

## BUSINESS

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### OVERVIEW

We are one of the world's most prestigious fashion and luxury goods groups. We design, manufacture, promote and sell high-end leather goods, ready-to-wear and footwear through the Prada, Miu Miu, Church's and Car Shoe brands. Our Prada and Miu Miu brands provide our customers with a wide array of high-quality luxury goods, including leather goods, ready-to-wear and footwear and, through licensing agreements, eyewear and fragrances. Our Church's and Car Shoe brands target the niche luxury footwear market, offering footwear made of high-quality leather with handmade craftsmanship. We believe our dedication to offering innovative products of the highest quality, combining innovation in design and materials with our unique understanding of luxury and style, has enabled us to be a market leader in fashion and style.

Each of our brands is associated with creativity, quality and exclusivity, while at the same time enjoying its own identity created and maintained by separate design product development and communications teams. We manage each brand with a focus on protecting and enhancing its integrity and prestige, and we carefully manage our communications strategies for each brand to avoid brand dilution. We use brand-specific and in some cases unconventional communication tools, ranging from fashion shows to sponsorship of arts, cultural and sports events, landmark Prada Epicenters and various campaigns, to reinforce each brand's identity and to highlight its distinctive elements and values.

We maintain our production know-how and industrialization capabilities internally for each of our product categories through our 11 in-house production facilities, of which ten are located in Italy and one, specifically for the manufacture of Church's footwear, is located in the United Kingdom. Currently, we produce the vast majority of our prototypes, most of our samples and a portion of our finished products in our factories, and we outsource the remainder of our production to external manufacturers with most of whom we have stable and long-term relationships. We rigorously monitor our entire production cycle with our quality control team and inspectors to ensure our in-house and outsourced production maintains the same high quality standards that we and our customers require. We believe that our production model enables us to retain control over our production know-how, production costs and maintain a flexible capacity throughout the entire manufacturing process, while assuring high product quality.

We distribute our products through retail and wholesale channels. As at January 31, 2011, our retail channel consisted of 319 stores that we operate directly (Directly-Operated Stores ("DOS")), including our Prada Epicenters in New York, Los Angeles and Tokyo, and 18 outlets. We plan to open approximately 80 additional DOS net of store closings in the financial year

## BUSINESS

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ending January 31, 2012, of which approximately 25 DOS net of store closings will be opened in Asia Pacific. All of our DOS are strategically located in prime locations that are specifically selected to align with the image of our brands. Our wholesale channel consists of sales to prestigious luxury multi-brand and department stores as well as franchise stores. As at January 31, 2009, 2010 and 2011, we had approximately 1,800, 1,400 and 1,400 wholesale clients, respectively, and we had 32, 35 and 33 franchise stores, respectively, during the same period. We constantly monitor our wholesale relationships to protect our brand integrity. Our two-pronged distribution strategy allows us to maintain a global reach, with distribution points in over 70 countries as at January 31, 2011.

During the Track Record Period, our net revenues grew from € 1,643.6 million for the financial year ended January 31, 2009 to € 2,046.7 million for the financial year ended January 31, 2011 (representing a CAGR of 11.6%), while EBITDA in the same period grew from € 282.6 million to € 535.9 million (representing a CAGR of 37.7%), resulting in an improvement in our EBITDA margin from 17.2% for the financial year ended January 31, 2009 to 26.2% for the financial year ended January 31, 2011.

### COMPETITIVE STRENGTHS

#### **A leading luxury group, underpinned by a century-long heritage**

Our history dates back to 1913 when Mario Prada opened the first Prada shop in Milan, Italy. Our reputation for craftsmanship and quality has been cultivated throughout our history. We believe that our heritage represents a key competitive advantage against the backdrop of a growing number of new entrants in the luxury goods market, as we see that luxury consumers are increasingly focused on brands that provide high quality, iconic status and authenticity, all factors that we believe can only be credibly developed over time. Among dozens of luxury brands, we believe we stand out alongside only a handful of other fashion houses as truly iconic.

We have proven our ability to capitalize on our century-long heritage to become one of the largest and most successful players in the luxury goods market with more than € 2.0 billion in net sales in the financial year ended January 31, 2011. We believe we have well-developed scale and capabilities to continue to compete and further enhance our positioning in the global luxury market.

## BUSINESS

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### **A relentless focus on innovation and quality**

Throughout our history, an untiring curiosity about the world, society and culture has been at the core of our creativity as we strive to offer innovative and sophisticated products to our customers. Our primary focus on innovation permeates our corporate culture and our entire value chain, from design to industrialization, manufacturing, distribution and communication, which we believe gives us premium positioning and superior pricing power.

Our creative leadership is centered around a strong creative team headed by Ms. Miuccia Prada's design philosophy, which seeks to combine intellectual curiosity, ground-breaking ideas, and cultural and social trends, with an acute sense for detail, tailoring and fashion. Our design team combines our strong brand heritage with cutting-edge designs that correspond with the modern lifestyle of our consumers. For example, we believe our creations of Prada nylon bags and backpacks and subsequently of "Saffiano" leather bags, clutches and wallets were innovations in the luxury handbag and accessories markets in terms of materials, design and functionality. Through experimentation and innovation, each season we seek to anticipate and set trends for the broader luxury and fashion world.

Innovation is also imperative to our communications strategies. We employ a wide array of unconventional, brand-specific communication tools to convey the values and cultural standing embodied in each brand. Examples of our innovative communications projects include the opening of the three landmark Prada Epicenter Stores in New York, Tokyo and Los Angeles between 2001 and 2004 designed to stimulate interaction between fashion, culture and architecture, the sponsorship of the Luna Rossa Challenge team in the prestigious international sport competition America's Cup sailing races in 2000, 2003 and 2007, the architectural collaboration on the Prada Transformer building in Seoul, Korea in 2009, as well as our arts and cultural events that demonstrate our creative caliber, such as the short animated films "Fallen Shadow" and "Trembled Blossoms", the "Waist Down" exhibition in Tokyo, Los Angeles and New York, and the Miu Miu short films entitled the "Women's Tales". In 2010, we launched the "Prada made in ..." campaign to highlight our collaboration with local artisans from around the world to produce modern and innovative designs utilizing traditional local craftsmanship, materials and manufacturing techniques. These powerful initiatives have been widely covered by fashion and general media, demonstrating our ability to stay at the forefront of groundbreaking communications in our industry.

## BUSINESS

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### **Strong brand portfolio with iconic brands**

We own and globally operate two iconic luxury brands, Prada and Miu Miu, which provide our customers with high-quality leather goods, ready-to-wear and footwear to meet their fashion needs.

Created in 1913, we believe Prada has since become one of the most prestigious and iconic fashion brands that represent the best of Italian culture and tradition, sophisticated style and uncompromising quality combined with innovative designs. Throughout its long history, Prada has been consistently creating and offering iconic products such as the Prada nylon backpacks and the classic Prada “Saffiano” leather handbags. While remaining loyal to its tradition, we believe the Prada brand’s distinctive originality is built on its unique approach to style, craftsmanship and its constant innovation in materials and designs to interpret and redefine trends. Prada has been consistently recognized as a prominent luxury brand acknowledged for its high quality, attention to detail and stylistic innovations, as demonstrated by the global awareness and commercial success of the brand, as well as by the numerous accolades from leading fashion critics and press.

Miu Miu was created in 1993 as a brand with an autonomous identity from Prada, and has since evolved into one of the leading high fashion brands in the world. Miu Miu is characterized by its avant-garde, sensual and provocative style, which seeks to evoke a luxurious sense of freedom and intimacy with attention to detail and high quality. Since 2005 we have strengthened the brand development of Miu Miu as an independent core brand, by drastically redesigning its store concept, moving its fashion shows from Milan to Paris in 2006 and its commercial headquarters into an historic building in Milan separate from Prada’s offices, and expanding its DOS network at a faster rate than our other brands, especially in Asia. We believe we have successfully re-positioned Miu Miu as an independent brand prominent in its own right, which is evidenced by Miu Miu having achieved the highest revenue growth among our brands during the Track Record Period.

In our brand portfolio, our Church’s and Car Shoe brands target the niche luxury footwear market offering footwear made of high-quality leather with handmade craftsmanship. Church’s is one of the most well known brands for luxury leather shoes, characterized by its classical style and sophisticated English elegance based on the combination of quality craftsmanship and fine leather. Car Shoe has been a pioneer of luxury driving shoes with rubber studded soles since 1964, and we believe it remains today a status symbol for exclusive lifestyle and luxury driving. Each of these brands allows us to reach targeted complementary luxury audiences, while preserving the Group philosophy and brand integrity.

## BUSINESS

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### **Stable and visionary management team**

We believe we have highly-skilled, stable and experienced management and creative teams headed by Ms. Miuccia Prada and Mr. Patrizio Bertelli, the controlling shareholders of our Company and the driving force behind our stylistic and commercial success. Over the course of the past 30 years, Ms. Miuccia Prada and Mr. Patrizio Bertelli have constituted a stable and committed leadership duo, who laid out the road map for the successful development of our Group.

Ms. Prada has been widely recognized as one of the most influential people in the fashion industry worldwide. In 1993, she won the Council of Fashion Designers of America International Award. In 2005, Time Magazine listed her as one of the 100 most powerful and talented people in the world. In 2005, the Wall Street Journal Magazine named her as one of the 30 most powerful women in Europe. In May 2010, Ms. Prada was awarded the 2010 McKim Medal Laureate in recognition of her exceptional achievements in fashion and business, as well as for her contributions to the visual arts as co-founder of Prada Foundation, a non-profit foundation that supports contemporary art.

Since joining forces and establishing our Group with Ms. Miuccia Prada, Mr. Patrizio Bertelli has been leading our business with his passion and acute commercial vision that shaped our industrial and commercial infrastructure from the perspectives of growth, expansion and financial performance. Mr. Bertelli, with roots in manufacturing, supervises all phases of our production to ensure that we maintain the highest standards of quality and efficiency across our brands. He also supervises and approves our new DOS openings, steering the rapid expansion of our global DOS network while ensuring that each DOS is consistent with the image of its respective brand.

Ms. Miuccia Prada and Mr. Patrizio Bertelli have attracted and trained a new generation of senior management to support the continuity of our creative caliber and commercial success. As a result, today we have a comprehensive structure of capable and experienced managers, working in an international and diverse environment permeated by entrepreneurship drive, flexibility and passion.

### **Well-balanced and focused product portfolio**

We have a well-balanced product portfolio, which we believe sets us apart from many of our competitors. For the financial year ended January 31, 2011, leather goods, footwear and ready-to-wear accounted for approximately 50%, 25% and 24% of our total net sales (excluding royalties), respectively.

Our focus on these three core product categories across each brand allows us to create collections of products which form a consistent and complete style for each season that reinforces the overall brand image, making us, as we believe,

## BUSINESS

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a market leader in fashion and style. While our structured product portfolio can command higher levels of editorial coverage every season, it also enables us to offer our customers a more interesting and satisfying shopping experience at our DOS with a wider range of products for their desired style to increase cross-selling opportunities.

### **Direct control over our entire value chain**

Fundamental to the continued success of our brands and their consistently high level of quality and innovation is our ability to operate an integrated value chain. With our design competence and industrial capability, our strategically integrated business cycle allows us to translate our innovative fashion concepts into viable commercial production while retaining control over our technical know-how, quality standards and production cost as well as maintaining a flexible capacity. This is exemplified by our ability to create, throughout the year, flash collections and monthly packages for our stores in approximately four to six weeks from design to in-store distribution, effectively and efficiently carrying out our retail strategy to offer new products that allow us to refresh store product displays.

As at January 31, 2011, we had approximately 1,800 employees in our in-house production divisions and approximately 750 people in the product development department, allowing us to produce the vast majority of our prototypes and samples and a portion of our finished products in our factories. The remaining production is outsourced to external manufacturers under our strict quality monitoring. The close coordination among design, product development and manufacturing teams enables us to maintain strict control over (1) the technical know-how and all detailed specifications for our production; (2) the quality standard over the entire production process; (3) our internal production and outsourcing cost; (4) our production schedule and (5) the adherence of our products to original designs.

### **Well-diversified global presence with strong focus on Asian markets, particularly Greater China**

We are present through our retail and wholesale channels in over 70 countries worldwide. For the financial year ended January 31, 2011, our total net sales (excluding royalties) were approximately € 2,017 million, with 42% in Europe, 32% in Asia Pacific, 15% in North America and 11% in Japan, compared with respectively 51%, 18%, 18% and 12% for the financial year ended January 31, 2009.

## BUSINESS

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Our growth over the Track Record Period has largely been driven by growth in the Asian markets, and particularly Greater China. Our net sales in Asia Pacific have grown at a CAGR of approximately 51% during the Track Record Period, that was mainly driven by the performance of Greater China, where net sales grew at a CAGR of approximately 52% and reached 19% of our total net sales in the financial year ended January 31, 2011. Even though we have experienced significant growth in Greater China, we continue to have a well-diversified global presence and customer base that allows us to benefit from emerging trends around the globe while not being over-reliant on the dynamics of a single market.

