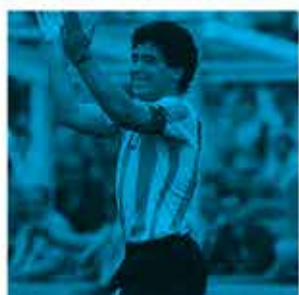




# ANNUAL REPORT 2018

COMBINED MANAGEMENT REPORT





# COMBINED MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2018



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Company Overview

**Combined Management  
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Combined Management Report:  
This report combines the Management Report of the PUMA Group and the Management Report of PUMA SE.





Michael Lämmermann

## OVERVIEW 2018

2018 was an exciting and successful year for PUMA, filled with many highlights in sports and business. In the year of our 70th anniversary, we kept going full steam ahead towards our goal of becoming the world's fastest sports brand.

With our return to basketball and the signings of European top football clubs, like A.C. Milan and Olympique de Marseille, we further strengthened our position in sports performance, while our partnered teams, athletes and federations were very successful.

Footwear was a large revenue contributor in 2018, even though changing consumer tastes presented us with some challenges. We proved, however, that our FOREVER FASTER spirit has become deeply engrained into the way we conduct our business. When consumers demanded more "chunky shoes" during the year, a reemerging fashion trend from the 1990s, we reacted swiftly with our successful new style platforms Thunder, RS-0 and the RS-X. With the unique CELL Platform, we also revived a true PUMA classic from the nineties.

Our majority shareholder Kering S.A. distributed some 70% of PUMA shares to its shareholders, a spinoff which sharply increased our free float from 13% to 55%. As a result, we changed our governance structure from a monistic management system to a dualistic system with a Management Board ("Vorstand") and a Supervisory Board ("Aufsichtsrat"). After the change in ownership was completed, PUMA made its comeback to the M-Dax in June 2018.

Another highlight, both from a sports and business perspective, was PUMA's re-entry into the basketball category. With the help of Jay-Z, PUMA's Creative Director for Basketball, we rolled out an exciting campaign, which was well received by athletes, media and fans alike. Our first shoe in this category in a long time, the Clyde Court Disrupt, was quickly sold out in its market debut. We added to our credibility by signing some of the biggest names in basketball, such as Skylar Diggins-Smith, Terry Rozier, Rudy Gay, Danny Green and four-time NBA All-star DeMarcus Cousins. In addition, we contracted the Number 1 picks in this year's NBA draft Deandre Ayton, Marvin Bagley III, Kevin Knox, Michael Porter Jr and Zhaire Smith.

In football, the FIFA World Cup 2018 in Russia offered us the perfect stage to present our brand and innovative performance products. We achieved high visibility during the tournament thanks to our four partnered national teams Uruguay, Switzerland, Serbia and Senegal and our impressive roster of players. With Uruguay and Switzerland PUMA assured its presence in the knockout stage, while with Antoine Griezmann and Romelu Lukaku two of the three top scorers of the tournament were PUMA players. Antoine Griezmann was even awarded "FIFA Man of the Match" after scoring the winning goal in the final. All our players were equipped with special editions of the football boots PUMA FUTURE or PUMA ONE. Furthermore, we have enlarged our players' roster with international football stars, including Barcelona and Uruguay striker Luis Suarez, Vincent Kompany (Manchester City), Axel Witsel (Borussia Dortmund), David Silva (Manchester City), Dejan Lovren (FC Liverpool) and Davie Selke (Hertha BSC).

In 2018, our Running and Training category was driven by the extraordinary performances of our athletes in track and field along with the introduction of first-class products. For example, the 19-year-old Cuban Juan Miguel Echevarria did not only win the Diamond League Meeting in Stockholm, but also the IAAF title "Highlight of the Season 2018" with his incredible long-jump of 8.83 meters. We also enlarged our portfolio by signing additional top athletes like Europe's "fastest man", French sprinter Jimmy Vicaut.

With the running shoe HYBRID, we delivered an entirely new definition of midsole technology to the market. Meanwhile, the biggest highlights of 2018 in our Women's category were the shoe models PHENOM and DEFY, advertised by popstar and social media influencer Selena Gomez, along with the announcement of supermodel Adriana Lima as an ambassador for Women's training.







Once again, the PUMA partnered teams – Mercedes-AMG Petronas, Scuderia FERRARI and Red Bull Racing – dominated the Formula One season, deciding the championship between themselves. Finally, the title was claimed by Mercedes and Lewis Hamilton, who also won the fifth drivers' title of his career. More good news for PUMA Motorsport was the hype surrounding their lifestyle products, which were particularly tangible on the US and French markets.

In Golf, our players Rickie Fowler, Lexi Thompson and Bryson DeChambeau continued to add excitement to the brands PUMA and COBRA Golf, with their many sporting successes. Bryson DeChambeau, for instance, caused a stir with his ONE Length irons, achieving five tournament victories with this to-date unique technology, that provides all irons with the same length.

Another milestone birthday rounded up PUMA's anniversary year: In our sport-style category, the SUEDE, one of our greatest classics, turned 50. We marked this occasion with a string of collaborations and special editions with several designers, artists and brands. Throughout the year, new editions of the SUEDE were emblazoned with designs by fashion icon Karl Lagerfeld, rock legend Paul Stanley and cartoon character Hello Kitty to name but a few.

Inspired by Tommie Smith, who made a mark against racism and social inequality with his legendary "silent gesture" at the 1968 Olympics, PUMA launched the #REFORM campaign in Autumn 2018. With the help of activists from the world of sports, music and entertainment, among others American rapper Meek Mill, the program supports NGOs and encourages conversations around issues such as universal equality and criminal justice reform in the United States.

With the move of our employees into the new office building, the extension of our company headquarters in Herzogenaurach was completed. The new offices with space for 550 employees were designed according to an innovative design concept and impress with state-of-the-art equipment, light-flooded offices and flexible workplaces. A top-equipped fitness studio with the latest equipment and classrooms, as well as outdoor facilities for football, basketball and volleyball, offer our employees a comprehensive range of sports.

The consistent implementation of our FOREVER FASTER corporate strategy and our ability to react quickly and flexibly to changes and trends in market conditions have contributed to PUMA's strong sales growth in the financial year 2018. This shows that, with regard to increasing our brand heat and improving our product range, we are also on the right path. PUMA's sales rose in the financial year 2018 currency-adjusted by 17.6%. Therefore, the currency-adjusted sales growth in a high single-digit percentage rate prospected in the previous Management Report for 2018 and the forecast of currency-adjusted sales growth of 14% to 16%, that was adjusted upwards during the year, were

exceeded. In the reporting currency, the Euro, this corresponds to an increase in sales of 12.4% from € 4,136 million in the previous year to € 4,648 million in 2018. The relatively large difference between currency-adjusted sales growth (+17.6%) and the change in the sales in the reporting currency, the Euro, (+12.4%) is due to the weakness of a large number of currencies against the Euro. Nevertheless, PUMA was able to fully achieve its financial targets for the past financial year.

PUMA's gross profit margin improved in the financial year 2018 by 110 basis points from 47.3% to 48.4%. This, in addition to the sales growth, significantly increased profitability in 2018. The main drivers for the development of the gross profit margin were further improvements in sourcing, higher sales of new products with a higher margin, and a higher proportion of our own retail sales. Other operating income and expenses increased by 11.8% in the financial year 2018 due to ongoing investment in marketing, retail and IT. In terms of sales, this meant an improvement in the cost ratio from 41.7% in the previous year to 41.5%, which also contributed to the improvement in profitability in 2018.

The operating result (EBIT) increased in the financial year by 37.9% from € 244.6 million to € 337.4 million and was therefore above the guidance given in the beginning of 2018, which had originally forecasted an operating result within a range of between € 305 million and € 325 million. The forecast, as adjusted during the year, of an operating result within a range of between € 325 million and € 335 million was therefore slightly exceeded in the past financial year.

The significant improvement in profitability in 2018 was also reflected in the increase in net earnings and earnings per share, which increased by 38.0% compared to the previous year. Net earnings increased from € 135.8 million in the previous year to € 187.4 million, and the earnings per share increased accordingly from € 9.09 in the previous year to € 12.54.

PUMA's dividend policy foresees a distribution of 25% to 35% of net earnings. In accordance with this, the Management Board and the Supervisory Board will propose a dividend of € 3.50 per share for the financial year 2018 at the Annual General Meeting on April 18, 2019. This corresponds to a payout ratio of 27.9%.

The PUMA share was again included in the M-DAX in June 2018, as the free float increased from just under 13% to 55% due to the reduction in Kering's shareholding and, as a result, the trading volume of the PUMA share also increased significantly. The share price developed very positively in 2018 and stood at € 427.00 at the end of the year. This represents an increase of 17.6% compared to the previous year's € 363.00. The market capitalization of the PUMA Group increased accordingly to around € 6.4 billion (previous year: € 5.4 billion).

# PUMA GROUP ESSENTIAL INFORMATION

## COMMERCIAL ACTIVITIES AND ORGANIZATIONAL STRUCTURE

The company operates as European corporation, PUMA SE, with Group headquarters in Herzogenaurach, Germany. Our internal reporting activities are based according to three regions (EMEA, the Americas and Asia / Pacific) and three product segments (footwear, apparel and accessories). A detailed description of the various segments can be found in chapter 26 of the Notes to the Consolidated Financial Statements.

Our revenues are derived from the sale of products from the PUMA and Cobra Golf brands via the wholesale and retail trade, as well as from sales in our own retail and online stores. We market and distribute our products worldwide primarily via our own subsidiaries. There are distribution agreements in place with independent distributors in a small number of countries.

As of December 31, 2018, 103 subsidiaries were controlled directly or indirectly by PUMA SE. Our subsidiaries carry out various tasks at the local level, such as sales, marketing, product development, sourcing and administration. A full list of all subsidiaries can be found in chapter 2 of the Notes to the Consolidated Financial Statements.

## TARGETS AND STRATEGY

PUMA aims to become the fastest sports brand in the world. For this reason, we have focused on five priorities over the past few years: brand heat, a competitive product range, a leading offer for women, an improved distribution quality and organizational speed. Positive feedback from retail partners around the world, better sell-through as well as improved financial results in 2018 confirm that PUMA is on the right track. In 2018, we have added a sixth priority: re-entering basketball with the aim to strengthen our position on the North-American sports market.

The PUMA brand draws strength and brand heat from its unique heritage in sports. PUMA is associated with some of the greatest sports legends: Pelé, Maradona, Usain Bolt, Tommie Smith, Boris Becker, Lothar Matthäus, Linford Christie, and many more. Today, PUMA continues to strengthen its position as a sports brand through partnerships with some of the most elite ambassadors: star strikers Antoine Griezmann, Romelu Lukaku, Sergio Agüero and Luis Suarez, international top clubs Arsenal F.C., Borussia Dortmund and A.C. Milan, golf stars Lexi Thompson and Rickie Fowler, the five-time Formula One world

champion Lewis Hamilton, Canadian sprinter André De Grasse and the Jamaican and Cuban Olympic Federations.

In its Sportstyle category, that offers a lifestyle product-range, PUMA has also developed a unique way of working with cultural and fashion icons to connect with young trend-setting audiences. This has made PUMA one of the hottest sports and fashion brands for young consumers. The partnerships PUMA enters with stars like Selena Gomez, Cara Delevingne and Adriana Lima, open new doors to an authentic interaction with our target group, aged 16 to 24.

On the product side, PUMA follows a simple and catchy mantra: "Cool stuff that works". Our 2018 bestsellers, such as the running shoe HYBRID, the football boots PUMA FUTURE and PUMA ONE or the successful new Sportstyle silhouettes Thunder, RS-0 and RS-X, follow that principle.

The "Women's" category continues to be a priority for PUMA. Not only because the number of women who do sports is constantly increasing worldwide, but also because they are trendsetters in taking inspiration from athletic wear for their everyday wardrobe. PUMA has defined its design principle for women as "where the gym meets the runway". Our women's business has again bolstered the brand in 2018. Key styles were among others the training shoes DEFY and MUSE. With our strong standing among women, PUMA is uniquely positioned to capitalize on this growing segment within the global sportswear market.

A major highlight for us in 2018 was PUMA's re-entry into the basketball category. To us, it is not only the performance on the court that matters, but also the culture surrounding the sport. In addition, our return to basketball is a key building block to sharpening our overall sports performance credibility in North America and hence extend our business in other sports categories. We are excited that JAY-Z has taken the role of Creative Director for PUMA Basketball. In this function, he is overseeing the creative strategy, marketing, and product design for all basketball related products. With the CLYDE COURT DISRUPT, our first basketball silhouette after more than 20 years of absence, we see ourselves well positioned.

PUMA has continuously improved the quality of its distribution and expanded its presence in key sports performance and Sportstyle accounts around the world. PUMA remains dedicated to strengthening its relationships with key retailers by being a flexible and service-oriented business partner. Improved sell-through has further helped PUMA to gain more shelf space in our partners' retail stores



in 2018. We have been able to record higher sell-through in wholesale, expand our retail store network and achieve like-for like sales growth in our own retail stores, while registering continued strong growth of our eCommerce business. Furthermore, PUMA continued to upgrade its owned-and-operated retail store network with further refurbishments. On a regional basis, we have continued to grow in Europe despite a difficult market environment, while in China sales growth has accelerated even further, underpinned by approximately 400 store openings through our partners. In North America we have received a very good response to our basketball offering so far.

In 2018, PUMA further invested into its IT infrastructure with a strong focus on Business Intelligence, Planning and IT Security. Concerning the latter, a new Security Operations Center was implemented to maximize protection from outside threats. Additional focus was put on the development of a new ERP system to be rolled-out in 2019 and the following years. PUMA's International Trading Organization, which manages global order and invoice flows centrally, saw further improvements in the fields of capacity management and collaboration regarding the sharing of performance data. The new product development system, implemented in 2017, was further enhanced and rolled-out to all divisions. Furthermore, PUMA put additional efforts into the modernization of distribution centers in various countries around the globe.

In addition to these six priorities, social, economic and environmental sustainability remains a core value for PUMA. In 2018, we continued to execute our 10FOR20 sustainability strategy with a focus on creating positive impact through industry collaboration. Together with many industry peers, we started to roll out a harmonized assessment methodology on social and environmental compliance for our core suppliers. Moreover, we developed an Industry Charter for Climate Action under the umbrella of UN CLIMATE CHANGE, which will come into effect 2019. We also launched a sustainability focused and carbon neutral apparel collection together with our customer ASOS. Our efforts were recognized by PUMA's return to the FTSE4Good Index for sustainable companies, as well as by winning the PETA fashion award for a vegan shoe.

The year 2018 was exciting and eventful. Thanks to our commitment to the FOREVER FASTER strategy and our fantastic team at PUMA we have taken a further and significant step of becoming the fastest sports brand in the world.

## PRODUCT DEVELOPMENT AND DESIGN

When Rudolf Dassler founded the company back in 1948, his vision was to create shoes that give athletes the speed, agility and spirit of a puma, inspiring them in competition and empowering them to win. With our mission statement FOREVER FASTER, we stay true to our initial purpose: As the World's fastest sports brand, we offer athletes the products that help them unleash their full potential and allow them to express their personality and style. FOREVER FASTER also stands for the rapid development and implementation of new technologies and designs: Fast decision-making and agile production pipelines allow the brand to quickly react to consumer trends and deliver relevant products to the market.

With clear seasonal creative directions and a consistent visual language, our designers, under the guidance of PUMA's Global Creative Director Torsten Hochstetter, create products that both capture the Zeitgeist and set future trends. The **fusion of sport and style** is what makes PUMA products desirable, as they not only meet performance needs, but also look great.

Spring-Summer 2018, for instance, was all about the FIFA World Cup 2018 and the "Euphoria" of football fans, while our Women's offer followed the principle "En pointe", inspired by the dancers of the New York City Ballet and their powerful grace. Our Autumn-Winter 2018 creative direction focused on concepts such as "New Skool", which thoughtfully curated and reinterpreted iconic styles of the 80s and 90s with bold geometries and modern color block.

In 2018, we introduced a broader product range to the market, mixing innovative technologies with bold styles. This mix was proven to be on point, as PUMA's improved sell-through performance and the continued positive response of retail partners and customers showed.

For its return to Basketball, PUMA introduced its first basketball silhouette in more than 20 years: the Clyde Court Disrupt, which was first brought to the market in an aggressive colorway in October 2018. Engineered for the court, with swagger for the street, the Clyde Court Disrupt catches the spirit and style set down by NBA icon Walt Clyde Frazier. The shoe's technical features, including PUMA's Hybrid Foam technology and a lightweight knit upper, provide the player with the support and flexibility they need to perform on court. Additional models followed, such as the Halloween special edition X-RAY, the PURPLE GLOW, the OCEAN DRIVE and the PEACE ON EARTH right before Christmas.







Another milestone of 2018 was the introduction of HYBRID, the latest addition to the brand's Running & Training product line. Combining two of its most innovative technologies - IGNITE FOAM and NRGY beads - PUMA offers an entirely new definition of mid sole technology. With superior cushioning and energy return, this running shoe is ideal for longer and faster runs.

