PRADA

MILANO

DAL 1913

Annual Report 2018

PRADA spa
(Hong Kong Stock code: 1913)

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The first Prada store
Galleria Vittorio Emanuele II, Milan

THE PRADA GROUP

Miuccia Prada and Patrizio Bertelli

PRESENTATION

Pioneer of a vision that transcends fashion, the Prada Group inquisitively observes contemporary society and its interactions with very diverse and apparently distant cultural spheres.
A fluid perspective that becomes the Group's manifesto, suggesting a unique approach to doing business by placing at the core of ethical and action principles essential values such as freedom of creative expression, reinterpretation of what already exists, preservation of know-how and enhancement of people's work.
The Prada Group is a contemporary interpreter of changing scenarios. In a three-dimensional temporal dialogue that combines the identity heritage of the past with demands and dynamics of the present and future perspectives, creativity molds ideas that transcend the boundaries of the ordinary and create an innovative vision of tomorrow.

"Thorough observation and curiosity for the world around us have always been at the heart of the creativity and modernity of the Prada Group. In society, and thus in fashion, which is somehow a reflection of it, the only constant is change. The transformation and innovation of references, at the core of any evolution, has led us to interact with different cultural disciplines, at times apparently far from our own, allowing us to capture and anticipate the spirit of the times. Today this is no longer enough: we must be the agents of change, with the flexibility required to translate the demands of the market and society into tangible actions that inform our way to do business."

Miuccia Prada and Patrizio Bertelli

Mario Prada

PRADA GROUP HISTORY

The Prada brand dates back to the beginning of the last century: in **1913**, Mario Prada opened an exclusive store in the Galleria Vittorio Emanuele II, Milan, selling handbags, travel trunks, beauty cases, tasteful accessories, jewelry and other luxury items. Thanks to the innovative design of its goods, created using fine materials and sophisticated techniques, Prada rapidly became a favorite of the aristocracy and the most stylish members of the haute-bourgeoisie in Europe.

In **1919** Prada became an official supplier to the Italian royal family; since then Prada has been able to display the House of Savoy coat of arms and knotted rope design in its trademark logo.

Over the years, the Prada name gained ever greater renown and prestige.

The turning point for the Group came at the end of the 1970s when Miuccia Prada, Mario Prada's granddaughter, partnered with Tuscan entrepreneur Patrizio Bertelli to combine creativity with business acumen and lay the foundations for the ensuing international expansion.
Patrizio Bertelli broke new ground in the luxury goods sector by introducing a business model based on direct, internal control over all processes and applying strict quality criteria to the entire production cycle. Miuccia Prada's creative talent attracted international attention due to her innovative approach, inspired by an unconventional outlook on society, enabling her to anticipate and often influence new fashion and design trends.

In **1977** Patrizio Bertelli founded IPI spa, where he concentrated the production resources he had built up over ten years in the leather goods industry. In the same year, IPI spa obtained a license from Miuccia Prada for the exclusive production and distribution of Prada brand leather goods. In the following years the two family businesses gradually merged into a single Group.

In **1983** the Prada family opened a second store in prestigious Via della Spiga in Milan, one of Europe's key shopping destinations. The store showcased the new brand image by pairing traditional elements with modern, innovative architecture, thereby revolutionizing and setting a new standard for luxury retail.

In response to the growing appreciation of Prada products, the leather goods range was expanded to include the first women's footwear collection in **1979**. The first clothing collection was launched in Milan in **1988**. At the same time the internationalization process began, with the first store openings in New York and Madrid, followed by London, Paris and Tokyo.

In **1993** Prada made its debut in menswear with its first men's clothing and footwear collection. That same year, Miuccia Prada's creative inspiration led to the establishment of a new brand, Miu Miu, conceived for sophisticated, stylish women who love to stay ahead of fashion trends. Miu Miu now creates women's ready-to-wear apparel, handbags, accessories, footwear, eyewear and fragrances, and accounts for a significant share of the Group's sales.

In **1993** Miuccia Prada and Patrizio Bertelli created "Milano Prada Arte", which subsequently became "Fondazione Prada", to pursue their interests and passions in the world of art and culture.

In **1997** Patrizio Bertelli organized the Prada Challenge sailing team to compete for the 2000 America's Cup and in the same year Prada launched its leisurewear range featuring the "Linea Rossa" (red line).

In **1999**, the Prada Group acquired the classic brand Church's, founded in 1873 in Northampton, England. The brand, specialized in high-end handcrafted footwear, is a universally recognized symbol of British tradition and sophisticated elegance.

In **2001**, the Prada "Epicenter" store, designed by Rem Koolhaas, was opened on Broadway in New York City. This was the first store of the Epicenters project, whose purpose was to redefine the shopping concept and try out inventive ways to interact with customers. A second Epicenter store was opened in Aoyama, Tokyo, followed by a third one on Rodeo Drive, Beverly Hills, in **2004**. During the same year, Prada acquired control of Car Shoe, a classic Italian brand renowned for its exclusive driving moccasins.

Prada Epicenter concept store Broadway, New York
by architect Rem Koolhaas and Studio OMA

Prada Epicenter concept store Los Angeles, Beverly Hills
by architect Rem Koolhaas and Studio OMA

Prada Epicenter concept store
Aoyama, Tokyo by architects Herzog & de Meuron

In **2003**, Prada entered into a licensing agreement, renewed in 2012, with Italian eyewear manufacturer Luxottica, a global leader in the eyewear industry. The Luxottica Group currently produces and distributes eyewear under the Prada and Miu Miu brands. Also in **2003** the Group partnered with Spanish cosmetics manufacturer Puig Beauty & Fashion Group, launching the first fragrance, Amber, at the end of 2004.

In **2006**, Miu Miu moved its fashion show venue to Paris to better represent its brand identity.

The Prada phone by LG, the world's first touch screen cellphone, made its debut in March **2007**. The LG/Prada partnership achieved further success with new releases in 2008 and 2011.

On June 24, **2011**, Prada was successfully listed on the Main Board of the Hong Kong Stock Exchange.

In March **2014**, PRADA Spa entered the food industry by acquiring control of Angelo Marchesi srl, owner of the historical Milanese patisserie founded in 1824.

In **2015** the Prada Group and Coty Inc. introduced the first Miu Miu fragrance. In September of that year the Marchesi brand was developed on the market with the opening of a patisserie in via Montenapoleone, Milan.

2016 featured extensive industrial investments, leading to the inauguration of a new leather goods factory and the renovation of five factories in Tuscany and Umbria. In addition, the first construction phase of the new logistics hub for finished products was completed in Tuscany.

In **2017**, a restyling plan for Prada and Miu Miu stores was coupled with and a broad program of pop-up events was launched to further support retail activities. Also in 2017, the Prada Group was admitted to the Cooperative Compliance Tax Regime introduced with Italian Law Decree 128 of 2015.

In **2018** the Group added to its customary Milan and Paris fashion shows two important events to present pre-collections: Miu Miu Croisière at the Hotel Regina in Paris and the Prada Resort at the Piano Factory, where the Group's offices are located in Manhattan; the latter was also broadcast live on Times Square's big screens. Also in 2018, Prada officially began its adventure as Title and Presenting Sponsor of the 36th edition of America's Cup and Main Sponsor of the Luna Rossa team, Challenger of Record for the prestigious competition. Lastly, Miuccia Prada received the Outstanding Achievement Award from the British Fashion Council for her outstanding contribution to creativity and to the global fashion industry.

Miu Miu Croisière fashion show - Hotel Regina, Paris

Prada Resort fashion show - Times Square, Manhattan, NY

THE GROUP'S BRANDS

The Prada Group is synonymous with innovation, transformation and independence. Under such principles it offers its brands a shared vision in which they may express their essence. The complexity of visions has broadened the horizons of luxury, without fear of facing contradictions, modifications and passions.
The Prada Group owns and manages some of the most prestigious luxury brands in the world and works constantly to enhance their value by increasing their visibility, recognition and appeal. The Group's brands are its most important asset.

