# PRADA

MILANO

DAL 1913

# Annual Report 2012

PRADA spa
(Hong Kong Stock code: 1913)

Annual Report 2012

## Index

**Patrizio Bertelli**

**Miuccia Prada**

# The PRADA Group


**The first Prada store,
Galleria Vittorio Emanuele II
Milan**

## The PRADA Group

### Presentation

*"For Prada, fashion, luxury and style have always been aspects of a project that goes beyond production of clothes, footwear and handbags.*

*Interest and careful observation of the world, society and culture are at the core of Prada's creativity and modernity. This has pushed Prada beyond the physical limitations of boutiques and showrooms, leading us to interact with diverse, seemingly distant worlds, and introducing, very naturally, a new way of creating fashion."*
Miuccia Prada and Patrizio Bertelli

These values have formed the basis for all of the activities that have, over the years, transformed a family business into one of the world's leading luxury goods groups with the Prada, Miu Miu, Church's and Car Shoe brands.

The Group operates in more than 70 countries through 461 directly operated stores, 25 franchise operated stores and a network of selected high-end multi-brand stores and luxury department stores.

Prada's distinctive features and prestige derive from its particular industrial process management which allows the Group to offer its customers products of top quality, creativity and exclusivity.

A focus on quality permeates every aspect of the Group's business. The individual heritage and identity of each brand is rigorously defended with the Group's designers and craftsmen being constantly challenged to keep tradition alive through a continuous process of re-invention and innovation. Each step of the process, both inside and outside the Group, is carefully and directly monitored in order to guarantee uncompromised quality.

The result is an exclusive relationship between each customer and the PRADA Group brands, its products, its communications and its stores. This is why customers recognize in Prada's products a personal and important part of their desire for self-expression and communication with the world around them.

The first Prada Epicenter Concept Store,
Broadway, New York
by architect Rem Koolhaas and Studio OMA

The third Prada Epicenter Concept Store,
Los Angeles, Beverly Hills
by architect Rem Koolhaas and Studio OMA

**The second Prada Epicenter Concept Store,**
**Aoyama, Tokyo**
**by architects Herzog & de Meuron**

**Prada Store**
**by architect Roberto Baciocchi**

**Prada Store**
**by architect Roberto Baciocchi**

**Miu Miu Store**
**by architect Roberto Baciocchi**

**Miu Miu Store**
**by architect Roberto Baciocchi**


**Spring/Summer 2013**
**Advertising campaign**
**for Prada**

## History of PRADA Group

The Prada brand dates back to the beginning of the last century. In 1913, Mario Prada opened a luxury store in the Galleria Vittorio Emanuele II in Milan, selling leather handbags, travelling trunks, sophisticated accessories and beauty cases, as well as jewels and luxury articles of value. Thanks to its exclusively designed goods, handcrafted using the finest materials and sophisticated techniques, Prada rapidly became a reference point for European aristocracy and the most elegant members of the *haute-bourgeoisie* in Europe.

In 1919, PRADA became an official supplier to the Italian Royal family. Over the years, the Prada name gained increasing renown and prestige.

The Group saw a turning point in the development of its activities at the end of the Seventies, when Miuccia Prada, Mario Prada's granddaughter, launched a partnership with Tuscan businessman Patrizio Bertelli, a partnership that combined creativity and business ideas to commence a new era.

In 1977, Patrizio Bertelli set up IPI spa to consolidate the production resources that he had built up over the previous ten years in the leather goods. In the same year, IPI spa obtained an exclusive license from Miuccia Prada to produce and distribute leather goods bearing the Prada brand name. In the following years, the activities of the two families were gradually brought together within a single Group.

In 1983, the Prada family opened a second store in the prestigious Via della Spiga in Milan, one of the European reference points of shopping. The new store showcased the new brand image as it blended traditional elements with a modern architectural setting and would represent a revolution and a benchmark for luxury retail. In response to the growing demand for and appreciation of Prada products, the range was extended from leather goods (such as bags, luggage and accessories) to include footwear, as well as men's and women's ready-to-wear apparel.

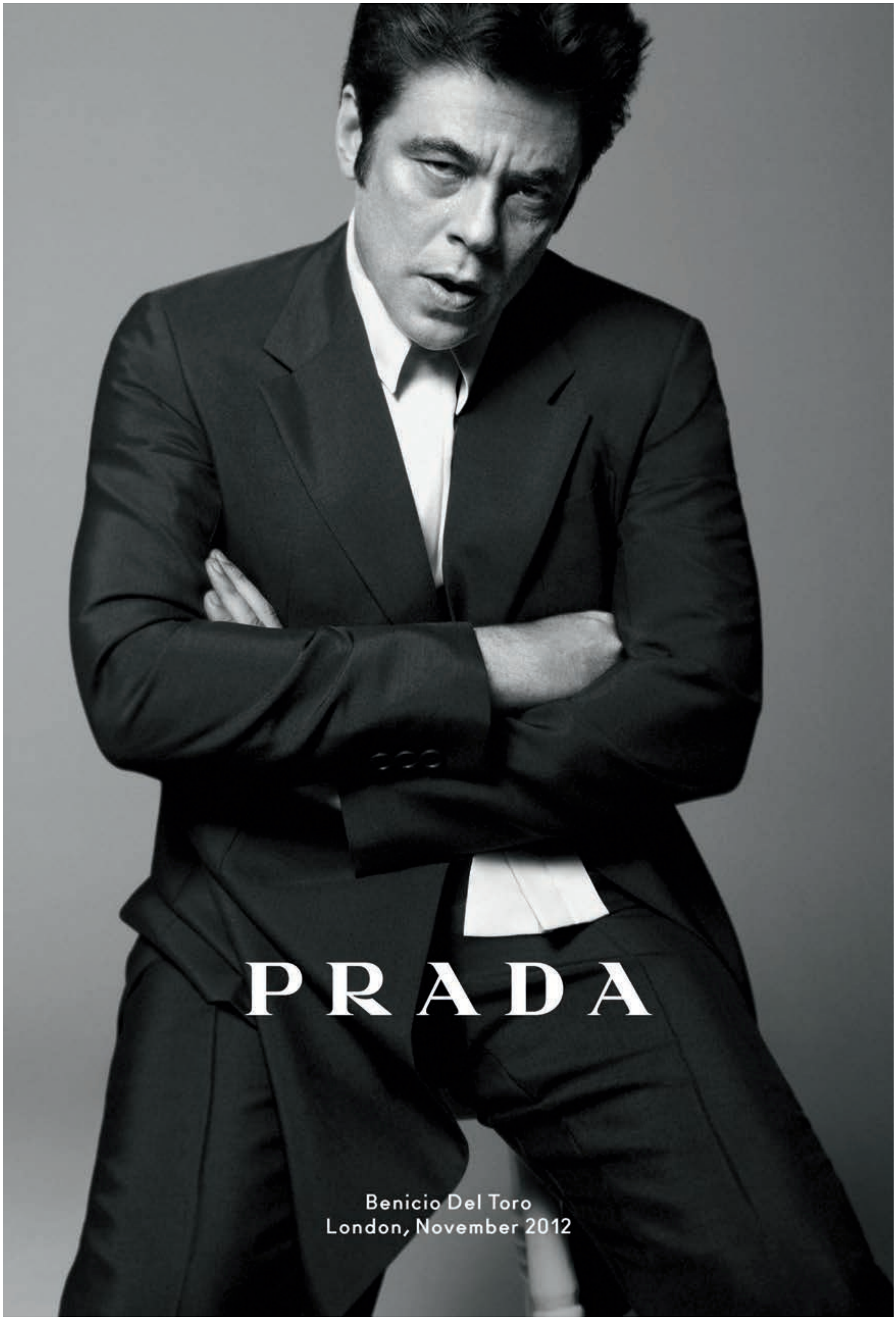
From 1986, new stores were opened in New York and Madrid, followed by London, Paris and Tokyo. The first Prada women's wear fashion show was held in Milan in 1988. In 1993, Ms. Miuccia Prada's creative inspiration led to the establishment of a new brand – Miu Miu – designed for women who are particularly fashion-forward and aware in avant-garde, trendy and sophisticated fashion and lifestyle. Miu Miu now offers women's ready-to-wear, leather goods and shoes, and is an increasingly important component of our Group's sales.

The Prada leisure range, with its distinctive "Red Line", was launched in 1997.

In 1999 Prada acquired full control of Church's, one of the most prestigious brands of high-end English footwear.

In 2001 Prada acquired control of Car Shoe, an historical Italian brand famous for its exclusive driving moccasins. The first Prada "Epicenter" store was opened the same year in SoHo, New York.

In 2003, Prada entered into a licensing agreement with the Italian eyewear manufacturer Luxottica, world leader in the eyewear industry. The Luxottica Group currently produces eyewear for the Prada and Miu Miu brands. That same year, a second "Epicenter" store was opened in Aoyama, Tokyo, and the Group also began its partnership with the Spanish cosmetics manufacturer Puig Beauty & Fashion Group which launched the Prada Woman fragrance at the end of 2004.




**Spring/Summer 2013**
**Advertising campaign**
**for Prada**

In 2006, Miu Miu organized its first fashion show in Paris.

The first Prada by LG cellphone was launched in 2008.

The Prada e-store first went online in 2010.

The Miu Miu e-store went online in 2011. The same year, Prada entered into a joint venture with the Al Tayer Insignia llc Group to develop a Prada and Miu Miu retail network in the Middle East.

On June 24, 2011, 19% of the share capital of PRADA spa was successfully placed on the Main Board of the Hong Kong Stock Exchange.

On October 2012, the AC72 Luna Rossa catamaran, challenging in the XXXIV America's Cup to be held in San Francisco in 2013, was launched in Auckland, New Zealand.


**Spring/Summer 2013**
**Advertising campaign**
**for Miu Miu**

## The Group brands

PRADA spa owns and operates some of the most prestigious luxury brands in the world. These brands, together with the Group's know-how and expertise, represent a key asset for the Group. A strategic objective of all the Group's activities is continually to strengthen its brand equity as the desirability of a fashion brand must always be accompanied by equally strong appeal and recognition.

## Prada

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 House of 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 also become the first of many enduring classics. The Prada brand represents the best of Italian culture and tradition, sophisticated style and uncompromising quality and, as one of the most innovative fashion brands, it is capable of re-defining "the norm", always anticipating and often 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 made into a movie in 2006. The Prada brand's distinctive originality is built on its unique approach to style, craftsmanship and constant innovation in materials and designs, as it unceasingly exerts 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, aware of stylistic innovations and expects craftsmanship of the highest quality. By combining attention to detail and quality with a cutting-edge production and a unique and strong identity style, it aims to make each Prada designs one-of-a-kind.

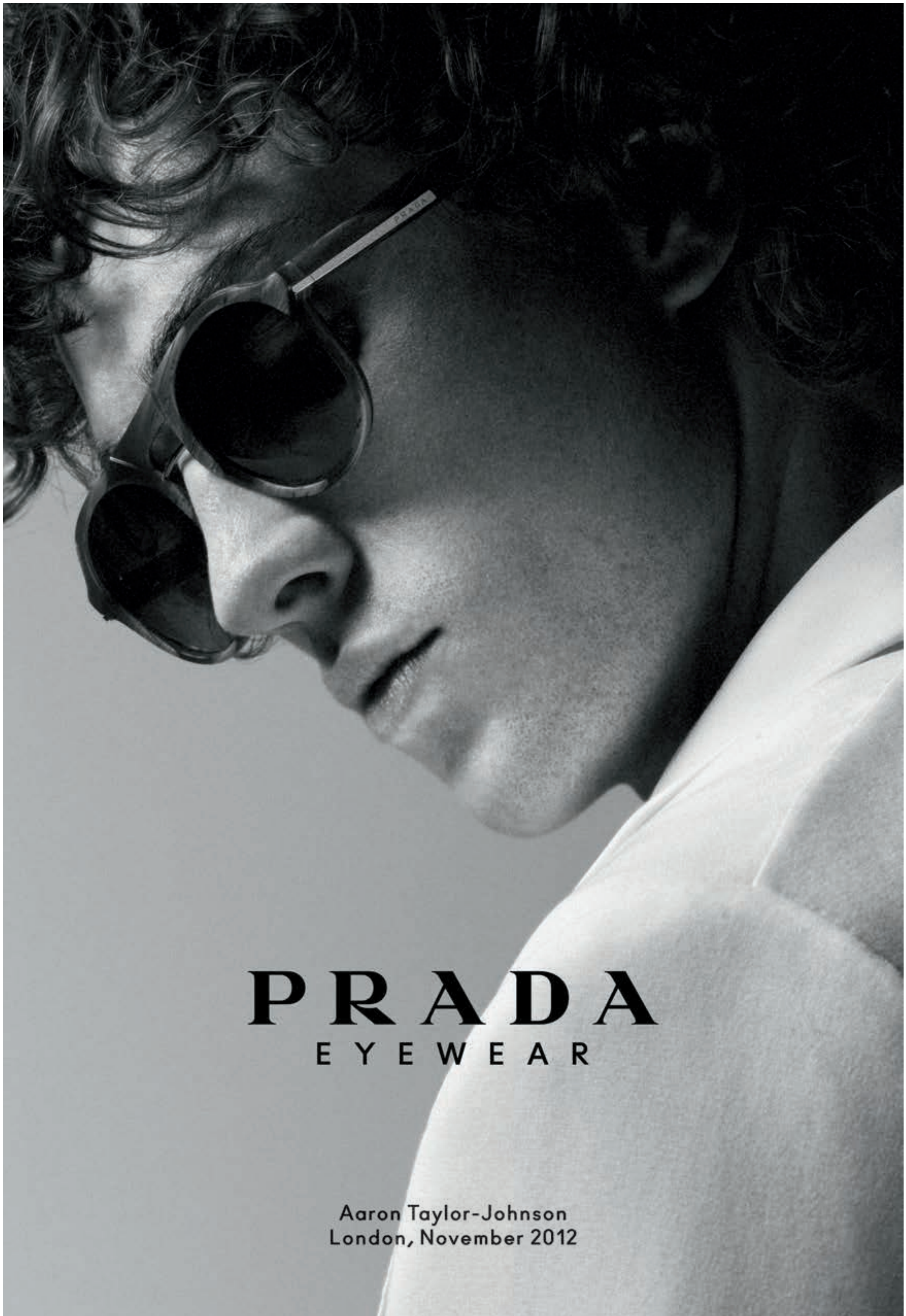
## Miu Miu

Named after Ms. Miuccia Prada, Miu Miu was created in 1993 as a brand with a separate identity from Prada and has since evolved into one of the leading high fashion brands in the world, building on the same creativity, quality and innovation culture that is the foundation of all Group's operation. 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 particularly aware of the fashion ultimate trends, driven by a modern spirit of exploration and experimentation in their fashion choices.

The Group has made major efforts since 2005 to enhance the independent identity of the Miu Miu brand also moving the fashion shows to Paris and improving the communication efforts and rapidly enlarging the store network with the aim to cover all important international markets.

## Church's

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. At 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.




**Spring/Summer 2013
Advertising campaign
for Prada Eyewear**

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, combining a classical range with modern style collections, both sharing the same top quality and elegance.

### Car Shoe

Car Shoe was founded in 1963 by Gianni Mostile whose passion for sports and 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. The Car Shoe driving moccasins design was awarded a registered patent by the Italian Ministry of Trade and Industry in 1964 though it has now expired. The brand has since become an iconic 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.


**Spring/Summer 2013**
**Advertising campaign**
**for Miu Miu Eyewear**

## Strategic processes

### Design

Creativity is the first step of the quality process.

Miuccia Prada has the ability to combine intellectual curiosity, the pursuit of new and unconventional ideas, cultural and social interests with a strong sense of fashion and close attention to detail. This has made it possible to establish in Prada a genuine "in house" design culture, also based on method and discipline, which guides everyone working in the Prada creative process.

This unique approach enables Prada to anticipate and set trends, continually experimenting with new designs, fabrics, leathers and production techniques. This experimentation and exchange of ideas are the essential components of the design content found in each Prada product. The time spent at the "drawing board" and in the "fitting room" on research and stylistic development for the brands is fundamental in defining each collection: all items of ready-to-wear apparel, footwear and accessories complement one another and create a well-defined, consistent brand image.

Miuccia Prada and Patrizio Bertelli's flair, coupled with their extraordinary charisma, continues to attract talented people from all over the world who want to work with them in many different creative fields. These results in formidable teams in all aspects of the creative process: from fashion design to architecture, photography, interior design of the stores and all unique and special projects in which Prada is involved.


**2011**
**Advertising campaign**
**for Prada Parfums**

## Production

The second phase of the quality process involves the careful selection of materials which are often exclusively made for Prada based on very detailed specifications. With an annual consumption of some 4 million meters of fabric and a similarly impressive amount of leathers, Prada enjoys the priority attention of the best fabric makers and tanners in the world.

Prada products are made at eleven state-of-the-art facilities owned by the Group in Italy and England and through a network of external sub-contractors, all of them selected for their craftsmanship skills. This system enables close control of the overall production process and maximizes the individual capacities of each facility. Furthermore, it guarantees the utmost and uncompromised quality of each step of the process as well as the highest level of flexibility.

The core of Prada's production employees has been working with the company for an average of 20 years. This leads to the highest level of specialization and dedication to the brand while ensuring that know-how is handed on smoothly to younger generations.

## Distribution

The Group's innovative approach and quality standards also apply to distribution.

The clearest evidence lies in the Epicenter Concept Store Program. These very special stores, located in New York, Los Angeles and Tokyo, have been designed in collaboration with world-famous architects Rem Koolhaas and Herzog & de Meuron, to re-invent and re-visit the concept of shopping.

The retail network is constantly re-visited and updated, in terms of both architecture and layout, in order to make it easier for customers to use and make product displays more effective.

Over the years, the Group has developed a strong network of Directly Operated Stores (DOS), alongside franchise stores and a significant presence in selected high-end multi-brand stores and luxury department stores.

Directly Operated Stores provide a direct relationship with customers and offer real-time information on the performance of each product category. The retail network is also an effective platform to showcase the collections and portray a strong and consistent brand image worldwide.

The wholesale channel (department and multi-brand stores) guarantees a number of points of sale in prestigious locations on key markets and provides a direct and immediate comparison with the competition. In recent years, this sales channel has been carefully reviewed with the aim of being more selective in order to achieve synergy with the retail network expansion and to maintain the positioning and internal image of the brand. As a consequence the number of points of sale has decreased considerably.

The retail channel generates some 82% of the PRADA Group's consolidated net sales while the remaining 18% comes from wholesale.


**Luna Rossa**
**Auckland 2012**

## Image and communication

Effective communication is key to building and maintaining a unique and powerful brand image. From impeccably executed fashion shows to award-winning advertising campaigns, Prada continues to successfully create an appealing and cutting-edge image that attracts a high quality, international client base.

Strong editorial coverage of Prada and Miu Miu, featured prominently on hundreds of covers of the most important fashion magazines worldwide, contributes to the visibility of both brands' products.

Cultural and commercial in-store events help raise the brands' profile and increase awareness of the most recent collections on local markets and, in particular, in leading international cities from Tokyo to New York and London and from Hong Kong to Shanghai and Beijing.

Special projects carried out in fields other than Prada's core business form an important part of the Company's communications strategy, highlighting the many different facets that identify the brand.

Prada took part in the America's Cup in 2000, 2003 and 2007. This experience, which led also to the development of a sports clothing and accessories line, helped to further spread Prada's image and raise brand awareness worldwide, associating it with the oldest and one of the most prestigious international sporting competitions. In October 2011, as sponsor of the Luna Rossa yacht, Prada once more launched its challenge to win the XXXIV edition of the America's Cup which will be held in San Francisco, California, in 2013.

## Art and culture

Miuccia Prada and Patrizio Bertelli's interest in contemporary art led to their decision, in 1993, to create a space to hold exhibitions dedicated to acclaimed international artists. The Fondazione Prada was born with the purpose of receiving and communicating what Miuccia Prada calls "the most powerful mental and cultural provocations".

Organized with the full collaboration of the artists themselves, the exhibitions presented by the Fondazione Prada in Milan have so far included artists of international renown such as Anish Kapoor, Mariko Mori, Louise Bourgeois, Laurie Anderson, Walter De Maria, Marc Quinn, Carsten Hoeller, Steve McQueen, Giulio Paolini, Francesco Vezzoli, Tom Sachs, Thomas Demand, Tobias Rehberger, Natalie Djurberg, John Wesley, John Baldessarri and Rotor.

The flexible nature of the Fondazione Prada has also developed along a number of different routes, in a variety of fields of cultural research including art, architecture, philosophy, science, design and cinema. In 2011 the Fondazione Prada opened a new exhibition space in Venice, Ca' Corner della Regina, an historic palace on the Grand Canal, with the goal of offering a stimulating cultural program. The most recent show hosted there between July and November 2012 was entitled "The Small Utopia. Ars Multiplicata". Dedicated to the development of multiple works by artists in the 20th Century, this exhibition enjoyed a wide international consensus.

**The I.P.I. Amiata facility Piancastagnaio (SI), project by Studio Cerri**

## Human Resources

Human resources are a fundamental asset for the development of the Group which builds its competitive advantage on the skills and commitment of its employees, promoting and rewarding pro-activity, goal orientation and teamwork.

The Human resources department operates in an international environment, cooperating closely with the business areas in order to verticalize processes, make them more efficient and effective and make the most of skills and specific local characteristics as part of an ongoing process to improve business processes, achieve integration between central and outlying parts of the business while concentrating on it as much as possible.

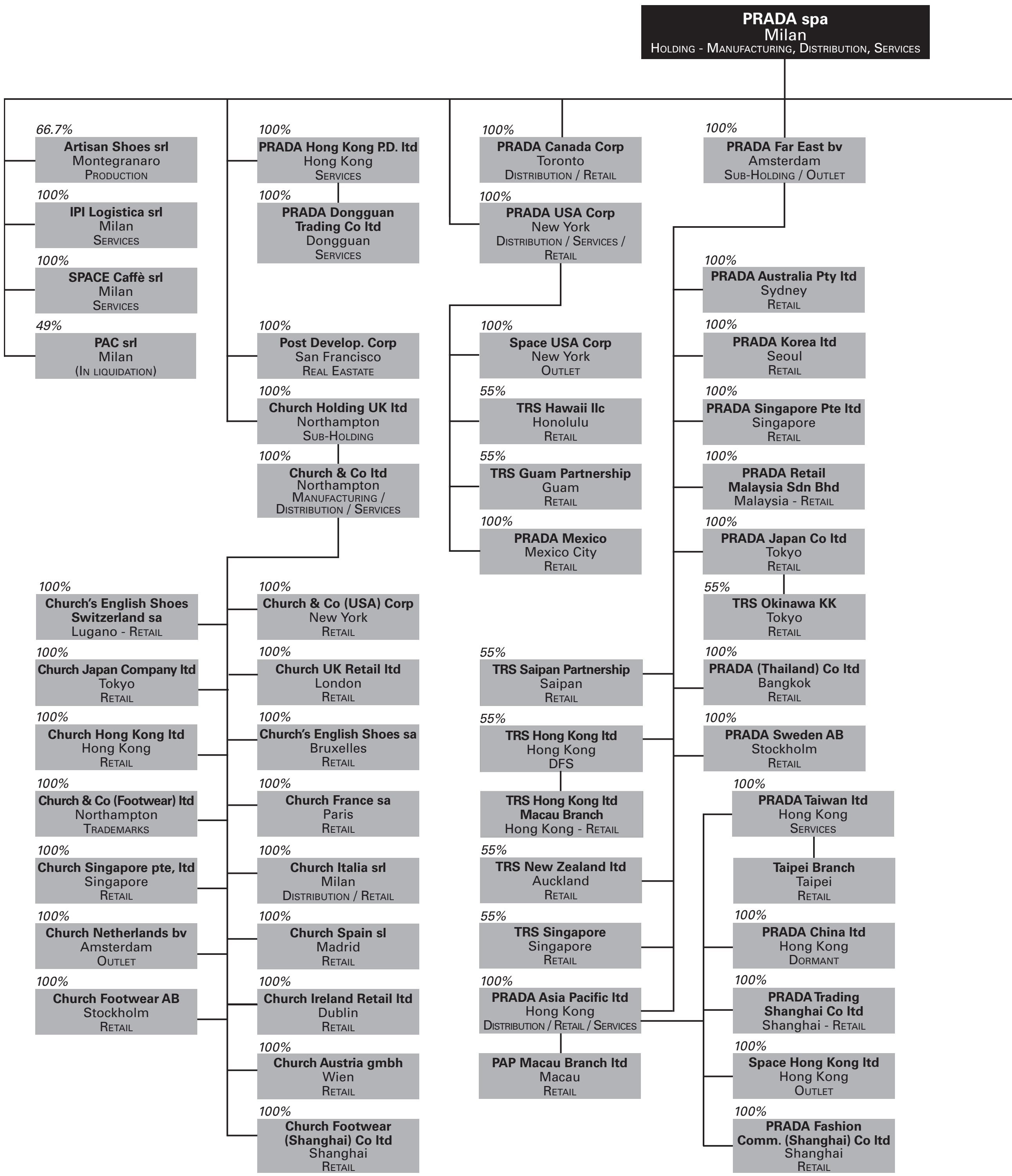
Through a structured and transparent selection process which is also based on cooperation with the most prestigious universities and fashion schools, the Group constantly seeks and attracts the best talents in the international employment market.

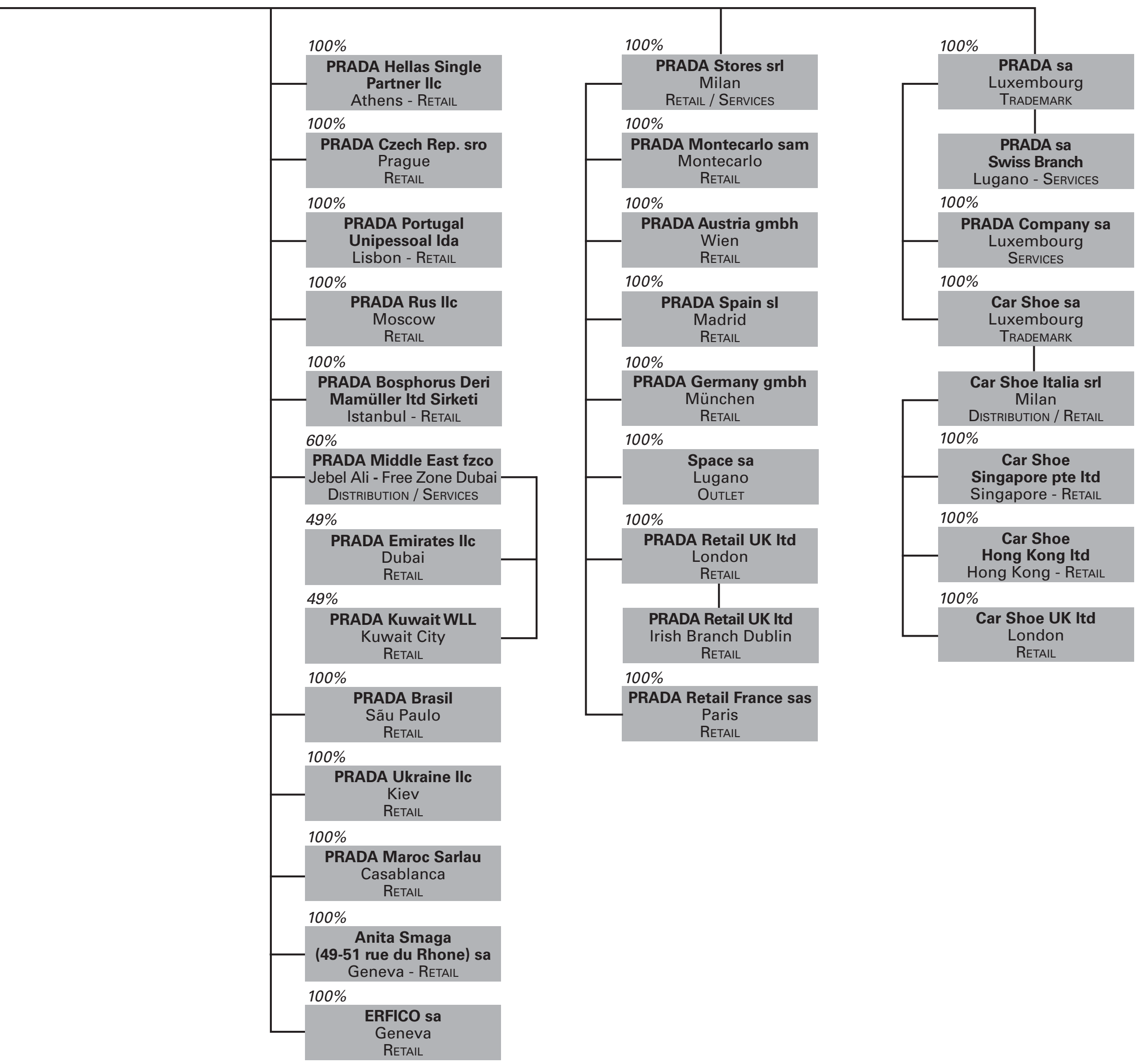
The training and development policies implemented were mainly aimed at strengthening the retail stores area fully in line with the development of that channel.

The Group's presence on the international market through its four brands offers its employees the chance to grow both inside their areas of competence as well as on a horizontal and international level.

**The Calzaturificio Lamos facility**
**Montevarchi, (AR)**
**by architect Guido Canali**

## PRADA Group Structure




100%
PRADA Hellas Single Partner llc
Athens - Retail
100%
PRADA Czech Rep. sro
Prague
Retail
100%
PRADA Portugal Unipessoal lda
Lisbon - Retail
100%
PRADA Rus llc
Moscow
Retail
100%
PRADA Bosphorus Deri Mamüller ltd Sirketi
Istanbul - Retail
60%
PRADA Middle East fzco
Jebel Ali - Free Zone Dubai
Distribution / Services
49%
PRADA Emirates llc
Dubai
Retail
49%
PRADA Kuwait WLL
Kuwait City
Retail
100%
PRADA Brasil
Sāu Paulo
Retail
100%
PRADA Ukraine llc
Kiev
Retail
100%
PRADA Maroc Sarlau
Casablanca
Retail
100%
Anita Smaga (49-51 rue du Rhone) sa
Geneva - Retail
100%
ERFICO sa
Geneva
Retail
100%
PRADA Stores srl
Milan
Retail / Services
100%
PRADA Montecarlo sam
Montecarlo
Retail
100%
PRADA Austria gmbh
Wien
Retail
100%
PRADA Spain sl
Madrid
Retail
100%
PRADA Germany gmbh
München
Retail
100%
Space sa
Lugano
Outlet
100%
PRADA Retail UK ltd
London
Retail
PRADA Retail UK ltd
Irish Branch Dublin
Retail
100%
PRADA Retail France sas
Paris
Retail
100%
PRADA sa
Luxembourg
Trademark
PRADA sa
Swiss Branch
Lugano - Services
100%
PRADA Company sa
Luxembourg
Services
100%
Car Shoe sa
Luxembourg
Trademark
Car Shoe Italia srl
Milan
Distribution / Retail
100%
Car Shoe Singapore pte ltd
Singapore - Retail
100%
Car Shoe Hong Kong ltd
Hong Kong - Retail
100%
Car Shoe UK ltd
London
Retail

## Corporate Information

| | |
|---|---|
| Registered office | Via A. Fogazzaro, 28<br>20135 Milan, Italy |
| Headquarters office | Via A. Fogazzaro, 28<br>20135 Milan, Italy |
| Place of business in Hong Kong registered under Part XI of the Hong Kong Companies Ordinance | 36/F, Gloucester Tower<br>The Landmark, 11 Pedder Street<br>Central, Hong Kong |
| Company website | www.pradagroup.com |
| Hong Kong Exchange Stock Code | 1913 |
| Board of Directors (appointed on May 22, 2012) | Miuccia Prada Bianchi<br>(Chairperson and Executive Director)<br>Patrizio Bertelli<br>(Chief Executive Officer and Executive Director)<br>Carlo Mazzi<br>(Deputy Chairman and Executive Director)<br>Donatello Galli<br>(Chief Financial Officer and Executive Director)<br>Marco Salomoni<br>(Non-Executive Director)<br>Gaetano Micciché<br>(Non-Executive Director)<br>Gian Franco Oliviero Mattei<br>(Independent Non-Executive Director)<br>Giancarlo Forestieri<br>(Independent Non-Executive Director)<br>Sing Cheong Liu<br>(Independent Non-Executive Director) |
| Audit Committee | Gian Franco Oliviero Mattei (Chairman)<br>Giancarlo Forestieri<br>Sing Cheong Liu |
| Remuneration Committee | Gian Franco Oliviero Mattei (Chairman)<br>Marco Salomoni<br>Giancarlo Forestieri |
| Nomination Committee | Gian Franco Oliviero Mattei (Chairman)<br>Marco Salomoni<br>Sing Cheong Liu |
| Board of Statutory Auditors (appointed on May 22, 2012) | Antonino Parisi (Chairman)<br>Roberto Spada (Standing member)<br>David Terracina (Standing member) |
| Supervisory Board (Legislative Decree 231/2001) | David Terracina (Chairman)<br>Marco Salomoni<br>Franco Bertoli |

| | |
|---|---|
| Main Shareholder | PRADA Holding bv<br>Keizersgracht 313 3rd floor<br>1016 EE Amsterdam - The Netherlands |
| Joint Company Secretaries | Patrizia Albano<br>Via A. Fogazzaro, 28<br>20135 Milan, Italy<br><br>Ying-Kwai Yuen (Fellow member, HKICS)<br>Flat A, 20$^{th}$ Floor<br>Block 4, Sceneway Garden<br>8 Sceneway Road<br>Kowloon, Hong Kong |
| Authorized Representatives in Hong Kong | Donatello Galli<br>Via Elba, 10<br>20144 Milan, Italy<br><br>Ying-Kwai Yuen (Fellow member, HKICS)<br>Flat A, 20$^{th}$ Floor<br>Block 4, Sceneway Garden<br>8 Sceneway Road<br>Kowloon, Hong Kong |
| Alternate Authorized Representative in Hong Kong to Donatello Galli | Sing Cheong Liu<br>House 7 Severn Hill<br>4 Severn Road<br>The Peak<br>Hong Kong |
| Hong Kong Share Registrar | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716<br>17$^{th}$ Floor, Hopewell Centre<br>183 Queen's Road East<br>Wanchai, Hong Kong |
| Auditor | Deloitte & Touche Spa<br>Via Tortona, 25<br>20144 Milan, Italy |
| Compliance Advisor | Anglo Chinese Corporate Finance, Limited<br>40$^{th}$ Floor, Two Exchange Square<br>8 Connaught Place<br>Central<br>Hong Kong |

# Financial Review

The Financial review of the Board of Directors refers to the Group of companies controlled by PRADA spa (the "Company"), holding company of the PRADA Group (the "Group") and is based on the Consolidated financial statements of the Group for the twelve months ended January 31, 2013 (fiscal or financial year 2012), prepared in accordance with IFRS as adopted by the European Union. The Financial review must be read together with the Consolidated financial statements.

## Consolidated income statement

| (amounts in thousands of Euro) | twelve months ended January 31 2013 | % | twelve months ended January 31 2012 | % |
|---|---|---|---|---|
| Retail | 2,664,238 | 80.8% | 1,964,499 | 76.9% |
| Wholesale | 592,190 | 18.0% | 558,831 | 21.8% |
| Royalties | 40,791 | 1.2% | 32,276 | 1.3% |
| Net revenues | 3,297,219 | 100.0% | 2,555,606 | 100.0% |
| Cost of goods sold | (920,678) | -27.9% | (727,581) | -28.5% |
| Gross margin | 2,376,541 | 72.1% | 1,828,025 | 71.5% |
| Operating expenses | (1,486,760) | -45.1% | (1,199,090) | -46.9% |
| EBIT | 889,781 | 27.0% | 628,935 | 24.6% |
| Interest and other financial income/(expenses), net | (7,131) | -0.2% | (26,027) | -1.0% |
| Dividends received from third parties | 966 | - | - | - |
| Income before taxation | 883,616 | 26.8% | 602,908 | 23.6% |
| Taxation | (250,339) | -7.6% | (166,483) | -6.5% |
| Net income from continuing operations | 633,277 | 19.2% | 436,425 | 17.1% |
| Net income for the year | 633,277 | 19.2% | 436,425 | 17.1% |
| Net income from continuing operations – non-controlling interests | 7,596 | 0.2% | 4,496 | 0.2% |
| Net income – non-controlling interests | 7,596 | 0.2% | 4,496 | 0.2% |
| Net income from continuing operations – Group | 625,681 | 19.0% | 431,929 | 16.9% |
| Net income – Group | 625,681 | 19.0% | 431,929 | 16.9% |
| Depreciation, amortization and impairment | 162,688 | 4.9% | 130,317 | 5.1% |
| EBITDA | 1,052,469 | 31.9% | 759,252 | 29.7% |
| Basic and diluted earnings per share (in Euro per share) | 0.245 | | 0.170 | |

## Key financial information

| Key income statement information (amounts in thousands of Euro) | twelve months ended January 31 2011 | twelve months ended January 31 2012 | twelve months ended January 31 2013 | % chg on January 2012 | CAGR % |
|---|---|---|---|---|---|
| Net revenues | 2,046,651 | 2,555,606 | 3,297,219 | 29.0% | 26.9% |
| EBITDA | 535,930 | 759,252 | 1,052,469 | 38.6% | 40.1% |
| EBIT | 418,387 | 628,935 | 889,781 | 41.5% | 45.8% |
| Income before tax | 388,229 | 602,908 | 883,616 | 46.6% | 50.9% |
| Net income of the Group | 250,819 | 431,929 | 625,681 | 44.9% | 57.9% |
| Earnings per share | 0.10 | 0.17 | 0.24 | 41.2% | 54.9% |
| Average headcount (persons) | 7,199 | 8,067 | 9,427 | 16.9% | - |
| EBITDA % | 26.2% | 29.7% | 31.9% | - | - |
| EBIT % | 20.4% | 24.6% | 27.0% | - | - |

| Key statement of financial position information (amounts in thousands of Euro) | January 31 2011 | January 31 2012 | January 31 2013 | change on January 2012 |
|---|---|---|---|---|
| Net operating working capital | 320,759 | 357,648 | 317,714 | (39,934) |
| Net invested capital | 1,585,559 | 1,817,327 | 2,017,844 | 200,517 |
| Net financial position | (375,421) | 13,640 | 312,648 | 299,008 |
| Group shareholders' equity | 1,204,350 | 1,822,743 | 2,320,022 | 497,279 |
| Capital expenditure | 206,860 | 278,856 | 351,129 | 72,273 |
| Net operating cash flows | 367,712 | 479,954 | 759,272 | 279,318 |

## 2012 highlights

During the year 2012 the PRADA Group consolidated its position at the head of the worldwide luxury goods market. Despite the challenging global economic environment, with some major concerns in Europe, the Group has made further important progress along its path of growth leveraging on the strength of its brands and on a relentless commitment to innovation and quality. The actions undertaken in the course of 2012 have always been consistent with the long-term business expansion strategy implemented in recent years. The Group went on investing massive resources in strengthening the retail channel while maintaining a unique and powerful brand image: many new DOS were unveiled in 2012, including the first ever stores in Brazil, Mexico, Morocco, Kuwait and Ukraine and prestigious sponsorships and projects in fields other than Prada's core business successfully took place. At the same time, the Group strove tightly to control unit margins over the supply chain so as to benefit from economies of scale resulting from the expansion without compromising the Group's reputation for craftsmanship and quality cultivated throughout its hundred-year long history. These strategies delivered significant revenue growth and improved operating results for the twelve months ended January 31, 2013.

The Group's net revenue for the twelve months ended January 31, 2013, totaled Euro 3,297.2 million, 29% more than in 2011, one of the highest growth rates in the industry. The boost in sales, coupled with a further improvement in profitability, was mainly achieved thanks to the performance of the retail channel. In fact, the Group's EBITDA for the twelve months ended January 31, 2013, totaled Euro 1,052.5 million, 38.6% up on 2011, while reaching a record high of 31.9% as a percentage of net revenues. The Group's net profit was Euro 625.7 million, up by 44.9% compared to 2011 and standing at 19% of net revenues.

The capital expenditure incurred during the year amounted to Euro 351.1 million and was mainly focused on the enlargement and renovation of the DOS network.

The investment program led to the opening of 78 new DOS, most of them completed in the second half of the year.

Free cash flows of the year enabled the Group to accumulate total of cash and cash equivalents of some Euro 572 million and a positive net financial position of Euro 312.6 million at January 31, 2013.

At January 31, 2013, the Group operated 461 DOS worldwide, employed more than 10,000 people and had a market capitalization of some Euro 17 billion based on the Hong Kong Stock exchange share price at the reporting date.

## Net sales analysis

| (amounts in thousands of Euro) | twelve months ended January 31 2013 | | twelve months ended January 31 2012 | | % change |
|---|---|---|---|---|---|
| **Net sales by geographical area** | | | | | |
| Italy | 528,302 | 16.2% | 445,611 | 17.6% | 18.6% |
| Europe | 739,634 | 22.7% | 540,131 | 21.4% | 36.9% |
| Americas | 484,103 | 14.9% | 392,677 | 15.6% | 23.3% |
| Asia Pacific | 1,160,166 | 35.6% | 872,992 | 34.6% | 32.9% |
| Japan | 293,245 | 9.0% | 256,693 | 10.2% | 14.2% |
| Other countries | 50,978 | 1.6% | 15,226 | 0.6% | 234.8% |
| Total | 3,256,428 | 100.0% | 2,523,330 | 100.0% | 29.1% |
| **Net sales by brand** | | | | | |
| Prada | 2,649,559 | 81.4% | 1,999,345 | 79.2% | 32.5% |
| Miu Miu | 512,762 | 15.7% | 441,054 | 17.5% | 16.3% |
| Church's | 68,447 | 2.1% | 59,224 | 2.3% | 15.6% |
| Car shoe | 19,660 | 0.6% | 17,039 | 0.7% | 15.4% |
| Other | 6,000 | 0.2% | 6,668 | 0.3% | -10.0% |
| Total | 3,256,428 | 100.0% | 2,523,330 | 100.0% | 29.1% |
| **Net sales by product line** | | | | | |
| Clothing | 563,322 | 17.3% | 512,585 | 20.3% | 9.9% |
| Leather goods | 2,036,005 | 62.5% | 1,426,537 | 56.5% | 42.7% |
| Footwear | 625,390 | 19.2% | 560,108 | 22.2% | 11.7% |
| Other | 31,711 | 1.0% | 24,100 | 1.0% | 31.6% |
| Total | 3,256,428 | 100.0% | 2,523,330 | 100.0% | 29.1% |
| **Net sales by distribution channel** | | | | | |
| DOS | 2,664,238 | 81.8% | 1,964,499 | 77.9% | 35.6% |
| Independent customers and franchises | 592,190 | 18.2% | 558,831 | 22.1% | 6.0% |
| Total | 3,256,428 | 100.0% | 2,523,330 | 100.0% | 29.1% |
| Net sales | 3,256,428 | 98.8% | 2,523,330 | 98.7% | 29.1% |
| Royalties | 40,791 | 1.2% | 32,276 | 1.3% | 26.4% |
| Total net revenues | 3,297,219 | 100.0% | 2,555,606 | 100.0% | 29.0% |

Consolidated net revenues for the year ended January 31, 2013, amounted to Euro 3,297.2 million, 29% higher than the Euro 2,555.6 million recorded in 2011. At constant exchange rates, there was a 22.9% increase.