### **Strong network of DOS in prime locations**

We believe we have demonstrated our ability to successfully execute a significant DOS roll-out during the Track Record Period, expanding from 211 DOS as at February 1, 2008 (the beginning of the Track Record Period) to 319 as at January 31, 2011, as we are increasingly focused on the distribution and sale of our products globally through our DOS network. For the financial year ended January 31, 2011, net sales from DOS reached approximately 71% of our total net sales as opposed to 54% for the financial year ended January 31, 2009.

An extensive DOS network gives us greater control over our interaction with our customers, facilitating communication of the concepts, styles and values embodied in each brand's collections and to respond to customers expectations in a more effective and timely manner. We have been successful at securing prime locations for our DOS in prominent shopping streets and malls around the world, which align with the prestige of our brands, and we believe that our premium positioning and our retail execution capabilities allow us to continue to secure the most attractive prime locations, particularly as we expand in fast growing and new markets.

We believe that our extensive DOS network has been a decisive factor in achieving the strong operating results during the recent financial crisis. Our continued DOS expansion and geographical diversification in the fast growing markets has enabled us to create significant growth opportunities for our Group and offset the unfavorable impact from markets most affected by the 2008 global economic crisis. In addition, the expected progressive increase in the share of direct distribution, thanks to our continuous investments in our DOS network, will, in our view, provide further opportunities to increase our profitability. See “— Our Strategies — Strengthen Our Global Coverage” in this section of the prospectus.

## BUSINESS

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### **Recent track record of delivering growth and profitability, even in difficult market conditions**

We believe our strong financial performance over the recent years, notwithstanding one of the most severe financial downturns in generations, demonstrates the resilience of our financial performance and the strength of our business model. Our net revenues grew from €1,643.6 million in the financial year ended January 31, 2009 to €2,046.7 million in the financial year ended January 31, 2011 (representing a CAGR of 11.6%), and EBITDA grew from €282.6 million to €535.9 million in the same period (representing a CAGR of 37.7%).

An important factor of our strong financial performance in recent years has been the increase in the contribution of revenues from retail, our presence in fast growing markets (such as China, Hong Kong and Macau) and our production efficiency and cost management. The above measures have enabled us to significantly increase our profitability, from an EBITDA margin of 17.2% in the financial year ended January 31, 2009 to 26.2% in the financial year ended January 31, 2011, and have positioned us to further improve our profitability.

### **OUR STRATEGIES**

#### **Continue to expand our network of DOS**

Since 2007, we have pursued a strategy of growing revenues and improving margins by increasing the focus on our retail distribution network. Our retail focused strategy involves the expansion of our DOS network as well as a selective reduction of our wholesale network. Since we first began to implement this strategy, we had expanded our retail distribution network from 211 DOS as at January 31, 2008 to 319 as at January 31, 2011, and our EBITDA margin has increased from 17.2% to 26.2% over the Track Record Period.

We intend to leverage our premium positioning and our retail execution capabilities to secure more prime locations for our new DOS, particularly as we expand in fast growing and new markets. We plan to further expand our DOS network by adding approximately 80 DOS net of store closings by January 31, 2012 and grow at a similar pace through the financial years ending January 31, 2014. We expect to finance this expansion with the proceeds from the Global Offering and our cash flows from operations.

## BUSINESS

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### **Strengthen our global coverage**

We aim to expand our sales in high growth and rapidly developing markets, while expanding our existing presence in certain developed markets where we are under-represented. Our growth over the past five years has largely been driven by growth in the high growth and rapidly developing Asian markets, and particularly in China. We believe that there is still substantial potential for growth in Asia Pacific, where we plan to add approximately 70 DOS in the three financial years ending January 31, 2014. In China, we grew from 8 DOS as at January 31, 2007 to 18 DOS as at January 31, 2011, and we expect to add more than 30 DOS in China by January 31, 2014. We believe further growth is possible due to continuing growth of the Chinese economy, which enables us to further our penetration into more Chinese cities.

We also plan to expand our DOS network into rapidly growing markets and other important markets where we do not currently have a direct presence. The markets in the Middle East, particularly the United Arab Emirates, Kuwait, Qatar and Saudi Arabia, are important markets with large affluent populations. Similarly, the markets of South America, in particular Brazil, and Eastern Europe, including Russia, have experienced economic growth over the past few years, but are markets in which we are either not present or limited to wholesale distribution only. As the population in these markets continue to become more affluent, we expect there to be high demand for our products and intend to grow significantly in these new markets.

Complementing our growth strategies for fast-growing and new markets, we also plan to expand our presence in developed markets where we feel we are currently under-represented, such as the United States, and in central and northern European countries, such as Belgium, the Netherlands and Scandinavia, where we are only present through independent distribution. As we shift our focus to expanding our retail distribution, these markets present significant opportunities for us to expand our coverage.

### **Capture the high growth potential of Miu Miu**

During the Track Record Period, Miu Miu recorded the highest growth among our four brands, largely due to our successful repositioning of the Miu Miu brand. We intend to leverage this high growth momentum to expand Miu Miu's market share and to capture further growth opportunities.

For the financial year ended January 31, 2011, 35% of Miu Miu's net sales originated from Asia Pacific, which was higher than the percentage of Prada's net sales from Asia Pacific. We believe this reflects the acceptance of the fashion-forward products of Miu Miu by Asian consumers, and we plan to continue the aggressive expansion of Miu Miu's DOS network in this region,

## **BUSINESS**

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particularly Greater China. We plan to increase the number of Miu Miu's DOS in Asia Pacific from 25 as at January 31, 2011 to approximately 55 DOS by January 31, 2014. We plan to significantly increase our investments in communications and marketing for Miu Miu in order to strengthen its brand identity, particularly in the above key markets. In addition to the two fashion shows in Paris, we plan to host a special Miu Miu fashion show in Shanghai in 2011 to enhance its growing brand recognition in Asia.

### **Continue to improve margins and profitability**

We aim to continue to improve profitability by raising unit margins and gaining cost efficiencies also through alternative products and materials sourcing (i.e. global sourcing) and with economies of scale. Our goal is to improve gross margins as we increase sales through DOS sales by capturing the difference between the sell-out price and the sell-in price on each product we sell through this channel, while increasing opportunities for cross-selling. On the cost side, we are seeking to reduce costs through efficient purchasing of alternatively sourced products that allow us to find higher quality materials at lower prices through global sourcing. Finally, as we expand our retail sales base we plan to improve margins through economies of scale, by having higher revenues while maintaining the same level of fixed central costs.

### **OUR BRANDS AND PRODUCTS**

We are recognized as one of the world's most prestigious fashion and luxury groups. We design, manufacture, promote and sell leather goods, ready-to-wear, footwear, and we license eyewear, fragrances, and occasionally for a limited period other products under our distinctly positioned brands of Prada and Miu Miu. We also offer luxury footwear made of high-quality leather with handmade craftsmanship under our Church's and Car Shoe brands. Together with our design and production know-how and competencies, these four brands represent our most valued assets and, in order to preserve the integrity and prestige of each brand, we maintain rigorous quality and production standards in our business. Our goal is to ensure that we produce innovative and sophisticated products which maintain the prestige and integrity of our brands and that we do not dilute our brands through over-exploitation.

The strength and relevance of our brand portfolio are important elements in our business. Each brand has its own identity, which is the result of its history, its individual design team and our efforts to maintain well-structured commercial and communication policies specifically tailored for each brand.

## BUSINESS

Brand development and an enduring dedication to providing products of uncompromising quality, creativity and exclusivity are vital to us as we strive to lead and interpret style trends, through which we aim to aid our customers' self-expression and communication with the world through fashion.

The following table sets forth the product offerings for each of our brands.

	Prada	Miu Miu*	Church's	Car Shoe
Leather goods	✓	✓	✓	✓
Ready-to-wear	✓	✓	✓	
Footwear	✓	✓	✓	✓
Eyewear	✓	✓		
Fragrances	✓			

\* Miu Miu offers products for women only.

The following table sets forth the net sales by amount and as a percentage of net sales for each of our brands for the periods indicated.

	Year Ended January 31,						
	2009		2010		2011		CAGR
	(€ in millions, except percentages)						
Prada	1,265.6	78.9%	1,209.5	79.0%	1,586.8	78.7%	12.0%
Miu Miu	239.5	14.9%	252.3	16.5%	353.0	17.5%	21.4%
Church's	49.9	3.1%	43.6	2.8%	53.0	2.6%	3.1%
Car Shoe	34.3	2.1%	18.5	1.2%	17.9	0.9%	(27.7)%
Other <sup>1</sup>	14.8	1.0%	6.7	0.5%	6.2	0.3%	(35.2)%
Total	1,604.1	100.0%	1,530.6	100.0%	2,017.1	100.0%	12.1%

<sup>1</sup> Primarily consisting of production for third parties.

Please see Note 28 under "Notes to the Financial Information" in Appendix I to this prospectus for more information on the operating results of our brands.

# PRADA

## Overview

The Prada brand was created in 1913 by Mr. Mario Prada and has since become one of the most prestigious and widely-recognized brands in the fashion and luxury goods industries. The brand's iconic trademarks, which are readily recognized around the world, incorporate the Savoy coat of arms and Savoy figure-of-eight knot, reflecting its heritage as an official supplier to the former Royal family of Italy. Introduced in the 1980s, Prada's famous black nylon bag with the signature triangle logo has been an enduring classic, with both the nylon bag and the logo becoming icons in the brand's history. We believe the Prada brand represents the best of Italian culture and tradition, sophisticated style and uncompromising quality, and as one of the most innovative fashion

## BUSINESS

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brands we are capable of re-defining “the norm” and setting new trends. Prada also captured the attention of literary and cinematic audiences when the novel “The Devil Wears Prada” was first published in 2003, and then was made into a movie in 2006.

We believe the Prada brand’s distinctive originality is built on its unique approach to style, craftsmanship and constant innovation in materials and designs, as we unceasingly exert creativity in the development of fashionable designs, sophisticated fabrics and innovative production techniques. At the heart of the evolution of fashion, we believe Prada has been a sophisticated interpreter of its times and a forerunner of style and trends. The Prada brand targets an international customer base that is modern, sophisticated, attuned to stylistic innovations, and expects craftsmanship of the highest quality. By combining an attention to detail and quality with cutting-edge styling, we aim to make each of our Prada designs one-of-a-kind.

As at January 31, 2011, Prada had a sales network of 207 DOS and more than 700 wholesale clients (representing approximately 1,000 doors) worldwide, among which there were 19 DOS in Italy, 46 DOS in the rest of Europe, 26 DOS in North America, 43 DOS in Japan and 73 DOS in Asia Pacific.

### Products

The Prada brand line of products includes leather goods, ready-to-wear and footwear products for both women and men. In the last decade we have also expanded the brand to include eyewear and fragrances for both women and men, through licensing arrangements. Prada’s main collections are introduced on a seasonal basis in our show rooms, and twice a year for women and twice a year for men through fashion shows in Milan. In addition, flash collections and monthly packages are regularly presented mainly to our retail merchandising teams throughout the year. See “— Design and Creation — Flash Collections and Monthly Packages” in this section of the prospectus.

The following table sets forth Prada’s net sales by product line by amount and as a percentage of Prada’s net sales for the periods indicated.

	Year Ended January 31,					
	2009		2010		2011	
	(€ in millions, except percentages)					
<b>Net sales by product line</b>						
Leather goods	498.6	39.4%	553.7	45.8%	786.0	49.6%
Ready-to-wear	410.0	32.4%	347.7	28.7%	419.5	26.4%
Footwear	346.8	27.4%	297.1	24.6%	366.4	23.1%
Other	10.2	0.8%	11.0	0.9%	15.0	0.9%
<b>Total</b>	<b>1,265.6</b>	<b>100.0%</b>	<b>1,209.5</b>	<b>100.0%</b>	<b>1,586.8</b>	<b>100.0%</b>

## **BUSINESS**

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### ***Leather Goods***

The Prada brand originated with leather goods, and now mainly includes handbags, travel bags and accessories, such as leather gloves, wallets, key rings, belts and other leather accessories. Classic Prada handbags feature stylistic designs, fine leather and the iconic triangular Prada logo, and are characterized by attention to detail stemming from its artisan heritage. Two of Prada's best known products are the black nylon items made from a waterproof nylon fabric, which now comes in different colors, shapes and sizes, and the "Saffiano" leather handbags and accessories.

### ***Ready-to-wear***

We produce and sell Prada-branded ready-to-wear for both women and men. We launched our first womenswear collection in 1988 and our first menswear collection in 1993. Each Prada ready-to-wear collection harmonizes with the footwear and accessory lines to create a well-defined and consistent brand image. Prada's ready-to-wear lines are acknowledged for their high-quality materials and innovative designs which embody the brand's heritage and prestige with clean lines and luxurious fabrics. Prada brand's ready-to-wear collection includes clothing for most social occasions, from leisure-time apparel to made-to-order formal wear, all of which are fully integrated into the collection consistent with the brand's image.