PRADA

The Prada label has become one of the most coveted and widely-recognized brands in the fashion and luxury goods industry. Prada is synonymous with best of Italy's design and manufacturing tradition, sophisticated style and outstanding quality. As one of the most innovative fashion brands, it is capable of redefining the norm by anticipating and setting new trends. This is because Prada constantly applies its creative approach not only to design development, but also to the most novel production techniques, to communications and to its distribution network.
Miuccia Prada has always been a sophisticated interpreter of her times who has stayed ahead of styles and trends. The Prada brand, with its collections of men's and women's leather goods, clothing, footwear, eyewear, and fragrances, targets an international clientele that is modern, sophisticated, fashion-conscious and appreciative of the highest quality craftsmanship.

left page and pages 16-19
Prada advertising campaign S/S 2019


PRADA
MILANO

MIU MIU

Miu Miu is the most free-spirited representation of Miuccia Prada’s creativity. Intentionally distant from classic aesthetic expressions, the brand reflects an emancipated and discerning woman.

Miu Miu was created in 1993 from Miuccia Prada’s independent and unconventional spirit. It soon evolved into one of the leading fashion brands in the world by successfully embodying the same creativity, quality and culture of innovation on which all the Group’s activities are based. Miu Miu is known for its fashion-forward, sensual and provocative style, which seeks to evoke a sense of freedom and intimacy, along with attention to detail and quality. Miu Miu targets fashion-conscious women driven by a modern spirit of exploration and experimentation in their fashion choices. The independent identity of the Miu Miu brand is enhanced by its ties with Paris, where the fashion shows have been held several years now.

left page
Miu Miu advertising campaign S/S 2019

CHURCH'S

Church's has challenged the most formal rules of style throughout its history. Church's expresses contemporary luxury, keeping a centuries-old tradition. It began its distinctive journey when, thanks to a family heritage of handcrafted shoemaking experience dating back to 1675, the first Church's brand shoe factory was opened in 1873 at 30 Maple Street in Northampton, England. Over time, Church's turned a small cordwainer's workshop into a leading luxury footwear company.

With its creations, Church's has become synonymous with an impeccable style that remains faithful to the British look yet explores new design areas, playing with the combination of three primary elements: the finest leather, classic style and excellent craftsmanship. Church's dedicates meticulous attention and care to every detail: approximately 250 manual steps and 8 weeks of labor are necessary to make a single pair of shoes.

left page
Church's advertising campaign S/S 2019

CAR SHOE

Small rubber studs set on a deconstructed sole have characterized the iconic Car Shoe loafer since 1963. Originating from a passion for race cars and fine shoes, this timeless accessory has become part of the imagery involving travel and motors. The Car Shoe brand is a symbol of an exclusive, relaxed lifestyle, inspired by luxury. Particularly suited for leisure time and informal occasions, the Car Shoe collections are targeted to a casual, well-dressed male and female clientele.

MARCHESI 1824

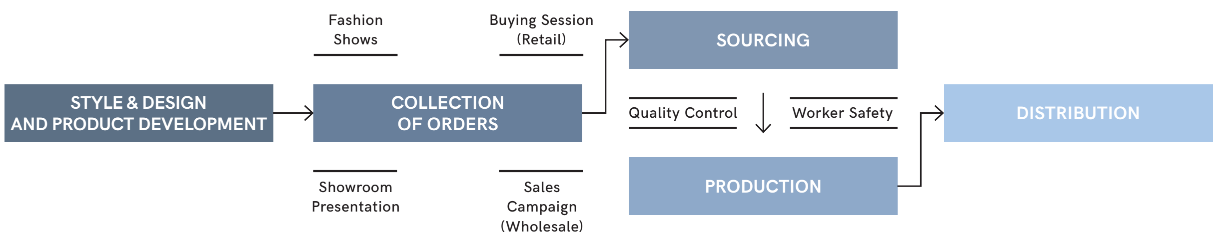
In keeping with its history and tradition, Pasticceria Marchesi 1824 is one of the oldest and most famous pastry shops in Milan, synonymous with excellence for its production of pastries, chocolate and Panettone, the typical Milanese cake.

left page
Car Shoe advertising campaign 2018

Pasticceria Marchesi 1824
Galleria Vittorio Emanuele II, Milan

BUSINESS MODEL

The success of the Group's brands is based on the original business model, which combines skilled craftsmanship with industrial manufacturing processes. This unique integration enables the Group to translate its innovative fashion concepts into viable commercial products while retaining flexible capacity and technical control over know-how, quality standards and production costs.



CREATIVITY

Creativity is at the heart of the manufacturing process.

Miuccia Prada has the talent to combine intellectual curiosity, the pursuit of new and unconventional ideas, and cultural and social interests with a strong sense of fashion. This has made it possible to establish a genuine design culture, based on method and discipline, which guides everyone who works in the creative process.

With this unique approach Prada anticipates trends and often influences them, while continually experimenting with new designs, fabrics and production techniques. Experimentation and idea-sharing are the essential components of the design process throughout the Group. The time spent at the drawing board and in the testing room on design research and development is fundamental to formulating each collection so that the clothing, footwear and accessories complement each other and create a well-defined image reflecting the brands.

Miuccia Prada and Patrizio Bertelli's flair and extraordinary personalities continue to attract talented people from all over the world who desire to work with them in a range of creative fields. This results in remarkable teams in all areas of the creative process: from design to manufacturing, architecture to communications and photography, and all the exclusive special projects in which the Prada Group is involved.

RAW MATERIALS AND THE PRODUCTION PROCESS

Prada's approach to manufacturing is based on two key principles: the constant quest for innovation, ensuring the continuous evolution of skills and expertise, and a vocation for craftsmanship, which is an essential asset for production and a unique distinction for every brand.
Raw materials are an essential part of product quality and are of primary importance for the Prada Group. In many cases the fabrics and leather are made especially for Prada, according to stringent technical and style specifications that guarantee both the excellence of the materials and their exclusive nature, and highlight the independent spirit imbued in all Group products. Raw materials undergo strict quality controls by internal inspectors and experts.

Prada products are made at 22 manufacturing facilities owned by the Group (19 in Italy, 1 in the United Kingdom, 1 in France and 1 in Romania), and through a network of contract manufacturers which receive the raw materials, patterns and prototypes and undergo thorough controls. This system, which enables close oversight of each step of the process and ensures high-quality workmanship, emphasizes the manufacturing excellence of each facility and guarantees significant flexibility in the organization of production.

Production employees have been working for the Prada Group for an average of 20 years; this ensures an extremely high level of specialization, in-depth knowledge, harmony with the Group's unique concept, and the seamless transmission of production techniques and core values to younger generations.

DISTRIBUTION

Over the years, the Group has expanded its distribution network to 634 directly operated stores ("DOS") in the most prestigious locations of the major international shopping destinations, consistent with the image, heritage and exclusivity of each brand. This extensive network, the subject of continuous research and renovation, is a true asset for the Group as it showcases the new collections and is the fulcrum of the omnichannel strategy. The DOS serve as more than a primary sales function as they are also an important means of communication: they are the true ambassadors of the brand, conveying the image of each brand consistently and categorically. The DOS are integrated with the e-commerce strategy and allow the Group to monitor in real time the sales performance of the various markets for

Prada store
Via della Spiga, Milan

Prada store
Four Seasons, Macau

Prada store
The Dubai Mall, Dubai

Miu Miu store
East 57^{th} Street, New York

Miu Miu store
East 57th Street, New York

Miu Miu store
Rue du Faubourg Saint-Honoré, Paris

each brand and product category.