## Distribution channels

The retail channel delivered net sales of Euro 2,664.2 million for the twelve months ended January 31, 2013, an increase of 35.6% compared to 2011 (+28.6% at constant exchange rates). The progress in the channel was achieved thanks to double-digit Same Store Sales Growth (SSSG) which was robust throughout the year and measured 14% at year end, as well as to the additional 73 net new DOS opened in 2012 (78 openings and 5 closures). The contribution of the retail channel to the Group's net sales increased from 77.9% in the financial year 2011 to 81.8%.

The wholesale channel, mainly sustained by the Italian market, contributed the remaining 18.2% and generated net sales of Euro 592.2 million for the twelve months ended January 31, 2013, up by 6% compared to 2011 (+2.9% at constant exchange rates).

## Markets

In 2012 all regions posted double-digit rates of growth.

The Asia Pacific market reported net sales of Euro 1,160.2 million, an increase of 32.9% (+22.7% at constant exchange rates) compared to the Euro 873 million posted in 2011. Its contribution to Group's net sales rose to 35.6% from 34.6% in 2011. The growth was achieved almost entirely by the retail network which, including the 15 new DOS opened during the year (16 openings and 1 closure), owned a total of 130 DOS in the region at January 31, 2013. The Greater China area (PRC, Hong Kong and Macau) was involved in the retail strengthening program with the opening of 12 DOS net (13 openings and 1 closure) in Hong Kong, Macau, Hangzhou, Taiyuan, Jinan, Chengdu, Nanjing, Beijing, Shenyang and Hefei. In 2012, the Greater China area generated net sales of Euro 735.6 million, 35% up on 2011 (+24% at constant exchange rates, +14% on a SSSG basis).

The European market recorded net sales of Euro 739.6 million, an increase of 36.9% compared to the Euro 540.1 million posted in 2011 (+34.3% at constant exchange rates and +26% on a SSSG basis). The Group's ability to attract travelers drove the performance of the retail channel which was excellent throughout the year and recorded 53.9% growth at year end (+50.4% at constant exchange rates). A total of 22 new DOS opened in 2012, including 9 in France and the largest store in Moscow in an impressive building at Stoleshnikov Pereylok. The strengthening of the retail network also involved the renovation of existing stores, leading to the unveiling of the refurbished Prada flagship store on Old Bond Street, London. The wholesale channel posted a slight 4.6% fall in net sales compared to the previous year (a reduction of 5.1% at constant exchange rates).

The Italian market posted net sales of Euro 528.3 million, an increase of 18.6% compared to 2011. The retail channel contributed most of the growth with a 27.5% increase in reported net sales and a 20% increase on a SSSG basis compared to 2011. The wholesale channel posted 5.7% growth.

The American market reported net sales of Euro 484.1 million, 23.3% up on the Euro 392.7 million generated in the previous year (+14.8% at constant exchange rates). Both the channels achieved double-digit rates of growth, but it was the DOS network that fueled the performance as it delivered net sales of 29.9% more than in 2011 (+21.1% at constant exchange rates and +3% on a SSSG basis). Some 19 new DOS were opened in the region during the year, including the first 5 stores ever in Brazil. The wholesale channel increased by 12% (+4.1% at constant exchange rates).

On the Japanese market, where the Group largely operates through the retail channel, net sales for 2012 totaled Euro 293.2 million, up by 14.2% compared to 2011 (+7.9% at constant exchange rates and -2% on a SSSG basis). The efforts made to sustain the vitality of this very sophisticated market led during the year to 5 openings, 4 closures and 11 relocations.

The sales growth in other countries was essentially attributable to the Middle East region where, since mid-2011, the Group has embarked upon a DOS expansion program which led to the opening of 9 new stores in 2012 in Abu Dhabi, Kuwait city and Dubai, including the impressive free standing store in the Mall of Emirates, key contributor to the 2012 performance. Overall, the Middle East area delivered Euro 44.8 million in 2012 compared to some Euro 11.1 million in 2011, while the whole Other countries area delivered Euro 51 million of net sales in 2012 compared to Euro 15.2 million in 2011.

### Products

All product categories achieved positive performances. Leather goods led the way with Euro 2,036 million of net sales generated in 2012 compared to Euro 1,426.5 million in 2011 (+42.7% as reported and +35.5% at constant exchange rates). The Leather goods performance, underpinned by strong growth in the Far East region, was double-digit growth for all brands, all channels and all other regions. This product category now contributes almost two thirds of the Group's net sales. Footwear delivered net sales of Euro 625.4 million in 2012, up by 11.7% compared to 2011 (+7.2% at constant exchange rates), with the sales generated on a more balanced geographical split. Net sales of ready-to-wear products were worst hit by the selective strategy regarding wholesale accounts but still managed to achieve 9.9% growth (+4.9% at constant exchange rates).

### Brands

The net sales generated by the Prada brand totaled Euro 2,649.6 million in 2012, an increase of 32.5% compared to 2011 (+26.1% at constant exchange rates). This brand, representing 81% of the Group's net sales in 2012, has largely benefited from the expansion strategy realized in recent years drawing on outstanding brand awareness.

Miu Miu net sales totaled Euro 512.8 million in 2012, 16.3% up on 2011 (+10.7% at constant exchange rates). During the year, the Group continued to sustain the brand with the opening of 32 new DOS all around the world: 8 in Europe, 8 in Asia Pacific, 7 in the Americas, 3 in Japan, 3 in the Middle East, 2 in Italy and 1 in Africa. The Group's objective through this strategy of expansion was to achieve immediate revenue growth, as in 2012 and recent years, while also increasing the brand's critical mass so as to improve further in future years the returns resulting from the high growth potential of the brand.

The Church's brand again achieved steady double figure growth. In 2012, its net sales totaled Euro 68.4 million, up by 15.6% compared to 2011 (+10.7% at constant exchange rates). In Europe, Church's main market, net sales increased by 19.3% (+13.2% at constant exchange rates).

The Car Shoe brand generated net sales of Euro 19.7 million in 2012, up by 15.4% compared to 2011 (+13.8% at constant exchange rates). A new DOS was opened in Dubai during the year, taking the retail network to a total of 7 DOS at January 31, 2013.

### Royalties

Income from royalty agreements contributed net revenues of Euro 40.8 million, up by 26.4% compared to Euro 32.3 million in 2011. The launch of the Prada phone by LG 3.0 in 2012 contributed most to the increase, while fragrances performed best in terms of rate of growth thanks to the launch of Luna Rossa perfume and the strength of the Prada Candy great success.

## Prada brand sales

| (amounts in thousands of Euro) | twelve months ended January 31, 2013 | | twelve months ended January 31, 2012 | | % change |
|---|---|---|---|---|---|
| **Net sales by geographical area** | | | | | |
| Italy | 414,119 | 15.6% | 349,852 | 17.5% | 18.4% |
| Europe | 589,780 | 22.3% | 411,552 | 20.6% | 43.3% |
| Americas | 422,646 | 16.0% | 334,469 | 16.7% | 26.4% |
| Asia Pacific | 969,864 | 36.6% | 710,157 | 35.5% | 36.6% |
| Japan | 210,161 | 7.9% | 181,720 | 9.1% | 15.7% |
| Other countries | 42,989 | 1.6% | 11,595 | 0.6% | 270.8% |
| **Total** | 2,649,559 | 100.0% | 1,999,345 | 100.0% | 32.5% |
| | | | | | |
| **Net sales by product line** | | | | | |
| Clothing | 467,161 | 17.6% | 434,461 | 21.7% | 7.5% |
| Leather goods | 1,710,274 | 64.6% | 1,141,097 | 57.1% | 49.9% |
| Footwear | 444,462 | 16.8% | 402,348 | 20.1% | 10.5% |
| Other | 27,662 | 1.0% | 21,439 | 1.1% | 29.0% |
| **Total** | 2,649,559 | 100.0% | 1,999,345 | 100.0% | 32.5% |
| | | | | | |
| **Net sales by distribution channel** | | | | | |
| DOS | 2,189,977 | 82.7% | 1,562,233 | 78.1% | 40.2% |
| Independent customers and franchises | 459,582 | 17.3% | 437,112 | 21.9% | 5.1% |
| **Total** | 2,649,559 | 100.0% | 1,999,345 | 100.0% | 32.5% |
| | | | | | |
| Net sales | 2,649,559 | 98.5% | 1,999,345 | 98.5% | 32.5% |
| Royalties | 39,453 | 1.5% | 31,341 | 1.5% | 25.9% |
| | | | | | |
| **Total net revenues** | 2,689,012 | 100.0% | 2,030,686 | 100.0% | 32.4% |

## Miu Miu brand sales

| (amounts in thousands of Euro) | twelve months ended January 31, 2013 | | twelve months ended January 31, 2012 | | % change |
|---|---|---|---|---|---|
| **Net sales by geographical area** | | | | | |
| Italy | 84,252 | 16.4% | 67,103 | 15.2% | 25.6% |
| Europe | 100,519 | 19.6% | 86,178 | 19.5% | 16.6% |
| Americas | 57,963 | 11.3% | 54,915 | 12.5% | 5.6% |
| Asia Pacific | 181,996 | 35.5% | 155,841 | 35.3% | 16.8% |
| Japan | 80,904 | 15.8% | 73,918 | 16.8% | 9.5% |
| Other countries | 7,128 | 1.4% | 3,099 | 0.7% | 130.0% |
| **Total** | 512,762 | 100.0% | 441,054 | 100.0% | 16.3% |
| | | | | | |
| **Net sales by product line** | | | | | |
| Clothing | 95,091 | 18.5% | 77,251 | 17.5% | 23.1% |
| Leather goods | 321,713 | 62.8% | 282,033 | 64.0% | 14.1% |
| Footwear | 91,908 | 17.9% | 79,109 | 17.9% | 16.2% |
| Other | 4,050 | 0.8% | 2,661 | 0.6% | 52.2% |
| **Total** | 512,762 | 100.0% | 441,054 | 100.0% | 16.3% |
| | | | | | |
| **Net sales by distribution channel** | | | | | |
| DOS | 421,067 | 82.1% | 354,227 | 80.3% | 18.9% |
| Independent customers and franchises | 91,695 | 17.9% | 86,827 | 19.7% | 5.6% |
| **Total** | 512,762 | 100.0% | 441,054 | 100.0% | 16.3% |
| | | | | | |
| Net sales | 512,762 | 99.8% | 441,054 | 99.8% | 16.3% |
| Royalties | 1,248 | 0.2% | 828 | 0.2% | 50.7% |
| | | | | | |
| **Total net revenues** | 514,010 | 100.0% | 441,882 | 100.0% | 16.3% |

## Church's brand sales

| (amounts in thousands of Euro) | twelve months ended January 31, 2013 | | twelve months ended January 31, 2012 | | % change |
|---|---|---|---|---|---|
| **Net sales by geographical area** | | | | | |
| Italy | 16,550 | 24.2% | 16,509 | 27.9% | 0.2% |
| Europe | 40,884 | 59.7% | 34,271 | 57.9% | 19.3% |
| Americas | 2,842 | 4.1% | 2,402 | 4.0% | 18.3% |
| Asia Pacific | 5,663 | 8.3% | 4,789 | 8.1% | 18.3% |
| Japan | 2,180 | 3.2% | 1,052 | 1.8% | 107.2% |
| Other countries | 328 | 0.5% | 201 | 0.3% | 63.2% |
| Total | 68,447 | 100.0% | 59,224 | 100.0% | 15.6% |
| | | | | | |
| **Net sales by product line** | | | | | |
| Clothing | 967 | 1.4% | 762 | 1.3% | 26.9% |
| Leather goods | 2,047 | 3.0% | 1,702 | 2.9% | 20.3% |
| Footwear | 65,433 | 95.6% | 56,760 | 95.8% | 15.3% |
| Total | 68,447 | 100.0% | 59,224 | 100.0% | 15.6% |
| | | | | | |
| **Net sales by distribution channel** | | | | | |
| DOS | 42,881 | 62.6% | 38,346 | 64.7% | 11.8% |
| Independent customers and franchises | 25,566 | 37.4% | 20,878 | 35.3% | 22.5% |
| Total | 68,447 | 100.0% | 59,224 | 100.0% | 15.6% |
| | | | | | |
| Net sales | 68,447 | 99.9% | 59,224 | 99.8% | 15.6% |
| Royalties | 90 | 0.1% | 107 | 0.2% | -15.9% |
| | | | | | |
| Total net revenues | 68,537 | 100.0% | 59,331 | 100.0% | 15.5% |

## Car Shoe brand sales

| (amounts in thousands of Euro) | twelve months ended January 31, 2013 | | twelve months ended January 31, 2012 | | % change |
|---|---|---|---|---|---|
| **Net sales by geographical area** | | | | | |
| Italy | 10,937 | 55.7% | 10,294 | 60.4% | 6.2% |
| Europe | 4,900 | 24.9% | 3,383 | 19.9% | 44.8% |
| Americas | 651 | 3.3% | 857 | 5.0% | -24.0% |
| Asia Pacific | 2,638 | 13.4% | 2,174 | 12.8% | 21.3% |
| Other countries | 534 | 2.7% | 331 | 1.9% | 61.3% |
| Total | 19,660 | 100.0% | 17,039 | 100.0% | 15.4% |
| | | | | | |
| **Net sales by product line** | | | | | |
| Leather goods | 1,948 | 9.9% | 1,658 | 9.7% | 17.5% |
| Footwear | 17,712 | 90.1% | 15,381 | 90.3% | 15.2% |
| Total | 19,660 | 100.0% | 17,039 | 100.0% | 15.4% |
| | | | | | |
| **Net sales by distribution channel** | | | | | |
| DOS | 8,595 | 43.7% | 7,747 | 45.5% | 10.9% |
| Independent customers and franchises | 11,065 | 56.3% | 9,292 | 54.5% | 19.1% |
| Total | 19,660 | 100.0% | 17,039 | 100.0% | 15.4% |
| | | | | | |
| Net sales | 19,660 | 100.0% | 17,039 | 100.0% | 15.4% |
| | | | | | |
| Total net revenues | 19,660 | 100.0% | 17,039 | 100.0% | 15.4% |

## Number of stores

| | January 31, 2013 | | January 31, 2012 | |
|---|---|---|---|---|
| | Owned | Franchises | Owned | Franchises |
| Prada | 283 | 20 | 245 | 20 |
| Miu Miu | 126 | 5 | 94 | 6 |
| Car Shoe | 7 | - | 6 | - |
| Church's | 45 | - | 43 | - |
| Total | 461 | 25 | 388 | 26 |

| | January 31, 2013 | | January 31, 2012 | |
|---|---|---|---|---|
| | Owned | Franchises | Owned | Franchises |
| Italy | 48 | 5 | 44 | 5 |
| Europe | 137 | 6 | 115 | 6 |
| Americas | 66 | - | 47 | 1 |
| Asia Pacific | 130 | 14 | 115 | 14 |
| Japan | 66 | - | 65 | - |
| Middle East | 11 | - | 2 | - |
| Africa | 3 | - | - | - |
| Total | 461 | 25 | 388 | 26 |

## Operating results

Gross margin for the year was Euro 2,376.5 million, up by 30% compared to the Euro 1,828 million reported for 2011. Compared to net sales, the higher rate of growth was achieved thanks to a more favorable sales mix in terms of channel, geographical area and product category as well as a positive exchange rate effect.

EBITDA was Euro 1,052.5 million for the twelve months ended January 31, 2013, 38.6% up on the Euro 759.3 million achieved in 2011. The Group draw on its revenue growth to increase profitability notwithstanding more retail operating and overhead expenses and higher media and sponsorship spending.

EBIT improved further as a result of smaller increases in depreciation, amortization and impairment adjustments. In fact, it stood at Euro 889.8 million, 41.5% higher than the Euro 628.9 million reported for 2011.

The tax charge for the year, represented as a percentage of profit before taxation, was 28.3% against 27.6% last year. The 2012 tax rate was affected by an extraordinary tax charge paid in October 2012, amounting to some Euro 42 million and related to the years 2010 and 2011. Despite this extraordinary tax charge, equal to Euro 42 million, the profits generated by operating activities were enough to lead to an improvement in the Group's net income in 2012 that raised Euro 625.7 million (Euro 431.9 million in 2011) or 19% of net revenues (16.9% in 2011). Consequently, earnings per share have increased from Euro 0.17 to Euro 0.24.

## Analysis of the statement of financial position

### Net invested capital

The following table contains the statement of financial position reclassified in order to provide a better picture of the composition of Net invested capital.

| (amounts in thousands of Euro) | January 31 2011 | January 31 2012 | January 31 2013 |
|---|---|---|---|
| Non-current assets (excluding deferred tax assets) | 1,454,611 | 1,650,329 | 1,821,773 |
| Trade receivables, net | 274,175 | 266,404 | 304,525 |
| Inventories, net | 280,409 | 374,782 | 343,802 |
| Trade payables | (233,866) | (283,538) | (330,613) |
| Net operating working capital | 320,718 | 357,648 | 317,714 |
| Other current assets (excluding items of financial position) | 84,826 | 112,623 | 165,962 |
| Other current liabilities (excluding items of financial position) | (225,180) | (262,534) | (230,285) |
| Other current assets/(liabilities), net | (140,355) | (149,911) | (64,323) |
| Provision for risks | (52,725) | (56,921) | (46,914) |
| Post-employment benefits | (34,833) | (35,898) | (45,538) |
| Other long-term liabilities | (50,525) | (75,991) | (85,289) |
| Deferred taxation, net | 88,667 | 128,071 | 120,421 |
| Other non-current assets/(liabilities) | (49,416) | (40,739) | (57,320) |
| Net invested capital | 1,585,559 | 1,817,327 | 2,017,844 |
| Shareholder's equity – Group | (1,204,350) | (1,822,743) | (2,320,022) |
| Shareholder's equity – Non-controlling interests | (5,788) | (8,224) | (10,470) |
| Total consolidated shareholders' equity | (1,210,137) | (1,830,967) | (2,330,492) |
| Long term financial payables | (305,917) | (179,542) | (79,348) |
| Short term financial, net surplus/(deficit) | (69,504) | 193,182 | 391,996 |
| Net financial position surplus/(deficit) | (375,421) | 13,640 | 312,648 |
| Shareholders' equity and net financial position | (1,585,559) | (1,817,327) | (2,017,844) |
| Debt to Equity ratio | 0.31 | n.a. | n.a. |

At January 31, 2013, Net invested capital stood at Euro 2,017.8 million. It had a similar breakdown at all three reporting dates analyzed with Non-current assets always making the greatest contribution to the net total. For the twelve months ended January 31, 2013, the increase was again largely attributable to the change in Non-current assets, essentially because of capital expenditure incurred during the year. The reduction in the Net operating working capital, Euro 40 million, was entirely offset by the positive change in the fair value of derivative financial instruments included in other current assets for Euro 42.2 million and in other current liabilities for Euro 14.3 million.

Consolidated shareholders' equity rose from Euro 1,831 million to Euro 2,330.5 million at January 31, 2013. The increase generated by the Group's net income for the twelve months ended January 31, 2013, Euro 625.7 million, was partially offset by the dividends of Euro 127.9 million distributed to the PRADA spa shareholders (as approved by the Annual General Meeting on May 22, 2012 on the financial statements for the year ended January 31, 2012) and by the dividends of Euro 5.6 million paid to Non-controlling interests. Other changes resulting from translation differences and changes in fair value equity reserves accounted for the rest of the increase.

## Non-current assets

| (amounts in thousands of Euro) | January 31 2011 | January 31 2012 | January 31 2013 |
|---|---|---|---|
| Property, plant and equipment | 536,717 | 713,870 | 857,299 |
| Intangible assets | 869,119 | 863,526 | 878,750 |
| Investments in associated undertakings | 1,753 | 15,631 | 23,024 |
| Deferred tax assets | 141,378 | 175,736 | 175,982 |
| Other non-current assets | 44,883 | 57,302 | 61,682 |
| Derivative financial instruments-non-current | 2,140 | - | 1,018 |
| Total non-current assets | 1,595,990 | 1,826,065 | 1,997,755 |
| Percentage of tangible assets already depreciated | 50% | 47% | 46% |

The increase in Property, plant and equipment and Intangible assets taken together is largely due to capital expenditure for the year (Euro 351.1 million, net of some minor disinvestment) less depreciation and amortization (Euro 154.9 million), impairment adjustments (Euro 7.8 million) and the effect of translation into Euro (Euro 30.6 million). The Group's capital expenditure for the year was allocated as follows: Euro 265.4 million in the retail area, Euro 42.8 million in the production and logistics area and Euro 46.6 million in the corporate area.

## Net operating working capital

| (amounts in thousands of Euro) | January 31 2011 | January 31 2012 | January 31 2013 |
|---|---|---|---|
| Trade receivables, net | 274,175 | 266,404 | 304,525 |
| Inventories, net | 280,409 | 374,782 | 343,802 |
| Trade payables | (233,825) | (283,538) | (330,613) |
| Net operating working capital | 320,759 | 357,648 | 317,714 |

The decrease in Net operating working capital was essentially due to a reduction of inventories, a result planned and achieved by the Group through a review of the supply chain and merchandising processes with the aim of further shortening the time required for production and delivery activities and reducing working capital needs.

## Net financial position

The following table summarizes the items included in the Net financial position.

| (amounts in thousands of Euro) | January 31 2011 | January 31 2012 | January 31 2013 |
|---|---|---|---|
| Long term debt | (303,408) | (178,442) | (78,830) |
| Obligations under finance leases | (2,509) | (1,100) | (518) |
| **Long term financial payables** | (305,917) | (179,542) | (79,348) |
| Short term financial payables and bank overdrafts | (194,240) | (165,485) | (175,570) |
| Payables to parent company and related parties | (281) | (3,574) | (5,018) |
| Receivables from parent company and related parties | 34,044 | 1,410 | 1,413 |
| Obligations under finance leases | (5,019) | (1,453) | (575) |
| Payables to other shareholders | (581) | - | - |
| Cash and cash equivalents | 96,572 | 362,284 | 571,746 |
| **Short term financial (payables)/receivables, net of cash and cash equivalents** | (69,504) | 193,182 | 391,996 |
| **Net financial surplus/(deficit)** | (375,421) | 13,640 | 312,648 |
| **Net financial surplus/(deficit), excluding receivables/(payables) with parent company and related parties and other shareholders (NFP used to calculate covenants - note 19 Consolidated financial statements)** | (408,604) | 15,804 | 316,253 |
| **NFP/EBITDA ratio** | 0.76 | n.a. | n.a. |

The Group’s net financial position turned into a net financial surplus during the previous year thanks both to the capital injection resulting from the listing of 58,824,000 PRADA spa shares on the Main Board of the Hong Kong Stock exchange and to the results of operations. At January 31, 2013, the Group net financial surplus improved further to Euro 312.6 million. In fact, cash flows from operations generated during the year 2012 (Euro 759.3 million) allowed the Group to fund its capital expenditure program (Euro 331.6 million), to pay dividends to PRADA spa shareholders (Euro 127.9 million), to pay dividends to Non-controlling interests (Euro 5.6 million) and to take the net financial surplus from Euro 13.6 million at January 31, 2012, to Euro 312.6 million at the reporting date.

## Risk factors

### Risk factors regarding the international luxury goods market

### Risks regarding the general state of the economy and the Group's international operations

The Group is exposed to several macroeconomic factors as a consequence of its operations on an international scale. The impact of such factors on consumer spending and on the volume of tourist and business travelers can affect the Group's income statement, equity and cash flows.

### Risks regarding the protection of intellectual property rights

Trademarks and other intellectual property rights are extremely important in the fashion and luxury goods market.

Prada's success also depends on its capacity to protect and promote its own trademarks and intellectual property rights and to prevent counterfeiting. For this purpose, the Group invests in worldwide trademark protection and in monitoring the market in order to take tough measures against counterfeiters of trademarks and designs.

### Risks regarding brand image and recognition

The success of the Group on the international luxury goods market is linked to the image and distinctiveness of its brands. These features depend on many factors, like the style and design of products, the quality of materials and production techniques used, the image and location of the Group's directly operated stores, the careful selection of licensees for certain product categories and the communications activities in terms of public relations, advertising, marketing and Group profile in general.

Preservation of the image and prestige acquired by the Group's brands and trademarks in the fashion and luxury goods industry is an objective that the PRADA Group pursues by closely monitoring each step of the process, both inside and outside the company, in order to guarantee uncompromised quality. It also engages in a constant search for innovation in terms of style, product and communications in order to ensure that its message is always consistent with the strong identity of the brands.

### Risks regarding ability to anticipate trends and respond to changing customer preferences

The Group's success depends on its ability to create and drive market and product trends while anticipating changes in customer preferences and in the dynamics of the luxury goods market.

The Group pursues its objective of driving the luxury goods market by stimulating consumer markets and setting trends thanks to the creative efforts of its Design and Product development department.

## Risk factors specific to PRADA Group

### Risks regarding exchange rate fluctuations

The exchange rate risk to which the Group is exposed depends on the foreign currency fluctuations against the Euro. In order to hedge this risk, which is mainly concentrated in the parent company PRADA spa as worldwide distributor of most products, the Group enters into option and forward sale and purchase agreements so as to guarantee the counter value in Euro of identified financial and commercial cash flows.

Exchange rate risk management is described in the Notes to the consolidated financial statements.

### Risks regarding interest rate fluctuations

The interest rate risk is the risk that cash outflows might vary as a result of interest rate fluctuation. In order to hedge this risk, which is mainly concentrated in the parent company PRADA spa, the Group uses interest rate swaps and collars. These instruments convert variable rate loans into fixed rate loans or loans at rates within a negotiated range of rates.

Interest rate risk management is described in more detail in the Notes to the consolidated financial statements.

### Risks regarding the importance of key personnel

The Group's results depend both on the contribution of certain key figures who have played an essential role in the development of the Group and who have great experience of the fashion and luxury goods industry and on Prada's ability to attract and retain personnel highly capable in terms of the design, marketing and merchandising of products.

The Group believes it has a management structure capable of guaranteeing the ongoing success of the business and it has recently implemented a long-term incentive plan in order to retain the key figures in the Company so as to let them to continue to cover key roles for the acheivement of the challenging objectives that the Group constantly seeks.

### Risks regarding the implementation of strategy

The Group's ability to increase revenues and improve profitability depends on the successful implementation of its strategy for each brand. As already stated, this strategy is mainly based on the international development of the retail channel.

The Group is pursuing its objectives through gradual expansion in new geographical areas or in areas where its presence is not yet considered strong enough. In order to ensure the success of each new DOS, the Group carefully assesses market conditions and consumer trends in the new DOS location. In particular, when entering into new countries, the Group dedicates significant resources to ensuring that sales managers and personnel convey an image consistent with the identity of the Group brands and a level of service in keeping with the quality of the products. The utmost attention is also paid to the design and fitting out of the stores themselves.

### Risks regarding the outsourcing of manufacturing activities

The Group designs, checks and produces in-house most of its prototypes and samples while outsourcing production of most of its accessories and products to third parties with the right experience and skills.

The Group has implemented a rigorous inspection and quality control process for all outsourced production. Prada contractually requires its outsourcers to comply with rules and regulations on brand ownership and other intellectual property rights, with all the provisions of laws and national collective agreements on labor and social security rules and with laws and regulations on health and safety in the workplace.

### Credit risk

Credit risk is defined as the risk that a counterparty in a transaction causes a financial loss for another entity through failure to fulfill its obligations. The maximum risk to which an entity is potentially exposed is represented by all financial assets recorded in the financial statements. The Group essentially believes that its credit risk mainly regards trade receivables generated in the wholesale channel and cash and cash equivalents. The Group manages the credit risk and reduces its negative effects through its commercial and financial strategy.

On the trade receivables side, credit risk management is performed by controlling and monitoring the reliability and solvency of customers. At the same time, the fact that the total receivables balance is not highly concentrated on individual customers, the fact that net sales are evenly spread geographically and the ongoing strategy of selective reduction of the wholesale customer base (for reasons including the prevention of parallel distribution) have led to a reduced credit risk.

On the cash and cash equivalents side, the risk of default substantially relates to bank deposits which is the method most widely used by the Group, also considering its low-risk policy, to invest the surplus funds generated by operations. The default risk is mitigated by the allocation of the available funds among different bank deposits in terms of countries, currencies and banks as well as by the term profile of such investments which is always short-term. The residual significant portion of cash and cash equivalents is made up of bank accounts and cash. The Group maintains that there is no significant risk on these kinds of liquid assets as their use is strictly connected with the business operations and corporate processes and, as a result, the number of parties involved is very fragmented.

### Liquidity risk

The liquidity risk relates to the difficulty the Group may have in fulfilling its obligations with regard to financial liabilities. The Directors are responsible for managing the liquidity risk while the Corporate finance department, reporting to the CFO, is responsible for managing financial resources as well as possible. The Directors believe that the funds and lines of credit currently available, in addition to those that will be generated by operating and financing activities, will allow the Group to meet its needs resulting from investing activities, working capital management, repayment of loans as they fall due and dividend payments as planned.

### Legal and regulatory risks

The PRADA Group operates in a complex regulatory environment and is exposed to legal risks and risks regarding compliance with applicable laws, including:

- the risks associated with health and safety at work in compliance with Italian Legislative Decree 81/08 and equivalent regulations in other countries;
- possible legal sanctions for wrongful acts pursuant to Italian Law 231/2001, as subsequently amended;
- the risks associated with antitrust rules in the areas where the Group operates;
- the possibility of events that adversely affect the reliability of annual financial reporting and the safeguarding of Group assets;

- changes in international tax rules applicable to countries where the Group operates;
- possible industrial compliance risks regarding the conformity of the finished goods distributed and raw and consumables materials used with the Italian and international laws and regulations.

By involving all of its various divisions and using external specialist advisors when necessary, the Group ensures that its processes and procedures are updated to comply changes in rules and regulations, reducing the risk of non-compliance to an acceptable level. As well as by Divisional Managers and by audit activities, monitoring activities are also carried out by specific entities and committees such as the Supervisory Board, the Internal Control Committee and the Industrial Compliance Committee.

### Risks regarding data processing

Data is processed using information systems subject to a governance model that ensures that:

- data is adequately protected against the risk of unauthorized access, loss (including accidental loss) and utilization inconsistent with assigned duties;
- data is processed in accordance with applicable laws and regulations.

### Information on relationships and transactions with related parties

Information on the Group's relationships and transactions with related parties is provided in the Notes to the consolidated financial statements.

### Outlook for 2013

The Group remains confident that the strategy which has been coherently deployed in recent years with regard to brand positioning and retail expansion will again be a key success factor for the forthcoming fiscal year, even in a general economic environment that remains challenging.

Milan, April 5, 2013

# Directors and Senior Management

## Directors

Our Board consists of nine Directors, of whom four are executive Directors, two are non-executive Directors and three are independent non-executive Directors. Our Directors are appointed for a term of three years.

## Chairperson

PRADA BIANCHI, Miuccia, aged 64, is our Chairperson and was appointed to the Board first on November 20, 2003; she has been re-elected as Chairperson of the Board on May 22, 2012 and confirmed Executive Directors on June 7, 2012. Ms. Prada holds a directorship in Ludo S.A., which is a substantial shareholder of the Company. Ms. Prada received an Honorary Doctorate from the Royal College of Art (London) in 2000. Ms. Prada is a co-founder of our Group along with Mr. Bertelli. Ms. Prada is the wife of Mr. Patrizio Bertelli, our Chief Executive Officer. Ms. Prada is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

## Executive Directors

BERTELLI, Patrizio, aged 66, is our Chief Executive Officer. He was appointed to the Board first on November 20, 2003 and has been re-elected as Director on May 22, 2012 and confirmed as Executive Director and Chief Executive Officier on June 7, 2012. Mr. Bertelli holds directorships in subsidiaries of the Company. Mr. Bertelli received an honorary degree in Business Economics from the University of Florence in October, 2000. Mr. Bertelli is a co-founder of our Group along with Ms. Prada. Mr. Bertelli is also the husband of Ms. Prada, our Chairperson. Mr. Bertelli is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

MAZZI, Carlo, aged 66, was appointed as our Deputy Chairman first on November 9, 2004 and has been re-elected as Director on May 22, 2012 and confirmed as Executive Director and Deputy Chairman on June 7, 2012. Mr. Mazzi holds directorships in subsidiaries of the Company. Mr. Mazzi obtained a degree "cum laude" (with praise) in Mechanical Engineering from the Bologna University of Italy in 1971 and obtained a Master's degree in Business Administration from Bocconi University of Milan in 1976. Mr. Mazzi worked as a Manager of the Large Corporate department of IMI and San Paolo IMI Bank from 1994 to 2000. He was a board member of IBI International Business Advisors Investment N.V. - Amsterdam; Vice Chairman and Executive Committee Member of IBI Bank AG - Zurich; Board Member of IBI Corporate Finance B.V. - Amsterdam; Managing Director of IBI S.p.A. - Milan (financial intermediation ex art. 106 TUB) from 2000 to 2004. He is currently a board member of SECVA S.r.l. - Arezzo (a service company). He was previously a board member of ABN AMRO S.p.A. - Milan (focused on merchant banking), SAGO S.p.A. - Florence (an IT research company responsible for the management of health facilities), IMILEASE S.p.A. - Rome (a leasing company), Banca di Intermediazione Mobiliare IMI S.p.A. - Milan (now Banca IMI S.p.A.) (focused on investment banking), Tecnofarmaci S.p.A. - Pomezia (a research company in the pharmaceuticals industry), SIM S.p.A. - Rome (focused on project management) and Paros International Insurance Brokers S.r.l. - Milan (in the insurance brokerage sector). Mr. Mazzi is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

GALLI, Donatello, aged 50, is our Group's Administration and Finance Director and was appointed to our Board first on January 21, 2005 and has been re-elected as Director on May 22, 2012 and confirmed as Executive Director and Chief Financial Officier on June 7, 2012. Mr. Galli holds directorships in subsidiaries of the Company. Mr. Galli received a degree "cum laude" (with praise) in Economics and Banking from the University of Siena in Italy in July, 1986. He started his career as business controller at Faricerca S.p.A. (now the Angelini Group) (pharmaceutical laboratories and Lines consumer products business), from 1987 to 1990. Mr. Galli was a financial analyst at Istituto

Mobiliare Italiano S.p.A. from 1990 to 1999 and then Head of the Large Corporate Division central assessment office of San Paolo IMI S.p.A. until 2000. He was also the Administration and Finance Director of IBI S.p.A. (now Alerion Clean Power S.p.A., a renewable energy company) from 2000 to 2004 and later joined Enertad S.p.A. (now ERG Renewable S.p.A., a renewable energies company) - both are listed companies on the Italian Stock Exchange. Mr. Galli is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

## Non-Executive Directors

SALOMONI, Marco, aged 58, is our Non-Executive Director, joined our Group in January 1997 and was appointed as Director first on May 15, 1997 and has been re-elected on May 22, 2012. Mr. Salomoni holds directorships in PRADA Holding B.V. and Gipafin Sàrl which are substantial shareholders of the Company. Mr. Salomoni obtained a degree in economics at the Bocconi University (Milan) in 1980. He has served on the board of directors of Gianni Versace S.p.A. from June 2005 to May 2011 and of GIVI Holding S.p.A. (holding company of the Gianni Versace S.p.A.) from April 2008 until present. Mr. Salomoni is currently a director of Aeffe S.p.A., a company listed on the Italian Stock Exchange. Mr. Salomoni also served on the board of directors of Il Sole 24 Ore S.p.A., the listed operator of an Italian business newspaper, from October 2007 to December 2009. Mr. Salomoni became a dottore commercialista (certified public accountant) in 1984 and was admitted as a member of Albo dei Dottori Commercialisti di Milano (Register of chartered accountants in Milan) in 1984. He became a Public Chartered Accountant (member of the Registro dei Revisori Contabili) at the Italian Ministry of Justice in 1992. Mr. Salomoni is currently a member of the Remuneration Committee and the Nomination Committee. Save as disclosed herein, Mr. Salomoni is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

MICCICHÈ, Gaetano, aged 62, is our Non-Executive Director, and was appointed first on May 9, 2011 and has been re-elected on May 22, 2012. Mr. Miccichè obtained a degree in Law from Università degli Studi di Palermo (Italy) in 1984 and a master's degree in Business Administration from SDA Bocconi University (Italy) in 1985. Mr. Miccichè began his career in Cassa Centrale di Risparmio delle Provincie Siciliane in 1971 and became Head of Corporate Clients. In 1989 he joined Rodriquez S.p.A., the luxury yachting group, as Chief Financial Officer. Mr. Miccichè also worked as General Manager of Gerolimich-Unione Manifatture (holding company with business in various industries), as General Manager of Santa Valeria S.p.A. (chemical company) and as Managing Director and General Manager of Olcese S.p.A. (yarn and thread mill company), all of which were listed on the Italian Stock Exchange. Since June 2002, he has been with the Intesa Sanpaolo Group (formerly Banca Intesa) and currently serves as the General Manager and Head of Corporate and Investment Banking Division and Chief Executive Officer of Banca IMI. Mr. Miccichè is also a board member of Telecom Italia S.p.A., a major Italian telecom group whose shares are listed on the Italian Stock Exchange, a board member of ABI Associazione Bancaria Italiana, Alitalia - CAI S.p.A. and a member of the Supervisory Board of Fondazione Ricerca e Imprenditorialità (Foundation of Research and Entrepreneurship). Save as disclosed herein, Mr. Miccichè is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

## Independent Non-Executive Directors

MATTEI, Gian Franco Oliviero, aged 67, was appointed as an Independent Non-Executive Director first on May 28, 2009 and has been re-elected on May 22, 2012. Mr. Mattei obtained a Degree in Economics from the University La Sapienza of Rome in 1970 and became a Public Chartered Accountant (member of the Registro dei Revisori Contabili) with the Italian Ministry of Justice in 1995. He has worked as Managing Director (Investment Banking) in Credit Suisse, Managing Director (Global Banking &

Markets) in The Royal Bank of Scotland, Head of Investment Banking at Sanpaolo IMI and Chairman of Banca IMI and was previously Head of the Finance Department at the Istituto Mobiliare Italiano IMI. Mr. Mattei has also been a Board Member of Borsa Italiana. Mr. Mattei is currently the Chairman of the Audit Committee, the Remuneration Committee and the Nomination Committee. He is currently Chairman of Officine CST - Consulting Services & Technology - S.p.A., and Chairman & CEO of HGM - Holding Gruppo Marchi S.p.A.. Mr. Mattei is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

FORESTIERI, Giancarlo, aged 66, is our Independent Non-Executive Director, was appointed to our Board first on May 31, 2007 and has been re-elected on May 22, 2012. Mr. Forestieri obtained a degree in Economics and Banking from the University of Siena in 1970 and obtained a Specialization in Corporate Finance from the Scuola Mattei - ENI in 1971. From 1988 to the present, Mr. Forestieri has been a Full Professor of Financial Markets and Institutions at the Bocconi University in Milan. Mr. Forestieri's professional experience includes serving as a member of the boards of directors of INA and Assitalia (from 1993 to 1994), Mediofactoring (from 1997 to 1999), Cassa di Risparmio di Parma e Piacenza (from 1996 to 1999 and then from 2003 to 2007 as the chairman of the board), Banca Intesa (from 1999 to 2006) and as a member of its executive committee (from 2000 to 2006), Alleanza Assicurazioni (from 2001 to 2007), Centrosim (from 1998 to 2003 where he was the chairman of the board) and Crédit Agricole Vita (from 2007 to present as the chairman of the board). Mr. Forestieri is a member of the Italian Scientific Societies in the Fields of Finance and Management. Mr. Forestieri is a member of the Audit Committee and the Remuneration Committee. Mr. Forestieri is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

LIU, Sing Cheong, JP, aged 57, was appointed our Independent Non-Executive Director first on May 9, 2011 and has been re-elected on May 22, 2012. He has been the Chairman of My Top Home (China) Holdings Limited (a Guangzhou-based property agency and consultancy) since 2005, the Vice Chairman of Guangzhou Pearl River - Hang Cheong Real Estate Consultants Limited (from 1993 to 2008), Chairman of Evergreen Real Estate Consultants Limited since 2001, Director of HKS Education Fund Limited ("HKSEF") since 2005 (HKSEF is a charitable institution which holds certain % of shares in Hongkong Sales (International) Limited ("HKSI"), an investment holding, knitwear manufacturing company), and Non-executive Director of HKSI since 2005 and its Vice Chairman since April 1, 2012 all of which are private companies. He has been an independent non-executive director of Swire Properties Limited since 2010 (Swire Properties Limited was listed on the Stock Exchange of Hong Kong on January 18, 2012). He is also a Member of the Council of The Hong Kong University of Science and Technology and the Development Committee of the West Kowloon Cultural District Authority. Mr. Liu graduated from The Hong Kong Polytechnic in 1979 with an Advanced Higher Diploma in Surveying and from The Hong Kong University of Science and Technology in 1994 with a Master of Business Administration degree. He has been a fellow of the Royal Institution of Chartered Surveyors since 1994 and the Hong Kong Institute of Surveyors since 1993. Mr. Liu is currently a member of the Audit Committee and the Nomination Committee. Save as disclosed above, Mr. Liu is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

## Senior Management

Our senior management is responsible for the day-to-day management of our business.

