

Statement responding to the Report „Clearing the Hurdles“ by the International Play Fair Alliance of 21 April 2008

Herzogenaurach 8 December 2008 – On April 21, 2008, the Play Fair Alliance, organized by the International Trade Union Confederation (ITUC), the International Textile Garment and Leather Worker’s Federation (ITGLWF) and the Clean Clothes Campaign (CCC) released the report “Clearing the Hurdles”. The report focused on the systemic challenges in the global supply chain of the sports goods industry, using specific allegations of labor rights violations found at suppliers’ factories that service some of the largest sports goods companies in the world, including PUMA.

The report made specific proposals to the sports goods industry framed by the campaigner’s analysis of major violations in the supply chain. In “Clearing the Hurdles” there were identified the following issues as the cornerstones by which many of the challenges for compliance to codes of conduct could be resolved:

- Lack of respect for freedom of association and the right to bargain collectively;
- Insecurity of employment caused by industry restructuring; and
- Abuse of short-term labor contracting and other forms of precarious employment.
- “Cash standards” – Living wage

Regardless of quality or accuracy of the facts that were used to identify these areas as cornerstone issues, we, in PUMA have reviewed the Play Fair arguments and proposals and found that some suggestions and conclusions are valid and agree that further work is necessary until they are fully addressed. Nonetheless, we noted that some of the presumptions and conclusions regarding PUMA and our place in the industry are inaccurate and require further clarification. In addition, it is important to point put that some of the proposals made by Play Fair might be unfeasible to accomplish and/or impracticable.

We would like to comment on some of the key aspects of PUMA's work towards resolving the compliance problematic across the supply chain. PUMA has introduced the first Code of Conduct for its independent supplier factories in 1993. Covering important core labor rights and based on the Core Conventions of the International Labor Organization (ILO), this Code of Conduct has been regularly revised and updated. Today the Code is posted in every PUMA supplier factory worldwide in local language at places visible to the workers it aims to protect. Several contact addresses to report any potential non-compliance issues to PUMA staff are printed on the poster.

As an accredited member of the Fair Labor Association, PUMA has conducted over 2000 own supplier code compliance audits within the last years and employs currently 12 specialized staff members dedicated to this task in its S.A.F.E. (Social Accountability and Fundamental Environmental Standards) Team. At a current supplier base of roughly 400 factories, more than 50 independent, external and unannounced audits were commissioned via the Fair Labor Association since PUMA joined this non-profit organization in 2004. Our membership in the FLA includes a formalized third party complaint mechanism as well as making our PUMA supplier list available to the public.

Capacity building and training projects to improve the social and environmental standards of our suppliers beyond auditing have been running in several sourcing countries on all four continents that engage in PUMA production. For these projects we partnered with non-governmental and governmental expert organizations, industry associations and peers as well as specialized consultants.

Our corporate strategy for social compliance in the supply chain is discussed with a broad range of stakeholders each year during our stakeholder meeting "Talks at Banz" and the results of our work are reported regularly to the public via PUMA sustainability reports as well as our website <http://about.puma.com/EN/6/>.

Once mentioned some of the actions that we have undertaken as a company to implement core labor standards and transparency within our supply chain, this

statement will focus on the proposals that the report “Clearing the Hurdles” has made to the sports goods industry in general and PUMA specifically.

JOB INSECURITY AND PRECARIOUS EMPLOYMENT

Given that labor is only one component of production, labor flexibility remains one of the key components to ensure that individual companies survive and grow. Conditions in the supply chain do not exist in a vacuum, but are affected by local and global economic and social circumstances. We understand that individuals cannot be fully flexible in the global economy; hence PUMA supports legal and extra-legal measures to ensure that worker welfare is addressed. It is guaranteed within PUMA’s Code of Conduct that all worker income must be paid on time and in accordance with local labor law.

Each PUMA supplier must provide a copy of a formal working contract to employees and the vast majority of our indirect employees are hired on unlimited-period working contracts to ensure that they have continued access to benefits that accrue over the length of their service. In countries where fixed-term contracts do not impede the accrual of tenure-based benefits or rights, we do not strongly enforce open-ended contracts. We believe that there is no need to do this, as the factories themselves would want to keep their workers who have already acquired certain skills. However, we do investigate against any unlawful termination. We have also strengthened our policies and monitoring regarding apprenticeship schemes and have in fact been able to stop a few cases of questionable apprenticeship programs as part of our compliance auditing routine.