The wholesale channel (department stores, multi-brand stores and franchisees) provides additional venues selected for their prestige of location and enables direct, immediate comparison with other brands. At the same time, the Group's developments in the digital world have led to new partnerships with top online retailers ("e-tailers").

The retail channel generates some 82% of the Prada Group's consolidated sales while the wholesale channel accounts for the remaining 18%.

IMAGE AND COMMUNICATIONS

Effective communications are key to building and transmitting a strong image for the brands consistent with their identity. From impeccably executed fashion shows rich in content to award-winning advertising campaigns, Prada and all the Group's brands continue to create a captivating, stylish image that is valued particularly by a high-end, international clientele and by the strictest, most demanding observers and critics.

Meanwhile, as the media continues to showcase the Group's products on hundreds of covers of the world's leading fashion magazines and in the most influential dailies and weeklies, the visibility of Prada brands keeps on growing. Special events also help promote brand profiles and boost awareness of the most recent collections in local markets, especially in large cosmopolitan cities.

The primary importance that the Prada Group attaches to innovation is apparent in the continuous development of communications projects. The recent decision to focus its strategy on digital communications and social media has further helped to raise brand profiles and strengthen customer relationships.

HUMAN RESOURCES

The Prada Group is a universe of cultures, talents and nationalities that puts the human factor at the center of its work. This variety, which translates into intellectual vibrancy, is one of Prada's most valuable tools for understanding changes in society and in the market.

Working in an ever-evolving global market, the company hires and manages personnel by respecting and making the most of diversity in its broadest social and cultural aspects. At December 31, 2018 the Group had a workforce of 13,556 individuals (headcount) from 107 different countries, with women making up 62%.

From the outset, Prada has encouraged and rewarded workplace skills, results orientation and teamwork. Employee enthusiasm and craftsmanship are the elements that underpin the innovation and quality of the products of the Group, which pursues excellence in all its endeavors and relationships. It cultivates a mindset that leads people to strive for perfection in their work.

Prada Academy is the physical and virtual place in which knowledge, skills, techniques, practices and innovative ideas are shared and developed to foster talent and ensure the Group's future growth. The Prada Academy aims to develop human capital and convey professional expertise with projects, tools and training modalities diversified into three macro areas: Craftsmanship School, Retail Training and Corporate Training.

Educational paths related to industrial production take place at the Craftsmanship School through courses dedicated to acquisition of footwear, leather goods and clothing manufacturing know-how. The goal is the protection and conservation of the wealth of knowledge and expertise that characterize the Prada Group's history of expertise.

In the area of Retail Training, in addition to the daily support of experienced personnel, the activities conceived for the retail staff include institutional training courses designed to consolidate professional skills, knowledge of the product and customer service.

The professional training for members of the Corporate team is centered on courses geared toward the enhancement of technical and behavioral skills aimed at achieving more effective management of operational complexities.

The extensive, merit-based compensation and benefits system ensures fair and equal treatment in terms of gender, title and seniority, and makes the Prada Group a true equal opportunity employer. The Group's remuneration policy seeks to attract, reward and retain skilled personnel and expert managers, while bringing the interests of management into line with the primary objective of creating value for the medium/long-term future.

The Remuneration Committee oversees the compensation packages of top management, taking into consideration roles and responsibilities, as well as market standards for similar positions in a panel of companies comparable to Prada in terms of size and complexity.

Personal protection is of key significance to the Group: internal policies safeguard the health and safety of employees at all Company locations according to the highest standards and in full compliance with local and international regulations. In most locations (offices, warehouses and stores), risks associated with the Group's operations are limited. Manufacturing facilities present the greatest risk in terms of health and safety, but still to a small degree. Safety training and refresher courses, with an emphasis on industrial facilities, helped keep the number of accidents very low in 2018, as well as in previous years.

The Prada Group collaborates with trade unions to continuously improve the working conditions of its employees and to foster the medium/long-term well-being of its employees and respective communities. Over the years the Group has stipulated many supplementary agreements, especially in Italy, the United Kingdom and France, whereby it offers better benefits than those in the local collective bargaining agreements.

Thanks to the respect, dialogue and cooperation in place with Italian trade unions, no labor strikes occurred in the year, just as none occurred in 2017.

With regard to the working conditions of suppliers' employees, the Company has identified the main risks related to its industrial supply chain. To mitigate those risks, the Prada Group has adopted a Qualified Vendor List (QVL) procedure, with which it defines the responsibilities and operational behaviors required in the assessment of ethical, technical and financial reliability. Specifically for ethical issues, the accreditation and maintenance of a supplier's qualification are based on the collection of documents, statements and self-certifications that ensure compliance with the law on remuneration, social security, taxation, occupational health and safety, the environment, privacy and the governance model. Finally, the signing of the Code of Ethics is an essential prerequisite for working with Prada.

ENVIRONMENT AND TERRITORY

The Prada Group feels responsible for engaging in and cultivating virtuous behaviors that contribute to its sustainable growth and are examples of good practice within its industry.

Respect for the places where its facilities are located has been a guiding principle for the Prada Group from the start.
Reducing land take, renovating existing structures and working toward building requalification have inspired the decisions made in more than thirty years of industrial development. The Group completes its commitment to the reduction of its environmental footprint through responsible use of raw materials and packaging materials, and by making long-term investments in energy efficiency and the use of renewable energy.

Prada's manufacturing and storage facilities are an excellent example of its responsible relationship with the environment. These buildings occupy more than 200,000 m^2 and are located almost entirely in Italy. Five of them are new constructions, three are the products of industrial archeology projects, and many more have been converted from sites long abandoned and in obvious disrepair. For four of its largest industrial projects, Prada hired architect Guido Canali, Italy's leading proponent of sustainable architecture. This relationship, initiated in the 1990s and still underway in a new, important phase, was developed while business ethics were being introduced voluntarily and spontaneously at a time in history in which the significance of adopting such values had not been realized yet. The Prada Valvigna factory, as well as the new logistic hub in Levanella, both in Tuscany, represent the synthesis of these principles: a structure that fits in well with the local environment, is capable of generating responsible and sustainable efficiency, and whose design is harmonious with its natural surroundings.

Prada industrial Headquarter
Valvigna, Terranuova Bracciolini (AR) by architect Guido Canali

The energy-efficiency action plan has set into motion a number of measures, including the construction of 10 photovoltaic power stations, the gradual replacement of all air conditioning and cooling systems with latest-generation technology, a campaign for the complete, definitive coverage of all lit spaces with low-energy LED lamps, and the installation of technologies to improve the recording and consequential reduction of energy consumption.

These measures have earned the Group various certifications from LEED (Leadership in Energy and Environmental Design, the world's most widely used system for green building assessment) for its factories and stores.

On the renewable energy front, the Group is developing solar projects and buying electricity from traders that use certified renewable sources (100%).

SPECIAL PROJECTS

Art, philosophy, architecture, literature and film are the main cultural disciplines that represent continuous sources of inspiration for the Group. The network of connections broadens horizons, subverting norms, boldly challenging expectations and shaping scenarios that deviate from the ordinary. Interaction with these apparently distant cultural spheres has led to a number of special projects that, over the years, have helped define the many facets of the Prada world.

Prada's interest in architecture has always been evident in its aforementioned cutting-edge manufacturing sites, with the requalification and conversion of former factories into showrooms and offices, and development of revolutionary retail concepts.

One of its most notable recent projects is Rong Zhai, a historic residence in downtown Shanghai, which has become a flexible venue for the Group's cultural events in China after a scrupulous, six-year restoration. The rehabilitation of Rong Zhai is the result of a fruitful partnership with Western architects, historians, and Chinese artisans and represents Prada's interest in the restoration of historic buildings.