With the launches of the THUNDER and the new editions of the Running System (RS) and CELL, PUMA paid tribute to its most iconic silhouettes of the 80s and 90s, while responding to 2018's "chunky shoe" trend.

The THUNDER, with its retro color blocking and disruptive design, was an instant success, as the first two product drops were sold out worldwide within hours. The PUMA CELL Endura, a classic from the PUMA Archive, with its durable and resilient cushioning technology, celebrated its comeback thanks to new materials and state of the art production techniques. PUMA's "Future Retro" product range draws its inspiration from the past to inspire future designs.

Key styles of our Women's footwear business were the training silhouettes MUSE, PHENOM and DEFY, while the CALI and NOVA enriched our Sportstyle range.

The highly exclusive PHENOM LUX marked Selena Gomez's first design collaboration with PUMA. This stylish performance shoe was not only made to stand out, but also to help out: the sales benefitted the Lupus Research Alliance, the world's leading private funder of Lupus research, an autoimmune disease, from which Selena Gomez also suffers.

One of the most notable training silhouettes for Women's, the DEFY, literally defied training standards, by merging high energy return and high fashion in one shoe.

Research and product development at PUMA mainly comprise the areas of innovation (new technologies), product design and model and collection development. The research and product development activities range from the analysis of scientific studies and customer surveys through the generation of creative ideas to the implementation of innovations in commercial products. The activities in research and product development are directly linked to sourcing activities.

As of December 31, 2018, a total of 946 people were employed in research and development / product management (previous year: 894). In 2018, research and development / product management expenses totaled € 97.8 million (previous year: € 98.5 million), of which € 54.0 million (previous year: € 53.4 million) related to research and development.

## SOURCING

### The Sourcing Organization

PUMA's sourcing functions, referred to as the central management of the sourcing of products for PUMA and PUMA Group's own brand, Cobra, are merged in PUMA Group Sourcing (PGS.). PUMA's global trading entity, PUMA International Trading GmbH (PIT), with head office in PUMA's corporate headquarters Herzogenaurach (Germany), is the Group company mainly responsible for PUMA Group Sourcing. PIT coordinates product sourcing from independent manufacturers by sourcing products itself from the manufacturers and selling them to PUMA distribution subsidiaries or supporting PUMA distribution subsidiaries directly in the local sourcing of products via local manufacturers. Additionally, PIT manages the cooperation with PUMA's suppliers worldwide and oversees the production processes at the different sourcing sites in Hong Kong, China, Vietnam, Bangladesh, India, Portugal, South Africa, Brazil and Mexico. Furthermore, PIT carries out a centralized hedging against currency risks. The centralized control of these processes guarantees a high degree of transparency within the supply chain, reduces sourcing complexity and creates efficiencies through largely automated processes.

PUMA Group Sourcing (PGS) collaborates with a network of independent manufacturers worldwide. The aim is to offer an optimal service so as to meet global requirements for service, quality and safety, along with environmental and social aspects in the supply chain. Under the six core principles of partnership, transparency, flexibility, speed, simplicity, and effectiveness, the central sourcing responsibility allows for continuous improvements with regard to sourcing costs, sourcing flexibility and the necessary delivery reliability. This guarantees distribution subsidiaries high-level service and a sustainable production and supply chain. Additionally, PUMA's sustainability function (Corporate Sustainability Department, formerly PUMA SAFE) is successfully integrated into the PGS organization since 2016. This ensures that social and environmental issues and standards of good corporate governance are integrated into day-to-day sourcing activities.

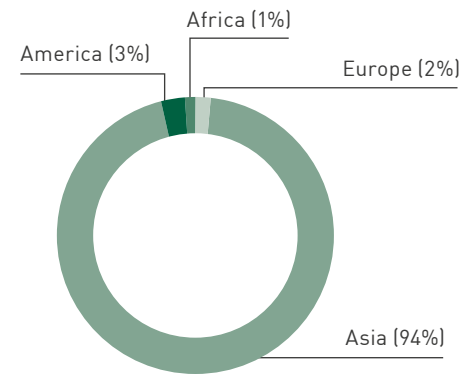
In 2018, further operating improvements could be implemented in sourcing, in particular with regards to the centralization and standardization of processes and systems, capacity management, data analysis and business intelligence. In 2018, the operational improvements over the last few years have made a significant contribution to the successful handling of the significantly increased sourcing volume, especially in the apparel segment, with the existing sourcing organization setup. Additionally, PUMA Group Sourcing established a new office in Portugal to manage the local sourcing of high quality products with short lead times.

Furthermore, 2018 saw the successful continuation of the innovative financing program for PUMA suppliers. This program allows for receivables of the suppliers from goods delivered to PUMA to be paid more quickly provided they meet certain sustainability criteria. As a result, financial scope was created for new investments for suppliers. In addition, the program for suppliers also acts as a financial incentive for complying with its standards regarding ecology, labor law and society, as well as continuously improving them.

## The Sourcing Markets

During the financial year 2018, PGS via PIT collaborated with 152 independent suppliers (previous year: 160) in 33 countries worldwide. Thus, a certain continuity is apparent for the supplier base. The strategic cooperation with long-term partners was one of the key competitive advantages in 2018 to ensure stable sourcing of a significantly increased sourcing volume, in particular in the apparel segment.

F.1 SOURCING MARKETS 2018 (Amount)

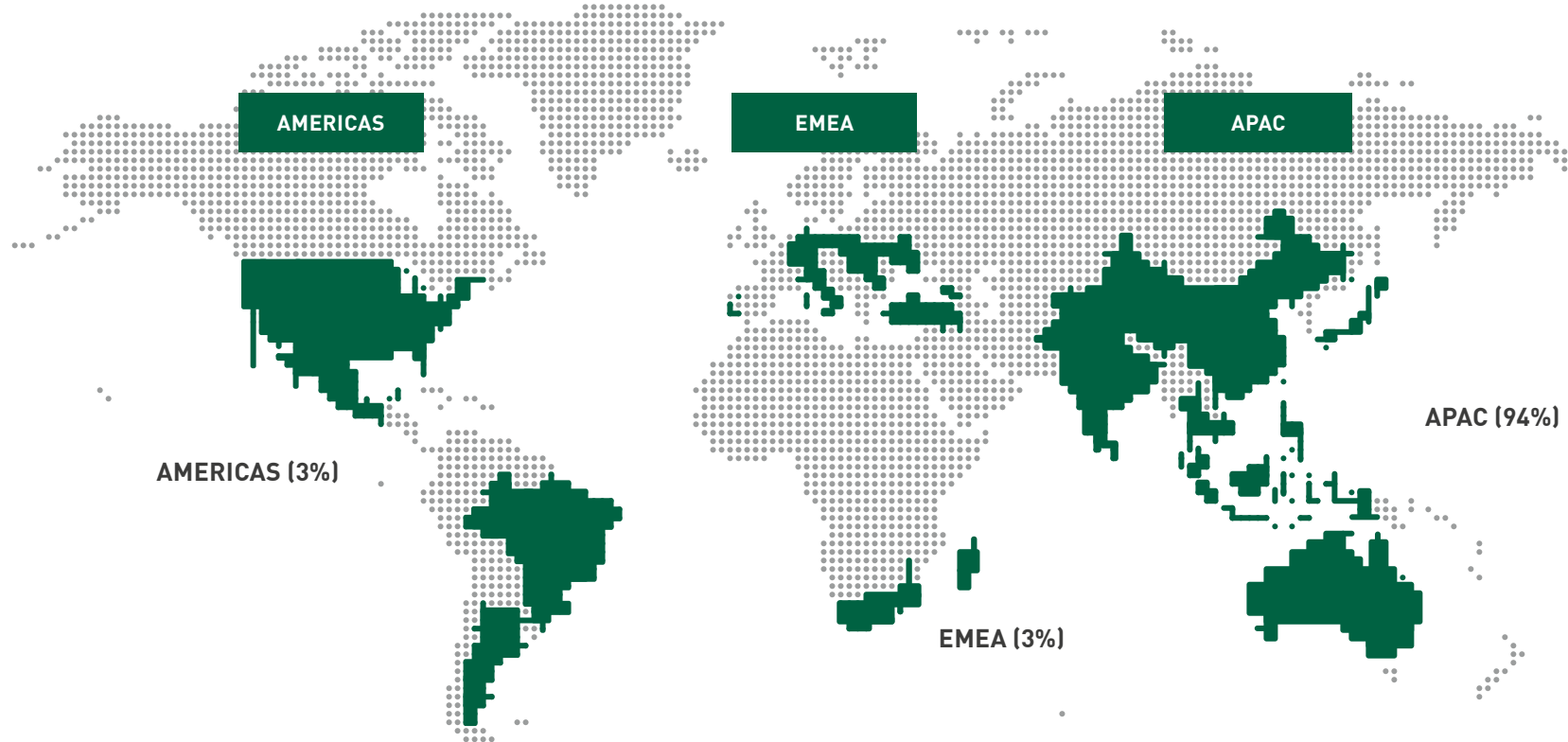


Asia remains the strongest sourcing region overall with 94% of the total volume, followed by America with 3%, and EMEA with also 3% (thereof Europe with 2% and Africa with 1%).





## F.2 SOURCING REGIONS OF PUMA GROUP SOURCING



As a result, the six most important sourcing countries [91% of the total volume] are all located on the Asian continent. Once more, Vietnam was the strongest production country with a total of 32%. China followed at 24%. Cambodia was in third place at 14%, one percentage point up from 2017. Bangladesh, which focuses on apparel, is in fourth place at 13%. Bangladesh thus increased its share of the sourcing volume from 10% in the previous year to 13% in 2018. Indonesia, which focuses on footwear production, produces 4% of the total volume and is in fifth place. India is in sixth place at 3%.

Rising wage costs and macroeconomic influences, such as changes in the trade environment, have continued to influence sourcing markets in 2018. Such impacts need to be taken into account in allocating the production. This is a significant component of our sourcing strategy so as to ensure the secure and competitive sourcing of products and, furthermore, to successfully manage the increasing sourcing volumes due to the positive company development.



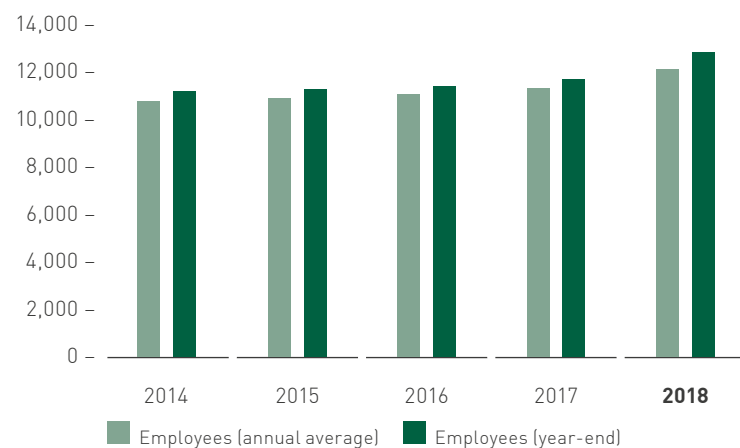
## EMPLOYEES

### Number of employees

The global number of employees on a **yearly average** was 12,192 employees in 2018 compared to 11,389 in the previous year. This increase resulted mainly from the retail area due to the increased number of own retail stores.

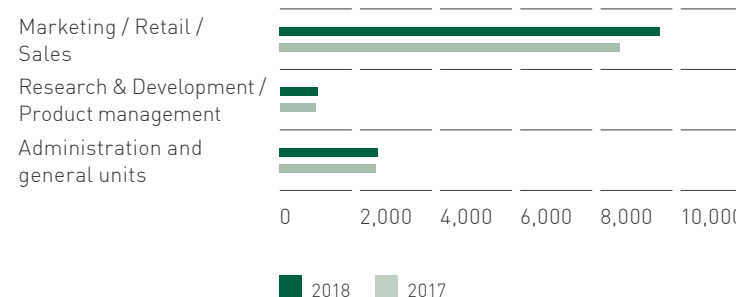
Personnel expenses in 2018 increased overall by 0.9% from € 549.1 million to € 553.8 million. On average, personnel expenses were € 45.4 thousand compared to € 48.2 thousand in the previous year.

### F.3 DEVELOPMENT EMPLOYEES



As of **December 31, 2018**, the number of employees was 12,894, compared to 11,787 in the previous year. This represents a 9.4% increase in the number of employees compared to the previous year. The development in the number of employees per area is as follows:

### F.4 EMPLOYEES (Year-end)



### Talent Recruitment and Development

Our employees are our most important capital for our business success. They are at the center of our human resources strategy which focuses particularly on talent recruitment and development. Against the backdrop of our unique company culture, we provide workplaces worldwide that are aligned with modern and agile work methods and ensure the wellbeing of our employees.

In order to continue to expand our position in the market, it is essential that we have highly qualified and motivated personnel and are perceived as an attractive employer. Our diverse recruitment activities allow us to recruit external talent in advance, appropriate to the target group, via various channels, including in particular through a proactive direct approach, thereby boosting our workforce. In addition, we have expanded our activities at colleges and universities nationally and internationally to identify potential future employees even earlier.

The digitalization and related simplification and acceleration of business processes made further progress in 2018. After we globally introduced "Workday", a leading Human Capital Management System, in 2017, we expanded the system this year by adding the "talent and performance", "time recording and absence management" and "learning" modules. This gives us a worldwide system for recording working hours as well as vacations and other absences in Workday. The learning module functions as a platform for all e-learning courses and on-site training. The training module also provides employees with the option of creating learning content and sharing it with colleagues.



Our aim is to help each of our employees to develop, in an international environment as well, and at the same time successfully and sustainably keep them loyal to our company. As a central component of current competitiveness, this allows us both as a company and as an employer to maintain a dynamic environment and to be able to keep up with market changes. Based on the Workday software, a systematic succession plan is created as part of talent management in addition to the performance assessment and target-setting. Talent available in the company is identified in the annual employee interviews and fostered using individual development plans. This type of talent management means that we can offer our employees attractive career and development opportunities and secure forward-looking succession planning at the same time.

The continuous professional and personal development of our employees also guarantees that our workforce has the necessary skills to ensure steady growth and market expertise. In our efforts to provide adequate entry-level and development opportunities to talented individuals at all levels, we also promote the systematic training of our professionals and managers as well as a range of different training and dual-track (combined work-study) programs. The range of training we provide includes a number of online or offline training courses and workshops that are standardized or personally tailored to individual needs. The continuous development of our PUMA training programs ensures that our employees always have innovative and diverse opportunities to add to their qualifications, acquire new skills and build on existing expertise. This approach helps employees achieve their personal goals and helps the company achieve its goals as well.

In particular, we also offer a large number of seminars with the aim of developing employees and managers over the longer term, giving them the opportunity to apply their newly acquired knowledge in practice between the individual modules and then to discuss this with other seminar participants. Our internal leadership program, consisting of several modules, comprises the ILP ("International Leadership Program") and ILP<sup>2</sup> seminars. These contain a number of measures to equip employees with the required skills and knowledge to be able to lead their team. They include intensive training and coaching, including interactive learning, roleplay simulations and best practice learning, as well as joint projects. The focus is therefore particularly on "Mindful Leadership" as well as agile work methods.

Using Speed Up and Speed Up<sup>2</sup>, we carry out human resources development programs for employees on various levels. Various groups consisting of top talents are given intensive preparation for the next step in their careers by taking on interdisciplinary projects and tasks, targeted training courses, mentoring, and coaching as well as rotating between jobs. Increased visibility to upper management, the creation of cross-function cooperation and establishing a strong network are also important components of this program.

## Compensation

We at PUMA offer our employees a targeted and competitive compensation system, which consists of several components. In addition to a fixed base salary, the PUMA bonus system, profit-sharing programs and various social benefits and intangible benefits form part of a performance-based compensation system. We also offer long-term incentive programs for the senior management level that honor the sustainable development and performance of the business. In 2018, the bonus system was standardized worldwide and made even more transparent. Incentives are now exclusively linked to PUMA's corporate goals.

## MANAGEMENT SYSTEM

We use a variety of **indicators to manage** our performance in relation to our top corporate goals. We have defined **growth and profitability as being key targets** within finance-related areas. Our focus therefore is on improving sales, the gross profit margin, and operating result (EBIT). These are the financial control parameters that are of particular significance. Moreover, we aim to minimize working capital and improve free cash flow. Our Group's **Planning and Management System** has been designed to provide a variety of instruments in order to assess current business developments and derive future strategy and investment decisions. This involves the continuous monitoring of key financial indicators within the PUMA Group and a monthly comparison with budget targets. Any deviations from the targets are analyzed in detail and appropriate countermeasures are taken should such deviations have a negative impact.