BADER, Natalie, aged 49, has been Chief Executive Officer of Prada Retail France since March 2011. She is responsible for overseeing the commercial operations of the Group in France and in the Principality of Monaco. Ms. Bader obtained a degree in Business Administration from Paris IDRAC International School of Management in 1987. She started her career in the Marketing department of Revlon Group and, after a short experience as Marketing Manager for make-up and skincare of Yves Rocher Group, moved to Chanel as Worldwide Media Director and Operational Marketing Director for perfume (1992 to 2003). Prior to joining our Group, she worked for almost eight years for the LVMH Group covering different managerial roles, such as Marketing and Communication Director Sephora (2003 to 2006) and, then, Chief Executive Officer FRED Jewelry (2006 to 2011). Ms. Bader is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

BRINI, Giulio, aged 44, has been Prada Retail Director since 2011. He is primarily responsible for overseeing the retail strategy and operations of the Prada brand. Mr. Brini obtained a degree in Economics and Banking from the University of Siena, in 1993. Mr. Brini joined our Group in 1995 and before being appointed to his current position he covered different managerial roles in the merchandising planning and product development of leather goods for the Prada, Miu Miu and Car Shoe brands. Mr. Brini is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

CANTINO, Stefano, aged 46, has been our Group's Communication and External Relations Director since June 2009. He is primarily responsible for our Group's communication strategy and global marketing functions. Mr. Cantino obtained a degree in Political Science from the University of Turin in 1993. Mr. Cantino joined our Group in 1996 and held several managerial roles in the commercial and marketing areas with Prada, Church's and Car Shoe, including Alaïa Operations Director, Car Shoe Commercial Director and Church's Brand and Retail Director. He was Prada's Marketing Director from 2005 to 2009 until he was appointed to his current position. Mr. Cantino is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

CHIARADIA, Aldo, aged 51, has been our Group's Information Technology Director since October 2012. He is responsible for overseeing the information and technology operations of the Group. Mr. Chiaradia obtained a degree in Computer Science from the University of Udine in 1987. He started his career in the Extended Enterprise Solutions Business at Ernst & Young Consultants as a Senior Manager (1998-2001). Prior to joining our Group, he covered different managerial roles within Italian and international companies, of which the latter as Chief Information Officer of the Benetton Group (2009-2012). Mr. Chiaradia is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

CIABATTI, Maurizio, aged 47, has been our Group's Engineering Director since 2006. He is primarily responsible for real estate development, equipment and maintenance of retail stores, corporate offices and production sites. Mr. Ciabatti joined our Group in 1989 and has covered different managerial roles in the maintenance and real estate area and, starting from 2005, in Corporate Engineering. Mr. Ciabatti is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

COZZANI, Alessandra, aged 49, has been our Group Investor Relations Director since July 2010. She is responsible for managing financial communication and for relationships with investment community. Ms. Cozzani joined our Group in 2000 and has covered different managerial roles within the Finance department. In 2003, she was appointed as Group Financial Reports Director. Ms. Cozzani obtained a degree "cum laude" (with praise) in Business Administration from the University of Genoa in 1988. She started her career as an auditor at Coopers & Lybrand (1989 to 1995). Prior to joining our Group, she worked in Castelletti International Transports, the Italian subsidiary of an international logistic company (now Schenker Group) for five years, most of the time as Finance and Control Director. Ms. Cozzani is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

ETHERIDGE, Stephen, aged 54, has been the Chief Executive Officer of Church & Co Ltd. since 2001. He is responsible for the industrial operations of the Church Group. Prior to this he has covered the role of Chief Executive at Cheaney & Son Footwear (1995 to 2001), a company which belonged to the Church Group. He started his career in the Sales Department at John White Footwear Limited UK and increased his responsibility up to the role of Managing Director (1986 to 1990). From 1990 to 1994 he was Managing Director of SE Marketing for Epic Fashion Footwear Limited, a company specialized in production and distribution of men's footwear. Mr. Etheridge is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

FAYARD, Pierre, aged 50, has been General Manager of Prada Middle East since he joined our Group in 2011. He is responsible for overseeing the commercial operations of the Group in the Middle East area, where he covers other managerial roles at the Group's subsidiaries. Mr. Fayard obtained a degree in Business Administration from Paris Business School, in 1984. Prior to joining our Group he worked for almost twelve years for the LVMH Group, covering different managerial roles at Sephora International, Sephora Middle East, Sephora UK and Sephora Europe. Mr. Fayard is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

GALANTE, Ivano, aged 49, has been our Footwear Division Director since 2010. He is primarily responsible for the manufacturing of the Group's footwear collections. Mr. Galante obtained a master degree for the development of three-dimensional landscape cad and, before that, he graduated as Electronic Engineer at Politecnico of Turin in 1989. Mr. Galante joined our Group in 1997 where he held several managerial roles in the collection purchasing and purchasing of leather goods and footwear. Prior to joining us, he worked for the Fiat Group (1992-1997). Mr. Galante is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

GIANNESSI, Giuliano, aged 49, has been our Group's Corporate Finance Director since March 1999. He is primarily responsible for finance and bank relationships, cash management and interest and exchange rates hedging activities. Mr. Giannessi obtained a degree "cum laude" (with praise) in Business Administration from the University of Pisa in 1987 and obtained the chartered accountant qualification in 1988. He started his career in Banca Commerciale Italiana. Prior to joining our Group he worked at the Piaggio Group as Treasurer (1991 to 1993) and Financial Planning Manager (1994 to 1995) and later in Salov Group as Treasurer and Credit Manager (1995 to 1999). Mr. Giannessi is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

GOTTI, Camillo Aldo, aged 48, has been Miu Miu General Manager since 2009. He is responsible for overseeing worldwide commercial operations of the Miu Miu brand. Mr. Gotti joined our Group in 1990 and before being appointed to his current position, he held several managerial roles in the wholesale, marketing and communication areas of the Prada and Miu Miu brands. Mr. Gotti is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

LANIA, Lanfranco Fabio, aged 46, was appointed General Manager of Prada Far East B.V. in February 2012. He is primarily responsible for overseeing the financial operations of one of the Group's sub-holding, Prada Far East B.V. Mr. Lania joined our Group in 2008 as Administration, Finance and Control Manager for European retail subsidiaries. Mr. Lania obtained a master degree in Accounting, Financial Statements and Financial Control at Consorzio Pavese per gli Studi Post Universitari in 1995, and graduated in Business Administration at the Luigi Bocconi University of Milan in 1994. He started his career at KPMG Advisory S.p.A. covering different advisory roles (2001 – 2008). Mr. Lania is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

LUPAS, Domnica Alexandra, aged 40, has been appointed General Manager of Prada Germany in March 2012. She is responsible for overseeing the commercial operations of the Group in Germany and northern and eastern Europe. Ms. Lupas joined our Group in 1997 and has covered different managerial roles within the Group. In 2005, she was appointed as Administration, Finance and Control European Retail Subsidiaries Director. Ms. Lupas obtained a degree in International Business Administration from the European Business School in London in 1996. Ms. Lupas is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

MECHERI, Fabrizio, aged 46, was appointed General Manager of Prada Singapore pte. Ltd. in July 2012. He is primarily responsible for overseeing the Group operations in the South Asia area. Mr. Mecheri joined our Group in 1999 and covered different managerial roles within the industrial area. Prior to joining our Group, he worked for Salvatore Ferragamo S.p.A. as production manager for ladies' footwear. Mr. Mecheri obtained an executive master degree in Business Administration from Kellogg – HKUST of Hong Kong in 2012, and graduated in Electronic Engineering at the University of Florence, in 1992. He started his career at Andersen Consulting S.p.A. as top senior consultant (1993-1996). Mr. Mecheri is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

NOSCHESE, Marcelo, aged 48, has been General Manager of Prada Brazil, since December 2011. He is responsible for overseeing the commercial operations of our Group in Brazil. Mr. Noschese obtained a master degree in Business Administration from INSEAD, Fontainebleau, France, in 1992 and graduated in Business Administration in Getúlio Vargas Foundation São Paulo, Brazil. He started his career at L'Oréal, as International Development Manager for the Fine Fragrances Division, and then was appointed as General Manager for the Travel Retail Division in North and South America (1992 – 1998). Prior to joining our Group, he worked for LVMH – Moët Hennessy Louis Vuitton as Country Manager for Brazil (2001 – 2004) and for Salvatore Ferragamo S.p.A., as Regional Development Director for South America (2007 – 2011). Mr. Noschese is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

PANERAI, Lorenzo, aged 45, has been our Group's Leather Goods Industrial Division Director since July 2008. He is primarily responsible for the manufacturing of our Group's leather goods collection. Mr. Panerai joined our Group in 2001 and undertook managerial roles in the planning and production of leather goods for the Prada and Miu Miu brands. Mr. Panerai obtained a degree in Electronic Engineering from the University of Florence in 1996. In 1996 he joined the Marketing and Commercial Division of Fiat Group Automobiles S.p.A., where he also worked in the Purchasing Department. His last role at Fiat Group Automobiles S.p.A. was Plant Operational Manager of the body assembly unit. Mr. Panerai is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

SESIA, Davide, aged 45, has been the President of Prada Japan since February 2004. He is responsible for overseeing the Group operations in Japan, Guam and Saipan. Mr. Sesia obtained a degree in Business Administration from the University Cattolica del Sacro Cuore of Milan in 1991. He joined our Group in 2000 as Representative Director and Chief Financial Officer of Prada Japan. Prior to that, he was Chief Financial Officer and Director of Benetton Japan and Managing Director of Benetton Korea Ltd (1997 - 2000). He started his career in Japan working for several companies from 1992. Mr. Sesia is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

SUTTER, Stefano, aged 39, joined the Group in December 2010 as General Manager of Prada Retail UK. Mr. Sutter is responsible for overseeing the Group operations in United Kingdom and Ireland. Mr. Sutter obtained a master in Business Administration from Columbia Business School, New York, in 2005 and graduated "cum laude" (with praise) in Business Administration at University of Genoa in 1998. Prior to joining our Group, he worked for INDITEX Group covering different managerial roles including as General Manager of Zara Canada (2006 to 2007), Managing Director of Inditex UK and Ireland (2007 to 2009) and, then, Managing Director of Inditex Austria, Hungary, Czech Republic and Slovakia. Prior to that, he spent five years working for Bain & Company Inc.. Mr. Sutter is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

TOLOMELLI, Armando, aged 47, has been appointed Chief Executive Officer of Prada Asia Pacific in March 2012. Mr. Tolomelli is primarily responsible for overseeing the Group operations in Asia Pacific region. Prior to this appointment Mr. Tolomelli has been our Group Controlling Director since joining our Group in July 2005. Prior to joining our Group, he spent fourteen years working for the Barilla Group, covering various roles including Financing Office Manager, Divisional Business Controller, Business Controller for South Eastern Europe, Group Controller of Wasa in Stockholm, Sweden (1999 to 2001), Finance Manager International Business Development of the Bakery Division (2001 to 2001) and Corporate Controlling Director of Kamps in Düsseldorf, Germany (2002 to 2005). Mr. Tolomelli is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

ZAMBERNARDI, Fabio, aged 50, has been our Design Director for the Miu Miu and Prada brands since November 2002. He is responsible for the collection concept development, overseeing all the strategic activities related to the coherence between image and product development of the collection, as well as supporting the strategic brands image communication. He has been collaborating with the Group since 1981. He was promoted Shoe Design Director in 1997 and Design Fashion Coordinator in 1999. Mr. Zambernardi is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

## Company Secretary

ALBANO, Patrizia, aged 59, is our joint company secretary. Ms. Patrizia Albano has been the Head of Group Corporate Affairs since September 2008 and is responsible for monitoring general legal compliance. Ms. Albano obtained a degree in Law from the University La Sapienza of Rome in 1979 and was admitted to the Bar Association (Ordine degli Avvocati di Roma) in 2006. She started her career as an in-house legal advisor at the Istituto Mobiliare Italiano S.p.A. from 1981 to 1999 and then worked as Head of the Large Corporate Division central legal office of San Paolo IMI S.p.A. until 2000. She has also worked as General Counsel of IBI (now Alerion Clean Power S.p.A.), and as Company Secretary of Risanamento Napoli S.p.A. and Fincasa S.p.A., both of which are listed companies on the Italian Stock Exchange. In 2002, Ms. Albano became the General Counsel and Company Secretary of a private company active in services provision, property and facility management and renewable energy. She then worked at an Italian law firm, Studio Legale Carbonetti, from 2003 to 2007, and also founded her own private practice law firm, Albano Baldassari, in 2007 before joining our Company in 2008. Ms. Albano is the wife of Mr. Carlo Mazzi, the Deputy Chairman of our Company. Ms. Albano is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

YUEN, Ying-kwai, aged 46, is our joint company secretary. She is responsible for corporate secretarial duties. Ms. Yuen joined our Group and was appointed joint company secretary in May 2011. Ms. Yuen has over 20 years of working experience in the corporate secretariat and compliance areas of sizeable organizations and professional firms. Prior to joining our Group, she worked with Li & Fung group for 15 years. She first joined in 1995 as company secretary of Li & Fung (1937) Limited until 1999 when she was transferred to Li & Fung Distribution (Management) Limited and appointed as group company secretary in 2000. Ms. Yuen was the company secretary of Integrated Distribution Services Group Limited (member of Li & Fung Group) between 2004 and 2011. Ms. Yuen received an Honours Diploma in Company Secretaryship and Administration from Lingnan College (now known as Lingnan University) in 1988. Ms. Yuen holds a Master degree in Business Administration (Executive) from City University of Hong Kong, awarded in 2003. Ms. Yuen has been a fellow of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators, UK since 2001. Ms. Yuen is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

# Directors' Report

## Principal activities

PRADA S.p.A. (the "Company"), together with its subsidiaries (jointly the "Group"), is a leading global luxury group in the design, production and distribution of high-end leather goods, handbags, footwear, apparel, accessories, eyewear and fragrances. Through its directly-operated-stores network ("DOS") and a selected number of wholesalers, the Group operates in all major international markets.

The Company is a joint-stock company, incorporated and domiciled in Italy. Its registered office is in Via A. Fogazzaro 28, Milan, Italy.

An analysis of the Group's performance for the year ended January 31, 2013 by operating segments is set out in the Financial Review and note 8 to the Consolidated Financial Statements.

## Results and dividends

The results of the Group for the year ended January 31, 2013 are set out in the Consolidated Income Statements.

The Board recommends, for the twelve month period ended January 31, 2013, a final dividend of Euro 230.3 million (or 9.0 Euro/cents per share). The payments shall be made in Euro to the shareholders recorded in the section of Company's shareholders register kept by the Company's at its registered office in Milan (Italy) and in Hong Kong dollars to the shareholders recorded in the section of the Company's shareholders register kept in Hong Kong. The relevant exchange rate will be the opening buying T/T rate of Hong Kong dollars to Euros as announced by the Hong Kong Association of Banks (www.hkab.org.hk) on the day of approval of the final dividend by the shareholders.

The final dividend will be subject to approval by the shareholders at the forthcoming Shareholders' general meeting of the Company to be held on Thursday, May 23, 2013.

The shareholders recorded on the Company's shareholders register on Thursday, May 23, 2013 will be allowed to attend and vote at the Shareholders' general meeting of the Company. In order to qualify for attending and voting at the Shareholders' general meeting of the Company, all transfers accompanied by the relevant share certificate(s) must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or with the Company's registered office in Milan (Italy), Via Antonio Fogazzaro, 28, if the transfer concerns shares registered in the section of the Company's shareholders register kept by the Company at its registered office, not later than 4:30 p.m. (Hong Kong time) on Monday, May 20, 2013. The shareholders register of the Company will be closed from Tuesday, May 21, 2013 to Thursday, May 23, 2013, both days inclusive, during which no share transfer can be registered.

Subject to the shareholders' approving the recommended final dividend, such dividend will be payable on or about Thursday, June 20, 2013.

The final dividend will be paid to shareholders recorded on the Company's shareholders register on Friday, May 31, 2013. In order to qualify for the payment of the proposed final dividend, all transfers accompanied by the relevant share certificate(s) must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or with the Company's registered office in Milan (Italy), Via Antonio Fogazzaro, 28, if the transfer concerns shares registered in the section of the Company's shareholders register kept by the Company at its registered office, not later than 4:30 p.m. (Hong Kong time) on Wednesday, May 29, 2013. The shareholders register of the Company will be closed from Thursday, May 30, 2013 to Friday, May 31, 2013, both days inclusive, during which no share transfer can be registered. The dividend will be paid net of 20% Italian withholding tax. Further details on withholding tax have been already reported in the Tax Booklet available on the Company's website at www.pradagroup.com.

### Five-year financial summary

The five year financial summary of the Group is set out in note 41 to the Consolidated Financial Statements.

### Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Shareholders' Equity and in the Statement of Changes in PRADA S.p.A. Equity.

### Distributable reserves

As at January 31, 2013, the Company's reserves available for distribution to shareholders in accordance with the Company's by-laws amounted to Euro 752,358 thousands.

### Property, plant and equipment

Details of the movements in the property, plant and equipment of the Group during the year ended January 31, 2013 are set out in note 15 to the Consolidated Financial Statements.

### Pre-emptive rights

There is no provision for pre-emptive rights under the Company's by-laws.

### Purchase, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended January 31, 2013 (the "Reviewed Period").

### Capital gain tax in Italy

Capital gains realized on disposals of Company's shares may be subject to tax in Italy. Further details on Italian capital gains taxation have been already reported in the Tax Booklet available on the Company's website at www.pradagroup.com

### Subsidiaries

Details of the Company's subsidiaries as at January 31, 2013 are set out in note 43 to the Consolidated Financial Statements.

### Directors

The Directors of the Company during the Reviewed Period and up to the date of this annual report are:

### Executive Directors

Ms. Miuccia PRADA BIANCHI (Chairperson)
Mr. Patrizio BERTELLI (Chief Executive Officer)
Mr. Carlo MAZZI (Deputy Chairman)
Mr. Donatello GALLI (Chief Financial Officer)

### Non-Executive Directors

Mr. Marco SALOMONI
Mr. Gaetano MICCICHÉ

### Independent Non-Executive Directors

Mr. Gian Franco Oliviero MATTEI
Mr. Giancarlo FORESTIERI
Mr. Sing Cheong LIU

In accordance with the by-laws of the Company, the Directors are appointed by the shareholders' general meeting for a period of up to three financial years. The term lapses on the date of the shareholders' general meeting called to approve the financial statements for the last year of their office. They may be reappointed.

At the shareholders' general meeting of the Company held on May 22, 2012, the Board of Directors has been appointed for a term of three financial years. The Board's mandate will therefore expire at the shareholders' general meeting to be convened for the approval of the financial statements of the Company for the year ended January 31, 2015.

### Biographical information of Directors

Brief biographical information of the Directors of the Company are set out in the "Directors and Senior Management" section of this annual report.

### Directors' service contracts

None of the Directors of the Company has or is proposed to have a service contract with any member of the Group that is not determinable within one year without payment of compensation, other than statutory compensation.

### Directors' interests in competing business

During the Reviewed Period, none of the Directors of the Company, apart from Mr. Marco Salomoni, had any interests in a business which competes, either directly, or indirectly, with the business of the Company and the Group.

Mr. Marco Salomoni is currently a director of GIVI Holding S.p.A. (holding company of the Gianni Versace S.p.A.) and of Aeffe S.p.A., a company listed on the Italian Stock Exchange.

### Directors' interests and short positions in securities

As at January 31, 2013, the Directors of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

### (a) Long positions in shares and underlying shares of the Company

| Name of Director | Number of Shares | Nature of Interest | Approximate percentage of Issued Capital |
|---|---|---|---|
| Ms. Miuccia Prada Bianchi | 2,046,470,760 (Notes 1 and 2) | Interest of Controlled corporation | 80% |
| Mr. Patrizio Bertelli | 2,046,470,760 (Notes 1 and 3) | Interest of Controlled corporation | 80% |

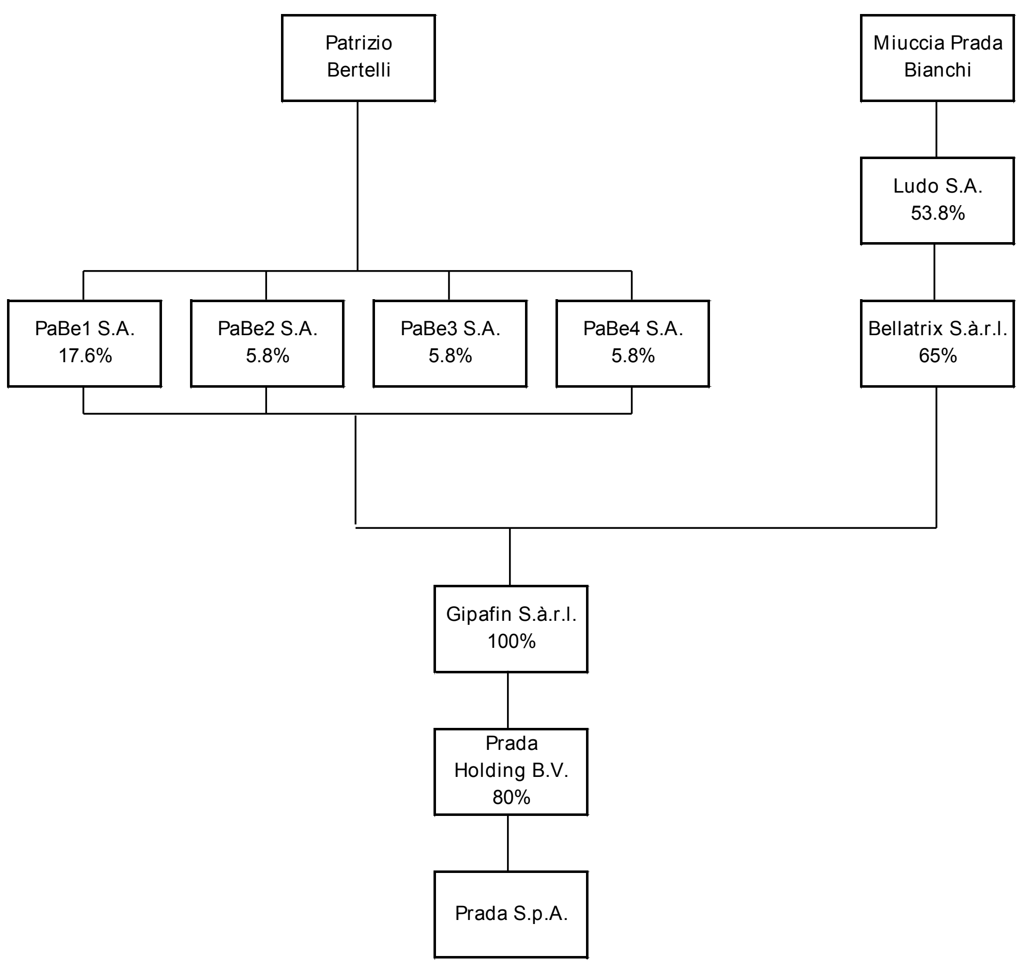
Notes

1. Prada Holding B.V. owns approximately 80% of the issued capital in the Company and is therefore the holding company of the Company.

2. The entire issued share capital in Prada Holding B.V. is held by Gipafin S.à.r.l.. Ms. Miuccia Prada Bianchi, owns, indirectly through Ludo S.A. 53.8% (which comprises 438,460 ordinary shares and 100,000 preference shares) of the capital in Bellatrix S.à.r.l., which in turn owns 65% (which comprises 1,650 ordinary shares and 300 preference shares) of the capital in Gipafin S.à.r.l.. Ms. Miuccia Prada Bianchi is therefore deemed under the SFO to be interested in all the shares registered in the name of Prada Holding B.V.. Ms. Miuccia Prada Bianchi is also a director of Ludo S.A..

3. Mr. Patrizio Bertelli owns, indirectly through companies owned by him (PaBe1 S.A., PaBe2 S.A., PaBe3 S.A. and PaBe4 S.A.), 35% (which comprises 750 ordinary shares and 300 preference shares) of the capital in Gipafin S.à.r.l.. Mr. Patrizio Bertelli is therefore deemed under the SFO to be interested in all the shares registered in the name of Prada Holding B.V..

The interests of Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli in the shares of the Company as at January 31, 2013 are summarized in the following chart:



### (b) Long positions in shares and underlying shares of associated corporations:

| Name of Director | Name of associated corporations | Class of shares | Number of shares | Nature of Interests | Approximate percentage of Interests |
|---|---|---|---|---|---|
| Ms. Miuccia Prada Bianchi | Prada Holding B.V. | Common Shares | 1,001 | Controlled Corporation | 100% |
| | Prapar Corporation | Common Shares | 50 | As above | 100% |
| | EXHL Italia S.r.l. | Participation Quotas (Euro) | 15,000 | As above | 100% |
| | I.P.I. (21) UK Ltd | Ordinary Shares | 750,000 | As above | 100% |
| | MFH Munich Fashion Holding GmbH | Registered Share | 1 | As above | 100% |
| | PAC S.r.l. (in liquidation) | Participation Quotas (Euro) | 30,600 | As above | 100% |
| | Gipafin S.à.r.l. | Ordinary Shares | 1,650 | As above | 68.75% |
| | Gipafin S.a.r.l. | Preference Shares | 300 | As above | 50% |
| | Bellatrix S.à.r.l. | Ordinary Shares | 438,460 | As above | 49.83% |
| | Bellatrix S.à.r.l. | Preference Shares | 100,000 | As above | 83.34% |
| | Ludo S.A. | Ordinary Shares | 100,310 | Beneficial Owner | 100% |
| | PRADA Arte B.V. | Registered Shares | 180 | Controlled Corporation | 100% |
| | Arte One B.V. | Ordinary Shares | 180 | As above | 100% |
| | PRA 1 S.r.l. | Participation Quotas (Euro) | 10,000 | As above | 100% |
| | | | | | |
| Mr. Patrizio Bertelli | Prada Holding B.V. | Common Shares | 1,001 | Controlled corporation | 100% |
| | Prapar Corporation | Common Shares | 50 | As above | 100% |
| | EXHL Italia S.r.l. | Participation Quotas (Euro) | 15,000 | As above | 100% |
| | I.P.I. (21) UK Ltd | Ordinary Shares | 750,000 | As above | 100% |
| | MFH Munich Fashion Holding GmbH | Registered Share | 1 | As above | 100% |
| | PAC S.r.l. (in liquidation) | Participation Quotas (Euro) | 30,600 | As above | 100% |
| | Gipafin S.à.r.l. | Ordinary Shares | 750 | As above | 31.25% |
| | Gipafin S.a.r.l. | Preference Shares | 300 | As above | 50% |

Save as disclosed above, as at January 31, 2013, none of the Directors of the Company or their associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Substantial shareholders' interests and short positions in securities

As at January 31, 2013, other than the interests of the Directors of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Section 336 of the SFO:

| Name of Shareholder | Capacity | Number of Shares | Approximate percentage of issued capital |
|---|---|---|---|
| Prada Holding B.V. | Legal and beneficial owner | 2,046,470,760 | 80% |
| Gipafin S.à.r.l. | Interest of controlled corporation | 2,046,470,760 | 80% |
| Bellatrix S.à.r.l. | Interest of controlled corporation | 2,046,470,760 | 80% |
| Ludo S.A. | Interest of controlled corporation | 2,046,470,760 | 80% |

Note:

Prada Holding B.V. owns approximately 80% of the issued capital in the Company. As Ludo S.A. owns 53.8% of Bellatrix S.à.r.l. which in turn owns 65% of Gipafin S.à.r.l. (Gipafin S.à.r.l. owns the entire issued capital in Prada Holding B.V.), Gipafin S.à.r.l., Bellatrix S.à.r.l. and Ludo S.A. were all deemed to be interested in the 2,046,470,760 shares of the Company held by Prada Holding B.V..

## Share capital

Details of the movements in the share capital of the Company during the year ended January 31, 2013 are set out in the Consolidated Statement of Changes in Shareholders' Equity and note 29 to the Consolidated Financial Statements.

## Directors' interests in contracts

Save for those contracts disclosed under the section on Connected Transactions below and in note 39 Transactions with Related Parties and in note 38 Remuneration of the Board of Directors to the Consolidated Financial Statements, in the opinion of the Directors, no contract of significance with the Company or the Group subsists at the end of the year ended January 31, 2013 or subsisted during the Reviewed Period in relation to the Company's and the Group business and in which a Director's interest is or was material.

During the Reviewed Period, there were no arrangements to which the Company or any of the Company's subsidiaries or holding companies or a subsidiary of any of the Company's holding companies is a party, being arrangements whose objects are, or one of whose objects is, to enable Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company.

The Company did not issue any debentures during the Reviewed Period.

## Connected transactions

### (A) Continuing Connected Transactions

During the year ended January 31, 2013, the Company and its subsidiaries had the following non-exempt continuing connected transactions, details of which were disclosed in the Prospectus of the Company dated June 13, 2011 and in the Company's announcements dated April 27, 2012 and January 29, 2013:

(a) *Franchise Agreement – Prada Milan Stores*

As disclosed in the Prospectus dated June 13, 2011, the Company originated as a family business in 1913 in Milan and has continued as such since Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli began their cooperation in the late 1970s. Therefore, the Prada stores in Milan have historically been operated by companies that are connected to the Prada family.

The Company's subsidiary, Prada S.A., currently owns the rights to the Prada trademark and, as a licensor, licenses the use of the Prada trademark to the Company as a licensee.

Against such historical background, on January 28, 2009, the Company entered into a franchise agreement in relation to five Prada stores based in Milan (the "Franchise Agreement") with five companies that operate the five stores and their controlling entity, which all subsequently merged with Fratelli Prada S.p.A. (the "Franchisee"). Fratelli Prada S.p.A. is a company indirectly controlled by Ms. Miuccia Prada Bianchi, the Chairperson and a substantial shareholder of the Company. The Franchise Agreement will expire on January 29, 2024 and will be automatically extended for a further 15-year term provided that (i) the Franchisee has met the minimum annual budget for the initial 15-year term; or (ii) the cumulative amount of the purchases made by the Franchisee for the entire initial 15-year term is at least equal to the sum of the minimum annual budget for each of the 15 years.

(b) *Consulting Agreement with Ms. Miuccia Prada Bianchi*

On April 26, 2012, the Company renewed its consultancy agreement with Ms. Miuccia Prada Bianchi, the Chairperson and a substantial shareholder of the Company, which took effect from February 1, 2012 for a term of three years under which Ms. Miuccia Prada Bianchi continues to act as a strategic consultant for: (i) identifying and elaborating creative design concepts and styles; (ii) coordinating and supervising collections development and all of the dedicated structures and functions; (iii) defining concepts for fashion shows and supervising their execution and (iv) setting guidelines for brands communication and advertising campaigns and supervising related activities.

(c) *Consulting Agreement with Mr. Patrizio Bertelli*

On April 26, 2012, the Company renewed its consultancy agreement with Mr. Patrizio Bertelli, the Chief Executive Officer and substantial shareholder of the Company, which took effect from February 1, 2012 for a term of three years under which Mr. Patrizio Bertelli continues to act as a strategic consultant for: (i) defining the collections development and industrialization processes; (ii) developing the leather goods and shoes collection concept and supervising the related structures and (iii) selecting locations for the new DOS and refurbishment of existing stores, conceiving store concepts and defining guidelines and coordination of related project development activities.

*(d) Galleria Transaction*

The Company was granted the right to use the prestigious premises in the Galleria Vittorio Emanuele II in Milan, Italy (the "Galleria Property") by the Municipality of Milan under a concession agreement for an 18-year term (the "Concession Agreement"), in its own capacity and as the representative of Progetto Prada Arte S.r.l. ("PPA"). In this context, the Company entered into the following continuing connected transaction.

On January 29, 2013, the Company entered into a business combination agreement with PPA for an 18-year term (the "PPA Business Combination Agreement"). PPA is indirectly controlled by Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli (both executive directors and substantial shareholders of the Company). Under the Business Combination Agreement, the Company is granted the right to represent on an exclusive basis the business cooperation between the Company and PPA vis-à-vis the Municipality of Milan in all aspects relating to the Concession Agreement and PPA is bound to pay to the Company the portion of the annual concession fee allocated to PPA, based on the portion of the Galleria Property used by PPA to carry on the cultural activities in the premises. Given that the duration of the PPA Business Combination Agreement is longer than three years, an independent financial advisor, namely Somerley Limited, was appointed by the Company and it has confirmed that the duration of the PPA Business Combination Agreement is required and in accordance with normal business practice for contracts of this type pursuant to Rule 14A.35(1) of the Listing Rules.

Below is a table setting out the aggregate value for each of the non-exempt continuing connected transactions for the year ended January 31, 2013:

| | € million |
|---|---|
| **(a) Franchise Agreement – Prada Milan Stores** | |
| Revenues from sales of goods | 45.3 |
| Revenues from services | 2.8 |
| Royalties received | 1.3 |
| Purchase of goods by the Company | (2.2) |
| Net transaction amount | 47.2 |
| **(b) Consulting Agreement with Ms. Miuccia Prada Bianchi** | |
| Annual amount of remuneration paid to Ms. Miuccia Prada Bianchi | 9.7 |
| **(c) Consulting Agreement with Mr. Patrizio Bertelli** | |
| Annual amount of remuneration paid to Mr. Patrizio Bertelli | 10.0 |
| **(d) PPA Business Combination Agreement*** | |
| Rental income | 0.006 |

*As the PPA Business Combination Agreement was entered into on January 29, 2013, the amount payable under the PPA Business Combination Agreement for the period of three days from January 29 to 31, 2013 has been accrued for the year ended January 31, 2013 and will be effectively paid in the year ending January 31, 2014.

The Independent Non-Executive Directors have reviewed the above non-exempt continuing connected transactions and confirmed that these have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) either on normal commercial terms or, on terms no less favourable to the Company than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors of the Company have engaged the auditors to review the above non-exempt continuing connected transactions. The auditors have, based on the work performed, provided a letter to the Directors of the Company (with a copy provided to the Stock Exchange) to confirm that the above continuing connected transactions:

(i) have been approved by the Company's Board of Directors;

(ii) are in accordance with the pricing policies of the Group;

(iii) have been entered into in accordance with the terms of the relevant agreements governing such transactions; and

(iv) have not exceeded the relevant annual limits set out in the Prospectus of the Company dated June 13, 2011 and in the Company's announcements dated April 27, 2012 and January 29, 2013, as applicable.

### (B) Connected Transaction

During the year ended January 31, 2013, the Company and its subsidiaries had the following non-exempt connected transactions, details of which were disclosed in the Company's announcements dated January 10, 2012 and June 28, 2012:

*(a) Luna Rossa sponsorship agreement*

On January 10, 2012, Prada S.A. a wholly-owned subsidiary of the Company, entered into a sponsorship agreement with certain companies which are indirectly owned by Mr. Patrizio Bertelli, the Chief Executive Director and a substantial shareholder of the Company, in relation to the sponsorship for the participation of the Luna Rossa yacht in the XXXIV edition of the America's Cup.

The total amount of the sponsorship under the sponsorship agreement is Euro 40 million and is to be paid in installments over the period from January 2012 to September 2013. The nature and reasons for the above connected transaction have been disclosed in the Company's announcement dated January 10, 2012.

*(b) Agreements for disposal of works of art*

On June 28, 2012, the Company and its wholly-owned subsidiary, Prada S.A., entered into agreements for the disposal of works of art to Ludo S.A. and PaBe 1 S.A. at the total consideration of Euro 12,883,542. Ludo S.A. is a substantial shareholder of the Company and is a company controlled by Ms. Miuccia Prada Bianchi (the Chairperson and a substantial shareholder of the Company). PaBe 1 S.A. is a substantial shareholder of the Company and is a company controlled by Mr. Patrizio Bertelli (the Chief Executive Officer and substantial shareholder of the Company). The nature and reasons for the above connected transaction have been disclosed in the Company's announcement dated June 28, 2012.

Other than the above non-exempt continuing connected transactions and non-exempt connected transactions, no other transaction disclosed in the Consolidated Financial Statements falls under the definition of "connected transactions" or "continuing connected transaction" contained in Chapter 14A of the Listing Rules or, where it falls under the definition of "connected transactions" or "continuing connected transaction" contained in Chapter 14A of the Listing Rules, it is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements governing "connected transactions" or "continuing connected transactions" in accordance with Chapter 14A of the Listing Rules.

## Bank loans and other borrowings

Details of the Group's bank loans and other borrowings as at January 31, 2013 are set out in notes 19 and 25 to the Consolidated Financial Statements.

## Major customers and suppliers

The nature of the Group's activities are such that the percentage of sales or purchases attributable to the Group's five largest customers or suppliers is significantly less than 30% of the total and the Directors do not consider any one customer or supplier to be influential to the Group.

## Retirement benefit schemes

Details of the retirement benefit schemes of the Group are set out in note 26 to the Consolidated Financial Statements.

## Model Code for securities transactions

The Company has adopted the Model Code. Having made specific enquiries of all Directors, all Directors have confirmed that they have complied with the required standard of the Model Code throughout the Reviewed Period.

## Events after the reporting period - if applicable

Details of significant events occurring after the reporting date are set out in note 44 to the Consolidated Financial Statements.

## Commitments and contingencies

Details of capital commitments and contingent liabilities of the Group as at January 31, 2013 are set out in notes 40 and 27 respectively to the Consolidated Financial Statements.

## Sufficiency of public float

The Stock Exchange granted to the Company at the time of its listing a waiver from strict compliance with Rule 8.08(1) of the Listing Rules ("Public Float Waiver"). Pursuant to the Public Float Waiver, the Company must at all times maintain a minimum public float of 20%. Based on the information that is available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as approved by the Hong Kong Stock Exchange and as permitted under the Listing Rules as at the date of this annual report.

## Directors' responsibilities for the Consolidated Financial Statements

The Directors are responsible for the preparation of Consolidated Financial Statements for the year ended January 31, 2013 with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group. In preparing these financial statements, the Directors have selected suitable accounting policies, made judgments and estimates that are prudent and reasonable, and prepared the financial statements on a going concern basis and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union. The Directors are responsible for keeping proper accounting records for safeguarding the assets of the Company and the Group.

## Auditor

The Consolidated Financial Statements and the Separate Financial Statements of PRADA S.p.A. were audited by Deloitte & Touche S.p.A.. Under Italian company law, the auditor is appointed and its remuneration is resolved every three years by the shareholders' general meeting of the Company, on the basis of a proposal from the Board of Statutory Auditors.

On April 13, 2012 the Stock Exchange granted to the Company a waiver from strict compliance with Rule 13.88 of the Listing Rules which requires the appointment of an auditor at each annual general meeting to hold office until the next annual general meeting. As a consequence, the Company's auditor will be appointed every three years at the shareholders' general meeting of the Company under the applicable laws.

At the shareholders' general meeting of the Company held on April 28, 2010, it was resolved that the auditor be appointed for a term of three financial years. Accordingly, the auditor's mandate will expire at the forthcoming shareholders' general meeting to be convened for the approval of the financial statements of the Company for the year ended January 31, 2013.

On April 5, 2013, the Board had resolved, in accordance with the recommendation received from the Audit Committee, to propose a resolution at the forthcoming shareholders' general meeting of the Company to appoint Deloitte & Touche S.p.A. as the auditor of the Company and to fix its remuneration for the relevant three year-term.

By order of the Board

Miuccia Prada Bianchi
Chairperson
April 5, 2013

# Corporate Governance

## Corporate governance practices

The Company is committed to maintaining a high standard of corporate governance practices and fulfilling its commitment to effective corporate governance. The corporate governance model adopted by the Company consists of a set of rules and standards with the aim of establishing efficient and transparent operations within the Group, to protect the rights of the Company's shareholders and to enhance shareholder value. The corporate governance model adopted by the Company is in compliance with the applicable regulations in Italy, as well as the principles of the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules.

## Compliance with the Code

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company's corporate governance practices have complied with the code provisions set out in the Code on Corporate Governance Practices (the "Former Code") formerly contained in Appendix 14 of the Listing Rules during the period from February 1 to March 31, 2012 and the Code during the period from April 1, 2012 to January 31, 2013 (the period from February 1, 2012 to January 31, 2013, both days inclusive, is referred to in this report as the "Reviewed Period"). This Corporate Governance Report summarizes how the Company has applied the principles and implemented the code provisions contained in the Former Code and the Code throughout the Reviewed Period.

## Directors' securities transactions

The Company has adopted written procedures governing Directors' securities transactions on terms no less exacting than the standard set out in the Model Code. Specific written acknowledgments have been obtained from each Director to confirm compliance with the Model Code throughout the Reviewed Period. There was no incident of non-compliance during the Reviewed Period.

The Company has also adopted written procedures governing securities transactions carried out by the relevant employees who are likely to possess inside information in relation to the Company and its securities. The terms of these procedures are no less exacting than the standard set out in the Model Code.

Directors' interests as at January 31, 2013 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out in the Directors' Report.

## Board of Directors

### a. Board Composition

The Board is currently composed of nine Directors, of which four are Executive Directors, two are Non-Executive Directors and three are Independent Non-Executive Directors. All Directors have distinguished themselves in their field of expertise and advised the Board in the area of their specialty, relevant to the Group's business activities and strategic development. The biographical details and any relevant relationships between them are set out in the Directors and Senior Management section.

### b. Board Meetings

During the Reviewed Period, the Board held six meetings to discuss the Group's overall corporate strategic direction and objectives, to assess its operational and financial performance (including the annual budget, interim and quarterly results), to appoint the members of its Committees, and to approve connected transactions and the Group's investments plan. The average attendance rate of the Directors for these six meetings either in person or through electronic means of communication was 90%.

Minutes of the Board meetings are kept by the Group Corporate Affairs Director and Joint Company Secretary, Ms. Patrizia Albano. Minutes of the meetings of the Board and all the Board Committees are available to any Director for inspection at any reasonable time by giving reasonable notice.