Rong Zhai Residence
Jing’an District, Shanghai

Throughout its history, Prada has been involved in many other projects of international scale, including collaborations with some of the most prestigious architecture firms in the world. In 2015 Herzog & de Meuron, winners of the Pritzker Architecture Prize, worked with the Group on the Miu Miu flagship store in the Aoyama district of Tokyo, core of the brand's Japanese operations. A few years earlier, from 2000 to 2004, Herzog & de Meuron and another Pritzker Prize winner, Rem Koolhaas, had partnered with Prada on the Epicenter Concept Stores in New York, Los Angeles and Tokyo. These Epicenters, which continue to be a central part of Prada's image, have been the result of innovative thinking about the shopping concept, revisited and reinvented in order to create unique stores, where luxury goods, technology, design and architecture combine seamlessly with a vast range of exclusive services and sensory and audiovisual experiences. On occasion, the Epicenters host movie screenings, exhibitions, debates and other cultural events.

Since 1993, the interests and passions of Miuccia Prada and Patrizio Bertelli have led the Prada Group to sponsor Fondazione Prada's activities in the fields of art and culture. Fondazione Prada was set up in Milan as a space for contemporary art exhibitions as well as projects in architecture, cinema and philosophy.
By 2010 the Fondazione had staged 24 solo shows in Milan devoted to important Italian and international artists. Since 2011, the Fondazione has also operated at the eighteenth-century Venetian palace in Ca' Corner della Regina, where it has hosted seven research fairs and an experimental project dedicated to cinema. In 2018 "Machines à penser" was hosted, curated by Dieter Roelstrate, who explored the connections among philosophy, art and architecture.

The 2018 exhibition program of the Fondazione's permanent venue in Milan, inaugurated in 2015 and designed by architecture firm OMA, included "Post Zang Tumb Tuuum. Art Life Politics: Italia 1918-1943", conceived by Germano Celant as an exploration of the system of art and culture in Italy in the period between the two World Wars, "Sanguine. Luc Tuymans on Baroque", in which the Belgian artist offered an original interpretation of the Baroque based on associations between works by contemporary artists and Old Masters, the final sequence of "Slight Agitation" with site-specific works by Brazilian author Laura Lima. "The Next Quasi-Complex", an immersive exhibition conceived by German artist John Bock completed the program.

In the outdoor area of the Milan venue, Fondazione Prada offered the musical project, "I WANT TO LIKE YOU BUT I FIND IT DIFFICULT", a series of three events curated by Craig Richard in which both well-known and emerging artists explored a variety of genres and music. Since May 2018 Fondazione Prada Cinema, opened every weekend, has offered a program showcasing new releases, classics, experimental and avant-garde features, and rare and restored films. Film festivals have also been organized with selections by artists like Damien Hirst, Theaster Gates and Luc Tuymans, and conversations with directors like Bernardo Bertolucci, Spike Lee and Hans-Jürgen Syberberg.

The Osservatorio, a photography exhibition center opened in December 2016 in Galleria Vittorio Emanuele II, Milan, hosted the exhibitions "Torbjørn Rødland: The Touch That Made You" and "The Black Image Corporation", curated by artist Theaster Gates.

Fondazione Prada - Largo Isarco 2, Milan
Exhibition view of "Post Zang Tumb Tuuum. Art Life Politics: Italia 1918-1943"

Fondazione Prada Osservatorio - Galleria Vittorio Emanuele II, Milan
Exhibition view of "The Black Image Corporation" - A project by Theaster Gates

Miuccia Prada's personal interest in cinema, as a contemporary form of art, has led to other invaluable collaborations such as the sixteen short films produced up to December 2018 entitled "The Miu Miu Women's Tales", in which directors of international fame and different intellectual backgrounds explored the world of women. Moreover, interaction with the world of cinema has created various other partnerships with internationally renowned film directors, such as "The Delivery Man" (2018), created and directed by Ryan Hope and interpreted by Academy Award winner J.K. Simmons, "Past Forward" (2016) by Academy Award winner David O. Russell, "A Therapy" (2012) by Roman Polanski, and "Thunder Perfect Mind" (2006) by Jordan and Ridley Scott.

Last, but not least, in the area of high-profile sports, the Luna Rossa team sponsored by the Prada Group was a challenger in the America's Cup sailing yacht races of 2000, 2003, 2007 and 2013, winning the challenger selection regattas in 2000 and reaching the finals in 2007 and 2013. Having benefited from this experience, which made a huge contribution to the commercial success of the leisure clothing and footwear lines and raised visibility of the Prada brand around the world, the Group has again secured the role of main sponsor of the Luna Rossa sailing team for the 36th America's Cup.

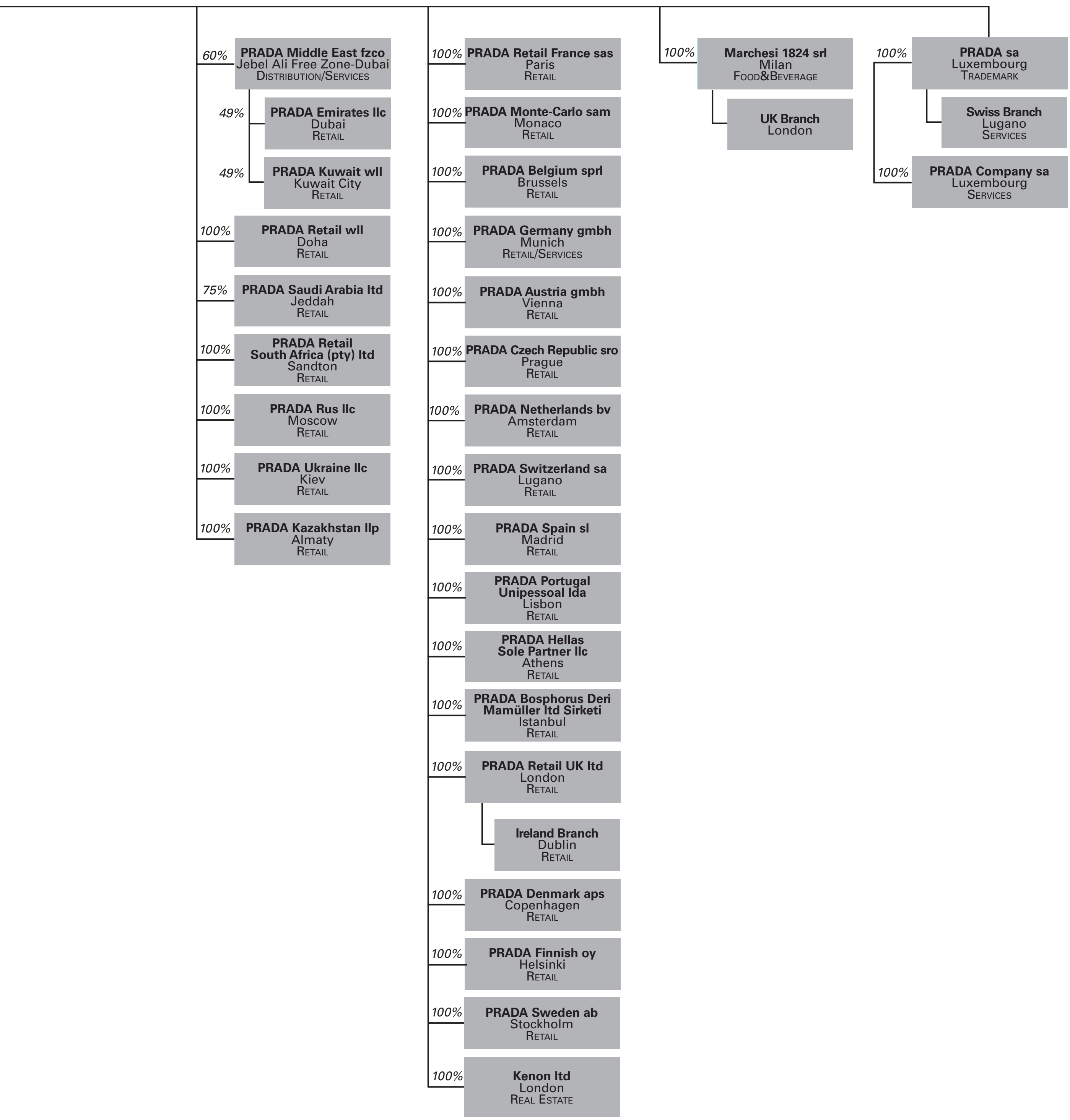
right page
Miu Miu Women's Tales advertising campaign 2018