### ***Footwear***

Prada footwear is available for both women and men, and helps define the overall Prada brand image. Prada brand women's footwear was first introduced in 1982 and men's footwear was introduced in 1993 along with its first men's ready-to-wear collection. Colors, shapes, materials and heel designs are the distinctive elements in Prada's shoes, characterized by the combination of artisan workmanship and sophisticated design.

### ***Licensed products***

Prada eyewear collections were launched in 2000 to extend our product offering for fashion-conscious customers. Since 2003, Prada eyewear has been produced under a licensing agreement with Luxottica, a major global eyewear producer, in relation to the production and distribution of prescription eyeglass frames and sunglasses. We exercise control over the design of the eyewear collections and all marketing campaigns. Prada eyewear products are sold not only in our DOS but also Luxottica's retail and wholesale channels.

## BUSINESS

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We introduced the first line of Prada fragrances in 2004, produced under a licensing agreement with Fragrance and Skincare S.L., a wholly owned subsidiary of Puig, a major cosmetics company in Spain. As at January 31, 2011, five Prada fragrances were distributed on the market, with two for men and three for women. We maintain an active role in the entire product development and are directly involved in the choice of fragrance, product packaging and all marketing campaigns. The development, production and display of the fragrance products must meet our quality standards. Prada fragrances are sold in our DOS as well as Puig points-of-sale.

## MIU MIU

### Overview

Named after Ms. Miuccia Prada, our President and stylist, Miu Miu was created in 1993 as a brand with an autonomous identity from Prada and has since evolved into one of the leading high fashion brands in the world. Miu Miu is characterized by its avant-garde, sensual and provocative style, which seeks to evoke a luxurious sense of freedom and intimacy with attention to detail and high quality. Miu Miu targets women driven by a modern spirit of exploration and experimentation in their fashion choices.

Our Group has made major efforts since 2005 to enhance Miu Miu brand's independent identity. For example, Miu Miu's store concept was dramatically autonomous with a stronger contrast between classic materials and futuristic elements to reinforce a consistent spirit of Miu Miu's modern luxury and sensual style. We moved Miu Miu's commercial headquarters into an historic building in Milan separate from Prada's offices, and also moved Miu Miu's fashion shows from Milan to Paris, which we believe align better with Miu Miu's brand. The men's collection was eliminated from the brand to focus on developing Miu Miu's unique image, and we began to expand Miu Miu's DOS network at a faster rate than our other brands. We believe we have successfully re-positioned Miu Miu as a prominent brand as we envisaged.

As at January 31, 2011, Miu Miu had a global sales network of 71 DOS and 300 wholesale clients (representing almost 500 doors), including 8 DOS in Italy, 18 DOS in the rest of Europe, 7 DOS in North America, 13 DOS in Japan and 25 DOS in Asia Pacific.

## BUSINESS

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### Products

The Miu Miu brand line of products includes women's leather goods, ready-to-wear and footwear. We have also expanded the brand to include eyewear for women. Miu Miu's main collections are introduced on a seasonal basis in our show rooms and twice a year at fashion shows in Paris. In addition, flash collections and monthly packages are regularly presented to our retail merchandising teams throughout the year.

The following table sets forth Miu Miu's net sales by product line by amount and as a percentage of Miu Miu's net sales for the periods indicated.

	Year Ended January 31,					
	2009		2010		2011	
	(€ in millions, except percentages)					
Net sales by product line						
Leather goods	128.7	53.7%	154.6	61.3%	224.3	63.5%
Ready-to-wear	54.0	22.6%	46.5	18.4%	63.3	17.9%
Footwear	56.1	23.4%	50.2	19.9%	63.7	18.0%
Other	0.6	0.3%	1.0	0.4%	1.8	0.5%
Total	239.5	100.0%	252.3	100.0%	353.0	100.0%

### Leather Goods

The Miu Miu leather goods, including handbags and accessories such as wallets, belts and gloves, constitute the majority of the brand's sales and are characterized by an original style of fashion-forwardness and luxury.

### Ready-to-wear

Miu Miu's ready-to-wear collections for women were first introduced in 1993 and remain at the core of the brand's identity and development. Although Miu Miu shares Prada's attention-to-detail and careful selection of materials, we believe that the brand's individuality stands out with its fashion-forward approach and avant-garde style for women's clothing using playful patterns, colors and prints, designed with a free-spirited and modern customer in mind.

### Footwear

Miu Miu women's footwear is designed with character elements that complement its ready-to-wear collections to create a multi-colored, playful and provocative image and is produced consistently with our dedication to quality workmanship.

## BUSINESS

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### ***Licensed products***

Miu Miu has launched eyewear collections since 2000 to complement the brand's design series. Since 2003, Miu Miu eyewear has been produced under a licensing agreement with Luxottica, a major global eyewear producer, in relation to the production and distribution of prescription eyeglass frames and sunglasses. We retain control over the design of the eyewear collections and all marketing campaigns for Miu Miu's eyewear. Miu Miu eyewear products are not only sold in our DOS and wholesale networks, but also Luxottica's retail and wholesale channels.



### **Overview**

The Church's brand was founded in 1873 in Northampton, England by Thomas Church and his three sons, based on family experience in the production of handmade men's shoes since 1675. In the beginning of the 20th century, Church's began exporting outside of Europe to the United States, Canada and South America, and received the prestigious Queen's Award for Exports from Queen Elizabeth II in 1965. Church's remains a recognized leader in the men's handmade luxury footwear industry. Church's luxury footwear is characterized by its classical style and sophisticated English elegance based on the combination of fine leather and high-quality craftsmanship. Church's collections are designed to appeal to a clientele who appreciate high-quality shoes with modern style and elegance.

We acquired 100% control of Church's in May 2007 from Prada Holding B.V. As at January 31, 2011, Church's had a global sales network of 36 DOS and approximately 600 wholesale clients (representing more than 700 doors), with 7 DOS in Italy, 24 DOS in the rest of Europe, 1 DOS in North America and 4 DOS in Asia Pacific.

## BUSINESS

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### Products

Church's is most famous for its classic men's leather shoes, which are mainly handmade at its Northampton factory. A pair of shoes typically requires over 250 manual operations and takes approximately eight weeks to produce. In addition to its classic collection, Church's offers a range of styles that appeal to customers who desire classic styling with a modern twist. Church's also sells women's shoes, which are mainly manufactured at one of our manufacturing facilities in Italy where Prada-branded shoes are also produced. In addition to shoes, Church's offer leather goods for both men and women, such as briefcases, wallets and document holders; and a small line of ready-to-wear for men, such as raincoats, shirts, neckties and socks, which are outsourced and/or licensed to third-party producers in the United Kingdom. As a complement to its off-the-rack footwear offerings, Church's also offers "made-to-order" shoes and a shoe repair service. Church's introduces its product collections in showrooms twice a year rather than at fashion shows, reflecting the more limited product line and the heritage nature of the footwear collection.

The following table sets forth Church's net sales by product line by amount and as a percentage of Church's net sales for the periods indicated.

	Year Ended January 31,					
	2009		2010		2011	
	(€ in millions, except percentages)					
Net sales by product line						
Leather goods	1.1	2.2%	1.2	2.8%	1.4	2.7%
Read-to-wear	0.5	0.9%	0.4	1.0%	0.6	1.0%
Footwear	48.3	96.9%	42.0	96.2%	51.0	96.3%
Total	49.9	100.0%	43.6	100.0%	53.0	100.0%

**T H E O R I G I N A L**



### Overview

Car Shoe was founded in 1963 by Gianni Mostile, whose passion for racing cars led him to design handmade moccasins made from very soft leather and soles set on tiny rubber studs to enhance adherence to car pedals and were particularly suitable for driving sports cars. The Car Shoe driving shoe design was awarded a registered patent from the Italian Ministry of Trade and Industry in 1964 which has since expired.

## BUSINESS

The brand has since become an Italian classic for driving shoes, known for its technical-design originality with high-quality leather and handmade craftsmanship. We believe Car Shoe is a symbol for exclusive lifestyle and luxury driving. Particularly suited for leisure time and informal occasions, Car Shoe products are targeted at a sporty and elegant clientele.

We completed the acquisition of 100% of Car Shoe in June 2010. As at January 31, 2011, Car Shoe had a global sales network of 5 DOS and approximately 280 wholesale clients (representing more than 300 doors), with three DOS in Italy, one DOS in Hong Kong and one DOS in Singapore.

### Products

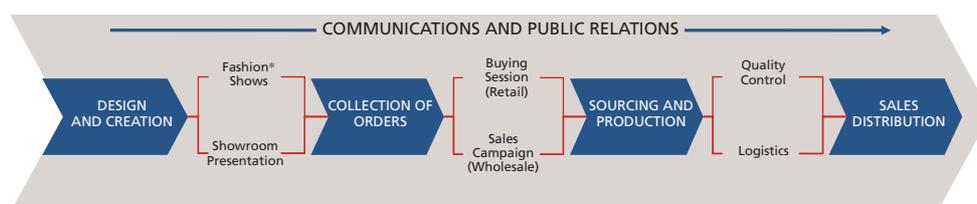
Car Shoe offers luxury driving shoes with rubber studded soles. In recent years, Car Shoe has developed new footwear models which are available for men and women in a wide range of colors and leather materials in both classic and modern design variations. We have extended the Car Shoe product range to other leather goods, such as bags and accessories. These items retain the brand's distinctive elements of fine leather and finishing. Car Shoe introduces its product collections in showrooms twice a year.

The following table sets forth Car Shoe's net sales by product line by amount and as a percentage of Car Shoe's net sales for the periods indicated.

	Year Ended January 31,					
	2009		2010		2011	
	(€ in millions, except percentages)					
<b>Net sales by product line</b>						
Leather goods	4.8	14.1%	2.0	10.9%	1.8	9.8%
Ready-to-wear	—	—	—	—	—	—
Footwear	29.5	85.9%	16.5	89.1%	16.2	90.2%
<b>Total</b>	<b>34.3</b>	<b>100.0%</b>	<b>18.5</b>	<b>100.0%</b>	<b>18.0</b>	<b>100.0%</b>

### OVERVIEW OF OUR BUSINESS MODEL

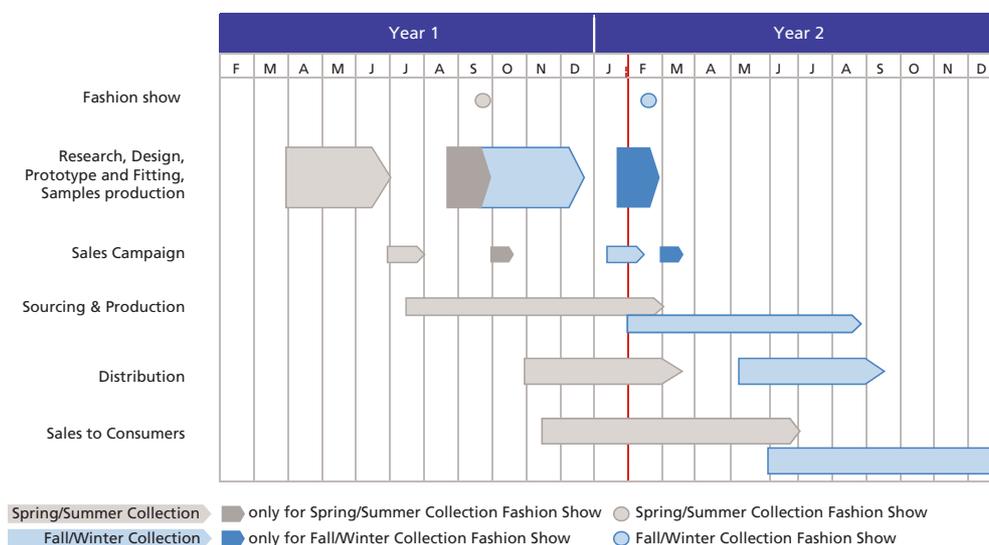
In managing our business, we adopt a strategically controlled and integrated business model as illustrated in the following diagram:



\* Only Prada and Miu Miu have fashion shows.

## BUSINESS

The following diagram illustrates the timeline of each major process of Prada's women collection as an example.



Our brands are the most valued assets of our Group, with each brand having its own well-shaped identity. In order to protect and enhance the integrity and prestige for each brand, we manage and operate each brand through a business model that encompasses a closely-integrated cycle of design and creation, collection of orders, sourcing and production, and sales distribution, supported by our on-going communications and public relations strategies.

### Design and Creation

The first stage of our business cycle is the design and creation of a new collection, during which each brand's design team develops a new collection that elaborates the brand's identity with the latest style in collaboration with other relevant departments. During this phase we develop and produce the vast majority of our prototypes and the majority of our samples at our in-house facilities, through which we establish the detailed specifications for each product that allow us to maintain control over the quality of our outsourced production as well as costs.