Changes in sales are also influenced by **currency exchange effects**. This is why we also state any changes in sales in Euro, the reporting currency, adjusted for currency exchange effects in order to provide information that is relevant to the decision-making process when assessing the revenue position. Currency-adjusted sales volumes are used for comparison purposes and are based on the values that would arise if the foreign currencies included in the consolidated financial statements were not translated at the average rates for the previous reporting year but were instead translated at the corresponding average rates for the current year. As a result, currency-adjusted figures are not to be regarded as a substitute or as superior financial indicators, but should instead always be regarded as additional information.

We use the indicator **free cash flow** in order to determine the change in cash and cash equivalents after deducting all expenses incurred to maintain or expand the organic business of the PUMA Group. Free cash flow is calculated from the cash flow from operating activities and investment activities. We also use the indicator **free cash flow before acquisitions**, which goes beyond free cash flow and includes an adjustment for incoming and outgoing payments that are associated with shareholdings in companies.

We use the indicator **working capital** in order to assess the financial position. Working capital is the difference between other current assets - including in



particular inventories and trade receivables – and current liabilities. Amounts that are received in connection with financing activities are not included in working capital.

Non-financial performance indicators are of only minor importance at PUMA as control variables.

## INFORMATION REGARDING THE NON-FINANCIAL REPORT

In accordance with Sections 289b and 315b of the German Commercial Code (HGB), we are required to make a non-financial declaration for PUMA SE and the PUMA Group within the Management Report or present a non-financial report external to the Management Report, in which we report on environmental, social and other non-financial aspects. PUMA has been publishing Sustainability Reports since 2003 under the provisions of the Global Reporting Initiative (GRI) and since 2010 has published financial data and key sustainability indicators in one report. In this context, we report the information required under Sections 289b and 315b of the HGB in the Sustainability chapter of our Annual Report. The Annual Report for the financial year 2018 will be available from April 18, 2019, on the following page of our website:

<https://about.puma.com/en/investor-relations/financial-reports>

Furthermore, significant sustainability information can be found on PUMA's website under Sustainability at any time:

<http://about.puma.com/en/sustainability>

# ECONOMIC REPORT

## GENERAL ECONOMIC CONDITIONS

### Global Economy

According to the winter forecast by the Kiel Institute for the World Economy (IFW Kiel) on December 11, 2018, the global economy slowed over the course of 2018. In addition to uncertainty caused by increasing trade policy conflicts – particularly between the United States of America and China – the tightening of monetary policy in the United States, in particular, contributed to the slowing down of growth. For 2018, IFW Kiel's experts expect an increase in global gross domestic product (GDP) of 3.7%, which represents a slight reduction of 0.1% compared to its summer forecast.

The slowdown in economic development in 2018 is evident both in the advanced economies and in the emerging markets. While 2017 was marked by synchronous growth, 2018 saw differences in economic development between the individual countries and groups of countries increase. In the industrial nations, expansion in the United States continued at a faster pace, supported by significant fiscal stimuli, while the economies of the euro zone and Japan lost considerable momentum. In the emerging markets, growth slowed to varying degrees, partly due to poorer financing conditions due to a more restrictive monetary policy on the part of the US Federal Reserve. While large parts of Asia, Russia and parts of South America continued their growth trend, Argentina and Turkey fell into recession.

### Sporting goods industry

The sporting goods industry continued to grow strongly in 2018. This development was primarily driven by higher private household income, which enabled an increase in consumer spending on sporting goods. The global fitness boom also continued in 2018. Plenty of movement, a healthy lifestyle, and the accompanying increase in free-time sporting activities are still in fashion worldwide across large parts of the population. At the same time, there continued to be a strong demand for sporting everyday clothes in 2018.

The e-commerce business was a strong driver of growth in the sporting goods industry in 2018. Many commercial opportunities were taken advantage of in order to improve the purchasing experience for consumers, such as mobile technology and social media. In terms of major sporting events of the last year, it was particularly the Football World Cup in Russia that supported the growth of the sporting goods industry.







## SALES

### Illustration of Sales Development in 2018 compared to the Outlook

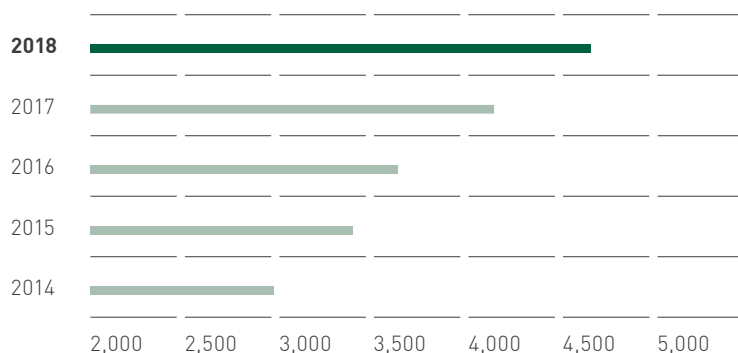
PUMA's 2017 Management Report had predicted a currency-adjusted growth in sales of around 10% for the financial year 2018. This forecast was increased several times throughout the year and PUMA then expected a currency-adjusted sales increase of between 14% and 16% for financial year 2018. PUMA was able to surpass the revised forecast for financial year 2018, exceeding the originally planned sales target.

More details on sales development are provided below.

### Net Sales

PUMA's net sales rose in the financial year 2018 in the reporting currency, the Euro, by 12.4% to € 4,648.3 million. Currency-adjusted sales increased by 17.6%. In particular, the Asia / Pacific region, driven by China, showed a strong double-digit growth in sales. In terms of products, apparel was the main driver of sales growth.

F.5 SALES (in € million)

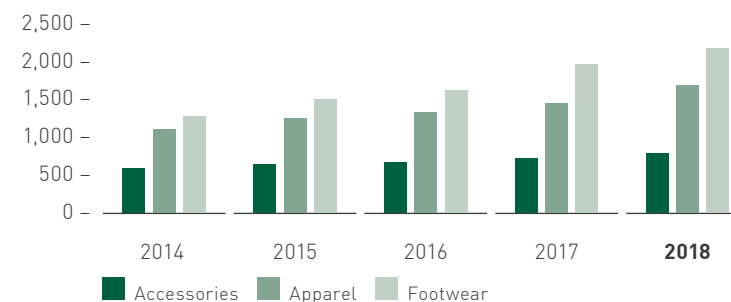


The most important segment for PUMA – **footwear** – recorded a growth trend persistent for 18 quarters at the end of financial year 2018. The strongest growths were in the Sportstyle and Running and Training categories. Sales increased in the reporting currency, the Euro, by 10.6% to € 2,184.7 million, meaning that the footwear segment exceeded the sales mark of € 2 billion for the first time. Currency-adjusted sales growth of 16.6% was achieved. The proportion of this segment in total sales fell slightly from 47.7% in the previous year to 47.0% in 2018.

In the **apparel** segment, sales increased in the reporting currency, the Euro, by 17.1% to € 1,687.5 million. Currency-adjusted sales increased by 22.2%. The Sportstyle category was the main driver of sales growth. In addition, the introduction of new products in the Teamsport and Motorsport categories contributed to this growth. The apparel segment accounted for 36.3% of Group sales (previous year: 34.9%).

In the **accessories** segment, sales increased in the reporting currency, the Euro, by 7.8% to € 776.1 million. This represents a currency-adjusted increase of 11.0%. The increase resulted particularly from higher sales of socks and bodywear. Its share in Group sales reduced slightly from 17.4% in the previous year to 16.7% in 2018.

F.6 SALES BY PRODUCT SEGMENTS (in € million)



### Retail Businesses

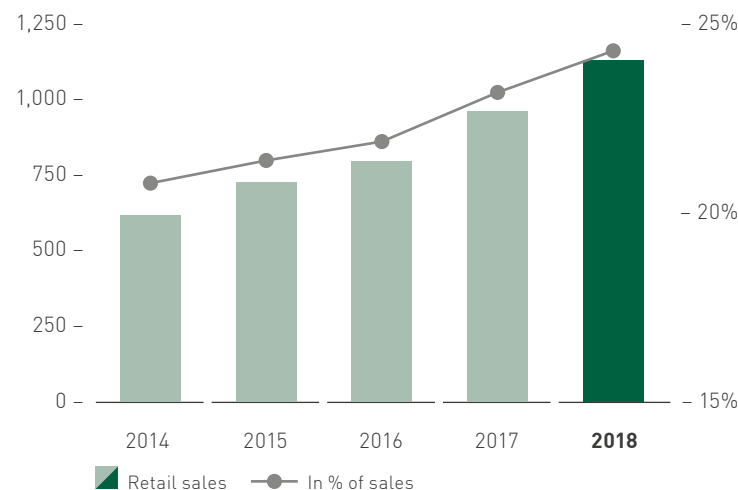
PUMA's retail activities include direct sales to our consumers ("Direct to Consumer business"). This includes PUMA's own retail stores, the so-called "Full Price Stores", "Factory Outlets", and e-commerce online sales. Our own retail store activities ensure regional availability of PUMA products and the presentation of the PUMA brand in an environment suitable to our brand positioning.

PUMA's retail sales increased in the financial year 2018 by a currency-adjusted 24.0% to € 1,127.5 million. This corresponds to a 24.3% share in total sales (previous year: 23.2%). The increase of PUMA's retail sales resulted from both the increase in sales on a comparable floor area basis compared to last year and from the targeted expansion of our portfolio of own retail stores. In addition to the opening of additional retail stores at selected locations worldwide, optimizing the portfolio also included modernizing existing retail stores in line with the FOREVER FASTER store concept. This makes it possible to present PUMA products and related technologies in an even more attractive environment and strengthens PUMA's position as a sports brand.



Our e-commerce business recorded a far above-average growth in 2018. This was brought about by, for example, the expansion of the product range in online stores worldwide and by our targeted sales promotions in the online business. In addition, our e-commerce activities on special days in the online business such as Singles' Day in China on November 11 and the world's biggest online shopping day, known as "Black Friday / Cyber Monday", turned out to be particularly successful.

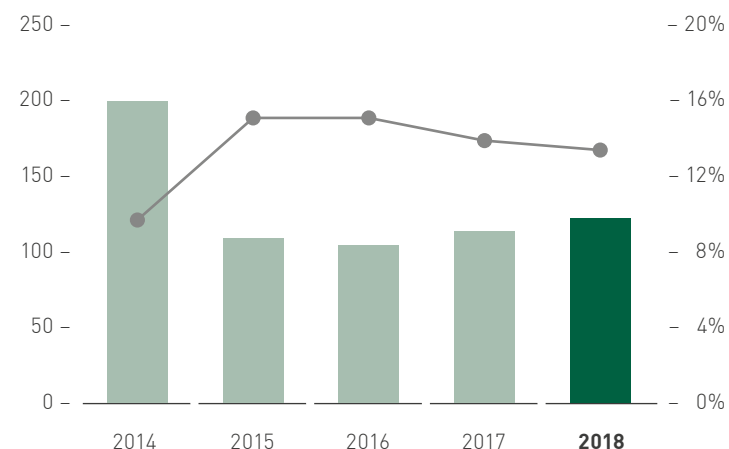
**F.7 RETAIL SALES** (in € million)



### Licensing Business

For various product segments, such as fragrances, eyewear, and watches, PUMA issues licenses authorizing independent partners to design, develop, manufacture, and sell these products. Revenue from license agreements also includes some sales licenses for various markets. License sales, which are not part of PUMA's consolidated sales, but which are, however, the basis for PUMA's licensing and commission income, increased in 2018 in the reporting currency, the Euro, by 7.4% to € 121.9 million. PUMA's resulting licensing and commission income increased in 2018 by 3.2% to € 16.3 million.

**F.8 LICENSE SALES** (in € million) / **ROYALTY AND COMMISSION INCOME** (in %)



### REGIONAL DEVELOPMENT

In the following explanation of the regional distribution of sales, the sales are allocated to the respective region of the customer ("Customer Site"). It is divided into three geographic regions (EMEA, America and Asia / Pacific). A more detailed regional presentation of the sales according to the registered office of the respective Group company can be found in chapter 26 in the Notes to the Consolidated Financial Statements.

PUMA's sales increased in 2018, by currency-adjusted 17.6%. All regions contributed to this currency-adjusted development with double-digit growth rates.

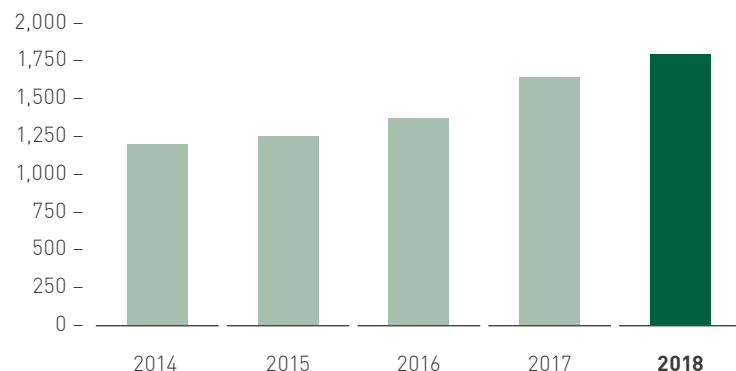
In the **EMEA** region, sales rose in the reporting currency, the Euro, by 9.4% to € 1,800.3 million. This corresponds to a currency-adjusted increase in sales of 11.4%. A particularly strong increase came from France, Spain and the United Kingdom (UK), which showed double-digit growth in sales. Russia, Ukraine, Turkey and the United Arab Emirates also grew strongly with double-digit growth rates. However, the strength of the Euro against, for example, the Turkish Lira led to significant negative currency exchange effects on sales in the reporting currency, the Euro.

The EMEA region accounted for 38.7% of Group sales in 2018 in comparison to 39.8% last year.



In terms of the product segments, sales of footwear recorded a currency-adjusted increase of 8.6%. Sales from apparel increased by a currency-adjusted 18.4% and sales from accessories grew by a currency-adjusted 6.6%.

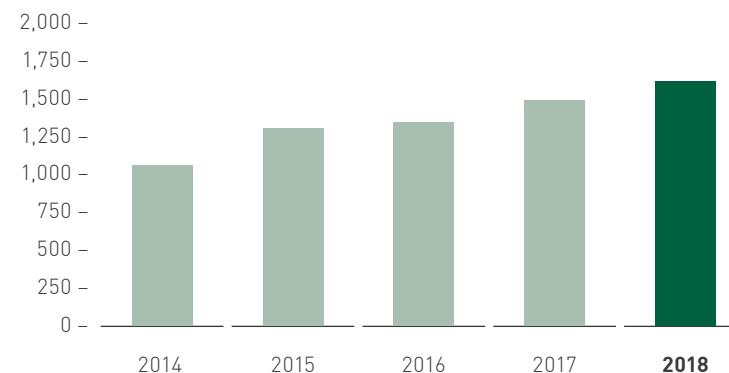
F.9 EMEA SALES (in € million)



Sales in the **America** region increased in the reporting currency, the Euro, by 7.9% to 1,612.5 million. Currency-adjusted sales rose by 16.9%, with both North and Latin America showing double-digit growth rates and thereby contributing to the increase in revenue. The weakness of the Argentine Peso against the Euro did, however, lead to significant negative currency exchange effects on sales in the reporting currency, the Euro. The share of the America region in Group sales decreased from 36.1% in the previous year to 34.7% in 2018.

In terms of the product segments, both footwear (currency-adjusted +11.7% compared to the previous year), apparel (+25.2%), and accessories (+17.7%) showed very good double-digit growth.

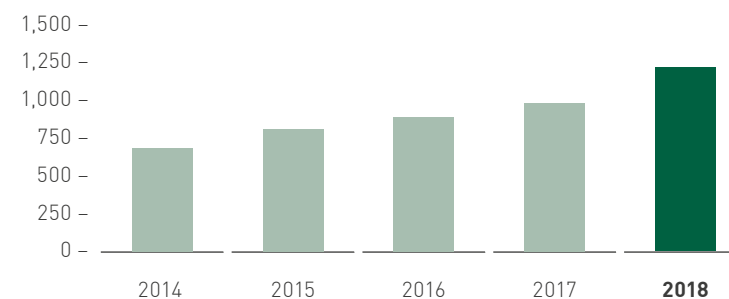
F.10 AMERICAS SALES (in € million)



In the **Asia / Pacific** region, sales growth was particularly strong. Here, sales increased in the reporting currency, the Euro, by 24.2% to € 1,235.5 million. This corresponds to a currency-adjusted increase in sales of 28.8%. The main drivers of growth in the region were Greater China and Korea, which each showed an above-average double-digit growth rate. By contrast, sales in Japan grew moderately compared to the previous year with a high single-digit percentage rate. The share of the Asia / Pacific region in Group sales increased from 24.1% in the previous year to 26.6% in 2018.

In the product segments, sales from footwear increased by a currency-adjusted 37.9%. Sales from apparel increased by a currency-adjusted 23.9% and accessories recorded a rise in sales of a currency-adjusted 7.2%.