MIU MIU WOMEN'S TALES
NO. 16
THE WEDDING SINGER'S DAUGHTER
A FILM BY HAIFAA AL-MANSOUR
MIU MIU WOMEN'S TALES PRESENTS "THE WEDDING SINGER'S DAUGHTER" DIRECTED BY HAIFAA AL-MANSOUR WRITTEN BY HAIFAA AI-MANSOUR
STARRING HAYLIENEIMANN AND ADAMNEIMANN AND ROTANA TARABZOUNI PRODUCTION BY ANONYMOUS CONTENT/HI PRODUCTION EXECUTIVE PRODUCER SUEELLEN CLAR AND MAX BRUN
PRODUCED BY SARA D'ALESSIO DIRECTOR OF PHOTOGRAPHY ALAR KIVILLO MUSIC BY JORDAN SATTA
PHOTOGRAPHY BY BRIGITTE LACOMBE

PRADA GROUP STRUCTURE

PRADA spa – Milan – Holding/Manufacturing/Distribution/Services

- 100% **Church & Co ltd** – Northampton – Manufacturing/Distribution/Services
  - 100% **Church & Co (Footwear) ltd** – Northampton – Trademarks
  - 100% **Church UK Retail ltd** – Northampton – Retail
  - 100% **Church's English Shoes sa** – Brussels – Retail
  - 100% **Church France sas** – Paris – Retail
  - 100% **Church Spain sl** – Madrid – Retail
  - 100% **Church Ireland Retail ltd** – Dublin – Retail
  - 100% **Church Austria gmbh** – Vienna – Retail
  - 100% **Church Netherlands bv** – Amsterdam – Retail
  - 100% **Church Footwear ab** – Stockholm – Retail
  - 100% **Church Denmark aps** – Copenhagen – Retail
  - 100% **Church Germany gmbh** – Münich – Retail
  - 100% **Church's English Shoes Switzerland sa** – Lugano – Retail
  - 100% **Church Italia srl** – Milan – Retail
  - 100% **Church & Co (USA) ltd** – New York – Retail
  - 100% **Church Hong Kong Retail ltd** – Hong Kong – Retail
  - 100% **Church Japan Company ltd** – Tokyo – Retail
  - 100% **Church Singapore pte ltd** – Singapore – Retail
  - 100% **Church Footwear (Shanghai) Co ltd** – Shanghai – Retail
  - 100% **Church Korea llc** – Seoul – Retail
- 66.7% **Artisans Shoes srl** – Montegranaro – Production
- 100% **IPI Logistica srl** – Milan – Services
- 60% **Tannerie Limoges sas** – Isle – Production
- 90% **Pelletteria Ennepi srl** – Figline e Incisa Valdarno – Production
- 80% **Hipic Prod Impex srl** – Sibiu – Production
- 100% **PRADA Canada Corp** – Toronto – Distribution/Retail
- 100% **Post Development Corp** – New York – Real Estate
- 100% **PRADA USA Corp** – New York – Distribution/Services/Retail
  - 55% **TRS Hawaii llc** – Honolulu – DFS
  - 55% **TRS Guam Partnership** – Guam – DFS
  - 100% **PRADA Retail Mexico S. de R.L. de C.V.** – Mexico City – Retail
- 100% **PRADA Brasil Importação e Comércio de Artigos de Luxo ltda** – São Paulo – Retail
- 100% **PRM Services S. de R.L. de C.V.** – Mexico City – Services
- 100% **PRADA Panama sa** – Panama – Retail
- 100% **PRADA Retail Aruba nv** – Aruba – Retail
- 100% **PRADA Saint Barthelemy sarl** – Gustavia – Retail
- 100% **PRADA Maroc Sarlau** – Casablanca – Dormant
  - **Maroc Branch** – Marrakech – Dormant
- 100% **PRADA Australia pty ltd** – Sydney – Retail
- 100% **PRADA Korea llc** – Seoul – Retail
- 100% **PRADA Singapore pte ltd** – Singapore – Retail
- 100% **PRADA Retail Malaysia sdn bhd** – Kuala Lumpur – Retail
- 100% **PRADA Japan Co ltd** – Tokyo – Retail
  - 55% **Travel Retail Shops Okinawa kk** – Tokyo – DFS
- 100% **PRADA (Thailand) Co ltd** – Bangkok – Retail
- 100% **PRADA New Zealand ltd** – Wellington – Retail
- 100% **PRADA Vietnam Limited Liability Company** – Hanoi – Retail
- 55% **TRS Saipan Partnership** – Saipan – DFS
- 55% **TRS Hong Kong ltd** – Hong Kong – DFS
  - **Macau Branch** – Macau – DFS
- 55% **TRS Singapore pte ltd** – Singapore – DFS
- 100% **PRADA Asia Pacific ltd** – Hong Kong – Services/Retail
  - 100% **PRADA Taiwan ltd** – Hong Kong – Services
    - **Taipei Branch** – Taipei – Retail
  - 100% **PRADA Trading (Shanghai) Co ltd** – Shanghai – Dormant
  - 100% **PRADA Fashion Commerce (Shanghai) Co ltd** – Shanghai – Retail
  - 100% **PRADA Macau Co ltd** – Macau – Retail
  - 100% **PRADA Dongguan Trading Co ltd** – Dongguan – Services


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 Retail wll
Doha
Retail
75% PRADA Saudi Arabia ltd
Jeddah
Retail
100% PRADA Retail South Africa (pty) ltd
Sandton
Retail
100% PRADA Rus llc
Moscow
Retail
100% PRADA Ukraine llc
Kiev
Retail
100% PRADA Kazakhstan llp
Almaty
Retail
100% PRADA Retail France sas
Paris
Retail
100% PRADA Monte-Carlo sam
Monaco
Retail
100% PRADA Belgium sprl
Brussels
Retail
100% PRADA Germany gmbh
Munich
Retail/Services
100% PRADA Austria gmbh
Vienna
Retail
100% PRADA Czech Republic sro
Prague
Retail
100% PRADA Netherlands bv
Amsterdam
Retail
100% PRADA Switzerland sa
Lugano
Retail
100% PRADA Spain sl
Madrid
Retail
100% PRADA Portugal Unipessoal lda
Lisbon
Retail
100% PRADA Hellas Sole Partner llc
Athens
Retail
100% PRADA Bosphorus Deri Mamüller ltd Sirketi
Istanbul
Retail
100% PRADA Retail UK ltd
London
Retail
Ireland Branch
Dublin
Retail
100% PRADA Denmark aps
Copenhagen
Retail
100% PRADA Finnish oy
Helsinki
Retail
100% PRADA Sweden ab
Stockholm
Retail
100% Kenon ltd
London
Real Estate
100% Marchesi 1824 srl
Milan
Food&Beverage
UK Branch
London
100% PRADA sa
Luxembourg
Trademark
Swiss Branch
Lugano
Services
100% PRADA Company sa
Luxembourg
Services