### c. Board Attendance

The details of attendance at Board Meetings, Committee Meetings and shareholders' general meeting held during the Reviewed Period are set out in the following table:

| Directors | Board | Audit Committee | Remunera-tion Committee | Nomination Committee | Shareholder's Meeting |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Ms. Miuccia PRADA BIANCHI (Chairperson) | 5/6 | | | | 1/1 |
| Mr. Patrizio BERTELLI (Chief Executive Officer) | 6/6* | | | | 1/1 |
| Mr. Carlo MAZZI (Deputy Chairman) | 6/6 | | | | 1/1 |
| Mr. Donatello GALLI (Chief Financial Officer) | 6/6 | | | | 1/1 |
| **Non-Executive Directors** | | | | | |
| Mr. Marco SALOMONI 1 | 6/6 | | 3/3 | 1/1 | 1/1 |
| Mr. Gaetano MICCICHÉ | 2/6 | | | | 0/1 |
| **Independent Non-Executive Directors** | | | | | |
| Mr. Gian Franco Oliviero MATTEI 2 | 6/6 | 5/5 | 3/3 | 1/1 | 1/1 |
| Mr. Giancarlo FORESTIERI 3 | 6/6 | 5/5 | 3/3 | | 1/1 |
| Mr. Sing Cheong LIU 4 | 6/6 | 5/5 | | 1/1 | 1/1 |
| **Statutory Auditors** | | | | | |
| Mr. Antonino PARISI 5 | 6/6 | 5/5 | | | 1/1 |
| Mr. Roberto SPADA 6 | 4/5 | 3/4 | | | |
| Mr. David TERRACINA 6 | 4/5 | 4/4 | | | |
| Mr. Riccardo PEROTTA 7 | 1/1 | 1/1 | | | 0/1 |
| Mr. Gianandrea TOFFOLONI 7 | 1/1 | 1/1 | | | 1/1 |
| Date(s) of Meeting | Mar 29, 2012 | Mar 29, 2012 | Mar 27, 2012 | June 7, 2012 | May 22, 2012 |
| | June 7, 2012 | June 7, 2012 | June 7, 2012 | | |
| | July 19, 2012 | Sept 24, 2012 | Sept 24, 2012 | | |
| | Sept 24, 2012 | Dec 4, 2012 | | | |
| | Dec 6, 2012 | Jan 29, 2013 | | | |
| | Jan 29, 2013 | | | | |
| Average Attendance Rate of Directors | 90% | 100% | 100% | 100% | 89% |

Notes:
*: On January 29, 2013, Mr. Patrizio Bertelli attended only half meeting
1: Member of Remuneration Committee and the Nomination Committee
2: Chairman of Audit Committee, Remuneration Committee and Nomination Committee
3: Member of Audit Committee and Remuneration Committee
4: Member of Audit Committee and Nomination Committee
5: Chairman of the Board of Statutory Auditors
6: Member of the Board of the Statutory Auditors from May 22, 2012
7: Member of the Board of the Statutory Auditors until May 22, 2012

Ms. Miuccia Prada Bianchi, the Chairperson of the Company, was absent for one of the Board Meetings due to prior commitments concerning fashion shows. Attendance at such events was important for the discharge of her duties to the Company. Prior to the relevant Board Meeting being held, the Chairperson rendered her views and comments to the Deputy Chairman, who led the Directors through the agenda of the relevant Board Meeting.

### d. Roles and Responsibilities

The Board is vested with full powers for the ordinary and extraordinary management of the Company. The Board has the power to perform all acts it deems advisable for the implementation and achievement of the corporate purpose, except for those acts reserved by laws or by the By-laws for resolution at a shareholders' general meeting. In particular, the Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Company. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual, interim and quarterly results, approval of major transactions and connected transactions and other significant operational and financial matters.

All Board members have been provided with monthly updates prepared by the Executive Directors with the support of the management which give a balanced and comprehensive assessment of the performance, position and prospects of the Company and the Group in sufficient detail to enable the Board as a whole and each Director to discharge their duties.

Day-to-day operational responsibilities are specifically delegated by the Board to management. Such responsibilities include:

- the preparation of annual, interim and quarterly results for the approval of the Board before publication;
- execution of business strategy and other initiatives adopted by the Board;
- monitoring of operating budgets adopted by the Board;
- implementation of adequate systems of internal controls and risk management procedures; and
- compliance with relevant statutory requirements, rules and regulations.

### e. Independent Non-Executive Directors

The Independent Non-Executive Directors of the Company are Mr. Gian Franco Oliviero Mattei, Mr. Giancarlo Forestieri and Mr. Sing Cheong Liu. Each Independent Non-Executive Director meets the independence guidelines set out in Rule 3.13 of the Listing Rules and provided to the Company the annual confirmation as to his independence. This was further confirmed by the review of the Nomination Committee made on April 3, 2013. None of the Independent Non-Executive Directors of the Company has any business or financial interests with the Company or its subsidiaries and they continue to be considered by the Company to be independent.

### f. Liability Insurance for the Directors

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis.

### g. Directors' Training

Each Director, after his/her appointment, is provided with a comprehensive, formal and tailored induction program to ensure that he/she has a proper understanding of the key areas of business operations and practices of the Company, as well as his/her responsibilities under the relevant laws, rules and regulations.

All Directors are encouraged to participate in continuous professional training to develop and refresh their knowledge and skills. In this respect, during the Reviewed Period, Directors received regular updates on changes and developments of the Group's business and on the latest development of the laws, rules and regulations relating to Directors' duties and responsibilities. In addition, all Directors attended an in-house seminar conducted by the Joint Company Secretaries covering the topics of connected transactions, notifiable transactions, price-sensitive information disclosure requirements and disclosure of Directors' interests. The Non-Executive Directors and Independent Non-Executive Directors also attended on March 29, 2012 a tour and introduction of the Group's operations in Tuscany, Italy, conducted by the Executive Directors to enable them to gain a better understanding of the business of the Group. These initiatives are taken to ensure that the Directors' contribution to the Board is informed and relevant.

Directors are requested to provide records of the training they have received to the Group Corporate Affairs Director and the Joint Company Secretary, Ms. Patrizia Albano.

### Chairperson and Chief Executive Officer

The Chairperson is Ms. Miuccia Prada Bianchi and the Chief Executive Officer is Mr. Patrizio Bertelli. The role of the Chairperson is separate from that of the Chief Executive Officer. The Chairperson is vested with the power to represent the Company and is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures. The Chief Executive Officer, supported by the other Executive Directors and senior management, is responsible for managing the Group's business, including the implementation of major strategies and other initiatives adopted by the Board. The Chief Executive Officer and the Chairperson are husband and wife.

### Appointment of Directors

The Board (including the Non-Executive Directors) is appointed by the shareholders' general meeting for a term of up to three financial years. The mandate of the Directors (including those elected during the term of the Board, if any) lapses on the date of the shareholders' general meeting called to approve the financial statements of the Company for the third year of the Board's term.

At the shareholders' general meeting of the Company held on May 22, 2012, the Board (including the Non-Executive Directors) was appointed for a term of three financial years. The mandate of all the current Directors (including the Non-Executive Directors) will therefore expire at the shareholders' general meeting to be convened for the approval of the financial statements of the Company for the year ended January 31, 2015.

Under the Company's By-laws, the Directors may be re-appointed.

### Corporate Governance Functions of the Board

The Board is responsible for determining and supervising the application of appropriate corporate governance policies of the Company, in accordance with the provisions of the Code. The Board's role in this regard is:

(i) to develop and review the Company's policies and practices on corporate governance;

(ii) to review and monitor the training and continuous professional development of directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the Code of Conduct, the Organisation, Management and Control Model (adopted pursuant to Italian Legislative Decree 231 of June 8, 2001) and the Company's procedures;

(v) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report; and

(vi) to perform any other corporate governance duties and functions set out by the Listing Rules or other applicable rules, for which the Board shall be responsible.

During the Reviewed Period, the Board approved the terms of reference which regulates its corporate governance functions.

## Board committees

The Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee. Each Committee is chaired by an Independent Non-Executive Director. In order to comply with the Code, on March 29, 2012 the Board revised the terms of reference of the Audit Committee and Remuneration Committee and adopted a new terms of reference of the Nomination Committee. Each of the Committees' terms of reference is available on the Company's and Stock Exchange's websites. The terms of reference in respect of each Committee are of no less exacting terms than those set out in the Code.

In addition, the Board has established a supervisory body under the Italian Legislative Decree 231 of June 8, 2001.

### a. Audit Committee

The Company has established an Audit Committee in compliance with Rule 3.21 of the Listing Rules where at least one member possesses appropriate professional qualifications in accounting or related financial management expertise to discharge the responsibility of the Audit Committee. The membership of the Audit Committee consists of three Independent Non-Executive Directors, namely, Mr. Gian Franco Oliviero Mattei (Chairman), Mr. Giancarlo Forestieri and Mr. Sing Cheong Liu. The primary duties of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the Company's financial reporting process and internal control and risk management systems, to oversee the external audit process and the internal audit process carried out by the internal audit department of the Company and to perform other duties and responsibilities as are assigned to the Audit Committee by the Board.

During the Reviewed Period, the Audit Committee held five meetings (with an attendance rate of 100%) to review with senior management and the Group's internal and external auditor and board of statutory auditors, the significant internal and external audit findings and financial matters as required under the committee's terms of reference. The Audit Committee's review covers the audit plans and findings of internal and external auditors, internal controls, risk assessment, tax update and financial reporting matters (including the annual results for the year ended January 31, 2012, the first quarterly results as of April 30, 2012, interim financial results as of July 31, 2012 and third quarterly results as of October 31, 2012 before recommending them to the Board for approval).

The Audit Committee has also held a meeting on April 3, 2013 to review the annual results for the year ended January 31, 2013 before recommending it to the Board for approval.

## Auditor's compensation

The total fees and expenses accrued to Deloitte & Touche spa and its network for the audit of the financial statements ending January 31, 2013, together with non-audit services, are illustrated below:

| Type of service | Audit Firm | Provided to | Fees in thousands of Euro |
|---|---|---|---|
| Audit services | Deloitte & Touche spa | PRADA spa | 602 |
| Audit services | Deloitte & Touche spa | Subsidiaries | 167 |
| Audit services | Deloitte Network | Subsidiaries | 991 |
| Total audit fees accrued for the twelve months ended January 31, 2013 | | | 1,760 |
| Tax advice | Deloitte & Touche spa / Deloitte Network | PRADA spa | 25 |
| Certificate sales | Deloitte & Touche spa / Deloitte Network | Subsidiaries | 54 |
| Tax advice | Deloitte Network | Subsidiaries | 200 |
| Other | Deloitte Network | Subsidiaries | 1 |
| Total non-audit fees accrued for the twelve months ended January 31, 2013 | | | 280 |
| Out of pocket expenses | | | 84 |
| Total independent auditor's compensation accrued for the twelve months ended January 31, 2013 | | | 2,124 |

## b. Remuneration Committee

The Company has established a Remuneration Committee in compliance with the Code. The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management and the establishment of a formal and transparent procedure for developing policy on such remuneration. The recommendations of the Remuneration Committee are then put forward to the Board for consideration and adoption, where appropriate. The Remuneration Committee consists of two Independent Non-Executive Directors, Mr. Gian Franco Oliviero Mattei (Chairman) and Mr. Giancarlo Forestieri and one Non-Executive Director, Mr. Marco Salomoni.

During the Reviewed Period, the Remuneration Committee held three meetings (with attendance rate of 100%) to review the long-term incentive plan connected to the Group's results, to review the consultancy agreements with the Chairperson and the Chief Executive Officer and to recommend the division of the aggregate remuneration of Directors resolved by the shareholders' general meeting on May 22, 2012.

## Remuneration Policy

The Group's compensation policy is aimed at attracting, rewarding and protecting its personnel, who is considered to be the key to the success of the business of the Group. The overall market competitiveness and complexity of a position is taken into account during the review of basic salaries. The Group has an incentive system that links compensation with the annual performance of the Company, taking into account the Group's objectives in net sales, as well as the objectives of each department.

The Group has adopted cash long term incentive plans for senior managers and a small number of key people for retention purposes, under which the benefit of a senior manager or a key person under the incentive plan would vest subject to the achievement by the Group of one or more economic objectives and his/her presence within the Group at the end of a three-year period. Other incentive schemes specific to sales staff are also in place, and technicians of the Group may receive a collection bonus that is provided to them after the development of a seasonal collection.

The aggregate amount of remuneration of the Directors of the Company is approved by the shareholders in a general meeting. The remuneration of each Director is then determined by the Board which receives recommendations from the Remuneration Committee. Under the current compensation arrangements, the Executive Directors receive compensation in the form of fees, salaries and other benefits, discretionary bonuses and other incentives, non-monetary benefits and other allowances and contributions to retirement benefits schemes. The Non-Executive Directors (including Independent Non-Executive Directors) receive compensation in the form of fees, salaries and contributions to retirement benefits scheme, as the case may be. No Director is allowed to approve his/her own remuneration.

### c. Nomination Committee

The Company established a Nomination Committee on March 29, 2012 to comply with the Code. The primary duties of the Nomination Committee are to make recommendations to the Board on the structure, size and composition of the Board itself, on the selection of new Directors and on the succession plans for Directors. The Nomination Committee also assesses the independence of Independent Non-Executive Directors. The recommendations of the Nomination Committee are then put forward to the Board for consideration and adoption, where appropriate. The Nomination Committee consists of two Independent Non-Executive Directors, Mr. Gian Franco Oliviero Mattei (Chairman) and Mr. Sing Cheong Liu and one Non-Executive Director, Mr. Marco Salomoni.

During the Reviewed Period, the Nomination Committee meeting held one meeting on June 7, 2012 (with all members attending) to elect its chairman. In addition, the Nomination Committee held a meeting on April 3, 2013 to assess and confirm the independence of the Independent Non-Executive Directors of the Company.

### d. Supervisory Body

In compliance with Italian Legislative Decree 231 of June 8, 2001, the Company has established a supervisory body whose primary duty is to ensure the functioning, effectiveness and enforcement of the Company's Model of Organization, adopted by the Company pursuant to the Decree. The supervisory body consists of three members appointed by the Board selected among qualified and experienced individuals, including Non-Executive Directors, qualified auditors, executives or external individuals. The supervisory body consists of Mr. David Terracina (Chairman), Mr. Franco Bertoli and Mr. Marco Salomoni.

## Board of statutory auditors

Under Italian law, a joint-stock company is required to have a board of statutory auditors, appointed by the shareholders for a term of three financial years, with the authority to supervise the Company on its compliance with the applicable laws, regulations and the By-laws, compliance with the principles of proper management and, in particular, on the adequacy of the organizational, administrative and accounting structure adopted by the Company and on its functioning.

At the shareholders' general meeting of the Company held on May 22, 2012, the board of statutory auditors (including the alternate statutory auditors) was appointed for a term of three financial years. The mandate of all of the current statutory auditors (including the alternate statutory auditors) will therefore expire at the shareholders' general meeting to be convened for the approval of the financial statements of the Company for the year ended January 31, 2015.

The board of statutory auditors of the Company consists of Mr. Antonino Parisi (Chairman), Mr. Roberto Spada and Mr. David Terracina. The alternate statutory auditors of the Company are Mr. Marco Serra and Mr. Cristiano Proserpio.

## Directors' responsibility and auditors' responsibility for Consolidated Financial Statement

The Directors are responsible for preparing the Consolidated Financial Statements of the Company for the year ended January 31, 2013 with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group. In preparing these financial statements, the Directors have selected suitable accounting policies and, made judgments and estimates that are prudent and reasonable. The financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union.

As regards the auditor of the Company, its responsibilities are stated in the auditor's report on the Consolidated Financial Statements.

## Joint Company Secretaries

As disclosed in the prospectus of the Company dated June 13, 2011, the Company has appointed Ms. Patrizia Albano and Ms. Yuen Ying Kwai as joint company secretaries of the Company.

During the Reviewed Period, Ms. Patrizia Albano, who is qualified as a lawyer admitted to the Bar Association of Rome (Ordine degli Avvocati di Roma) has attended continuous professional training sessions in Italy of not less than 20 hours, on matters including directors' duties and responsibilities and other corporate activities to update her skills and knowledge. Ms. Yuen Ying Kwai undertook over 15 hours of relevant professional training to update her skills and knowledge. In addition, both Ms. Albano and Ms. Yuen have attended training sessions held by the Company's legal advisors (Slaughter and May) and the Company's compliance adviser (Anglo-Chinese Finance Limited) relating to the Listing Rules and Securities and Futures Ordinance of Hong Kong (Cap.571) for a total of 4 hours.

Their biographies are set out in the Directors and Senior Management section.

## Shareholders' Rights

### a. Convening shareholders' general meeting by shareholders

Pursuant to Article 14.2 of the Company's By-Laws, a shareholders' general meeting has to be called by the Board when requested by shareholders representing at least one-twentieth of the Company's share capital, provided that the request mentions the item(s) to be discussed at the meeting. If there is an unjustified delay in calling the meeting by the Board, action will be taken by the board of statutory auditors.

### b. Putting forward proposals at shareholders' general meeting

Pursuant to Articles 14.4 and 14.5 of the Company's By-Laws, shareholders who, individually or jointly, own or control at least one-fortieth of the Company's share capital may request in writing for additions to be made to the list of items on the agenda, within ten days as of the notice of call of a shareholders' general meeting, by setting out the proposed additions (five days in the circumstances indicated under the second paragraph of Article 14.4).

### c. Making enquiry to the Board

Enquiries about matters to be put forward to the Board should be directed to the Group Corporate Affairs Director and Joint Company Secretary by email at corporateaffairs@pradagroup.com or at the Company's address: Via Antonio Fogazzaro n. 28, Milan 20135, Italy. The Company will not normally deal with verbal or anonymous enquiries.

### d. Procedures for a shareholders to propose a person for election as Director

The procedures for a shareholder to propose a person for election as Director of the Company are set out in Articles 19.3 and 19.4 of the Company's By-Laws, details of which have been disclosed in the Company's announcement dated March 30, 2012.

## Constitutional Documents

During the Reviewed Period, there was no significant change in the Company's constitutional documents.

## Internal control

The Board places great importance on maintaining a sound and effective system of internal control to safeguard the shareholders' investment and the Company's assets. The Board is also responsible for assessing the overall effectiveness of the internal control system. On December 6, 2012 the Board approved a revision of the risk assessment model adopted by the Company, aimed to cover developments since the first adoption of the risk assessment model.

The Internal Audit Department provides an independent review of the adequacy and effectiveness of the internal control system. The audit plan is discussed and agreed every year with the Audit Committee and then submitted to the Board for approval. In addition to its agreed annual schedule of work, the Internal Audit Department conducts other special reviews as required.

The Company's internal control system has been designed to safeguard the assets of the Group, to maintain proper accounting standards, to ensure that appropriate authority has been given for the performance of acts by the Company, and to comply with relevant laws and regulations. During the Reviewed Period, no material irregularity or weakness was noted within any function or process. The Board, through the Audit Committee, reviewed and is generally satisfied that the internal control system has functioned effectively and is adequate for the Group as a whole.

## Investor relations and communications

The Company endeavors to maintain a high level of transparency in communication with shareholders and the financial community in general. The Company has maintained regular dialogue and fair disclosure with institutional shareholders, fund managers, analysts and the finance media. Management attends investor meetings on a regular basis and has participated in some investor conferences.

The Company's corporate website (www.pradagroup.com) facilitates effective communications with shareholders, investors and other stakeholders, making corporate information and other relevant financial and non-financial information available electronically and on a timely basis. This includes extensive information about the Group's performance and activities via the annual report, interim report, press releases, announcements and presentations.

# Consolidated Financial Statements

## Consolidated statement of financial position

| (amounts in thousands of Euro) | Note | January 31 2013 | January 31 2012 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 571,746 | 362,284 |
| Trade receivables, net | 10 | 304,525 | 266,404 |
| Inventories, net | 11 | 343,802 | 374,782 |
| Derivative financial instruments - current | 12 | 43,060 | 894 |
| Receivables and advance payments from parent company and other related parties | 13 | 19,493 | 12,864 |
| Other current assets | 14 | 104,823 | 100,275 |
| **Total current assets** | | 1,387,449 | 1,117,503 |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | 857,299 | 713,870 |
| Intangible assets | 16 | 878,750 | 863,526 |
| Associated undertakings | 17 | 23,024 | 15,631 |
| Deferred tax assets | 35 | 176,057 | 175,736 |
| Other non-current assets | 18 | 61,682 | 57,302 |
| Derivative financial instruments - non current | 12 | 1,018 | - |
| **Total non-current assets** | | 1,997,830 | 1,826,065 |
| | | | |
| **Total Assets** | | 3,385,279 | 2,943,568 |
| | | | |
| **Liabilities and Shareholders' equity** | | | |
| **Current liabilities** | | | |
| Bank overdrafts and short-term loans | 19 | 175,570 | 165,485 |
| Payables to parent company and other related parties | 20 | 5,599 | 4,361 |
| Trade payables | 21 | 330,613 | 283,538 |
| Current tax liabilities | 22 | 97,148 | 117,770 |
| Derivative financial instruments - current | 12 | 912 | 15,200 |
| Obligations under finance leases - current | 23 | 575 | 1,453 |
| Other current liabilities | 24 | 131,645 | 128,777 |
| **Total current liabilities** | | 742,062 | 716,584 |
| **Non-current liabilities** | | | |
| Long-term financial payables | 25 | 78,830 | 178,442 |
| Obligations under finance leases non-current | 23 | 518 | 1,100 |
| Post-employment benefits | 26 | 45,538 | 35,898 |
| Provision for risks and charges | 27 | 46,914 | 56,921 |
| Deferred tax liabilities | 35 | 55,636 | 47,665 |
| Other non-current liabilities | 28 | 84,905 | 75,656 |
| Derivative financial instruments non-current | 12 | 384 | 335 |
| **Total non-current liabilities** | | 312,725 | 396,017 |
| | | | |
| **Total Liabilities** | | 1,054,787 | 1,112,601 |
| | | | |
| Share capital | | 255,882 | 255,882 |
| Other reserves | | 1,480,747 | 1,152,171 |
| Translation reserve | | (42,288) | (17,239) |
| Net profit for the year | | 625,681 | 431,929 |
| **Total Shareholders' Equity – Group** | 29 | 2,320,022 | 1,822,743 |
| | | | |
| **Shareholders' Equity – Non-controlling interests** | 30 | 10,470 | 8,224 |
| | | | |
| **Total Liabilities and Shareholders' Equity** | | 3,385,279 | 2,943,568 |
| | | | |
| **Net current assets** | | 645,387 | 400,919 |
| **Total assets less current liabilities** | | 2,643,217 | 2,226,984 |

## Consolidated income statement

| (amounts in thousands of Euro) | Note | twelve months ended January 31 2013 | % | twelve months ended January 31 2012 | % |
|---|---|---|---|---|---|
| Net revenues | 31 | 3,297,219 | 100.0% | 2,555,606 | 100.0% |
| Cost of goods sold | 32 | (920,678) | -27.9% | (727,581) | -28.5% |
| Gross margin | | 2,376,541 | 72.1% | 1,828,025 | 71.5% |
| Operating expenses | 33 | (1,486,760) | -45.1% | (1,199,090) | -46.9% |
| EBIT | | 889,781 | 27.0% | 628,935 | 24.6% |
| Interest and other financial income/(expenses), net | 34 | (7,131) | -0.2% | (26,027) | -1.0% |
| Dividend received from investments | 34 | 966 | - | - | - |
| Income before taxation | | 883,616 | 26.8% | 602,908 | 23.6% |
| Taxation | 35 | (250,339) | -7.6% | (166,483) | -6.5% |
| Net income for the year from continuing operations | | 633,277 | 19.2% | 436,425 | 17.1% |
| Net income for the year | | 633,277 | 19.2% | 436,425 | 17.1% |
| Net income – Non-controlling interests | 30 | 7,596 | 0.2% | 4,496 | 0.2% |
| Net income – Group | | 625,681 | 19.0% | 431,929 | 16.9% |
| Basic and diluted earnings per share (in Euro per share) | | 0.245 | | 0.170 | |

## Consolidated statement of cash flows

| (amounts in thousands of Euro) | twelve months ended January31 2013 | twelve months ended January 31 2012 |
|---|---|---|
| Income before taxation | 883,616 | 602,908 |
| Income statement adjustments | | |
| Depreciation and amortization | 154,839 | 126,302 |
| Impairment of property, plant and equipment and intangible assets | 7,849 | 4,015 |
| Non-monetary financial (income)/expenses | (15,327) | 28,878 |
| Other non-monetary (income)/ expenses | 2,226 | 14,352 |
| Changes in Statement of financial position | | |
| Other non-current assets and liabilities | (18,206) | (13,423) |
| Trade receivables, net | (44,511) | 13,824 |
| Inventories, net | 18,317 | (86,338) |
| Trade payables | 56,130 | 46,045 |
| Other current assets and liabilities | 30,920 | (56,985) |
| Cash flows from operating activities | 1,075,852 | 679,578 |
| Interest paid to third parties, net | (10,417) | (16,871) |
| Interest paid to related parties, net | (154) | - |
| Taxes paid | (306,009) | (182,753) |
| Net cash flows from operating activities | 759,272 | 479,954 |
| | | |
| Purchases of property, plant and equipment and intangible assets | (350,243) | (248,619) |
| Disposals of assets | 17,632 | 1,800 |
| Disposal of investments held for sale | - | 3,628 |
| Acquisition of investments | - | (13,956) |
| Dividend received from investments | 966 | - |
| Cash flows generated (utilized) by investing activities | (331,645) | (257,147) |
| | | |
| Dividends paid to shareholders of PRADA spa | (127,941) | (2,482) |
| Dividends paid to Non-controlling shareholders | (5,576) | (3,886) |
| Repayment of loans to related parties | (546) | (215) |
| New loans from related companies | 2,276 | 2,808 |
| Repayment of long-term borrowings | - | (14,710) |
| Repayment of short term portion of long term borrowings - third parties | (128,762) | (118,141) |
| New long-term borrowings – third parties arranged | 70,627 | 9,069 |
| Change in short-term borrowings – third parties | (9,209) | (38,616) |
| Share capital increases by subsidiary companies | 1,166 | 1,412 |
| Share capital increase by PRADA spa | - | 205,171 |
| Cash flows generated (utilized) by financing activities | (197,965) | 40,410 |
| | | |
| Change in cash and cash equivalents, net of bank overdrafts | 229,662 | 263,217 |
| Foreign exchange differences | (11,494) | 10,839 |
| Opening cash and cash equivalents, net of bank overdraft | 353,554 | 79,498 |
| Closing cash and cash equivalents, net of bank overdraft | 571,722 | 353,554 |
| Cash and cash equivalents | 571,746 | 362,284 |
| Bank overdraft | (24) | (8,730) |
| Closing cash and cash equivalents, net of bank overdraft | 571,722 | 353,554 |

## Statement of changes in consolidated shareholders' equity (amounts in thousands of Euro, except for number of shares)

| (amounts in thousands of Euro) | Number of shares | Share Capital | Share premium reserve | Translation reserve | Cash flow hedge reserve | Actuarial gain (losses) reserve | Available for sale reserve | Other reserves | Net profit | Equity attributable to owners of the Group | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 31, 2011** | 250,000,000 | 250,000 | 209,298 | (40,012) | 3,464 | (948) | - | 531,729 | 250,819 | 1,204,350 | 5,788 | 1,210,138 |
| **Allocation of 2010 net profit** | - | - | - | - | - | - | - | 250,819 | (250,819) | - | - | - |
| **Conversion of shares from Euro 1.0 to Euro 0.1 each** | 2,500,000,000 | - | - | - | - | - | - | - | - | - | - | - |
| **Issue of new shares** | 58,824,000 | 5,882 | 200,749 | - | - | - | - | - | - | 206,631 | - | 206,631 |
| **Dividends** | - | - | - | - | - | - | - | (35,000) | - | (35,000) | (3,886) | (38,886) |
| **Capital injection in subsidiaries** | - | - | - | - | - | - | - | - | - | - | 1,412 | 1,412 |
| **Comprehensive income for the year (recycled to P&L)** | - | - | - | 22,773 | (7,637) | - | (58) | - | 431,929 | 447,006 | 4,928 | 451,934 |
| **Comprehensive income for the year (not recycled to P&L)** | - | - | - | - | - | (244) | - | - | - | (244) | (18) | (262) |
| **Balance at January 31, 2012** | 2,558,824,000 | 255,882 | 410,047 | (17,239) | (4,173) | (1,192) | (58) | 747,548 | 431,929 | 1,822,744 | 8,224 | 1,830,968 |
| **Allocation of 2011 net profit** | - | - | - | - | - | - | - | 431,929 | (431,929) | - | - | - |
| **Dividends** | - | - | - | - | - | - | - | (127,941) | - | (127,941) | (5,576) | (133,517) |
| **Capital injection in subsidiaries** | - | - | - | - | - | - | - | - | - | - | 1,166 | 1,166 |
| **Comprehensive income for the year (recycled to P&L)** | - | - | - | (25,049) | 24,321 | - | 5,544 | - | 625,681 | 630,497 | 6,656 | 637,153 |
| **Comprehensive income for the year (not recycled to P&L)** | - | - | - | - | - | (5,278) | - | - | - | (5,278) | - | (5,278) |
| **Balance at January 31, 2013** | 2,558,824,000 | 255,882 | 410,047 | (42,288) | 20,148 | (6,470) | 5,486 | 1,051,536 | 625,681 | 2,320,022 | 10,470 | 2,330,492 |

Under Italian law, the Company is required to allocate a portion of its net profit to non-distributable reserves and to provide additional information on the distribution of earnings for the period, Note 37.

## Statement of consolidated comprehensive income

| (amounts in thousands of Euro) | twelve months ended January 31 2013 | twelve months ended January 31 2012 |
|---|---|---|
| | | |
| **Net income for the period – Consolidated** | 633,277 | 436,425 |
| | | |
| A) Items recycled to P&L: | | |
| | | |
| Change in Translation reserve | (25,989) | 23,204 |
| Tax impact | - | - |
| Change in Translation reserve less tax impact | (25,989) | 23,204 |
| | | |
| Change in Cash Flow Hedge reserve | 33,530 | (10,432) |
| Tax impact | (9,209) | 2,795 |
| Change in Cash Flow Hedge reserve less tax impact | 24,321 | (7,637) |
| | | |
| Change in Fair Value reserve | 7,391 | (77) |
| Tax impact | (1,847) | 19 |
| Change in Fair Value reserve less tax impact | 5,544 | (58) |
| | | |
| B) Item not recycled to P&L: | | |
| | | |
| Change in Actuarial reserve | (6,369) | (705) |
| Tax impact | 1,091 | 443 |
| Change in Actuarial reserve less tax impact | (5,278) | (262) |
| | | |
| Consolidated comprehensive income for the period | 631,875 | 451,672 |
| | | |
| Comprehensive income for the period – Non-controlling Interests | 6,656 | 4,910 |
| | | |
| Comprehensive income for the period – Group | 625,219 | 446,762 |

The accounting policies and the following notes constitute an integral part of the Consolidated financial statements.

# Financial Statements of PRADA spa

## PRADA spa Statement of financial position

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 140,414 | 114,587 |
| Trade receivables, net | 488,559 | 539,783 |
| Inventories | 153,640 | 185,857 |
| Derivative financial instruments | 34,503 | 894 |
| Financial and other receivables from parent company, subsidiaries, associates and related parties | 224,111 | 203,128 |
| Other current assets | 57,653 | 45,574 |
| | | |
| **Total current assets** | 1,098,880 | 1,089,823 |
| **Non-current assets** | | |
| Property, plant and equipment | 279,164 | 218,972 |
| Intangible assets | 93,547 | 93,926 |
| Investments in subsidiaries and associated undertakings | 884,909 | 828,927 |
| Deferred tax assets | 33,815 | 32,295 |
| Other non-current assets | 4,589 | 1,752 |
| Derivative financial instruments - non current | 1,018 | - |
| **Total non-current assets** | 1,297,042 | 1,175,872 |
| | | |
| **Total Assets** | 2,395,922 | 2,265,695 |
| | | |
| **Liabilities and Shareholders' equity** | | |
| **Current liabilities** | | |
| Bank overdrafts and short-term loans | 118,410 | 112,470 |
| Financial and other payables to parent company, subsidiaries, associates and related parties | 317,871 | 286,517 |
| Trade payables | 393,545 | 345,785 |
| Current tax liabilities | 15,894 | 42,325 |
| Derivative financial instruments | 903 | 12,811 |
| Obligations under financial leases | 571 | 1,002 |
| Other current liabilities | 71,039 | 64,332 |
| **Total current liabilities** | 918,232 | 865,242 |
| **Non-current liabilities** | | |
| Long-term financial payables | 18,277 | 134,902 |
| Obligations under financial leases | 503 | 1,081 |
| Long-term employee benefits | 25,760 | 17,778 |
| Provisions | 23,726 | 23,204 |
| Deferred tax liabilities | 15,476 | 9,492 |
| Other non-current liabilities | 681 | 1,411 |
| Derivative financial instruments - non current | 32 | 335 |
| **Total non-current liabilities** | 84,456 | 188,203 |
| | | |
| **Total liabilities** | 1,002,688 | 1,053,445 |
| | | |
| Share capital | 255,882 | 255,882 |
| Other reserves | 849,055 | 717,369 |
| Net income of the year | 288,297 | 238,999 |
| **Shareholders' equity** | 1,393,234 | 1,212,250 |
| | | |
| **Total liabilities and shareholders’ equity** | 2,395,922 | 2,265,695 |

## PRADA spa Income statement

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Net revenues | 1,732,111 | 1,501,789 |
| Cost of goods sold | (836,417) | (717,728) |
| Gross Margin | 895,694 | 784,061 |
| Operating expenses | (488,765) | (446,249) |
| Interest and other financial income (expenses), net | 49,219 | 6,557 |
| Income before tax | 456,148 | 344,369 |
| Income taxes | (167,851) | (105,370) |
| Net income of the year | 288,297 | 238,999 |

## PRADA spa Statement of comprehensive income

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Net income of the year | 288,297 | 238,999 |
| Items recycled to P&L: | | |
| Fair value movements recognized in cash flow hedge reserve | 33,651 | (10,938) |
| Tax impact of above item | (9,254) | 3,008 |
| Change in cash flow hedge reserve less tax impact | 24,397 | (7,930) |
| Items not recycled to P&L: | | |
| Gains/(losses) recognized in actuarial gains/(losses) reserve | (4,208) | 498 |
| Tax impact of above item | 440 | - |
| Change in actuarial reserve less tax impact | (3,768) | 498 |
| Net gains (losses) recognized directly in equity | 20,628 | (7,432) |
| Total comprehensive income of the year | 308,925 | 231,567 |

## PRADA spa Statement of cash flows

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Income before taxation | 456,147 | 344,369 |
| Income statement adjustments: | | |
| Depreciation and amortization | 22,494 | 20,314 |
| Impairment of fixed assets | 3,475 | 14 |
| Losses/(gains) on disposal of fixed assets | 336 | (431) |
| Impairment of investments | 536 | 3,708 |
| Non-monetary financial (income)/expenses | (40,151) | (20,358) |
| Other non-monetary (income)/charges | 1,358 | 9,278 |
| Changes in Statement of financial position: | | |
| Trade receivables, net | 41,793 | (59,210) |
| Inventories, net | 32,194 | (55,712) |
| Trade payables | 49,175 | 35,322 |
| Other current assets and liabilities | (2,911) | (7,128) |
| Other non-current assets and liabilities | (6,021) | (8,556) |
| Cash flows generated from operations | 558,425 | 261,609 |
| Interest paid | (5,273) | (10,224) |
| Income taxes paid | (207,215) | (107,780) |
| Net cash flows generated from operations | 345,937 | 143,605 |
| Cash flow generated (used) from investing activities: | | |
| Purchase of property, plant and equipment | (82,968) | (62,703) |
| Disposal of property, plant and equipment | 3,968 | 91 |
| Purchase of intangible assets | (5,280) | (5,503) |
| Disposal of intangible assets | 80 | 1,800 |
| Investments in subsidiaries | (39,262) | (7,397) |
| Disposal of investments | - | 3,628 |
| Dividends received | 46,002 | 31,828 |
| Cash flows generated (used) by investing activities | (77,460) | (38,257) |
| Cash flows generated (used) by financing activities | | |
| Share capital increase less directly attributable costs | - | 205,171 |
| Dividends paid | (127,941) | (2,482) |
| Change in short-term borrowings | (2,179) | (85,601) |
| Repayment of short-term portion of long-term borrowings | (100,722) | (108,531) |
| New long term borrowings arranged | 1,617 | - |
| Cash flow generated (used) by financing activities | (229,225) | 8,557 |
| Change in cash and cash equivalents net of bank overdraft | 39,251 | 113,905 |
| Exchange differences | (3) | (1,256) |
| Opening cash and cash equivalents, net of bank overdraft | 101,163 | (11,486) |
| Closing cash and cash equivalents, net of bank overdraft | 140,411 | 101,163 |
| Cash and bank balances | 140,414 | 114,587 |
| Bank overdraft | (3) | (13,424) |
| Closing cash and cash equivalents, net of bank overdraft | 140,411 | 101,163 |

## Statement of changes in shareholders' equity - PRADA spa (amounts in thousands of Euro, except for number of shares)

| (amounts in thousands of Euro) | Number of shares | Share capital | Share premium reserve | Legal reserve | Other reserves | Retained earnings | Cash flow hedge reserve | Net income (loss) for the year | Share-holders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 31 2011** | 250,000,000 | 250,000 | 209,298 | 9,884 | 182,899 | 30,358 | 3,837 | 122,776 | 809,052 |
| Conversion of shares from Euro 1.0 to Euro 0.1 | 2,500,000,000 | - | - | - | - | - | - | - | - |
| Issue of new shares | 58,824,000 | 5,882 | 200,749 | - | - | - | - | - | 206,631 |
| Allocation of 2010 net income | - | - | - | 24,556 | - | 98,220 | - | (122,776) | - |
| Dividends paid | - | - | - | - | - | (35,000) | - | - | (35,000) |
| Comprehensive income for the year (recycled to P&L) | - | - | - | - | - | - | (7,930) | 238,999 | 231,069 |
| Comprehensive income for the year (not recycled to P&L) | - | - | - | - | - | 498 | - | - | 498 |
| **Balance at January 31 2012** | 2,558,824,000 | 255,882 | 410,047 | 34,440 | 182,899 | 94,076 | (4,093) | 238,999 | 1,212,250 |
| Allocation of 2011 net income | - | - | - | 11,950 | - | 227,049 | - | (238,999) | - |
| Dividends paid | - | - | - | - | - | (127,941) | - | - | (127,941) |
| Comprehensive income for the year (recycled to P&L) | - | - | - | - | - | - | 24,397 | 288,297 | 312,694 |
| Comprehensive income for the year (not recycled to P&L) | - | - | - | - | - | (3,768) | - | - | (3,768) |
| **Balance at January 31 2013** | 2,558,824,000 | 255,882 | 410,047 | 46,390 | 182,899 | 189,416 | 20,304 | 288,297 | 1,393,235 |

# Notes to the Consolidated Financial Statements

## 1. General information

PRADA spa (the "Company"), together with its subsidiaries (jointly the "Group"), is listed on the Hong Kong Stock Exchange (HKSE code: 1913). It is one of the world leaders in the luxury goods sector where it operates with the Prada, Miu Miu, Church's and Car Shoe brands in the design, production and distribution of luxury handbags, leather goods, footwear, apparel and accessories. The Group also operates, under licensing agreements, in the eyewear, fragrances and mobile telephone sectors. Its products are sold in more than 70 countries worldwide through a network that included 461 Directly Operated Stores (DOS) at January 31, 2013, and a selected network of luxury department stores, independent retailers and franchise stores.

The Company is a joint-stock company, registered and domiciled in Italy. Its registered office is in via Fogazzaro 28, Milan, Italy. At January 31, 2013, 79.98% of the share capital was owned by PRADA Holding bv, a company domiciled in The Netherlands, while the remaining shares were floating on the Main Board of the Hong Kong Stock exchange.

The Consolidated financial statements were approved and authorized for issue by the Board of Directors of PRADA spa on April 5, 2013.

## 2. Basis of preparation

The Consolidated financial statements of the PRADA Group as at January 31, 2013, including the "Consolidated statement of financial position", the "Consolidated income statement", the "Consolidated comprehensive income statement", the "Consolidated statement of cash flows", the "Statement of changes in consolidated shareholders' equity" and the "Notes to the consolidated financial statements" have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as endorsed by the European Union.

At the date of presentation of these Consolidated financial statements, there were no differences between IFRS as endorsed by the European Union and applicable to the PRADA Group and those issued by the IASB.

IFRS also refers to all International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called the Standing Interpretations Committee ("SIC").

The Group has prepared the Consolidated statement of financial position presenting separately current and non-current assets and liabilities. All the details needed for more complete information are provided in the Notes to the consolidated financial statements. The Consolidated income statement is classified by destination. The cash flow information is provided in the Consolidated Statement of cash flows which has been prepared under the indirect method.

The Consolidated financial statements have been prepared on a going concern basis and are presented in Euro which is also the functional currency of the Company.

## 3. Amendments to IFRS

### New standards and amendments issued by the IASB, endorsed by the European Union and applicable to the PRADA Group from February 1, 2012

The following amendment to IFRS has been endorsed by the European Union and is applicable to the PRADA Group effective from February 1, 2012. The matters in question do not affect these Consolidated financial statements ending January 1, 2013, but they could have future accounting impacts:

– IFRS 7 "Financial instruments: disclosures". The amendments made to this Standard, effective from annual periods beginning on or after July 1, 2011, require disclosures for all transferred financial assets that are not derecognized, particularly when an entity continues to be involved in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred.

### New standards and amendments issued by the IASB, endorsed by the European Union and early adopted by the PRADA Group

– IAS 1 "Presentation of financial statements". The objective of the amendments made to this Standard, effective from annual periods beginning July 1, 2012, are to make the presentation of the increasing number of items of other comprehensive income clearer, and to assist users of the financial statements in distinguishing between the items of other comprehensive income that can be reclassified subsequently to profit or loss, and those that will never be reclassified to profit or loss.

### New standards and amendments issued by the IASB, endorsed by the European Union but not yet applicable to the PRADA Group as effective from annual periods beginning on or after January 1, 2013

– IAS 19 "Employee benefits". The amendments made to this Standard, effective from annual periods beginning on or after January 1, 2013, should help users of financial statements to better understand how defined benefit plan affect entity's financial position, financial performance and cash flows.

