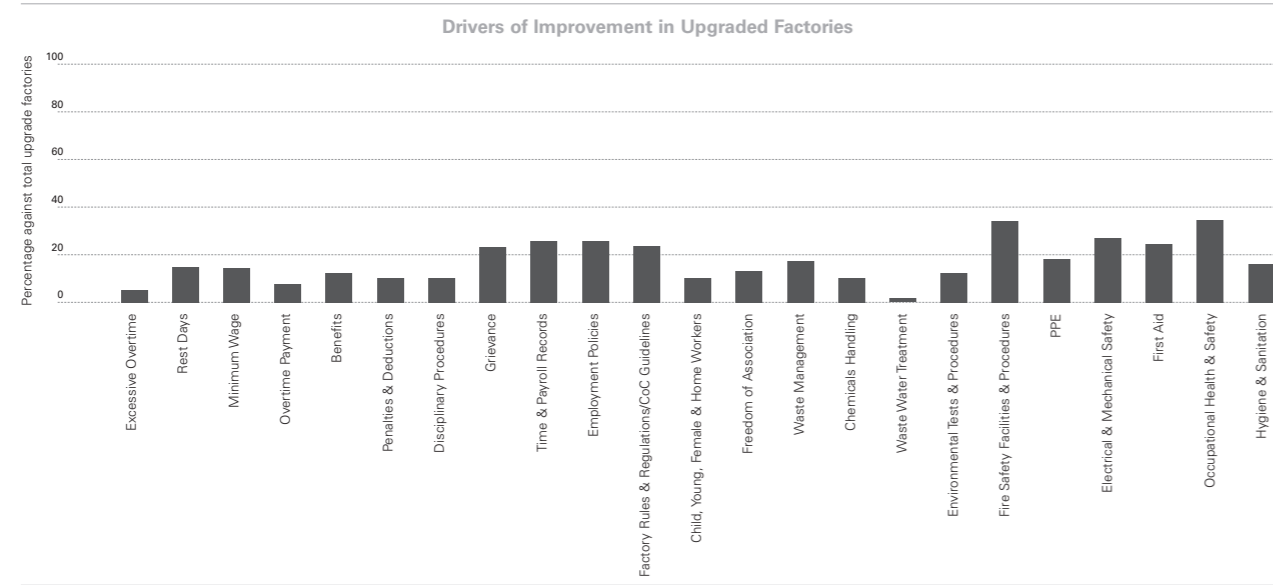
The results showed marked improvements for 16% of factories, while 8% of factories were downgraded. About 23% were able to stay within the same ranking. Ninety-eight new factories were audited globally, representing 25% of active factories. However 107 factories or 28% of total were dropped from our active list by the beginning of 2007. We based this decision not solely on non-compliance with S.A.F.E. standards but also due to other business issues such as discontinuance of product offering and consolidation with other key strategic suppliers. A thorough review of our global active supplier list revealed that a significant number of suppliers remained listed despite PUMA having discontinued business with them within 2006. This drastically affected the number of dropped factories.

PUMA's rating system previously had been based on the grades A, B, C and D. The range between grades was 5%, except for the grade B, which spanned a 10% range (85%-94.99%). The new system splits the B grade to 5% increments resulting in the grades B minus and B plus. The majority of our active suppliers were able to maintain their grade within the 5% range between grades A, B plus, B minus and C. PUMA has reviewed its S.A.F.E. standards since 2004 and included more general requirements in 2005. Most factories were able to adjust to these higher standards, with some able to even improve grades within the period. Sustainable improvements that led to grade jumps from B minus upward have been in the areas of fire safety facilities & procedures, occupational health, employment policies, and greater accuracy with time & payroll records.

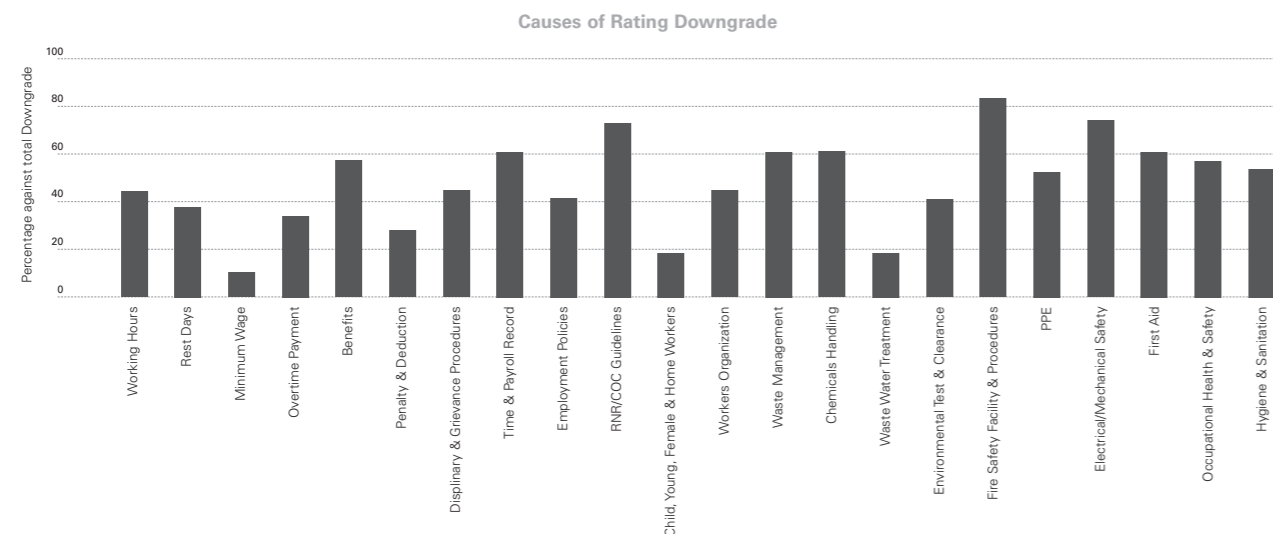
Drivers of Improvement in upgraded factories



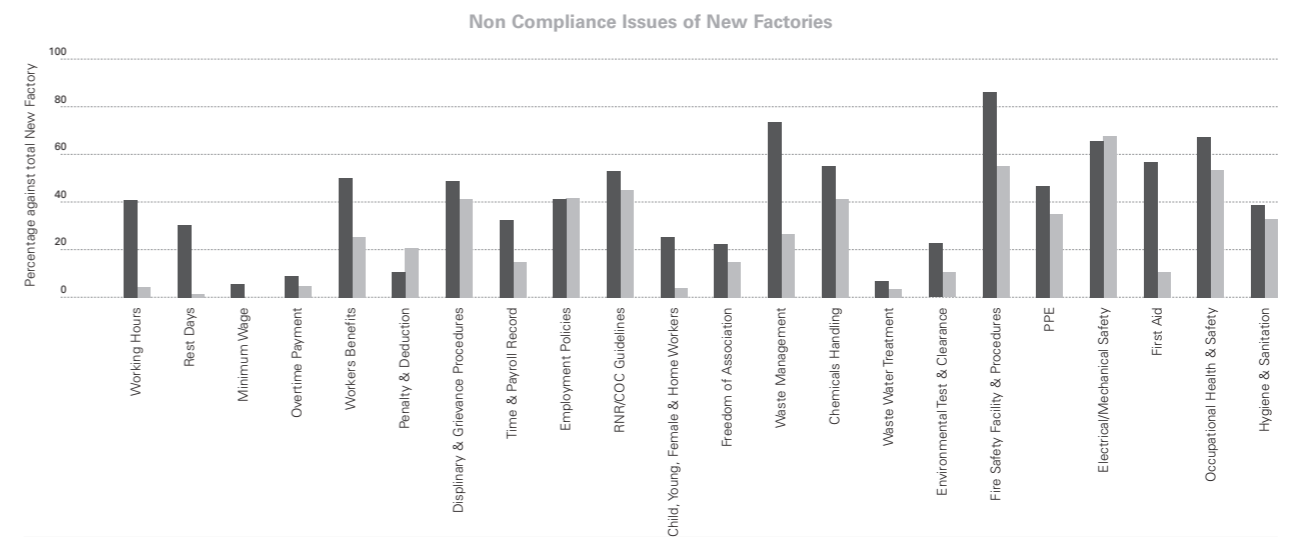
After achieving a certain level of compliance, factories often find it difficult to further upgrade without significant investment to improve management systems and practices in all key business areas (i.e. Production, Purchasing, Administration, Human Resources, etc.). The analysis below reflects this as no single area or category of improvement stands out as a key driver for improvement. No category contributed more than 35% of the improvement in the factories that were able to upgrade.



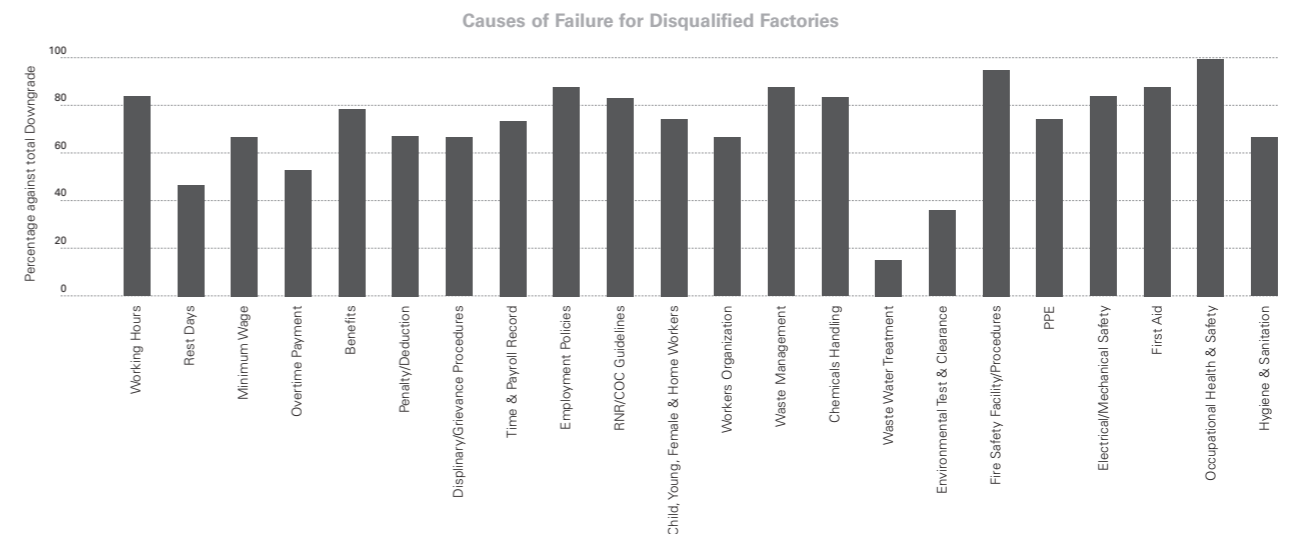
Of the downgraded factories, we found the most frequent factor to be the lack of appropriate fire safety facilities and procedures (84%), followed by inadequate internal policies pertaining to the Code of Conduct principles and lax electrical/mechanical safety practices. Lapses in payment of the latest local minimum wage caused about 10% of all downgrades.



For new factories, the top areas of non-compliance in Asia are fire safety facilities & practices, waste management, occupational health and electrical/mechanical safety. In EMEA and Americas, top areas of non-compliance are electrical/mechanical safety, fire safety facilities & practices and occupational health. The strongest areas of compliance in Asia are in minimum wage payments, accurate overtime payments and fair penalties & deductions. The strongest areas of compliance in EMEA/Americas are rest day work & working hours, overtime payments, and incidences/presence of policies for child/women workers. Wastewater treatment issues are generally not applicable for most factories in our manufacturing base, as the majority is comprised of ready-to-wear (RTW) Apparel factories with no wastewater resulting from their industrial processes. This explains the low incidences found for wastewater issues.



100% of all dropped factories in Asia were found non-compliant in areas of occupational health (i.e. lack of health and safety committees/staff, first aid, etc.). Other occupational safety and social areas were found to be significantly deficient as well, as nearly all disqualified factories were found to have problems with control of working hours, poor employment policies, poor chemicals handling, or deficient fire safety facilities and procedures.



### Sustainable Compliance

PUMA's capacity building program began with the awareness that monitoring goes hand-in-hand with building up the skills and systems of supplier factories to meet PUMA's compliance expectations. In 2005, capacity building became more embedded in S.A.F.E. strategy and in the overall corporate strategy. Capacity building is a preventive measure against code non-compliance, as well as a means to correct non-compliance in a sustainable manner by targeting the root causes. Simply put, capacity building means training. However, it means more than that in the context of sustainable compliance – it means skills upgrading, it means the review and introduction of new standards and systems, and it could also mean the need to introduce new structures or groups in the workplace. In other words, the goal in sustainable compliance is to ensure that there is internal human capacity to implement continuous company responsibility.

Partnering with like-minded organizations with specialized expertise is crucial in order to ensure that relevant issues can be addressed to achieve sustainable compliance. It is in this context that we opted to have pilot projects within the same theme with key supplier partners in critical countries of operation. We explored different approaches in tackling these concerns, from raising general awareness to assistance in root cause mapping, to education in related management systems. At the end of 2006, our capacity building can be summarized in the following chart.



Capacity Building Projects				2005				2006			
Country	Theme	Project Title	Partner	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Vietnam	General Social Standards Awareness	Good Compliance Practices	Vietnam World Cat Sourcing staff	☐	☐	☐	☐	☐	☐	☐	☐
		Vietnam Business Links Initiative	World Federation of Sporting Goods Industries, Vietnam Chamber of Commerce & Industry	☐	☐	☐	☐	☐	☐	☐	☐
China	Sustainable Compliance, Hours of Work	FLA Sustainable Compliance Assessment Tool (SCAT) Pilot (1 year project)	FLA	☐	☐	☐	☐	☐	☐	☐	☐
		Taiwan Union training	Labor Action China	☐	☐	☐	☐	☐	☐	☐	☐
		Multi-brand Human Resource Management Systems (HRMS) Pilot Project (2 year project)	Nike, adidas group, TÜV China	☐	☐	☐	☐	☐	☐	☐	☐
Thailand	Sustainable Compliance, Hours of Work	FLA Soccer Project (2 year project, with Needs Assessment and Initial Capacity Building within 6 months)	FLA	☐	☐	☐	☐	☐	☐	☐	
Bangladesh	Sustainable Compliance, Hours of Work	Joint ITGLWF-GTZ project on OHS Committees in supplier factories	ITGLWF* and GTZ** Bangladesh	☐	☐	☐	☐	☐	☐	☐	
Romania	Social Dialogue, freedom of association	German Roundtable on Codes of Conduct: Social Dialogue at Company level model pilot project	GTZ and AUR***, OAR****	☐	☐	☐	☐	☐	☐	☐	
Bulgaria	Workers training	Workers Training on Code of Conduct and Bulgarian Labor Law	Clean Clothes Campaign, Balkan Institute for Labor and Social Policy and Women's Alliance for Development. FLA as observer.	☐	☐	☐	☐	☐	☐	☐	
Turkey	Wages, working hours, freedom of association	JO-IN Pilot Project	JO-IN through the FLA	☐	☐	☐	☐	☐	☐	☐	
El Salvador, Central America	Gender aspects, wages, working hours, freedom of association	Joint Pilot Project with the Clean Clothes Campaign	Clean Clothes Campaign	☐	☐	☐	☐	☐	☐	☐	
All countries	Supplier training	RSL (Restricted Substances List) Testing Training	World Cat	☐	☐	☐	☐	☐	☐	☐	

☐ Pre-development phase  
 ☐ Implementation phase  
 ☐ Monitoring and Evaluation phase

\* International Textile, Garment and Leather Workers Federation  
 \*\* Gesellschaft für Technische Zusammenarbeit  
 \*\*\* Asociația Națională a Specialiștilor în Resurse Umane  
 \*\*\*\* Opportunity Associates Romania

## Project Descriptions

### Pilot project of the German Round Table for Codes of Conduct in Romania

The German Round Table on Codes of Conduct\* and the German Development Agency (GTZ) in Romania successfully completed a pilot project in August 2006. This project included three rounds of workshops for managers and employee representatives that were followed by company visits of professional trainers selected from local NGOs. The aim was to improve management-employee communication in seventeen selected supplier companies of the Romanian Apparel and Footwear industries.