F.11 ASIA / PACIFIC SALES (in € million)







## RESULTS OF OPERATIONS

### T.1 INCOME STATEMENT

	2018		2017		+ / - %
	€ million	%	€ million	%	
<b>Sales</b>	<b>4,648.3</b>	100.0	<b>4,135.9</b>	100.0	12.4
Cost of sales	-2,399.0	-51.6	-2,181.5	-52.7	10.0
<b>Gross profit</b>	<b>2,249.4</b>	48.4	<b>1,954.3</b>	47.3	15.1
Royalty and commission income	16.3	0.4	15.8	0.4	3.2
Other operating income and expenses	-1,928.4	-41.5	-1,725.6	-41.7	11.8
<b>Operating result (EBIT)</b>	<b>337.4</b>	7.3	<b>244.6</b>	5.9	37.9
Financial result / Income from associated companies	-24.0	-0.5	-13.4	-0.3	79.6
<b>Earnings before taxes (EBT)</b>	<b>313.4</b>	6.7	<b>231.2</b>	5.6	35.5
Taxes on income	-83.6	-1.8	-63.3	-1.5	32.0
Tax rate	-26.7%		-27.4%		
Net earnings attributable to non-controlling interests	-42.4	-0.9	-32.2	-0.8	31.7
<b>Net earnings</b>	<b>187.4</b>	4.0	<b>135.8</b>	3.3	38.0
Weighted average shares outstanding (million)	14.947		14.943		0.0
Weighted average shares outstanding, diluted (million)	14.947		14.943		0.0
Earnings per share in €	12.54		9.09		38.0
Earnings per share, diluted in €	12.54		9.09		38.0

### Illustration of Earnings Development in 2018 compared to the Outlook

In the outlook of the 2017 Annual Report, PUMA forecasted a slight improvement in the gross profit margin for financial year 2018. PUMA expected an increase in a mid-to-high single-digit percentage rate for other operating income and expenses. The forecast for the operating result (EBIT) was within a range of between € 305 million and € 325 million. In addition, a significant improvement in net earnings was expected.

These forecasts were raised slightly several times during the year and PUMA thereafter expected an improvement in the gross profit margin of around 100 basis points compared to the previous year (2017: 47.3%), an increase in other operating income and expenses in the low double-digit percentage range and an

operating result (EBIT) within a range of between € 325 million and € 335 million. In accordance with the previous forecasts, Management expected a significant improvement in net earnings for the financial year 2018.

PUMA was able to fully achieve the increased forecasts in 2018, and even slightly exceed them. This means that PUMA exceeded the originally targeted improvement in operating result for 2018.

More details on earnings development are provided below.

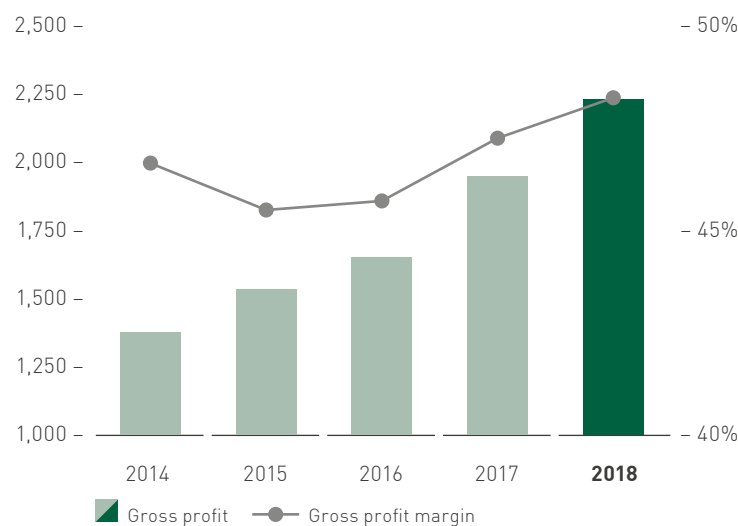


## Gross Profit Margin

Gross profit improved in the financial year 2018 by 15.1% from € 1,954.3 million to € 2,249.4 million. The gross profit margin increased by 110 basis points from 47.3% to 48.4%, particularly because of improvements in sourcing and higher sales of new products with a higher margin. In addition, the higher share of own retail sales and the development of the regional sales mix had a small positive effect on the gross profit margin. In 2018, there were no exchange rate effects on the gross profit margin compared with the previous year, as effects during the year offset each other on a full-year basis.

The gross profit margin in the footwear segment increased from 45.5% in the previous year to 45.8% in 2018. The apparel gross profit margin improved from 49.0% to 50.9% and the gross profit margin for accessories also increased from 48.5% to 50.3%.

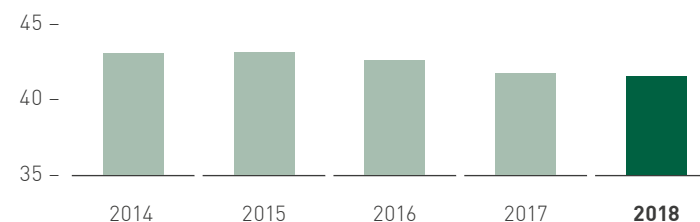
**F.12 GROSS PROFIT (in € million) / GROSS PROFIT MARGIN (in %)**



## Other Operating Income and Expenses

In the past financial year, further planned investment was made in marketing so as to increase PUMA's brand heat and to position PUMA as the fastest sports brand in the world. Investments in the modernization of our own retail stores and in the opening of further retail stores also continued. Furthermore, progress was made in modernizing our IT infrastructure. This led to an overall increase in operating income and expenses in the financial year 2018 of 11.8% from € 1,725.6 million to € 1,928.4 million. As a percentage of sales, the cost ratio improved from 41.7% to 41.5%. The decrease in the cost ratio confirms the consistent focus on the strict control of other operating income and expenses, which continues to be a high priority for PUMA, and which contributed to the improvement of the operating result in the financial year 2018.

**F.13 OPERATING EXPENSES (as a % of sales)**

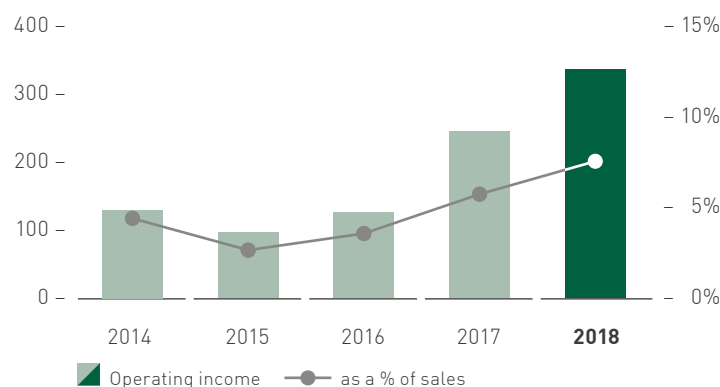


Within sales expenses, the expenses for marketing / retail grew by 13.2% from € 822.9 million to € 931.2 million. This development is primarily connected to the consistent implementation of the FOREVER FASTER brand campaign and the increased number of own retail stores. At 20.0% of sales, the cost ratio remained almost unchanged compared to the previous year. Other sales expenses, which mainly include sales-related variable costs and transportation costs, increased by 19.1% to € 592.4 million. This increase is primarily due to higher sales-related expenses from operating our own retail stores and from the e-commerce business. The cost ratio of other sales expenses in 2018 was 12.7% of sales. Research and Development / Product Management expenses remained almost stable compared to the previous year at € 97.8 million and the cost ratio fell slightly to 2.1%. Other operating income in the past financial year amounted to € 21.1 million and consisted primarily of income arising from the release of provisions. Administrative and general expenses increased in 2018 by 6.9% from € 307.0 million to € 328.1 million. The slight increase resulted from, amongst other things, higher expenses in warehousing, logistics and IT. The cost ratio of administrative and general expenses decreased from 7.4% to 7.1%. Depreciation / amortization are included in the relevant costs and total € 81.5 million (previous year: € 70.3 million). This represents a 15.9% increase in depreciation / amortization compared to the previous year.

## Operating result (EBIT)

Operating result increased by 37.9% from € 244.6 million in the previous year to € 337.4 million in 2018. This result is slightly above the adjusted EBIT forecast within a range of between € 325 million and € 335 million. The significant improvement in profitability in 2018 resulted from the strong growth in sales combined with the improvement in the gross profit margin. The EBIT margin rose accordingly from 5.9% in the previous year to 7.3%.

F.14 OPERATING INCOME - EBIT (in € million)



## Financial Result

The financial result decreased in 2018 from € -13.4 million in the previous year to € -24.0 million. This development was primarily due to the increase in expenses from currency conversion differences from € 6.9 million in the previous year to € 14.4 million in 2018.

Financial income improved slightly from € 10.3 million in the previous year to € 11.6 million in 2018. Financial income includes interest income of € 4.0 million (previous year: € 4.1 million) and income from interest components related to currency hedging contracts of € 7.6 million (previous year: € 6.3 million). In contrast, however, there was a slight increase in interest expenses from € 14.3 million to € 15.1 million. The remaining financial expenses arising from the valuation of pension plans and from interest components related to currency hedging contracts amounted to € 4.5 million in 2018 (previous year: € 4.2 million). The result from associated companies, which is included in the financial result, was € -1.5 million in the financial year 2018 (previous year: € 1.6 million).

## Earnings before taxes (EBT)

In the financial year 2018, PUMA generated earnings before taxes of € 313.4 million, an improvement of 35.5% from the previous year (€ 231.2 million). Tax expenses were € 83.6 million compared to € 63.3 million in the previous year, and the tax ratio decreased slightly from 27.4% to 26.7% in 2018.

## Net Earnings Attributable to Non-controlling Interests

Net earnings attributable to non-controlling interests relate to companies in the North American market, in each of which the same shareholder holds a minority stake. The earnings attributable to this shareholder increased in the financial year 2018 by 31.7% to € 42.4 million (previous year: € 32.2 million). These companies concern Janed, which distributes socks and bodywear, PUMA Accessories North America and PUMA Kids Apparel that focuses on selling clothing for children, and their respective subsidiaries in Canada.

## Net Earnings

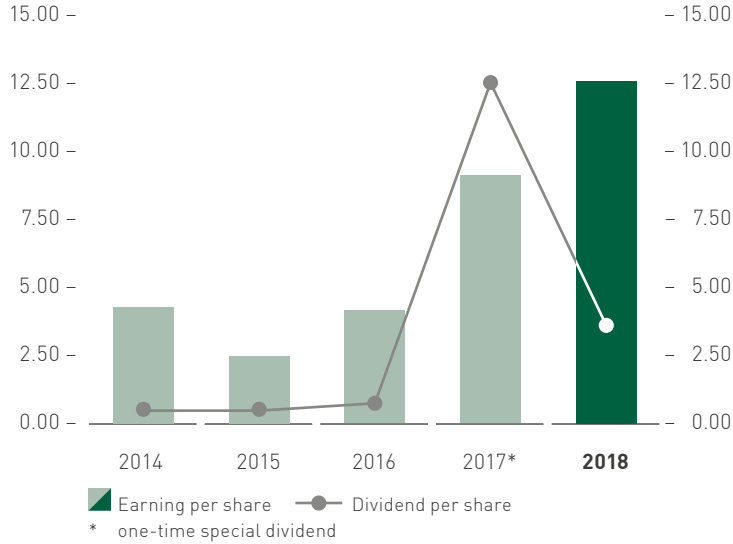
Net earnings increased in the financial year 2018 by 38.0% from € 135.8 million to € 187.4 million. The significant improvement in net earnings mainly resulted from the strong growth in sales combined with the improvement in the gross profit margin. While the financial result decreased in 2018, the slight decline in the tax rate had a positive effect on net earnings. Earnings per share and diluted earnings per share increased accordingly by 38.0% to € 12.54 compared to € 9.09 in the previous year.



DIVIDENDS

The Management Board and the Supervisory Board will propose to the Annual General Meeting on April 18, 2019, to distribute a regular dividend of € 3.50 per share for the financial year 2018 from PUMA SE's retained earnings under commercial law. As a percentage of net earnings, the payout ratio amounts to 27.9%. This is in accordance with the current dividend policy of PUMA SE, which foresees a payout ratio of 25% to 35% of net earnings. The dividends will be distributed in the days following the Annual General Meeting at which the resolution on the distribution is adopted. In the previous year, a one-time special dividend of € 12.50 was distributed.

F.15 EARNINGS / DIVIDEND PER SHARE (in €)







## NET ASSETS AND FINANCIAL POSITION

### T.2 BALANCE SHEET

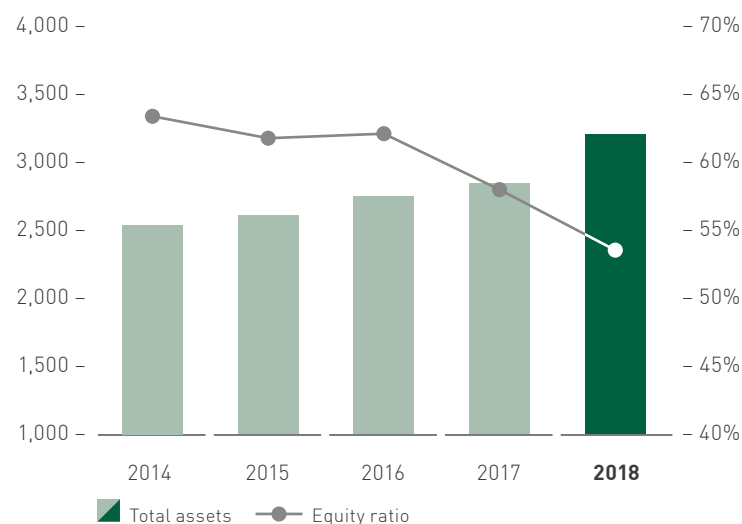
	12 / 31 / 2018		12 / 31 / 2017		+ / - %
	€ million	%	€ million	%	
Cash and cash equivalents	463.7	14.5	415.0	14.5	11.7
Inventories	915.1	28.5	778.5	27.3	17.5
Trade receivables	553.7	17.3	503.7	17.7	9.9
Other current assets (working capital)	187.7	5.9	164.0	5.7	14.5
Other current assets	72.6	2.3	23.6	0.8	207.2
<b>Current assets</b>	<b>2,192.8</b>	68.4	<b>1,884.8</b>	66.0	16.3
Deferred taxes	207.6	6.5	207.9	7.3	-0.2
Other non-current assets	806.8	25.2	761.1	26.7	6.0
<b>Non-current assets</b>	<b>1,014.4</b>	31.6	<b>969.0</b>	34.0	4.7
<b>Total assets</b>	<b>3,207.2</b>	100.0	<b>2,853.8</b>	100.0	12.4
Current financial liabilities	20.5	0.6	29.0	1.0	-29.2
Trade liabilities	705.3	22.0	646.1	22.6	9.2
Other current liabilities (working capital)	447.3	13.9	306.1	10.7	46.1
Other current liabilities	22.1	0.7	75.2	2.6	-70.6
<b>Current liabilities</b>	<b>1,195.2</b>	37.3	<b>1,056.5</b>	37.0	13.1
Deferred taxes	47.7	1.5	37.6	1.3	27.0
Pension provisions	28.9	0.9	29.7	1.0	-2.9
Other non-current liabilities	213.1	6.6	73.3	2.6	190.6
<b>Non-current liabilities</b>	<b>289.7</b>	9.0	<b>140.7</b>	4.9	106.0
<b>Shareholders' equity</b>	<b>1,722.2</b>	53.7	<b>1,656.7</b>	58.1	4.0
<b>Total liabilities and shareholders' equity</b>	<b>3,207.2</b>	100.0	<b>2,853.8</b>	100.0	12.4
<b>Working capital</b>	<b>503.9</b>		<b>493.9</b>		2.0
- in % of consolidated sales	10.8%		11.9%		



## Equity Ratio

PUMA continues to have an extremely solid capital base. As of December 31, 2018, total assets increased by 12.4% from € 2,853.8 million in the previous year to € 3,207.2 million. As the shareholders' equity increased by 4.0% from € 1,656.7 million to € 1,722.2 million, there was a mathematical decline in the equity ratio from 58.1% in the previous year to 53.7%, due in particular to the distribution of the special dividend.

F.16 TOTAL ASSETS (in € million) / EQUITY RATIO (in %)



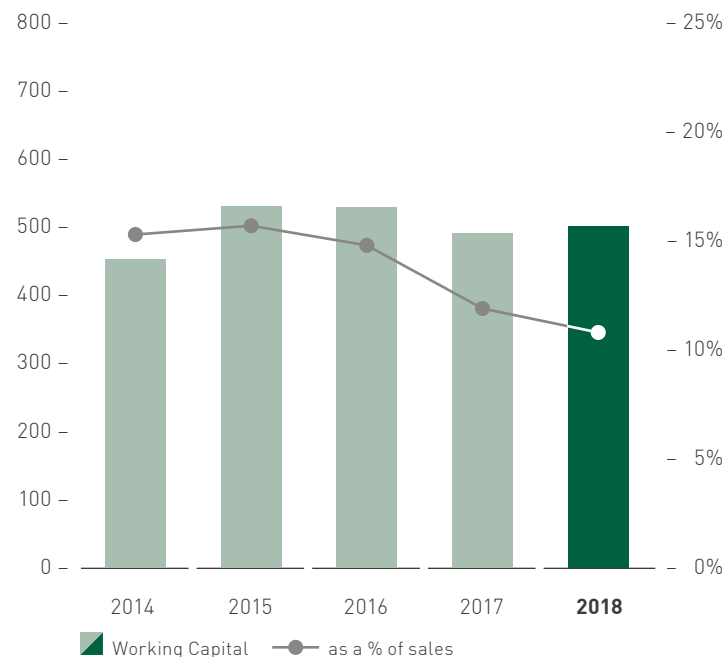
## Working Capital

Despite the significant increase in sales and the increased number of our own retail stores, working capital rose only slightly in the past financial year by 2.0% from € 493.9 million to € 503.9 million.