PUMA counts with a Vendor Rating System (VRS), which incorporates social and environmental compliance into our purchasing decisions. Our Strategic Partner concept, which rose out of this rating system, ensures that the majority of our products are manufactured at vendors, which have been working with us for several years, in some cases even decades, and have achieved an acceptable level of compliance to our code. Both the VRS and our Strategic Partner concepts ensure that there is an objective basis for purchasing decisions based on equal consideration to price, quality, delivery,

compliance and medium- to long-term investment commitment. We are constantly improving the implementation of our VRS and the Strategic Partner concept and we will be reporting on this in greater detail in our upcoming Sustainability Report. In our latest report, we have already provided information on the performance of direct and licensee sourcing in each country.

Due to increasing cost of living in manufacturing hubs, some of our supplier partners suffered capacity losses and have transferred operations to regions with a more favorable cost structure. As a result, we have authorized subcontracting of some core processes based on the condition that every single subcontractor must fully comply with PUMA S.A.F.E. standards and be monitored by both the Strategic Partner and by PUMA staff. Some overtime cases have also resulted because current supplier capacities no longer match the existing order volume. In response to this crisis, we are encouraging Strategic Partners to tactically review employee recruitment and retention policies and practices while working with them to adjust forecasted volume imbalances. We are also strengthening our policies on managing factory closures, taking into consideration the guidelines already established by the Fair Labor Association and the MFA (Multi-Fiber-Agreement) Forum. In this regard, the local governing bodies have more power in enforcing the law and we will be working with such bodies wherever we feel it would be most effective.

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

As a company with two employee representatives serving at our Supervisory Board, we agree that freedom of association and collective bargaining are enabling rights. While some PUMA suppliers have strong worker representation systems in place and follow collective bargaining agreements, in the majority of our main sourcing countries, these enabling rights are restricted either by law or are impeded by strong cultural biases from both factory management and workers themselves. In our experience, legal frameworks that promote unionism do not result in a mature culture of workplace engagement in and of itself. Even where local regulations allow freedom of association and collective

bargaining we recognize that the negative perceptions of factory management against any collective workers' action are deeply embedded.

In PUMA we have always maintained that setting the proper atmosphere for the responsible exercise of freedom of association is our main role, and as such we do not initiate the formation of unions in factories but we do ensure that the workers' right to form association will not be hindered.

We believe that the root issue - weak engagement between factory management and workers - needs to be addressed simultaneously through management and worker training. Capacitating both parties is instrumental to building a harmonious and constructive environment in the workplace. However, without a pointed focus on improving factory management capacity to comply with our code of conduct, particularly through building and maintaining management systems and soft skills for worker engagement, any parallel activities to educate the workers on freedom of association would be futile. Training of factory management on freedom of association and collective bargaining, as a key component of human resource management, would address this concern.

In countries with legal restrictions on freedom of association we have also worked on the establishment of elected Workers Committees that focus on health and safety, to showcase a specific area where management and workers can positively engage with each other. These committees are not meant as substitutes for unions but as a starting point for workers to be aware of the possibility to constructively improve their working conditions. Our work in this area is an ongoing process, and we are open to further engagement with other parties.

The spate of sporadic industrial action in major sourcing countries such as Bangladesh, Cambodia and Vietnam, aside from China, have shown that any worker and management education activities must also be matched with stakeholder engagement work at the local level - particularly with local governments and NGOs. We are currently in the process of strengthening our linkages, but more importantly we encourage our

suppliers to proactively engage with their respective local employers groups, industry associations, local governments, local union federations and local NGOs.

We have been involved in various projects such as the JO-IN Initiative in Turkey and a pilot project of the German Roundtable on Codes of Conduct in Romania and Bulgaria, wherein freedom of association was addressed and local as well as international unions actively participated. Though these projects are broad and innovative, the results of the initiatives still need to be adjusted to the local specifications and cultural context of other sourcing countries in order to be effective. Our current work on the Human Resource Management System (HRMS) collaboration as mentioned above is at this stage.

We are often reminded that we are not the appropriate party to provide worker education on freedom of association and collective bargaining, and in accordance with the recommendations of the ILO, our suppliers are not tasked with this in the interest of impartiality and fairness. Given that the trade union movement in major sourcing countries is immature according to international union standards, we are not inclined to enforce mandatory access to our suppliers to these kinds of unions for worker education purposes. However, we continue to support training from credible NGOs and international industrial relations organizations in Romania, China and in a number of other countries.