*“Regardless of all skepticism, the interest of the employees was addressed appropriately. This effort was visible throughout the whole project and is also recognized in the final report. We regard this project, although rather small, overall as a positive step forward.”*

**Trade Union of the metal industry (IG Metall), Unified Service Sector Union (ver.di), Educational Arm of the German Association of trade union (DGB-Bildungswerk)**

The project ended with a round of interviews for both management and employees representatives. The project management compared the results of those interviews with baseline interviews conducted at the start of the project. Interestingly, both management and employee representatives rated the project outcome as successful. Examples of cited improvements were:

- Inclusion of workforce in strategic decisions, leading to higher acceptance of the outcome
- Reduced number of workers with performance below production norm
- Reduced sick-rates
- Increased motivation of the workforce.

PUMA has been a member of the Round Table on Codes of Conduct since 2002. Two key PUMA suppliers for Footwear and Teamsport Apparel participated in the project. After the completion of the project in Romania, we repeated the project in Bulgaria, again with PUMA supplier participation.

\*The German Round Table on Codes of Conduct operates under the German Ministry of Economic Cooperation and Development and consists of a number of stakeholders including corporations, NGOs, unions, and industry federations. For more information please refer to [www.runder-tisch.de](http://www.runder-tisch.de)

### Joint worker training with local NGOs in Bulgaria

Following discussions with the Clean Clothes Campaign Germany (CCC) regarding supplier training in cooperation with local NGOs and partners of the CCC, PUMA, the Balkan Institute for Labor and Social Policy (BLSP), and the Women's Alliance for Development (WAD) held a two day training exercise at PUMA's only direct supplier in Bulgaria, Sahinler Bulgaria in Kardjali, in December 2005.

The training, facilitated by the Fair Labor Association (FLA), was structured in three modules focusing on PUMA's Code of Conduct (module one), Bulgarian labor law (module two) and gender aspects of Bulgaria's labor law (module three).

While module one entailed a brief presentation to all 300 staff at the factory, interested workers and management representatives enrolled in two separate groups to go through modules two and three in more detail. During the whole training period, an exhibition of the WAD focusing on labor rights in the garment industry was stationed in the cafeteria of the factory. We received positive feedback to the presentations, films, role-playing, and exercises from all participants.

*“One of the most active participants in the project was the factory Sahinler-Bulgaria from the town of Kardjali. The participants from the factory - both managers and workers - were very active, ambitious, and industrious during the training and the implementation of the activities.”*

**Dr. Dimitar Matev, Vice President of the BLSP**

As follow-up training, in 2006 Sahinler participated in a Bulgarian round table for social standards project aiming at improving the dialogue between management and workers. This project included three workshops and four factory visits on the following topics:

- Social Compliance
- Industrial Disputes
- Workplace Cooperation Models
- As-Is Analysis Communication
- Communication Skills
- Infrastructure for Efficient Negotiations
- Cause Analysis & Goal Analysis
- Finding Solutions - Methods
- Action Plan
- Project Design
- Networking

### JO-IN Pilot Project in Turkey

Six organizations, all aiming at ensuring core labor standards in the global apparel industry, agreed on a draft common Code of Conduct as well as a joint pilot project in Turkey in 2005. Those organizations are:

- Clean Clothes Campaign
- Ethical Trading Initiative
- Fair Labor Association
- Fair Wear Foundation
- Social Accountability International
- Workers Rights Consortium

Following two years of discussions, stakeholder consultations and research into the selected code elements of freedom of association, wages, and working hours, this unique project came into a practical implementation phase in 2006 when the Steering Committee selected six supplier factories who agreed to thorough onsite and offsite assessments by the JO-IN assessment team. PUMA, as a member company of the Fair Labor Association, continues to participate in this project and the assessments with one core supplier. In the meantime, the assessments took place and we are looking forward to the results of this ambitious project. For more information please refer to: <http://www.jo-in.org/turkeyproject.htm>.

### Vietnam worker training and VBLI project

Increasing awareness of factory workers and management on labor laws and compliance standards is a major part of the Code of Conduct capacity building programs. In 2005, we conducted a focused approach on this theme for all Footwear factories in Vietnam. Targeting the factory's key compliance officers, union representatives and supervisors, the training delivered updates not just on labor laws and S.A.F.E. standards, but also provided a venue for the compliance staffs of different factories to interact with and learn from each other.

At the end of the training, each participant submitted a commitment list of specific compliance-related items that they would implement in their home factories. Participants also received tips on how to conduct internal code awareness training in the factory. Via the regular S.A.F.E. audits, PUMA monitored these commitments throughout the year. At the end of the year, most factories improved their compliance to PUMA S.A.F.E. standards.

Late in 2006, PUMA became a member of the Vietnam Business Links Initiative (VBLI), the largest multi-stakeholder initiative in Vietnam addressing corporate responsibility in the Apparel and Footwear sectors. In a second phase, the VBLI promoted the practice of CSR in Vietnam, implemented capacity building activities for local suppliers and stated regulators, and spearheaded the development of unified standards on labor and health and safety. PUMA participated in this project through its membership in the CSR Committee of the World Federation of Sporting Goods Industries (WFSGI). Education materials on health and safety from VBLI were distributed to all factories, and participation in training activities are currently under discussion.

### FLA sustainable compliance project in China

A Chinese Footwear factory producing for PUMA became one of the first factories to participate in the FLA Sustainable Compliance Assessment Tool (SCAT) Project. Originally tackling only excessive working hours, the project has since covered grievance systems and the mapping of human resource management systems. The factory has undergone the FLA Needs Assessment process with PUMA to identify key areas of improvement in their human resources management systems and the link to their production systems.

During the assessment, we identified high labor turnover as the top priority issue before other capacity building concerns. Factory management worked with the FLA to design an action program that included a retention strategy. The action program addressed all stages in the tenure of a worker – from recruitment to resignation. The assessment also identified ineffective grievance procedures as one of the causes of the high labor turnover. The FLA provided additional comments and advice on the retention plan and training was conducted specifically on their implementation of the retention plan as well as the handling of grievances.

In coordination with PUMA and Labor Action China, the same factory also participated in a project on worker participation. This project provided education on labor law to all workers, and additional capacity building was given for workers who expressed interest in management and participation training. Additional capacity building was also provided to the factory trade union. Currently, Chinese union experts are additionally supporting the union's worker committees.

Following the project implementation phase, the factory reported that they were able to reduce their turnover rate by half over a period of only several months.

### Multibrand HRMS Project in China

The Multibrand Human Resource Management Systems (HRMS) Project aims to improve HR structures at varying operational levels in the factories aiming to increase worker participation, build flexibility in the deployment of workers, and enhance the supplier's ability to comply to a Code. In May 2006, initial proponents Nike, adidas, and Reebok invited PUMA into the two-year project in the spirit of interbrand collaboration. TÜV Rheinland of China serves as the training service provider.

Forty factories covering Footwear, Apparel, Equipment, and Accessories from Guangdong province, Fuzhou, and the Shanghai area participated, including three PUMA factories. The factories were divided into four learning groups of ten factories each, each factory playing host to parts of the training throughout a one-year training period. The program made use of a variety of capacity building methodologies, including classroom-based peer learning, project assignments, and inter-department action committees in the factories to ensure factory management buy-in. Training for the groups was done in staggered succession over a period of two years in order to capture the lessons from prior groups and incorporate these into the training for subsequent groups.

The approach is intended to address a root problem identified in audits, which is the lack of professional compliance-related systems that properly interconnect with other business functions in the factory. The project is expected to conclude in 2008.

### FLA Soccer Project in Thailand

The Soccer Project is another pilot project which will test the FLA's new methodology: version 3.0 towards sustainable compliance. Its main goal is to strengthen the capacity of suppliers to improve and sustain compliance. Consisting of three elements (needs assessment, capacity building, and progress monitoring) nominated suppliers and sponsor brands launched the project in Thailand in 2005. As a pilot for the new FLA methodology, the specific target areas of the project are hours of work and grievance procedures, although it also addresses other issues that may arise during the needs assessment. PUMA nominated one supplier in Thailand for participation. The needs assessment began in November 2005 utilizing the FLA instrument Sustainable Compliance Assessment Tools (SCAT).

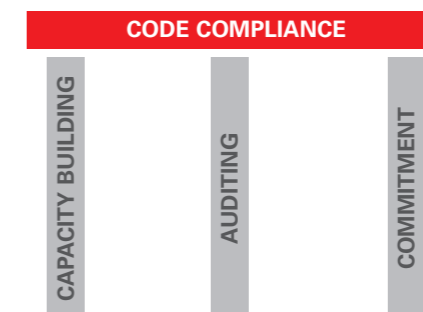
In January 2006 the supplier management team and the FLA sat down together to review the in-depth analysis of compliance-related issues in the factory. The analysis identified root causes of problems related to hours of work including, but not limited to, production delays due to materials-related problems like delivery or quality, and workers' relatively low productivity. On the other hand, root causes of issues on the grievance procedure were traced to the supplier's inadequate human resources management system. After the analysis, the FLA designed a customized capacity building program for the supplier.

As one component of the capacity building plan, the FLA trained the factory together with others on guidelines of best practices. Currently, the capacity building phase is still underway and will include additional training on productivity enhancement, material supplier management, and human resource management systems geared towards grievance procedures. The participating supplier continues to support the project as they received already positive results, such as the formation of a comprehensive grievance process that satisfied the factory's workers welfare committee.

### The Way Ahead

We learned a number of lessons in the areas of project design, planning and monitoring. Through these experiences, we developed a Project Development and Management Protocol that has been useful in the development of internally initiated projects. Synthesis and impact analysis of these projects will be done in 2007, with the intention of introducing these training programs throughout the supply chain. These projects were a fertile ground for learning about partnership brokering and stakeholder engagement as we learned to better articulate and manage partnership expectations. These activities also highlighted where our auditing standards can be further improved, particularly in improving the link between audits, remediation, and capacity building.

We identified key areas where S.A.F.E. capacity building and monitoring activities could be more embedded in overall corporate strategy. This embedding process is currently underway, the initial phase of which we expect to finish in 2007.



Capacity building is a process of dynamic and continuous learning for us and our suppliers, built on the premise that raising awareness and implementing appropriate systems at the factory level will result in the factory's self-sufficiency in order to meet buyer and stakeholder expectations. Though raising awareness and management skills are integral parts of meeting compliance to our code, ultimately it is both the suppliers' and our own commitment to ethical sourcing that will ensure that this knowledge is applied consistently despite the challenging business environment. We encourage the view that social and environmental responsibility is a business approach that helps the factories thrive, and that capacity building is one of three legs necessary to work toward great code compliance.

## REPORTAGE

**Three trips, one mission**

by Bernhard Bartsch

The PUMA S.A.F.E. team ensures that some 400 suppliers around the world act in compliance with the social, environmental and security standards that are governed by PUMA's Code of Conduct. But inspectors themselves also need to be reviewed. For this reason, journalist Bernhard Bartsch accompanied three review teams in three different countries for one week and critically examined their work. Bernhard Bartsch is a foreign correspondent who works for several German newspapers and magazines e.g. Berliner Zeitung and Brand Eins.

**Visit 1: Sahinler / Corlu, Turkey. Wednesday, January 10, 2007***“No doubts should arise”*

A sewing machine needs five minutes and 5.3 meters of yarn for a PUMA logo. You can see how the needle jumps over the material completely automatically. However, Stefan Seidel listens more than he looks. “If you were to stand here for a whole day without protection, it would be pretty bad for the ears,” says the European Manager of PUMA's S.A.F.E. department. He checks whether the workers are wearing earplugs and asks if they have been shown how to use them correctly, and he also has the noise reading shown to him. “We consider it very important that the best possible protection measures are taken here,” he says. “There should be no doubt about that.”

It is Wednesday morning at Sahinler Mensucat, one of the largest manufacturers of PUMA Textiles in Turkey. Every day, 485 workers produce about 10,000 articles of clothing here. For Seidel, this is one of dozens of annual factory inspections where he checks whether PUMA's suppliers comply with the environmental, safety, and social standards that the firm prescribes in its Code of Conduct. For factory manager Serafettin Tosun, it is an appointment that concerns his business, but not only that: it is a matter involving his honor. During the last inspection in 2005, his “A” assessment was downgraded to “B”: “Sahinler is a good factory,” explains Seidel. “But we want our suppliers to continuously improve themselves, and we had the feeling that Sahinler could do more.” He left a list with demands for improvement. Now, he wants to check whether they have been implemented.

The factory hall is not large, but Seidel needs two hours to complete his round. He watches the workers while they are sewing, cutting, printing, pressing or packing, and inspects protection installations on the machines, escape routes, chemicals storage and the toilets. He personally tests the fire extinguisher hose. “It has happened that factories hang up fakes,” says Seidel. This one, however, is real. In the cleaning department, where spots are removed with chemicals, he checks the extractors and notices that one of them is not functioning. “How long has that been broken?” Seidel asks the worker. The employee shrugs his shoulders in embarrassment; it is apparent that he had not noticed the defect. “That must be repaired urgently, and the workers need training so that they know how their equipment functions,” criticizes Seidel. At the packing unit he inquires about the age of a female employee who looks particularly young. “Eighteen,” she replies, and Seidel commissions Tosun to give him a copy of her personnel file together with a copy of her ID card. “During an initial check at a factory that wanted to go into production for us, I discovered a 14-year-old,” Seidel tells us. “Naturally, this factory no longer came into question.” Even if local laws permit minors to perform part time work, PUMA's Code of Conduct prescribes a minimum age of 15 for employees.