### Collection of Orders

The new collection is presented in each brand's respective showrooms where merchandisers from our retail channel and wholesale clients place orders for our products and, for Prada and Miu Miu, at fashion shows.

## **BUSINESS**

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### **Sourcing and Production**

We then commence sourcing and production for our collections through our manufacturing organization, currently with a portion of our finished products produced in our 11 in-house factories, and the remaining production outsourced to carefully selected external manufacturers.

### **Sales and Distribution**

Our products are distributed through a sales network of DOS which are located in prime locations, as well as a wholesale channel comprising prestigious luxury multi-brand stores, department stores and franchise stores.

### **Communications and Public Relations**

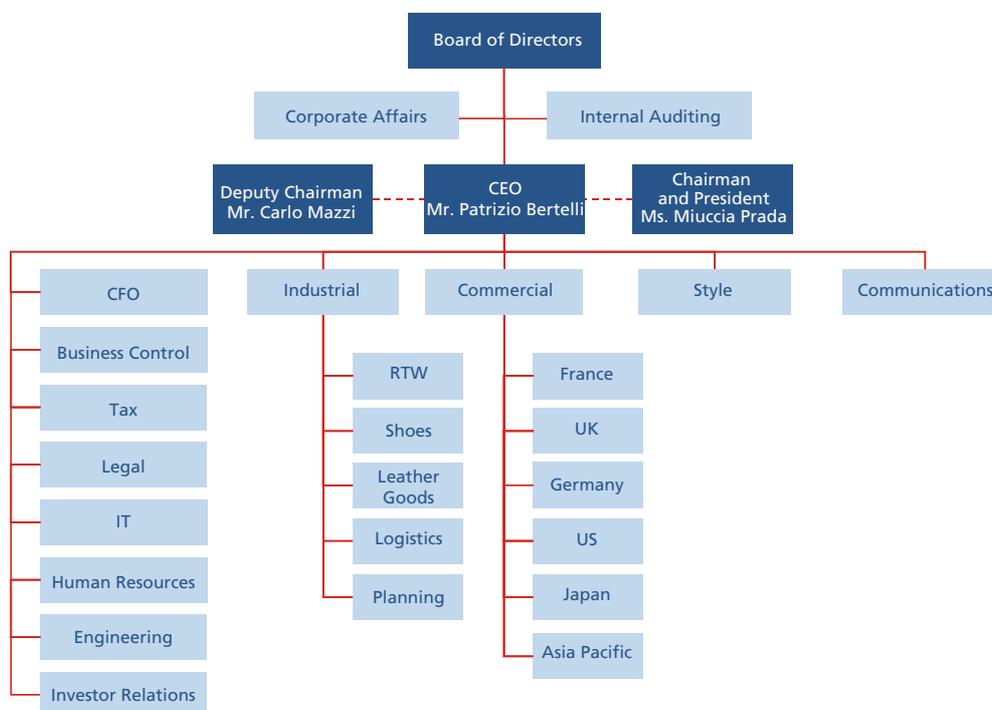
Effective communication and public relations strategies are imperative to our brand development strategy to reinforce the unique image of each brand throughout the business cycle. We employ a wide array of innovative and brand-specific communication tools, including well-executed fashion shows, creative advertising campaigns, events and sponsorships that enhance each brand's appealing and stylistic image.

With our design competence and industrial capability, we believe that our strategically integrated business cycle allows us to translate our innovative fashion concepts into viable commercial production while retaining control over our technical know-how, quality standards and production cost as well as maintaining a flexible capacity in the entire value chain.

## BUSINESS

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The following diagram shows the management structure of our Group and identifies the major departments and business divisions.



## DESIGN AND CREATION

### Overview

We believe we are known for our leadership in design and our uncompromising focus on quality. Our untiring curiosity about the world, society and culture has been at the core of our creativity, consistently reflected in all of our brands. We engage in a continuous process of re-invention and innovation as we seek to allow our collections to evolve in line with modern trends while preserving the individual heritage and identity of each brand.

The design and creation of our collections are essential to our business as they establish the core characteristics and identity for our products. For our Prada and Miu Miu brands, we typically begin the development of main collections approximately three months prior to releasing it in showrooms and approximately six weeks before the fashion shows. The collections are presented twice annually, the fall/winter collections between January and March, and the spring/summer collections between June and October. Church's and Car Shoe collections, which do not have fashion shows, undergo similar design and creation processes prior to their release in their showrooms twice a year.

## **BUSINESS**

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We believe that the originality of an idea can translate into business success only if the design and the creative work are closely coordinated with the production, distribution and communication processes. By controlling the initial prototype and sample production at our in-house facilities, we are able to set the technical specifications that ensure we maintain our strict quality standards while also gaining an essential control over costs and timing of production outsourcing. This technical know-how then translates into cost-effective industrial production while maintaining strict quality standards.

The design and creation process involves several phases including briefing and timing, sales analysis, definition of concept and guidelines, research, design, prototyping and fitting, samples approval, collection production and pricing. These phases, although conceptually distinct, are closely interconnected and sometimes overlap.

The development of our collections, which is similar for all our brands, involves design teams of approximately 60 people, headed by Ms. Miuccia Prada and includes designers (such as Mr. Fabio Zambonardi, the design director for both Prada and Miu Miu) and graphic artists. Design teams are supported by our product development department of approximately 750 people responsible for transforming our designs into prototypes. This coordinated process across departments provides us with a clear understanding of costs and production constraints before our products are launched on the market, and enables us to commercialize our stylistic concepts on an industrial scale economically and within production timelines required by the market.

For each of the three financial years ended January 31, 2009, 2010 and 2011, our design and product and development expenses were approximately € 88.2 million, € 96.8 million and € 97.2 million, respectively, representing approximately 5.4%, 6.2% and 4.7% of our net sales, respectively.

### **Briefing and Timing**

During this first stage we plan the collection design activities and outline our timing guidelines. This involves assigning responsibilities for each phase and coordinating the timeline of deliverable milestones for each stage among departments. This stage involves input from design teams, collection merchandisers and the collection co-coordination departments.

### **Sales Analysis**

During this stage our design team and collection merchandisers, consisting of 53 people for Prada, 13 for Miu Miu, 1 for Church's, and 1 for Car Shoe as at January 31, 2011, carefully analyze previous collections with special emphasis on understanding the materials used, market trends and customer purchasing trends. This data is then used to interpret and anticipate the market and customer trends.

## **BUSINESS**

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### **Definition of Concept**

Our design teams, which include our stylist Ms. Miuccia Prada and consist of 44 designers and graphic artists for Prada, 11 for Miu Miu, 1 for Church's, and 1 for Car Shoe, as at January 31, 2011, set more detailed guidelines to be followed by the departments and teams involved in the process of collection development.

### **Research**

Our design teams translate the analysis and interpretation of market and customer trends derived from the sales analysis into new ideas for each product line through a research and experimentation process. During this stage, the team for each brand first evaluates the sales analysis and the evolution of fashion history from a design-sensitive perspective. We then match our design concepts and ideas with our technical and industrial know-how by means of research and experimentation with new materials and color schemes. This allows us to assess the feasibility of developing our design ideas into full-scale production of a collection, as well as to evaluate the availability and procurement costs of raw materials, semi-finished products and accessories.

### **Design**

Based on the previous steps, the design teams prepare drawings and sketches of the products in the proposed collection for the production of prototypes, and develop the technical specifications for the materials and accessories to match the design of the collection. This process generates a complete collection of various products that are aimed to harmonize with each other to create a well-defined style that is consistent with the relevant brand image.

### **Prototyping and Fitting**

Once the design teams have developed their collection designs, they submit a technical form containing the drawings and technical specifications of the prototypes to the production development teams. As at January 31, 2011, the production development teams had approximately 750 employees of which there were 447 employees dedicated to Prada, 127 to Miu Miu, 25 to Church's and Car Shoe, with others working across brands. Our pattern-making group first develops a pattern for each prototype by reproducing the shapes of the finished product on paper, from which a prototype can be created at our prototyping workshop. Our individual design teams, together with our product development teams, then match the relevant prototypes against their original designs and make necessary technical adjustments to ensure that the prototypes adhere to our original design concepts and can be replicated on an industrial scale efficiently and with cost effectiveness. Each prototype is fitted

## **BUSINESS**

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on models and assessed for its style and technical qualities. A sales price is proposed for each prototype in major currencies. Currently, we internally produce the vast majority of the Prada and Miu Miu prototypes, and almost all of the prototypes for Church's and Car Shoe.

We believe that our capability to coordinate the design and production functions in our own facilities allows us to develop initial prototypes that faithfully reproduce our original designs, retain the control of our technical know-how, and derive detailed technical specifications for efficient and cost-effective industrial production in-house as well as through third-party manufacturers. We also set the technical specifications and define the production steps for our external manufacturers to maintain quality and consistency and improve production efficiency.

### **Samples Approval and Collection Production**

The final collection is determined based on the finalized and approved samples together with sales prices and the calculated production costs. We then complete the manufacturing process for samples to be displayed in the showrooms for sales campaigns and buying sessions.

### **Pricing**

Once samples have been approved, our collection merchandisers and our commercial department work together to determine a price for each product by country in local currency. When setting prices we also take into account specific market analysis and consult our merchandising teams in our main markets to ensure that sales prices are consistent with competitor pricing, relative foreign exchange and VAT differences among countries and local consumers' spending power.

### **Flash Collections and Monthly Packages**

In addition to the process described above which relates to our main collections and show collections, we also design and produce "flash collections", whereby we regularly supplement our main collections with variations through a leaner process aimed to refresh and replenish the merchandise offerings at our DOS with a constant flow of new products, creating new sales opportunities for us, and enabling us to respond quickly to changes in fashion trends. It generally takes approximately four to six weeks from design to the placement of the flash collection in our DOS.

We also produce "monthly packages", which are regularly planned special collections that are produced for specific events and are mainly available in our DOS network for a limited period of about a month. For example, we introduce monthly packages prior to special days such as Christmas and St. Valentine's day.

## **BUSINESS**

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### **FASHION SHOWS**

#### **Overview**

Fashion shows represent one of our key communication opportunities, and the effective presentation of our Prada and Miu Miu collections at the fashion shows is an important part of our brand development strategy. We devote a considerable amount of attention to the organization and execution of each fashion show. We believe that fashion shows offer the best opportunity for us to deliver a powerful presentation of the styles and designs embodied in our collections. Our fashion shows typically capture the attention of international fashion editors and the general media.

In general, we organize six fashion shows every year during various fashion weeks. Four Prada fashion shows are held in Milan, two of which are held in January and February for the fall/winter collections for men and women, respectively, and two are held in June and September for the spring/summer collections for men and women, respectively. Another two fashion shows are held in Paris for Miu Miu, one for its fall/winter collection held between February and March and another for its spring/summer collection held between September and October. In addition to these regular fashion shows, we may also hold special fashion show events during the year as part of our publicity and communications strategy. See “— Communications and Public Relations — Marketing Events and Projects” in this section of the prospectus for more information.

#### **Catwalk Implementation**

We seek to organize Prada and Miu Miu fashion shows with an innovative approach to conveying the design concepts of each collection. The design team whose collection is being presented first selects a theme for the fashion show which reinforces the collection’s spirit. The relevant production team, marketing and communication managers, and engineering and information technology managers are all actively involved in the preparation of the fashion show to ensure that the set-up, layout, lighting, music and all other scenic components of the show work together to focus the audience’s attention on the products displayed on the catwalk and to communicate a coherent design theme for the viewers. Since our fashion shows are intended to present an overall concept of design and style, our models on the catwalk do not just wear apparel, but also present shoes, bags, eyewear and other accessories that belong to the individual brand’s collection.

## **BUSINESS**

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### ***Event Coordination***

Invitees to our fashion shows include buyers from all over the world, journalists from leading international publications as well as celebrities. Our communications team may also organize some events in combination with the fashion show in order to strengthen our relationship with our customers and the fashion press.

### **COMMUNICATIONS AND PUBLIC RELATIONS**

We believe that effective communication is imperative to building and maintaining a unique brand image. From opening Epicenter Stores to stimulate the interaction of art, culture and architecture, to cross-cultural collaborations and the sponsorship of sporting events, we believe these events enable us to create and maintain an appealing and stylistic image that attracts an international and sophisticated customer base.

Our communications and public relations department is organized at the group level with separate teams covering each of the brands. We believe that this organization model allows us to gain strategic efficiencies across brands while maintaining individual brand identities and communication plans. We had a total of 106 people worldwide working in the communications and public relations department across brands as at January 31, 2011. Our communications and public relations department based in Milan coordinates our global marketing functions, ranging from external communications, media planning, advertising campaigns, relationship management of VIPs and celebrities, organization of events and commercial activities, as well as website management. Each of these communications activities is tailored to the specific brands, with careful attention being paid to the appropriateness of the event in keeping the brand image. We approach celebrities on a brand-by-brand basis to wear our ready-to-wear or to use our products on various occasions, ranging from the Academy Awards to their vacation activities, to ensure that the celebrity accurately conveys the image of the particular brand.