PRADA S.P.A. CORPORATE INFORMATION

Registered Office	Via A. Fogazzaro, 28 20135 Milan, Italy
Head Office	Via A. Fogazzaro, 28 20135 Milan, Italy
Place of business in Hong Kong registered under Part 16 of the Hong Kong Companies Ordinance	36/F, Gloucester Tower The Landmark, 11 Pedder Street Central, Hong Kong
Company Corporate web site	www.pradagroup.com
Hong Kong Stock Exchange Identification Number	1913
Board of Directors	Carlo Mazzi *(Chairman & Executive Director)* Miuccia Prada Bianchi *(Chief Executive Officer & Executive Director)* Patrizio Bertelli *(Chief Executive Officer & Executive Director)* Alessandra Cozzani *(Chief Financial Officer & Executive Director)* Stefano Simontacchi *(Non-Executive Director)* Maurizio Cereda *(Independent Non-Executive Director)* Gian Franco Oliviero Mattei *(Independent Non-Executive Director)* Giancarlo Forestieri *(Independent Non-Executive Director)* Sing Cheong Liu *(Independent Non-Executive Director)*
Audit Committee	Gian Franco Oliviero Mattei *(Chairman)* Giancarlo Forestieri Maurizio Cereda
Remuneration Committee	Maurizio Cereda *(Chairman)* Gian Franco Oliviero Mattei Carlo Mazzi

Nomination Committee	Gian Franco Oliviero Mattei *(Chairman)* Carlo Mazzi Sing Cheong Liu
Board of Statutory Auditors	Antonino Parisi *(Chairman)* Roberto Spada *(Standing member)* David Terracina *(Standing member)*
Supervisory Board (Italian Leg. Decr. 231/2001)	David Terracina *(Chairman)* Gian Franco Oliviero Mattei Paolo De Paoli
Main Shareholder	PRADA Holding S.p.A. Via A. Fogazzaro, 28 20135 Milan, Italy
Joint Company Secretaries	Patrizia Albano Via A. Fogazzaro, 28 20135 Milan, Italy Ying-Kwai Yuen (Fellow member, HKICS) 36/F, Gloucester Tower The Landmark, 11 Pedder Street Central, Hong Kong
Authorized Representatives in Hong Kong	Carlo Mazzi Via A. Fogazzaro, 28 20135 Milan, Italy Ying-Kwai Yuen (Fellow member, HKICS) 36/F, Gloucester Tower The Landmark, 11 Pedder Street Central, Hong Kong
Alternate Authorized Representative to Carlo Mazzi in Hong Kong	Sing Cheong Liu House 7 Severn Hill 4 Severn Road The Peak, Hong Kong
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen’s Road East Wanchai, Hong Kong
Auditor	Deloitte & Touche S.p.A. Via Tortona, 25 20144 Milan, Italy

FINANCIAL REVIEW

BASIS OF PREPARATION OF FINANCIAL REVIEW

The Board of Director's Financial Review refers to the group of companies controlled by PRADA spa (the "Company"), parent company of the PRADA Group (the "Group"). This Financial Review should be read in conjunction with the Consolidated Financial Statements and the related Notes, which are an integral part thereof.

As a result of the change in the end of the annual reporting period from January 31 to December 31, approved at the General Meeting on May 31, 2017, the Prada Group's 2018 Statement of Profit or Loss prepared in accordance with IFRS ("2018 IFRS Statement of Profit or Loss") refers to the twelve-month reporting period ended December 31, 2018, whereas the corresponding 2017 statement referred to an eleven-month period ("2017 IFRS Statement of Profit or Loss", from February 1, 2017 to December 31, 2017).

To enable comparison of the Group's business and financial performance, the Directors have prepared the "2017 Pro-Forma Statement of Profit or Loss" based on the twelve months ended December 31, 2017.

The comments reported herein regarding revenues and operating results are based on a comparison with the "2017 Pro-Forma Statement of Profit or Loss", whereas those regarding assets, liabilities and equity refer to the IFRS-based Consolidated Financial Statements as at December 31, 2018 and December 31, 2017.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	IFRS		PRO-FORMA	
(amounts in thousands of Euro)	**twelve months period ended December 31, 2018**	**%**	**twelve months period ended December 31, 2017**	**%**
Net Sales	3,098,068	98.6%	3,008,280	98.4%
Royalties	44,080	1.4%	48,195	1.6%
Net revenues	3,142,148	100%	3,056,475	100%
Cost of goods sold	(879,554)	-28.0%	(810,885)	-26.5%
Gross margin	2,262,594	72.0%	2,245,590	73.5%
Operating expenses	(1,938,748)	-61.7%	(1,885,570)	-61.7%
EBIT	323,846	10.3%	360,020	11.8%
Interest and other financial expenses, net	(21,940)	-0.7%	(6,168)	-0.2%
Dividends from investments	632	0.0%	670	0.0%
Income before taxation	302,538	9.6%	354,522	11.6%
Taxation	(94,356)	-3.0%	(105,284)	-3.4%
Net income for the period	208,182	6.6%	249,238	8.2%
Net income - Non-controlling interests	2,739	0.1%	313	0.0%
Net income - Group	205,443	6.5%	248,925	8.1%
Basic and diluted earnings per share (in Euro per share)	0.080		0.097	
Depreciation, amortization and impairment	227,357	7.2%	227,960	7.5%
EBITDA	551,203	17.5%	587,980	19.2%

KEY FINANCIAL INFORMATION

	IFRS	IFRS	IFRS	CHANGE
(amounts in thousands of Euro)	December 31 2018	December 31 2017	January 31 2017	Dec. 2018 vs. Dec. 2017
Net operating working capital	638,493	546,205	556,351	92,288
Net invested capital	3,210,574	2,969,909	3,086,089	240,665
Net financial position surplus/(deficit)	(313,505)	(103,738)	18,441	(209,767)
Group shareholders' equity	2,877,986	2,844,652	3,080,502	33,334
Average number of employees	13,197	12,400	12,326	797
Net operating cash flows (*)	365,108	446,517	631,850	(81,409)

(*) figure relates to the eleven-month period for December 31, 2017 and to the twelve-month period for the other two years

2018 HIGHLIGHTS

In 2018 the Prada Group's sales performance turned around, showing revenue growth that had been absent for some years. The results, which reflect a plan to increase volumes and profitability in the medium term, are reassuring to management with respect to the effectiveness of the omnichannel strategy and of the investments made in recent years.

Changes to the organizational structure, especially at an operational level, and large steps forward in the digitalization process have made the Prada Group more dynamic and able to interpret more rapidly the spirit of the times. While this has been happening throughout the Company, the design team has focused its creative talent on the development of products that are particularly popular with the new generations, such as sneakers, backpacks and special editions. The collections have therefore benefited from a product assortment better targeted to the tastes of such market segment, while maintaining the brand identities and essential brand codes. Nylon was renewed as a major component of the Spring/Summer collection and Fall/Winter Linea Rossa 2018 collections, and was at the center of an important communications campaign.

Handbags, which have enjoyed the continued success of iconic models launched in recent collections, contributed significantly to the annual sales growth.

The strategic decision to go for a product range increasingly geared toward preserving the exclusivity of the brands entailed revising the promotional sales policies to achieve more effective product positioning. In terms of volume, discounted sales fell in 2018 while full-price sales rose. However, the positive contribution of this situation is not evident in the gross margin as it was eliminated by the impact of very unfavorable exchange rates compared with those of the prior period.

The Fondazione Prada and Luna Rossa sponsorships have promoted the Prada brand on the international scene and have enhanced its value through its association with the prestigious cultural center and the oldest surviving sports competition, respectively. For the first time, Prada's role in America's Cup is not only as a team sponsor; it is also the Title and Presenting Sponsor of the entire sailing competition. Thanks to this agreement, in 2018 the brand began to benefit from growing visibility through events regarding the presentation of the 36th edition, such as the hologram presentation of the new AC75 flying monohull and the unveiling of the new trophy.

The brand identity was also strengthened with the addition of new fashion shows, Prada Resort in Manhattan, broadcast live in Times Square, and Miu Miu Croisière at Hotel Regina in Paris.