At lunchtime, Seidel is in the workers' canteen. Soup, rice, diced meat and salad are on the menu, and there is pudding for dessert. Tosun and his management team also eat here. “Factory directors in the Turkish corporate culture frequently feel a connection with their employees that is similar to that with a family,” explains Seidel. In the afternoon, he checks company files with an interpreter, has photos of fire extinguishing exercises shown to him and also the health reports of kitchen personnel; he reviews environmental certificates for the textiles used and evidence of the appropriate disposal of chemicals.

*“FOR THE FIRST TIME, I HAVE INSURANCE”***Zehra Gökalp, 35**  
**Seamstress at Sahinler / Corlu, Turkey**

*I used to be a cleaner and I worked in the households of various families. Then the local job center offered training where, for three weeks, the participants could learn how to use a sewing machine. I participated in this, and I have been working for Sahinler for one year now. This is a big improvement for my family and me. Now I am the main earner and I make about 450 Lira a month (€ 250, net wage); that is about 20% more than I used to make. I can work overtime two or three times a week which helps improve my wages a little. For the first time in my life, I also have health insurance. Also, socially, I am much more integrated than I used to be. Before, I used to be very lonely at my work, but now I spend an hour every morning with my colleagues in the company bus, which picks us up and brings us all home again in the evening. We also have an hour for lunch in the canteen. Meanwhile, I have learnt to operate various other machines so that, every two weeks, I can work at another workplace. Actually, I would also like to have my eldest daughter working here. She is sixteen and has just finished secondary school. However, according to the factory rules the minimum age is eighteen, so she will have to wait. My other kids are eight and thirteen and still go to school. Pressure is increasing. Sometimes I hear that things aren't going too well in the textile industry in Turkey and that factories will have to close because wages are too high. This scares me a bit.*

The most time-intensive job Seidel performs is checking payroll accounting, which he compares with regulations on minimum wages, working hours and overtime. According to Turkish law, workers must be paid at least 562 Lira (€ 312) a month (gross wage); in addition, employers have to pay approximately 121 Lira (€ 67) for social and unemployment insurance and wage tax. Working hours are limited to 60 hours per week. The workers receive additional pay for overtime and weekend work that exceeds 45 hours. Seidel finds deviations in some of the lists. Tosun has his bookkeeper called, and he explains that these deviations concern special Ramadan regulations. Over an hour is spent calculating back and forth until Seidel is convinced that the wage payments comply with the provisions.

Subsequently, Seidel selects some factory workers whom he wants to talk to independently and away from the factory management. “I don't let anybody I have picked out here out of my sight so that the managers have no opportunity to give them instructions,” he explains. He wants to know from them how much they earn, and compares the answers with details in their personnel files. Is overtime performed voluntarily? Do they know the regulation about overtime pay? Are they allowed to go to the prayer room or to the toilet during working hours? Can they contact someone if problems arise? And have they seen the posters with the contact information of PUMA staff? “It sometimes happens that a worker writes to us after an inspection and wants to tell us about problems which he would not dare to speak about otherwise,” Seidel tells. However, Tosun's workers only mention minor concerns. A few more toilets for the women would be desirable, says one. Another would like to see security checks at the factory entrance because one hears so frequently about terrorist attacks.

So Seidel's list of shortcomings shrinks to a few points at the end of the day: a broken extractor and a few other technical details, a few language-related details in the firm's regulations and in the copies of contracts for the workers. “When will you send me proof that everything has been done?” asks Seidel. “In August,” says Tosun. “In March,” negotiates Seidel. They agree on this. And also on Sahinler getting his “A” back again.



**Visit 2: Taiway Sports Ltd. Dongguan, China. Monday, 15 January 2007**

## “Audits are good. They point out the gaps”

Louis Chen does not look like a boss. After work, he looks more like a pop star and is relaxed and friendly. A few years ago, Chen took over management of the Taiwanese Diamond Group from his father. “Actually, I never wanted to go into our family business,” Chen tells us, who built up a software firm after completing his economic and philosophy studies. “But the fact that, initially, I had absolutely no idea about shoe production was actually an advantage. It meant that I was open to everything new.”

Chen likes the role of a pioneer. He introduced lean processes à la Toyota at his shoe factory, Taiway Sports Ltd., which produces exclusively for PUMA in the south-Chinese light industry metropolis of Dongguan. Chen also wanted to be among the most advanced in CSR matters and, as one of the first Chinese factory owners, PUMA convinced him to launch a project with the international Fair Labor Association (FLA). “Of course I was afraid of having an NGO in the firm at the beginning,” admits Chen. “But then I thought: The FLA goes into so many factories, they, better than anyone else, will be able to tell me where we stand.”

Ever since then, CSR has been a personal matter for the boss at Taiway. “In this respect, Louis Chen is the most committed company chief in China I have ever known,” says Reiner Hengstmann, Head of PUMA's S.A.F.E. department, who is managing the inspection team on this particular Monday morning. “When we go into one of his factories today, he will already have a CSR report prepared and he is keenly interested in getting feedback from us.”

A tour around the factory shows why Taiway has enjoyed an “A” ranking for years now. The factory buildings may not be new, “but even an older building can be clean and offer good working conditions,” says Stefan Denzler, who manages the PUMA production at Taiway. Apart from a few minor issues such as an unfavorably placed extractor hood or a missing protection grid, everything is exemplary, according to the PUMA inspectors. “Previously, when you went through a shoe factory, everything smelt of solvents,” says Hengstmann, who has a doctorate in chemistry. “Today, you smell practically nothing.” This is because, apart from some performance sports shoes, PUMA uses only solvent-free adhesives.

Some 4,000 people are working at Taiway. Three quarters of them live in workers' hostels on the campus, with between six and ten persons to a room. Whoever wants to live outside receives an allowance of 100 Yuan (€ 10) from the factory; this is enough for workers to share accommodation with others. The works council serves as the connecting link between staff and management - a rare thing in China. “I have seen more than one hundred factories in China,” says PUMA inspector Ivy Lu from Guangzhou, “but this is the first with effective employee representation.” Since a functioning works council needs money, Chen has made a number of income sources available to it, mainly from canteen operations. Five food suppliers are competing here with one another, in terms of both prices and quality. Employees can choose from between twenty meals at lunchtime, costing from five Mao up to five Yuan (5 to 50 cents). From the canteen profits, the works council operates an Internet café, a library, billiard and table tennis rooms, and also organizes celebrations or training courses. In addition, there is a company magazine, a stylish high-gloss magazine called “Taiway Today”.

Ten letter boxes for complaints and suggestions are hung up in the yard; a reward of between 10 and 1000 RMB (€ 1 to € 100) is paid for useful tips. One box is for Chen, personally; last year, he received about 200 messages. “The fact that I can be contacted directly and that I answer personally motivates the workers,” says Chen. For the same reason, Taiway supports around 200 orphans in the Chinese



### “LIFE IS MUCH MORE MODERN HERE”

**Liu Nayan, 23  
Seamstress at Taiway / Dongguan, China**

*I have been here for four months. Before, I worked at a textile factory not far from here, but I didn't like it there. Then I saw a sign on the gate with the heading “Workers required” and I applied. I was asked which machines I could operate. I had to test sew something, and then I was accepted. The next day, I moved into the workers' hostel, took part in a course about work rules, wage regulations and safety, and I began work. Now I earn about 1000 Yuan (€ 100) a month. I save part of this for my parents. They are farmers in the Henan province. I send them 1500 Yuan every three months, and when I visit them for the spring festival, I bring presents for them. Of course I miss them, but nevertheless, I am glad to be here. Life in the city is much more modern. For example, our company card also functions as a credit card. Every month, the factory loads it with 110 Yuan so that we can buy food in the canteen or from the kiosk. At the works council office, one can also borrow badminton racquets or basketballs, or use the Internet with it. In the evenings, films are often shown, or karaoke competitions are held. Toothbrushes, towels, drinks or even money are given as prizes. Whoever makes a good suggestion for a factory improvement receives a reward. Once, I got 50 Yuan because I put a suggestion in the card box that there is no hot water on the seventh floor of the hostel; we always had to go down to a lower floor. Three days later, we had hot water. Of course, I don't want to remain a seamstress forever. I am attending a computer course and an English course. My dream is to return to my village one day with a case full of money, and to become a kindergarten teacher there.*

province. “Naturally a factory has to make profits, but the more we earn, the more social projects we are also able to realize,” explains Chen. “This means that employees are not just working for the boss, but also for the general public.”

Nevertheless, the PUMA team has a few questions after looking through the files. At present, only 550 of the 4,000 Taiway workers are covered by statutory social insurance. This is not an obligatory requirement of the local authorities and many workers don't think it is important, as the services offered by Chinese insurance companies are usually not very attractive. “But, independent of the local regulations, we require that all workers are supported by employers in the event of illness,” says Hengstmann. Simple cases are taken care of at the Taiway factory's own medical facility, explains personnel manager, Harry Ho. “In serious cases, we pay the hospital costs.” Talks with workers confirm that this is usual practice.

However, one worker reports that he had to be treated for Hepatitis B for three months and not only did he have to bear the medical costs himself but also he did not receive any wages. Chen is embarrassed when the case is mentioned to him. “There are gaps in every system,” he says. “That's what audits are good for; they make one aware of them.” The worker will now receive his treatment costs and wages subsequently, and a new system is introduced to avoid this from happening again. The SAFE judgment after the audit: Taiway retains its “A” and remains among PUMA's best factories.





### Visit 3: Vigatexco. Ho Chi Minh City / Vietnam. Wednesday, 17 January 2007

## “Now there are a lot of factories. Those who do not watch out, fall behind”

The inspection at Vigatexco is a surprise for all those involved. Initially, Charmaine Nuguid-Anden and Lozano Brozas, the assessors who had arrived from Manila, wanted to visit a shoe factory on this Wednesday, but because power had been cut off at this factory for a day, they decided to advance the audit of a state textile manufacturer planned for later in the year. Expectations are high: Vigatexco has been producing for PUMA for three years now and, as Brozas puts it, has always received a “low B” in past audits. This means their basics are okay, but there is great scope for improvement.

In fact, the first tour through the factory indicates that a lot of improvements have been done. “Previously, everything here used to be black with oil and chemicals,” Brozas tells us, and he points to a concrete area in front of a storehouse. Today, you may not want to picnic here, but apart from a couple of canisters lying about and a rusty gas bottle, the site is clean and tidy. The factory waste is collected in a roofed shed; the toilets are newly tiled and clean; in the warehouse bales of material are no longer piled up on top of one another but are carefully stored on shelves; the emergency exits are marked clearly and the escape routes are clear.



Vice Director Vu Hoang Anh is particularly proud of his purification plant where the very dirty effluent from the factory dyeing works is cleaned before being discharged into the sewerage system. “The materials for PUMA products do not originate from here but because the dyeing works belong to the factory, we feel that we are also responsible for it,” explains Nuguid-Anden. The plant was unused for years, but after PUMA’s request, Vu had it modernized and put it into operation again. Now there are new, blue tanks standing next to the sediment basin; the control technique is computerized, and water samples are analyzed in a small laboratory. “For a factory such as Vigatexco, this is a major investment,” says Nuguid-Anden.

However, after an initial look of acknowledgement, she examines the plant more closely; it is obvious that the plant still leaves a lot to be desired. The water in the basin that, according to the details provided by the operator is fed into the public sewerage system, looks anything but clean at first glance. An ad-hoc measurement does indicate that at least the pH value corresponds with international standards; but after questioning the employees, it is quite clear just how little they know about their plant. As a consequence, Nuguid-Anden announces that a specialized environmental auditor would be sent along at the next opportunity. “If it then becomes clear that the factory still needs advice, we would be very pleased to help” she said. “But we consider it an absolute must that the purification plant functions reliably.”

Other sections of the factory also leave much to be desired. The small medical dispensary appears to be clean at first sight, but on looking more closely, Brozas sees that the plastic beakers at the water distributor have not been cleaned. During his last visit, he demanded that curtains be put up around the three hospital beds, but this room too is still open and a female patient quickly turns towards the wall when she sees the visitors coming. There is no trace of privacy. According to the ward nurse, all employees are given a medical check once a year, but she is unable to find the respective files.

There are also reasons for complaint in the canteen. Food is freshly prepared, but many of the dishes lie openly on plates without any protection from flies. Brozas starts coughing in the kitchen because the cooks are working on charcoal ovens

### “A LITTLE IS LEFT FOR FUN”

#### Hoang Van Que, 21 Presser at Vigatexco / Ho Chi Minh City (Saigon), Vietnam

*“I come from Hanoi, but Ho Chi Minh City is the economic center with better job opportunities. That is why I came here four years ago after secondary school and moved in with my cousin. We share a small apartment with some friends. One of them introduced me at Vigatexco a few days after I had arrived. It was my first job, and I have been working here as a presser ever since then. I like ironing, and that is why I have never applied to work in another department, although my superior has already asked me whether I would not like to learn sewing or cutting. There are three of us at the pressing station and my colleagues are my friends. We have lunch together and go home by bike together in the evenings. It’s a good life. I earn 1,200,000 Dong (€ 60) on a monthly average; if there is a lot of work and we work overtime, I get a bit more. Of course, I would like to earn more, who wouldn’t? But it is much more than I would get in Hanoi and it is enough for me to be able to send half of it to my family. I spend the rest on rent and food, and there is a bit left over to have fun and go out every now and then. We also pay union fees of 500 Dong every month. I don’t have to be a member, but it is better that way because the union helps us if there are any problems. It also organizes events and excursions together with the factory. Once, we went to the seaside and spent a night in a hotel there. That was the nicest thing ever!”*

that have no functioning extractors. The first aid box is only half full, and the fire extinguisher is rusted through. “We have already reminded them once about all of this,” complains Brozas. “Here, you still feel the spirit of a former state operation. There are no professionals in administration who can effectively see to it that work and safety systems are introduced and continuously checked and improved.”

Just how backward the corporate culture is at the state enterprise is shown in the discussion with the person responsible for workplace safety. More than one year ago, the inspectors had given him a list of shortcomings and demanded that it be updated at quarterly intervals. While the employee actually did write a report every three months, it was made up mostly from a copy of the original list. “Some problems appear here four times in succession,” Nuguid-Anden confronts him. “How is that possible?” The man in the uniform tries to find excuses: “That can’t be. It is our rule to solve a problem if it appears on the list two times in succession.” “But why only when it appears a second time?” insists the inspector. The uniformed man is silent and embarrassed.