For each of the three financial years ended January 31, 2009, 2010 and 2011, our advertising and promotion expenses were approximately €99.5 million, €75.8 million and €85.1 million, representing approximately 6.1%, 4.9% and 4.2% of our net revenues, respectively.

## BUSINESS

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### Advertising Campaigns

In general, we run up to 11 advertising campaigns per year mostly tailored for the new collections of our brands as follows:

Brands	Number of Campaigns	Collection
Prada	2	Women's spring/summer collection and fall/winter collection
	2	Men's spring/summer collection and fall/winter collection
	1	Optional single pre-collection campaign entitled "Cruise"
Miu Miu	2	Spring/summer collection and fall/winter collection
Church's	2	Spring/summer collection and fall/winter collection
Car Shoe	2	Spring/summer collection and fall/winter collection

These advertising campaigns, which we organize and manage internally on an individual basis for each brand, are vitally important to each brand's image. Our communication managers carefully evaluate the campaign content in collaboration with style executives, collection merchandisers and retail functions which handle the individual brands. The purpose of this evaluation is to verify that the products advertised and the messages conveyed are consistent with the characteristic traits of each brand to preserve its distinct identity. These campaigns primarily include advertisements in the press, such as newspapers, national and international fashion magazines, and billboards, occasionally involve "still-life shooting" dedicated to the launch of specific new products, and may also coincide with entry into new markets.

### Marketing Events and Projects

In addition to our regular fashion shows, we also organize shows and events to help raise the brands' profiles and increase awareness of the most recent collections in local markets worldwide. For example, following the success of the Prada 2011 spring/summer collection fashion show in Beijing, China at the Central Academy of Fine Arts Museum in January 2011, we plan to host special event fashion shows for Prada in Tokyo and Miu Miu in Shanghai during 2011. Besides presenting new products, these events are designed to raise the profile of the brand and enhance its image, as well as to promote a direct involvement of our customers and journalists through exclusive parties or dinners.

We believe arts and cultural events are also crucial to the promotion of the image of our brands and the caliber of our creativity. These events are frequently held at our multi-purpose stores, such as our Epicenter Stores, where we host movie showings, exhibitions and debates. In 2004, we launched the "Waist Down" skirt exhibition at the Tokyo Epicenter Store, which subsequently expanded to New York and Los Angeles. In 2008, we presented a short animated film for Prada entitled "Trembled Blossoms", which represented dreamlike situations inspired by Prada's spring/summer 2008 collection. In 2009, Prada Transformer, a futuristic building designed in

## BUSINESS

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collaboration with renowned architect Rem Koolhaas, was built in Seoul, Korea to hold events for art, cinema, fashion and culture. The opening event lasted for four months and generated extensive and positive editorial coverage not only in Korea, but throughout Asia and around the world.

We have sought also to maintain our image through selective sponsorship of sporting events. We sponsored the participation of the Luna Rossa Challenge team in the America's Cup sailing races in 2000, 2003 and 2007. This led to the development of a sport clothing and accessories line associating the Prada brand with one of the world's most prestigious international sporting competitions.

### **Editorial Management**

Our brands, such as Prada and Miu Miu, are featured prominently on the front covers of fashion magazines and other media worldwide. We believe that the covers and editorial coverage in fashion magazines contribute to the visibility of our brands. During the financial year ended January 31, 2011, our brands had over 360 dedicated front covers of which 260 were for Prada, 100 for Miu Miu, four for Church's and three for Car Shoe. In addition, our brands appeared in more than 14,000 pages of editorials in key markets, which presents significant value in terms of free advertising and profile raising. For example, during the financial year ended January 31, 2011, Prada appeared in more than 10,000 pages, equivalent to approximately € 160 million of advertising costs, and Miu Miu appeared in more than 4,000 pages, the equivalent of approximately € 60 million in advertising costs. Church's appeared in more than 360 editorials, the equivalent of approximately € 7 million in advertising costs, and Car Shoe appeared in more than 160 editorials, the equivalent of approximately € 2.7 million.

We manage each brand's editorial coverage separately, and the contents are carefully reviewed and followed by the communication managers and our design teams responsible for each brand. Our fashion press office works closely with fashion editors and frequently updates them with news and information about our activities with the aim of generating favorable press coverage.

### **Internet**

We have created a website for each of our brands ([www.prada.com](http://www.prada.com), [www.miumiu.com](http://www.miumiu.com), [www.church-footwear.com](http://www.church-footwear.com) and [www.carshoe.com](http://www.carshoe.com)), to increase their profile on the internet, to provide easy access to information on such brands and products, and to enhance their identity and image through cross-channel marketing. Prada's and Miu Miu's websites contain videos of their fashion shows, pictures of their latest and past collections, movies and pictures of the advertising campaigns as well as information of their marketing projects

## **BUSINESS**

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and stores. These two websites are typically decorated with pictures from the advertising campaigns to reinforce the luxurious and stylistic image of Prada or Miu Miu. Church's and Car Shoe's websites contain information on their history, products and stores.

### **COLLECTION OF ORDERS**

We present new collections separately for each brand and product category in our showrooms, after which order collection commences for a duration of approximately four weeks. We collect orders after the release of each new Prada or Miu Miu main collection in a fashion show. Church's and Car Shoe brands do not have fashion shows, and their new collections are also displayed at showrooms during the order collection period. We have different order collection mechanisms for our retail and wholesale distribution channels as described below.

#### **Retail**

Orders for our retail channels are taken through a centralized order system. Representatives of the design team present the new collection to the retail merchandisers from the headquarters as well as the regional distribution subsidiaries at the showrooms before the "buying session". Our retail merchandisers select the products to be offered in our global DOS network during the following months and work with the commercial department to compile a worldwide master order.

Based on the finalized worldwide master order, retail merchandisers from each country will then select an assortment of products to propose the country order, taking into account the budget agreed with the commercial department as well as the recommendations on product mix. As soon as the country order is validated it is immediately passed to our production divisions.

#### **Wholesale**

Buyers from our wholesale clients visit our showrooms during the sales campaign and place purchase orders. Collection merchandisers from our commercial department and sales department make recommendations on product mix, purchase quantities and display set-up based on each wholesale client's budget, with an objective to maintain the prestigious status and image of our brands. Our wholesale clients purchase goods from us at a sell-in price pre-determined by our commercial department, which is the same as the sell-in price we invoice to our subsidiaries (on a country-by-country basis). Our wholesale clients' purchases are governed by the terms and conditions set out in our standard form purchase orders.

Our commercial department monitors orders gathered from wholesale clients for each collection on a daily basis. These orders, together with those coming from our retail merchandisers, are automatically interfaced with the ERP

## BUSINESS

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system, allowing our industrial department to start sourcing raw materials and accessories to start planning production to fulfill orders and meet efficiency targets. The results of the collected wholesale orders provide us with an insight into purchasing patterns and allow us to anticipate consumer demand for the upcoming season.

### SALES DISTRIBUTION

We strive to reinforce the value and image of each brand through our own DOS and selected high-end independent distributors, with the goal of providing customers with a unique shopping experience. We sell our products in over 70 countries through our global sales network of 319 DOS and approximately 1,400 wholesale clients (representing approximately 1,800 doors) as at January 31, 2011. For the three financial years ended January 31, 2009, 2010 and 2011, our DOS network generated approximately 54%, 65% and 71%, respectively, of our total net sales (excluding royalties), and our wholesale channel generated approximately 46%, 35% and 29%, respectively, of our total net sales.

The following table sets forth the amount of our net sales for the two distribution channels and the percentage of total net sales represented by the channel for the periods indicated.

	Year Ended January 31,						
	2009		2010		2011		CAGR
	(€ in millions, except percentages)						
Retail	871.3	54.3%	991.5	64.8%	1,427.4	70.8%	28.0%
Wholesale	732.9	45.7%	539.1	35.2%	589.7	29.2%	(10.3)%
Total net sales	1,604.1	100.0%	1,530.6	100.0%	2,017.1	100.0%	12.1%

As at January 31, 2011, our five largest wholesale clients (excluding the Prada Family) included two renowned luxury department store groups in the US; two Korean companies operating retail distribution business through their hotel and duty-free networks; and an Italian group which operates multi-brand boutiques in Northern Italy. We have established commercial relationships with these wholesale clients for between 14 and 32 years.

Sales to our five largest wholesale clients (excluding the Prada Family) accounted for 9.0%, 6.7% and 7.1% of our total sales for the three years ended January 31, 2009, 2010 and 2011, respectively, or 10.0%, 7.7% and 7.6% if the Prada Family is considered as one of our five largest wholesale clients. Sales to our largest wholesale client accounted for 3.0%, 2.2% and 2.1% of our total sales for the three years ended January 31, 2009, 2010 and 2011, respectively. As at the Latest Practicable Date, other than the Prada Family, as discussed in the section headed "Relationship with our Controlling Shareholders and Connected Transactions — Continuing Connected Transactions Subject to the Reporting and Announcement Requirements of the Listing Rules — Non-exempt Continuing Connected Transactions with Companies Controlled by

## BUSINESS

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Prada Family — Franchise Agreement — Prada Milan Stores” in this prospectus, none of the Directors or any of their respective associates or any person who, to the best of the Directors’ knowledge, owns 5% or more of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our five largest wholesale clients.

### Retail

#### DOS

We believe that having a broad network of DOS is crucial to our strategy for developing a close relationship with our clientele and facilitating communication of the concepts, styles and values embodied in each brand’s collections. As at January 31, 2011, our DOS network consisted of 37 DOS in Italy, 88 DOS in the rest of Europe, 34 DOS in North America, 56 DOS in Japan and 104 DOS in Asia Pacific, which collectively generated 71% of our net sales in the financial year ended January 31, 2011. In each of the three financial years ended January 31, 2009, 2010 and 2011, we opened 34, 35 and 59 new DOS and closed 7, 8 and 5 DOS, respectively. The following tables show the locations of our DOS by brand as at the dates indicated.

As at January 31, 2009					
	Prada	Miu Miu	Church’s	Car Shoe	Total
Italy	19	4	6	2	31
Rest of Europe	31	10	22	—	63
North America	14	3	3	—	20
Japan	42	10	—	—	52
Asia Pacific	60	9	3	—	72
Total	166	36	34	2	238

As at January 31, 2010					
	Prada	Miu Miu	Church’s	Car Shoe	Total
Italy	18	4	6	3	31
Rest of Europe	36	13	24	—	73
North America	15	5	1	—	21
Japan	41	12	—	—	53
Asia Pacific	67	17	3	—	87
Total	177	51	34	3	265

As at January 31, 2011					
	Prada	Miu Miu	Church’s	Car Shoe	Total
Italy	19	8	7	3	37
Rest of Europe	46	18	24	—	88
North America	26	7	1	—	34
Japan	43	13	—	—	56
Asia Pacific	73	25	4	2	104
Total	207	71	36	5	319

## BUSINESS

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In addition, as part of our DOS expansion strategy, on December 22, 2010 we entered into a joint-venture agreement with Al Tayer Insignia LLC, a leading luxury retailer in the Middle East based in the United Arab Emirates. The joint-venture company, in which we have a 60% controlling interest, will be headquartered in Dubai and allow us to invest in companies to open new DOS in Dubai and certain other areas within the Middle East.

Our DOS, including 301 mono-brand boutiques and 18 outlets as at January 31, 2011, are strategically located at prestigious, highly visible venues that we select specifically to reinforce the image of heritage, class and exclusivity carried by our brands. Store locations are chosen based on their position on the most important luxury shopping streets around the world and by their position inside high-end shopping centers, also taking into consideration the size and shape of the space as well as the brand mix of neighboring retailers. Based on these factors, we present an annual list of proposed locations for initial approval to the board of directors of Prada S.A., owner of the brands. Our Group's dedicated store committee is responsible for approving all new store locations and business plans. Whenever a new DOS is proposed, the regional or country manager will present the location statistics, business plans and expected financial projections, for discussion, revision and approval by the store committee. Once the store committee has approved the project, it is sent to our Deputy Chairman and CEO for final approval.

Each DOS (excluding outlets) sells one brand only to strengthen brand identity. Generally, a DOS can sell all lines of products of a brand or focus on certain categories of products depending on the size and location of the individual store. Our outlet stores offer products from previous seasons' collections, factory seconds, samples as well as products that we specifically produce for the outlet stores, integrating styles, colors and sizes in order to provide a complete assortment of products. Each of our DOS is designed, built and operated in accordance with precise internal guidelines that reflect our innovative distribution and communication concepts and to mirror the distinctive positioning of each brand. We continuously improve and refurbish our DOS on average every five to seven years. The interior design and settings, such as furnishing and fitting of the DOS, are carefully designed by our engineering department in consultation with architects with whom we have had a long-standing relationship, while store windows and other visual displays are the fruits of close collaboration between our retail merchandisers and our visual merchandising team seeking consistency of brand identity, product presentation, collection style and the corresponding advertising campaign.