– IFRS 10 "Consolidated Financial Statements". This new Standard, effective at the latest as from the commencement date of a financial year starting on January 1, 2014, grounds on previous version of IAS 27 "Consolidated and Separate Financial Statements" and provide more guidance for the presentation and preparation of consolidated financial statements. It enforces the definition of control as basis for determining which entities have to be consolidated. It also supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities".

– IFRS 11 "Joint Arrangements". This new Standard, effective at the latest as from the commencement date of a financial year starting on January 1, 2014, establishes principles for financial reporting by parties to a joint arrangement and supersedes IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities - Non-monetary Contributions by Ventures'". The IFRS provides guidelines to determine the type of joint arrangement in which an entity is involved (joint operation or joint venture) by assessing its rights and obligations arising from the arrangement.

– IFRS 12 "Disclosure of Interests in Other Entities". This new standard, effective at the latest as from the commencement date of a financial year starting on January 1, 2014, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It requires the entity to disclose information that enable users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities as well as the effects of those interests on its financial position, financial performance and cash flows.

- IFRS 13 "Fair Value measurement". This new Standard, effective from annual periods beginning on or after January 1, 2013, defines the fair value, sets out in a single IFRS a framework for measuring the fair value and requires disclosures about fair value measurements. This IFRS applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements. It does not require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices outside financial reporting.

- IAS 28 "Investment in Associates and Joint Ventures". The amendments to this Standard, effective at the latest as from the commencement date of a financial year starting on January 1, 2014, have to be read together with IFRS 11 "Joint Arrangements" and IAS 27 "Separate Financial Statements". The standard (as amended in 2011) is to be applied by all entities that are investors with joint control of, or significant influence over, an investee and defines the equity method as a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee.

- IAS 27 "Separate Financial Statements". The amendments to this standard followed the issue of IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities" and the amendments to IAS 28 "Investment in Associates and Joint Ventures" and prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. Such amendments are effective at the latest as from the commencement date of a financial year starting on January 1, 2014.

- IAS 12 "Income Taxes". The amendments made to this Standard, effective from annual period beginning on or after January 1, 2013, provide a practical approach for measuring deferred tax assets and deferred tax liabilities when an investment property is measured using the fair value model in IAS 40 "Investment property". These amendments have to be applied retrospectively.

- IFRS 7 "Financial Instruments: Disclosures". The amendments made to this Standard, effective from annual periods beginning on or after January 1, 2013, require additional disclosures to enable users of its financial statements to evaluate the effect, or potential effect, of netting arrangements on the entity's financial position. The disclosures required by these amendments have to be applied retrospectively.

- IAS 32 "Financial Instruments: Presentation". The amendments made to this Standard, effective from annual periods beginning on or after January 1, 2014, and to be applied retrospectively, clarify the criterion to be followed when an entity currently has legally enforceable right to set off the financial assets and financial liabilities.

- IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine. This new IFRIC 20, effective from annual periods beginning on or after January 1, 2013, aimed to provide guidance on recognition of production stripping costs as an asset.

As requested by the Hong Kong Stock exchange the Group assessed the financial effects of IFRS 10 on its consolidated financial statements and did not raise any detailed disclosure to be provided as the application of this new standard would not have any impact on the PRADA Group financial statements at January 31, 2013. As far as all of the others new IFRS and amendments above mentioned concern (i.e. new IFRS and amendments endorsed by the European Union and applicable from annual periods beginning on or after January 1, 2013), the Group is currently assessing their impact on its consolidated financial statements.

### New standards, amendments and guidance issued by the IASB, not yet endorsed by the European Union and not applicable to the PRADA Group as effective from annual periods beginning on or after January 1, 2013

– IFRS 9 "Financial instruments". This new Standard, effective from annual periods beginning on or after January 1, 2015, represents the first of three phases aimed at replacing entirely IAS 39 "Financial instruments: recognition and measurement". Such phase 1, named "Classification and measurement of financial assets and financial liabilities" requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortized cost or fair value. On the liabilities side, most of the requirements of IAS 39 for classifying and measuring financial liabilities remained unchanged, with the exception of the recognition through other comprehensive income, and no longer through income statements, of the change in the fair value of financial liabilities as a result of a change in the credit rating.

– Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27) introduced an exception to the principle that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating those subsidiaries in its consolidated and separate financial statements. In addition, the amendments introduce new disclosure requirements related to investment entities in IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements". Such amendments are required to apply for annual periods beginning on or after January 1, 2014.

– Transition Guidance (amendments to IFRS 10, IFRS 11 and IFRS 12) provided additional transition relief by limiting the requirement to present adjusted comparative information to the period immediately preceding the date of initial application when the consolidation conclusion reached at the date of initial application were different between IFRS 10 and IAS 27/SIC 12.

– Annual improvements to IFRSs (2009-2011 Cycle). Such improvements amend:

  - IAS 1 "Presentation of Financial Statements". New criteria have been introduced when reporting comparative information are provided in addition to the minimum comparative financial statements and when a change in accounting policy, a retrospective restatement or a reclassification occur;

  - IAS 16 "Property, Plant and Equipment". The amendment establishes that items such as spare parts, stand-by equipment and servicing equipment are recognized with this IFRS when they meet the definition of IAS 16. Otherwise, such items are classified as inventory;

  - IAS 32 "Financial Instruments: Presentation". The amendment clarified that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with IAS 12 "Income taxes".

## 4. Scope of consolidation

The consolidated financial information comprises the accounts of PRADA spa and the Italian and foreign companies over which the Company directly or indirectly exercises control, determining their financial and operating decisions and obtaining benefits from their activities.

The companies in which the Group has more than 50% of the voting rights or that are controlled by the Group in some other way are consolidated on a line by line basis as from the date the Group acquired control and are no longer consolidated from the date control ceases.

Joint ventures and associated undertakings are consolidated using the equity method. Associated undertakings are those in which the Group has a significant influence but does not exercise effective control.

Influence is considered significant when the Group owns between 20% and 50% of the company's share capital or when significant influence can be exercised through existing agreements.

A list of the companies included in the Consolidated financial statements is provided in Note 43.

## 5. Basis of consolidation

The main consolidation criteria applied when preparing the consolidated financial statements for the years ended January 31, 2013, and January 31, 2012, in accordance with IFRS, are as follows:

– the financial statements of PRADA spa are prepared under IFRS and those of its subsidiaries are adjusted, as necessary, to comply with IFRS accounting standards and with the standards applied throughout the Group. The financial statements used to prepare the consolidated financial information are those closed at the reporting date;

– assets and liabilities, costs and revenues of companies consolidated on a line-by-line basis are fully included in the consolidated financial statements irrespective of the percentage held. The book value of equity investments, directly or indirectly owned by the holding company, is eliminated against the corresponding portion of shareholders' equity of the companies in which the interest is held;

– for companies consolidated on a line-by-line basis that are not 100% owned by shareholders of the holding company, the share of net equity and results for the year of non-controlling interests are disclosed as "Non-controlling interests" in the consolidated statement of financial position and consolidated income statement. When the equity pertaining to non-controlling interests is negative, it is shown under other receivables where the minority shareholder has made a binding commitment towards the Group to cover the losses;

– the difference between the acquisition cost of investments acquired after the date of first-time application of IFRS (January 1, 2004) and the corresponding share of shareholders' equity at the date of acquisition is allocated, if positive, to assets, liabilities and contingent liabilities based on their fair value at the date of acquisition. Any residual positive amount is accounted for as goodwill while any negative amount is charged to the income statement immediately. The positive difference between the acquisition cost of an additional stake in a controlled company and the value of the interest acquired is directly recognized in equity;

– at the date of the first time application, goodwill was stated at deemed cost less any impairment losses. Deemed cost is calculated based on the difference between the amount paid for the investment and the relevant net equity. Goodwill arising from various acquisitions is not amortized but tested annually for impairment. Any impairment in the value of goodwill is charged to the income statement;

- profits and losses, assets and liabilities of joint ventures and associated undertakings are accounted for using the equity method. According to this method, investments in joint ventures and associated undertakings are recorded in the statement of financial position at cost, and adjusted to account for any changes in the companies' net equity post acquisition, less any impairment of the investment value. Losses exceeding the interest of the shareholders of the holding company are recorded only if the Group has undertaken an obligation to cover them. The excess of the acquisition cost of the investment over the interest of the holding company shareholders in the net fair value of identifiable assets and liabilities acquired and contingent liabilities is recorded as goodwill. Goodwill is included in the book value of the investment and tested for impairment. If the cost is lower than the holding company shareholders' interest in the fair value of identifiable assets, liabilities and contingent liabilities, the difference is recorded in the income statement for the year of acquisition;

- during the consolidation process, receivables and payables, costs and revenues arising from transactions between entities included in the scope of consolidation are fully eliminated. Any unrealized gains or losses generated by transactions between the Group's consolidated companies and included in inventories and fixed assets at the balance sheet date are also eliminated. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. In this case, the transferred asset is adjusted for impairment;

- dividends paid by consolidated companies are also eliminated from the income statement and added to prior year retained earnings if, and to the extent that, they have been drawn from the latter;

- the financial statements of subsidiary companies are prepared in their respective local currency. The statement of financial position is translated into Euro using the year end exchange rate, whereas the income statement is translated using the average exchange rate for the year. Translation differences arising on conversion of the statement of financial position, using the exchange rate at the start of the period and the exchange rate at the end of the period, and translation differences arising on conversion of the income statement using the average rate for the period and the rate at the end of the period are recorded as a translation reserve in the consolidated shareholder's equity until disposal of the investment. The translation reserve in consolidated shareholder's equity represents translation differences recorded as from first time application on January 1, 2004. When preparing the consolidated statement of cash flows, the cash flows of subsidiary companies are translated using the average rate for the period;

- the reporting currency used to prepare the consolidated financial statements is the Euro. All amounts are stated in thousands of Euro unless otherwise stated.

## 6. Main accounting policies

### Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at nominal amount. Cash equivalents include all highly liquid investments with an original maturity of three months or less.

For the purposes of the cash flow statement only, cash and cash equivalents comprise cash on hand, bank accounts and deposit accounts. In the statement of financial position, bank overdrafts and current portions of payables to banks for medium and long-term loans are included in Bank overdrafts and short-term loans.

### Trade receivables and payables

Trade accounts receivable are carried at nominal amount less the provision for doubtful accounts, estimated based on an assessment of all disputed and doubtful balances at the reporting date. Bad debts are written off when identified.

Trade accounts payable are recorded at nominal amount.

Transactions denominated in foreign currency are recorded at the exchange rate as at the date of the transaction. At the reporting date, transactions denominated in foreign currencies are translated using the exchange rate as at the reporting date. Gains and losses arising from the translation are reflected in the income statement.

The transfer of a financial asset to third parties implies its derecognition from the statement of financial position only if all risks and rewards connected with the financial asset are substantially transferred. Risks and rewards are considered transferred when exposure to variability in the present value of future net cash flows associated with the asset changes significantly as a result of the transfer.

### Inventories

Raw materials, work in progress and finished products are recorded at the lower of acquisition cost, production cost and net realizable value. Cost comprises direct production costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Acquisition or production cost is determined on a weighted average basis. Provisions, adjusting the value of the inventory, are made for slow moving, obsolete inventories and if the estimated selling price is lower than cost.

### Assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be mainly recovered through sale rather than through its continued usage. Assets held for sale are valued at the lower of net book value and fair value less any costs to sell.

### Property, plant and equipment

Property, plant and equipment are recorded at purchase cost or production cost, including any charges directly attributable. They are shown net of accumulated depreciation calculated on the basis of the useful lives of the assets and any impairment losses. Interest costs on borrowings to finance directly purchase, construction or production are capitalized to increase the value of the asset. All other borrowing costs are charged to the income statement. Ordinary maintenance expenses are charged in full to the income statement for the year they are incurred.

Extraordinary maintenance expenses are capitalized if they increase the value or useful life of the related asset.

The costs included under leasehold improvements relate to refurbishment work carried out on assets not owned by the Group.

All costs incurred during the period between the start of refurbishment work and the opening of the store are capitalized as leasehold improvements, as they are deemed necessary to bring the related assets to their working condition in accordance with company guidelines. The relevant construction or refurbishment period ranges from six to eighteen months depending on the type of store/work.

Depreciation methods, useful lives and net book values are reviewed annually.

The depreciation rates representing the useful lives are listed below:

| Category of Property, plant and equipment | Depreciation rate or period |
|---|---|
| Buildings | 3% - 10% |
| Production plant and equipment | 7.5% - 25% |
| Improvements to leasehold retail properties | shorter of lease term and 10 years |
| Improvements to leasehold industrial properties | lease term |
| Furniture and fittings | 10% - 20% |
| Other equipment | 6% - 33% |

When assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the financial statements and any gains or losses are recognized in the income statement.

The value of land is stated separately from the value of buildings. Depreciation is only charged on the value of buildings.

Every year, a test is performed for indications that the value of property, plant and equipment has been impaired. If any such indications are found, an impairment test is used to estimate the recoverable amount of the asset. The impairment loss is determined by comparing the carrying value of the asset with its recoverable value, which means the higher of the fair value of the asset less costs to sell and its value in use.

Fair value is determined based on the best information available to reflect the amount that could be obtained from the disposal of the asset at the reporting date.

Value in use is an estimate of the present value of future cash flows expected to derive from the asset tested for impairment.

Impairment losses are recorded immediately in the income statement.

At every reporting date, the Group will assess whether there is any indication that an impairment loss recognized in prior periods may no longer apply and should be decreased. If any such indication exists, the Group will estimate the recoverable amount of that asset. The recoverable value of the asset shall not exceed the carrying amount that would have been determined if no impairment loss had been recognized for the asset in prior years. Reversal of an impairment loss for an asset will be recorded in the income statement.

### Intangible assets

Only identifiable assets, controlled by the company and capable of producing future economic benefits are included in intangible assets. Intangible assets include trademarks, licenses, store lease acquisition costs, software, development costs and goodwill.

Trademarks are recorded at cost or at the value attributed upon acquisition and include the cost of trademark registration in the various countries in which the Group operates.

The Directors estimate a useful life of between 20 and 40 years for trademarks. This assumes there are no risks or limitations on control over their use. Every trademark is tested for impairment whenever indicators of impairment emerge.

The useful life of trademark registration costs is estimated to be 10 years.

Software refers to Information Technology development projects and includes all internal and external costs incurred to bring the asset into use. IT projects include costs incurred to acquire licenses as well as costs of development and installation.

Software is capitalized on condition that it is identifiable, reliably measurable and if it is probable that the asset will generate future economic benefits.

Store lease acquisition costs represent expenditures incurred to enter into or take over retail store lease agreements. These costs are capitalized and amortized over the shorter period of the lease term or 10 years.

Development costs include expenses incurred to strengthen the brand image through the implementation of retail projects with a high technological or stylistic content.

Intangible assets with a determinate useful life are amortized on a straight-line basis at the following rates:

| Category of intangible assets | Amortization rate or period |
|---|---|
| Trademarks | 2.5% - 10% |
| Store lease acquisition costs | Shorter of lease term and 10 years |
| Software | 10% - 33% |
| Development costs | 10% - 33% |

All business combinations included within the scope of IFRS 3 are recorded using the acquisition method whereby identifiable assets, liabilities and potential liabilities of the acquired business are measured at their acquisition-date fair value.

The difference between the cost of the business combination and the interest acquired in the net fair value of identifiable assets, liabilities and potential liabilities is recorded as goodwill. If additional interests in subsidiaries already controlled are acquired, the positive difference between the acquisition cost and the value of the interest acquired is recognized in equity.

Goodwill, as an asset that produces future economic benefits but which is not individually identified and separately measured, is initially recognized at cost.

Goodwill is not amortized but tested for impairment every year to check if its value has been impaired. If specific events or altered circumstances indicate the possibility that goodwill has been impaired, the impairment test is performed more frequently. If goodwill is initially recorded during the current year, the impairment test is performed before the end of the year.

For impairment test purposes, goodwill acquired in a business combination shall be, from the acquisition date, allocated to each of the acquirer's cash generating units that are expected to benefit from the synergies of the combination. Cash Generating Units are determined based on the organizational structure of the Group and represent groups of assets that generate independent cash inflows from continuing use of the relevant assets. The PRADA Group's Cash Generating Units include trademarks, sales channels and geographical areas.

The cash generating units to which goodwill has been allocated are tested for impairment annually and, whenever there is an indication of impairment, the carrying value of the cash generating units is compared with their recoverable amount.

Recoverable amount is the higher of fair value less costs to sell and value in use, as calculated based on an estimate of the future cash flows expected to derive from the cash generating unit tested for impairment. Cash flow projections are based on budget, forecast and on long-term business plans (generally five years) prepared by the management of the relevant business units.

An impairment loss is recorded in the income statement for the period whenever the recoverable amount of the cash generating unit is lower than its book value.

An impairment loss recorded for goodwill is never reversed in subsequent years.

### Investments

Investments in associated undertakings and joint ventures – companies in which the Group generally holds between 20% and 50% of the voting rights or in which the Group has significant influence – are accounted for under the equity method of accounting.

Under the equity method of accounting, investments are initially recognized at cost.

The carrying amount is later increased or decreased to reflect the parent company's share of the profits or losses of the investee after the date of acquisition. Any goodwill included in the historical cost of the investment is tested annually for impairment.

The parent company's share of the profit or loss of the investee is recorded in its income statement.

Dividends received from the investee company reduce the carrying amount of the investment.

The reporting date of associated undertakings is the same as the parent company's.

If a subsidiary or associated undertaking uses accounting policies other than IFRS, adjustments are made to bring its accounting policies into line with those of the parent company.

If the parent company's share of the losses made by an associated undertaking or joint venture exceeds the carrying amount of the investment in the associate or joint venture, the parent company will recognize a liability for additional losses only to the extent that it has incurred legal or constructive obligations on behalf of the associate undertaking or joint venture.

### Other investments and marketable securities

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments. They are included in current assets and stated at fair value through profit and loss.

Investments intended to be held for an indefinite period of time that may be sold depending on liquidity requirements, are classified as available-for-sale and stated at fair value recognized through other comprehensive income. These assets are included in non-current assets unless the Directors intend to hold them for less than twelve months from the reporting date, in which case they are included in current assets.

All purchases and sales of investments are recognized on the trade date, which means the date that the Group commits to purchase or sell the asset. Purchase cost includes all transaction costs. Realized and unrealized gains and losses arising from changes in the fair value of trading investments are included in the income statement, while those regarding investments available-for-sale are included in shareholders' equity in the period in which they arise.

### Deferred tax assets

Deferred tax assets are amounts of income taxes recoverable in future periods in relation to deductible temporary differences and carryforward of unused tax losses.

Deductible temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax value which, in determining taxable income for future years, will result in deductible amounts when the carrying amount of the asset or liability is realized or settled.

Deferred tax assets are recognized for all deductible temporary differences, tax losses carried-forward and unused tax credits only to the extent that is probable that taxable income will be available in future years against which the deductible temporary differences can be used. Recoverability is reviewed at every year end. Deferred tax assets are measured at the tax rates which are expected to apply to the period when the asset is realized based on tax rates (and tax laws) in force at the reporting date.

Deferred tax assets are not discounted.

Deferred tax assets are recognized through the income statement unless the tax amount is generated from a transaction or an event directly recognized in equity or from a business combination.

Taxation for deferred tax assets relating to items credited or debited directly to shareholders' equity is also credited or debited directly to shareholders' equity.

### Derivative financial instruments

Derivative financial instruments that hedge interest rate risk and exchange rate risk exposure are recorded based on hedge accounting rules.

Hedging contracts are designated as cash flow hedges. Hedge accounting treatment is allowed if derivative financial instruments are designated as a hedge of the exposure to changes in future cash flows of a recognized asset or liability or a highly probable transaction and which could affect profit or loss. In this case, the effective portion of the gain or loss on the hedging instrument is recognized in shareholders' equity.

Accumulated gains or losses are reversed from shareholders' equity and recorded in the income statement for the period in which the income statement effect of the hedged operation is recorded.

Any gain or loss on a hedging instrument (or portion thereof) which is no longer effective as a cash flow hedge is immediately recorded in the income statement. If the hedged transaction is no longer expected to take place, any related cumulative gain or loss outstanding in equity will be recognized in the income statement.

### Obligations under finance leases

Fixed assets acquired under finance leases are recorded at the lower of market value and the present value of future payments due under the lease agreement on the date of the transaction and are depreciated based on their useful life.

Short-term portions of obligations related to discounted future lease payments are recorded among current liabilities under Obligations under finance leases, while medium and long-term portions are recorded among non-current liabilities under Obligations under finance leases.

### Non-current financial liabilities

Non-current financial liabilities include payables to banks for medium and long-term loans. Bank borrowing includes principal amounts, interest and additional arrangement costs accrued and due at the balance sheet date even when they are charged at a later date.

Non-current financial liabilities are initially recorded at fair value on the transaction date less transaction costs which are directly attributable to the acquisition.

After initial recognition, non-current financial liabilities are valued at amortized cost, which means at the initial amount less principal repayments already made plus or minus the amortization (using the effective interest method) of any difference between that initial amount and the maturity amount.

### Post-employment benefits

Post-employment benefits mainly consist of Italian *Trattamento Fine Rapporto*, a staff leaving indemnity qualified as defined benefit plan.

Defined benefit plans are recognized using actuarial techniques to estimate the amount of the obligations resulting from employee service in the current and past periods and discounting it to determine the present value of the Group's obligations.

The present value of the obligations is determined by an independent actuary using the Projected Unit Credit Method.

This method considers each period of service provided by the employee as an additional unit right and measures the actuarial liability on the basis of the matured years of service only at the date of measurement. This actuarial liability is then re-measured taking into account the relationship between the service years provided by the employee at the date of measurement and the total years of service expected at the forecast date of settlement of the benefit. Moreover, this method takes account of future salary increases, for whatever reason (inflation, career progression and new employment agreements) until the estimated termination date of the employment relationship.

The cost of defined benefit plans, accrued during the year and recorded in the income statement under labor costs, is equal to the average present value of rights accrued in favor of employees for service during the current period. The annual interest accrued on the present value of the Group's obligation at the beginning of the year, as calculated adopting the previous year discount rate of future outflows used to estimate the liability at the reporting date, is recorded under interest and other financial income /(expenses).

Actuarial gains and losses are recognized directly in equity, net of the tax effect.

Other long-term employee benefits are recorded among non-current liabilities and their value corresponds to the present value of the defined benefit obligation at the reporting date, adjusted according to the period of the underlying agreement. Like defined benefit plans, other long term benefits are also valued using the Projected Unit Credit Method.

### Provisions for risks and charges

Provisions for risks and charges cover costs of a known nature, that were certain or probable but whose amount or due date was uncertain at year end. Provisions are only recorded when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made based on available information.

Where the Group expects reimbursement of a charge that has been provided for (e.g. under an insurance policy) the reimbursement is recognized as a separate asset but only when the reimbursement is certain.

### Deferred tax liabilities

Deferred tax liabilities are amounts of income taxes due in future periods in respect of taxable temporary differences.

Taxable temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base which, in determining the taxable income for future years, will result in taxable amounts when the carrying amount of the asset or liability is recovered or settled.

Deferred tax liabilities are recognized for all taxable timing differences except when liability is generated by the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that does not affect the accounting result or the tax result at the transaction date.

Deferred tax liabilities are measured at the tax rates which are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are not discounted.

Taxation for deferred tax liabilities relating to items credited or debited directly to shareholders' equity is also credited or debited directly to shareholders' equity.

The deferred tax provision is only offset against deferred tax assets or when the two items refer to the same tax and the same period.

### Revenue recognition

Revenues from the sale of goods are recognized in the income statement when:

- the risks and rewards of ownership are transferred to the buyer;
- the value of the revenues can be reliably measured;
- all control over the goods sold has ceased;
- the economic benefits generated by the transaction will probably be enjoyed by the Company;
- the costs pertaining to the transaction can be reliably measured.

Royalties are accounted for based on sales made by the licensees and the terms of the contracts. Cash discounts are recognized as financial charges.

Costs are recorded on an accrual basis. In particular, a cost is immediately recognized in the income statement when:

- an expense does not generate any future economic benefit;
- the future economic benefits do not qualify or cease to qualify as assets for recognition in the statement of financial position;
- a liability is incurred and no asset has been recognized.

### Operating leases

Operating leases are recorded in the income statement on a straight-line basis for the whole lease term. When calculating the lease term, renewal periods are also considered if provided for by the agreement and the amount due is known or can be estimated.

### Store opening costs

Costs incurred during the pre-opening period of new or refurbished retail stores are charged to the income statement when incurred, except for those capitalized as leasehold improvements. Upon closure of a store, the net book value of the leasehold improvements, less the expected recoverable amount, is charged to the income statement.

### Interest expenses

Interest expenses include interest on bank overdrafts, on short and long term loans, financial charges on finance leases and securitization operations, amortization of initial costs of loan operations, changes in the fair value of derivatives – insofar as chargeable to the income statement – and annual interest maturing on the present value of post-employment benefits.

### Income taxes

The provision for income taxes is determined based on a realistic estimate of the tax charge of each consolidated entity, in accordance with the tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Current taxes are recorded in the income statement as an expense. This is except for taxes deriving from transactions or events directly recognized through shareholders' equity which are directly charged to equity.

### Earnings per share

Basic earnings per share are calculated by dividing net profit pertaining to the holding company shareholders by the weighted average number of ordinary shares.

### Changes of accounting policy, errors and changes in accounting estimates

The accounting policies adopted are only modified from one year to another if the change is required by an accounting standard or if it provides more reliable and more relevant information on the effects of operations on the entity's statement of financial position, income statement or cash flows.

Changes of accounting policy are applied retrospectively, adjusting the opening balance of each affected component of equity for the earliest prior period presented. Other comparative amounts, disclosed for each prior period presented, are also adjusted as if the new accounting policy had always been applied. A prospective approach is applied only when it is not possible to restate the comparative information.

The adoption of a new or amended accounting standard is implemented in accordance with the requirements of the standard itself. If the new standard does not include specific transition provisions, the change of accounting policy is applied retrospectively or, if this is not feasible, prospectively.

In case of material errors, the same approach adopted for changes in accounting standards described in the previous paragraph shall be followed. Non material errors are recognized in the income statement in the period in which the error is identified.

The effect of changes in accounting estimates are prospectively recorded in the income statement for the year the change takes place if it is the only year affected. It is also reflected in later years if they too are affected by the change.

### Financial risk management

The Group is exposed to financial risks such as interest rate risk and exchange rate risk as a result of the international scale of its operations. The Group's overall risk management policy takes account of the volatility of financial markets and seeks to minimize uncertainty regarding cash flows and the resulting potential adverse effects on its results.

The Group enters into hedging contracts to manage risks arising from the exposure to the exchange rates and interest rates fluctuations.

Financial instruments are accounted for based on hedge accounting rules. At the inception of the hedge contract, the Group formally documents the hedging relationship assuming that the hedging is effective during the different accounting periods it is designated for.

### Exchange rate risk

The Group has a multinational structure and sells its products in more than 70 different countries worldwide.  As a consequence, it is exposed to an exchange rate risk fluctuation of the Euro against the US Dollar, Hong Kong Dollar, Japanese Yen, Renminbi and, to a lesser extent, other currencies. The Corporate Finance Department is responsible for foreign currency hedging by entering into derivative contracts (forward sale and purchase, options) with third parties.

In accordance with IAS 39, these hedging contracts are qualified as cash flow hedges. The fair value of the hedging contracts designated as cash flow hedges is recorded under other comprehensive income net of the tax effect.

### Interest rate risk

The debt taken on by the Group exposes it to the interest rate risk. The Group Corporate Finance Department hedges this risk by arranging Interest Rate Swap and Collar agreements.

These hedging contracts are qualified as cash flow hedges. The fair value of the hedging contracts qualified as cash flow hedges is recorded under other comprehensive income net of the tax effect.

### Use of estimates

In accordance with IFRS, the preparation of these consolidated financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses as well as contingent assets and liabilities.

Such assumptions relate primarily to transactions and events not settled as of the year-end. Accordingly, upon settlement, the actual results may differ from the estimated amounts.  Estimates and assumptions are periodically reviewed and the effects of any differences is immediately charged to the income statement.

Estimates have been used when performing the impairment tests, in determining provisions for risks and charges, the allowance for doubtful accounts, the allowance for obsolete and slow moving inventories, derivative instruments, defined benefit obligations and when calculating taxes.

## 7. Acquisitions, disinvestments and incorporation of subsidiaries

On September 18, 2012, the Group set up Prada Kuwait wll in order to develop its commercial activities in Kuwait.

On September 28, 2012, the Group acquired 100% interests in Anita Smaga sa and Erfico sa, two Swiss companies owners of operating lease agreements in Geneva.

On October 13, 2012, TRS Australia ltd was dissolved. The subsidiary had no longer been carrying out retail activities since early 2011.

On November 28, 2012, the Group set up PRADA Dongguan Trading co, ltd a service company operating in Dongguan (China).

On December 5, 2012, the Group set up Church Footwear (Shanghai) co ltd with the aim of developing the Church's brand retail activities in Shanghai.

On December 18, 2012 the Group set up commercial subsidiary Church Footwear ab with the aim of developing the Church's brand retail activities in Sweden.

On December 18, 2012, the Group set up PRADA Sweden ab with the aim of developing retail activities in Sweden.

On October 26, 2012, Church & co ltd applied for the striking off of its subsidiary JCS (2009) ltd, a UK based dormant company. At January 31, 2013, the dissolution procedure was outstanding, but at the date these Consolidated financial statements were approved the procedure had ended without any objections.

### Anita Smaga sa (49-51 rue du Rhône) and Erfico sa

On September 28, 2012, PRADA spa acquired from third parties 100% of the share capital in Anita Smaga sa and in Erfico sa for a total consideration of Swiss Francs 19.5 million. The reasons behind the acquisitions were the lease agreements owned by the two companies that, taken together, allowed the Group to rent unique retail premises in Switzerland deemed as offering great potential for the Group's DOS expansion program.

From a IFRS perspective the acquisition of the two companies has been treated as a purchase of net assets that do not constitute a business. In fact, the retail business operated by the two companies up to the acquisition date was ended immediately. As a result of the purchase of a net asset instead of a business, the allocation of the cost of acquisition resulted in recognition, at the acquisition date, of Swiss Francs 19 million under Intangible assets as key-money paid to take over the lease agreements.

The following table summarizes how the consideration paid (Swiss Franc 19.5 million) was allocated to the fair value of the net assets purchased. The figures are reported taking together the net assets of Anita Smaga sa and Erfico sa as the lease agreements were complementary to one another in renting a single location.

| (amounts in thousand of Swiss Franc) | fair value of net assets acquired taking together Anita Smaga sa and Erfico sa |
|---|---|
| Cash and cash equivalents | 603 |
| Trade receivables | 229 |
| Inventories | 37 |
| Trade payables | (611) |
| Net operating working capital | (345) |
| Other current assets and liabilities | 284 |
| Store lease acquisition | 18,958 |
| Total fair value of the net assets acquired | 19,500 |

## 8. Operating segments

IFRS 8 Operating Segments requires that detailed information be provided for each operating segment that makes up the business. An operating segment is intended as a business division whose operating results are regularly reviewed by top management so that they can make decisions about the resources to be allocated to the segment and assess its performance.

The Group's matrix-based organizational structure - whereby responsibility is assigned cross-functionally in relation to brands, products, distribution channels and geographical areas, together with the complementary nature of the production processes of the various brands and the many relationships between the different business segments – means that operating segments that meet the IFRS 8 definition cannot be identified, as top management is only provided with income statement results on a Group-wide level. For this reason, the business has been considered as a single operating segment as this better represents the specific characteristics of the PRADA Group business model.

Detailed information on net revenues by brand, geographical area, product and distribution channel are hereafter reported together with the information on the EBITDA by brand and on the non-current assets by geographical area. Information on net revenues is also reported in the Financial review where it is accompanied by further information on the Group's operating results.

## Net sales analysis

| (amounts in thousands of Euro) | twelve months ended January 31, 2013 | | twelve months ended January 31, 2012 | | % change |
|---|---|---|---|---|---|
| **Net sales by geographical area** | | | | | |
| Italy | 528,302 | 16.2% | 445,611 | 17.6% | 18.6% |
| Europe | 739,634 | 22.7% | 540,131 | 21.4% | 36.9% |
| Americas | 484,103 | 14.9% | 392,677 | 15.6% | 23.3% |
| Asia Pacific | 1,160,166 | 35.6% | 872,992 | 34.6% | 32.9% |
| Japan | 293,245 | 9.0% | 256,693 | 10.2% | 14.2% |
| Other countries | 50,978 | 1.6% | 15,226 | 0.6% | 234.8% |
| **Total** | 3,256,428 | 100.0% | 2,523,330 | 100.0% | 29.1% |
| | | | | | |
| **Net sales by brand** | | | | | |
| Prada | 2,649,559 | 81.4% | 1,999,345 | 79.2% | 32.5% |
| Miu Miu | 512,762 | 15.7% | 441,054 | 17.5% | 16.3% |
| Church's | 68,447 | 2.1% | 59,224 | 2.3% | 15.6% |
| Car shoe | 19,660 | 0.6% | 17,039 | 0.7% | 15.4% |
| Other | 6,000 | 0.2% | 6,668 | 0.3% | -10.0% |
| **Total** | 3,256,428 | 100.0% | 2,523,330 | 100.0% | 29.1% |
| | | | | | |
| **Net sales by product line** | | | | | |
| Clothing | 563,322 | 17.3% | 512,585 | 20.3% | 9.9% |
| Leather goods | 2,036,005 | 62.5% | 1,426,537 | 56.5% | 42.7% |
| Footwear | 625,390 | 19.2% | 560,108 | 22.2% | 11.7% |
| Other | 31,711 | 1.0% | 24,100 | 1.0% | 31.6% |
| **Total** | 3,256,428 | 100.0% | 2,523,330 | 100.0% | 29.1% |
| | | | | | |
| **Net sales by distribution channel** | | | | | |
| DOS | 2,664,238 | 81.8% | 1,964,499 | 77.9% | 35.6% |
| Independent customers and franchises | 592,190 | 18.2% | 558,831 | 22.1% | 6.0% |
| **Total** | 3,256,428 | 100.0% | 2,523,330 | 100.0% | 29.1% |
| | | | | | |
| Net sales | 3,256,428 | 98.8% | 2,523,330 | 98.7% | 29.1% |
| Royalties | 40,791 | 1.2% | 32,276 | 1.3% | 26.4% |
| | | | | | |
| **Total net revenues** | 3,297,219 | 100.0% | 2,555,606 | 100.0% | 29.0% |

## Prada brand sales

| (amounts in thousands of Euro) | twelve months ended January 31, 2013 | | twelve months ended January 31, 2012 | | % change |
|---|---|---|---|---|---|
| **Net sales by geographical area** | | | | | |
| Italy | 414,119 | 15.6% | 349,852 | 17.5% | 18.4% |
| Europe | 589,780 | 22.3% | 411,552 | 20.6% | 43.3% |
| Americas | 422,646 | 16.0% | 334,469 | 16.7% | 26.4% |
| Asia Pacific | 969,864 | 36.6% | 710,157 | 35.5% | 36.6% |
| Japan | 210,161 | 7.9% | 181,720 | 9.1% | 15.7% |
| Other countries | 42,989 | 1.6% | 11,595 | 0.6% | 270.8% |
| Total | 2,649,559 | 100.0% | 1,999,345 | 100.0% | 32.5% |
| | | | | | |
| **Net sales by product line** | | | | | |
| Clothing | 467,161 | 17.6% | 434,461 | 21.7% | 7.5% |
| Leather goods | 1,710,274 | 64.6% | 1,141,097 | 57.1% | 49.9% |
| Footwear | 444,462 | 16.8% | 402,348 | 20.1% | 10.5% |
| Other | 27,662 | 1.0% | 21,439 | 1.1% | 29.0% |
| Total | 2,649,559 | 100.0% | 1,999,345 | 100.0% | 32.5% |
| | | | | | |
| **Net sales by distribution channel** | | | | | |
| DOS | 2,189,977 | 82.7% | 1,562,233 | 78.1% | 40.2% |
| Independent customers and franchises | 459,582 | 17.3% | 437,112 | 21.9% | 5.1% |
| Total | 2,649,559 | 100.0% | 1,999,345 | 100.0% | 32.5% |
| | | | | | |
| Net sales | 2,649,559 | 98.5% | 1,999,345 | 98.5% | 32.5% |
| Royalties | 39,453 | 1.5% | 31,341 | 1.5% | 25.9% |
| | | | | | |
| Total net revenues | 2,689,012 | 100.0% | 2,030,686 | 100.0% | 32.4% |

## Miu Miu brand sales

| (amounts in thousands of Euro) | twelve months ended January 31, 2013 | | twelve months ended January 31, 2012 | | % change |
|---|---|---|---|---|---|
| **Net sales by geographical area** | | | | | |
| Italy | 84,252 | 16.4% | 67,103 | 15.2% | 25.6% |
| Europe | 100,519 | 19.6% | 86,178 | 19.5% | 16.6% |
| Americas | 57,963 | 11.3% | 54,915 | 12.5% | 5.6% |
| Asia Pacific | 181,996 | 35.5% | 155,841 | 35.3% | 16.8% |
| Japan | 80,904 | 15.8% | 73,918 | 16.8% | 9.5% |
| Other countries | 7,128 | 1.4% | 3,099 | 0.7% | 130.0% |
| Total | 512,762 | 100.0% | 441,054 | 100.0% | 16.3% |
| | | | | | |
| **Net sales by product line** | | | | | |
| Clothing | 95,091 | 18.5% | 77,251 | 17.5% | 23.1% |
| Leather goods | 321,713 | 62.8% | 282,033 | 64.0% | 14.1% |
| Footwear | 91,908 | 17.9% | 79,109 | 17.9% | 16.2% |
| Other | 4,050 | 0.8% | 2,661 | 0.6% | 52.2% |
| Total | 512,762 | 100.0% | 441,054 | 100.0% | 16.3% |
| | | | | | |
| **Net sales by distribution channel** | | | | | |
| DOS | 421,067 | 82.1% | 354,227 | 80.3% | 18.9% |
| Independent customers and franchises | 91,695 | 17.9% | 86,827 | 19.7% | 5.6% |
| Total | 512,762 | 100.0% | 441,054 | 100.0% | 16.3% |
| | | | | | |
| Net sales | 512,762 | 99.8% | 441,054 | 99.8% | 16.3% |
| Royalties | 1,248 | 0.2% | 828 | 0.2% | 50.7% |
| | | | | | |
| Total net revenues | 514,010 | 100.0% | 441,882 | 100.0% | 16.3% |

## Church's brand sales

| (amounts in thousands of Euro) | twelve months ended January 31, 2013 | | twelve months ended January 31, 2012 | | % change |
|---|---|---|---|---|---|
| **Net sales by geographical area** | | | | | |
| Italy | 16,550 | 24.2% | 16,509 | 27.9% | 0.2% |
| Europe | 40,884 | 59.7% | 34,271 | 57.9% | 19.3% |
| Americas | 2,842 | 4.1% | 2,402 | 4.0% | 18.3% |
| Asia Pacific | 5,663 | 8.3% | 4,789 | 8.1% | 18.3% |
| Japan | 2,180 | 3.2% | 1,052 | 1.8% | 107.2% |
| Other countries | 328 | 0.5% | 201 | 0.3% | 63.2% |
| Total | 68,447 | 100.0% | 59,224 | 100.0% | 15.6% |
| | | | | | |
| **Net sales by product line** | | | | | |
| Clothing | 967 | 1.4% | 762 | 1.3% | 26.9% |
| Leather goods | 2,047 | 3.0% | 1,702 | 2.9% | 20.3% |
| Footwear | 65,433 | 95.6% | 56,760 | 95.8% | 15.3% |
| Total | 68,447 | 100.0% | 59,224 | 100.0% | 15.6% |
| | | | | | |
| **Net sales by distribution channel** | | | | | |
| DOS | 42,881 | 62.6% | 38,346 | 64.7% | 11.8% |
| Independent customers and franchises | 25,566 | 37.4% | 20,878 | 35.3% | 22.5% |
| Total | 68,447 | 100.0% | 59,224 | 100.0% | 15.6% |
| | | | | | |
| Net sales | 68,447 | 99.9% | 59,224 | 99.8% | 15.6% |
| Royalties | 90 | 0.1% | 107 | 0.2% | -15.9% |
| | | | | | |
| Total net revenues | 68,537 | 100.0% | 59,331 | 100.0% | 15.5% |

## Car Shoe brand sales

| (amounts in thousands of Euro) | twelve months ended January 31, 2013 | | twelve months ended January 31, 2012 | | % change |
|---|---|---|---|---|---|
| **Net sales by geographical area** | | | | | |
| Italy | 10,937 | 55.7% | 10,294 | 60.4% | 6.2% |
| Europe | 4,900 | 24.9% | 3,383 | 19.9% | 44.8% |
| Americas | 651 | 3.3% | 857 | 5.0% | -24.0% |
| Asia Pacific | 2,638 | 13.4% | 2,174 | 12.8% | 21.3% |
| Other countries | 534 | 2.7% | 331 | 1.9% | 61.3% |
| Total | 19,660 | 100.0% | 17,039 | 100.0% | 15.4% |
| | | | | | |
| **Net sales by product line** | | | | | |
| Leather goods | 1,948 | 9.9% | 1,658 | 9.7% | 17.5% |
| Footwear | 17,712 | 90.1% | 15,381 | 90.3% | 15.2% |
| Total | 19,660 | 100.0% | 17,039 | 100.0% | 15.4% |
| | | | | | |
| **Net sales by distribution channel** | | | | | |
| DOS | 8,595 | 43.7% | 7,747 | 45.5% | 10.9% |
| Independent customers and franchises | 11,065 | 56.3% | 9,292 | 54.5% | 19.1% |
| Total | 19,660 | 100.0% | 17,039 | 100.0% | 15.4% |
| | | | | | |
| Net sales | 19,660 | 100.0% | 17,039 | 100.0% | 15.4% |
| | | | | | |
| Total net revenues | 19,660 | 100.0% | 17,039 | 100.0% | 15.4% |

## EBITDA by brand

| twelve months ended January 31, 2013 | Group | Prada | Miu Miu | Church's | Car Shoe | Others |
|---|---|---|---|---|---|---|
| Net sales | 3,256,428 | 2,649,559 | 512,762 | 68,447 | 19,660 | 6,000 |
| Royalties | 40,791 | 39,453 | 1,248 | 90 | - | - |
| Net revenues | 3,297,219 | 2,689,012 | 514,010 | 68,537 | 19,660 | 6,000 |
| EBITDA | 1,052,469 | 948,729 | 100,270 | 7,099 | (2,707) | (922) |
| EBITDA % | 31.9% | 35.3% | 19.5% | 10.4% | - | - |
| **twelve months ended January 31, 2012** | **Group** | **Prada** | **Miu Miu** | **Church's** | **Car Shoe** | **Others** |
| Net sales | 2,523,330 | 1,999,345 | 441,054 | 59,224 | 17,039 | 6,668 |
| Royalties | 32,276 | 31,341 | 828 | 107 | - | - |
| Net revenues | 2,555,606 | 2,030,686 | 441,882 | 59,331 | 17,039 | 6,668 |
| EBITDA | 759,252 | 657,249 | 97,872 | 7,877 | (3,579) | (167) |
| EBITDA % | 29.7% | 32.4% | 22.1% | 13.3% | - | - |
| Change in Net revenues in Euro | 741,613 | 658,326 | 72,128 | 9,206 | 2,621 | (668) |
| Change in Net revenues in percentage | 29.0% | 32.4% | 16.3% | 15.5% | 15.4% | -10.0% |
| Change in EBITDA in Euro | 293,217 | 291,480 | 2,398 | (778) | 872 | (755) |
| Change in EBITDA in percentage | 38.6% | 44.3% | 2.5% | -9.9% | - | - |

The EBITDA of the Prada brand amounted to Euro 948.7 million for the twelve months ended January 31, 2013, growing by 44.3% compared to previous year and posting a record high of 35.3% as a percentage of net revenues. The business expansion realized in recent years, together with the cost structure allocated to the brand, led to this level of profitability which, for the twelve months ended January 31, 2013, was among the top results on the luxury market goods brands. This performance was achieved notwithstanding the higher amount of operating expenses directly and indirectly connected to the retail business expansion, namely labour, rent and overheads, as well as more advertising and promotional costs. It is worth highlighting the fact that, in 2012, the Group began sponsoring the Luna Rossa yacht that will challenge for the XXXIV edition of the America's Cup. It also funded several events and projects aimed at further raising brand awareness and including collaboration with Roman Polanski on the shooting of a short movie called "A therapy"; in the words of the Director, "a chance to dwell on what the fashion world represents nowadays".