Special displays at directly operated stores and pop-up shops at prestigious department stores were used to market new collections and celebrate re-releases of iconic products in uniquely designed and conceptualized settings. Meanwhile, the constant research of store concepts led to additional restyling projects. Along with investments in the websites and in social media, these activities have further enriched the customer journey and are forging closer integration of physical retail, digital retail and communications.

The investments of the year involved the industrial area, with the reinforcement of manufacturing and logistics structures in Italy, and the corporate area, with improvements to the central and regional offices. Moreover, an extensive IT investment plan, part of the Group's broader digital transformation strategy, is bringing benefits across the Company, such as in the areas of human resources and institutional compliance. This broad investment plan, prioritized with significant resources allocated to it by the Directors, enables Prada to be among the most technologically advanced companies for traditional retail as well as for its own e-commerce platforms and manufacturing processes, while preserving the Group's characteristic craftsmanship.

ANALYSIS OF PRO-FORMA NET REVENUES

(amounts in thousands of Euro)	IFRS twelve months ended December 31 2018		PRO-FORMA twelve months ended December 31 2017		% change
Net Sales	3,098,068	98.6%	3,008,280	98.4%	3.0%
Royalties	44,080	1.4%	48,195	1.6%	-8.5%
Net revenues	3,142,148	100%	3,056,475	100%	2.8%

PRO-FORMA NET SALES

(amounts in thousands of Euro)	IFRS twelve months ended December 31 2018		PRO FORMA twelve months ended December 31 2017		% change
Net Sales by geographical area					
Europe	1,188,910	38.4%	1,169,679	38.9%	1.6%
Americas	426,184	13.8%	431,843	14.4%	-1.3%
Asia Pacific	1,035,061	33.4%	972,888	32.3%	6.4%
Japan	350,313	11.3%	336,810	11.2%	4.0%
Middle East	93,655	3.0%	92,924	3.1%	0.8%
Other countries	3,945	0.1%	4,136	0.1%	-4.6%
Total	3,098,068	100%	3,008,280	100%	3.0%
Net Sales by brand					
Prada	2,558,108	82.6%	2,461,246	81.8%	3.9%
Miu Miu	453,476	14.6%	459,338	15.3%	-1.3%
Church's	69,079	2.2%	70,999	2.4%	-2.7%
Other	17,405	0.6%	16,697	0.5%	4.2%
Total	3,098,068	100%	3,008,280	100%	3.0%
Net Sales by product line					
Leather goods	1,756,288	56.7%	1,702,824	56.6%	3.1%
Footwear	616,263	19.9%	624,598	20.8%	-1.3%
Clothing	666,187	21.5%	623,988	20.7%	6.8%
Other	59,330	1.9%	56,870	1.9%	4.3%
Total	3,098,068	100%	3,008,280	100%	3.0%
Net sales by channel					
Net Sales of direct operated stores (DOS)	2,532,004	81.7%	2,443,697	81.2%	3.6%
Sales to Independent customers and franchisees	566,064	18.3%	564,583	18.8%	0.3%
Total	3,098,068	100%	3,008,280	100%	3.0%

DISTRIBUTION CHANNELS

Net retail sales for the twelve months ended December 31, 2018 showed growth of 6.8% at constant exchange rates and 3.6% at current exchange rates. The annual performance was positive, although it slowed down in the latter months due primarily to the volatility of some markets and the strategic decision to reduce the discounted sales. The number of Directly Operated Stores, including 29 openings and 20 closures, rose from 625 at December 31, 2017 to 634 at December 31, 2018.

Sales from the wholesale channel were substantially consistent with those of the prior period, as they rose by 1.3% at constant exchange rates and by 0.3% at current exchange rates. Wholesale orders to e-tailers increased in line with the Group's digital strategy.

MARKETS

Net sales in the Asia-Pacific market rose by 9.7% at constant exchange rates (6.4% at current exchange rates), with gains from the twelve months pro-forma of 2017 in all the main markets (especially South Korea) as a result of growth with both the local clientele and with intra-regional travelers flows. Greater China produced net sales of Euro 675 million, up by 8.2% at constant exchange rates and 4.5% at current exchange rates.

Europe had a 2.8% increase in sales at constant exchange rates (+1.6% at current exchange rates). The growth was concentrated in purchases by local customers.

Net sales in the American market rose by 3.9% at constant exchange rates (-1.3% at current exchange rates). The increase was split evenly between local customers and travellers.

Japan reported higher net sales both at constant exchange rates (+7.4%) and at current exchange rates (+4%), mainly as a result of the recovery in domestic consumer spending.

Net sales in the Middle East rose by 5.2% at constant exchange rates (+0.8% at current exchange rates). The opening of two important stores, Prada and Miu Miu, inside the prestigious Dubai Mall contributed to the growth of the period.

PRODUCTS

Clothing sales rose by 9.6% at constant exchange rates and by 6.8% at current exchange rates. At constant exchange rates Prada and Miu Miu grew in all regions. Sales of leather goods rose by 5.9% at constant exchange rates and by 3.1% at current exchange rates. Handbag sales, driven by the continued success of iconic models, showed the greatest increases. All regions reported sales growth.
Footwear sales rose by 1.5% at constant exchange rates and fell by 1.3% at current exchange rates, with different trends for the various markets: from double-digit growth in Japan and Asia Pacific to a slight decline in the Americas, concentrated in the wholesale channel.

BRANDS

Prada brand net sales increased by 6.7% at constant exchange rates (+3.9% at current exchange rates). At constant exchange rates, all product categories reported higher sales than those of 2017.
Miu Miu net sales rose by 1.7% at constant exchange rates (while they fell by 1.3% at current exchange rates), reflecting growth for clothing and almost steady results for footwear and leather goods compared with the previous period.
The Church's brand reported a decline of 1.6% at constant exchange rates (-2.7% at current exchange rates). The increase in retail sales, achieved through both existing stores and six store openings, compensated for the decrease in sales to independent customers, consistently with the selective strategy of reducing the independent accounts.
"Other brands" consisted primarily of sales of Marchesi 1824 brand patisserie products, which grew from the prior period.

ROYALTIES

Licensed businesses generated royalties of Euro 44.1 million, down by 8.5% at current exchange rates. The delay that occurred in 2018 was substantially attributable to eyewear licenses, which are currently in a phase of reorganization and renewal.

NUMBER OF STORES

	December 31, 2018		December 31, 2017		January 31, 2017	
	Owned	Franchises	Owned	Franchises	Owned	Franchises
Prada	398	25	394	25	387	25
Miu Miu	166	9	167	9	171	9
Church's	63	-	57	-	54	-
Car Shoe	4	-	4	-	5	-
Marchesi	3	-	3	-	3	-
Total	634	34	625	34	620	34

	December 31, 2018		December 31, 2017		January 31, 2017	
	Owned	Franchises	Owned	Franchises	Owned	Franchises
Europe	224	4	229	4	220	4
Americas	111	-	112	-	113	-
Asia Pacific	195	25	184	25	187	25
Japan	81	-	79	-	78	-
Middle East and Africa	23	5	21	5	22	5
Total	634	34	625	34	620	34

OPERATING RESULTS

The gross margin showed a dilution of 150 basis points, decreasing from 73.5% for the pro-forma twelve-month period ended December 31, 2017 to 72% for 2018. The negative impact of exchange rates, including the effect of hedges, was nearly wholly responsible for this, despite the positive contribution of a more favorable ratio of full-price sales to discounted sales.

Operating expenses rose by Euro 53.2 million compared with the 2017 pro-forma twelve-month period (from Euro 1,885.6 million to Euro 1,938.7 million), whereas they remained consistent as a percentage of net revenues (61.7%).

Selling costs rose mainly as a result of the increase in the retail sales staff, whereas advertising and communications costs rose on account of the numerous initiatives of the year, including digital ones, and sponsorship costs.