Inventories increased by 17.5% from € 778.5 million to € 915.1 million. This increase is related to the planned sales growth from the 2019 spring / summer collection. In addition, the change in the presentation of expected returns in the balance sheet due to IFRS 15 led to an extension of the balance sheet total and an increase in inventories and other current liabilities. Trade receivables increased by 9.9% from € 503.7 million to € 553.7 million. Other current assets included in working capital increased by 14.5% from € 164.0 million to € 187.7 million.

On the liabilities side, trade liabilities increased by 9.2% from € 646.1 million to € 705.3 million. Other current liabilities included in working capital increased significantly due to the balance sheet extension (IFRS 15) by 46.1% from € 306.1 million to € 447.3 million.

F.17 WORKING CAPITAL (in € million)



## Other Assets and Other Liabilities

Other current assets, which include the positive market value of derivative financial instruments, increased compared to the previous year from € 23.6 million to € 72.6 million.

Other non-current assets, which mainly comprises intangible assets and property, plant and equipment, rose as a consequence of the investments in non-current assets by 6.0% from € 761.1 million to € 806.8 million.

Other current liabilities, which include the negative market value of derivative financial instruments, decreased compared to the previous year from € 75.2 million to € 22.1 million.

Pension provisions remained almost stable compared to the previous year at € 28.9 million (previous year: € 29.7 million).

Other non-current liabilities increased from € 73.3 million in the previous year to € 213.1 million, mainly due to the issue of promissory note loans totaling € 160.0 million.



## CASH FLOW

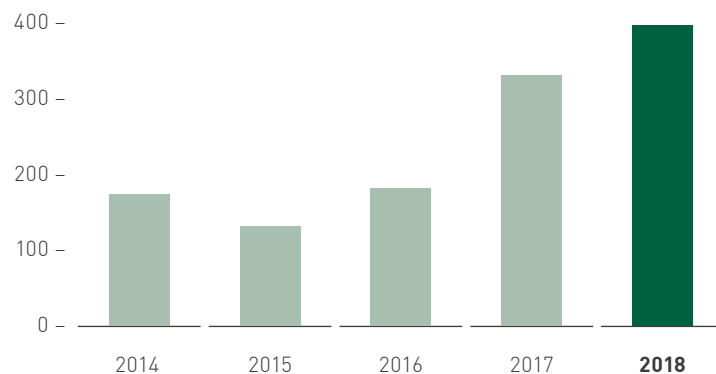
### T.3 CASH FLOW STATEMENT

	2018	2017*	
	€ million	€ million	+ / - %
Earnings before tax (EBT)	313.4	231.2	35.5
Financial result and non-cash effected expenses and income	84.7	99.7	-15.1
<b>Gross cashflow</b>	<b>398.0</b>	<b>330.9</b>	20.3
Change in current assets, net	-38.0	-50.6	-25.0
Tax payments and dividends received	-81.9	-41.5	97.2
<b>Net cash from operating activities</b>	<b>278.1</b>	<b>238.8</b>	16.5
Payments for acquisitions / proceeds from the sale of shareholdings	23.5	0.0	-
Payment for investing in fixed assets	-130.2	-122.9	5.9
Other investing activities	1.4	12.7	-88.6
<b>Net cash used in investing activities</b>	<b>-105.3</b>	<b>-110.3</b>	-4.5
<b>Free cashflow</b>	<b>172.9</b>	<b>128.5</b>	34.5
<b>Free cashflow (before acquisitions)</b>	<b>149.4</b>	<b>128.5</b>	16.3
- in % of consolidated sales	3.2%	3.1%	-
<b>Net cash used in financing activities</b>	<b>-128.3</b>	<b>-34.9</b>	-
Effect on exchange rates on cash	4.2	-5.3	-
Change in cash and cash equivalents	48.7	88.3	-44.8
Cash and cash equivalents at beginning of the financial year	415.0	326.7	27.0
<b>Cash and cash equivalents at year-end</b>	<b>463.7</b>	<b>415.0</b>	11.7

\* Prior-year figures adjusted, see notes to the consolidated financial statements chapter 27 (notes to the cash flow statement)

The increase in earnings before taxes (EBT) in the financial year 2018 led to an increase in gross cash flow by 20.3% from € 330.9 million to € 398.0 million. The financial result and the non-cash effected expenses and income, which include in particular the depreciation on property, plant and equipment, were € 84.7 million in 2018.

**F.18 GROSS CASHFLOW** (in € million)



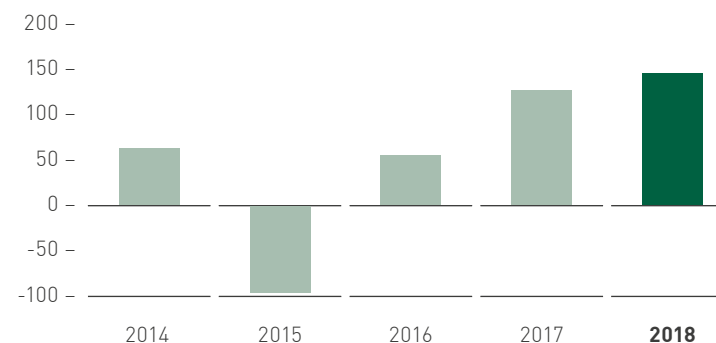
The continuing strong focus on working capital management significantly contributed to the improvement of the cash flow from operating activities. Net cash from operating activities increased from € 238.8 million in the previous year to € 278.1 million. This resulted from the decline in net current assets\* in addition to the increased earnings before tax in 2018. By contrast, the cash outflow from tax payments and dividends received increased to € 81.9 million.

Cash outflow from investing activities in the year under review fell slightly from € 110.3 million to € 105.3 million. The investment in non-current assets included in this figure rose in 2018 from € 122.9 million in the previous year to € 130.2 million and represented primarily investments in own retail stores, IT infrastructure, distribution centers and the completion of the new administration building in Herzogenaurach. The other cash inflows of € 24.9 million (previous year: € 12.7 million) relate in particular to cash inflows from the sale of shareholdings and cash inflows from asset disposals.

\* Net working capital includes normal working capital line items plus current assets and liabilities which are not normally part of the working capital calculation.

The free cash flow before acquisitions is the balance of the cash inflows and outflows from operating and investing activities. In addition, an adjustment is made for cash inflows and outflows that relate to shareholdings. The increase of earnings before tax in 2018 was the main driver for the improvement of free cash flow before acquisitions by 16.3% from € 128.5 million to € 149.4 million. As a percentage of sales, the free cash flow before acquisitions was 3.2% compared to 3.1% in the previous year.

**F.19 FREE CASHFLOW** (before acquisitions) (in € million)



Cash flow from financing activities for the financial year 2018 was attributable to the payment of a one-time dividend of € 186.8 million to shareholders of PUMA SE and dividend payments of € 55.7 million to non-controlling interests. On the other hand, net cash inflows from taking up financial liabilities amounted to € 126.8 million. Taking into account interest payments, the cash outflow from financing activities amounted to € 128.3 million (previous year: cash outflow of € 34.9 million).

As of December 31, 2018, PUMA had cash and cash equivalents of € 463.7 million, an increase in cash and cash equivalents of 11.7% compared to the previous year (€ 415.0 million). The PUMA Group also had credit facilities totaling € 691.9 million as of December 31, 2018 (previous year: € 497.1 million). Unutilized credit lines totaled € 501.0 million on the reporting date, compared to € 440.2 million in the previous year.



## STATEMENT REGARDING THE BUSINESS DEVELOPMENT AND THE OVERALL SITUATION OF THE GROUP

Overall, the management is very satisfied with the course of business and the economic development in the past financial year. In 2018, PUMA was able to fully meet or even slightly exceed its financial targets, which had already been raised during the year. We owe this in particular to our ability to react quickly and flexibly to changes in our dynamic business environment. For example, volatile exchange rates, the strength of the Euro against a large number of major currencies, and the trade conflict between China and the United States of America led to uncertainties in the trading environment. In addition, major changes in product trends and consumer demand, particularly in footwear, have necessitated a quick response to these changes. We are of the opinion that PUMA managed these challenges very well in the past financial year thanks to our “fast attitude”. The success of our measures is also reflected in the business results of the past year. We see this as further confirmation that we are on the right track with the consistent implementation of the FOREVER FASTER corporate strategy.

PUMA was again able to record strong sales growth in the past financial year with a currency-adjusted increase in sales of 17.6%. This meant that sales of our products in our own retail stores and at our wholesale customers continued to improve. In our opinion, this is primarily due to the increase in our brand heat and the competitiveness of our product range. In 2018, we were also once again able to make significant improvements in terms of profitability, with the operating result (EBIT), net earnings and earnings per share increasing by around 38% compared to the previous year. In addition to the strong sales growth, this is primarily due to the improvement in the gross profit margin and also to the decrease in cost ratio of other operating expenses. At € 337.4 million, the operating result in the past financial year was even slightly above our forecast of € 325 million to € 335 million, which had been raised during the year. Earnings per share rose significantly compared to the previous year from € 9.09 to € 12.54. We thus fully achieved our profitability targets in the past financial year and even slightly exceeded them.

With regard to the consolidated balance sheet, we believe that PUMA continues to have an extremely solid capital base. At the balance sheet date, the equity of the PUMA Group was more than € 1.7 billion and the shareholders' equity ratio was just under 54%. Furthermore, the consistent focus on working capital management contributed to the fact that working capital increased by only 2% compared to the previous year despite the significant increase in sales.

The increase in earnings before taxes (EBT) and the continued strong focus on the working capital management in the past financial year also contributed to a significant improvement in cash flow. The free cash flow before acquisitions compared to the same period last year increased by 16.3% to € 149.4 million. Cash and cash equivalents amounted to € 463.7 million on the balance sheet date (previous year: € 415.0 million).

As a result, the PUMA group is characterized by an overall solid asset, financial and income situation at the time the combined management report was prepared. This enables the Management Board and the Supervisory Board to propose a dividend of € 3.50 per share for the financial year 2018 to the Annual General Meeting on April 18, 2019. In accordance with the dividend policy, this corresponds to a payout ratio of 27.9% of the net earnings.







# COMMENTS ON THE GERMAN GAAP FINANCIAL STATEMENTS OF PUMA SE

PUMA SE's financial statements have been prepared pursuant to the rules of the German Handelsgesetzbuch (HGB - German Commercial Code).

PUMA SE is the parent company of the PUMA Group. PUMA SE's results are significantly influenced by the directly and indirectly held subsidiaries and shareholdings. The business development of PUMA SE is essentially subject to the same risks and opportunities as the PUMA Group.

PUMA SE is responsible for the wholesale business in the DACH region, consisting of the home market of Germany, Austria and Switzerland. Furthermore, PUMA SE is also responsible for the pan-European distribution for individual key accounts and sourcing products from European production countries as well as global licensing management. In addition, PUMA SE acts as a holding company within the PUMA Group and is as such responsible for international product development and merchandising, international marketing, and the global areas of finance, operations as well as PUMA's strategic direction.



## RESULTS OF OPERATIONS

### T.4 PROFIT AND LOSS STATEMENT (GERMAN GAAP, HGB)

	2018		2017		+ / - %
	€ million	%	€ million	%	
<b>Sales</b>	<b>675.3</b>	100.0	<b>629.2</b>	100.0	<b>7.3</b>
<b>Other operating income</b>	<b>50.8</b>	7.5	<b>60.7</b>	9.6	<b>-16.4</b>
Material expenses	-224.9	-33.3	-201.9	-32.1	11.4
Personnel expenses	-101.7	-15.1	-105.5	-16.8	-3.6
Depreciation	-20.1	-3.0	-15.8	-2.5	26.7
Other operating expenses	-492.1	-72.9	-507.8	-80.7	-3.1
<b>Total expenses</b>	<b>-838.8</b>	-124.2	<b>-831.0</b>	-132.1	<b>0.9</b>
<b>Financial result</b>	<b>212.9</b>	31.5	<b>279.1</b>	44.4	<b>-23.7</b>
<b>Income before taxes</b>	<b>100.1</b>	14.8	<b>137.9</b>	21.9	<b>-27.4</b>
Income tax	-16.8	-2.5	-9.3	-1.5	81.2
<b>Net income</b>	<b>83.3</b>	12.3	<b>128.7</b>	20.4	<b>-35.3</b>

**Sales** rose in the financial year 2018 by 7.3% to € 675.3 million. The increase resulted from both increased product sales and commission income from license management and higher other sales. Revenue from PUMA SE product sales increased by 8.9% to € 329.5 million. The licensing and commission income included in sales increased by 4.6% to € 303.0 million. The other revenue, which mainly consisted of recharges of costs to affiliated companies, rose by 16.2% to € 42.8 million.

**Other operating income** amounted to € 50.8 million in 2018 (previous year: € 60.7 million) and includes in particular realized and unrealized gains from currency conversion related to the measurement of receivables and payables in foreign currencies.

The total **expenditure** from material expenses, personnel expenses, depreciations / amortizations and other operating expenses increased only slightly compared to the previous year by 0.9% to € 838.8 million (previous year: € 831.0 million). The increase in material expenses was associated with the increase in sales. Depreciation / amortization increased primarily due to investments in the new administration building in Herzogenaurach, and continued investments in IT. Other operating expenses fell compared to the previous year,

which is mainly attributable to the reduction in losses from currency conversion. In addition, the transfer of individual sponsoring contracts to affiliated companies contributed to the decline in other expenses.

The **financial result** decreased compared to the previous year by 23.7% to € 212.9 million. The decline was due in particular to lower dividends from affiliated companies. This was offset by higher income from the transfer of profits from affiliated companies. As in the previous year, there were no write-downs on financial assets in 2018.

**Income before taxes** decreased in 2018 by 27.4% from € 137.9 million to € 100.1 million. **Taxes on income** amounted to € 16.8 million (previous year: € 9.3 million) and were mainly composed of expenses for withholding taxes for the current year totaling € 9.3 million and income tax for the current year totaling € 1.0 million and totaling € 6.5 million for previous years. **Net income** amounted to € 83.3 million compared to € 128.7 million in the previous year.



## NET ASSETS

### T.5 BALANCE SHEET (GERMAN GAAP, HGB)

	12 / 31 / 2018		12 / 31 / 2017		+ / - %
	€ million	%	€ million	%	
Total non-current assets	657.9	48.4	559.8	44.0	17.5
Inventories	52.9	3.9	57.9	4.6	-8.8
Receivables and other current assets	576.4	42.4	524.6	41.2	9.9
Cash and cash equivalents	59.5	4.4	119.4	9.4	-50.2
Total current assets	688.8	50.6	701.9	55.2	-1.9
Others	14.0	1.0	10.5	0.8	32.6
<b>Total Assets</b>	<b>1,360.6</b>	<b>100.0</b>	<b>1,272.2</b>	<b>100.0</b>	<b>6.9</b>
Equity	564.3	41.5	665.7	52.3	-15.2
Accruals / provisions	101.5	7.5	102.8	8.1	-1.3
Liabilities	694.5	51.0	502.1	39.5	38.3
Others	0.3	0.0	1.6	0.1	-
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>1,360.6</b>	<b>100.0</b>	<b>1,272.2</b>	<b>100.0</b>	<b>6.9</b>

**Non-current assets** increased in 2018 by 17.5% to € 657.9 million. The increase is mainly due to capital increases at subsidiaries of PUMA SE, which led to an increase in shareholdings. Investments in the new administrative building in Herzogenaurach and in IT also contributed to the increase.

Within **current assets**, inventories decreased by 8.8% to € 52.9 million. By contrast, trade receivables and receivables from affiliated companies rose compared to the previous year by 9.9% to € 576.4 million. This development is due to the increase in sales and financing requirements of affiliated companies at the reporting date. Cash and cash equivalents decreased compared to the previous year by 50.2% to € 59.5 million.

On the **liability side**, equity decreased, in spite of the net income for 2018, by 15.2% to € 564.3 million. This was due to the distribution of the € 186.8 million one-time special dividend for the financial year 2017 in 2018. This led to a decrease in the equity ratio at the balance sheet date from 52.3% to 41.5%. Provisions remained virtually unchanged from the previous year. The increase in liabilities by 38.3% to € 694.5 million resulted mainly from the issuance of promissory note loans of € 160.0 million in 2018.