“It is not as if nobody makes any attempt to do anything at Vigatexco,” says Nuguid-Anden. “But whoever wants to work with PUMA must act in compliance with the provisions which we define for our suppliers, and we must also be able to keep track of that.” The interviews with the seamstress and other factory workers show that workers are treated well, that overtime is paid reliably, and that wages are in accordance with the regulations. However, the final round will lead to a bitter loss of face for vice director Vu. “There are many factories in Vietnam that not only deliver good products but which have also understood that social and environmental issues are part of the contract,” Brozas warns him. “If you are not careful, you will fall behind and lose business.” He gives Vu three months to work through the list of shortcomings. Then the inspectors want to come by again and decide on a new assessment. “If we do not see real improvements by then, it will probably be a C rather than a B,” says Brozas. “But I hope that they have understood what is involved here.”



## ENVIRONMENT

## Production-related environmental aspects

The production of PUMA goods takes place at over 350 suppliers in 50 countries across the globe. Collecting production-related environmental data is therefore a challenging task. We introduced an environmental questionnaire and ranking sheet into our PUMA S.A.F.E. audits to cover basic environmental aspects. For the preparation of this report we went one step further and sent a detailed questionnaire to our key suppliers worldwide. For easier comparability we grouped the information received by our product categories: Footwear and Apparel.

## Footwear

For Footwear, we received data from 24 factories, which produced in total more than three quarters of all PUMA shoes during the reporting period. Out of these factories, 16 are located in Asia and 8 in the EMEA region.

17 factories stated they have a written environmental policy, 15 have a formal environmental management system in place, and 4 factories have an environmental management system that is certified according to ISO 14000. None of the factories are located in a nature-protected area. The tables below indicate selected environmental data based on the results of our survey:

Material usage for Footwear production*						
Metric tons	2006			2005		
	Usage	Waste	% Waste	Usage	Waste	% Waste
Genuine Leather	14,849.51	859.36	5.8	8,161.34	643.71	7.9
Synthetic Leather	3,262.94	207.21	6.4	2,873.36	129.38	4.5
Sole	10,660.71	109.83	1.0	10,243.54	93.72	0.9
Fabric	7,813.79	376.21	4.8	6,807.21	241.24	3.5
Other Components	22,640.35	273.23	1.2	16,674.71	661.27	4.0
<b>Total</b>	<b>59,227.30</b>	<b>1,825.84</b>	<b>3.1</b>	<b>44,760.16</b>	<b>1,769.31</b>	<b>4.0</b>

\*based on PUMA survey 2005 / 2006

Waste segregation for recycling purposes in selected Footwear factories			
Type of Waste	Monthly total	(metric tons)	%
Paper	36.25		11.93
Plastic	14.49		4.77
Glass	0.29		0.09
Wood	0.76		0.25
Metal	36.55		12.03
Mixed garbage	215.50		70.92
<b>Total</b>	<b>303.84</b>		
Annual average	303.84 x 12 =	3,646.07 metric tons	

Three quarters of factories reported recycling efforts for materials such as paper, plastic, glass, wood, and metal. For the calculation of energy consumption we requested factories to provide information on energy sources (i.e. purchased or grid electricity, power from generators, boiler for steam generation) and fuel used for company vehicles. Based on the energy data provided, we also calculated average CO<sub>2</sub> emission figures for the production per one pair of shoes. Furthermore, we collected data for water and VOC consumption.

Energy consumption: (in kWh/pair of shoes)*		Range		Average	
Type of Factories (Products made)	2006	2005	2006	2005	2005
Shoes	0.82 - 6.24	0.71 - 6.29	2.45	2.33	
Shoes and Sandals	0.36 - 1.80	0.40 - 1.88	1.40	1.05	
Sandals	0.82 - 1.15	0.60 - 1.34	1.15	1.31	
<b>Overall</b>	<b>0.36 - 6.24</b>	<b>0.40 - 6.29</b>	<b>2.17</b>	<b>2.02</b>	

\* Some operations are subcontracted (e.g. sewing of uppers)

CO <sub>2</sub> emission (in kg CO <sub>2</sub> /pair of shoes)		
	2006	2005
Shoes	1.12	1.08

Water consumption data		
Water Consumption (l/ pair of shoes)	2006	2005
Process Use	21.3	22.5
Domestic Use	20.1	16.0
<b>Total</b>	<b>41.4</b>	<b>38.5</b>
Reuse of water (% of total volume)	13	0.4

\* 8 factories use their own well water, others use the public water supply

Volatile Organic Compound (VOC) data		
VOC Index	2006	2005
Range (g/pair)	4 - 117 g/pair	10 - 117 g/pair
Average (g/pair)	41	50

## Best practice example:

Our Italian supplier Brucostran ran a solvent-free shoe project during the reporting period. They aimed to create a shoe that was produced entirely without the use of volatile organic compounds (VOCs). VOCs are traditionally emitted during the production of Footwear:

- In cement used in the sole bonding process
- In adhesive used for the fixation of different parts in the upper production
- As cleaning agent in the finishing of the product.

Many VOCs are toxic or are known human carcinogens. VOC emissions also contribute to smog formation, which can irritate lungs and make breathing difficult.

During the project, water-based cements successfully replaced solvent-based adhesives. A specially designed drying machine minimized the longer drying time of the new adhesive. Technical tests indicated promising results and Brucostran delivered their first batch of 1,800 pairs of solvent-free shoes in 2006. Based on the experiences of this pilot product PUMA is considering a roll out of further products in 2007.



### Apparel

Similar to Footwear producers, we also collected selected key environmental data from our core Apparel factories:

Average energy consumption per piece of produced garment	Range (kWh/garment)		Average	
	2006	2005	2006	2005
Sourcing Base				
Asia	0.24 - 1.86	0.15 - 1.75	0.95	0.82
EMEA	0.20 - 2.60	0.14 - 2.59	0.98	0.90
<b>Overall</b>	<b>0.20 - 2.60</b>	<b>0.14 - 2.59</b>	<b>0.96</b>	<b>0.85</b>

Water consumption (liters/garment)	2006	2005
Sourcing Base		
Asia	13.11	12.26
EMEA	4.63	4.95
<b>Overall</b>	<b>9.72</b>	<b>9.83</b>

### General

Factories together with PUMA can create further positive environmental impact through improved methods of packaging, distribution and disposal of our products. For Footwear packaging we use environmentally friendly cardboard boxes that can be fully recycled. We package Apparel and Accessories in PVC-free lightweight polyethylene bags that can also be recycled or used for energy recovery when incinerated. In Germany, PUMA's packaging waste is completely collected by the specialized waste contractor Interseroh for recycling purposes.

Distribution of PUMA products by modes of transport*	2006	2005
	in %	in %
Land freight	22.9	25.4
Air freight	5.8	6.4
Sea-/ Air freight	6.5	5.2
Sea freight	64.8	63.0
<b>Total</b>	<b>100</b>	<b>100</b>

\* covering mainly transport from point of production to German warehouses

The distribution of PUMA products by means of sea-, air-, sea/air- and truck freight creates a significant part of PUMA's indirect CO<sub>2</sub> footprint. Airfreight transport is especially neither environmentally nor financially sustainable. Nevertheless, the need for on-time delivery and requirements from our customers to deliver goods quickly to the market sometimes makes the use of air transport unavoidable.

Since 2004 we have measured the different shipping modes. Our aim is to get a total overview of important environmental key performance indicators as well as the greenhouse gas contribution in order to positively influence delivery performance and logistics. If we compare the data in the table above, the amount of freight air shipped in 2006 was significantly lower than in 2005. This increased reliance on sea freight is a positive step forward in this regard.

### Summary

With the integration of environmental concerns our PUMA S.A.F.E. audit system and the collection of environmental performance data from both PUMA offices and key worldwide suppliers, we have set the foundations for a transparent and comparable environmental management system. As next steps we now intend to look into deeper at options to reduce our environmental impact at both the supplier and PUMA levels.

### The PUMA Restricted Substances Test Procedure

Consumers expect, when buying Apparel, Accessories, or Footwear, that these products will not cause any harmful effect on their health. An increasing number of consumers are informing themselves through magazines or through government supported internet resources such as RAPEX (EU Rapid Alert System for all dangerous consumer products) or the US CPSC (Consumer Product Safety Commission) about the possible affects of consumer products on human health. The Circles of Concern below display the impact of a restricted substance policy.



Delivering clean products influences the production process in positive ways as well. For instance, direct and indirect environmental pollution becomes more tightly controlled when a brand actively avoids harmful substances in production. PUMA was the first sporting goods company to phase out the use of PVC (Polyvinylchloride), a material that may damage the environment during disposal. Non-Governmental Organizations such as Greenpeace positively recognized our activities in this area by granting PUMA a "green" rating for household products and consumer goods in their recent publication "Chemical House".

In early 2006 PUMA implemented a new chemical testing procedure following the precautionary principle for all products manufactured globally to strengthen compliance with our restricted substances policy. The reason for a new procedure was to both have a better overview on the content of potential hazardous substances prior to production and to take quicker measures in case harmful substances are detected. We presented our suppliers in January 2006 with a new list of restricted substances as well as a new version of the environmental handbook. Factories manufacturing PUMA products must make sure that all the materials they order for production comply with our process. Therefore, material suppliers are asked to arrange chemical tests through accredited labs and to send the test reports together with a certificate of compliance to PUMA S.A.F.E.. The factory should only start manufacturing when all materials pass this evaluation. Suppliers as well have to ensure that only production-related materials are sent out for testing.

In addition to the material testing for harmful substances, finished products are tested randomly through labs as well. For this purpose laboratories worldwide have been accredited to perform these tests according to PUMA standards.

*"Greenpeace appreciates PUMA's efforts to phase out harmful substances and to focus on the use of more sustainable materials in its products and production processes. The phase out of PVC and its replacement with more sustainable materials is one commendable move by PUMA. Although PVC has good material characteristics the negative effects on the environment and health during production and disposal because of the chlorine and the toxic additives, like phthalates and organotin compounds, in this material far outweigh the benefits. The incineration of PVC can lead to the formation of toxic Dioxins and Furans. By doing so PUMA clearly demonstrates its determined efforts to pursue its environmental policy."*

**Greenpeace**

this regulation are to ensure a high level of health and environmental protection as well as allowing the EU to conform to international obligations under the WTO. In addition to our existing procedure to control the use of restricted substances, PUMA will follow the REACH implementation process closely and will ensure all legal requirements are met.

Through PUMA's active membership in the AFIRM (Apparel and Footwear International Restricted Substances List Management) working group, we coordinated our efforts with competitors and industry experts to ensure our RSL is always up to date. In addition to a permanent exchange of information related to the RSL, regular seminars on restricted substances are conducted as well. In March 2006 AFIRM held in Hong Kong its first seminar on the RSL with approximately 1,000 suppliers from China invited to attend.

To ensure a proper adherence to standards, materials must be tested every new season or each time materials for production are changed.

We require from our Apparel suppliers an Öko Tex 100 certification (or the equivalent) on every single fabric they ship to our customers. Öko Tex 100 is the standard check on harmful substances in Apparel developed by the German Institute "Hohenstein".

In late 2006 the EU parliament passed a new regulation on chemicals that became law on June 1, 2007. This new law on chemicals, called REACH (Registration, Evaluation, Accreditation of Chemicals) replaces approximately 40 regulations on chemicals in the EU in order to create one single system. REACH will monitor existing and new substances being brought into the market in quantities of one ton or more. The main objectives of

**New Restricted Substances Testing Procedure**



**FLA ACCREDITATION**

Based on PUMA's first three years as a graduating FLA member, we are pleased to report that the Board of the Fair Labor Association has recently fully accredited PUMA's compliance program, S.A.F.E..

The Fair Labor Association (FLA) is an external, independent Non-Profit Organization focusing on the monitoring and implementation of core labor standards in supply chains. Being a member of the FLA involves submitting regular updates of PUMA's supplier lists to the FLA, from which 5% of our manufacturers are chosen by the FLA for independent, external and unannounced audits by FLA-accredited monitors. As part of PUMA's FLA engagement, our supplier list has been available to the public via the FLA since 2005.

The FLA began its audits at PUMA factories by inspecting 9 factories in 2004. We covered the results of these audits in the 2004 sustainability report "Momentum". The audits continued with 19 and 16 more factories in 2005 and 2006, bringing the total number of audits to 44 during PUMA's three years of membership of the FLA. 36,172 workers were audited in the 35 factories visited in the reporting years 2005 and 2006, whereby 19% of this amount comes from just three Footwear factories. The reduction in the number of FLA audits was linked to the reduction of PUMA's factory base in 2006. The regional location of the factories audited in the last two years and their number of product lines were as follows:

Product line	Asia	EMEA	Americas	Total
Accessories	10	0	1	11
Apparel	14	5	2	21
Footwear	2	1	0	3
<b>Total</b>	<b>26</b>	<b>6</b>	<b>3</b>	<b>35</b>

Of these factories, 17 or 49% supply PUMA's sourcing organization World Cat, while the other half are used by PUMA's licensee partners. Of the 35 factories, 21 or 60% produce only for PUMA while the rest are shared facilities with other FLA member-brands.

China (10), Thailand (5), Vietnam, Turkey and Pakistan (2 apiece) lead the countries with the most number of factory audits during this period. The rest of the audits occurred in factories strategically chosen by the FLA from our three main sourcing regions: Tunisia, Slovakia, Bulgaria, and Egypt in EMEA; Brazil, Colombia and Mexico in the Americas; Sri Lanka, Malaysia, Indonesia, India, Cambodia and South Korea in Asia.

While the first audits in 2004 highlighted the differences in the audit methodology and focus between PUMA S.A.F.E. and the FLA, these differences quickly reduced in subsequent years as S.A.F.E. included additional aspects and policy requirements into its rating system.

The majority of suggestions for improvements by FLA auditors focused on occupational health and safety issues while other aspects of their discussion included wages and benefits policies, hours of work, and disciplinary policies as well as programs to raise awareness of our PUMA Code of Conduct. The supplier, PUMA S.A.F.E. and the FLA itself use tracking charts to follow up all issues of concern from FLA audits. Where necessary, verification audits are conducted by the S.A.F.E. team or the FLA.

In addition to the conducted audits, the FLA offers its members a range of compliance and capacity building projects as well as third party complaint mechanisms. During the reporting period, PUMA received one-third party complaint in Turkey, which was subsequently resolved. Furthermore, PUMA participated in FLA-related projects in China, Thailand and Turkey. For more information on projects, please refer to page 41.

For more detailed information on the FLA please visit [www.fairlabor.org](http://www.fairlabor.org).