We believe the best representation for our innovative distribution strategy is our pioneering development of the Epicenter Concept Store Program in the early 2000s, aimed at re-inventing the shopping experience and experimenting on innovative interactions with customers. The three Prada Epicenter Stores are large stores designed in collaboration with internationally renowned

## BUSINESS

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architects: the New York Epicenter Store designed by Rem Koolhaas, which opened in 2001, the Tokyo Epicenter Store designed by Herzog & de Meuron, which opened in 2003, and the Los Angeles Epicenter Store designed by Rem Koolhaas, which opened in 2004. These Epicenters are “creative laboratories” where fashion meets art and culture, as luxury products, technology and design blend with exclusive services and sensory and audio-visual experiences.

All DOS are managed by carefully selected and trained staff whom we expect to provide first-class service to our customers. We monitor the performance of each DOS through daily, bi-weekly, weekly and monthly sales reports, monthly expense reports and quarterly profit and loss reports for each individual DOS. In addition, our IT system enables us to monitor in real-time store sales and stock supplies. We may close a DOS for various reasons, including the protection of our brand image (e.g. after other luxury brands in the vicinity also close their stores), the re-branding of a store from one brand to another, non-satisfactory performance, the relocation of a store when the closure and the re-opening happen in different financial years, the temporary close of a department store due to its refurbishment, the permanent closure of a department store and store consolidation. During the Track Record Period we closed 20 DOS (7, 8 and 5 in the financial years ended January 31, 2009, 2010 and 2011, respectively).

### ***E-Commerce***

Our commercial team and communication and public relations team collaborated to launch Prada’s, Miu Miu’s, Church’s and Car Shoe’s e-commerce initiatives through each of their respective websites. While still in its initial phase, we believe our e-commerce retail channel will develop significant business for us in the future. In the financial year ended January 31, 2011, our e-commerce retail channel generated approximately € 1.9 million.

The Prada e-commerce site [www.prada.com](http://www.prada.com) currently features a limited number of products, mainly leather goods and accessories, and operates in Italy/Europe, the US and Japan, with plans to launch in China soon. Church’s e-commerce website features a wide array of products both for men and women, including accessories, and operates in Europe. Car Shoe’s e-commerce website currently features the best sellers for both men and women. Miu Miu’s e-commerce site was launched recently in April 2011.

### **Wholesale**

Our wholesale channel comprises sales to reputable luxury department stores and upscale multi-brand stores with extensive experience in selling fashion and luxury goods, and also franchise stores operated by our franchisees. As at January 31, 2011, we had approximately, 1,400 wholesale clients (representing more than 1,800 doors), among which there were approximately 640 clients in Italy, approximately 600 clients in the rest of Europe, approximately 55 clients

## BUSINESS

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in North America, 20 in Japan and almost 30 clients in the rest of Asia Pacific. We have maintained long-term relationships of more than five years with our top ten customers by value for the financial year ended January 31, 2011, which constituted more than 30% of our total net sales attributable to the wholesale channel for the same year.

Among our wholesale clients, as at January 31, 2011, there were 33 mono-brand franchise stores operated through 9 franchisees in locations where, for various reasons, we have decided to operate indirectly. For example, the five Prada stores in Milan are operated by the Prada Family as franchise stores due to an historical agreement among our shareholders at the establishment of Prada Holding B.V. to exclude the Milan stores from the contributed assets. Likewise, in Switzerland, we have kept an historical franchise relationship with a major Swiss luxury brand distributor that has been in place well before our DOS expansion. In Korea and Taiwan, as required by local laws we operate in the duty-free markets through our franchisees, which are reputable local duty-free operators specialized in distribution of luxury goods. In the Philippines and Indonesia, we do not operate DOS but have operated through franchise arrangements with local well-known partners in order to limit our exposure to the risks associated with business operations in markets with evolving legal and business structures. In Russia, we chose to enter the market initially through franchise arrangements with a prominent Russian luxury distributor to allow us to gain an understanding of the market prior to committing our full efforts and resources at developing a DOS network. Except for the Prada Family, all our franchisees are independent third parties. Due to the specific circumstances where we enter into franchise arrangements as discussed above, we do not generally experience cannibalization of our DOS sales by our franchise stores. As at January 31, 2011, we had 2 franchisees operating 10 franchise stores in Korea, 2 franchisees operating 2 franchise stores in Taiwan, 1 franchisee operating 7 franchise stores in Russia, 2 franchisees operating 3 franchise stores in Indonesia and the Philippines, and 1 franchisee operating 6 franchise stores in Switzerland.

We usually enter into franchise agreements with our franchisees for a term of one to five years. Some of our franchisees pay us royalties for the right to use the trademarks of our brands based on an agreed percentage of the franchisees' purchases from us, and our franchisees purchase our products at a sell-in price. Revenues from our franchise stores for the financial years ended January 31, 2009, 2010 and 2011 constituted 4.7%, 5.0% and 5.0% of our total net sales, respectively. Royalties from our franchisees in the three financial years ended January 31, 2009, 2010 and 2011 were € 2.3 million, € 1.6 million, and € 1.7 million, respectively. We exercise strict control over the store operations of our franchisees to enforce their contractual obligations to maintain the stores' quality standards, product assortment and display, and provide personnel training to them through regular visits of our internal personnel. We monitor our franchise store performance through regular sales

## BUSINESS

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reports (ranging from daily to monthly) submitted by our franchisees. Our franchisees are responsible for ensuring that they comply with local laws and regulations and we do not have any legal liabilities resulting from the operations of the franchise stores.

With respect to our multibrand wholesale clients, our commercial department selects our wholesale clients based on strict criteria to assess the client's location, target customers, market knowledge and experience, consistency with the positioning and image of our brands, service quality to customers and display arrangement of our products. We dedicate specialized resources to manage the relationship with our wholesale clients. Our wholesale team often visits our wholesale clients to monitor the display of our products to ensure that each brand's image is properly presented. We also provide training to the staff of our key wholesale clients at the time of each season's sales campaigns, fashion shows, and for the more important clients, dedicated visits to ensure that the products are presented to the customers and displayed consistently with the image of each brand and the theme of each collection. We do not make any financial commitments to them, but collaborate with them in the design of spaces and display of products. We do not set contractual minimum purchase thresholds or performance targets for our wholesale clients, but do discuss our expectations with them, which form one of the criteria for assessing the continuance of our commercial relationships with them. We suggest retail prices at which to sell our products, but wholesale clients are free to determine the retail prices. However, we take into account their pricing practice when we assess their suitability for distributing our products. If a wholesale client continually deviates from our policies in terms of brand mix, product display and pricing practice, including our mark-down policies, we may consider terminating the relationship to protect our brand image. Our wholesale clients are responsible for ensuring that they comply with local laws and regulations.

We do not have fixed term arrangements with our wholesale clients who place purchase orders for our products during the seasonal sales campaigns, which are subject to our acceptance in whole or in part by order confirmations. Purchases by our wholesale clients are governed by the terms and conditions set out in the purchase orders. Under our standard terms and conditions, our wholesale clients are committed to sell our products at authorized points of sale directly to consumers only. Delay in delivery will not entitle our clients to cancel the confirmed order or to recover damages from us. We may cancel, discontinue or replace particular products or lines of products in response to production requirements and market demands. Our wholesale clients are usually expected to settle invoices within 30 to 90 days. If a product fails to conform to the description of the order, or is defective, we may at our discretion repair or replace the products or return the purchase price to the clients. Our wholesale clients, other than the Milan franchise stores and the Korean duty-free stores, do not have the right to return any unsold products at the end of the season. Pursuant to the terms and conditions of the purchase

## **BUSINESS**

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orders, we have the right to terminate our commercial relationship with a wholesale client under various conditions, such as payment default by or insolvency of the client, sales of our products by the client through unauthorized channels, and opening of our DOS in the same city as the client's store location upon six month's prior notice. During the Track Record Period, the Group has reduced by approximately 20% its number of wholesale clients as a result of the worldwide economic downturn experienced in 2008 and 2009, as well as by voluntary decision to terminate certain clients for reasons including the sub-standard image of our brands conveyed by some wholesale clients, parallel exporting of our products and our retail focused strategy of expanding our DOS network which resulted in selective reduction of our wholesale network.

We monitor the sales and inventory level of our wholesale clients through the periodic report from our US clients and our discussions with other wholesale clients during sales campaigns and client visits. We also receive signboard royalties from some of our franchise clients for use of our brands in their signage.

### **PRODUCTION STAGES**

We pay close attention to our industrial process management which allows our Group to offer high-quality and exclusive products to our customers. Our industrial management team coordinates and supervises the entire production process from sourcing of raw materials to internal and external productions to deliver quality of craftsmanship in our products to our customers.

### **Materials Sourcing**

We attribute significant importance to our procurements process as we believe it is crucial to achieving excellence in product quality efficiency and delivery on time.

We strictly select our suppliers and procure materials mainly from those with whom we have a well-established relationship. The purchase department works together with our production teams to plan procurement of raw materials and accessories in accordance with estimated quantities coming from the sales campaigns and buying sessions for the coming season. We also carefully choose raw materials and accessories, which are sometimes exclusively made for us based on our very detailed specifications. To ensure quality standards we use dedicated inspectors to check the ongoing off-site production process. The quality control of the incoming goods delivered by our suppliers is performed in our warehouses by our own employees.

## BUSINESS

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We have stable and long-term relationships with many of our key suppliers, who have a track record of reliable quality. Given the amount of business we direct to many of our suppliers and the long-term relationships we have, we believe our suppliers give priority to our procurement needs. We usually purchase raw materials and accessories under negotiated terms and conditions for each production season that remain valid for six months, without entering into framework contracts, long-term contracts or other agreements that would require us to buy minimum quantities for the season or similar arrangements. Our purchases of raw materials and accessories are subject to an average payment term of 90 days. During the Track Record Period, we have not experienced any shortages or delays in delivery of raw materials required for our production that had a material adverse effect on our operations or performance.

### ***Raw materials***

Our purchase managers closely monitor incoming orders of our products to determine our raw material requirements. We purchase our primary raw materials before the presentation of our new collection in the showrooms, and adjust the ordered quantities after collection of orders to match actual production needs. We purchase special raw materials that we use for our most innovative lines after the buying sessions and sales campaigns end, to minimize inventory risks.

The primary raw materials we use include leather, fabrics and yarns. We purchase tanned leather that is made of calf, sheep, goat and deer skins. We also purchase crocodile, lizard, ostrich and python skins, in compliance with international regulations on the importation and use of the skins of protected animal species.

We use a wide variety of both natural and synthetic fabrics. Considerable effort is devoted to the research of and experimentation with new materials to keep individual brand identities fresh. We sometimes work with suppliers to develop highly exclusive materials for our innovative products, or to create patterns and styles for our exclusive use.

We believe that the large quantity of fabrics and leathers used in the production of our products allows us to develop relationships with quality fabric makers and tanneries around the world, who will give priority to our procurement needs. During the financial year ended January 31, 2011, we purchased materials from over 450 raw material suppliers.

## BUSINESS

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### ***Accessories***

Our products are made with great attention to detail. We use accessories such as customized metal fittings, buttons, zippers and semi-precious stones in our products. Our design department establishes the specifications of these accessories and we engage external manufacturers to create prototypes and moulds for our production.

Metal accessories are designed by a specific department that establishes all features such as size, purpose and color in the design phase. Prototypes are made by external artisans. These materials are typically used in large quantities, therefore bespoke moulds are made for their production in accordance with our specifications.

### **Industrial Manufacturing**

As at January 31, 2011, our products were made in our ten in-house production facilities in Italy and one in the United Kingdom, and also through a network of approximately 480 external manufacturers, approximately 390 of which were located in Italy, whom we select for their craftsmanship skills and reliability. In the financial year ended January 31, 2011, approximately 20% of our finished products were produced in our in-house production facilities (which include products where at least one important phase of the production process was performed internally), while the remaining 80% of our finished products were produced by our external manufacturers. Our production divisions, in collaboration with our industrial management team, are responsible for both internal and external production as well as materials procurement. We exercise strict control over the whole production process to maximize flexibility of our production capacity and efficiency and to achieve high quality of our products.

### ***In-house manufacturing***

We have three distinct in-house production divisions for leather goods, footwear and ready-to-wear products, which enable us to develop the vast majority of our prototypes and the majority of our collection samples that are presented in the showrooms during the order collection period, as well as to produce a portion of our final products. We consider a product to be produced internally when at least one important phase in its production process that is critical to meeting our high technical and quality standards is made at one of our in-house production facilities and/or a significant portion of production hours are spent at our in-house production facilities.

## BUSINESS

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We have 11 in-house production sites, of which ten are located in Italy, and one in the United Kingdom. The following table sets forth information relating to each of our in-house production facilities as at January 31, 2011.