## FINANCIAL POSITION

### T.6 CASH FLOW STATEMENT (GERMAN GAAP, HGB)

	2018	2017	
	€ million	€ million	+ / - %
<b>Cash flow from operating activities</b>	<b>-12.9</b>	<b>-2.2</b>	<b>&gt;100</b>
<b>Cash flow from investing activities</b>	<b>-72.7</b>	<b>-68.3</b>	<b>6.4</b>
<b>Free Cash Flow</b>	<b>-85.6</b>	<b>-70.5</b>	<b>21.4</b>
<b>Cash flow from financing activities</b>	<b>25.7</b>	<b>116.8</b>	<b>-78.0</b>
<b>Change in cash and cash equivalents</b>	<b>-59.9</b>	<b>46.3</b>	<b>&gt;-100</b>
Cash and cash equivalents at beginning of financial year	119.4	73.1	63.3
<b>Cash and cash equivalents at year-end</b>	<b>59.5</b>	<b>119.4</b>	<b>-50.2</b>

**Cash flow from operating activities** decreased compared to the previous year to € -12.9 million. This is primarily due to an increase in working capital at the balance sheet date, due to higher receivables from affiliated companies. **Cash outflow from investing activities** rose from € -68.3 million to € -72.7 million due to the increased investment in non-current assets. This led to a decline in **free cash flow** from € -70.5 million in the previous year to € -85.6 million in 2018.

**Cash flow from financing activities** showed a cash inflow of € 25.7 million in 2018 (previous year: € 116.8 million). In 2018, this was primarily caused by the distribution of the special dividend for the year 2017 in 2018. On the other hand, PUMA SE issued promissory note loans. This led to an overall reduction in cash and cash equivalents from € 119.4 million to € 59.5 million. In addition, PUMA SE has access to a syndicated credit line of € 350.0 million, which was not utilized as of the balance sheet date. This facility is used for general corporate financing, such as the financing of short-term, seasonal requirements from the purchase of goods.

### OUTLOOK

In line with the Group forecast, PUMA SE expects an increase in sales of around 10% and a moderate increase in earnings before taxes for the financial year 2019.

### RELATIONSHIPS WITH AFFILIATED COMPANIES

At the end of the dependent company report of the Management Board for the financial year 2018, the following statement was given: "Under the circumstances which were known to the Management Board at the time when the transactions listed in the report on relationships with affiliated companies were made, PUMA SE received an appropriate consideration in all cases. There were no reportable measures taken or not taken in the reporting period".



# FURTHER INFORMATION

## INFORMATION CONCERNING TAKEOVERS

The following information, valid December 31, 2018, is presented in accordance with Art. 9 p. 1 c) (iii) of the SE Regulation in conjunction with Sections 289a, 315a German Commercial Code (HGB). Details under Sections 289a, 315a HGB which do not apply at PUMA SE are not mentioned.

### Composition of the subscribed capital (Sections 289a [1][1][1], 315a [1][1][3] HGB)

On the balance sheet date, subscribed capital totaled € 38,611,107.84 and was divided into 15,082,464 no-par-value shares with a proportional amount in the statutory capital of € 2.56 per share. As of the balance sheet date, the Company held 130,994 treasury shares.

### Shareholdings exceeding 10% of the voting rights (Sections 289a [1][1][3], 315a [1][1][3] HGB)

As of December 31, 2018, there was one shareholding in PUMA SE that exceeded 10% of the voting rights. It was held by the Pinault family via several companies controlled by them (ranked by size of stake held by the Pinault family: Financière Pinault S.C.A., Artémis S.A. and Kering S.A.). The shareholding of Kering S.A. in PUMA SE amounted to 15.7% of the share capital according to Kering's press release from May 16, 2018. The shareholding of Artémis S.A. and Kering S.A. amounts to 44.22% of the share capital according to their voting rights notification as of May 24, 2018.

### Statutory provisions and regulations of the Articles of Association on the appointment and dismissal of the members of the Management Board and on amendments to the Articles of Association (Sections 289a [1][1][6], 315a [1][1][6] HGB)

Regarding the appointment and dismissal of the members of the Management Board, reference is made to the applicable statutory requirements of § 84 German Stock Corporation Act (AktG). Moreover, Section 7[1] of PUMA SE's Articles of Association stipulates that Management Board shall consist of two members in the minimum; the Supervisory Board determines the number of members in the Management Board. The Supervisory Board may appoint deputy members of the Management Board and appoint a member of the Management Board as chairperson of the Management Board. Members of the Management Board may be dismissed only for good cause, within the meaning of Section 84[3] of the German Stock Corporation Act (AktG) or if the employment agreement is terminated, in which case a resolution must be adopted by the Supervisory Board with a simple majority of the votes cast.

Amendments to the Articles of Association of the Company require a resolution by the Annual General Meeting. Resolutions of the Annual General Meeting require a majority according to Art. 59 SE Regulation and Sections 133[1], 179 [2] [1] German Stock Corporation Act (AktG) (i.e. a simple majority of votes and a majority of at least three quarters of the share capital represented at the time the resolution is adopted). The Company has not made use of Section 51 SEAG.

### Authority of the Management Board to issue or repurchase shares (Sections 289a [1][1][7], 315a [1][1][7] HGB)

The authority of the Management Board to issue shares result from Section 4 of the Articles of Association and from the statutory provisions:

#### Authorized Capital

The Management Board shall be authorized with the approval of the Supervisory Board to increase the share capital of the Company by up to EUR 15,000,000.00 by issuing, once or several times, new no par-value bearer shares against contributions in cash and / or kind until 11 April 2022 (Authorized Capital 2017). In case of capital increases against contributions in cash, the new shares may be acquired by one or several banks, designated by the Management Board, subject to the obligation to offer them to the shareholders for subscription (indirect pre-emption right).

The shareholders shall generally be entitled to pre-emption rights. However, the Management Board shall be authorized with the approval of the Supervisory Board to partially or completely exclude pre-emption rights

- to avoid peak amounts;
- in case of capital increases against contributions in cash if the pro-rated amount of the share capital attributable to the new shares for which pre-emption rights have been excluded does not exceed 10% of the share capital and the issue price of the newly created shares is not significantly lower than the relevant exchange price for already listed shares of the same class, Section 186 (3) sentence 4 AktG. The 10% limit of the share capital shall apply at the time of the resolution on this authorization by the Annual General Meeting as well as at the time of exercise of the authorization. Shares of the Company (i) which are issued or sold during the term of the Authorized Capital 2017 excluding shareholders' pre-emption rights directly or respectively applying Section 186 (3) sentence 4 AktG or (ii) which are or can be issued to service option and convertible bonds applying Section 186 (3) sentence 4 AktG while excluding shareholders' pre-emption rights during the term of the Authorized Capital 2017, shall be counted towards said limit of 10%.





- in case of capital increases against contributions in cash insofar as it is required to grant pre-emption rights regarding the Company's shares to holders of option or convertible bonds which have been or will be issued by the Company or its direct or indirect subsidiaries to such an extent to which they would be entitled after exercising option or conversion rights or fulfilling the conversion obligation as a shareholder;
- in case of capital increases against contributions in kind for carrying out mergers or for the (also indirect) acquisition of companies, participation in companies or parts of companies or other assets including intellectual property rights and receivables against the Company or any companies controlled by it in the sense of Section 17 AktG.

The total amount of shares issued or to be issued based upon this authorization while excluding shareholders' pre-emption rights may neither exceed 20% of the share capital at the time of the authorization becoming effective nor at the time of exercising the authorization; this limit must include all shares which have been disposed of or issued or are to be issued during the term of this authorization based on other authorizations while excluding pre-emption rights or which are to be issued because of an issue of option or convertible bonds during the term of this authorization while excluding pre-emption rights. The Management Board shall be entitled with the approval of the Supervisory Board to determine the remaining terms of the rights associated with the new shares as well as the conditions of the issuance of shares.

The Management Board of PUMA SE did not make use of the existing Authorized Capital in the current reporting period.

#### Conditional Capital

The Annual General Meeting of 12 April 2018 has authorized the Management Board until 11 April 2023 with the approval of the Supervisory Board to issue once or several times, in whole or in part, and at the same time in different tranches bearer and / or registered convertible bonds and / or bonds with warrants, and participation rights and / or participating bonds or combinations thereof with or without maturity restrictions in the total nominal amount of up to EUR 1,000,000,000.00 (Conditional Capital 2018).

The share capital is conditionally increased by up to EUR 7,722,219.52 by issue of up to 3,016,492 new no-par bearer shares. The conditional capital increase shall only be implemented to the extent that option / conversion rights are exercised or the option / conversion obligations are performed or tenders are carried out and to the extent that other forms of performance are not applied.

No use has been made of this authorization to date.

#### Authorization to purchase treasury shares

The resolution adopted by the Annual General Meeting on May 6, 2015 authorized the company to purchase treasury shares up to a value of 10% of the share capital until May 5, 2020.

#### Significant agreements of the Company which are subject to a change of control as a result of a takeover bid and the resulting effects (Section 289a [1][1][8], 315a [1][1][8] HGB)

Material financing agreements of PUMA SE with its creditors contain the standard change-of-control clauses. In the case of change of control the creditor is entitled to termination and early calling-in of any outstanding amounts.

For more details, please refer to the relevant disclosures in the Notes to the Consolidated Financial Statements (chapter 18).

## COMPENSATION REPORT

#### Management Board (Managing Directors until July 9, 2018)

Compensation for the Management Board (Managing Directors of the monistic PUMA SE until July 9, 2018), which is set by the Supervisory Board (Administrative Board of the monistic PUMA SE until July 9, 2018), consists of non-performance-based and performance-based components. The non-performance-based components consist of a fixed salary and non-cash compensation, whereas the performance-based components consist of bonuses and components with a long-term incentive effect. Along with job assignments and performance of each individual Management Board member, the criteria for calculating the total remuneration are the economic situation, long-term strategic planning and related targets, the long-term durability of targeted results and the company's long-term prospects.



A fixed salary is paid out monthly as non-performance-based basic compensation. In addition, the Management Board members receive non-cash compensation, such as company cars, pension contributions and insurance premiums. In principle, these benefits are granted to all Management Board members in an equal manner and are included in the non-performance-based compensation. The fixed compensation for the three Management Board members amounted to € 2.3 million in the financial year (previous year: € 2.1 million). Non-cash compensation totaled € 0.1 million (previous year: € 0.1 million).

The bonus component of performance-related compensation is mainly based on the PUMA Group's operating result (EBIT) and free cash flow and is staggered according to the degree to which targets are met. In addition, qualitative individual goals are set. An upper limit is also agreed. In the financial year, variable bonuses came to € 2.7 million (previous year: € 3.9 million).

Pro-rata provisions totaling € 5.8 million (previous year: € 8.4 million) were set up for the existing compensation program (virtual shares / monetary units) with long-term incentives (from the years 2016 to 2018) for Management Board members in financial year 2018 according to the vesting periods. The performance-based program is based on the medium-term performance of the PUMA SE share. The shares from the 2016 and 2017 programs that were based on the medium-term performance of the Kering SA share were valued as of the reporting date of 12 / 31 / 2017 and converted into virtual shares / monetary units of PUMA SE. Further information on this program can be found in chapter 19 of the Notes to the Consolidated Financial Statements.

For the financial year 2019, a new modern compensation program with a long-term incentive for Management Board members will be introduced, which is to be decided on by the Supervisory Board in early 2019.

Management Board members have pension commitments as part of deferred compensation, which are paid from the aforementioned performance-based and / or non-performance-based remuneration for which the company has taken out reinsurance for pension commitments. The proportion of the pension capital that is already financed through contributions to the pension liability insurance is deemed to be vested. During the financial year, PUMA allocated € 0.5 million for Management Board members (previous year: € 0.4 million). The present value of the pension benefits granted to active Management Board members in the amount of € 10.1 million as of December 31, 2018 (previous year: € 4.5 million) was offset against the pledged asset value of the pension liability insurance policy, which was of an equal amount.

There were pension obligations to former members of the Management Board and their widows / widowers amounting to € 3.2 million (previous year: € 3.3 million) as well as contribution-based pension commitments in connection with deferred compensation of former members of the Management Board and Managing Directors amounting to € 10.6 million (previous year: € 10.3 million). Both items are accordingly recognized as liabilities under pension provisions, unless they are offset against asset values of an equal amount. Pension obligations to former members of the Management Board and their widows / widowers amounted to € 0.2 million (previous year: € 0.2 million).

### Supervisory Board (Administrative Board until July 9, 2018)

In accordance with the Articles of Association, the Supervisory Board (Administrative Board of the monistic PUMA SE until July 9, 2018) has at least three members; it currently consists of six members. The compensation of the Supervisory Board is comprised of a fixed and a performance-based component. The total fixed compensation amounted to € 0.2 million (previous year: € 0.3 million).

In conformity with § 15 of the Articles of Association, each Supervisory Board member receives a fixed annual compensation of € 25,000.00, which is payable at the end of the Annual General Meeting for the respective financial year. The fixed compensation is increased by an additional fixed annual amount of € 25,000.00 for the Chairman of the Supervisory Board, € 12,500.00 for the Vice Chairman of the Supervisory Board, € 10,000.00 for the Chairman of a committee and € 5,000.00 for each member of a committee. The definitive committees here are the Personnel Committee, the Audit Committee and the Sustainability Committee.

In addition to the fixed compensation, each Supervisory Board member receives annual performance-based compensation equal to € 20.00 for each € 0.01 by which the earnings per share figure as disclosed in the consolidated financial statements exceeds a minimum amount of € 16.00 per share. The performance-based compensation amounts to a maximum of € 10,000.00 per year. The Chairman of the Supervisory Board receives € 40.00 for every € 0.01 in profit per share and a maximum of € 20,000.00 per year, and the Deputy Chairman receives € 30.00 for every € 0.01 in profit per share and a maximum of € 15,000.00 per year. As earnings per share in the financial year are below the minimum amount, no performance-related remuneration is payable.

A member of the Supervisory Board who is only active for part of a financial year receives pro rata remuneration calculated on the basis of the period of activity determined for full months.

### **CORPORATE GOVERNANCE REPORT INCLUDING THE STATEMENT ON CORPORATE GOVERNANCE IN ACCORDANCE WITH § 289F AND § 315D HGB**

Effective implementation of the principles of corporate governance is an important aspect of PUMA's corporate policy. Transparent and responsible corporate governance is a key prerequisite for achieving corporate targets and for increasing the Company's value in a sustainable manner. The Management Board and the Supervisory Board work closely with each other in the interests of the entire Company to ensure that the Company is managed and monitored in an efficient way that will ensure sustainable added value through good corporate governance. In the following the Management Board and the Supervisory Board report on the corporate governance at PUMA SE in accordance with Section 3.10 of the German Corporate Governance Code. This section also includes the Statement of Compliance in accordance with Art. 9(1)(c)(ii) of the SE Regulation (SE-VO) in conjunction with Section 289f and Section 315d HGB.

PUMA SE has the legal form of a European company (Societas Europaea, or SE). Being an SE headquartered in Germany, PUMA SE is subject to European and German law for SEs while remaining subject to German stock corporation law. As a company listed in Germany, PUMA SE adheres to the German Corporate Governance Code (DCGK).

Until July 9, 2018, PUMA SE had a monistic management system with an Administrative Board as the uniform management and control body. The managing directors managed the company's day-to-day business. After the former majority shareholder of the company, Kering S.A., had announced that it would distribute a portion of its PUMA shares, corresponding to approximately 70% of the share capital of PUMA SE, to the shareholders of Kering S.A. by means of a dividend in kind, the Annual General Meeting of PUMA SE on April 12, 2018 decided to replace the previous monistic management system with the dualistic management system consisting of the Management Board as the management body and the Supervisory Board as the supervisory body. The corresponding amendment to the Articles of Association took effect on July 9, 2018.

### **Statement of Compliance pursuant to Section 161 AktG for 2018:**

In their Statement of Compliance the Management Board and the Supervisory Board of PUMA SE declare at least once a year whether the DCGK has been and is being observed. On November 9, 2018, the Management Board and the Supervisory Board declared that PUMA SE has complied and will comply with the recommendations of the DCGK (version dated February 7, 2017) since the last Statement of Compliance dated November 9, 2017, with the following exceptions and, if not, why not.

### **Exceptions to the Code's recommendations**

- In derogation of No. 3.8 p. 3 of the Code, members of the Supervisory Board are provided with D&O insurance with no deductible. The Supervisory Board feels that it can dispense with a deductible for members of the Supervisory Board, because the D&O insurance is group insurance for people in Germany and abroad, and a deductible is fairly unusual abroad.
- According to No. 4.2.3 p. 2 s. 4 of the Code both positive and negative developments shall be taken into account when determining variable remuneration components. As regards negative developments this recommendation is deviated from, since the structure of the PUMA Monetary Unit Plan may not fully comply with the purpose of the recommendation, but it comes fairly close.
- In derogation of No. 4.2.3 p. 2 s. 6 of the Code the compensation of the members of the Management Board does not show the maximum amount limits in total or their variable compensation components. This is due to the fact that neither the existing PUMA Monetary Units Plans 2016 / 2017 / 2018 nor the PUMA Board Member Bonus Plan nor the discretionary extra bonus clause provide for a maximum amount.
- In derogation of No. 4.2.3 p. 2 s. 8 of the Code subsequent amendments to the performance targets or comparison parameters are not excluded. This provides the possibility to the Supervisory Board to react to extraordinary effects using its equitable discretion.
- According to No. 4.2.3 p. 3 of the Code the target level of pension benefits for every pension commitment shall be established by the Supervisory Board. Due to the defined contribution plans, PUMA does not comply with this recommendation.