INTRODUCTION	03
What's new	03
Foreword by Jochen Zeitz	04
COMPANY	06
PUMA at a glance	08
Inside PUMA	14
S.A.F.E.	24
Foreword by Reiner Hengstmann	26
Concept	28
Audits and beyond	30
Reportage: Three trips, one mission	44
Environment	50
FLA Accreditation	55
<b>PEOPLE</b>	<b>56</b>
Stakeholder interview with Klaus Leisinger	58
Talks at Banz	60
Stakeholders Statements	61
CORPORATE PHILANTHROPY	64
PUMA's engagement in Africa	66
Charity Cat	67
CHALLENGES	68
Pilot projects	70
Counterfeits by Edward Kelly	72
Targets	74
EXTERNAL VERIFICATION	76
TÜV Verification	76
GRI Content Index	78
OUTLOOK	84
CONTACTS / IMPRESSUM	85

## STAKEHOLDER INTERVIEW

Talk with Prof. Dr. Klaus Leisinger

## “PUMA should integrate its CSR policy more strongly into its corporate communication”

**PUMA:** How would you rate the credibility of global companies' CSR policies?

**Klaus Leisinger:** More and more companies are increasingly concerned with the social and ecological impact, human rights aspects, and “side effects” of their own business activities. For some time now, the finance sector has sent promising signals that – all other factors (first class returns and sustainable competitive advantages) equal – corporate responsibility endeavors are likely to reduce risks for investors.

**PUMA:** Large corporations are often blamed for not doing enough to implement and comply with social and environmental standards in countries where they produce. But how much can companies actually contribute towards raising environmental and social standards in your opinion?

**Klaus Leisinger:** Having more resources and knowledge means having more power to change things - and therefore greater responsibility for appropriate action. Large corporations can be expected to make special efforts to implement and comply with standards in their core business, in particular since these standards are unchallenged by the vast majority of people in modern societies. However, there are limits to what a company can and should do. For every Dollar spent beyond conventional good management practices there are opportunity costs mainly in the form of benefits not realized through alternative investments.

**PUMA:** How can companies be helped to pursue their own CSR strategy?

**Klaus Leisinger:** It would be helpful if the media and credible players in the environmental and social domain were to apply a somewhat more differentiated assessment of the CSR policies adopted by individual companies. Moreover, I think that there should be more transparency regarding production conditions and the corresponding labels. Also, celebrities and stars should use their status as role models and the influence they have particularly on the younger generation for non-profit purposes. Responsible buying needs to become “in.”

**PUMA:** What factors must large companies in the textile sector such as PUMA take into consideration in their efforts to achieve sustainability?

**Klaus Leisinger:** The United Nations “Global Compact” Guidelines, which PUMA automatically adopted when it became a member of the Global Compact, set the tone in every way. The situation becomes difficult when local legislators in production countries are not really interested in complying with environmental and social standards and when, at the same time, we are forced to produce in these countries if we want to survive in these highly competitive markets. I think it would be of value for both the company and civil society if cooperations would report more about the dilemmas they face in such situations.

**PUMA:** Should CSR projects be communicated externally?

**Klaus Leisinger:** If companies themselves do not inform the public about their environmental and social achievements, who else is going to do it?

**PUMA:** How can CSR policies be embedded in a credible communication policy without it looking like a PR stunt?



## BIOGRAPHY

**Klaus M. Leisinger**  
**Prof. Dr. rer. pol., Dr. h.c. theol.**  
**President and CEO of the**  
**Novartis Foundation for Sustainable Development**

*Klaus Leisinger was CEO of the former Ciba Pharmaceuticals regional office East Africa and responsible for the company's international relations. He has been Chief Executive Officer and President to the Board of Trustees of Novartis Foundation for Sustainable Development. The Foundation has consultative status with the Social and Economic Council of the United Nations. In addition, Klaus Leisinger is Professor of Sociology at the University of Basel and serves as invited lecturer at several universities, amongst the University of Notre Dame, the MIT Sloan School of Management (Cambridge), and Harvard University. Klaus Leisinger has held advisory positions in a number of national and international organizations, such as the United Nations Global Compact, the United Nations Development Program (UNDP), the World Bank (CGIAR), Asian Development Bank as well as Economic Commission for Latin America (ECLA). He is member of the Board of Trustees of the German Network Business Ethics, member of the executive committee of the German Society for the United Nations, and of the Advisory Council of Mary Robinson's Ethical Globalization Initiative. In September 2005, Kofi Annan appointed Klaus Leisinger Special Advisor of the United Nations Secretary General for the UN Global Compact.*

**Klaus Leisinger:** The focus of communication must be on the company's core business. Whereas reporting on non-profit oriented activities may be positive, it may be regarded as being pure PR. This is all the more true if the non-profit activities are separated from regular business, or if they reduce transparency. It is much more credible to communicate not just those things of which one is particularly proud.

**PUMA:** What have you learned about PUMA's sustainability work to date?

**Klaus Leisinger:** PUMA is certainly a pioneer in its sector in terms of stakeholder dialogue. The annual “Talks at Banz” lend its CSR policy and its commitment a high degree of credibility because PUMA deals with the main stakeholder groups and is exposed to their criticism. In the last few years, public awareness of PUMA's sustainable investment grew with PUMA's inclusion in the FTSE4Good and in the Dow Jones Sustainability Index. It is much more credible to not only report about the things one is particularly proud of. Not only would a company be able to show a critical constituency that they are aware of issues and ambiguities, they could also go on record that they cannot solve all the world's problems alone – partnership and joint ventures would be a next step to make progress there.

**PUMA:** Where do you see the strengths and weaknesses of PUMA's CSR strategy?

**Klaus Leisinger:** PUMA is involved in many environmental and social projects and it often breaks new ground, for example with the GTZ pilot project. This demonstrates the company's will to be transparent and cooperative and to really tackle problems. However, I feel that PUMA should integrate its CSR policy more strongly into its corporate communication. PUMA realises sustainability to a much greater extent than is ever made public. In this respect, I think there is much room for improvement.

**PUMA:** PUMA cooperated with the “United for Africa” campaign during the 2006 World Cup year. Critics call this type of engagement pure marketing. Is corporate philanthropy worthwhile for companies or is it not taken seriously?

**Klaus Leisinger:** It is vital not to confuse “corporate philanthropy” with CSR as this type of non-profit activity can by no means replace, and should not replace sustainability work. Cooperative projects such as the one between PUMA and “United for Africa” can make a genuine contribution towards development aid in impoverished regions and can supplement environmental and social involvement.

## TALKS AT BANZ

For the fourth consecutive year PUMA invited a large number of stakeholders and experts in the field of CSR to meet in Banz, Germany, in November 2006. In co-operation with the German Branch of the European Business Ethics Network (EBEN), PUMA established a multi-stakeholder-dialogue to discuss the various efforts, successes and challenges of PUMA-related labor standards in the supply chain.

While the first "Talks at Banz" were characterized by a strong opposition from industry and NGO representatives, later meetings saw the participants discuss global supply chain issues in a more constructive and pragmatic way, searching for a solution on how to tackle the sustainable implementation of PUMA's social and environmental policies. The direct communication between PUMA suppliers and NGO representatives especially helped to create a better understanding of the relevant issues being forwarded by all participants.

The results of the "Talks at Banz" are used to reflect upon the PUMA's CSR strategy and to even implement the gathered thoughts into action plans. To name a few examples:

- After the first "Talks at Banz" PUMA joined the Fair Labor Association.
- At the second Banz meeting seven strategic CSR goals were presented and discussed.
- The third talks saw a number of planned joint compliance projects presented by various stakeholders including the Fair Labor Association, the GTZ and the Clean Clothes Campaign.
- During the fourth talks the results of these projects were presented and evaluated.

Even though some of the realized projects were more successful than others, the results of the "Talks at Banz" have successfully enabled a constructive dialogue between PUMA, suppliers, and representatives of key stakeholders in the field of CSR.

Organizations participating in our "Talks at Banz" include:

- The German Network of Business Ethics (DNWE)
- The Federation of the European Sporting Goods Industry (FESI)
- The World Federation of the Sporting Goods Industry (WFSGI)
- The Fair Labor Association (FLA)
- The International Labor Organization (ILO)
- Oxfam
- The Clean Clothes Campaign (CCC)
- Greenpeace
- Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ-German aid agency on technical cooperation)
- International Textile, Garment and Leather Workers Federation (ITGLWF)
- Industrie Gewerkschaft Metall (IGM, Union for metal workers)
- Erklärung von Bern (Declaration of Berne)
- Rat für Nachhaltige Entwicklung (Board for Sustainable Development)
- UN Global Compact
- Just Solutions Network
- The Hong Kong Christian Industrial Committee
- United For Africa

## STAKEHOLDER STATEMENTS

## "How do you rate PUMA's CSR engagement?"

### Anthony Baffoe / African Football Ambassador



"What strikes me the most is that PUMA recognized the high potential of African football as early as 1997 by contracting the Cameroon national team. The PUMA brand fits Africa perfectly: the black PUMA logo transports a very strong message and is famous throughout the continent. I consider PUMA's commitment to Africa to be very authentic and credible. All qualified African teams gave a strong performance at the World Cup 2006 - and this is partly due to PUMA's engagement to support the teams as much as possible, thereby contributing to a positive atmosphere. With regard to the Africa Cup 2008 and the World Cup 2010, the first ever to be held on African soil, PUMA's role in Africa will become more and more important; by no means just on the football pitch but as a trustworthy and credible partner who engages in social activities to help Africa."

### Eckhard Plinke / Bank Sarasin / Analyst



"PUMA is the branch leader in sustainability management. The S.A.F.E. concept includes standards and organizational requirements as well as control measures that cover all big sustainability issues along the supply chain. However dialogue with local stakeholders and the suppliers' labor representatives can still be improved. Increasing sustainability is a gradual process - there are still some problems left in the PUMA supply chain that need to be eliminated. Regarding sustainability we rate PUMA "high." On that account the PUMA share qualifies for an investment in our sustainability funds."

### Louis Chen / Diamond Group / Chief Operating Officer



"We consider the PUMA S.A.F.E. standards as an enrichment tool in our daily business, as these standards allow us to continuously reconsider and improve the systems we have implemented for our workforce. There was a time in the years 2005 and 2006 where our operations were struck by a manpower shortage. This was caused by strong economic growth in the northern Mainland China leading to work migration and a workforce shortage in our local area. But since our Human Resources department has set up guidelines according to the PUMA S.A.F.E. standards, this crisis passed without too much harm. We see the PUMA S.A.F.E. standards as a self-audit mechanism and we are highly motivated to invest more to become even more sustainable."

### Jorge Perez-Lopez / Fair Labor Association / Executive Director



"PUMA's labor compliance program was recently accredited by the FLA, meaning that the FLA has determined that PUMA meets all of the requirements of FLA participation with regard to its applicable facilities. Strengths of PUMA's labor compliance program include stakeholder engagement, integration of labor compliance into company activities, and information management. Weaknesses include thinly spread staff resources, code awareness, and complaints mechanisms. In the next two years, the greatest challenge that PUMA will face with respect to social and environmental issues will be how to make compliance sustainable."

### Kim Schoppink / Greenpeace Netherlands



"Regarding the use of chemicals and their impact on the environment, PUMA is definitely one of the most progressive companies in the sports industry. PUMA was among the first to produce PVC-free products, showing that substitution is possible and thus setting a clear example that other brands not only could, but should follow. We understand that it is not easy to fully control all suppliers but the PUMA auditing system is certainly a good approach to be sustainable. Nonetheless, we feel PUMA could do more to raise the standards in production sites in Asia."

**Franziska Humbert / Oxfam / CSR**

*"On the one hand, we welcome that PUMA published its suppliers' list, thus promoting transparency. PUMA also participated in the successful pilot project of the German Development Ministry's "Round Table on Voluntary Standards," a project on promoting social dialogue between managers and employees in supply factories in Romania which ran from mid-2005 to the end of 2006. Oxfam Germany participated in the Steering Committee of the pilot project. The success of the project shows that the inclusion of international and national NGOs, training programmes and the participation of workers and workers' representatives are crucial for the improvement of labor standards in supply factories. Since the project had a pilot character, the challenge is now to replicate such a project in a country with less tradition regarding trade union rights.*

*On the other hand, we were particularly disappointed that PUMA withdrew its orders from a factory in Thailand\* where a strong trade union had been formed with PUMA's support. This decision sends exactly the wrong message to PUMA's suppliers. It is highly unlikely that PUMA's suppliers will change their ways of working to accommodate PUMA's labor rights policies unless they have confidence that PUMA is committed to a long-term buying relationship.*

*Oxfam Germany recommends that PUMA:*

- Will source any new production in countries where workers' rights to form independent unions have the force of law.
- Makes a commitment to prioritise retaining production in factories where workers have formed unions and are asserting their rights.
- Makes a commitment that workers producing for PUMA should be paid a living wage.
- Adopts a policy either banning or strictly limiting the employment by suppliers of workers on short-term, unstable contracts.
- Makes much more serious efforts to ensure workers understand their rights under PUMA's Code of Conduct.
- Makes a legal long-term commitment to suppliers, giving them greater incentive to adhere to PUMA's Code of Conduct.