We agree that measuring the impacts of worker and management training is essential and we will work with any credible parties in this area. Furthermore, in cases where concrete violations to the right to freedom of association is brought to our attention or uncovered during our regular monitoring activities, we act to protect this right as was done in the case of our supplier in Cambodia in which PUMA facilitated the resumption of the stalled negotiation between the local union and the factory management in the presence of the ILO, or in Turkey where PUMA supported a third party complaint raised through the FLA which eventually lead to the signing of a previously disputed Collective Bargaining Agreement.

Compliance to our code of conduct, as previously mentioned, is only one of the factors that are considered in our Vendor Rating System, wherein the presence of a Collective Bargaining Agreement (CBA) is only one component of compliance. We believe that suppliers should be incentivized to attain and maintain compliance to our code in general and not just to some of the code components as all of the code components are of equal importance. We believe that providing specific incentives for the presence of CBAs or similar would not be effective in encouraging suppliers to move away from negative perceptions of unions, which we believe is the real issue. Only proactive training on industrial relations for factory management and workers could correct these negative perceptions.

LIVING WAGES

PUMA explicitly guarantees to work only with suppliers that provide compensation that is “respectful of basic needs and all benefits mandated by law” within our Code of Conduct. In this respect, PUMA audits as a minimum requirement against the national minimum wage or the prevailing industry wage. Our recent audit findings have indicated some lapses in this area at new suppliers, partly due to the economic downturn and the recent increases in minimum wages in some sourcing countries. Along with other issues pertaining to worker salaries, we in PUMA are working to ensure that these payments are adequately and promptly made. We are currently following the discussion within the Fair Labor Association on the possibility of the inclusion of the living wage in the FLA Code of Conduct. However, because of the general lowered forecast of global demand for consumer goods next coupled together with the findings mentioned above, we believe that this is not the most appropriate time to strongly campaign for living wages. Though we laud the wage ladder methodology developed in the Jo-In pilot project in Turkey as a positive step forward in the theoretical framework for living wage determination, we believe that further action to develop wage ladders in other countries on this must be done at the industry level and must consider the overall economic impacts elevated wages would have in the global supply chain at this time.

While PUMA does not see itself in a position to determine which wage level would be sufficient to provide a “living wage” in over 50 sourcing countries, many of our suppliers already pay on average wages which are well above the minimum wages set by national law. PUMA announced in its 2008 Annual Shareholders Meeting that we increased the prices paid out to strategic suppliers to cover inflationary pressures in some sourcing countries. In turn, some of our Strategic Partners have granted seniority pay in recognition for the workers’ length of service. Some have provided additional cost of living and other allowances and bonuses in recognition of the increased cost of living for workers. A number of these arrangements were accomplished through the enterprise-level collective bargaining process.

In a decision by the U.S. Department of Justice on buyer collaboration to monitor compliance, parameters such as pricing, supply agreement terms and buyer-factory negotiations were identified as data that cannot be shared. Though PUMA is willing to share compliance information to third parties in the spirit of collaboration, these anti-trust limitations have to be considered prior to the sharing of commercial information that maybe accessed by competitors.

We introduced SPEED, our efficient production management system which integrates essential parts of LEAN management, to our key suppliers in 2007. We believe that focus on improving overall management systems will generate returns to the factory in terms of greater efficiency and productivity, a prerequisite for higher wage levels in a competitive industry. Although we share the concerns of the Play Fair organizers that such methodologies may also lead to unintended challenges on the workplace culture and practices of our suppliers if not carefully introduced, this methodology will remain pivotal in enabling our key suppliers to offset increasing costs and to obtain other benefits. Properly implemented efficiency improvement systems require that workplace education for workers and management is a key component. We urged our key suppliers that are participating in this process to be cognizant of this as they proceed with their pilots. We are open to participate in dialogue and studies that would identify how the limitations of LEAN can be mitigated.

PUMA has been the first sporting goods company to invite the Play Fair Campaign in 2004 to discuss their findings and initiate programs which cover some core demands raised by the campaign. Likewise, PUMA takes the 2008 report very serious and will continue to optimize the exiting systems and programs for supplier compliance worldwide. In this respect we invite the authors of the report "Clearing the Hurdles" to continue a constructive dialogue with PUMA and the Fair Labor Association.