The EBITDA of the Miu Miu brand amounted to Euro 100.3 million for the twelve months ended January 31, 2013, slightly higher compared to the 2011 EBITDA (Euro 97.9 million for the twelve months ended January 31, 2012), but down as a percentage of net revenues from 22.1% to 19.5%.

During 2012, 32 new DOS were opened in order to provide the brand with constant growth over the years to come in terms of critical mass and increase its exposure to fast-growing markets and flows of leisure and business travelers. In this regard, the Group focused further resources on raising brand awareness through events, like "the-MiuMiu-London" at the Café Royal, where the location was transformed into a hub of multidisciplinary activities and events, and collaboration with the world of arts, like the

Miu Miu Women's tales, an acclaimed series of short films by international directors screened together for the first time as part of the Venice Film Festival's *Giornate degli Autori*. All of these projects, together with innovative advertising campaigns and fashion shows in Paris, significantly impacted the brand profitability, particularly in 2012. The Group deems this DOS expansion program, coupled with well thought advertising and promotional strategies and constant controls and reviews of the corporate processes, is the most appropriate way to ensure that the brand makes the most of its high-growth potential.

The EBITDA of the Church's brand for the twelve months ended January 31, 2013, decreased to Euro 7.1 million compared to Euro 7.9 million in 2011. The reduction in profitability was essentially because of a dilution in gross margin, mainly because of a less favorable ratio between promotional prices and regular prices, as well as the underperformance of DOS on some retail markets. This was essentially as a consequence of the domestic European-oriented footprint of the DOS network that low mitigated from the effects of the economic uncertainty affecting the old continent.

The EBITDA of the Car Shoe brand for the twelve months ended January 31, 2013, was negative by Euro 2.7 million despite a 15.4% increase in net revenues. The sales development was not yet sufficient to achieve a break-even situation taking account of cost structure and international awareness of the brand which remains limited.

## Geographical information

The following table reports the carrying value of most of the Group's non-current assets by geographical area, as requested by IFRS 8 for entities, like the PRADA Group, that have a single reportable segment.

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Italy | 484,945 | 416,542 |
| Europe | 842,289 | 814,240 |
| Americas | 185,688 | 160,539 |
| Japan | 93,156 | 119,355 |
| Asia Pacific | 175,674 | 124,527 |
| Other countries | 34,852 | 10,938 |
| Total | 1,816,604 | 1,646,141 |

The total amount of Euro 1,816.6 million (Euro 1,646.1 million at January 31, 2012) relates to the Group's non-current assets excluding, as requested by IFRS 8, those relating to financial instruments, deferred tax assets and surplus arising from a pension benefit scheme.

## Consolidated statement of financial position

## 9. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Cash on hand | 24,188 | 23,770 |
| Bank deposit accounts | 306,898 | 195,227 |
| Bank current accounts | 240,660 | 143,287 |
| Total | 571,746 | 362,284 |

Bank current accounts and deposit accounts generate interest income of between 0.0% and 2.83% per annum (between 0.0% and 4.08% at January 31, 2012).

During the year 2011 a net proceeds of Euro 206.6 million was collected by PRADA spa following its listing on the Hong Kong Stock exchange (Note 29). These net proceeds were used, as stated in the Global Offering Prospectus, to repay the US Dollar 21 million outstanding mortgage loan with the Sovereign Bank and to fund, together with net cash flows from operations (Euro 480 million in 2011 and Euro 759.3 million in 2012), the entire investment plan (Euro 257.1 million in 2011 and Euro 331.6 million in 2012), mainly focusing on DOS network expansion, renovation and relocation. Even after these utilizations and the dividends paid to Shareholders (a total of Euro 6.4 million in 2011 and a total of Euro 133.5 million in 2012) the amount of the funds available to the Group continued to increase along the years 2011 and 2012. In fact, the negative net financial position of Euro 375.4 million at January 31, 2011, turned into a positive amount of Euro 13.6 million at January 31, 2012, and improved further to Euro 312.6 million at January 31, 2013. Taken together, all these surplus funds (i.e. net proceeds from the listing and free cash flows from operations) contributed towards the increase in cash and cash equivalents at January 31, 2012, and at January 31, 2013.

## 10. Trade receivables, net

Trade receivables are detailed as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Trade receivables – third parties | 286,390 | 259,063 |
| Allowance for bad and doubtful debts | (11,547) | (11,681) |
| Trade receivables – related parties | 29,682 | 19,022 |
| Total | 304,525 | 266,404 |

Trade receivables from third parties increased by Euro 27.3 million compared to January 31, 2012, and stood at Euro 286.4 million at January 31, 2013. Higher sales and royalties were the main reasons behind the increase.

Trade receivables from related parties included a total amount of Euro 28.4 million essentially arising from sales of finished products and royalties to companies owned by the main shareholder of PRADA Holding bv and operating the retail business under franchise agreements. Details of trade receivables from related parties are provided in Note 39.

The allowance for doubtful debts was determined on a specific basis considering all information available at the date the financial statements were prepared. It is revised periodically to bring receivables as close as possible to their fair value.

Movements during the period were as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Opening balance | 11,681 | 10,537 |
| Exchange differences | (67) | 198 |
| Increase | 805 | 2,369 |
| Uses | (754) | (866) |
| Reversals | (118) | (557) |
| Closing balance | 11,547 | 11,681 |

## 11. Inventories, net

Inventories are analyzed as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Raw materials | 79,559 | 66,575 |
| Work in progress | 24,620 | 17,187 |
| Finished products | 314,244 | 360,379 |
| Allowance for obsolete and slow moving inventories | (74,621) | (69,359) |
| Total | 343,802 | 374,782 |

The containment in finished products was achieved thanks to measures aimed at further improving the sell-through retail ratio so as to react better to market changes and reduce risks.

Materials being worked upon by third parties are included in raw materials. Work in progress includes materials at the production stage with PRADA spa, Church & Co ltd and third party sub-contractors.

Movements on the allowance for obsolete and slow moving inventories are analyzed as follows:

| (amounts in thousands of Euro) | Raw materials | Finished Products | Total |
|---|---|---|---|
| Balance at January 31, 2012 | 29,754 | 39,605 | 69,359 |
| Exchange differences | - | (21) | (21) |
| Increases | - | 5,409 | 5,409 |
| Uses | - | (126) | (126) |
| Balance at January 31, 2013 | 29,754 | 44,867 | 74,621 |

## 12. Derivative financial instruments: assets and liabilities

Derivative financial instruments: assets and liabilities, current portion.

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Financial assets regarding derivative instruments | 43,060 | 894 |
| Financial liabilities regarding derivative instruments | (912) | (15,200) |
| Net carrying amount – current | 42,148 | (14,306) |

Derivative financial instruments: assets and liabilities, non-current portion.

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Financial assets regarding derivative instruments | 1,018 | - |
| Financial liabilities regarding derivative instruments | (384) | (335) |
| Net carrying amount – non-current | 634 | (335) |

The net carrying amount of derivative financial instruments, current and non-current taken together, consists of the following:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 | IFRS7 Category |
|---|---|---|---|
| Forward contracts | 20,983 | 316 | Level II |
| Options | 23,095 | 578 | Level II |
| Interest rate swaps | - | - | Level II |
| Positive fair value | 44,078 | 894 | |
| Forward contracts | (138) | (3,279) | Level II |
| Options | - | (11,428) | Level II |
| Interest rate swaps | (1,158) | (828) | Level II |
| Negative fair value | (1,296) | (15,535) | |
| Net carrying amount – current and non-current | 42,782 | (14,641) | |

All of the above derivative instruments are qualified as Level II of the fair value hierarchy proposed by IFRS 7. The Group has not entered into any derivative contracts that may be qualified as Level I or III.

The Group entered into the financial derivative contracts in the course of its risk management activities in order to hedge financial risks connected with exchange and interest rate fluctuations.

### Foreign exchange rate transactions

The cash flows resulting from the Group's international activities are exposed to exchange rate volatility. In order to hedge this risk, the Group enters into options and forward sale and purchase agreements so as to guarantee the value in Euro (or in other currencies of the various Group companies) of identified cash flows.

Expected future cash flows regard the collection of trade receivables, settlement of trade payables and financial cash flows. The most important currencies in terms of hedged amounts were: Hong Kong Dollar, US Dollar, Japanese Yen, GB Pound, Korean Won and Chinese Renminbi.

At the reporting date, the notional amounts of the derivative contracts designated as foreign exchange risk hedges (as translated at the European Central Bank exchange rate at January 31, 2013) were stated below.

Contracts in place at January 31, 2013, to hedge projected future trade cash flows.

| (amounts in thousands of Euro) | Options | Forward sale contracts (*) | Forward purchase contracts (*) | January 31 2013 |
|---|---|---|---|---|
| Currency | | | | |
| US Dollar | 154,539 | 7,380 | (32,472) | 129,447 |
| GB Pound | 70,525 | 2,684 | (1,167) | 72,042 |
| Japanese Yen | 52,960 | 32,663 | (32,436) | 53,187 |
| Hong Kong Dollar | 109,033 | 76,114 | (4,757) | 180,390 |
| Korean Won | - | 49,249 | (577) | 48,672 |
| Chinese Renminbi | - | 56,962 | - | 56,962 |
| Other | 41,236 | 34,185 | (4,924) | 70,497 |
| Total | 428,293 | 259,237 | (76,333) | 611,197 |

(*) Positive figures represent forward sales, negative figures represent forward purchases of currency

Contracts in place as at January 31, 2013, to hedge projected future financial cash flows.

| (amounts in thousands of Euro) | Options | Forward sale contracts | Forward purchase contracts | January 31 2013 |
|---|---|---|---|---|
| Currency | | | | |
| Japanese Yen | - | 47,356 | - | 47,356 |
| Other | - | 15,256 | - | 15,256 |
| Total | - | 62,612 | - | 62,612 |

Contracts in place as at January 31, 2013, will mature within 12 months. This is except for forward sale contracts and options expiring after January 31, 2014, whose notional amount was Euro 15.5 million at the reporting date.

Contracts in place at January 31, 2012, to hedge projected future trade cash flows.

| (amounts in thousands of Euro) | Options | Forward sale contracts | Forward purchase contracts (*) | January 31 2012 |
|---|---|---|---|---|
| Currency | | | | |
| US Dollar | 123,812 | - | (26,563) | 97,249 |
| GB Pound | 42,672 | - | - | 42,672 |
| Japanese Yen | 67,604 | 1,985 | (34,781) | 34,808 |
| Hong Kong Dollar | 159,657 | 4,893 | - | 164,550 |
| Other | 35,412 | 43,193 | (1,190) | 77,415 |
| Total | 429,157 | 50,071 | (62,534) | 416,694 |

(*) Positive figures represent forward sales, negative figures represent forward purchases of currency

Contracts in place as at January 31, 2012, to hedge projected future financial cash flows.

| (amounts in thousands of Euro) | Options | Forward sale contracts | Forward purchase contracts | January 31 2012 |
|---|---|---|---|---|
| Currency | | | | |
| Japanese Yen | - | 76,617 | - | 76,617 |
| Total | - | 76,617 | - | 76,617 |

All contracts in place as at January 31, 2012, had an expiry date shorter than 12 months.

All contracts in place at the reporting date were entered into with leading financial institutions and the Group does not expect any default by these institutions.

A liquidity analysis on the maturity dates of these derivative contracts is included in these Notes in the Information on financial risks section.

### Interest rate transactions

The Group enters into Interest Rate Swaps agreements (IRS) in order to hedge the risk of interest rate fluctuations in relation to several bank loans. The key features of the IRS agreements in place as at January 31, 2013, and January 31, 2012, are summarized as follows:

| Contract | Currency | Notional amount | Interest rate | Maturity date | January 31 2013 | Currency | Hedged loan – lending institution | Amount | Expiry |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | *fair value €.000* | | | | |
| IRS | Euro/000 | 100,000 | 1.511% | 26/07/2013 | (588) | Euro/000 | Pool loan | 100,000 | 07/2013 |
| IRS | Euro/000 | 11,250 | 1.545% | 02/06/2014 | (141) | Euro/000 | Intesa-Sanpaolo | 11,250 | 06/2014 |
| IRS | Euro/000 | 3,000 | 2.210% | 01/07/2015 | (77) | Euro/000 | MPS | 3,000 | 07/2015 |
| IRS | Yen/000 | 2,000,000 | 1.875% | 31/03/2017 | (352) | Yen/000 | Mizuho | 2,000,000 | 03/2017 |

| Contract | Currency | Notional amount | Interest rate | Maturity date | January 31 2012 | Currency | Hedged loan – lending institution | Amount | Expiry |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | *fair value €.000* | | | | |
| IRS | Euro/000 | 180,000 | 1.511% | 26/07/2013 | (638) | Euro/000 | Pool loan | 180,000 | 07/2013 |
| IRS | Euro/000 | 18,750 | 1.545% | 02/06/2014 | (66) | Euro/000 | Intesa-Sanpaolo | 18,750 | 06/2014 |
| IRS | Euro/000 | 12,000* | 1.745% | 29/05/2012 | (1) | Euro/000 | Unicredit | 12,000 | 05/2014 |
| IRS | Euro/000 | 4,200 | 2.210% | 01/07/2015 | (80) | Euro/000 | MPS | 4,200 | 07/2015 |
| IRS | Euro/000 | 3,750 | 3.500% | 01/08/2012 | (43) | Euro/000 | Carilucca, Pisa e Livorno | 3,750 | 08/2012 |

* IRS discontinued in compliance with IAS39

The IRS agreements convert the variable interest rates applying to a series of loans into fixed interest rates. These agreements have been arranged with leading financial institutions and the Group does not expect them to default.

Movements on the cash flow hedge reserve included in Group shareholders' equity, before tax effects, since February 1, 2011, may be analyzed as follows:

| (amounts in thousands of Euro) | |
|---|---|
| Opening balance as at February 1, 2011 | 4,780 |
| Change in the translation reserve | 7 |
| Change in fair value, recognized in Equity | (7,223) |
| Change in fair value, charged to Income Statement | (3,209) |
| Closing balance at January 31, 2012 | (5,645) |
| Change in the translation reserve | 19 |
| Change in fair value, recognized in Equity | 24,840 |
| Change in fair value, charged to Income Statement | 8,690 |
| Closing balance at January 31, 2013 | 27,904 |

Changes in the reserve that are charged to the Income statement are recorded under Interest and other financial income/(expense), net or as operating income and expenses depending on the nature of the underlying.

## Information on financial risks

## Capital management

The Group's capital management strategy is intended to safeguard its ability to continue to guarantee a return to shareholders, protect the interests of other stakeholders and respect covenants, while maintaining an adequate, balanced capital structure.

## Categories of financial assets and liabilities according to IAS 39

### Financial assets

| (amounts in thousands of Euro) | Loans and receivables | Derivative financial instruments | Total | Note |
|---|---|---|---|---|
| Cash and cash equivalents | 571,746 | - | 571,746 | 9 |
| Trade receivables, net | 304,525 | - | 304,525 | 10 |
| Derivative financial instruments | - | 44,078 | 44,078 | 12 |
| Financial receivables | 1,413 | - | 1,413 | 13 |
| Total at January 31, 2013 | 877,684 | 44,078 | 921,762 | |

| (amounts in thousands of Euro) | Loans and receivables | Derivative financial instruments | Total | Note |
|---|---|---|---|---|
| Cash and cash equivalents | 362,284 | - | 362,284 | 9 |
| Trade receivables, net | 266,404 | - | 266,404 | 10 |
| Derivative financial instruments | - | 894 | 894 | 12 |
| Financial receivables | 1,410 | - | 1,410 | 13 |
| Total at January 31, 2012 | 630,098 | 894 | 630,992 | |

### Financial liabilities

| (amounts in thousands of Euro) | Loans and payables | Derivative financial instruments | Total | Note |
|---|---|---|---|---|
| Financial payables | 259,418 | - | 259,418 | 19, 20, 23, 25 |
| Trade payables | 330,613 | - | 330,613 | 21 |
| Obligations under finance leases | 1,093 | - | 1,093 | 23 |
| Derivative financial instruments | - | 1,296 | 1,296 | 12 |
| Total at January 31, 2013 | 591,124 | 1,296 | 592,420 | |

| (amounts in thousands of Euro) | Loans and payables | Derivative financial instruments | Total | Note |
|---|---|---|---|---|
| Financial payables | 347,501 | - | 347,501 | 19, 20, 25 |
| Trade payables | 283,538 | - | 283,538 | 21 |
| Obligations under finance leases | 2,553 | - | 2,553 | 23 |
| Derivative financial instruments | - | 15,535 | 15,535 | 12 |
| Total at January 31, 2012 | 633,592 | 15,535 | 649,127 | |

## Credit risk

Credit risk is defined as the risk that a counterparty in a transaction, by not fulfilling its obligations, causes a financial loss for another entity. The maximum risk to which an entity is potentially exposed is represented by all financial assets recorded in the financial statements.

The Group essentially believes that its credit risk mainly regards trade receivables generated in the wholesale channel and cash and cash equivalents. The Group manages the credit risk and reduces its negative effects through its commercial and financial strategy, as also explained under the Information on Risk factors included in the Financial review of this 2012 Annual Report.

Trade receivables

The following table contains a summary, by due date, of total receivables before the allowance for doubtful debts at the reporting date:

| (amounts in thousands of Euro) | January 31 2013 | Current | Overdue (days) | | | | |
|---|---|---|---|---|---|---|---|
| | | | 1 < 30 | 31 < 60 | 61 < 90 | 91 < 120 | ≥ 120 |
| Trade receivables | 316,072 | 263,079 | 27,328 | 7,708 | 5,852 | 1,607 | 10,498 |
| Total | 316,072 | 263,079 | 27,328 | 7,708 | 5,852 | 1,607 | 10,498 |

| (amounts in thousands of Euro) | January 31 2012 | Current | Overdue (days) | | | | |
|---|---|---|---|---|---|---|---|
| | | | 1 < 30 | 31 < 60 | 61 < 90 | 91 < 120 | ≥ 120 |
| Trade receivables | 278,085 | 226,300 | 18,991 | 12,096 | 5,031 | 2,167 | 13,500 |
| Total | 278,085 | 226,300 | 18,991 | 12,096 | 5,031 | 2,167 | 13,500 |

The following table contains a summary, by due date, of trade receivables less the allowance for doubtful accounts at the reporting date:

| (amounts in thousands of Euro) | January 31 2013 | Current | Overdue (days) | | | | |
|---|---|---|---|---|---|---|---|
| | | | 1 < 30 | 31 < 60 | 61 < 90 | 91 < 120 | ≥ 120 |
| Trade receivables less allowance for doubtful accounts | 304,525 | 262,799 | 27,141 | 7,708 | 5,804 | 634 | 439 |
| Total | 304,525 | 262,799 | 27,141 | 7,708 | 5,804 | 634 | 439 |

| (amounts in thousands of Euro) | January 31 2012 | Current | Overdue (days) | | | | |
|---|---|---|---|---|---|---|---|
| | | | 1 < 30 | 31 < 60 | 61 < 90 | 91 < 120 | ≥ 120 |
| Trade receivables less allowance for doubtful accounts | 266,404 | 225,313 | 18,944 | 12,056 | 4,864 | 2,044 | 3,183 |
| Total | 266,404 | 225,313 | 18,944 | 12,056 | 4,864 | 2,044 | 3,183 |

At the reporting date, the expected loss on doubtful receivables was fully covered by the allowance for doubtful receivables. Movements on the allowance for doubtful receivables are shown in Note 10.

Bank deposit accounts and bank current accounts

Bank deposit accounts are broken down by currency as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Euro | 110,300 | 67,638 |
| US Dollar | 23,793 | 19,422 |
| Korean Won | 36,003 | 20,974 |
| Hong Kong Dollar | 90,798 | 61,628 |
| Other currencies | 46,004 | 25,565 |
| Total bank deposit accounts | 306,898 | 195,227 |

The Group seeks to mitigate the default risk on bank deposit accounts by allocating available funds to several accounts that differ in terms of currency, country and bank as well; these investments always have a short-term profile.

Bank current accounts

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Euro | 42,755 | 40,647 |
| US Dollar | 75,690 | 36,747 |
| Korean Won | 1,994 | 6,554 |
| Hong Kong Dollar | 10,751 | 8,417 |
| GB Pound | 59,369 | 3,761 |
| Other currencies | 50,101 | 47,161 |
| Total bank current accounts | 240,660 | 143,287 |

The Group maintains that there is no significant risk regarding this kind of liquid asset as their use is strictly connected with the business operations and corporate processes and, as result, the number of parties involved is fragmented.

## Liquidity risk

The liquidity risk relates to the difficulty the Group may have in fulfilling its obligations with regard to financial liabilities. The Directors are responsible for managing the liquidity risk while the Group Corporate finance department, reporting to the CFO, is responsible for managing financial resources as well as possible.

The Directors believe that the funds and lines of credit currently available, in addition to those that will be generated by operating and financing activities, will allow the Group to meet its needs resulting from investing activities, working capital management and repayment of loans as they fall due.

At January 31, 2013, the Group had a total of Euro 473.1 million of available unused credit facilities (Euro 461.5 million at January 31, 2012).

The following table summarizes trade payables by maturity date.

| (amounts in thousands of Euro) | January 31 2013 | Current | Overdue (days) | | | | |
|---|---|---|---|---|---|---|---|
| | | | 1 < 30 | 31 < 60 | 61 < 90 | 91 < 120 | ≥ 120 |
| Trade payables | 330,613 | 301,940 | 14,991 | 3,859 | 3,119 | 1,180 | 5,524 |
| Total | 330,613 | 301,940 | 14,991 | 3,859 | 3,119 | 1,180 | 5,524 |

| (amounts in thousands of Euro) | January 31 2012 | Current | Overdue (days) | | | | |
|---|---|---|---|---|---|---|---|
| | | | 1 < 30 | 31 < 60 | 61 < 90 | 91 < 120 | ≥ 120 |
| Trade payables | 283,538 | 251,483 | 17,392 | 5,507 | 2,553 | 2,131 | 4,472 |
| Total | 283,538 | 251,483 | 17,392 | 5,507 | 2,553 | 2,131 | 4,472 |

The following table details the maturity of derivative and non-derivative financial liabilities showing earliest date on which the Group could be called upon to make payment (worst-case scenario).

## Financial liabilities under derivative financial instruments

| (amounts in thousands of Euro) | Future contractual cash flows at Jan. 31, 2013 | 6 mths or less | 6 to 12 mths | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years |
|---|---|---|---|---|---|---|---|
| Forward contracts designated as cash flow hedges | | | | | | | |
| Cash outflows | (5,422) | (5,387) | (35) | - | - | - | - |
| Cash inflows | 5,340 | 5,340 | - | - | - | - | - |
| Other contracts designated as cash flow hedges | | | | | | | |
| Cash outflows | - | - | - | - | - | - | - |
| Cash inflows | - | - | - | - | - | - | - |
| Interest rate swaps - cash flow hedge | (1,125) | (671) | (130) | (183) | (80) | (52) | (9) |
| Net value | (1,207) | (718) | (165) | (183) | (80) | (52) | (9) |

| (amounts in thousands of Euro) | Future contractual cash flows at Jan. 31, 2012 | 6 mths or less | 6 to 12 mths | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years |
|---|---|---|---|---|---|---|---|
| Forward contracts designated as cash flow hedges | | | | | | | |
| Cash outflows | (66,862) | (39,863) | (26,999) | - | - | - | - |
| Cash inflows | 63,404 | 37,991 | 25,413 | - | - | - | - |
| Other contracts designated as cash flow hedges | | | | | | | |
| Cash outflows | (12,696) | (5,814) | (6,882) | - | - | - | - |
| Cash inflows | 6,239 | 1,397 | 4,842 | - | - | - | - |
| Interest rate swaps - cash flow hedge | (858) | (101) | (409) | (321) | (25) | (2) | - |
| Net value | (10,773) | (6,390) | (4,035) | (321) | (25) | (2) | - |

## Financial liabilities

| (amounts in thousands of Euro) | Carrying amount at Jan. 31, 2013 | Future contractual cash flows at Jan. 31, 2013 | on demand | 6 mths or less | 6 to 12 mths | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years |
|---|---|---|---|---|---|---|---|---|---|
| Obligations under finance leases – third parties | 1,093 | 1,105 | - | 488 | 95 | 510 | 4 | 8 | |
| Bank loans and overdrafts | 255,054 | 262,690 | 21 | 161,286 | 19,035 | 37,027 | 29,664 | 13,620 | 2,037 |
| Loans from related parties | 5,018 | 5,018 | 5,018 | | | | | | |
| Total | 261,165 | 268,813 | 5,039 | 161,774 | 19,130 | 37,537 | 29,668 | 13,628 | 2,037 |

| (amounts in thousands of Euro) | Carrying amount at Jan. 31, 2012 | Future contractual cash flows at Jan. 31, 2012 | on demand | 6 mths or less | 6 to 12 mths | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years |
|---|---|---|---|---|---|---|---|---|---|
| Obligations under finance leases – third parties | 2,553 | 2,628 | - | 847 | 658 | 597 | 515 | 11 | - |
| Bank loans and overdrafts | 345,793 | 357,065 | 8,730 | 94,645 | 71,680 | 164,966 | 12,735 | 4,309 | - |
| Loans from related parties | 3,504 | 3,504 | 546 | - | 2,958 | - | - | - | - |
| Total | 351,850 | 363,197 | 9,276 | 95,492 | 75,296 | 165,563 | 13,250 | 4,320 | - |

Some financial liabilities are subject to compliance with covenants as described in Note 19.

## Exchange rate risk

The exchange rate risk to which the Group is exposed depends on foreign currency fluctuation, mainly against the Euro. It is largely concentrated in PRADA spa.

The exchange rate risk mainly involves the risk that the cash flows of the Group's distribution company will fluctuate as a result of changes in exchange rates. The most important currencies in terms of hedging for the Group are: the US Dollar, Hong Kong Dollar, Japanese Yen, GB Pound and Chinese Renminbi.

Exchange rate risk exposure for subsidiary companies is generated by cash flows in currencies other than their reporting currency.

The following table shows the sensitivity of the Group's net income and Shareholders' equity to a range of hypothetical fluctuation in the main foreign currencies against Euro, based on the Group statement of financial position as at January 31, 2013.

| (amounts in thousands of Euro) | Euro strengthens by 10% | | Euro weakens by 10% | |
|---|---|---|---|---|
| | Effect on net income | Effect on shareholders' equity | Effect on net income | Effect on shareholders' equity |
| GB Pound | (7,412) | (2,019) | 8,844 | 3,662 |
| Hong Kong Dollar | (2,031) | 14,188 | (1,330) | (13,498) |
| Japanese Yen | (1,418) | 5,393 | 2,075 | (6,326) |
| US Dollar | (9,516) | 4,403 | 9,005 | (2,894) |
| Renminbi | (6,560) | (1,633) | 8,017 | 1,995 |
| Other currencies | (7,287) | 3,107 | 8,523 | (3,066) |
| Total | (34,287) | 23,439 | 35,135 | (20,126) |

The total impact on shareholders' equity (Euro 23.4 million positive and Euro 20.1 million negative) is the sum of the theoretical effect on the income statement and on the cash flow hedge reserve of an hypothetical strengthening/weakening of the Euro against other currencies.

The effects on the above mentioned items are recorded before the tax effect. The sensitivity analysis is based on the period end exposure which might not reflect the effects actually generated during the year and for this reason it must be considered merely indicative.

### Interest rate risk

The PRADA Group is exposed to interest rate fluctuations mainly with regard to the interest charges on the debt carried by parent company PRADA spa and some of its subsidiaries.

Management of this risk falls within the scope of the risk management activities the Group carries out through its centralized Corporate finance department.

The following table shows the sensitivity of the Group's net result and Shareholders' equity to a hypothetical shift in the interest rate curve in relation to the Group companies' financial position as at January 31, 2013.

| (amounts in thousands of Euro) | Shift in interest rate curve | Effect on net income for the period | Effect on shareholders' equity | Shift in interest rate curve | Effect on net income for the period | Effect on shareholders' equity |
|---|---|---|---|---|---|---|
| Euro | + 0.50% | 84 | 132 | - 0.50% | (84) | (132) |
| GB Pound | + 0.50% | 313 | 313 | - 0.50% | (313) | (313) |
| Hong Kong Dollar | + 0.50% | 508 | 508 | - 0.50% | (508) | (508) |
| Japanese Yen | + 0.50% | (317) | (134) | - 0.50% | 317 | 204 |
| US Dollar | + 0.50% | 420 | 420 | - 0.50% | (420) | (420) |
| Other currencies | + 0.50% | 459 | 459 | - 0.50% | (459) | (459) |
| Total | | 1,467 | 1,698 | | (1,467) | (1,628) |

The total impact on Shareholders' equity (positive impact of Euro 1.7 million and negative impact of Euro 1.6 million) should be considered as the sum of the theoretical effect of an hypothetical shift in the interest rate curve on the income statement and on the cash flow hedge reserve.

The effects on the above mentioned items are stated before the tax effect. The sensitivity analysis was based on the period end net financial position so it might not reflect the actual exposure to the interest rate risk during the year. Therefore, this analysis should be considered as merely indicative.

## 13. Receivables and advance payments from parent companies and other related parties

Receivables and advance payments from parent companies and other related companies are detailed below:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Financial receivables – other related parties | 1,413 | 1,410 |
| Other receivables – PRADA Holding bv | 249 | 654 |
| Other receivables – other companies controlled by PRADA Holding bv | 3 | 154 |
| Other receivables – other related parties | 2,652 | 1,646 |
| Advance payments – other related companies | 15,176 | 9,000 |
| Total | 19,493 | 12,864 |

Advance payments includes Euro 12.3 million of advance payments made to Luna Rossa Challenge NZ ltd and Luna Rossa Challenge srl, in accordance with the contracts signed with subsidiary PRADA sa, for sponsorship of the Luna Rossa yacht in relation to its participation on the XXXIV edition of the America's Cup to be held in San Francisco, California, in 2013. The remaining Euro 2.9 million mainly consists of advances paid to Progetto Prada Arte srl for cultural initiatives to be undertaken the following year. Details of receivables from related parties are provided in Note 39.

## 14. Other current assets

Other current assets are detailed as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| VAT | 25,072 | 37,372 |
| Income tax and other tax receivables | 20,540 | 6,597 |
| Other assets | 16,731 | 15,337 |
| Prepayments and accrued income | 41,266 | 39,049 |
| Deposits | 1,214 | 1,920 |
| Total | 104,823 | 100,275 |

### Other assets

Other assets are detailed as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Advertising contributions under license agreements | 5,258 | 3,693 |
| Advances to suppliers | 1,478 | 4,832 |
| Incentives for retail investments | 1,318 | 4,152 |
| Advances to employees | 1,392 | 754 |
| Other receivables | 7,285 | 1,906 |
| Total | 16,731 | 15,337 |

### Prepayments and accrued income

Prepayments and accrued income are detailed as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Rental charges | 17,116 | 15,664 |
| Insurance | 1,472 | 1,033 |
| Design costs | 11,970 | 9,914 |
| Fashion shows and advertising campaigns | 4,021 | 4,138 |
| Sponsorship | - | 704 |
| Consulting | 1,233 | 1,757 |
| Amortized costs on loans | 197 | 591 |
| Other | 5,257 | 5,248 |
| Total | 41,266 | 39,049 |

Design costs mainly include costs incurred for the conception and realization of collections that will generate revenue the following year.

### Deposits

Deposits mainly includes guarantee deposits paid under commercial lease agreements.

## 15. Property, plant and equipment

Changes in the historical cost of Property, plant and equipment during the year ended January 31, 2013, and in prior year are as follows:

| (amounts in thousands of Euro) | Land and buildings | Production plant and machinery | Leasehold improve-ments | Furniture & fittings | Other tangibles | Assets under construction | Total historical cost |
|---|---|---|---|---|---|---|---|
| Balance at January 31, 2011 | 172,525 | 97,048 | 487,208 | 176,512 | 84,493 | 59,157 | 1,076,943 |
| Additions | 40,806 | 7,030 | 110,797 | 29,329 | 18,825 | 51,820 | 258,607 |
| Disposals | - | (300) | (106) | (525) | (1,656) | (15) | (2,602) |
| Exchange differences | 1,968 | 238 | 29,531 | 6,090 | 944 | 3,501 | 42,272 |
| Other movements | 288 | 15 | 23,893 | 4,860 | 1,116 | (30,627) | (455) |
| Impairment | - | (8) | (10,187) | (5,470) | (646) | (1,216) | (17,527) |
| Balance at January 31, 2012 | 215,587 | 104,023 | 641,136 | 210,796 | 103,076 | 82,620 | 1,357,238 |
| Additions | 35,371 | 8,977 | 136,368 | 48,655 | 24,347 | 73,617 | 327,335 |
| Disposals | (3) | (810) | (823) | (1,633) | (32,347) | (1) | (35,617) |
| Exchange differences | (1,346) | (214) | (37,710) | (8,207) | (1,225) | (5,448) | (54,150) |
| Other movements | 3,308 | 122 | 37,324 | 3,544 | 1,223 | (44,583) | 938 |
| Impairment | - | - | (13,458) | (2,574) | (1,242) | (700) | (17,974) |
| Balance at January 31, 2013 | 252,917 | 112,098 | 762,837 | 250,581 | 93,832 | 105,505 | 1,577,770 |

Changes in accumulated depreciation of Property, plant and equipment during the year ended January 31, 2013, and in prior year are as follows:

| (amounts in thousands of Euro) | Land and buildings | Production plant and machinery | Leasehold improve-ments | Furniture & fittings | Other tangibles | Total accum. deprec'n |
|---|---|---|---|---|---|---|
| Balance at January 31, 2011 | 26,923 | 82,006 | 267,096 | 104,403 | 59,798 | 540,226 |
| Depreciation | 5,055 | 6,635 | 62,899 | 18,691 | 5,850 | 99,130 |
| Disposals | - | (296) | (45) | (342) | (1,593) | (2,276) |
| Exchange differences | 525 | 210 | 14,894 | 3,685 | 619 | 19,933 |
| Other movements | - | - | (118) | 975 | (975) | (118) |
| Impairment | - | (8) | (7,914) | (5,000) | (605) | (13,527) |
| Balance at January 31, 2012 | 32,503 | 88,547 | 336,812 | 122,412 | 63,094 | 643,368 |
| Depreciation | 5,977 | 7,087 | 84,272 | 25,324 | 6,932 | 129,592 |
| Disposals | - | (793) | (115) | (777) | (14,693) | (16,378) |
| Exchange differences | (448) | (191) | (19,463) | (4,710) | (874) | (25,686) |
| Other movements | (26) | - | (446) | 292 | - | (180) |
| Impairment | 3,331 | - | (11,266) | (2,270) | (40) | (10,245) |
| Balance at January 31, 2013 | 41,337 | 94,650 | 389,794 | 140,271 | 54,419 | 720,471 |

Changes in the net book value of Property, plant and equipment in the year ended January 31, 2013, and in prior year are as follows:

| (amounts in thousands of Euro) | Land and buildings | Production plant and machinery | Leasehold improve-ments | Furniture & fittings | Other tangibles | Assets under construction | Total net book value |
|---|---|---|---|---|---|---|---|
| **Balance at January 31, 2011** | 145,602 | 15,042 | 220,112 | 72,109 | 24,695 | 59,157 | 536,717 |
| Additions | 40,806 | 7,030 | 110,797 | 29,329 | 18,825 | 51,820 | 258,607 |
| Depreciation | (5,055) | (6,635) | (62,899) | (18,691) | (5,850) | - | (99,130) |
| Disposals | - | (4) | (61) | (183) | (63) | (15) | (326) |
| Exchange differences | 1,443 | 28 | 14,637 | 2,405 | 325 | 3,501 | 22,339 |
| Other movements | 288 | 15 | 24,011 | 3,885 | 2,091 | (30,627) | (337) |
| Impairment | - | - | (2,273) | (470) | (41) | (1,216) | (4,000) |
| **Balance at January 31, 2012** | 183,084 | 15,476 | 304,324 | 88,384 | 39,982 | 82,620 | 713,870 |
| Additions | 35,371 | 8,977 | 136,368 | 48,655 | 24,347 | 73,617 | 327,335 |
| Depreciation | (5,977) | (7,087) | (84,272) | (25,324) | (6,932) | - | (129,592) |
| Disposals | (3) | (17) | (708) | (856) | (17,654) | (1) | (19,239) |
| Exchange differences | (898) | (23) | (18,247) | (3,497) | (351) | (5,448) | (28,464) |
| Other movements | 3,334 | 122 | 37,770 | 3,252 | 1,223 | (44,583) | 1,118 |
| Impairment | (3,331) | - | (2,192) | (304) | (1,202) | (700) | (7,729) |
| **Balance at January 31, 2013** | 211,580 | 17,448 | 373,043 | 110,310 | 39,413 | 105,505 | 857,299 |

Additions to Land and buildings, amounting to Euro 35.4 million, included the purchase of commercial and industrial properties. In the historical center of Florence the Group acquired the ground floor and basement of a 15th Century building where the main Prada store was already operating under a lease agreement. The Group has also invested in some industrial facilities: in the North-East of Italy a shoe factory has been renovated while in Central Italy two buildings, already involved in the Group's production processes through rental agreements, were acquired. These acquisitions were completed in the first half of the year in compliance with the original commitment agreement signed in 2010.

The increases in Production plant and machinery mainly related to purchases of equipment for use in the manufacturing processes.

The increases in leasehold improvements, furniture and fixture and assets under construction were mostly explained by the Group's strategy of retail network expansion and renovation.

Total capital expenditure in the retail channel for the twelve months ended January 31, 2013, amounted to some Euro 265 million. This included Euro 191 million invested in newly opened stores (Euro 165 million for stores opened during the year and Euro 26 million for stores opening shortly) while Euro 74 million was invested in existing stores through refurbishments and relocations.

Disposals of other tangible assets essentially related to the sale of works of art to related parties. As disclosed by the Company's Announcement dated June 28, 2012, this transaction involved the sale of a total of ten assets which, as deemed non-core investments, were realized at fair value, as confirmed by an appraisal performed by an independent advisor.

The impairment adjustments recorded in 2012 mainly regarded the write-off of some improvements on real estate projects that have been dropped.

All of the land owned by the Group at January 31, 2012, and January 31, 2013, was freehold outside Hong Kong.