*Regarding PUMA's "United for Africa" cooperation with "Gemeinsam für Afrika," a group of over 30 German development NGOs, we were aware from the beginning that a partnership between a transnational corporation and a group of NGOs was not going to be easy. In the light of this fact, we acknowledge PUMA's willingness to cooperate and welcome the results of the cooperation so far."*

**Peter Kocks / GTZ / Director of Round Table Code of Conduct**

*"PUMA was significantly involved in drafting and implementing the pilot project "Social dialogue at management level" as a result of the understanding that the responsibility over the supply has to in the long run begin with the producers themselves. Audits play a very important role in defining the status quo and existing deficiencies. Yet the auditing tools regard the factory employees and management more as objects and are often perceived as harsh control measures rather than a real support to enhance the working conditions. But the pilot project turns them into real players by pointing out that they share the responsibility over the future of the company they work for and can contribute a great deal to the positive development of it. This kicks off a process that runs independently from business connections with buyers and is crucial for sustainable development. PUMA has made great achievements in the past few years to upgrade the social standards in its supply chain. The challenge for the coming years will be to catch up on the environmental side."*

\* In 2004 PUMA was successfully involved in the formation of a strong union at a former supplier in Thailand. The reason why PUMA left the supplier in 2005 was that products being manufactured at this supplier did not fit any longer in our product portfolio

**Günther Beckstein / Minister of the Interior of Bavaria**

*"The sportlifestyle company is an important employer in the Bavarian area. Despite outsourcing during the past 10 years, PUMA has managed to keep and create high-qualified jobs in the region throughout the years. The companies as well as governments need to contribute substantially to the protection of our environment. Climate change is no longer an abstract idea, but a phenomenon which affects each and every one of us increasingly and daily. Businesses are especially challenged to remain competitive on the global market while taking necessary environmental protection measures. PUMA sets a good example for the sports brand industry by showing how to realize profits without neglecting moral obligation. Certainly there remains plenty of room for improvement. Hopefully PUMA will continue its commitment towards a more sustainable business and further integrate CSR into the corporate strategy."*

**Peter Rilling / Rilling / Supplier**

*"As a German company operating in Romania we believe that the PUMA social and environmental policies set the basis for minimum standards that should be followed by every supplier. Not only in the interest of the employees but also for the benefit of the factory and management itself. However, we think that the environmental standards need to be adapted according to region: In Romania for example, waste separation currently makes no sense whatsoever as the different waste containers end up in one and the same waste dump. Implementing PUMA standards should be looked upon as an investment for equal opportunities for all global competitors to avoid price advantages resulting from non-compliance."*

**Susanne Anger / United for Africa /Spokesperson**

*"PUMA's strong commitment to African soccer convinced us that their connection to the more than 5,000 United for Africa aid projects was credible. We consider this partnership to be a great opportunity to reach a younger target group and sensitize them to the challenges in Africa today. Although there was only little time for a thorough preparation, we believe that the cooperation was a huge success for both parties. On the one hand "United for Africa" addressed a new and younger target audience by presenting itself as a dynamic NGO with a fresh and innovative approach. PUMA on the other hand was able to clearly differentiate itself from the dense competition during the World Cup through this credible cooperation.*

*However, the very intense time spent working together really highlighted the potential for conflict between a company and an NGO. As there was little time to fully get ready for the cooperation not all PUMA departments were integrated in the preparations and implementation of the joint project. PUMA's commitment to United for Africa will only then become part of the CSR strategy if it is handled on a long-term basis, and is internalized as an integral part of the marketing strategy."*





INTRODUCTION	03
What's new	03
Foreword by Jochen Zeitz	04
COMPANY	06
PUMA at a glance	08
Inside PUMA	14
S.A.F.E.	24
Foreword by Reiner Hengstmann	26
Concept	28
Audits and beyond	30
Reportage: Three trips, one mission	44
Environment	50
FLA Accreditation	55
PEOPLE	56
Stakeholder interview with Klaus Leisinger	58
Talks at Banz	60
Stakeholders Statements	61
<b>CORPORATE PHILANTHROPY</b>	<b>64</b>
PUMA's engagement in Africa	66
Charity Cat	67
CHALLENGES	68
Pilot projects	70
Counterfeits by Edward Kelly	72
Targets	74
EXTERNAL VERIFICATION	76
TÜV Verification	76
GRI Content Index	78
OUTLOOK	84
CONTACTS / IMPRESSUM	85

## PUMA'S ENGAGEMENT IN AFRICA



### PUMA and United for Africa tram

cooperate with the charity campaign United for Africa in 2006, the most significant aid organization for Africa in Germany, with whom PUMA jointly gathered donations and raised awareness.

United for Africa, a German campaign of 30 aid and humanitarian organizations, actively aims to improve the living conditions on the African continent. Under the patronage of the German President Horst Köhler, United for Africa aims to attract the German public's attention not only to the long-term plight and poverty of the African people, but also to their potential and the signs of hope.

PUMA connected with the charity campaign on a number of different promotions and events. As part of the cooperation, exciting events were organized for the summer of 2006, where Africa and African football was the center of attention. In addition, events benefiting United for Africa were held all year round with PUMA and United for Africa raising over €400,000 through their joint activities.

As a special highlight of the cooperation, PUMA and United for Africa included the United for Africa retail entertainment tram. Equipped with special informative and interactive material, and an outlet for PUMA's United for Africa charity collection, the tram ran on specific routes around Berlin during the World Cup 2006, promoting the United for Africa campaign.

Within the scope of this cooperation, PUMA designed a unique charity fashion collection and donated a fixed amount of each sale within this Charity Collection to United for Africa.

PUMA's charity collection was available in all PUMA Concept Stores in Germany, in the "Welcome to Football" Headquarters, Café Moskau, and also in the United for Africa charity tram in Berlin.

Furthermore, PUMA embarked on an exclusive cooperation with dba\* where donations for the campaign United for Africa were collected on all dba flights during the World Cup.

In line with its engagement in African football, PUMA has globally promoted players, introduced new products and technologies, and consequently shown Africa in a different light. With regard to the Africa Cup 2008 and the World Cup 2010, the first ever to be held on African soil, PUMA's role in Africa will become increasingly important. PUMA will leverage its leading position in African football to become committed to aid projects in Africa far beyond sports and is currently building plans to carry on these engagements in the future.

\* the airline

Africa offers a plentitude of chances and opportunities. PUMA seizes those chances and engages in fostering the future development of this continent. As early as 1997, PUMA recognized the high potential of Africa and African football by contracting the Cameroon national team. With an impressive portfolio of twelve PUMA sponsored African national teams, PUMA is already indisputably the most visible football brand in Africa.

But economic interests alone do not drive PUMA's long-term commitment on the African continent. PUMA actively supports the development of African football with aid projects such as football camps. To deepen ties, PUMA strives to tighten the bond of football and charity in Africa and therefore chose to

## CHARITY CAT

The foundation of Charity Cat dates back to 2003, when a team of 20 PUMA employees decided to engage voluntarily in their spare time for a number of charitable projects. In 2005 Charity Cat achieved the formal status of a non-profit registered association in Germany.

The engagement of Charity Cat is based on the following 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 recipient 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.

### Review

As already announced in the PUMA Sustainability Report 2004, Charity Cat "adopted" a little girl called Xin Xu, born in Liu Shu, a province in the north of China.

Moreover we were able to support flood victims of the tsunami catastrophe in December 2004. With generous donations of our employees and in cooperation with the "Don Bosco Mission" we purchased nine completely equipped fishing boats.

### Continuous projects

"Gawad Kalinga" is an initiative aiming to sustainably reduce poverty in the Philippines. During the reporting period, two houses for children in need could be built with the support of Charity Cat and active help of members of the PUMA office in Manila.

Sialkot is the center of football manufacturing in Pakistan. Among others, PUMA balls are made at our suppliers in Sialkot. In 2003, PUMA had already sponsored the construction of one house in the new SOS Children's Village of Sialkot. In March 2006 the village finally went into operation and the first children were welcomed at the PUMA House with Charity Cat covering the running expenses for ten children.

### New Projects

Charity Cat is supporting the "International Community of Congregatio Jesu" in Jerusalem, a center founded and led by a German nun. There, pilgrims and locals encounter empathy and understanding and are even served hot meals. Moreover, Palestinian women are educated from kindergarten onward. At the moment, 450 Christian (20%) and Muslim (80%) pupils are taught there. Charity Cat gave a donation used to purchase food and other necessary items here.

### Projects for future

Charity Cat is looking for options to support orphans in South Africa. The large number of children who lost their parents through HIV/AIDS are not only lacking family support but are often stigmatized or even forced to leave their homes. For more information please refer to [www.charity-cat.de](http://www.charity-cat.de).





INTRODUCTION	03
What's new	03
Foreword by Jochen Zeitz	04
COMPANY	06
PUMA at a glance	08
Inside PUMA	14
S.A.F.E.	24
Foreword by Reiner Hengstmann	26
Concept	28
Audits and beyond	30
Reportage: Three trips, one mission	44
Environment	50
FLA Accreditation	55
PEOPLE	56
Stakeholder interview with Klaus Leisinger	58
Talks at Banz	60
Stakeholders Statements	61
CORPORATE PHILANTHROPY	64
PUMA's engagement in Africa	66
Charity Cat	67
<b>CHALLENGES</b>	<b>68</b>
Pilot projects	70
Counterfeits by Edward Kelly	72
Targets	74
EXTERNAL VERIFICATION	76
TÜV Verification	76
GRI Content Index	78
OUTLOOK	84
CONTACTS / IMPRESSUM	85

## PILOT PROJECTS

### Pilot program with the Clean Clothes Campaign

The joint pilot project between PUMA and the CCC on Verification of Social Standards was a one-year monitoring and capacity project that aimed to independently verify the implementation of social standards in the Latin American offshore industry. The project highlighted the following areas as crucial for the investigation prior to the start of the project:

- Overtime & compensation
- Freedom of association & collective bargaining
- Women's rights & discrimination

The local organizations GMIES (Grupo de Monitoreo Independiente de El Salvador) and ORMUSA (Organizacion de Mujeres Salvadorenas) were contracted as project implementers for the monitoring and gender research aspects, respectively. The project methodology included independent and unannounced audits, interviews, and worker training. Two factories in El Salvador comprised the original project site. However, other business exigencies resulted in only one factory pushing through with participation as the project started in December 2005.

A number of other roadblocks occurred throughout the implementation of the project. Even with management support, workers refused to participate in off-site activities for fear of management reprisals. The independent audit of the facility was conducted with no major violations of the PUMA Code of Conduct found. However, differences of opinion rose out of the interpretation of overtime legislation with regards to lunch breaks among the project partners, escalating to communication with the Ministry of Labor for confirmation. No official communication from the Ministry was forwarded to any of the project organizers.

In Autumn 2006, the pullout of a major customer in the second participating factory resulted in its near closure which strained the project even further. As PUMA could not take over and replace the business vacated by the previous customer, the new factory management pulled out of the project entirely. No other suitable factories for this pilot project could be found in El Salvador. Though a suitable factory was found in Mexico, new local partners still had to be arranged. With the new site the project needed to start from scratch: All activities required funds of the same level as the original project cost and then still with only one factory participant instead of two. With disagreement on the further financing the CCC unilaterally ended the project in November 2006. PUMA proposed to continue the project by offering to shoulder the majority of the proposed budget. In addition to that, PUMA offered a further project in a region involving increased PUMA buying power and stronger supplier relations. However, both these suggestions were rejected by the CCC.

A number of key lessons rose out of this pilot project:

- 1) General sourcing practices and protocols need to be more tightly integrated to corporate responsibility activities. These protocols and practices should be shared more openly with all key project partners in order for each partner to have realistic expectations. Buying power is one aspect of brand influence in a project; however the stability of purchasing strategy and industry dynamics is also a crucial influence.
- 2) Project risk assessment and mitigation practices should be improved to include regular communication with all external stakeholders (not necessarily project participants), such as other brands and local governments
- 3) Non-negotiable terms for each project partner should be discussed up front, however all partners should be more flexible to unforeseen contingencies. When necessary, a neutral third party should be brought in to mediate.

### Complaints Procedure

In response to the demand for a channel for direct complaints to S.A.F.E. in 2005 we developed a complaints response protocol. In early 2006 this procedure was pilot tested as internal and external parties sent us significant complaints regarding a key supplier. The investigation for the case entailed unannounced and coordinated joint visits with other buyers, as PUMA's order volume in the factory was not high. The allegations in the factory ranged from false record keeping to discrimination and physical abuse. Fueling the situation was the improper management of diversity in the factory with its employee base of eight nationalities. Cultural and linguistic barriers hindered proper organization of workers, as worker leaders were suspicious of each other.

PUMA guaranteed the confidentiality of information and identities of both external and internal informants, which led to the uncovering of evidence that substantiated some of the allegations. The confirmation of some of the allegations, particularly that of false records and incidences of discrimination, became the basis for a formal withdrawal of business in 2006. It was clear however that pulling out of the factory was not the sustainable solution for which workers had hoped. PUMA continued to cooperate with other brands on the supplier's remediation process as our business relationship with the supplier still continued via our use of their facilities in other countries. We also maintained communication with workers and external parties to keep them updated on the progress of remediation. Through this case we strengthened our withdrawal process protocol and implemented these changes within the year.

### Other Challenges

The rise of fraud recently uncovered in social audits (for example by the Ethical Trading Initiative, [www.ethicaltrade.org](http://www.ethicaltrade.org)) has become the ammunition critics of the social auditing practice have long sought. These incidents gave rise to the following observations:

- 1) Passing social audits has been accepted as a critical first step towards a business relationship and its continuation
- 2) Most buyers have developed a "zero tolerance" policy for failures found in social audits. Though there is some consensus on critical issues such as proven incidences of child labor, this policy extends to different kinds of failures for each buyer – thus creating an environment wherein all kinds of noncompliance may fall under "no tolerance."
- 3) Buyers have not readily linked audit results with sustainable remedial actions, or remedial actions of different buyers conflict at times
- 4) The success of remedial actions does not adequately influence business decisions.

We seek to address some of these concerns by accepting that full compliance in today's environment is a learning process to cope not just with legal standards but also with dynamic social and economic changes. We identified a number of issues clearly as areas of no tolerance, such as child labor, false documentation, and physical abuse. Though we recognize that capacity may be lacking in many functional business systems related to social compliance in our suppliers, the lack of capacity does not excuse lack of commitment as indicated by the rise of false documentation. We also took concrete steps to collaborate with other brands in 2006 not just on case-by-case basis but through the establishment of collaboration protocols for auditing and remediation.

## COUNTERFEITS

## “The real price of cheap fakes”

by Edward Kelly

Imagine asking any passerby on the street the following question: Do you support child labor, slavery, terrorism, or organized crime? The immediate answer would be: “No, of course not!” It is hard to imagine that anyone would knowingly contribute to any kind of social or environmental injustice. And yet many consumers are doing just this - by turning a blind eye when purchasing cheap counterfeit items or “knockoffs”.

Product piracy is a phenomenon known to all of us. Who hasn't at one point seen popular name brands at a market stand and been tempted to buy these suspiciously affordable “designer” products? What most consumers do not realize, however, is that by purchasing these copied goods, they are not only harming the companies which own the real brands, but they are also directly supporting outlaw factories that have miserable environmental or social standards and practices, including the systematic exploitation of child and slave labor.

In 2006, 2.8 million counterfeit goods bearing the famous PUMA brand were confiscated worldwide. Most people still consider product piracy to be a victimless crime, and in many countries, the offenders trading in fake goods are subject to only a nominal fine, amounting to a slap on the wrist. But the reality is that counterfeiting is a sustaining force in organized crime and is a multi-billion dollar industry. In many cases, drug dealers and other criminals trade in counterfeit goods to diversify their portfolio of criminal activity because profits are huge and risks of punishment are relatively small.

The Intellectual Property Department of PUMA fights product piracy on three levels:

### 1. Source / Factories (e.g. in China and Turkey)

PUMA works closely together with lawyers and detectives to organize raids with the help of the local administration in order to cut the source of counterfeits.

### 2. Transport and Border Measures

With the help of customs, PUMA works to prevent the distribution of the counterfeits between intermediaries and wholesalers by air, sea, and land.

### 3. Distribution

To make sure that the trade markets are free of any fakes, PUMA regularly draws samples and checks the products for security labels and files criminal or civil proceedings against wholesalers and retailers.

The best way to protect oneself from counterfeits is to purchase products from authorized retailers in authorized trade markets only.