- In derogation of No. 4.2.3 p. 5 of the Code no limits on severance payments for premature termination as a managing director due to a change of control have been agreed until June 5, 2018. As part of the change of the governance structure from a monistic SE to a dualistic SE and the conclusion of new service agreements with the members of the Management Board, a limit has been included into the agreements. Insofar the Code recommendation has been fully met since the conclusion of the agreements on June 6, 2018.
- In accordance with the authorization by the Annual General Meeting on April 12, 2018, pursuant to Section 286 p. 5 HGB, the Company shall not publish the amounts of compensation for individual members of the Management Board until the authorization expires (Nos. 4.2.4 and 4.2.5 of the Code). The members of the Management Board shall adhere to the authorization when they prepare the annual financial statements. Based on the authorization of the Annual General Meeting, and in derogation of No. 4.2.5 p. 3 of the Code the information stated in this Section regarding the compensation of the members of the Management Board is not included in the Compensation Report.
- In derogation of No. 5.4.6 p. 2 s. 2 of the Code, members of the Supervisory Board receive performance-based compensation that is not linked to the sustainable success of the Company. The compensation was authorized by the Annual General Meeting on April 12, 2018, it is stipulated in the Articles of Association and is deemed to be proper and correct by PUMA SE.
- In derogation of No. 5.4.6. p. 3 of the Code, the compensation of the Supervisory Board members is not shown individually. In the opinion of PUMA SE, this is not additional information relevant to the capital market as the respective remuneration regulations included in the Articles of Association are in the public domain.

Herzogenaurach, November 09, 2018

PUMA SE

#### For the Management Board



Bjørn Gulden



Michael Lämmermann

#### For the Supervisory Board



Jean-François Palus

## Relevant disclosures of corporate governance practices that are applied beyond the regulatory requirements

### CORPORATE SOCIAL RESPONSIBILITY

In order to fulfill our ecological and social responsibility as a global sporting goods manufacturer, PUMA has developed groupwide guidelines on environmental management and on compliance with workplace and social standards. PUMA is convinced that only on such a foundation can a lasting and sustainable corporate success be achieved. That is why PUMA is committed to the principles of the UN Global Compact. The PUMA Code of Conduct prescribes ethical and environmental standards with which both employees and suppliers are required to comply. The PUMA Code of Conduct was revised in 2016 and explicitly addresses PUMA's obligation and commitment in respect of human rights and combating corruption. Detailed information on the company's corporate social responsibility strategy can be found in the Sustainability section of the Annual Report or on the company's homepage (<http://about.PUMA.com> under "SUSTAINABILITY").

### COMPLIANCE MANAGEMENT SYSTEM

Compliance with laws and internal regulations and values are of key importance for PUMA's corporate governance. For this reason, PUMA has introduced a compliance management system (CMS) to identify, control and monitor compliance risks at an early stage. By developing policies as well as advising and training employees, the CMS aims to prevent potential financial losses or reputational damage from the company and to prevent misconduct.

The Code of Ethics of the PUMA Group sets out the principles governing our actions and values. In addition to the general principles of conduct described as well in the PUMA Code of Conduct, among other things, the policy contains rules on the handling of conflicts of interest, personal data, insider information and prohibits anti-competitive behavior as well as corruption in any form. The Code of Ethics is an integral part of every employment contract. In order to further reduce the risk of misconduct, the PUMA Code of Ethics is accompanied by concrete guidelines governing selected risk areas in detail.

With the help of various measures such as risk-based face-to-face trainings and e-learnings, the employees of the PUMA Group are familiarized with the relevant legal regulations and internal guidelines and trained. In the past financial year, training was provided in particular in the areas of anti-corruption and antitrust law. In 2018, all PUMA employees were instructed by the CEO of PUMA SE to complete an e-learning course on the Code of Ethics including modules on managing conflicts of interest, financial integrity and confidentiality. The clear tone from the top led to 99% of PUMA employees successfully completing the e-learning on the Code of Ethics.





The Management Board have overall responsibility for the proper functioning of the CMS. The Management Board is supported by a compliance organization consisting of a Chief Compliance Officer and compliance officers in the most important operational Group companies. The Audit Committee of the Supervisory Board of PUMA SE is regularly informed about the current status of the implementation of the compliance structures and serious compliance violations. The Chief Compliance Officer works closely with the Legal Department and Internal Audit. In addition, regular meetings of the PUMA SE Risk & Compliance Committee are held. Among other things, the committee analyses and evaluates compliance risks and defines and adopts appropriate measures (policies, training courses, etc.).

After the separation from Kering PUMA introduced a new whistleblower platform operated by an external provider that is available to PUMA employees throughout the Group and to whom unethical, illegal or criminal activities can be reported - if desired, anonymously as well. The introduction of the new platform was communicated throughout the Group by the CEO and the communication was accompanied by appropriate information material. In addition to the complaint system for PUMA employees, there is a worldwide hotline for external whistleblowers from the supply chain.

### Description of the working practices of the Management Board and the Supervisory Board

PUMA SE has three bodies - the Management Board, the Supervisory Board and the Annual General Meeting.

#### MANAGEMENT BOARD

The Management Board of PUMA SE manages the company on its own responsibility with the goal of sustainable value creation. It develops PUMA's strategic orientation and coordinates it with the Supervisory Board. In addition, it ensures group-wide compliance with legal requirements and an effective risk management and internal control system.

The members of the Management Board are appointed by the Supervisory Board. The Supervisory Board has set a general age limit of 70 years for the members Management Board. The Management Board currently consists of three members and has a CEO. Further information on the areas of responsibility of the members of the Management Board can be found in the Notes to the Consolidated Financial Statements (last chapter).

The members of the Management Board are obliged to disclose conflicts of interest to the Supervisory Board without delay and to inform the other members of the Management Board accordingly. They may only assume secondary activities, in particular supervisory board and comparable mandates outside the PUMA Group, with the prior consent of the Supervisory Board. In the past fiscal year, the members of the Management Board of PUMA SE did not report any conflicts of interest.

The principles of cooperation of the Management Board of PUMA SE are set out in the Rules of Procedure for the Management Board, which can be viewed at <http://about.PUMA.com> under "Corporate Governance".

#### SUPERVISORY BOARD

The German Co-determination Act does not apply to PUMA SE as a European company. Rather, the size and composition of the Supervisory Board are determined by the Articles of Association of PUMA SE and the Agreement on the Involvement of employees in PUMA SE dated July 11, 2011 and its amendment dated February 7, 2018. The Supervisory Board of PUMA SE consists of six members, four of whom are shareholder representatives and two of whom are employee representatives. The term of office of the current Supervisory Board members ends at the end of the Annual General Meeting which resolves on the discharge of the members of the Supervisory Board for the financial year 2022. Further information on the members of the Supervisory Board can be found in the Notes to the Consolidated Financial Statements (last chapter).

The Supervisory Board monitors and advises the Management Board on the implementation of the strategy. It appoints the members of the Management Board and may dismiss them at any time for good cause. In addition, it decides on the remuneration system and determines the respective remuneration of the members of the Management Board. The Management Board informs the Supervisory Board regularly, promptly and comprehensively about all issues of relevance to the Company relating to planning, business development, the risk situation, risk management and compliance. It deals with deviations in the course of business from the established plans and targets, stating the reasons. The Supervisory Board is involved by the Management Board in decisions of paramount importance for the company or beyond the ordinary course of business of PUMA SE and the PUMA Group.

#### ANNUAL GENERAL MEETING

The shareholders of PUMA SE exercise their rights, in particular their information and voting rights, at the Annual General Meeting. Each share has one vote. Our shareholders can exercise their voting rights themselves or through a proxy appointed by the company and bound by instructions. All documents and information on the Annual General Meeting are available on the website of PUMA SE.

## Description of the working practices and the composition of the committees of the Supervisory Board

The Supervisory Board meets at least every three months. Meetings must also be held if the best interests of the Company so require or if a member of the Supervisory Board requests that the meeting be convened. The Supervisory Board has established three committees to perform its duties and receives regular reports on their work. The principles of cooperation of the Supervisory Board of PUMA SE and the duties of the committees are set out in the Rules of Procedure for the Supervisory Board, which can be viewed at <http://about.PUMA.com> under "Corporate Governance".

The Personnel Committee consists of three members. The Personnel Committee is responsible for entering into and making changes to the Management Board members' employment contracts and for establishing policies for Human Resources and personnel development. The entire Supervisory Board decides on issues involving the Management Board members' compensation based on recommendations from the Personnel Committee.

The Audit Committee consists of three members. The Chairman of the Audit Committee must be an independent shareholder representative and must have expertise in the fields of accounting and auditing in accordance with Section 100(5) AktG. In particular, the Audit Committee is responsible for accounting issues and monitoring the accounting process, the effectiveness of the internal control system, the risk management system, internal audits, compliance and the statutory audit of the financial statements, with particular regard to the required independence of the statutory auditors, issuing the audit mandate to the statutory auditors, defining the audit areas of focus, any additional services to be performed by the auditors and the fee agreement. The recommendation of the Supervisory Board on the selection of the statutory auditors must be based on a corresponding recommendation by the Audit Committee. Once the Annual General Meeting has appointed the statutory auditors, and the Supervisory Board has issued the audit assignment, the Audit Committee shall work with the statutory auditors to specify the scope of the audit and the audit areas of focus. The statutory auditors shall attend a meeting to review the annual financial statements and the consolidated financial statements and shall report on the key findings of their audit. They shall also inform the Committee about other services they have provided in addition to auditing services and shall confirm their independence. Each month, the Audit Committee shall receive financial data on the PUMA Group, which will allow the tracking of developments in net assets, financial position, results of operations and the order books on a continual basis. The Audit Committee shall also deal with issues relating to the balance sheet and income statement and shall discuss these with Management. In addition, when the internal audit projects are completed, the Audit Committee shall receive the audit reports, which must also include any actions taken.

The Nominating Committee has three members, who may only be representatives of the shareholders on the Supervisory Board. The Nominating Committee proposes suitable shareholder candidates to the Supervisory Board for its voting recommendations to the Annual General Meeting.

The current composition of the committees can be found in the Notes to the Consolidated Financial Statements (last chapter).

## Diversity Concept for the Supervisory Board

### a) Objectives for the composition of the Supervisory Board

The Supervisory Board of PUMA SE is composed in such a way that its members as a group possess the appropriate knowledge, skills and professional experience necessary for the proper performance of their duties. The composition of the Supervisory Board is primarily determined by appropriate qualification, taking into account diversity and the appropriate involvement of women. Based on Section 5.4.1 of the Code, the Supervisory Board has set targets for his composition that have been fulfilled. In detail:

- The members of the Supervisory Board as a group have the experience and knowledge in the field of management and / or monitoring market-oriented companies as well as in the business segments and sales markets of PUMA.
- A sufficient number of members have strong international backgrounds.
- Including the employees' representative on the Supervisory Board, the Supervisory Board has an appropriate number of independent members.
- The Chairman of the Audit Committee has specialist knowledge and experience in the application of accounting principles and internal control procedures and is independent.
- The members have sufficient time to perform his / her mandate in the Supervisory Board.
- The Supervisory Board prevents potential significant and not only temporary conflicts of interest of its members by regularly monitoring and critically scrutinizing its members' other activities.
- According to Section 1(4) of the Rules of Procedure for the Supervisory Board, Supervisory Board members may, in principle, not be over 70 years of age and their maximum term of office may not exceed three terms.







## b) Profile of skills and expertise

The Supervisory Board has determined a competence profile for the entire Board. It stipulates that the members of the Supervisory Board as a whole must cover the following professional competencies:

- Managing of large or mid-sized international companies
- Leadership experience in the sporting or luxury goods industry
- International corporate background
- Leadership experience with various distribution channels, including e-commerce
- Expertise in building strong international brands
- Marketing, sales and digital know how
- Financial expertise (accounting, treasury, risk management, corporate governance)
- Expertise in serving on the Administrative or Supervisory Boards of publicly listed companies
- Experience with mergers & acquisitions
- Understanding of the industrial constitution law and advocating the interests of the employees
- HR expertise
- IT expertise

The Supervisory Board of PUMA SE is currently composed in such a way that it has the competence profile as an overall body.

## c) Commitments to promote the participation of women in management positions in accordance with Art. 9(1)(c)(ii) of the SE Regulation (SE-VO) in connection with Section 76(4) and Section 111(5) AktG

The Supervisory Board has adopted the targets set by the Administrative Board for the proportion of women on the Supervisory Board, at the level of the Management Board and the two management levels below the Management Board. For the Supervisory Board of PUMA SE a target of 30% women was set; for the level of the Management Board a target of 20% was set, on the condition that the Management Board of PUMA SE consists of five or more members. The Supervisory Board adopted targets of 25% for the first management level below

the Management Board and 30% for the second management level. At Group level, the proportion of women is expected to increase to 30% for the first management level below the Management Board and to 40% for the second management level. All implementation deadlines run until October 31, 2021.

The current composition of the Supervisory Board largely implements the diversity concept. With regard to the target figure for the proportion of women on the Supervisory Board, targets have been set to be achieved by October 31, 2021.

## Diversity Concept for the Management Board

The Supervisory Board and the Management Board promote an agile, open corporate culture in which the advantages of diversity are consciously utilized and everyone can freely unfold their potential for the best of the company. PUMA strives to fill Management Board positions and senior management positions primarily with people developed within the company.

The Supervisory Board's decision regarding a particular appointment to the Management Board is always taken in consideration of the Company's best interests based on the professional and personal suitability of the candidate. It must be ensured that the members of the Management Board as a whole have the knowledge, skills and experience required for the best possible fulfillment of the tasks of a member of the Management Board of a sporting goods manufacturer such as PUMA. It is not necessary for every member of the Management Board to reflect all technical requirements of all areas of the Management Board. The diversity concept for the Management Board therefore stipulates that gender, internationality, age, educational background and experience must be taken into account in its composition:

- Gender

PUMA aims to have 20% women on the Management Board by October 31, 2021, provided that the Board has five or more Management Board members. In order to achieve this goal, the Management Board ensures that an appropriate proportion of female candidates are included on the succession lists within the framework of the internal global management structure for the development of junior staff for the Management Board. In the future, the participation of women in the Management Board is to be guaranteed in the event of a necessary replacement, in particular by giving special consideration to women in various equally qualified candidates. Insofar as external candidates are to be appointed, suitably qualified female candidates shall be considered in particular. The same applies to the filling of management functions. In order to involve women even more in management functions in the future, PUMA promotes the compatibility of family and career, for example through part-time and half-day models as well as flexible working hours and the provision of childcare places.

- Internationality

PUMA is a globally operating company. An appropriate number of board members must therefore have international experience either due to their origin or due to their many years of professional experience abroad.

- Age

The Supervisory Board ensures a balanced age structure in the Management Board. This is important to ensure the continuity of the Management Board's work and to facilitate smooth succession planning. In principle, members of the Management Board may not be older than 70 years.

- Training and experience background

With regard to the educational and professional background, the selection of Management Board members should be based on the competencies required in the PUMA Management Board in general as well as for the respective Management Board with regard to corporate management, strategy development, finance and accounting, supply chain, sales and HR. The same criteria apply here as were developed for the competence profile of the Supervisory Board. These competencies do not have to be acquired as part of university studies or other educational training, but may also have been acquired in other ways within or outside PUMA.

The current composition of the Management Board largely implements the diversity concept. With regard to the target figure for the proportion of women on the Management Board, targets have been set for the period up to 31 October 2021.

### Directors' Dealings

In the reporting year, the members of the Management Board and the members of the Supervisory Board have acquired no PUMA shares. No sales were reported to us.

## RISK AND OPPORTUNITY REPORT

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

The members of the PUMA SE Management Board, who acted as managing directors through July 2018, have overall responsibility for the risk and opportunity management system. The "Risk Management Committee" (hereinafter "RMC") is a management-level committee responsible for the design and monitoring of the risk management system, thereby acting as the first point of contact for risk report preparation. The task of operationally coordinating and implementing the Group-wide risk management system has been transferred to Group Internal Audit & GRC (Governance, Risk Management & Internal Control). Opportunity management is not part of risk management. Individual interviews (risk interviews) are conducted with select executives at the management level below the Management Board (risk owners) throughout the company at regular intervals (currently twice a year). The objective of these interviews is to systematically identify, validate and categorize risks and record countermeasures. The Group Internal Audit & GRC department provides a uniform framework for the assessment of risks. The assessment considers probability of occurrence, the potential effect, and the control of the risk in question.