Land and buildings included capitalized interest charges as follows:

| (amounts in thousands of Euro) | Opening net book value | Increases | Exchange differences | Amortization | Closing net book value |
|---|---|---|---|---|---|
| Land and buildings | 8,377 | 78 | (1,082) | (257) | 7,116 |

## 16. Intangible assets

Changes in the historical amount of Intangible assets during the year ended January 31, 2013, and in prior year are as follows:

| (amounts in thousands of Euro) | Trade-marks | Goodwill | Store Lease Acquisitions | Software | Development costs | Assets in progress | Total historical cost |
|---|---|---|---|---|---|---|---|
| Balance at January 31, 2011 | 390,091 | 533,168 | 107,760 | 60,728 | 45,465 | 2,372 | 1,139,584 |
| Change in scope of consolidation | - | - | - | - | - | - | - |
| Additions | 166 | - | 14,393 | 4,178 | 128 | 1,384 | 20,249 |
| Disposals | - | - | - | (12) | (1) | - | (13) |
| Exchange differences | 2,341 | 835 | 686 | 268 | - | 12 | 4,142 |
| Other movements | - | - | 300 | 1,082 | 180 | (2,278) | (716) |
| Impairment | - | - | - | (38) | (191) | (14) | (243) |
| Balance at January 31, 2012 | 392,598 | 534,003 | 123,139 | 66,206 | 45,581 | 1,476 | 1,163,003 |
| Change in scope of consolidation | - | - | 15,694 | - | - | - | 15,694 |
| Additions | 286 | - | 17,476 | 1,909 | 9 | 7,740 | 27,420 |
| Disposals | - | - | - | (84) | - | - | (84) |
| Exchange differences | (1,995) | (712) | (864) | (314) | - | (57) | (3,942) |
| Other movements | - | - | - | 576 | 86 | (819) | (157) |
| Impairment | - | - | - | 27 | (96) | (110) | (179) |
| Balance at January 31, 2013 | 390,889 | 533,291 | 155,445 | 68,320 | 45,580 | 8,230 | 1,201,755 |

Changes in the accumulated amortization of Intangible assets during the year ended January 31, 2013, and in prior year are as follows:

| (amounts in thousands of Euro) | Trade-marks | Goodwill | Store Lease Acquisitions | Software | Development costs | Total accumulated amortization |
|---|---|---|---|---|---|---|
| Balance at January 31, 2011 | 77,631 | 29,222 | 71,673 | 54,343 | 37,596 | 270,465 |
| Change in scope of consolidation | - | - | - | - | - | - |
| Amortization | 11,025 | - | 8,354 | 3,067 | 4,726 | 27,172 |
| Disposals | - | - | - | (8) | - | (8) |
| Exchange differences | 634 | 561 | 328 | 252 | - | 1,775 |
| Other movements | - | - | 110 | 11 | 180 | 301 |
| Impairment | - | - | - | (37) | (191) | (228) |
| Balance at January 31, 2012 | 89,290 | 29,783 | 80,465 | 57,628 | 42,311 | 299,477 |
| Change in scope of consolidation | - | - | - | - | - | - |
| Amortization | 11,137 | - | 9,471 | 2,963 | 1,677 | 25,248 |
| Disposals | - | - | - | (3) | - | (3) |
| Exchange differences | (643) | (479) | (364) | (288) | - | (1,774) |
| Other movements | - | - | 110 | 5 | - | 115 |
| Impairment | - | - | - | 27 | (85) | (58) |
| Balance at January 31, 2013 | 99,784 | 29,304 | 89,682 | 60,332 | 43,903 | 323,005 |

Changes in the net book value of Intangible assets during the year ended January 31, 2013, and in prior year are as follows:

| (amounts in thousands of Euro) | Trade-marks | Goodwill | Store Lease Acquisitions | Software | Development costs | Assets in progress | Total net book value |
|---|---|---|---|---|---|---|---|
| **Balance at January 31, 2011** | 312,460 | 503,946 | 36,087 | 6,385 | 7,869 | 2,372 | 869,119 |
| Change in scope of consolidation | - | - | - | - | - | - | - |
| Additions | 166 | - | 14,393 | 4,178 | 128 | 1,384 | 20,249 |
| Amortization | (11,025) | - | (8,354) | (3,067) | (4,726) | - | (27,172) |
| Disposals | - | - | - | (4) | (1) | - | (5) |
| Exchange differences | 1,707 | 274 | 358 | 16 | - | 12 | 2,367 |
| Other movements | - | - | 190 | 1,071 | - | (2,278) | (1,017) |
| Impairment | - | - | - | (1) | - | (14) | (15) |
| **Balance at January 31, 2012** | 303,308 | 504,220 | 42,674 | 8,578 | 3,270 | 1,476 | 863,526 |
| Change in scope of consolidation | - | - | 15,694 | - | - | - | 15,694 |
| Additions | 286 | - | 17,476 | 1,909 | 9 | 7,740 | 27,420 |
| Amortization | (11,137) | - | (9,471) | (2,963) | (1,677) | - | (25,248) |
| Disposals | - | - | - | (81) | - | - | (81) |
| Exchange differences | (1,352) | (233) | (500) | (26) | - | (57) | (2,168) |
| Other movements | - | - | (110) | 571 | 86 | (819) | (272) |
| Impairment | - | - | - | - | (11) | (110) | (121) |
| **Balance at January 31, 2013** | 291,105 | 503,987 | 65,763 | 7,988 | 1,677 | 8,230 | 878,750 |

The net book value of Trademarks at January 31, 2013, and January 31, 2012, is broken down as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Miu Miu | 170,961 | 176,537 |
| Church's | 103,087 | 108,411 |
| Luna Rossa | 6,132 | 7,111 |
| Car Shoe | 5,770 | 5,983 |
| Prada | 4,311 | 4,474 |
| Other | 844 | 792 |
| **Total** | 291,105 | 303,308 |

No impairment losses were recorded in relation to the Group's trademarks in the year ended January 31, 2013. Other includes trademark registration expenses.

Store lease acquisition costs (key-money) includes intangible assets recognized in respect of costs incurred by the Group to enter into, take over or extend lease agreements for retail premises in the most prestigious retail locations worldwide. The increases recorded during the period, as well as the change in scope of consolidation (as illustrated in the Note 7) regarded lease agreements in Europe.

The total capital expenditure on Property, plant and equipment and Intangible assets for the twelve months ended January 31, 2013, amounted to Euro 354.8 million.

The following table contains a summary of total additions to Property, plant and equipment and Intangible assets for each business area.

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Retail | 265,356 | 191,169 |
| Production and logistics | 42,767 | 57,828 |
| Corporate | 46,632 | 29,859 |
| Total | 354,755 | 278,856 |

## Impairment test

As required by IAS 36 Impairment Test, goodwill with an indefinite useful life is not amortized. Instead, it is tested for impairment at least once a year. As at January 31, 2013, Goodwill amounted to Euro 504.0 million, detailed by Cash Generating Unit (CGU) as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Italy Wholesale | 78,355 | 78,355 |
| Asia Pacific and Japan Retail | 311,936 | 311,936 |
| Italy Retail | 25,850 | 25,850 |
| Germany and Austria Retail | 5,064 | 5,064 |
| United Kingdom Retail | 9,300 | 9,300 |
| Spain Retail | 1,400 | 1,400 |
| France and Monte Carlo Retail | 11,700 | 11,700 |
| North America Retail and Wholesale | 48,000 | 48,000 |
| Production division | 3,492 | 3,492 |
| Church's | 8,890 | 9,123 |
| Total | 503,987 | 504,220 |

The Group does not recognize other intangible assets with an indefinite useful life other than goodwill. At the same time, IAS36 requires an entity to assess at each reporting date whether there is any indication that an asset may be impaired. Accordingly, at January 31, 2013, the Group performed an impairment test on the Car Shoe trademark.

The method used to identify the recoverable value (value in use) is based on the Discounted expected free Cash-Flow (hereafter "DCF") generated by the assets directly attributable to the business to which the goodwill or the trademark subject to impairment have been allocated (Cash Generating Unit). Value in use is calculated as the sum of the present value of future free cash-flows expected from the business plan projections prepared for each CGU and the present value of the operating activities of the sector at the end of the business plan period (terminal value).

Business plans cover a period of five years and were constructed on the basis of the 2013 budgets. Prudentially, no business development has been forecasted after 2013. This means that no new store openings have been included in the period going from 2014 to 2017 and prudent trends in the wholesale channel have been applied.

The discount rate used to discount cash flows is calculated using the weighted average cost of capital approach (WACC). For the year ended January 31, 2013, the WACC used for discounting purposes was in a range between 6.4% and 20.9% (between 6.8% and 23.3% at January 31, 2012). The WACC has been calculated ad hoc for each CGU subject to impairment taking into account the country specific parameters: market risks premium and sovereign bonds. A "g" growth rate equal to 1.5% has been used in the calculation of the WACC with some exceptions: where there were significant indications of impairment, a prudential "g" equal to zero has been applied. However, also a growth rate of 1.5% can be considered prudent given the general expected average growth for the luxury goods market and that one specific for the PRADA Group at the reporting date. Sensitivity analyses were carried out to ensure that changes in the main assumptions (WACC and "g" growth rate) did not significantly affect the coverage results. The outcome of these simulations did no highlight any indication that values in use could have been lower than the carrying amounts.

When the calculation of the value in use through the DCF method did not lead to meaningful results, it was deemed appropriate to run the impairment test through the application of valuations methods based on the fair value (e.g. market multiples). The results of these valuations were anyway double-checked with sensitivity analyses so as to strengthen further the validity of the tests.

None of the impairment tests performed as at January 31, 2013, identified any impairment losses for the Group CGUs and other intangible assets for which the Group highlighted indicators of impairment. However, as value in use is measured based on estimates, the Group cannot guarantee that the value of goodwill or other intangible assets will not be impaired in future.

## 17. Investments

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Investment in associated undertaking | 1,739 | 1,739 |
| Investment available for sale | 21,270 | 13,878 |
| Other investments | 15 | 14 |
| Total | 23,024 | 15,631 |

Investment in associated undertaking regards a 49% interest in Pac srl (an unlisted company and in liquidation) that has been recorded under the equity method.

Investment available for sale regards the 4.88% stake in the share capital of Sitoy Group Holdings ltd, a company listed on Hong Kong Stock exchange (HK: 1023) that operates on the Asian market in the production of leather bags and other products. In accordance with IAS 39, the investment was initially recognized at cost and subsequently restated at fair value in line with the official quoted share price on the Hong Kong Stock exchange as at January 31, 2013 (Level I of the fair value hierarchy per IFRS 7). The fair value adjustment for the twelve months ended January 31, 2013, amounted to Euro 7.4 million and was recognized in a specific equity reserve, net of the relevant taxation effect. On December 7, 2012, the Group collected from Sitoy Group Holdings a net of HKD 9.8 million (Euro 1 million) as dividend.

## 18. Other non-current assets

Other non-current assets are detailed as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Guarantee deposits | 50,898 | 49,526 |
| Deferred rental income | 2,410 | 2,893 |
| Other receivables | 8,374 | 4,883 |
| Total | 61,682 | 57,302 |

Other receivables included Euro 4.2 million representing the actuarial valuation of the

Group's pension plans in the United Kingdom, as described in Note 26.

Guarantee deposits are analyzed below by nature and maturity:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| **Nature:** | | |
| Stores | 48,719 | 47,652 |
| Offices | 1,563 | 1,335 |
| Warehouses | 161 | 148 |
| Other | 455 | 391 |
| **Total** | **50,898** | **49,526** |

| (amounts in thousands of Euro) | January 31 2013 |
|---|---|
| **Maturity:** | |
| By 31.01.2015 | 14,786 |
| By 31.01.2016 | 5,246 |
| By 31.01.2017 | 2,508 |
| By 31.01.2018 | 3,091 |
| After 31.01.2018 | 25,267 |
| **Total** | **50,898** |

## 19. Short-term financial payables and bank overdrafts

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Bank overdrafts and commercial lines of credit | 24 | 8,730 |
| Short-term bank loans | 16,218 | 29,871 |
| Current portion of long term loans | 159,867 | 128,273 |
| Deferred costs on loans | (539) | (1,389) |
| **Total** | **175,570** | **165,485** |

The Euro 31.6 million increase in Current portion of long-term loans is mainly due to a shift in the maturity profiles of both the PRADA spa Pool loan and the PRADA Japan co ltd Mizuho loan from long to current, as well as a new loan arranged in Japanese Yen during the year.

The current portion of long-term loans includes Euro 100 million relating to the pool loan arranged by PRADA spa. This loan is subject to compliance with certain covenants based on the Consolidated financial statements of PRADA spa. Specifically the ratio of total net borrowings to EBITDA cannot exceed 2.5 at year end (3 at six-monthly reporting date), the ratio of EBITDA to total net interest charges must be greater than 4 and, finally, shareholders' equity must not be lower than Euro 650 million. At January 31, 2013, the Group fully respected all these covenants.

Short-term bank loans and the current portion of long-term borrowings by currency are analyzed as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Euro | 118,722 | 99,993 |
| Japanese Yen | 44,528 | 44,476 |
| Chinese Renminbi | 11,951 | 12,818 |
| Other currencies | 884 | 857 |
| Total | 176,085 | 158,144 |

The Group generally borrows at variable rates of interest and manages the risk of interest rate fluctuation by entering into hedging agreements as described in Note 12.

Considering hedges in place at the reporting date, some 70% of the current portion of medium/long term loans consisted of fixed rate loans (81% at January 31, 2012) with variable rate loans making up the remaining 30% (19% at January 31, 2012).

Bank borrowings are stated net of amortized costs incurred to arrange the loans. At January 31, 2013, amortized costs were deducted from long-term loans for Euro 0.1 million and from short-term loans for Euro 0.5 million.

## 20. Payables to parent companies and other related parties

Payables to parent companies and other related parties may be detailed as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Other payables – PRADA Holding bv | 120 | - |
| Other payables – other companies controlled by PRADA Holding bv | 3 | 259 |
| Financial payables – other related companies | 5,018 | 3,574 |
| Other payables – other related parties | 458 | 528 |
| Total | 5,599 | 4,361 |

Financial payables towards other related parties, totaling Euro 5 million at January 31, 2013, include an interest-free loan contributed by Al Tayer Insigna llc, the Non-controlling shareholder of PRADA Middle East fzco, according to its stake in the PRADA Group's subsidiary. These funds were used to develop the retail business in the Middle East. Details of payables from related parties are provided in Note 39.

## 21. Trade payables

Trade payables may be summarized as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Trade payables – third parties | 323,894 | 279,236 |
| Trade payables – related parties | 6,719 | 4,302 |
| Total | 330,613 | 283,538 |

The increase in Trade payables was due to the growth of the business in general. Details of trade payables to related parties are provided in Note 39.

## 22. Tax payables

Current tax payables are summarized as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Current income taxes | 68,505 | 94,858 |
| VAT and other taxes | 28,643 | 22,912 |
| Total | 97,148 | 117,770 |

## 23. Obligations under finance leases

At January 31, 2013, Obligations under finance leases included short-term payables of Euro 0.6 million and long-term payables of Euro 0.5 million. They mainly related to leases of properties situated in Italy. Further information is provided in Note 40. The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## 24. Other current liabilities

Other current liabilities may be analyzed as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Payables for capital expenditure | 57,969 | 57,844 |
| Accrued expenses and deferred income | 9,810 | 12,944 |
| Other payables | 63,866 | 57,989 |
| Total | 131,645 | 128,777 |

Other payables are detailed below:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Short term benefits for employees and other personnel | 52,018 | 44,550 |
| Customer advances | 3,340 | 4,688 |
| Returns from customers | 7,364 | 6,988 |
| Other | 1,144 | 1,763 |
| Total | 63,866 | 57,989 |

## 25. Long-term financial payables

Long-term financial payables are as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Long-term loans | 78,945 | 178,919 |
| Deferred costs on loans | (115) | (477) |
| Total | 78,830 | 178,442 |

The reduction in the caption is due to the reclassification to short-term of the current portions of most of the long-term loans existing at January 31, 2012. This reduction was partially offset by new long-term loans arranged during the year in currencies other than the Euro to fund retail business expansion as well as to refinance a loan that fell due in Japan.

The Group generally borrows at variable rates of interest and manages the risk of interest rate fluctuation by entering into hedging agreements as described in Note 12.

At the reporting date, some 7% of long-term loans consisted of fixed rate loans (70% at January 31, 2012) with variable rate loans making up the remaining 93% (30% at January 31, 2012).

Details of long-term borrowing at January 31, 2013, are provided below:

| Borrower | Amount in thousands of Euro | Loan currency | Lender | Expiry date | Interest rate (1) |
|---|---|---|---|---|---|
| PRADA spa | 1,800 | Euro | Monte dei Paschi di Siena | 07/2015 | 3.310% |
| PRADA spa | 3,750 | Euro | IntesaSanPaolo | 06/2014 | 2.145% |
| PRADA spa | 2,400 | Euro | Unicredit | 05/2014 | 0.953% |
| PRADA spa | 10,338 | Euro | Cariparma | 08/2015 | 1.575% |
| PRADA Middle East FZCO | 15,433 | US Dollar | ENBD | 09/2016 | 3.811% |
| PRADA Japan co ltd | 7,298 | Japanese Yen | Sumitomo Mitsui Trust | 08/2016 | 0.810% |
| PRADA Japan co ltd | 14,191 | Japanese Yen | Mizuho Bank | 03/2017 | 1.055% |
| PRADA Fashion Commerce (Shanghai) co limited | 17,801 | Renminbi | Mizuho Bank | 11/2015 | 6.150% |
| PRADA Fashion Commerce (Shanghai) co limited | 5,934 | Renminbi | Intesa SanPaolo | 06/2015 | 6.027% |
| Total | 78,945 | | | | |

(1) the interest rates include the effect of interest rate risk hedging transactions

Details of long-term borrowing at January 31, 2012, are provided below:

| Borrower | Amount in thousands of Euro | Loan currency | Lender | Expiry date | Interest rate (1) |
|---|---|---|---|---|---|
| PRADA spa | 100,000 | Euro | Pool loan | 07/2013 | 3.010% |
| PRADA spa | 3,000 | Euro | Monte dei Paschi di Siena | 07/2015 | 3.310% |
| PRADA spa | 11,250 | Euro | IntesaSanPaolo | 06/2014 | 2.145% |
| PRADA spa | 7,200 | Euro | Unicredit | 05/2014 | 2.345% |
| PRADA spa | 13,779 | Euro | Cariparma | 08/2015 | 2.590% |
| PRADA Japan co ltd | 3,279 | Japanese Yen | Mizuho Bank | 07/2013 | 2.090% |
| Church & Co plc | 856 | GB Pound | HSBC | 07/2013 | 1.200% |
| PRADA Japan co ltd | 27,825 | Japanese Yen | Mizuho Bank | 07/2013 | 1.540% |
| PRADA Fashion Commerce (Shanghai) co limited | 11,730 | Renminbi | Mizuho Bank | 09/2013 | 6.650% |
| Total | 178,919 | | | | |

(1) the interest rates include the effect of interest rate risk hedging transactions

In March 2012, PRADA Japan co ltd signed a term loan agreement with Mizuho Bank for a total amount of Japanese Yen 2 billion (Japanese Yen 250 million of which is shown under short-term loan at January 31, 2013). For the first year, the term loan is subject to interest at the 6 month TIBOR plus a spread of 0.625%; starting from April 2013, the rate is fixed at 1.875% (spread included), as a result of an interest rate swap transaction becoming effective. The loan is repayable in eight equal six-monthly installments starting from September 2013. This loan is subject to compliance with certain covenants based on the Statutory financial statements of Prada Japan co ltd. At January 31, 2013, all these covenants were fully respected.

In May 2012, PRADA Middle East fzco signed a term loan agreement with ENBD for a total amount of US Dollar 22 million, or AE Dirham equivalent. The term loan is subject to interest at the 3 month LIBOR plus a spread of 3.5% for draw-downs in US Dollar or, alternatively, to interest at the 3 month EIBOR plus a spread of 2.5% for draw-downs in AE Dirham. The loan is repayable in ten equal quarterly installments starting from June 2014. At January 31, 2013, the loan had been drawn down in the amount of USD 20.9 million. The loan is subject to compliance with a Debt/Equity ratio covenant based on the PRADA Middle East fzco Statutory financial statements; it was fully respected at the reporting date.

In July 2012, PRADA Fashion Commerce (Shanghai) co limited signed a term loan agreement with IntesaSanPaolo for a total amount of RMB 50 million. The term loan is subject to interest at 98% of the PBOC Base Rate determined on a quarterly base. It is repayable in six equal quarterly installments starting from March 2014. At the reporting date the full amount of the loan had been drawn down.

In August 2012, PRADA Japan co ltd signed a term loan agreement with Sumitomo Mitsui Trust Bank for a total amount of Japanese Yen 1 billion. The term loan is subject to interest at the 6 month TIBOR plus a spread of 0.38%. It is repayable in six six-monthly installments of Japanese Yen 100 million starting from August 2013 plus one final installment of Japanese Yen 400 million on the termination date. The loan is subject to compliance with certain covenants based on the Statutory financial statements of PRADA Japan co ltd; at January 31, 2013, they were fully respected.

In November 2012, PRADA Fashion Commerce (Shanghai) co limited signed a term loan agreement with Mizuho Bank for a total amount of RMB 150 million. The term loan agreement is subject to interest at 100% of the PBOC Base Rate and is reviewed on an annual basis according to PBOC adjustments. The loan is repayable in four equal six-monthly installments starting from May 2014. At reporting date the full amount of the loan had been drawn down.

The long-term loan granted by Banca Monte dei Paschi di Siena to PRADA spa in 2008 – outstanding amount of Euro 3 million reported at January 31, 2013 (including current portion of Euro 1.2 million) - is secured by a mortgage on a building in Tuscany that houses offices and research and development workshops.

The long-term loan granted by Cassa di Risparmio Parma e Piacenza to PRADA spa in 2008 – outstanding amount of Euro 15.4 million reported at January 31, 2013 (including current portion of Euro 5.1 million) - is secured by a mortgage on a building in Tuscany where the Group has concentrated the logistics activities of the footwear and leather goods divisions.

All bank borrowing is analyzed by security profile as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Secured | 18,396 | 20,443 |
| Unsecured | 236,658 | 325,350 |
| Total | 255.054 | 345,793 |

All bank borrowing by maturity profile is analyzed in the part of the Liquidity risk under Note 12. None of the Group’s subsidiaries had issued any debt securities at the end of the current and previous year.

## 26. Long-term employee benefits

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Post-employment benefits | 38,665 | 35,283 |
| Other long term employee benefits | 6,873 | 615 |
| Total liabilities for long term benefits | 45,538 | 35,898 |
| Post-employment benefit (pension plan surplus) | (4,150) | (4,187) |
| Net liabilities for long term benefits | 41,388 | 31,711 |

### Post-employment benefits

Liabilities and assets for post-employment benefits reported at January 31, 2013, totaled a net of Euro 34.5 million (Euro 31.1 million at January 31, 2012) and all were qualified as defined benefit plans. The pension plan surplus relating to Group companies operating in the United Kingdom is included in Other non-current assets, Note 18.

The balance includes Euro 23.8 million of liabilities recorded in the financial statements of Italian companies and Euro 10.7 million reported by non-Italian companies. The Italian liabilities for post-employment benefits regarded the "Trattamento di Fine Rapporto" (hereinafter "TFR", i.e. staff leaving indemnity) and the balance - which reflected fair value - was determined projecting the benefit, accruing under Italian law at the reporting date, to the future date when the employment relationship will be terminated and discounting it at the reporting date using the actuarial "Projected Unit Credit Method (PUCM)".

The following table shows movements on net liabilities for post-employment benefits in the year ended January 31, 2013.

| | Post-employment benefits Italian companies (TFR) | Post-employment benefits non-Italian companies | Group Total |
|---|---|---|---|
| Balance at January 31, 2012 | 20,208 | 10,888 | 31,096 |
| Current service cost | 138 | 3,908 | 4,046 |
| Interest cost/(revenue) | 390 | (253) | 137 |
| Actuarial (gains)/losses | 4,933 | 1,436 | 6,369 |
| Benefits paid | (1,875) | (2,200) | (4,075) |
| Exchange differences | - | (3,058) | (3,058) |
| Balance at January 31, 2013 | 23,794 | 10,721 | 34,515 |

The current service cost and the interest cost/(revenue) was recognized through income statement.

The TFR liability was determined based on an independent appraisal by Federica Zappari, an Italian registered actuary (no 1134) of Ordine Nazionale degli Attuari. The technical part of the computation was based on an historical analysis of the data. For the demographic assumptions, variables such as mortality, early retirement and resignation, dismissal, expiry of employment contract, advance payment on leaving indemnities and supplementary pension schemes were considered. Economic and financial assumptions were made based on variables such as inflation and discount rates.

Post-employment benefits of non-Italian companies are stated net of the surplus on pension plans relating to Group companies operating in the United Kingdom which provide pension services for their employees. As at January 31, 2013, these pension plans had a positive fair value of Euro 4.2 million (a positive fair value of Euro 4.2 million as at January 31, 2012), as determined based on the appraisal provided by independent actuary Scottish Widows. They are analyzed as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Fair value of plan assets | 52,987 | 52,451 |
| Fair value of plan liabilities | (46,844) | (43,698) |
| Pension plan surplus | 6,143 | 8,753 |
| Restrictions on recognition of surplus applied during actuarial valuation of the plan | (1,993) | (4,566) |
| Net surplus | 4,150 | 4,187 |

At the reporting date pension plan assets, along with the expected rates of return, were as follows:

| (amounts in thousands of Euro) | January 31 2013 Assets | January 31 2013 Rate of return | January 31 2012 Assets | January 31 2012 Rate of return |
|---|---|---|---|---|
| Equities | 14,221 | 7.0% | 12,048 | 7.0% |
| Alternatives | 13,550 | 7.0% | 10,063 | 7,0% |
| Bonds | 21,588 | 3.7%-4.0% | 26,958 | 3.4%-4.0% |
| Cash | 3,628 | 1.0% | 3,382 | 1.0% |
| Total | 52,987 | | 52,451 | |

### Other long-term employee benefits

Other long-term employee benefits were qualified into the IAS 19 category "Other long-term employee benefits" and related to long-term retention and performances plan recognized to Group employee. As at January 31, 2013, their actuarial valuation, obtained using the Projected Unit Cost Method, was Euro 6.9 million (Euro 0.6 million as at January 31, 2012), as determined based on the appraisal of the independent actuary Federica Zappari.

## 27. Provisions for risks and charges

Movements on provisions for risks and charges are summarized as follows:

| (amounts in thousands of Euro) | Provision for litigation | Provision for tax disputes | Other provisions | Total |
|---|---|---|---|---|
| Balance at January 31, 2012 | 1,618 | 37,335 | 17,968 | 56,921 |
| Exchange differences | (18) | (2,548) | (1,254) | (3,820) |
| Reversals | (88) | (7,532) | (4,937) | (12,557) |
| Uses | (822) | (197) | (2,048) | (3,067) |
| Increases | 1,085 | 409 | 7,943 | 9,437 |
| Balance at January 31, 2013 | 1,775 | 27,467 | 17,672 | 46,914 |

Provisions represent the Directors' best estimate of maximum contingent liabilities. In the Directors' opinion and based on the information available to them as supported by the opinions of independent experts at the reporting date, the total amount provided for risks and charges was reasonable considering the contingent liabilities that might arise.

## Provision for litigation

The provision for litigation amounted to Euro 1.8 million at January 31, 2013, and mainly regarded disputes with suppliers, former employees of the Group and government authority on social contribution.

## Provision for tax disputes

The Group's main tax disputes are reported below.

On December 30, 2005, Genny spa (a company incorporated into PRADA spa) received two notices of tax assessment for VAT purposes for the 2002 fiscal year. The assessments regarded the sales of the "Genny" and "Byblos" businesses. The amount assessed was about Euro 21 million. The Company successfully appealed at the first and second levels of appeal. The second level of appeal decision by Ancona Regional Tax Commission was issued on December 21, 2010, and formally deposited in 2011. The Tax Authority then announced its appeal to the Supreme Court of Cassation against which the Company submitted a counter appeal. No update on this issue occurred during 2012.

On August 4, 2006, IPI Italia spa (a company incorporated into PRADA spa), as purchaser of the Genny business, received a demand for VAT penalties totaling Euro 5.7 million for the year 2002 in relation to its alleged failure to issue a "self-invoice" for the acquisition of the "Genny" business. Even though it submitted its defensive arguments against this claim, on October 9, 2007, the Company received a request for penalties against which it filed an appeal. After that appeal was rejected, the Company filed another appeal with Milan Regional Tax Commission that was rejected in a decision issued on January 20, 2010. The Company then prepared a further appeal to the Supreme Court of Cassation against which the Tax Authority filed its own counter appeal. No update on this issue occurred during 2012.

On November 30, 2005, PRADA Retail France sas received a notice of assessment with reference to 2003 and 2004 intercompany transfer pricing. The dispute essentially concerned the adjustment of the tax losses incurred by the French company. On May 31, 2007, PRADA Retail France sas began a mutual agreement procedure with reference to the Franco-Swiss Treaty to avoid the double taxation and in the first months of 2010, following to another notice of assessment with regard to transfer pricing in 2005, 2006 and 2007, PRADA Retail France sas began another mutual agreement procedure with regard to both the France-Switzerland and France-Italy Treaties. In June 2012 Prada Retail France sas received confirmation from the French Tax Authority that the mutual agreement procedure with the Swiss Tax Authority was officially closed. The adjustment to the income of PRADA Retail France sas did not generate any additional taxable income but merely affected accumulated tax losses. At the end of the tax year 2012, following to the official communication of the closing of the above mentioned procedures, the Swiss Tax Authorities granted the correlative adjustment.

On July 27, 2011, a settlement was reached under the mutual agreement procedure provided for by the Germany-Switzerland Treaty, in relation to the assessment raised against PRADA Germany gmbh with regard to transfer pricing for 2001, 2002, 2003 and 2004 tax years. Following to the conclusion of the above mentioned mutual agreement procedure, the Swiss Tax Authorities granted the correlative adjustment. On October 18, 2010, a tax inspection regarding transfer pricing for 2005, 2006, 2007 and 2008 tax years of PRADA Germany gmbh commenced. The audit has not yet been completed.

In October 2012, PRADA spa, following to the denial of Italian Tax Authorities to its request not to apply the Italian Controlled Foreign Companies rules (CFC) for 2010 tax year to its Dutch sub-holding company PRADA Far East bv, paid some Euro 42 million in order to reduce the risk of application of additional penalties in case of assessment.

The amount paid, included under the income taxation for the twelve months ended January 31, 2013, followed the “ravvedimento operoso” procedure and represented the taxes due in Italy on the taxable income of PRADA Far East bv at the level of PRADA spa for 2010 and 2011 tax years. For other Group subsidiaries operating in countries where a preferential tax regime applies, Italian Tax Authorities considered the request not to apply the CFC rules as not receivable. On January 2013 the Company filed an appeal to the Provincial Tax Commission of Rome in order to make opposition against the reply of Tax Authorities to all of the above mentioned CFC applications and to obtain the refund of the above mentioned Euro 42 million paid.

In September 2009, the Japanese Tax Authorities began a tax inspection of PRADA Japan co ltd with regard to the transfer prices applied in 2004, 2005, 2006, 2007 and 2008 tax years; subsequently the audit was extended to 2009 tax year. At the end of 2011, the Japanese Tax Authorities issued a “position paper” and made a formal request to adjust income for the assessed tax years. Then the requests to commence the mutual agreement procedure were made to the Italian, Luxembourg and Japanese Tax Authorities. During 2012, the Japanese Tax Authorities filed an assessment notice for the 2005 and 2006 tax years only and announced the completion of the audit of the 2004, 2007, 2008 and 2009 tax years without any adjustment of taxable income. The mutual agreement procedures were still ongoing at the reporting date.

In May 2012, an audit by the Italian Customs Authority regarding the 2007-2011 tax years began for PRADA spa with reference to the method used to value imported products in specific circumstances. The audit was still ongoing at the reporting date. It is worth noting that, with reference to the same issue, on March 2012 the Company filed a ruling request to the Central Italian Customs Authority for a ruling on the same issue.

Except where there is an express statement that no provision has been made, the Directors, supported by the opinion of their tax advisors, believe that the provisions totaling Euro 27.5 million carried at January 31, 2013, in respect of the tax disputes described above represents the best estimate of the obligations that the Group could be called upon to fulfill.

### Other provisions for risks

Other provisions for risks amounted to Euro 17.7 million as at January 31, 2013, and related to onerous lease agreements and to obligations to reinstate premises under lease agreements in their original state.

## 28. Other non-current liabilities

Other non-current liabilities amounted to Euro 84.9 million (Euro 75.7 million as at January 31, 2012). They mainly regarded liabilities to be recognized on a straight-line basis in relation to commercial lease costs. The increase was due to expansion of the retail network.

## 29. Shareholders' equity - Group

The Group's shareholders' equity is as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Share Capital | 255,882 | 255,882 |
| Share premium reserve | 410,047 | 410,047 |
| Other reserves | 1,051,536 | 747,547 |
| Actuarial reserve | (6,470) | (1,192) |
| Fair value reserve | 5,486 | (58) |
| Cash flow hedge reserve | 20,148 | (4,173) |
| Translation reserve | (42,288) | (17,239) |
| Net income for the period | 625,681 | 431,929 |
| Total | 2,320,022 | 1,822,743 |

### Share capital

At January 31, 2013, some 80% of the share capital of PRADA spa was held by PRADA Holding bv while the remainder was floating on the Main Board of the Hong Kong Stock exchange.

During the previous year, on June 24, 2011, the Group successfully completed the listing of 19% of the share capital of PRADA spa on the Main Board of the Hong Kong Stock exchange. This operation, as approved by the Shareholders' General Meeting held on May 26, 2011, involved the placement of 423,276,000 shares at an offer price of HKD 39.5 per share, including 58,824,000 new issued shares and 364,452,000 existing shares. Furthermore, on July 6, 2011, the International Underwriters of the IPO exercised their option to purchase a further 63,489,000 shares. This second transaction did not lead to a further share capital increase and did not result into any further cash injection for the PRADA Group as the option was exercised on shares already in use before the share capital increase occurred with the listing. The issue of new shares gave rise to a gross capital injection of HKD 2,323.5 million, or Euro 209.8 million at the exchange rate applied to the transaction. Net of the directly attributable costs, the capital injection amounted to HKD 2,288.2 million, or Euro 206.6 million at the exchange rate applied to the transaction. Out of this total amount of Euro 206.6 million, Euro 5.9 million led to an increase in share capital while Euro 200.7 million was recorded as an increase in the share premium reserve.

### Share premium reserve

As stated above, the Share premium reserve increased during the previous year by Euro 200.7 million i.e. the difference between the net capital injection from the listing (Euro 206.6 million) and the par value of the new shares issued (Euro 5.9 million).

### Translation reserve

The decrease in the Translation reserve at January 31, 2013, compared to January 31, 2012, was due to the lower value of net assets contributed by subsidiaries outside the Euro zone as a result of the strengthening of the Euro against other currencies.

### Other reserves

At January 31, 2013, Other reserves amounted to Euro 1,051.5 million and mainly consisted of prior years retained earnings.

### Net income for the year

The Group's net income for the year amounted to Euro 625.7 million (Euro 431.9 million as at January 31, 2012).

### Capital gain tax in Italy

Capital gains realized on disposals of shares in the Company's shares may be subject to tax in Italy. Further details of Italian capital gains taxation have already been provided in the Tax Booklet available on the Company's website at www.pradagroup.com.

## 30. Shareholders' equity – Non-controlling interests

The following table shows movements on the Shareholders' equity of Non-controlling Interests during the years ended January 31, 2013, and January 31, 2012.

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Opening balance | 8,224 | 5,788 |
| Translation differences | (940) | 432 |
| Dividends | (5,576) | (3,886) |
| Net income for the period | 7,596 | 4,496 |
| Actuarial Reserve | - | (18) |
| Capital injection in subsidiaries | 1,166 | 1,412 |
| Closing balance | 10,470 | 8,224 |

The capital injection into subsidiaries related to TRS Australia ltd and was made by Non-controlling shareholders in proportion to the number of shares held by them.

Dividends recognized in the twelve months ended January 31, 2013, and totaling Euro 5.6 million, were distributed by the subsidiaries TRS Hong Kong ltd, TRS Singapore pte ltd, TRS New Zealand pty ltd and Artisans Shoes srl.

## Consolidated income statement

### 31. Net revenues

Consolidated net revenues are mainly generated by sales of products and are stated net of returns and discounts.

| (amounts in thousands of Euro) | twelve months ended January 31 2013 | twelve months ended January 31 2012 |
|---|---|---|
| Net sales | 3,256,428 | 2,523,330 |
| Royalties | 40,791 | 32,276 |
| Total | 3,297,219 | 2,555,606 |

A breakdown of net revenues by brand, distribution channel, geographical area and product is provided in the Financial review.

Income from royalty agreements contributed net revenues of Euro 40.8 million, up by 26.4% compared to Euro 32.3 million in 2011. The launch of the Prada phone by LG 3.0 in 2012 contributed most to the increase, while fragrances performed best in terms of rate of growth thanks to the launch of Luna Rossa perfume and the strength of the Prada Candy great success.

### 32. Cost of goods sold

Cost of goods sold is analyzed as follows:

| (amounts in thousands of Euro) | twelve months ended January 31 2013 | twelve months ended January 31 2012 |
|---|---|---|
| Purchases of raw materials and production costs | 731,805 | 663,587 |
| Logistics costs, duties and insurance | 162,396 | 146,791 |
| Change in inventories | 26,477 | (82,797) |
| Total | 920,678 | 727,581 |

Cost of goods sold increased from Euro 727.6 million in 2011 to Euro 920.7 million in 2012. Meanwhile, as a percentage of net revenues, it decreased from 28.5% to 27.9% mainly because of a more favorable mix of net sales in terms of channel, product and geographical area as well as the positive impact of exchange rate fluctuation. In fact, the Euro strenghtening occurred over 2012 compared to 2011, resulted in higher sales that largely offset the increase in cost of goods sold caused by exchange rate fluctuation.

### 33. Operating costs

Operating costs are analyzed as follows:

| (amounts in thousands of Euro) | twelve months ended January 31 2013 | % of net revenues | twelve months ended January 31 2012 | % of net revenues |
|---|---|---|---|---|
| Product design and development costs | 111,370 | 3.4% | 103,120 | 4.0% |
| Advertising and communications costs | 150,574 | 4.6% | 129,184 | 5.1% |
| Selling costs | 1,040,133 | 31.5% | 802,770 | 31.4% |
| General and administrative costs | 184,683 | 5.6% | 164,016 | 6.4% |
| Total | 1,486,760 | 45.1% | 1,199,090 | 46.9% |

Operating costs increased from Euro 1,199.1 million in 2011 to Euro 1,486.8 million. As a percentage of net revenues they decreased from 46.9% in 2011 to 45.1% (45.4% at constant exchange rates).

Product design and development costs increased slightly compared to 2011 but fell as a percentage of net revenues as most of the costs of this corporate area are fixed.

Advertising and communications costs raised from Euro 129.2 million to Euro 150.6 million while falling from 5.1% of net revenues in 2011 to 4.6%. The increase in absolute terms was mainly attributable to higher purchases of media space as well as to new sponsorships. In fact, during the year the Group started to sponsor the Luna Rossa yacht that raced the 2012 America's Cup World series taking part in regattas in Naples, Venice, San Francisco and Newport.

Selling costs increased from Euro 802.8 million in 2011 to Euro 1,040.1 million in 2012 mainly as a result of the ongoing enlargement and renovation of the DOS network. As a percentage of net revenues, they remained almost unchanged (from 31.4% in 2011 to 31.5%).

General and administrative expenses increased from Euro 164 million in 2011 to Euro 184.7 million essentially because of business expansion which led to higher overhead expenses. As a percentage of net revenues they decreased from 6.4% to 5.6%.

Operating expenses included: most of the Group's depreciation, amortization and impairment adjustments for both property, plant and equipment and intangible assets, a total amount of Euro 152.3 million (Euro 121.3 million in 2011); most of the Group's labor costs, Euro 439.7 million (Euro 362.8 million in 2011); most of the Group's fixed rent, Euro 204.8 million (Euro 170.1 million in 2011); and most of the Group's variable rent, Euro 259.4 million (Euro 187.9 million in 2011).

## 34. Interest and other financial income/(expenses), net

Interest and other financial income/(expenses), net may be analyzed as follows:

| (amounts in thousands of Euro) | twelve months ended January 31 2013 | twelve months ended January 31 2012 |
|---|---|---|
| Interests expenses on borrowings | (12,956) | (16,843) |
| Interest income | 4,804 | 2,689 |
| Exchange gains / (losses) – realized | 1,550 | (1,158) |
| Exchange gains/ (losses) – unrealized | 4,314 | (6,116) |
| Other financial income / (expenses) | (4,843) | (4,599) |
| Dividends received | 966 | - |
| Total | (6,165) | (26,027) |

Net financial expenses decreased by Euro 19.9 million compared to prior year, resulting in total net financial expenses of Euro 6.2 million for the twelve months ended January 31, 2013.

Interest expenses on borrowings decreased essentially because of a reduction in bank borrowings. In contrast, interest income was earned by investing the increased liquidity across a number of currencies, countries and banks, in compliance with the Group's corporate strategy which favors low-risk investments.

The dividends of Euro 1 million received referred to the amount paid by Sitoy Group Holdings ltd in December 7, 2012.

## 35. Income taxes

Income taxes are analyzed as follows:

| (amounts in thousands of Euro) | twelve months ended January 31 2013 | twelve months ended January 31 2012 |
|---|---|---|
| Taxation | 258,613 | 194,805 |
| Deferred taxation | (8,274) | (28,322) |
| Income taxes | 250,339 | 166,483 |

The increase in income taxes in absolute terms is essentially due to growth of the Group business in general. As a percentage of profit before taxation, the tax burden increased from 27.6% to 28.3%, essentially because of the extraordinary Euro 42 million tax charge disclosed under Note 27 and regarding the rejection by the Italian Tax Authorities of PRADA spa's request not to apply the Italian Controlled Foreign Companies rules (CFC) to its Dutch sub-holding company PRADA Far East bv.

The following table shows a reconciliation between the effective tax rate of the Group and the theoretical tax rate of the parent company PRADA spa:

| | twelve months ended January 31 2013 |
|---|---|
| Italian theoretical tax rate | 31.40% |
| Tax effect of expenses/income that are not deductible/taxable in determining taxable profit | 2.53% |
| Tax effect of utilization of tax losses carried forward | -0.48% |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | -5.13% |
| Group effective tax rate | 28.32% |

Movements on net deferred tax assets and deferred tax liabilities are shown in the following table:

| (amounts in thousands of Euro) | twelve months ended January 31 2013 | twelve months ended January 31 2012 |
|---|---|---|
| Opening balance | 128,071 | 88,667 |
| Exchange differences | (7,910) | 6,848 |
| Deferred taxes on derivative instruments recorded in equity (cash flow hedges) | (9,209) | 2,795 |
| Deferred taxes on post-employment benefits recorded in equity (reserve for actuarial differences) | 1,091 | 443 |
| Deferred taxes on costs attributable to the share capital increase/IPO | - | 1,023 |
| Other movements | 104 | (27) |
| Deferred taxes for the period in income statement | 8,274 | 28,322 |
| Closing balance | 120,421 | 128,071 |

The following table shows deferred tax assets and liabilities classified by nature:

| (amounts in thousands of Euro) | January 31, 2013 | | January 31, 2012 | |
|---|---|---|---|---|
| | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Inventories | 78,572 | - | 86,126 | - |
| Receivables and other assets | 452 | 1,551 | 1,103 | 1,575 |
| Useful life of non-current assets | 50,563 | 15,447 | 58,695 | 14,032 |
| Deferred taxes due to acquisitions | - | 25,112 | - | 28,556 |
| Provision for risks / accrued expenses | 26,454 | 2,257 | 12,928 | 267 |
| Non deductible / taxable charges / income | 4,964 | 1,515 | 3,566 | 535 |
| Tax loss carry-forwards | 7,611 | - | 4,788 | - |
| Derivative financial instruments | 89 | 7,702 | 1,552 | - |
| Long term employee benefits | 6,796 | 1,312 | 6,674 | 2,015 |
| Other | 555 | 740 | 304 | 685 |
| Total | 176,057 | 55,636 | 175,736 | 47,665 |

Tax losses carry-forwards at January 31, 2013, are analyzed below:

| (amounts in thousands of Euro) | January 31 2013 |
|---|---|
| Expiring within 5 years | 9,950 |
| Expiring after 5 years | 39,883 |
| Available for carry forward with no time limit | 45,952 |
| Total tax losses carry forwards | 95,785 |

The Directors have updated their assessment of the tax losses carry-forwards taking account of the general macroeconomic environment and developments regarding the business activities of each Group company.