The counterfeit goods trade relies upon exploitation of mostly poor and mostly young labor in developing countries to produce the copied merchandise. Aside from economic problems such as lost sales, profits and tax revenues, the true victims are slaves and children recruited into these black market activities, working in inhuman conditions with no security and usually no pay. It is a known fact that the trafficking networks employed in the production and distribution of counterfeit goods are subject to no social or environmental standards: in truth, the networks are profitable because they provide no benefits, pay no taxes, and are not subject to any sense of morality, decency or the rule of law. It is not just that workers have no vacation, no rights, no social securities and no working contract; the fact is the workers are often sold by their families into the trade, abused, beaten and treated like animals. And the probability that a child or slave worker sewed together the \$10 “designer” fakes bought on the counterfeits market is much higher than one might think. In an era where consumers are demanding that companies show socially responsible policies, producers of counterfeits ignore social and environmental regulations, dump waste such as chemical residues and dyes into the waters, and



### BIOGRAPHY

Edward Kelly serves as a Partner of the award-winning Intellectual Property Department and also as the Chief Client Relationship Officer for Tilleke & Gibbins International Ltd. His practice area covers Thailand, Laos, Burma, Cambodia and Vietnam. The firm's Intellectual Property practice has consistently been voted by peers and clients as the top IP firm in Thailand. Ed has consistently been identified by the Asia Law Leading Lawyers Survey as one of Asia's leading business lawyers in the area of intellectual property.

Ed is privileged to be a member of the Board of Directors of an NGO, SISHA [www.sisha.org](http://www.sisha.org), in Cambodia, where the mission includes rescues and aftercare of victims of child and human trafficking, along with the profiling, tracking, arrest and extradition of paedophiles to be prosecuted in western jurisdictions.

expose workers to deplorable working conditions. No S.A.F.E. or FLA or ILO audits occur to make sure that the workers are being treated with dignity.

According to the keynote address “Blood Money: the Steep Human Cost of the Counterfeit Culture” at the International Anti-Counterfeiting Coalition's conference in Dallas on October 6, 2006:

“The threat of counterfeits is not merely an economic crime. Counterfeiting presents as a social problem as well, because the organizations behind counterfeiting operations pay no taxes, obey no laws, support organized crime, contribute to official corruption, often employ child and illegal immigrant (and in some cases, slave) labor and generally have no social conscience when it comes to the dangers posed to consumers by the low quality, even dangerous, fake goods they inject into global trade.”

It is important that consumers come to the understanding that by buying fakes they are in fact supporting outlaw mafia networks where child and slave labor is common.

Companies such as PUMA can try to fight the booming counterfeit industry, but as long as consumers choose to buy counterfeits, the problem will persist because supply will always rise to meet demand. In this sense, public awareness and education of the consequences of purchasing activity are revealed as the only viable options to reduce demand for fakes. While companies such as PUMA strive to continually improve the social and environmental standards in their supply chain, consumers can help address the problem of worker exploitation by shunning counterfeit goods. When measured by the human misery resulting from the trade in counterfeit goods, the trade is simply socially unacceptable.



**9-year-old Thai slave hand-stitching fake PUMA shoes, 20 hours a day, 7 days a week, 365 days a year, with an allowance of 200 Baht (\$5.00) a month.**

## TARGETS

Since publishing the first social and environmental report (“Insights” in 2002), PUMA reports in every sustainability report on current and new targets. Please find below the current status for our long-term targets leading the way towards our goal of sustainable excellence in 2010:

### Social

#### Auditing direct suppliers

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

2004: 73% fulfilled

2006: over 90% fulfilled

Comment: Remaining suppliers are new or located in Western European countries

#### Auditing licensee suppliers

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

2004: 82% fulfilled

2006: 92% fulfilled

Comment: remaining suppliers mainly located in Italy and France

#### S.A.F.E. standards distributed to all manufacturers

**Target:** 100% of all partners receive copy of S.A.F.E.

Manual

2004: 100% fulfilled

2006: 100% fulfilled

Comment: manual was revised in 2005; next revision planned for 2007

#### Code of Conduct distributed to all manufacturers

**Target:** All manufacturers received copy of Code of

Conduct in local language

2004: 100% fulfilled

2006: 100% fulfilled

Comment: Code was revised in 2006, target achieved, will no longer be reported and replaced by indicator of Code awareness

#### External and unannounced audits by FLA

**Target:** 5% of all suppliers audited by the FLA annually

2004: 50% fulfilled (9 FLA audits)

2006: 100% fulfilled (19 / 16 FLA audits in 2005 / 2006)

Comment: Target prerequisite for FLA accreditation

#### Supplier Training

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

2004: 20% fulfilled

2006: 50% fulfilled

Comment: Supplier summits conducted in Europe and Asia in 2005 and 2006

#### Re-auditing

**Target:** All (active) factories to be re-audited

2004: 80% fulfilled

2006: 90% fulfilled

Comment: more re-audits conducted in 2006 than first audits; many factories already audited three times or more

#### Introduction of a formalized appeal practice

**Target:** Internal and external third party complaint system existing and working

2004: 70% fulfilled

2006: 90% fulfilled

Comment: First third party complaint via FLA received and resolved, contact information of PUMA S.A.F.E. team now included in PUMA Code of Conduct and S.A.F.E. pocket guides

#### Training measures / awareness at factory staff level

**Target:** Improve workers awareness on S.A.F.E. standards

2004: 10% fulfilled

2006: 30% fulfilled

Comment: S.A.F.E. Pocket Guides distributed to increase workers awareness; available languages include Arabic, Bahasa, Chinese, English, Spanish, Thai, Turkish, Urdu and Vietnamese

### Safety and the Environment

#### Safety and environmental awareness to all workers

**Target:** Provide PUMA S.A.F.E. Pocket Guide to workers

2004: Guide available, distribution planned for 2005 (0% fulfilled)

2006: Pocket Guide distributed in several languages (50% fulfilled)

Comment: Distribution will continue during PUMA S.A.F.E. audits

#### VOC Index and reduction of solvent based adhesive

**Target:** 25 g/pair of shoes

2004: 48 g/pair of shoes

2006: 41 g/pair of shoes

Comment: 1,800 pairs of solvent free shoes produced as pilot in Italy

#### Noise level reduction at PUMA contracted supplier factories

**Target:** Noise level below 85db

2004: Noise level problems eliminated in Europe and Africa

2006: Noise level monitored via S.A.F.E. audits and appropriate measures taken

Comment: Target achieved will no longer be reported

#### Collection of relevant safety and environmental data for model factories

**Target:** Focus on establishing data collection systems involving all targeted factories

2004: Data collected for one model factory

2006: Key environmental data collected for most Footwear factories and a number of Apparel factories;

Comment: Data collection to be expanded to cover

Accessories factories and accident figures

#### ISO 14001 Certification:

**Target:** Certification for all larger factories using dye-houses, tanneries or other environmentally relevant operations

2004: 30% fulfilled (estimated)

2006: 40% fulfilled (estimated) in total 16 factories

achieved ISO 14001 certification

### New targets

#### Freedom of Association Training for suppliers

**Target:** Training held in China and Vietnam, at least parallel means of workers representation are founded at all strategic partner factories

2006: Workers committees existing at selected suppliers

Comment: China and Vietnam identified as most critical

countries regarding freedom of association

#### S.A.F.E. Live training for key World Cat staff members

**Target:** 100% of key staff members are trained

2006: 50% trained through S.A.F.E. meetings and participation during audits

Comment: Formalized training will be introduced

#### S.A.F.E. Live training for all Subsidiaries and Licensees

**Target:** 100% of key staff members are trained

2006: 30% achieved

Comment: Formalized training will be introduced

#### Environmental good practice training for suppliers

**Target:** All strategic partner suppliers are trained

2006: Recommendations to improve environmental performance given as part of S.A.F.E. audits.

Comment: Formalized training will be introduced

#### Collection of CO<sub>2</sub> Data for PUMA

**Target:** Collect all relevant data required for a CO<sub>2</sub> footprint of PUMA

2006: Data available for main office in Germany; energy

figures available for offices worldwide and selected key

suppliers.

Comment: Transport data to be included for the future

#### Collection of environmental key performance data for all PUMA offices worldwide

**Target:** Collect relevant data (energy and water usage, waste production)

2006: Data available based on roughly 50% of all PUMA

staff worldwide

Comment: Data quality and coverage to be increased

#### Development of reduction targets for CO<sub>2</sub>, Energy, Water and Waste

**Target:** Analysis of existing data and development of concrete reduction targets from 2007 to 2010

2006: Data available, analysis started

Comment: First priority will be on working with offices

which have an over-average consumption

## VERIFICATION STATEMENT TÜV RHEINLAND

**Introduction**

We have performed a verification audit to validate methodologies and data of all chapters of the sustainability report of the PUMA AG Rudolf Dassler Sport for the year 2005 and 2006 (hereafter "the report"). All contractual contents for this verification audit rest entirely within the responsibilities of our customer. Our task was to give a fair and adequate judgment on the report based on the principles of the contractual agreements and the results of our verification audit of the documents. We based our judgments on the norms and standards issued by the ISO and SAI and the latest revision of ISAE 3000 standards („Assurance Engagements other than Audits or Reviews of Historical Financial Information") issued by the International Auditing and Assurance Standards Board. The goals and contents of the contract have been agreed upon with the management of the PUMA S.A.F.E.-Team and enshrine those aspects about which we are making our statement.

**Auditing Process**

Our judgment is based on materiality, accuracy, representativity, and completeness and included analytical methods and the performance of interviews as well as a verification of data, partly done as a random sampling, partly done completely, to verify and validate the correctness of data and content in light of the contractual agreement and the factual sustainability performance of the company. Our work included interviews with staff members and management representatives at the PUMA AG Head Office in Herzogenaurach regarding the performance data as well as telephone interviews with PUMA staff in the Philippines and in China. This approach seemed to be a valid one for the purpose of a validation of the report since all data, appearing therein could be verified through original proofs or were scanned and included in a worldwide accessible Lotus Notes database, open to all PUMA staff members. The access was possible without problems from Herzogenaurach. We did not check the validity of the content of the internal auditing reports performed by PUMA staff at their suppliers. However, we could verify and gained confidence regarding the facts that thorough audits were performed and substantiated through corrective action plans and systematic data collection, measuring and ratings. These documents were checked and deemed sufficiently plausible.

We are of the opinion that our work offers a sufficient and substantiated basis to enable us to come to a conclusion based on the content of our contract with a limited level of assurance. Regarding the environmental data at the head office in Herzogenaurach we gained sufficient information from the reported data to allow us to make our judgments with a reasonable level of assurance.

The described verification of the report and the approach chosen allows us to gain sufficient confidence in our work despite the fact that not a full audit with site visits at all sites was performed.

**Results**

In conclusion we can safely say that no instances or information came to our attention that would be to the contrary of the statements made below:

1. The company "PUMA AG Rudolf Dassler Sport" has established and operates systems to collect and validate processes and data from the following fields:
  - a. Performance data reporting regarding occupational health, occupational safety, social aspects and environmental aspects (S.A.F.E.) for the years 2005 and 2006,
  - b. Data on personnel regarding the absolute figures and relative data regarding sex, nationality, the members of the Executive Board and management, the training and education costs as well as the absolute numbers regarding staff members for the biennium 2005/06,
  - c. Performance data regarding environmental, occupational and health protection as well as other social and labor data for all accredited and licensed suppliers and manufacturers worldwide.
2. The performance data we found in the report are collected, stored and analyzed in a systematic and professional manner and were identical with those figures we found in the source documentation.

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3. PUMA AG operates according to a binding Code of Conduct, a Code of Ethics as well as a „Restricted Substances Policy". In addition there is a „Handbook of Environmental Standards" and a „Handbook of Social Standards", which include all essential elements of a functioning management system, allowing for a management of environmental and social aspects. The handbooks are applied within PUMA AG at all sites but are also binding for the mentioned 369 independent suppliers and manufacturers.

4. In 2005 and 2006 about 607 audits and re-audits were carried out by PUMA at their suppliers. The Fair Labor Association (FLA) in addition performed independent and not announced audits at about five percent of the PUMA suppliers. The documents reviewed and the information available through the FLA indicate that PUMA has a high level of awareness regarding good corporate governance and social responsibility and in our view has established and operates a high value controlling and auditing instrument. The "S.A.F.E. Auditing Program" is highly effective and practicable.

5. PUMA AG performs for the whole group a sustainability reporting according to the standards mentioned in the introduction of the report for the year 2005 and 2006. The approach follows the Global Reporting Initiative's (GRI) G3 Guidance and is in accordance with the principles enshrined therein. The GRI-Index is a fair and reasonable overview on the scope of the report and the degree to which it follows the indicators of the GRI-Guidelines. In addition, the principles of the VfU indicator set (Verein fuer Umweltmanagement in Banken, Sparkassen und Versicherungen) are applied to the environmental data at the PUMA head office.

6. PUMA AG holds regular multi-stakeholder consultations and dialogues. Also critical non-governmental organizations are invited and discuss openly possible misjudgments regarding selected suppliers. This instrument in our view is a suitable tool to initiate concrete corrective action and valuable projects allowing to identify common grounds and differences, and possibly find solutions to certain challenges in the areas of economical, ecological, social and ethical responsibilities and performances. A balanced mix of interest groups seems to be essential for the success of such an approach.

The statements in the report regarding the „UN Global Compact", and the new rating by Greenpeace International as well as the ratings by various sustainability index providers are in accordance with the facts.

**Summary Statement**

We are – within the afore mentioned limits – confident that PUMA AG has established and operates a meaningful and adequate system to collect, measure, control and steer their sustainability activities and that the PUMA 2005 and 2006 Sustainability Report presents information and facts that give a realistic impression on the real sustainability performance of the company. Issues to be observed and potential for improvement is identified in the audit report.

TÜV Rheinland Cert GmbH  
Managing Director

Lead Auditor

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## GRI CONTENT INDEX



The Global Reporting Initiative (GRI) has developed detailed guidance materials on sustainability reporting which is widely recognized, for example, by the UN Global Compact. Since our first sustainability report "Perspective" PUMA has drawn from the Guidelines of the GRI for producing our reports, achieving an "in accordance" status with the 2002 GRI guidelines for our last sustainability report "Momentum" (2005). With this report, we apply the new generation of guidance, GRI G3, and again set an ambitious target by aiming for the highest possible criteria A+. This report was checked by the GRI and externally verified by TÜV Rheinland Group.

For the reporting boundaries we have chosen the spheres where our influence is greatest. We report about our own operations and for the first time included data of subsidiaries and joint ventures in the Inside PUMA section. As previously, we set a high priority on social and environmental standards at our independent supplier factories, a topic frequently pointed out as important by many of our stakeholders. The sub-suppliers of those factories are included where feasible, for example in our restricted substances procedures. This report covers the reporting period of 2005 and 2006 and is supplemented by the respective annual financial reports of PUMA.