Location	Products	Brands	Headcount
Arezzo, Italy	Leather goods — belts	Prada, Miu Miu	34
Civitanova Marche, Macerata, Italy	Men's shoes	Prada	40
Dolo, Venice, Italy	Women's shoes	Miu Miu	54
Fucecchio, Florence, Italy	Leather ready-to-wear	Prada, Miu Miu	21
Levane, Arezzo, Italy	Women's shoes	Prada	309
Montegranaro, Fermo, Italy	Men's shoes	Prada	106
Montone, Perugia, Italy	Ready-to-wear	Prada	87
Northampton, United Kingdom	Men's shoes	Church's	330
Piancastagnaio, Siena, Italy	Leather goods — bags	Prada, Miu Miu	47
Scandicci, Florence, Italy	Leather goods — bags	Prada, Miu Miu	35
Torgiano, Perugia, Italy	Knitwear	Prada	26

Our in-house production capability is of strategic importance to us. On the one hand, we can retain and upgrade our technical know-how through our own production, while on the other hand, it provides us with more control over quality, production costs and timing, particularly in relation to production outsourced to external manufacturers. Our production staff based at our production sites also support and supervise our external manufacturers and enhance the flexibility of our overall production capacity.

### **Outsourcing**

We outsource most of the manufacturing of our semi-finished and finished products to external manufacturers thus granting flexibility to our production process.

As at January 31, 2011, we had established long-term and stable relationships with most of our external manufacturers, mostly located in industrial districts in Italy, as well as with manufacturers located outside of Italy such as China, Vietnam, Turkey and Romania, to produce finished products for us. Our external manufacturers are carefully chosen based on the quality of their work and their well-established relationship with our team. Given the scale of our outsourcing and the good relationship we have, we believe our external manufacturers give priority to our production needs. For the three financial years ended January 31, 2009, 2010, and 2011, the amounts we paid to external manufacturers for outsourcing arrangements were € 244.6 million, € 203.1 million and € 255.4 million, respectively.

As at January 31, 2011 our five largest external manufacturers included: a Hong Kong listed quality footwear manufacturer which also designs, develops and manufactures footwear for several other high-end fashion brands; a Turkish developer and producer of shoes, bags and other leather accessories with a tannery and metal accessories factory; an Istanbul Stock Exchange listed leather

## BUSINESS

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producer; a Taiwanese footwear manufacturer for sports brands; and an Italian manufacturer of high-quality men's suits and jackets. We have developed business relationships with these external manufacturers for between four and eight years.

Given the flexibility required by our production needs, with the requirements changing from one season to another in terms of styles, fabrics and quantities, we have not entered into framework contracts or long-term commitments with any of our external manufacturers, and we place orders with them based on negotiated terms and conditions. In general, we are subject to an average payment term of 30 to 90 days, and the outsourcing contracts can be terminated by us immediately under certain circumstances and by either party generally with six months' notice, which is common practice in the industry (because under Italian law, contracts with no fixed term may be terminated by either party with a reasonable termination period, which is normally considered to be six months.) These contracts specify quality specifications, cost, delivery requirements and penalties for delayed delivery. Our outsourcing contracts are drafted with our piracy prevention objectives in mind. The raw materials we provide to our external manufacturers are contractually limited to the quantity required to meet the orders for our products. External manufacturers are also specifically committed to comply with the intellectual property requirements and confidentiality restrictions in relation to the designs and specifications we supply for production. Moreover, we require all external manufacturers to sign a code of conduct and commit to abide by all laws and applicable regulations. Any breach of the code of conduct by an external manufacturer may result in the termination of its outsourcing contract.

Our inspectors are responsible for ensuring that our external manufacturers' finished products meet our stringent quality standards. Inspectors are designated to check the external manufacturers' production procedures and their conformity to our designs and specifications on a regular basis. They also help our external manufacturers to resolve any technical production problems. We believe as a result of this close cooperation and these quality control measures, we have not had any material quality problems during the Track Record Period.

### **Relationship with Suppliers**

For the three financial years ended January 31, 2009, 2010 and 2011, purchases from our five largest raw material suppliers accounted for 14.5%, 16.3% and 17.8%, respectively, of our total purchases of raw materials by value, while purchases from our largest supplier accounted for 3.5%, 5.0% and 4.9%, respectively, of our total purchases of raw materials by value.

For the three financial years ended January 31, 2009, 2010 and 2011, purchases from our five largest external manufacturers accounted for 11.7%, 13.1% and

## **BUSINESS**

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16.3%, respectively, of our total purchases of outsourced products by value, while purchases from our largest external manufacturers accounted for 2.7%, 2.9% and 5.5%, respectively, of our total purchases of outsourced products by value.

As of the Latest Practicable Date, none of the Directors or any of their respective associates or any person who, to the best of the Directors' knowledge, owns 5% or more of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our five largest raw material suppliers or our five largest external manufacturers.

### **Quality Control**

We rigorously monitor the entire production cycle, whether inside or outside of our Group, in order to ensure that our products achieve our high quality standards. We employ dedicated internal and external specialists for quality control of the raw materials received from our suppliers and our finished products. As at January 31, 2011, our quality control team included approximately 170 employees, of which approximately 100 inspectors regularly visit each of our raw materials suppliers and their production sites, as well as those of our external manufacturers and our own production units to assess the production processes and the quality of the materials used for our products. Our quality control team consists of highly skilled professionals with extensive technical and product knowledge. We hire a portion of our inspectors from our internal pool of candidates who have at least 10 years of experience in our manufacturing departments with experience in product industrialization, sample production, or defective goods analysis. We also hire inspectors from external candidates who have at least 20 years of experience in quality control at other well-known luxury goods makers with a reputation for high quality and integrity. In order to effectively manage the quality of our products, we regularly inspect various production stages for products manufactured in-house and by external manufacturers before the final inspection of the finished products. With a close supervision of the overall production process, we can minimize the percentage of defective products.

We conduct sample quality checks on (i) the weight, material and color of individual supplies of fabrics and yarns; (ii) the look, thickness, texture and color of individual batches of leather and (iii) the functionality, color, weight and size of accessories. We return any batch of materials that fails our quality checks. As a result of these quality control measures, we have not had any material quality problems during the Track Record Period.

## BUSINESS

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### **Logistics and Inventory Management**

#### ***Transportation***

Our logistics department is responsible for organizing and managing the transportation of incoming raw materials and the outgoing flows of our finished products, preparing the relevant documents required for shipment, as well as the management of our warehouses.

Our wholly-owned subsidiary IPI Logistica S.r.l. is an IATA agent and a registered shipping agent in Italy, with relevant licenses and permits to arrange shipments of goods. Through IPI Logistica S.r.l. we are able to centrally manage the shipment of both raw materials and finished products, and to directly monitor and track each shipment, delivery and phase in the transportation process. As a registered shipping agent, IPI Logistica S.r.l. can efficiently handle the loading and unloading documentation, ensuring that the delivery of our goods is more efficient. Furthermore, since IPI Logistica S.r.l. is an IATA agent, it can negotiate transportation fares with airlines and other carriers directly without incurring intermediary expenses, allowing us to control costs.

We engage third-party transportation specialists to transport our goods by road, air or sea, based on factors such as distance to destination and urgency of the shipment. We enter into agreements with major transportation companies annually that provide guidelines for the commercial relationship and arrangement during the particular year. The terms of these agreements with these companies vary in accordance with circumstances relevant to particular deliveries. The terms provide for a non-exclusive arrangement that is not conditioned on minimum usage rates and are subject to usual terms and conditions regarding the standard terms of payment for the particular transportation company.

#### ***Warehousing and Inventory Management***

We store our raw materials in warehouses located close to our production sites and our production department is responsible for the management of such inventory. Our logistics department manages the inventory of all of our finished products, whether internally or externally produced, at our central warehouses in Italy. As at January 31, 2011, we had four central warehouses in Italy (of which two are outsourced) and one in the United Kingdom with regional warehouses in the US, Japan and Asia with a total gross floor area of more than 40,000 square meters.

For our customers in Europe, we ship the finished products from our central warehouses in Italy directly to the DOS and the wholesale clients. We ship our finished goods to two main regional warehouses located in Tokyo (outsourced)

## **BUSINESS**

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and Hong Kong, and minor regional warehouse in New York (outsourced), Seoul and Taipei. In addition to our central warehouses and our regional warehouses, we have a network of much smaller local warehouses mainly dedicated to stock goods in transit to nearby shops.

Our electronic sales and warehouse information system enables us to monitor sales and replenishment needs at DOS and facilitate our inventory management. We generally maintain two months' raw materials inventory on a rolling basis at our warehousing facilities, and we stock up two to four months volume of finished goods for our DOS network.

### **INFORMATION MANAGEMENT**

We maintain a comprehensive information management system in order to better control our business operations and to improve efficiency in our collection design, production, supply chain management, inventory control and sales. Our information management system is based on STEALTH, a specialized enterprise resource planning (ERP) software application for fashion industry which is dedicated to supply chain management and invoicing. STEALTH is interfaced with some SAP modules dedicated to logistics, retail, finance, purchasing of services, planning and controlling, human resources, etc.

Our information management system allows us to manage financial data as well as management information to steer our business in terms of design, production, logistics and retail processes. The SAP logistic/retail module captures and compiles sales and inventory information in "real time", facilitating the use of a semi-automatic replenishment tool for our DOS network.

### **INTELLECTUAL PROPERTY**

#### **Intellectual Property Protection**

Intellectual property rights are important to our business. Throughout the various countries where we operate, as at May 30, 2011, we had approximately 5,100 registered trademarks and approximately 200 applications for trademark registrations. We also own approximately 200 internet domain names. We register trademarks for our four brands usually under both composite and word mark categories. The trademarks Prada, Miu Miu, Luna Rossa are mostly registered in international classes which protect leather goods, apparel, shoes, eyewear, cosmetics and retail sale services. The Church's and Car Shoe trademarks are registered in international classes which protect leather goods, apparel and shoes, as well as retail sale services. In order to protect our innovative designs and production techniques, we have registered more than 50 designs and applied for registration for 2 patents, and are in the process of

## **BUSINESS**

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applying for other designs. Please refer to “Appendix V — Statutory and General Information — C. Further Information about Our Group’s Business — 2. Material Intellectual Property Rights of our Group” of this prospectus for more information on our intellectual property rights.

We place strong emphasis on the protection of our intellectual property rights and are vigilant in our monitoring of the market for possible trademarks and products infringements. We identify third-party applications for registration of trademarks that could be confused with our trademarks, and file opposition actions against the applications for, or the registration of, such trademarks in accordance with the laws and regulations of the relevant jurisdiction. We also cooperate with competent authorities in various jurisdictions to combat counterfeiting of our products.

We are committed, on a global scale, in cooperating with authorities responsible for implementing the laws to protect our intellectual property rights. In addition, we are member of several anti-counterfeiting organizations and we actively collaborate with several service providers around the world in order to fight against the threat of product forgery, including on the internet.

Our Company has not been subject to any material infringement of our intellectual property rights during the Track Record Period.

### **Licensing Agreements**

We have certain license agreements in force with selected manufacturers for the use of our brands in the production of certain products. In 2003, we entered into a worldwide exclusive license agreement with Luxottica, a major global eyeglasses producer, for the production and worldwide distribution of our eyewear products under Prada’s and Miu Miu’s trademarks for a term of ten years up to December 31, 2013. Pursuant to the license agreement, Luxottica has an option exercisable prior to December 31, 2012 to renew the license agreement for an additional term of five years up to December 31, 2018. Under the terms of the agreement, Luxottica undertakes all responsibilities associated with the manufacture of the eyewear products, including any third-party claims for damages, and agrees to maintain standards of quality that we set. We exercise control over the design of the eyewear collections and all marketing campaigns. The agreement also requires that the parties negotiate in good faith the pricing of single products. Either party may terminate this agreement prior to the agreed term in the event of a material breach that is not cured within 30 days of notice or the bankruptcy, liquidation or other winding-up procedure involving the other party. Following termination, Luxottica will cease to have any rights to use Prada’s and Miu Miu’s trademarks and must pay all outstanding amounts due to Prada for the then current year. The agreement provides that Luxottica shall pay Prada the royalties due on a quarterly basis, calculated based on an agreed percentage of the net sales generated by

## **BUSINESS**

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Luxottica retail and wholesale channels subject to minimum guaranteed sales. For the financial years ended January 31, 2009, 2010 and 2011, the licensing fee from Luxottica amounted to € 27.7 million, € 23.2 million and € 24.0 million, respectively.