## 36. Earnings and Dividends per share

### Earnings per share

Earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue.

| | twelve months ended January 31 2013 | twelve months ended January 31 2012 |
|---|---|---|
| Group net income in Euro | 625,681,459 | 431,928,921 |
| Weighted average number of ordinary shares in issue | 2,558,824,000 | 2,535,777,885 |
| Earnings per share in Euro, calculated on weighted average number of ordinary shares | 0.245 | 0.170 |

On May 26, 2011, a Shareholders' Meeting of PRADA spa resolved to change the par value of the Company's shares from Euro 1 to Euro 0.1 each. In accordance with IAS 33, the number of shares in issue in 2011 was retrospectively adjusted for the purposes of the calculation of earnings per share.

### Dividends per share

The PRADA spa Board of Directors recommended, for the twelve months ended January 31, 2013, a final dividend of Euro 230.3 million (or 9 Euro/cents per share). For the year ended January 31, 2012, the final dividend of Euro 127.9 million (or 5 Euro/cents per share) recommended by the Board of Directors on March 29, 2012, was approved by the Annual General Meeting held on May 22, 2012.

During the period ended January 31, 2013, the Company distributed dividends of Euro 127,941,200, as approved by the Annual General Meeting held on May 22, 2012, to approve the financial statements for the year ended January 31, 2012. The payment of the dividends and the related Italian withholding tax payable, arising from the application of the Italian ordinary withholding tax rate to the whole amount of dividends paid to beneficial owners of the Company shares held through the Hong Kong Central Clearing and Settlement System, was completed by January 31, 2013.

During the year ended January 31, 2012, the Company distributed dividends of Euro 35 million, as approved by the Shareholders' Meeting held on March 28, 2011, to approve the financial statements for the year ended January 31, 2011. Some Euro 32.5 million of the dividend liability arising was offset against receivables due from parent company PRADA Holding bv while the remaining amount was paid in April 2011.

## 37. Additional information

The average headcount by functional area in the years ended January 31, 2013 and 2012 was as follows:

| (no of employees) | January 31 2013 | January 31 2012 |
|---|---|---|
| Production | 1,777 | 1,710 |
| Product design and development | 838 | 810 |
| Advertising and Communications | 109 | 99 |
| Selling | 5,894 | 4,732 |
| General and administrative services | 809 | 716 |
| Total | 9,427 | 8,067 |

### Employee remuneration

Employee remuneration by functional area for the years ended January 31, 2013, and January 31, 2012, is analyzed below:

| (amounts in thousands of Euro) | twelve months ended January 31 2013 | twelve months ended January 31 2012 |
|---|---|---|
| Production | 83,294 | 75,707 |
| Product design and development | 55,833 | 51,577 |
| Advertising and Communications | 11,174 | 9,578 |
| Selling | 296,274 | 230,853 |
| General and administrative services | 76,412 | 70,819 |
| Total | 522,987 | 438,534 |

Employee remuneration by nature for the years ended January 31, 2013, and January 31, 2012, is analyzed below:

| (amounts in thousands of Euro) | twelve months ended January 31 2013 | twelve months ended January 31 2012 |
|---|---|---|
| Wages and salaries | 394,855 | 335,119 |
| Post-employment benefits | 23,265 | 14,971 |
| Social security | 85,680 | 71,973 |
| Other | 19,187 | 16,471 |
| Total | 522,987 | 438,534 |

## Distributable reserves of parent company PRADA spa

| (amounts in thousands of Euro) | Amount at January 31, 2013 | Possible utilization | Distributable amount | Summary of utilization in last three years | |
|---|---|---|---|---|---|
| | | | | Coverage of losses | Distribution of dividends |
| Share Capital | 255,882 | | | | |
| Share premium reserve | 410,047 | A,B,C | 405,261 | | |
| Legal reserve | 46,390 | B | | | |
| Other reserves | 182,899 | A,B,C | 182,899 | | |
| Non distributable reserves Art. 7 of Legislative Decree 38/2005 | 20,516 | | | | |
| Retained earnings | 168,900 | A,B,C | 164,198 | | 193,750 |
| Fair Value Reserve | 20,304 | | | | |
| Distributable Amount | | | 752,358 | | |

A share capital increase
B coverage of losses
C distributable to shareholders

Pursuant to Article 2431 of the Italian Civil Code, the share premium reserve is fully distributable only when the legal reserve reaches an amount equal to 20% of share capital. As at January 31, 2013, the adjustment required to reach this amount would be Euro 4,786 thousand.

## Exchange rates

The exchange rates against the Euro used to consolidate statements of financial position and income statements prepared in other currencies as at January 31, 2013, and January 31, 2012, are shown below:

| Currency | Average rate | Average rate in prior year | Closing rate | Opening rate |
|---|---|---|---|---|
| US Dollar | 1.289 | 1.388 | 1.355 | 1.318 |
| Canadian Dollar | 1.285 | 1.374 | 1.358 | 1.313 |
| GB Pound | 0.811 | 0.867 | 0.857 | 0.835 |
| Swiss Franc | 1.207 | 1.228 | 1.234 | 1.205 |
| Australian Dollar | 1.243 | 1.340 | 1.301 | 1.237 |
| Korean Won | 1,443.102 | 1,539.428 | 1,472.100 | 1,477.990 |
| Japanese Yen | 104.108 | 110.127 | 123.320 | 100.630 |
| Hong Kong Dollar | 9.994 | 10.804 | 10.511 | 10.219 |
| Singapore Dollar | 1.604 | 1.743 | 1.677 | 1.649 |
| Thai Baht | 39.873 | 42.417 | 40.420 | 40.753 |
| Taiwan Dollar | 37.992 | 40.881 | 40.066 | 38.952 |
| Russian Ruble | 39.892 | 40.888 | 40.777 | 39.690 |
| Czech Koruna | 25.149 | 24.673 | 25.619 | 25.188 |
| Macau Pataca | 10.293 | 11.127 | 10.826 | 10.522 |
| Chinese Renminbi | 8.118 | 8.942 | 8.427 | 8.312 |
| New Zealand Dollar | 1.585 | 1.750 | 1.616 | 1.592 |
| Malaysian Ringgit | 3.970 | 4.249 | 4.209 | 4.013 |
| Turkish Lira | 2.312 | 2.358 | 2.388 | 2.333 |
| Brazilian Real | 2.541 | 2.331 | 2.689 | 2.289 |
| Mexican Peso | 16.868 | 18.050 | 17.217 | 17.057 |
| UAE Dirham | 4.709 | 5.098 | 4.977 | 4.840 |
| Ukrainian Hryvna | 10.298 | 11.126 | 10.823 | 10.551 |
| Moroccan Dirham | 11.114 | 11.270 | 11.220 | 11.145 |
| Kuwait Dinar | 0.361 | - | 0.381 | - |

## Independent Auditor's compensation

The total fees and expenses accrued to Deloitte & Touche spa and its network for the audit of the financial statements ending January 31, 2013, together with non-audit services, are illustrated below:

| Type of service | Audit Firm | Provided to | Fees in thousands of Euro |
|---|---|---|---|
| Audit services | Deloitte & Touche spa | PRADA spa | 602 |
| Audit services | Deloitte & Touche spa | Subsidiaries | 167 |
| Audit services | Deloitte Network | Subsidiaries | 991 |
| Total audit fees accrued for the twelve months ended January 31, 2013 | | | 1,760 |
| Tax advice | Deloitte & Touche spa/ Deloitte Network | PRADA spa | 25 |
| Certificate sales | Deloitte & Touche spa/ Deloitte Network | Subsidiaries | 54 |
| Tax advice | Deloitte Network | Subsidiaries | 200 |
| Other | Deloitte Network | Subsidiaries | 1 |
| Total non-audit fees accrued for the twelve months ended January 31, 2013 | | | 280 |
| Out of pocket expenses | | | 84 |
| Total independent auditor's compensation accrued for the twelve months ended January 31, 2013 | | | 2,124 |

## 38. Remuneration of Board of Directors, five highest paid individuals and Senior Management

### Remuneration of the PRADA spa Board of Directors for the year ended January 31, 2013

| (amounts in thousands of Euro) | Directors' fees | Remuneration and other benefits | Bonuses and other incentives | Benefits in kind | Pension, healthcare and TFR contributions | Total |
|---|---|---|---|---|---|---|
| Miuccia Prada Bianchi | 1,000 | 9,700 | - | - | 18 | 10,718 |
| Patrizio Bertelli | 1,000 | 6,000 | 4,000 | - | 18 | 11,018 |
| Carlo Mazzi | 300 | - | - | 85 | 13 | 398 |
| Donatello Galli | 40 | 304 | 156 | 33 | 160 | 693 |
| Marco Salomoni | 60 | - | - | - | 16 | 76 |
| Gian Franco Oliviero Mattei | 140 | - | - | - | 9 | 149 |
| Giancarlo Forestieri | 60 | - | - | - | 8 | 68 |
| Gaetano Micciché | 40 | - | - | - | - | 40 |
| Sing Cheong Liu | 60 | - | - | - | 18 | 78 |
| Total | 2,700 | 16,004 | 4,156 | 118 | 260 | 23,238 |

The remuneration of Chairperson and Executive Director Miuccia Prada Bianchi reported for the twelve months ended January 31, 2013, fall within the scope of application of Chapter 14A of the Hong Kong Stock exchange Listing Rules as it was qualified as continuing connected transactions subject to reporting and announcement, but exempted from independent shareholders' approval requirement. As requested by the Listing Rules, comprehensive disclosure of this continuing connected transaction was included in the PRADA spa Announcement dated April 27, 2012, while a summary update is reported in the Directors' Report  section of this 2012 Annual Report.

The remuneration and bonus of Chief Executive Officer and Executive Director Patrizio Bertelli reported for the twelve months ended January 31, 2013, fall within the scope of application of Chapter 14A of the Hong Kong Stock exchange Listing Rules as it was qualified as continuing connected transactions subject to reporting and announcement, but exempted from independent shareholders' approval requirement. As requested by the Listing Rules, comprehensive disclosure of this continuing connected transaction was included in the PRADA spa Announcement dated April 27, 2012, while a summary update is reported in the Directors' Report section of this 2012 Annual Report

## Remuneration of the PRADA spa Board of Directors for the year ended January 31, 2012

| (amounts in thousands of Euro) | Directors' fees | Remuneration and other benefits | Bonuses and other incentives | Benefits in kind | Pension, healthcare and TFR contributions | Total |
|---|---|---|---|---|---|---|
| Miuccia Prada Bianchi | 1,000 | 8,700 | - | - | 18 | 9,718 |
| Patrizio Bertelli | 1,000 | 5,000 | 4,000 | - | 18 | 10,018 |
| Carlo Mazzi | 250 | - | - | 83 | 3 | 336 |
| Donatello Galli | - | 281 | 569 | 37 | 259 | 1,146 |
| Marco Salomoni | - | 400 | - | - | 16 | 416 |
| Marco Cerrina Feroni | 11 | - | - | - | - | 11 |
| Gian Franco Oliviero Mattei | 133 | - | 200 | - | 9 | 342 |
| Giancarlo Forestieri | 60 | - | - | - | 7 | 67 |
| Davide Mereghetti | 11 | - | - | - | - | 11 |
| Gaetano Micciché | 29 | - | - | - | - | 29 |
| Sing Cheong Liu | 37 | - | - | - | - | 37 |
| Total | 2,531 | 14,381 | 4,769 | 120 | 330 | 22,131 |

Mr. Donatello Galli waived his fees as a Director, in the amount of Euro 40,000, for the period from February 1, 2011, to January 31, 2012.

Mr. Marco Salomoni waived Euro 40,000 in respect of his fees as a Director and Euro 10,000 in respect of his fees as a member of the Internal Control Committee for the period from February 1, 2011, to January 31, 2012.

## Remuneration of the five highest paid individuals

The Group's five highest paid individuals included two Directors in the period ended January 31, 2013, and three Directors in the period ended January 31, 2012. The total remuneration of the remaining three of the five highest paid individuals in the period ended January 31, 2013, and the remaining two of the five highest paid individuals in the period ended January 31, 2012, was as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Wages and salaries | 5,046 | 4,220 |
| Bonus and other incentives | 4,135 | 2,634 |
| Non-monetary benefits | 156 | 132 |
| Contributions to retirement benefits scheme | 245 | 151 |
| Total | 9,582 | 7,137 |

The remuneration of the five highest paid individuals is provided by bands as follows:

| (amounts in Hong Kong Dollars) | January 31 2013 | January 31 2012 |
|---|---|---|
| Less than HKD 12,500,000 | 1 | - |
| between HKD 12,500,000 and HKD 20,000,000 | 1 | 1 |
| between HKD 20,000,000 and HKD 50,000,000 | - | - |
| in excess of HKD 50,000,000 | 1 | 1 |
| Total number of individuals | 3 | 2 |

## Senior Management remuneration

The emoluments of the Senior Management were as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Wages and salaries | 8,917 | 7,026 |
| Bonus and other incentives | 5,997 | 4,806 |
| Non-monetary benefits | 1,262 | 578 |
| Contributions to retirement benefits scheme | 1,829 | 1,371 |
| Total | 18,005 | 13,781 |

The remuneration of the Senior Managers is provided by bands as follows:

| (amounts in Hong Kong Dollars) | January 31 2013 | January 31 2012 |
|---|---|---|
| Less than HKD 4,000,000 | 5 | 3 |
| between HKD 4,000,000 and HKD 8,000,000 | 11 | 4 |
| between HKD 8,000,000 and HKD 16,000,000 | 3 | 3 |
| between HKD 16,000,000 and HKD 50,000,000 | - | 1 |
| in excess of HKD 50,000,000 | 1 | 1 |
| Total number of individuals | 20 | 12 |

## 39. Transactions with related parties

The Group enters into transactions with parties that can be qualified as related according to IAS 24 Related Party Disclosure. These transactions mainly refer to the sale and purchase of goods, supply of services, the granting and receipt of loans as well as sponsorship, lease and franchise agreements. These transactions take place on an arm's length basis.

The following tables show details of related party transactions for each item in the Statement of financial position and in the Income statement. They show amounts relating to each related party and the total amount relating to each line item.

### Statement of financial position amounts at January 31, 2013

| (amounts in thousands of Euro) | Trade receivables from related parties | Other receivables and prepayments from related parties | Other non-current assets from related parties | Trade payables to related parties | Other payables and prepayments to related parties |
|---|---|---|---|---|---|
| PRADA Holding bv | - | 249 | - | - | 120 |
| Other companies controlled by PRADA Holding bv | - | 3 | - | - | 3 |
| Prapar Corporation | - | - | - | - | 3 |
| EXHL Italia srl | - | 3 | - | - | - |
| Other related parties | 29,683 | 19,241 | 113 | 6,719 | 5,476 |
| DFS Hawaii | - | - | - | 293 | - |
| DFS Venture Singapore pte ltd | - | - | - | 88 | - |
| DFS Cotai ltd | 17 | - | - | 1,243 | - |
| DFS New Zealand ltd | - | - | - | 45 | - |
| F.lli Prada srl | 28,432 | 3 | - | 1,568 | 320 |
| Al Tayer Travels | - | - | - | 58 | - |
| Al Tayer Insignia llc | - | - | - | 44 | 5,085 |
| Al Tayer Logistics | - | - | - | 8 | - |
| Al Tayer Motors | - | - | - | 1 | - |
| Al Tayer Trends | 319 | - | - | 148 | - |
| Al Tayer Group llc | - | - | - | 13 | - |
| Danzas llc UAE | - | - | - | 284 | - |
| Luna Rossa Challenge 2013 NZ ltd | 592 | 11,263 | - | - | - |
| Luna Rossa Challenge 2013 srl | 117 | 1,070 | - | - | - |
| Aati Contracs | - | - | - | 49 | - |
| Stiching Fondazione Prada | - | 671 | - | - | 33 |
| Progetto Prada Arte srl | - | 3,470 | - | - | 37 |
| Gipafin sarl | - | 6 | - | - | - |
| Granello sa | - | 148 | - | - | - |
| HMP srl | - | 86 | 113 | - | - |
| Prada America's Cup srl | - | 1,397 | - | - | - |
| PRA 1 srl | 39 | 1,041 | - | - | - |
| Premiata srl | 124 | - | - | 1,386 | - |
| Le Mazza srl | 42 | - | - | 37 | - |
| Calzaturificio Mazza Graziano | - | - | - | 61 | - |
| Peschiera Immobiliare srl | - | 81 | - | - | - |
| Secva srl | - | - | - | 1,393 | - |
| PRADA Arte bv | - | 4 | - | - | - |
| Other | 1 | 1 | | - | 1 |
| Members of the Board of Directors | - | - | - | 88 | - |
| Relative of a member of the Board of Directors | - | - | - | 131 | - |
| Total at January 31, 2013 | 29,683 | 19,493 | 113 | 6,939 | 5,599 |

## Statement of financial position amounts at January 31, 2012

| (amounts in thousands of Euro) | Trade receivables from related parties | Other receivables and prepayments from related parties | Other non-current assets from related parties | Trade payables to related parties | Other payables and prepayments to related parties |
|---|---|---|---|---|---|
| PRADA Holding bv | - | 654 | - | - | - |
| Other companies controlled by PRADA Holding bv | - | 154 | - | - | 259 |
| Prapar Corporation | - | 148 | - | - | 259 |
| EXHL Italia | - | 6 | - | - | - |
| Other related parties | 19,022 | 12,056 | 113 | 4,302 | 4,102 |
| DFS Hawaii | - | - | - | 480 | - |
| DFS Australia pty ltd | - | - | - | 347 | 616 |
| DFS Cotai ltd | 4 | - | - | 457 | - |
| F.lli Prada srl | 18,618 | 18 | - | 938 | 313 |
| Al Tayer Travels | - | - | - | 5 | - |
| Al Tayer Insignia llc | 205 | - | - | 435 | 2,995 |
| Danzas llc UAE | - | - | - | 26 | 21 |
| Luna Rossa Challenge 2013 NZ ltd | - | 7,350 | - | - | - |
| Luna Rossa Challenge 2013 srl | - | 150 | - | - | - |
| Stellarea | - | 28 | - | - | - |
| Stiching Fondazione Prada | - | 543 | - | - | 34 |
| Progetto Prada Arte srl | | 2,182 | - | | 27 |
| Gipafin sarl | - | 20 | - | - | - |
| CID USA Corp. | - | 78 | - | - | - |
| HMP srl | - | 195 | 113 | - | - |
| Prada America's Cup srl | - | 1,397 | - | - | - |
| Premiata srl | 125 | - | - | 1,321 | - |
| Le Mazza srl | 70 | - | - | 251 | - |
| Calzaturificio Mazza Graziano | - | - | - | - | - |
| Other | - | 95 | - | 42 | 96 |
| Members of the Board of Directors | - | - | - | 87 | - |
| Relatives of members of the Board of Directors | - | - | - | 368 | - |
| Total at January 31, 2012 | 19,022 | 12,864 | 113 | 4,757 | 4,361 |

## Income statement amounts at January 31, 2013

| (amounts in thousands of Euro) | Net revenues | Cost of goods sold | General, admin. & selling costs (income) | Royalties income | Interest income | Interest expense |
|---|---|---|---|---|---|---|
| PRADA Holding bv | - | - | (108) | - | - | - |
| Other companies controlled by PRADA Holding bv | - | - | (6) | - | - | - |
| EXHL Italia | - | - | (6) | - | - | - |
| Other related parties | 45,262 | 8,297 | 32,798 | 1,287 | (3) | 90 |
| F.lli Prada srl | 45,261 | 2,190 | (2,842) | 1,287 | - | - |
| Danzas llc | - | 765 | - | - | - | - |
| DFS Hawaii | - | - | 3,915 | - | - | - |
| DFS New Zealand ltd | - | - | 513 | - | - | - |
| DFS Australia pty ltd | - | - | - | - | - | 14 |
| DFS Cotai ltd | - | - | 5,354 | - | - | - |
| DFS Venture Singapore pte ltd | - | - | 467 | - | - | - |
| Al Tayer Travels | - | - | 269 | - | - | - |
| Al Tayer Group llc | - | - | 82 | - | - | 11 |
| Al Tayer Insignia llc | - | - | 371 | - | - | 65 |
| Al Tayer Trends | - | 92 | (315) | - | - | - |
| Secva srl | - | - | 2,272 | - | - | - |
| Luna Rossa Challenge 2013 NZ ltd | - | - | 14,654 | - | - | - |
| Luna Rossa Challenge 2013 srl sl | - | - | 1,359 | - | - | - |
| HMP srl | - | - | 494 | - | (3) | - |
| Stitching Fondazione Prada | - | (2) | 2,222 | - | - | - |
| Progetto Prada Arte srl | 1 | (1) | 3,182 | - | - | - |
| Peschiera Immobiliare srl | - | - | 165 | - | - | - |
| Premiata srl | - | 4,676 | 1 | - | - | - |
| Calzaturificio Mazza Graziano | - | - | 600 | - | - | - |
| Le Mazza srl | - | 577 | 36 | - | - | - |
| Gipafin sarl | - | - | (6) | - | - | - |
| PRADA Arte bv | - | - | (5) | - | - | - |
| Other | - | - | 10 | - | - | - |
| Relative of a member of the Board of Directors | - | - | 445 | - | - | - |
| | | | | | | |
| Total at January 31, 2013 | 45,262 | 8,297 | 33,129 | 1,287 | (3) | 90 |

## Income statement amounts at January 31, 2012

| (amounts in thousands of Euro) | Net revenues | Cost of goods sold | General, admin. & selling costs (income) | Royalties income | Interest income | Interest expense |
|---|---|---|---|---|---|---|
| PRADA Holding bv | - | - | (157) | - | 149 | - |
| Other related parties correlate | 39,252 | 8,254 | 16,273 | 1,140 | 2 | 30 |
| F.lli Prada srl | 39,257 | 2,768 | (2,412) | 1,140 | - | - |
| Danzas llc | - | 126 | 1 | - | - | - |
| DFS Hawaii | (10) | - | 2,782 | - | - | - |
| DFS New Zealand ltd | - | - | 372 | - | - | - |
| DFS Australia pty ltd | - | - | - | - | - | 29 |
| DFS Cotai ltd | - | - | 3,421 | - | - | - |
| DFS Venture Singapore pte ltd | - | - | 361 | - | - | - |
| Al Tayer Travels | - | - | 29 | - | - | - |
| Al Tayer Group llc | - | - | 7 | - | - | - |
| Al Tayer Insignia llc | - | - | 13 | - | - | - |
| PRADA Italia spa | - | - | - | - | - | - |
| Luna Rossa Challenge sl | - | 17 | 3,366 | - | - | - |
| HMP srl | - | - | 482 | - | 2 | - |
| Stitching Fondazione Prada | 5 | (6) | 2,177 | - | - | - |
| Progetto Prada Arte srl | - | - | 3,128 | - | - | - |
| Secva srl | - | - | 1,960 | - | - | - |
| Premiata srl | - | 4,984 | - | - | - | - |
| Calzaturifico Mazza Graziano | - | - | 600 | - | - | - |
| Le Mazza srl | - | 364 | - | - | - | - |
| Other | - | 1 | (14) | - | - | 1 |
| Relatives of members of the Board of Directors | - | - | 1,631 | - | - | - |
| Total at January 31, 2012 | 39,252 | 8,254 | 17,747 | 1,140 | 151 | 30 |

The above tables report information on transactions with related parties in accordance with IAS 24. As stated below, some of these transactions fall within the application of the Hong Kong Listing Rules.

The transactions with related party Fratelli Prada spa reported for the twelve months ended January 31, 2013, fall within the scope of application of Chapter 14A of the Hong Kong Stock exchange Listing Rules as they were qualified as continuing connected transactions subject to reporting and announcement, but exempted from independent shareholders' approval requirement. As requested by the Listing Rules, comprehensive disclosure of these continuing connected transactions was included in the PRADA spa Prospectus dated June 13, 2011, while a summary update is reported in the Corporate Governance section of this 2012 Annual Report.

The transactions with related parties Luna Rossa Challenge 2013 NZ ltd and Luna Rossa Challenge 2013 srl reported for the twelve months ended January 31, 2013, fall within the scope of application of Chapter 14A of the Hong Kong Stock exchange Listing Rules as they are qualified as connected transactions subject to reporting and announcement, but exempted from the independent shareholders' approval requirement. As requested by the Listing Rules, comprehensive disclosure of these connected transactions was included in the PRADA spa Announcement dated January 10, 2012, while a summary update is reported in the Corporate Governance section of this 2012 Annual Report.

The transactions with related party Progetto Prada Arte srl (hereafter "PPA") included rental income of Euro 6 thousand accrued at January 31, 2013, as a fee payable by PPA to PRADA spa in accordance with the PPA Business Combination Agreement signed on January 29, 2013. The PPA Business Combination Agreement falls within the scope of application of Chapter 14A of the Hong Kong Stock exchange Listing Rules as it is qualified as continuing connected transactions subject to reporting and announcement, but exempted from the independent shareholders' approval requirement. As requested by the Listing Rules, comprehensive disclosure of these continuing connected transactions was included in the PRADA spa Announcement dated January 29, 2013, while a summary update is reported in the Corporate Governance section of this 2012 Annual Report.

Other than the above non-exempt continuing connected transactions and non-exempt connected transactions no other transaction disclosed in the Consolidated financial statements falls under the definition of "connected transactions" or "continuing connected transaction" or, whether it falls under the definition of "connected transactions" or "continuing connected transaction", it is exempted from reporting, annual review, announcement and independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

## 40. Commitments

### Operating leases

At January 31, 2013, and January 31, 2012, operating lease commitments, by maturity date, were as follows:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Within a year | 281,598 | 245,310 |
| After between one year and five years | 847,816 | 746,902 |
| After more than five years | 723,323 | 596,745 |
| Total | 1,852,737 | 1,588,957 |

The operating leases commitments for the year 2012 included Euro 1,738 million regarding agreements to lease commercial premises (Euro 1,482 million for the year 2011).

The following table shows the amounts paid for leases in the financial years 2012 and 2011:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Fixed minimum lease payments | 207,291 | 173,676 |
| Variable lease payments | 259,409 | 187,866 |
| Total | 466,700 | 361,542 |

Some Group companies are required to pay lease charges based on a fixed percentage of net sales.

### Finance leases

Property, plant and equipment included the following assets held under finance leases:

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 |
|---|---|---|
| Land and buildings | 12,284 | 15,284 |
| Furniture and fittings | 12,446 | 15,253 |
| Other tangibles | 3,007 | 3,926 |
| Accumulated depreciation | (16,468) | (19,124) |
| Total | 11,269 | 15,339 |

The present value of lease payments due after January 31, 2013, is detailed by maturity date below:

| (amounts in thousands of Euro) | |
|---|---|
| Payable by: | |
| January 31 2014 | 575 |
| January 31 2015 | 504 |
| January 31 2016 | 4 |
| January 31 2017 | 10 |
| Total | 1,093 |

### Other commitments

As at January 31, 2013, the Group had commitments for the purchase of fixed assets for a total amount of some Euro 23 million, entirely due by January 31, 2014.

The Shareholders' agreement signed between PRADA spa and Al Tayer Insignia llc for the development of a Prada and Miu Miu DOS network in the Middle East provides that the parties may exercise an option whereby PRADA spa will buy back up to 20% of PRADA Middle East fzco shares. At January 31, 2013, the Directors maintain that the fair value of this clause cannot be reliably measured.

## 41. Financial summary

| (amounts in thousands of Euro) | January 31 2013 | January 31 2012 | January 31 2011 | January 31 2010 | January 31 2009 |
|---|---|---|---|---|---|
| Net revenues | 3,297,219 | 2,555,606 | 2,046,651 | 1,561,238 | 1,643,629 |
| Gross margin | 2,376,541 | 1,828,025 | 1,387,888 | 974,656 | 953,096 |
| Operating income (EBIT) | 889,781 | 628,935 | 418,387 | 187,032 | 190,954 |
| Group net income | 625,681 | 431,929 | 250,819 | 100,163 | 98,806 |
| Total assets | 3,385,279 | 2,943,568 | 2,366,015 | 2,147,481 | 2,176,054 |
| Total liabilities | 1,054,787 | 1,112,601 | 1,155,877 | 1,090,822 | 1,163,755 |
| Total Group shareholders' equity | 2,320,022 | 1,822,743 | 1,204,350 | 1,047,903 | 1,003,107 |

## 42. Definitions

DOS: Directly Operated Store.

EBITDA: earnings before interest, tax, depreciation and amortization.

SSSG: same stores sales growth, which means a comparison of the results at constant exchange rates of all of the Group DOS in operation for more than one year using the actual comparable days of operation for each DOS for the prior year (meaning only the days in which such DOS were open in both years).

Net Financial Position: short-term and long-term financial payables to third and related parties, plus lease obligations, less cash and cash equivalent and short-term and long-term financial receivable from third and related parties.

## 43. Consolidated companies

The companies included in the scope of consolidation are as follows:

| Entity | Local currency | Share capital (000s of local currency) | % interest | Registered office | Date of incorporation/ establishment | Main business |
|---|---|---|---|---|---|---|
| **Italy** | | | | | | |
| PRADA spa | EUR | 255,882 | | Milan, Italy | | Production/ Distribution/ Group Holding company |
| Artisans Shoes srl (*) | EUR | 1,000 | 66.70 | Montegranaro, Italy | 09/02/1977 | Footwear production |
| Space Caffè srl (*) | EUR | 20 | 100.00 | Milan, Italy | 06/12/1990 | Service company |
| IPI Logistica srl (*) | EUR | 600 | 100.00 | Milan, Italy | 26/01/1999 | Service company |
| PRADA Stores srl (*) | EUR | 520 | 100.00 | Milan, Italy | 11/04/2001 | Retail/Sub-holding company |
| Car Shoe Italia srl | EUR | 10 | 100.00 | Milan, Italy | 16/03/2001 | Distribution/Retail |
| Church Italia srl | EUR | 51 | 100.00 | Milan, Italy | 31/01/1992 | Distribution/Retail |
| **Europe** | | | | | | |
| PRADA Retail UK ltd | GBP | 5,000 | 100.00 | London, UK | 07/01/1997 | Retail |
| PRADA Germany gmbh | EUR | 215 | 100.00 | Munich, Germany | 20/03/1995 | Retail |
| PRADA Austria gmbh | EUR | 40 | 100.00 | Vienna, Austria | 14/03/1996 | Retail |
| PRADA Spain sa | EUR | 240 | 100.00 | Madrid, Spain | 14/05/1986 | Retail |
| PRADA Retail France sas | EUR | 4,000 | 100.00 | Paris, France | 10/10/1984 | Retail |
| PRADA Hellas Single Partner Limited Liability Company (*) | EUR | 6,000 | 100.00 | Athens, Greece | 19/12/2007 | Retail |
| PRADA Monte-Carlo sam | EUR | 150 | 100.00 | Monte-Carlo, Monaco | 25/05/1999 | Retail |
| PRADA sa (*) | EUR | 31 | 100.00 | Luxembourg | 29/07/1994 | Service company/ Trademark owner |
| PRADA Company sa | EUR | 3,204 | 100.00 | Luxembourg | 12/04/1999 | Service company |
| Car Shoe sa | EUR | 2,100 | 100.00 | Luxembourg | 13/03/2001 | Service company/ Trademark owner |
| PRADA Far East bv (*) | EUR | 20 | 100.00 | Amsterdam, Netherlands | 27/03/2000 | Sub-holding company/ Service company/ Retail |
| Space sa | CHF | 200 | 100.00 | Lugano, Switzerland | 17/07/2008 | Retail |
| Church Holding UK plc (*) | GBP | 78,126 | 100.00 | Northampton, UK | 22/07/1999 | Sub-holding |
| Church France sa | EUR | 241 | 100.00 | Paris, France | 01/06/1955 | Retail |
| Church UK Retail ltd | GBP | 1,021 | 100.00 | Northampton, UK | 16/07/1987 | Retail |
| Church's English Shoes Switzerland sa | CHF | 100 | 100.00 | Lugano, Switzerland | 29/12/2000 | Retail |
| Church & Co. ltd | GBP | 2,811 | 100.00 | Northampton, UK | 16/01/1926 | Sub-holding company/ Production/Distribution |
| Church & Co. (Footwear) ltd | GBP | 44 | 100.00 | Northampton, UK | 06/03/1954 | Trademark owner |
| Church English Shoes sa | EUR | 75 | 100.00 | Brussels, Belgium | 25/02/1963 | Retail |
| PRADA Czech Republic sro (*) | CZK | 2,500 | 100.00 | Prague, Czech Republic | 25/06/2008 | Retail |
| PRADA Portugal. Unipessoal lda (*) | EUR | 5 | 100.00 | Lisbon, Portugal | 07/08/2008 | Retail |

| Entity | Local currency | Share capital (000s of local currency) | % interest | Registered office | Date of incorporation/ establishment | Main business |
|---|---|---|---|---|---|---|
| **Europe** | | | | | | |
| PRADA Rus llc (*) | RUR | 250 | 100.00 | Moscow, Russia | 07/11/2008 | Retail |
| Church Spain sl | EUR | 3 | 100.00 | Madrid, Spain | 06/05/2009 | Retail |
| PRADA Bosphorus Deri Mamuller Ticaret Limited Sirketi (*) | TRY | 26,000 | 100.00 | Istanbul, Turkey | 26/02/2009 | Retail |
| PRADA Ukraine llc (*) | UAH | 30,000 | 100.00 | Kyiv, Ukraine | 14/10/2011 | Retail |
| Church Netherlands bv | EUR | 18 | 100.00 | Amsterdam, Netherlands | 07/07/2011 | Retail |
| Car Shoe UK ltd | GBP | 100 | 100.00 | London, UK | 28/10/2011 | Retail |
| Church Ireland Retail ltd | EUR | 50 | 100.00 | Dublin, Ireland | 20/11/2011 | Retail |
| Church Austria gmbh | EUR | 35 | 100.00 | Vienna, Austria | 17/01/2012 | Retail |
| Prada Sweden ab | SEK | 500 | 100.00 | Stockholm, Sweden | 18/12/2012 | Retail |
| Church Footwear ab | SEK | 100 | 100.00 | Stockholm, Sweden | 18/12/2012 | Retail |
| Anita Smaga (49-51 rue du Rhone) SA (*) | CHF | 226 | 100.00 | Geneve, Switzerland | 28/09/2012 | Retail |
| Erfico SA (*) | CHF | 50 | 100.00 | Geneve, Switzerland | 28/09/2012 | Retail |
| **Americas** | | | | | | |
| PRADA USA Corp. (*) | USD | 152,211 | 100.00 | New York, U.S.A | 25/10/1993 | Services/Distrib./Retail |
| Space USA Corp. | USD | 301 | 100.00 | New York, U.S.A. | 15/02/1994 | Retail |
| TRS Hawaii llc | USD | 400 | 55.00 | Honolulu, U.S.A. | 17/11/1999 | Duty-free stores |
| PRADA Canada corp. (*) | CAD | 300 | 100.00 | Toronto, Canada | 01/05/1998 | Distribution/Retail |
| Church & Co. (USA) ltd | USD | 85 | 100.00 | New York, U.S.A. | 08/09/1930 | Retail |
| Post Development corp (*) | USD | 42,221 | 100.00 | New York, U.S.A. | 18/02/1997 | Real estate |
| PRADA Retail Mexico, S. de R.L. de C.V. | MXN | 2,058 | 100.00 | Mexico City, Mexico | 12/07/2011 | Retail |
| PRADA Brasil Importação e Comércio de Artigos de Luxo ltda. (*) | BRL | 27,000 | 100.00 | Sao Paulo, Brazil | 12/04/2011 | Retail |
| **Asia-Pacific and Japan** | | | | | | |
| PRADA Asia Pacific ltd | HKD | 3,000 | 100.00 | Hong Kong | 12/09/1997 | Retail/Distrib./Services |
| PRADA Taiwan ltd | TWD | 3,800 | 100.00 | Hong Kong | 16/09/1993 | Retail |
| Space HK ltd | HKD | 1,000 | 100.00 | Hong Kong | 25/02/1993 | Retail |
| PRADA Retail Malaysia Sdn. Bnd. | MYR | 1,000 | 100.00 | Malaysia | 23/01/2002 | Retail |
| PRADA China ltd | HKD | 115,100 | 100.00 | Hong Kong | 03/11/1997 | Dormant |
| TRS Hong Kong | HKD | 500 | 55.00 | Hong Kong | 23/02/2001 | Duty-free stores |
| PRADA Singapore Pte ltd | SGD | 1,000 | 100.00 | Singapore | 31/10/1992 | Retail |
| TRS Singapore | SGD | 500 | 55.00 | Singapore | 08/08/2002 | Duty-free stores |
| PRADA Korea ltd | KRW | 8,125,000 | 100.00 | Seoul, Korea | 27/11/1995 | Retail |
| PRADA (Thailand) Co ltd | BTH | 172,000 | 100.00 | Bangkok, Thailand | 19/06/1997 | Retail |
| PRADA Japan co ltd | JPY | 200,000 | 100.00 | Tokyo, Japan | 01/03/1991 | Retail |
| TRS Guam Partnership | USD | 1,095 | 55.00 | Guam | 01/07/1999 | Duty-free stores |
| TRS Saipan Partnership | USD | 1,405 | 55.00 | Saipan | 01/07/1999 | Duty-free stores |
| TRS New Zealand ltd | NZD | 100 | 55.00 | Auckland, N.Z. | 04/11/1999 | Duty-free stores |
| PRADA Australia Pty. ltd | AUD | 7,500 | 100.00 | Sydney, Australia | 21/04/1997 | Retail |
| PRADA Trading (Shanghai) co ltd | RMB | 1,653 | 100.00 | Shanghai, China | 09/02/2004 | Retail |
| TRS Okinawa KK | JPY | 10,000 | 55.00 | Tokyo, Japan | 21/01/2005 | Duty-free stores |
| PRADA Fashion Commerce (Shanghai) co ltd | RMB | 132,950 | 100.00 | Shanghai, China | 31/10/2005 | Retail |
| Church Japan co ltd | JPY | 3,050 | 100.00 | Tokyo, Japan | 17/04/1992 | Retail |
| Church Hong Kong Retail ltd | HKD | 1,000 | 100.00 | Hong Kong | 04/06/2004 | Retail |
| Church Singapore Pte. ltd | SGD | 500 | 100.00 | Singapore | 18/08/2009 | Retail |

| Entity | Local currency | Share capital (000s of local currency) | % interest | Registered office | Date of incorporation/ establishment | Main business |
|---|---|---|---|---|---|---|
| Car Shoe Singapore ltd | SGD | 500 | 100.00 | Singapore | 01/02/2010 | Retail |
| Car Shoe Hong Kong ltd | HKD | 3,000 | 100.00 | Hong Kong | 26/02/2010 | Retail |
| PRADA Hong Kong P.D. ltd (*) | HKD | 11,000 | 100.00 | Hong Kong | 15/12/2011 | Service company |
| Prada Dongguan Trading Co., ltd (***) | HKD | - | 100.00 | Dongguan, China | 28/11/2012 | Service company |
| Church Footwear (Shanghai) Co., ltd (***) | RMB | - | 100.00 | Shanghai, China | 05/12/2012 | Retail |
| **Other countries** | | | | | | |
| PRADA Maroc sarlau (*) | MAD | 44,000 | 100.00 | Casablanca, Morocco | 11/11/2011 | Retail |
| PRADA Middle East fzco (*) | AED | 18,000 | 60.00 | Jebel Ali Free Zone Dubai | 25/05/2011 | Services / Distribution |
| PRADA United Arab Emirates llc (**) | AED | 300 | - | Dubai | 04/08/2011 | Retail |
| Prada Kuwait wll (**) | KWD | 50 | - | Kuwait, city | 18/09/2012 | Retail |

(*) Companies owned directly by PRADA spa
(**) Company consolidated based on definition of control per IAS 27
(***) Companies incorporated as at January 31, 2013 pending completion of post-incorporation activities, according to local laws

The following table shows the companies not included in the consolidation area and the related consolidation method:

| Company | Percentage direct interest as at January 31, 2013 | Percentage direct interest as at January 31, 2012 | Note | Consolidation method |
|---|---|---|---|---|
| PAC srl (in liquidation) | 49.00 | 49.00 | Associate | Equity method |

## 44. Events after the reporting period

On February 14, 2013, the Group entered into an agreement to purchase a prestigious real estate property in Europe already operated as a DOS under a lease contract.

# Independent Auditors’ Report

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## AUDITORS' REPORT
## PURSUANT TO ART. 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

**To the Shareholders of**
**PRADA S.p.A.**

1. We have audited the consolidated financial statements of PRADA S.p.A. and its subsidiaries (the "PRADA Group"), which comprise the consolidated statement of financial position as of January 31, 2013, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with Auditing Standards issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, whose data are presented for comparative purposes, reference should be made to our auditors' report issued on March 29, 2012.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the PRADA Group as of January 31, 2013, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

4. The directors of PRADA S.p.A. are responsible for the preparation of the report on operations in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the report on operations with the consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob. In our opinion the report on operations is consistent with the consolidated financial statements of the PRADA Group as of January 31, 2013.

DELOITTE & TOUCHE S.p.A.

Patrizia Arienti

Patrizia Arienti
Partner

Milan, Italy,
April 5, 2013