1. Strategy and Analysis	Page	Comment
1.1 Statement from the most senior decision-maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy	4-5	+ Introduction Jochen Zeitz
1.2 Description of key impacts, risks, and opportunities	4-5, 26-27	+ Introductions and Financial Report (page 36)
<b>2. Organizational Profile</b>		
2.1 Name of Organization	8-13	+ PUMA at a Glance
2.2 Primary brands, products, and/ or services	8-13	+ PUMA at a Glance
2.3 Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures	8-13	+ PUMA at a Glance; Financial Report (pages 84-85)
2.4 Location of organization's headquarters	8-13	+ PUMA at a Glance
2.5 Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	26-55, 30, 32, 33	+ S.A.F.E. and Financial Report (pages 22/85/111)
2.6 Nature of ownership and legal form	8-13	+ PUMA at a Glance
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	8-13 (11)	+ PUMA at a Glance (Brand Sales); Financial Report (page 22)
2.8 Scale of the reporting organization	8-13	+ PUMA at a Glance
2.9 Significant changes during the reporting period regarding size, structure, or ownership	10-14	+ PUMA at a Glance; Inside PUMA; Financial Report
2.10 Awards received in the reporting period	3	+ What's new?
<b>3. Report Parameters</b>		
3.1 Reporting period	4-5, 78	+ Introduction, GRI Content Index
3.2 Date of most recent previous report	78	+ GRI Content Index
3.3 Reporting cycle		+Biannual
3.4 Contact point for questions regarding the report or its contents	85	+ Cover Page
3.5 Process for defining report content. (content and stakeholder)	3, 4-5, 14-23, 26-27, 50-54, 60	+Introduction (R.Hengstmann/J.Zeitz), What's new, Inside PUMA, Environment, Talks at Banz
3.6 Boundary of the report.	78	+GRI Content Index
3.7 State any specific limitations on the scope or boundary of the report	23, 26-27, 76-81	+ Environment ; Introduction (R. Hengstmann); GRI Content Index

	Page	Comment
3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities	14-23, 26-55	+ Inside PUMA; S.A.F.E.
3.9 Data measurement techniques and the bases of calculation.		+ Explanation in each sector
3.10 Explanation of the effect of any re-statements of information provided in earlier reports		+ No effects known
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	14-23, 50-54	+ Inside PUMA ; Environment
3.12 Table identifying the location on the Standard Disclosures in the report. (GRI Content Index)	78-83	+ GRI Content Index
3.13 Policy and current practice with regard to seeking external assurance for the report	76-81	+ GRI Content Index; TÜV Rheinland Statement
<b>4. Governance, Commitments, and Engagement</b>		
4.1 Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight	8-13	+ PUMA at a Glance; Financial Report
4.2 Indicate whether the Chair of the highest governance body is also an executive officer		+Financial Report (pages 119-120)
4.3 For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/ or non-executive members		+ Financial Report
4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body		+ Financial Report; www.aboutpuma.com (shareholder meeting)
4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organization's performance		+ Financial Report (pages 113-115)
4.6 Process in place for the highest governance body to ensure conflicts or interest are avoided		+ Financial Report (pages 46-47)
4.7 Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics		+ Financial Report; Board is regularly updated by Global Head S.A.F.E.
4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	3, 8-13, 26-55, 74-75	+ What's new; PUMA at a Glance; S.A.F.E.; Targets
4.9 Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance		+ Financial Report; Board is regularly updated by Global Head S.A.F.E.
4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance		+ Financial Report (pages 113-114)
4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organization	50-54	+ Environment
4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	3	+What's new
4.13 Membership in associations and/ or national/ international advocacy organizations	3, 4-5, 26-27, 60	+ Talks at Banz; Introductions; What's new
4.14 List of stakeholder groups engaged by the organization	60	+ Talks at Banz
4.15 Basis for identification and selection of stakeholders with whom to engage	4-5, 26-27	+ Introductions and throughout the report



	Page	Comment
4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	60	+ Talks at Banz
4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	26-55	+ S.A.F.E.
<b>Economic</b>		
Economic: Management Approach Disclosure	4-5, 8-9	Introduction, PUMA at a Glance, <a href="http://www.about.puma.com">www.about.puma.com</a> (Investor Relations)
ASPECT: ECONOMIC PERFORMANCE		
EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	11-13	+ PUMA at a Glance; Group Development; Financial Report
EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change	4-5, 50	+ Introduction; Environment
EC3 Coverage of the organization's defined benefit plan obligations	16	+ Inside PUMA; Financial Report (pages 76, 89)
EC4 Significant financial assistance received from government	CORE	+ None known
ASPECT: MARKET PRESENCE		
EC5 Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	8-23, 28	+ Code of Conduct; Company
EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	CORE	+ Regional suppliers are used where feasible
EC7 Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	19, 28	+ Code of Conduct; Code of Ethics; no further policies available
ASPECT: INDIRECT ECONOMIC IMPACTS		
EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in kind, or pro bono engagement	66-67	+ Corporate Philanthropy
<b>Environmental</b>		
Environmental: Management Approach Disclosure	5, 23, 27, 50	Introduction, Company, S.A.F.E., <a href="http://www.about.puma.com">www.about.puma.com</a> (Social Responsibility)
ASPECT: MATERIALS		
EN1 Materials used by weight or volume	21-23, 50-54	+ Environment
EN2 Percentage of materials used that are recycled input materials	21-23, 50-54	+ Environment
ASPECT: ENERGY		
EN3 Direct energy consumption by primary energy source	21-23, 50-54	+ Environment
EN4 Indirect energy consumption by primary source	21-23, 50-54	+ Environment
EN5 Energy saved due to conservation and efficiency improvements	21-23, 50-54	+ Environment
EN7 Initiatives to reduce indirect energy consumption and reductions achieved	50-54	+ Environment

	Page	Comment
ASPECT: WATER		
EN8 Total water withdrawal by source	21-23, 50-54	+ Environment
ASPECT: BIODIVERSITY		
EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	CORE	+ No significant impacts known. Part of PUMA S.A.F.E. Audit
EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	CORE	+ Not available due to lack of data systems to generate the required information: aim to report on this indicator in the next report.
ASPECT: EMISSIONS, EFFLUENTS, AND WASTE		
EN16 Total direct and indirect greenhouse gas emissions by weight	21-23, 50-54	+ Environment
EN17 Other relevant indirect greenhouse gas emissions by weight	CORE	+ No sufficient data available. Will be reported in the next report.
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved	50-54	+ Environment
EN19 Emissions of ozone-depleting substances by weight.	CORE	+ None known
EN20 NO, SO, and other significant air emissions by type and weight	CORE	+ No sufficient data available. Will be reported in the next report.
EN21 Total water discharge by quality and destination	CORE	+ All water from PUMA Offices discharged to local sewage systems
EN22 Total weight of waste by type and disposal method	21-23, 50-54	+ Environment
EN23 Total number and volume of significant spills	CORE	+ None known
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	21-23, 50-54	+ Environmental
EN27 Percentage of products sold and their packaging materials that are reclaimed by category	CORE	+ Not available due to lack of data systems to generate the required information: aim to report on this indicator in the next report.
ASPECT: COMPLIANCE		
EN28 Monetary value of significant fines and total number of non-monetary sanctions for non compliance with environmental laws and regulations	CORE	+ None known
<b>Labor Practices and Decent Work</b>		
Labor Practices: Management Approach Disclosure	14-23	Inside PUMA, <a href="http://www.about.puma.com">www.about.puma.com</a> (Careers)
ASPECT: EMPLOYMENT		
LA1 Total workforce by employment type, employment contract, and region	14-20	+ Inside PUMA
LA2 Total number and rate of employee turnover by age group, gender, and region	14-20	+ Inside PUMA
LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	14-20	+ Inside PUMA
ASPECT: LABOR/MANAGEMENT RELATIONS		
LA4 Percentage of employees covered by collective bargaining agreements	14-20	+ Inside PUMA
LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	14-20	+ Inside PUMA

	Page	Comment
<b>ASPECT: OCCUPATIONAL HEALTH AND SAFETY</b>		
LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	14-20 ADD	+ Inside PUMA
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region	17 CORE	+ Inside PUMA
LA8 Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	14-20 CORE	+ Inside PUMA
<b>ASPECT: TRAINING AND EDUCATION</b>		
LA10 Average hours of training per year per employee by employee category	14-20 CORE	+ Inside PUMA
LA12 Percentage of employees receiving regular performance and career development reviews	14-20 CORE	+ Inside PUMA
<b>ASPECT: DIVERSITY AND EQUAL OPPORTUNITY</b>		
LA13 Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	14-20 CORE	+ Inside PUMA
LA14 Ratio of basic salary of men to women by employee category	CORE	+ Not available due to protection of proprietary information
<b>Human Rights</b>		
Human Rights: Management Approach Disclosure	26, 28-29, 84	S.A.F.E., Outlook, www.about.puma.com (Social Responsibility)
<b>ASPECT: INVESTMENT AND PROCUREMENT PRACTICES</b>		
HR1 Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	26-55 CORE	+ Audits and beyond; S.A.F.E. Concept
HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	26-55 CORE	+ Audits and beyond; S.A.F.E. Concept
<b>ASPECT: NON DISCRIMINATION</b>		
HR4 Total number of incidents of discrimination and actions taken	26-55 CORE	+ Audits and beyond; S.A.F.E. Concept
<b>ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>		
HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	26-55 CORE	+ Audits and beyond; S.A.F.E. Concept
<b>ASPECT: CHILD LABOR</b>		
HR6 Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	26-55 CORE	+ Audits and beyond; S.A.F.E. Concept
<b>ASPECT: FORCED AND COMPULSORY LABOR</b>		
HR7 Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	26-55 CORE	+ Audits and beyond; S.A.F.E. Concept

	Page	Comment
<b>Society</b>		
Society: Management Approach Disclosure	11, 19	Company, www.about.puma.com (Investor Relations, Social Responsibility)
<b>ASPECT: COMMUNITY</b>		
SO1 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	26-55, 66-67, CORE	+ S.A.F.E. Concept; Corporate Philanthropy
<b>ASPECT: CORRUPTION</b>		
SO2 Percentage and total number of business units analyzed for risks related to corruption	11, 19 CORE	+ No sufficient data available.
SO3 Percentage of employees trained in organization's anti-corruption policies and procedures	CORE	+ Code of Ethics and Business Behavior Code applies
SO4 Actions taken in response to incidents of corruption	CORE	+ Code of Ethics handed out to all staff; Business Behavior Code handed out to World Cat staff
<b>ASPECT: PUBLIC POLICY</b>		
SO5 Public policy positions and participation in public policy development and lobbying	19 CORE	+ No sufficient data available
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	19 ADD	+ Code of Ethics and Business Behavior Code applies
<b>ASPECT: COMPLIANCE CORE</b>		
SO8 Monetary value of significant fines and total number of non-monetary sanctions for non compliance with laws and regulations	CORE	+ Code of Ethics
<b>Product Responsibility</b>		
Product Responsibility: Management Approach Disclosure	53, 54	+ Code of Ethics
<b>ASPECT: CUSTOMER HEALTH AND SAFETY</b>		
PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	53-54	+ Code of Ethics
<b>ASPECT: PRODUCT AND SERVICE LABELING</b>		
PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	53-54 CORE	+ Environment
<b>ASPECT: MARKETING COMMUNICATIONS</b>		
PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	19 CORE	+ Environment; PVC free label attached to PUMA Goods
<b>ASPECT: CUSTOMER PRIVACY</b>		
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	19 ADD	+ Code of Ethics applies
<b>ASPECT: COMPLIANCE</b>		
PR9 Monetary value of significant fines for non compliance with laws and regulations concerning the provision and use of products and services	CORE	+ None known; Code of Ethics applies

## OUTLOOK

It is our responsibility as heads of companies to ensure that we comply with laws and basic human standards in our workplaces. So it seemed only natural that the businesses where we outsourced our products should also be taking on these responsibilities. I thought that strengthening PUMA's relationships with our suppliers would be the best way to ensure this. However after visiting some of our facilities in China it dawned on me that enforcement of basic work standards was generally weak, and I was never quite sure if our relationship with our "partners" was meaningful enough. Trying to find other partners became a joke, as it might have just turned into a "jumping-from-the-frying-pan-into-the-fire" situation.

It was about this time that PUMA developed its Code of Conduct and we required our direct suppliers to follow it. I personally sought out internal staff in Europe and Asia that could take charge of this. I believed that we would be lucky to find new factory partners that would fit with our ideal, but what actually was required was to make our existing partners become our ideal. I believe that this step brought PUMA into a position of ethical leadership in the industry. PUMA S.A.F.E. was born, and since then more people have been brought in to conduct what are now termed as social audits. These audits became

*"It has always been one of my beliefs that product quality is not limited to using the best materials, but also that product quality is strongly connected to the level of social conditions of every employee at the workspace. In the light of an ongoing globalization process, social and human factors will more and more become the keys to success that make the difference to others."*

**Martin Gänsler**

part of our screening procedure to weed out unacceptable factories prior to production. It also allowed PUMA to identify critical problems in the factories and engage with them to resolve these problems.

competitors and our detractors - a process which was and still is both humbling and rewarding. As a company we became more aware that in order to be a leader in the industry, more team members in the company must pull together to ensure that company standards are met.

I don't contest that sometimes long-term and last minute issues conflict with what factories may need to do to resolve their problems. Several years passed where PUMA S.A.F.E. improved its standards and became involved in business processes and decisions. I believe we did not do a bad job, but PUMA S.A.F.E. was far from perfect. We needed to objectively look at where we could improve our efforts as a whole company, and with this in mind I strongly supported PUMA's participation in the Fair Labor Association. Being in the company of our peers in the industry opened our eyes to where our gaps were, and it was clear that many of the underlying issues found in our factories were issues we could not resolve alone. In addition to continuous dialogue with numerous NGOs, we also learned to work together with our

I believe that PUMA S.A.F.E. does not merely function to monitor compliance with our Code of Conduct. I believe that through S.A.F.E., PUMA has been able to identify new ways of doing business. We reviewed our own internal systems and procedures to promote efficiency and to ensure consistency between what we practice and what we say publicly. By strengthening our accountability, PUMA's many stakeholders are guaranteed growth based on efficient cost structures and a stable supply of products in the market produced within ever-improving standards of safety and human decency. PUMA will continue to develop and improve the manner in which we engage with partner factories and will continue to encourage a deeper sense of ownership to the solutions to problems. What I have learned over the years is that there are no easy answers, and only by using the lessons of our past to propel ourselves forward can we head in the right direction. Our primary objective with our factories is now to persistently strengthen their capability to implement their social and environmental responsibilities. This is a challenge that PUMA can only face with leadership, courage, innovation, integrity and patience.

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If you have any questions or comments regarding this report and would like to learn more about PUMA's sustainability work, feel free to contact us anytime:

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