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





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

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

## RISK AND OPPORTUNITY CATEGORIES

### Macroeconomic Developments

As a Group that operates internationally, PUMA is exposed to global macro-economic developments and the associated risks. For example, economic developments in important sales markets may have an effect on consumer behavior. This can have positive or negative effects on the planned sales and results. Likewise, political changes, exchange rate fluctuations, changes to the legal framework, such as in connection with a disorderly Brexit, and social developments may have an effect.

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

### Brand Image

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

PUMA manages brand image risks in particular through cooperation with brand ambassadors who embody the core of the brand and PUMA's brand values ("courageous", "confident", "determined" and "fun-loving"), and have a large potential for influencing PUMA's target group. PUMA has therefore strengthened its position as a sports brand through its partnerships with top athletes such as sprint legend Usain Bolt, star striker Antoine Griezmann and Formula One star Lewis Hamilton. In football, PUMA entered into long-term sponsorship agreements with leading clubs such as Borussia Mönchengladbach, Olympique Marseille and AC Milan in 2018. PUMA's return to basketball in 2018 is also in this context. PUMA reaches young trendsetters via brand ambassadors and collaborations from the cultural and fashion scene, such as Jay-Z, Cara Delevingne and Selena Gomez.

### Counterfeit Products

Counterfeit products can cause damage to consumer confidence in the brand and can devalue PUMA's brand image. For this reason, PUMA has made fighting brand piracy a top priority. PUMA's intellectual property team does more than just protect a strong global intellectual property portfolio of brands, designs and patents. PUMA also works closely with customs and other law-enforcement authorities around the world and provides input regarding the implementation of effective laws to protect intellectual property.

### Sourcing and the Supply Chain

The majority of PUMA products is produced in selected markets in Asia, in particular in China, Vietnam, Bangladesh and India. Production in these countries and transport to distribution countries is associated with significant risks for PUMA. For instance, certain risks may result from factors such as exchange rate fluctuations, changes in taxes and customs duties or trade restrictions, but also natural disasters and political instability, as well as the international threat of terrorism.

Moreover, risks may result from an overdependence on individual manufacturers. The portfolio is regularly reviewed and adjusted to avoid creating a dependence on individual suppliers and sourcing markets. Generally, long-term master framework agreements are agreed upon to secure production capacities required in the future.

Furthermore, there is a risk that suppliers will violate core ILO (International Labour Organization) labor standards, not comply with environmental standards or use hazardous chemicals in production. This would violate PUMA requirements to suppliers and also result in negative reporting. Adherence to applicable standards is ensured through regular audits of supplier companies. Climate change and increasing customer requirements with regard to sustainability are leading to a stronger ecological focus both in our own locations and along the production and supply chain. More efficient use of resources as well as minimization of CO<sub>2</sub> emissions and use of sustainable materials in production are expressions of PUMA's sustainability strategy.

### Product and Market Environment

The risk posed by market-specific product influences, in particular the risk of substitutability in the highly competitive sport and lifestyle market is decisively countered by the early recognition and taking advantage of relevant consumer trends. Only those companies that identify these trends at an early stage will be able to gain an edge over their competitors.

Targeted investments in product design and product development are to ensure that the characteristic PUMA design of the entire product range is consistent with the overall brand strategy (FOREVER FASTER), thereby creating a unique level of brand recognition. PUMA is focusing, for example, on the expansion and improvement of the product range for women as part of the "The future is female" initiative.



## Retail and e-commerce

PUMA operates various distribution channels (including traditional trade, PUMA's own retail stores and e-commerce platforms) in order to reduce the dependency on individual distribution paths. The focus on the company's own retail stores and its own e-commerce platforms should furthermore ensure that PUMA products are presented exclusively in the desired brand environment. Distribution through the company's own retail stores and e-commerce platforms is, however, also associated with various risks for PUMA. This includes the necessary investments in expansion and infrastructure, setting up stores, higher fixed costs and leases with long-term lease obligations which can have an adverse impact on profitability should business decline. On the other hand, extending the value chain can deliver higher gross profit margins and provide better control over distribution. In addition, PUMA-owned retail stores can deliver the PUMA brand experience directly to the end customer. In order to avoid risks and take advantage of opportunities, PUMA performs in-depth location and profitability analyses before making investment decisions. As a result of the company's reporting and controlling system, negative trends can be detected early on, and the countermeasures required to manage individual stores can be taken accordingly. In e-commerce, global activities are harmonized and investments in the IT platform are made to further optimize purchase transaction settlement and further improve the purchasing experience for consumers.

## Reporting in the Media

A negative media report about PUMA, such as a product recall, infringement of laws, or internal or external requirements, can also do significant damage to the brand and ultimately result in the loss of sales and profit, regardless of whether these events actually happened or were just rumors. PUMA manages this risk by way of careful press and PR work, which is managed from the Group's headquarters in Herzogenaurach, Germany. In addition, PUMA regularly seeks an open dialog with key external stakeholders (e.g. NGOs), and this has been institutionalized in the "Global Stakeholder Dialogues" which take place regularly.

## Organizational Challenges and Project Risks

The organizational structure of PUMA with the Group's headquarters in Herzogenaurach, a central sourcing organization and globally positioned distribution companies, gives the Group a global orientation. This results in a risk for PUMA that the flows of goods and information are not sufficiently supported by modern IT infrastructure. For this reason, existing business processes must be continually optimized and adapted. This is carried out systematically through targeted optimization projects, which are planned and managed centrally by a staff member.

## Personnel Department

The creative potential and commitment and performance of PUMA employees are important factors for the success of any business and the source of significant opportunities as well. PUMA encourages independent thinking and action, which are key in an open corporate culture with flat hierarchies.

PUMA's human resources strategy seeks to ensure the long-term sustainability of this successful philosophy. To achieve this goal, a control process is in place to detect and assess human-resource risks. Accordingly, special attention has been paid to managing talent, identifying key positions and high-potential individuals, and optimizing talent placement and succession planning. PUMA has instituted additional national and global regulations and guidelines to ensure compliance with legal provisions. PUMA will continue to make targeted investments in the human-resource needs of particular functions or regions in order to meet the future requirements of its corporate strategy.

## Legal Risks

As an internationally operating Group, PUMA is exposed to various legal risks. These include contractual risks or risks that a third party could assert claims and litigation for infringement of its trademark rights, patent rights or other rights. The continuous monitoring of contractual obligations and the integration of internal and external legal experts in contractual matters is to ensure that any legal risks are avoided.

## Compliance Risks

PUMA is exposed to the risk that employees violate laws, directives and company standards (compliance violations). These risks, such as theft, fraud, breach of trust, embezzlement and corruption, as well as deliberate misrepresentations in financial reporting, may lead to significant monetary and reputational damage. PUMA therefore makes use of various tools to manage these risks. They include an integrated compliance management system, the internal control system, Group controlling and the internal audit department. As part of the Compliance Management System, awareness measures are carried out on important compliance subjects, such as corruption prevention and cartel law and corresponding guidelines are introduced in the Group. PUMA employees also have access to an integrity system for reporting unethical behavior.

## Currency Risks

As an international company, PUMA is subject to currency risks resulting from the disparity between the respective amounts of currency used on the purchasing and sales sides and from exchange-rate fluctuations. PUMA's biggest sourcing market is Asia, where most payments are settled in US dollars (USD), while sales of the PUMA Group are mostly invoiced in other currencies. PUMA manages currency risk in accordance with internal guidelines. Currency forward contracts are used to hedge existing and future financial liabilities in foreign currencies.



To hedge signed or pending contracts against currency risk, PUMA only concludes currency forward contracts on customary market terms with reputable international financial institutions. As of the end of 2018, the net requirements for the 2019 planning period were adequately hedged against currency effects.

Foreign exchange risks may also arise from intra-group loans granted for financing purposes. Currency swaps and currency forward transactions are used to hedge currency risks when converting intra-group loans denominated in foreign currencies into the functional currencies of the Group companies (Euro).

In order to disclose market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes in relevant risk variables on earnings and equity. The periodic effects are determined by relating the hypothetical changes caused by the risk variables to the balance of the financial instruments held as of the balance sheet date. The underlying assumption is that the balance as of the balance sheet date is representative for the entire year.

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and is monetary in nature. Differences resulting from the conversion of the individual financial statements to the Group currency are not taken into account. All non-functional currencies in which PUMA employs financial instruments are generally considered to be relevant risk variables.

Currency sensitivity analyses are based on the following assumptions: Material primary monetary financial instruments (cash and cash equivalents, receivables, interest-bearing debt, liabilities from finance leases and non-interest-bearing liabilities) are either denominated directly in the functional currency or transferred into the functional currency through the use of currency forward contracts.

Currency forward contracts used to hedge against payment fluctuations caused by exchange rates are part of an effective cash-flow hedging relationship pursuant to IAS 39. Changes in the exchange rate of the currencies underlying these contracts have an effect on the hedge reserve in equity and the fair value of these hedging contracts.

## Counterparty Risks

Because of its business activities, PUMA is exposed to default risk that is managed by continuously monitoring outstanding receivables and recognizing impairment losses, where appropriate. The default risk is limited where possible by credit insurance and the maximum default risk is reflected by the carrying amounts of the financial assets recognized on the balance sheet. Furthermore, default risks result to a lesser extent from the counterparty's other contractual financial obligations such as bank deposits and derivative financial instruments.

## Liquidity Risk

PUMA continually analyzes short-term funding requirements through rolling cash flow planning at the level of the individual companies in coordination with the central treasury department. In order to ensure solvency, financial flexibility and a strategic liquidity cushion at all times, a liquidity reserve is maintained in the form of cash and confirmed credit lines.

In 2018, the PUMA Group implemented an independent financing concept after the distribution of the majority shareholding of Kering S.A. A syndicated credit line of € 350.0 million was taken out for this purpose. The syndicated credit line was not utilized as of December 31, 2018.

To finance medium and long-term funding requirements that cannot be covered directly from the cash flow from operating activities, promissory note loans were issued for the first time in July 2018 in four tranches, one tranche each with a variable and fixed coupon over 3 years (total € 100.0 million) and one tranche each over 5 years (total € 60.0 million).

## Interest-Rate Risks

At PUMA, changes in interest rates do not have a significant impact on interest rate sensitivity and therefore do not require the use of interest rate hedging instruments.

## Summary

PUMA's risk management system allows the company to fulfill the legal requirements pertaining to corporate control and transparency. In 2018, there was no material change in the assessment of the risk situation. The Management assumes that, in an overall assessment of the company's risk situation, the risks are limited and manageable. Due to the extremely solid balance sheet structure, in particular the high equity ratio and the positive business outlook, the management does not see any substantial threat to the continued existence of the PUMA Group.

## MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM AS IT RELATES TO THE GROUP'S ACCOUNTING PROCESS

PUMA SE's Management Board is responsible for the preparation and accuracy of the annual financial statements, the consolidated financial statements and the combined management report of PUMA SE. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards that apply in the EU, the requirements of the German Commercial Code (HGB), the German Stock Corporation Act (AktG) and the German SE Implementation Act (SEAG). Certain disclosures and amounts are based on current estimates made by management and the Management Board.

The company's Management Board is responsible for maintaining and regularly monitoring a suitable internal control and risk management system covering the consolidated financial statements and the disclosures in the combined management report. This control and risk management system is designed to ensure the compliance and reliability of the internal and external accounting records, the presentation and accuracy of the consolidated financial statements, and the combined management report and the disclosures contained therein. It is based on a series of process-integrated monitoring steps and encompasses the measures necessary to accomplish these, internal instructions, organizational and authorization guidelines, the PUMA Code of Ethics, a clear separation of functions within the Group and the dual-control principle. The adequacy and operating effectiveness of these measures are regularly reviewed by the Group Internal Audit & GRC department.

For monthly financial reporting and consolidation, PUMA has a Group-wide reporting and controlling system that allows it to regularly and promptly detect deviations from projected figures and accounting irregularities and, where necessary, to take countermeasures.

The risk management system can regularly, as well as on an ad-hoc basis, identify events that could affect the company's economic performance and its accounting process so that it can analyze and evaluate the resulting risks and take the necessary actions to counter them.

In preparing the consolidated financial statements and the combined management report, it is also sometimes necessary to make assumptions and estimates that are based on the information available on the balance sheet date and which will affect the reported amounts and recognition of assets and liabilities, income and expenses, contingent liabilities, and other data that must be reported, as well as how these are classified.

The Supervisory Board's Audit Committee meets regularly with the independent, statutory auditors, the Management Board, and the Group Internal Audit & GRC department to discuss the results of the statutory audits of the financial statements and of the audit review with regard to the internal control and risk management system as it relates to the accounting process. The auditor reports to the Supervisory Board during the balance-sheet meeting on the results of annual and consolidated financial statements.

In addition to the risk and opportunity management described, the Group Internal Audit & GRC department carries out so-called "internal control self-assessments" (ICSA) at the process level for all essential business processes. In these, process owners evaluate the existing control framework on the basis of best-practice standards. The objective is to continuously improve the internal control system and to identify specific risks at process level. The results of the ICSA are reported to the Audit Committee and are used specifically by the Group Internal Audit & GRC department in risk-oriented audit planning.





# SUPPLEMENTAL REPORT AND OUTLOOK

## SUPPLEMENTAL REPORT

There were no events after the balance sheet date which may have a material effect on the net assets, financial position and results of operations of the PUMA Group.

Mr. Lars Radoor Sørensen has resigned as a member of the Management Board of PUMA SE with effect from January 31, 2019. With effect from February 1, 2019, the Supervisory Board of PUMA SE appointed Ms. Anne-Laure Descours to the Management Board as Chief Sourcing Officer.

## OUTLOOK

### Global Economy

After the global economy slowed down in 2018, the experts of the Kiel Institute for World Economy (IWF Kiel), in their winter forecast of December 11, 2018, expect the global gross domestic product (GDP) to rise by 3.4% in 2019. This corresponds to a slight decline of 0.3% on the GDP forecast for 2018. The pace of expansion is expected to slow slightly in 2019, both in the advanced economies and in the emerging markets. Risks for the growth outlook lie in particular in an intensification of trade conflicts, a disorderly Brexit and a further tightening of monetary policy in the United States of America. Experts' forecasts, however, predict that a solution for the trade disputes will be found and there will therefore be no significant slowdown in economic development over the course of the year 2019.

### Sporting goods industry

If there are no significant negative effects on the part of macroeconomic development, we continue to expect stable growth in the sporting goods industry in 2019. It can be assumed that the trend for sporting activities and a healthy lifestyle will continue and the demand for sporting goods will therefore also continue to rise.

## Outlook 2019

Our business developed strongly in 2018, both in terms of sales and profitability. We are confident that the positive development will continue in 2019.

For the full year 2019, we therefore expect currency-adjusted sales growth of around 10%. We forecast the gross profit margin to show a slight improvement compared to last year (2018: 48.4%) and operating expenses (OPEX) to increase at a slightly lower rate than sales. Based on the current exchange rate levels, management expects an operating result (EBIT) for the financial year 2019 in a range between € 395 million and € 415 million (2018: € 337.4 million). Management also expects a significant improvement of net earnings in 2019.

The new accounting standard relating to lease accounting (IFRS 16), which is effective since January 1, 2019, leads to a capitalization of the operating leases on the balance sheet (approximately € 618 million on January 1st, 2019). The outlook for the operating result (EBIT) in a range of € 395 million to € 415 million (see above) includes a positive effect of approximately € 16 million caused by the new accounting standard. This effect on the operating result is composed of a decrease in rental expenses of approximately € 153 million and an increase in depreciation for leases of approximately € 137 million. Taking into account further interest and deferred tax effects of IFRS 16, the estimated impact on net earnings in 2019 is a negative amount of approximately € 7 million.

Please refer to the Notes to the Consolidated Financial Statements, Chapter 1 General, for a detailed description of the new accounting standards and the effects of the first-time application of IFRS 16 Leases.

## Investments

Investments in fixed assets of around € 200 million are planned for 2019. The majority of these investments will be in infrastructure in order to create the operating requirements for the planned long-term growth. The increase compared with the investments in 2018 mainly relates to planned investments in our own distribution and logistics centers. Further investments will also be made in the expansion and modernization of the Group's own retail stores.



## Foundation for Long-Term Growth

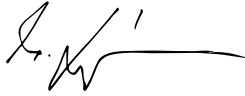
The Management Board and the Supervisory Board have set the long-term strategic priorities. Action plans are being implemented in a targeted and value-oriented manner. The management believes that the corporate strategy FOREVER FASTER provides the basis for medium- and long-term positive development. We therefore confirm our medium-term target of an average annual growth rate of currency-adjusted sales of around 10% (CAGR) and the achievement of a 10% EBIT margin by 2021 / 2022.

Herzogenaurach, January 30, 2019

The Management Board



Bjørn Gulden



Michael Lämmermann



Lars Radoor Sørensen

This is a translation of the German version.  
In case of doubt, the German version shall apply.