In 2003, we granted a worldwide exclusive license to Fragrance and Skincare S.L., a joint venture established with Puig, a major cosmetics company in Spain, for the production and worldwide distribution of fragrances and cosmetics under the Prada trademark for a term of 15 years. On February 23, 2011, we signed a mutual termination of the joint venture with Puig, and Fragrance and Skincare S.L. became a wholly owned subsidiary of Puig. We received approximately € 3.5 million from Puig for the disposal of our interest in the joint venture to Puig, which was determined as a result of arm's length negotiations between the Company and Puig and was based on normal and commercial terms. The license agreement with Fragrance and Skincare S.L. was amended for a term of ten years starting from January 1, 2011 and will be subject to automatic renewal of a further ten years pursuant to certain commercial targets. The parties agreed upon an express termination clause that may be activated by either party in the event of material breaches. The agreement also provides us with the right to terminate the agreement should one of our competitors gain control of Fragrance and Skincare S.L., and provides Fragrance and Skincare S.L. with the right to terminate the agreement should we produce, or transfer to a third party the rights to produce perfumes and cosmetics under the Prada trademark. Under the terms of the agreement, the development, production and display of the fragrance products must meet our quality standards, and the parties are to cooperate on the choice of fragrance, product packaging and all marketing campaigns. The agreement provides that the payment of royalties shall be made no later than the 10th day of the month following receipt of Fragrance and Skincare S.L.'s quarterly reports of net sales, calculated based on an agreed percentage of the net sales to independent distributors and retailers. For the financial years ended January 31, 2009, 2010 and 2011, the licensing fee from Fragrance and Skincare S.L. amounted to € 5.1 million, € 3.8 million and € 3.6 million, respectively.

## **ENVIRONMENTAL PROTECTION**

Respect for the environment and a commitment to raise awareness of environmental protection issues are part of our core values specified in the Code of Ethics that applies equally to our Group and any entity that cooperates with us. Our business is subject to environmental regulation of general application. The industries in which we operate are not regulated by industry-specific environmental regulations. Our annual cost of compliance with environmental regulation has been less than € 200,000 during the Track Record Period and we do not expect such compliance cost for the financial year ended January 31, 2012 to be material.

## **BUSINESS**

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### **REGULATION**

As a manufacturer and seller of consumer products, our business and operations are subject to laws and regulations on general consumer protection and product safety. Compliance with the applicable laws and regulations is monitored by governmental and regulations authorities and the principal objective of these regulations is to ensure that the products placed on the market are safe and duly labeled and imported. Other than in respect of the import and export of some of our leather goods which may be subject to regulations on trade in wildlife and endangered species (as described below), the industries in which we operate are not subject to industry-specific laws and regulations.

### ***CITES***

The Washington Convention on International Trade in Endangered Species of Wild Fauna and Flora, more commonly know as CITES, aims to regulate the trade of specimens of endangered animals and plants by monitoring their exportation, re-exportation, importation, transit, transshipment or possession in member countries (which include Italy, the United States, Japan, China and Korea). CITES requires that certain products be accompanied by export or re-export permits upon importation or exportation.

### **INSURANCE**

We maintain a range of insurance coverage in relation to our business that is customary for our industry, including, without limitation, property damage and business interruption insurance, product liability insurance and carriage of goods insurance. We believe that our insurance coverage for the Track Record Period was adequate for our operations, and we have not made or been the subject of any material insurance claims. We are of the view that we have sufficient insurance to cover the potential liabilities arising from litigations arising from our ordinary course of business in material respects.

### **TAXATION CONTROLS**

We have a dedicated tax department consisting of 7 employees with an average of 15 years of experience in tax accounting, which is headed up by Mr. Paolo Besio who has more than 23 years of related tax experience. Our tax department is responsible for tax affairs of our group, general tax compliance activities and the establishment of our transfer pricing policies and guidelines. Our tax department is engaged in regular discussions with our CFO and finance department, which manages the daily finance operations, and with industrial

## BUSINESS

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and commercial departments to monitor and understand our business transactions which could have a tax impact. Our tax department also monitors our global group tax compliance through regular meetings and discussions with local CFOs and general managers of the subsidiaries, with external advisors to monitor tax compliance of the different subsidiaries. We also receive quarterly reports from each of our subsidiaries covering various tax issues such as local law compliance, calculations of tax liabilities, tax filings and payments, requests of information, audits and litigations. We regularly consult with local tax advisors in each of the jurisdictions in which we are subject to taxation. We do extensive research on tax laws and regulations, and consult with local tax advisors both when we initially enter into a new tax jurisdiction, to help establish our system of internal controls regarding tax compliance, as well as in connection with the filing of our annual tax returns.

Our tax department regularly monitors changes to the tax laws and regulations applicable to us and participates in tax conferences. Mr. Besio is also a member of various tax committees and organizations which allow him to keep abreast of the latest tax developments. We also receive regular updates from local tax advisors relating to changes in the tax laws and regulations as well as updates relating to interpretation guidelines.

As part of our internal controls we also maintain a regime of transfer pricing established with the help of our tax advisors to comply with applicable laws and practices in each jurisdiction in which we operate. We attempt to comply with tax laws, especially those related to intercompany transfer pricing on cross-border transactions, by following our internal control procedures. Our transfer pricing policy is based on the transfer pricing methods set forth by the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administration, which represents the current common views of the tax administrations of the OECD member countries (including the United States, Korea, Japan and all EU countries, among others) on how transfer prices between related parties should be assessed and measured and are the internationally recognized best practice on transfer pricing arrangements. We also consult with local tax advisors on the compliance of the selected transfer pricing methods with the transfer pricing rules applicable in various jurisdictions, including both OECD member countries and other countries where our subsidiaries operate.

In addition, as part of our efforts to control risks related to tax assessments or audits and to manage proactively our tax affairs, we have initiated various Advance Pricing Agreement (APA) procedures with the relevant local tax authorities, on unilateral, bilateral and multilateral bases, aimed at determining in advance the appropriate criteria for the proper determination of transfer prices with respect to our key inter-company transactions. In this regard, the APA procedure relating to one of the most significant transactions was successfully concluded in 2008 by entering into a binding agreement with the Italian tax authorities for the three-year period ended January 31, 2011. On May 27, 2011, the agreement was successfully extended for an additional period ending on January 31, 2014.

## **BUSINESS**

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We, like other businesses with international operations, are subject to periodic routine audits by tax authorities in the various countries in which we operate. The current status of the routine audits we have had during the course of the Track Record Period is that (a) either no further audit activities have been undertaken or express positive comments were received from the tax authorities in Canada, United States of America, Thailand, Taiwan and Korea; (b) we are in the process of providing the additional information requested by the tax authorities for audits in Hong Kong, China and Belgium; and (c) audit activities are currently being undertaken by the tax authorities in Germany and Japan.

In addition to these routine audits, during the Track Record Period, the Group was involved in two tax disputes in each of France, Korea and Italy, and one tax dispute in each of Japan and Germany, which we consider to be material or potentially material. In aggregate, we were involved in a total of 18 tax disputes over the Track Record Period. For each of the three years ended January 31, 2009, 2010 and 2011, we paid € 5.8 million, € 3.9 million and € 2.4 million in tax penalties, respectively. As of each of the three years ended January 31, 2009, 2010 and 2011, we made provisions for tax disputes for the amount of € 6.9 million, € 7.3 million and € 40.1 million, respectively. These disputes have arisen because of differences in the interpretation of how intercompany pricing for goods and services are calculated, or in some instances because differences of opinion as to whether a business combination is subject to VAT rather than to stamp duty. Other than the disputes for which a final adverse ruling has been made against us, we believe that we have complied with all the relevant rules and regulations in relation to taxation and transfer pricing and has made all the required tax filings and paid all outstanding tax liabilities in all material respects. See Note 23 of the Accountants' Report in Appendix I to this prospectus.

### **REGULATORY COMPLIANCE AND LEGAL PROCEEDINGS**

After due and careful inquiry, we are of the opinion that all members of our Group have obtained and currently maintain all necessary permits or licenses which are material to our operations, and have complied in all material respects with all applicable rules, regulations and laws of the jurisdictions in which we operate during the Track Record Period.

We may be involved in certain legal proceedings during the course of our business operations. During the Track Record Period and as of the Latest Practicable Date, to the best of our knowledge, we were not subject to any litigation, arbitration or legal proceeding that may have a material adverse effect on our business or results of operations other than the tax disputes detailed in Note 23 under "Notes to the Financial Information" in Appendix I to this prospectus.

## BUSINESS

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### PROPERTY

As at the Latest Practicable Date, our Group owned 28 properties in Italy, the United Kingdom, Belgium, Korea, US and France. Our Group's owned properties are primarily used for industrial purposes, with a small number being used for office, warehouse, retail and residential purposes. The gross area of the individual owned properties ranges from approximately 1,300m<sup>2</sup> to 20,000m<sup>2</sup> for industrial properties, approximately 270m<sup>2</sup> to 12,000m<sup>2</sup> for office properties and approximately 700m<sup>2</sup> to 2,300m<sup>2</sup> for warehouse properties and our Group owns two retail properties of 40m<sup>2</sup> and 838m<sup>2</sup> respectively. Four of our Group's industrial properties are deemed to be owned properties from an accounting perspective, although they are held under a finance lease.

As at the Latest Practicable Date, our Group has entered into agreements to acquire, by several dates through to the end of February 2012, five more industrial and ancillary properties in Italy with gross areas ranging from approximately 2,585m<sup>2</sup> to 41,000m<sup>2</sup> for a total consideration of approximately € 43.6 million.

As at the Latest Practicable Date, our Group leased 385 properties in 30 jurisdictions across Europe, Asia Pacific, Japan and North America. Our Group's leased properties are primarily used as sales outlets, and their gross areas range from approximately 15m<sup>2</sup> to 2,860m<sup>2</sup> for leased stores, approximately 7,200m<sup>2</sup> to 20,000m<sup>2</sup> for leased industrial properties and approximately 25m<sup>2</sup> to 6,000m<sup>2</sup> for leased office properties. The terms of our leases range from a minimum of 10 months to no time limitation.

The aggregate rental expenses for the three financial years ended January 31, 2009, 2010 and 2011 were € 188.7 million, € 219.0 million and € 295.1 million, respectively. The following table sets forth the average monthly rent paid in respect of our Group's leased properties by geographical region and type of property for the periods indicated.

### Retail Properties

Geographical Region	Year Ended January 31, 2009		Year Ended January 31, 2010		Year Ended January 31, 2011	
	FY Rental Cost	Monthly Average	FY Rental Cost	Monthly Average	FY Rental Cost	Monthly Average
	(€ in thousands)					
Europe	42,142	3,512	50,931	4,244	66,180	5,515
North America	33,405	2,784	37,195	3,100	41,991	3,499
China	5,642	470	10,062	839	19,007	1,584
Hong Kong	18,248	1,521	22,937	1,911	31,853	2,654
Macau	2,125	177	4,299	358	7,045	587
Japan	46,658	3,888	50,680	4,223	64,624	5,385
Rest of Asia	16,156	1,346	22,915	1,910	40,105	3,342

## BUSINESS

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### Office Properties

Geographical Region	Year Ended January 31, 2009		Year Ended January 31, 2010		Year Ended January 31, 2011	
	FY Rental Cost	Monthly Average	FY Rental Cost	Monthly Average	FY Rental Cost	Monthly Average
	(€ in thousands)					
Europe	9,378	782	10,129	844	10,488	874
North America	2,343	195	1,005	84	566	47
China	377	31	413	34	551	46
Hong Kong	1,394	116	1,765	147	1,889	157
Macau	N/A	N/A	N/A	N/A	N/A	N/A
Japan	1,042	87	1,218	102	1,399	117
Rest of Asia	602	50	656	55	822	68

### Industrial properties

Geographical Region	Year Ended January 31, 2009		Year Ended January 31, 2010		Year Ended January 31, 2011	
	FY Rental Cost	Monthly Average	FY Rental Cost	Monthly Average	FY Rental Cost	Monthly Average
	(€ in thousands)					
Europe	3,240	270	2,338	195	1,683	140
North America	N/A	N/A	N/A	N/A	N/A	N/A
China	N/A	N/A	N/A	N/A	N/A	N/A
Hong Kong	N/A	N/A	N/A	N/A	N/A	N/A
Macau	N/A	N/A	N/A	N/A	N/A	N/A
Japan	N/A	N/A	N/A	N/A	N/A	N/A
Rest of Asia	N/A	N/A	N/A	N/A	N/A	N/A

As at January 31, 2011, the percentage of our Group's property interests (including "Land and buildings", "Furniture and fittings" and "Construction in progress", but excluding "Plant and production machinery", "Leasehold improvements" and "Other equipments") ("**Property Interests**") represented approximately 11.70% of our Group's total assets.

The Directors confirm that no single Property Interest owned by the Group has a carrying amount of 15% or above of the Group's total assets, and none of the Group's Property Interests is individually material to the Group in terms of revenue contribution or rental expense.

Please see the section headed "Waivers from the Listing Rules and Confirmations from the Hong Kong Stock Exchange" in this prospectus in relation to a waiver we obtained from strict compliance with the Listing Rules and the certificate of exemption from the requirements of the Hong Kong Companies Ordinance regarding the requirement to obtain a property valuation report.