	IFRS		PRO-FORMA	
(amounts in thousands of Euro)	twelve months ended December 31, 2018	% of net revenues	twelve months ended December 31, 2017	% of net revenues
Product design and development costs	125,179	4.0%	130,468	4.3%
Advertising and communications costs	207,278	6.6%	184,752	6.0%
Selling costs	1,414,153	45.0%	1,399,273	45.8%
General and administrative costs	192,138	6.1%	171,077	5.6%
Total Operating expenses	1,938,748	61.7%	1,885,570	61.7%

EBIT for the twelve months ended December 31, 2018 was Euro 323.8 million, or 10.3% of net revenues, whereas in the 2017 pro-forma period it was Euro 360 million, or 11.8% of net revenues. The adverse effect of exchange rates had a large impact on the dilution of the operating margin.

The increase in finance costs was attributable primarily to exchange differences on financial items.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

NET INVESTED CAPITAL

The following table reclassifies the statement of financial position to provide a better understanding of net invested capital:

(amounts in thousands of Euro)	December 31 2018	December 31 2017	January 31 2017
Non-current assets (excluding deferred tax assets)	2,700,098	2,565,359	2,599,620
Trade receivables, net	321,913	289,973	285,504
Inventories, net	631,791	569,929	526,941
Trade payables	(315,211)	(313,697)	(256,094)
Net operating working capital	638,493	546,205	556,351
Other current assets (excluding items of financial position)	208,085	212,102	275,384
Other current liabilities (excluding items of financial position)	(245,754)	(233,181)	(224,536)
Other current assets/(liabilities), net	(37,669)	(21,079)	50,848
Provision for risks	(51,310)	(61,815)	(82,323)
Post-employment benefits	(60,001)	(61,444)	(67,211)
Other long-term liabilities	(166,091)	(174,706)	(187,322)
Deferred taxation, net	187,054	177,389	216,126
Other non-current assets/(liabilities)	(90,348)	(120,576)	(120,730)
Net invested capital	3,210,574	2,969,909	3,086,089
Shareholder's equity - Group	(2,877,986)	(2,844,652)	(3,080,502)
Shareholder's equity - Non-controlling interests	(19,083)	(21,519)	(24,028)
Total Consolidated shareholders' equity	(2,897,069)	(2,866,171)	(3,104,530)
Long-term financial payables	(487,431)	(638,954)	(547,628)
Short-term financial, net surplus/(deficit)	173,926	535,216	566,069
Net financial position surplus/(deficit)	(313,505)	(103,738)	18,441
Shareholders' equity and net financial position	(3,210,574)	(2,969,909)	(3,086,089)
Net Debt to Consolidated shareholders' equity ratio	10.8%	3.5%	n.a

As at December 31, 2018, the Group has net invested capital of Euro 3,210.6 million, net financial indebtedness of Euro 313.5 million and consolidated shareholders' equity of Euro 2,897.1 million.

Non-current assets, consisting essentially of property plant, equipment and intangible assets, increased from Euro 2,565.4 million as at December 31, 2017 to Euro 2,700.1 million as at December 31, 2018. The difference was affected mainly by the investments in property plant, equipment and intangible assets (Euro 283.6 million) and use of liquidity in financial investments (Euro 91.4 million, net of the change in fair value), net of depreciation, amortization and impairments (Euro 227.4 million) and assets disposal (Euro 11 million).

The capital expenditure is detailed below:

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Area retail	135,997	110,026
Area manufacturing, logistics and corporate	147,590	140,638
Total	283,587	250,664

Approximately 50% of the total capital expenditure of the year was invested in the retail area primarily for store restyling and relocation projects, and to a lesser extent in the store openings of the period. Other capital expenditure was used to build up the manufacturing and logistics structures in Italy, improve the corporate areas and fund the digital transformation process.
The net operating working capital is Euro 638.5 million, up by Euro 92.3 million from that of December 31, 2017, due essentially to the restocking of finished products at the retail network.
Other current liabilities, net increased by Euro 16.6 million due to greater current tax liabilities and the fair value change of derivatives.
Other non-current liabilities, net, showed a decrease of Euro 30.2 million attributable to the use of provisions for deferred rent and other medium/long-term liabilities.
During the year the Group paid dividends for an amount of Euro 197.6 million.

NET FINANCIAL POSITION

The following table provides details of the Group's net financial position:

(amounts in thousands of Euro)	December 31 2018	December 31 2017	January 31 2017
Bonds - non-current	-	-	(130,000)
Bank borrowing – non-current	(487,431)	(638,954)	(417,628)
Total financial payables – non-current	(487,431)	(638,954)	(547,628)
Bonds - current	-	(130,000)	-
Financial payables and bank overdrafts - current	(421,481)	(222,971)	(151,211)
Payables to parent company and related parties - current	(4,415)	(4,423)	(4,934)
Total financial payables – current	(425,896)	(357,394)	(156,145)
Total financial payables	(913,326)	(996,348)	(703,773)
Cash and cash equivalents	599,821	892,610	722,214
Total financial receivables and cash and cash equivalents	599,821	892,610	722,214
Net financial surplus/(deficit), total	(313,505)	(103,738)	18,441
Net financial surplus/(deficit) excluding related party balances	(309,090)	(99,315)	23,375
EBITDA / Net financial deficit (*)	1.76	5.67	n.a.

(*) The ratio of EBITDA on Net financial deficit at December 31, 2017 was determined taking into account the EBITDA pro-forma for the 12 months of 2017

The net financial indebtedness as at December 31, 2018 is Euro 313.5 million, an increase of Euro 209.8 million compared with that of December 31, 2017. Funding was used primarily for the distribution of dividends (Euro 197.6 million), capital expenditures and cash investments (Euro 379.4 million), net of the operating cash flow (Euro 365.1 million).

The total amount of undrawn lines of credit at December 31, 2018 is Euro 597 million.

RISK FACTORS

RISK FACTORS REGARDING THE INTERNATIONAL LUXURY GOODS MARKET

ECONOMIC RISKS AND INTERNATIONAL BUSINESS RISKS

The performance of the luxury goods market is influenced by the general economy. Accordingly, the Group's business performance is exposed to global macroeconomic risks due to its international scale. An unfavorable global economy could adversely affect the propensity to spend on luxury goods having a negative impact on the Group's operations, results, cash flows and financial condition.

Moreover, a substantial portion of sales originates from purchases of products by customers on trips abroad. Therefore, unfavorable economic conditions, social or geopolitical situations leading to instability, and natural disasters resulting in lower travel volumes have in the past, and could in the future, negatively impact the Group's operations, results, cash flow and financial condition.

The Group believes that full control of the value chain and a global retail presence (both physical and digital) enable to mitigate the risk that conditions such as these could influence significantly the business performance.

INTELLECTUAL PROPERTY RISKS

The Prada Group's brands have always been associated with beauty, creativity, tradition and excellent quality. Prada's ability to protect its brands and other intellectual property rights means safeguarding these fundamental assets that are responsible for the success of the brands and the brand positioning.

The Group protects its brands, designs, patents and websites by registering them and obtaining legal protection for them in all countries throughout the world. The Group actively opposes all forms of counterfeiting and intellectual property infringement by adopting strong, systematic measures worldwide. The wholesale, retail, online and offline markets are monitored daily in close collaboration with the customs authorities and police.

RISKS REGARDING IMAGE AND BRAND RECOGNITION

The Group's success in the international luxury goods business is linked to the image and distinct character of its brands. These features depend on many factors, such as the style and design of the products, the quality of the materials and production techniques used, the image and locations of DOS, careful selection of

licensees, communications activities and the general corporate profile.
Preserving the image and prestige acquired by its brands is a primary objective of the Prada Group, pursued by monitoring meticulously each internal and external phase of the value chain and by constantly seeking innovation in styles, products and communications in order to convey messages that are always consistent with the strong brand identities.

RISKS REGARDING ABILITY TO ANTICIPATE TRENDS AND REACT TO SHIFTS IN CONSUMER TASTES

The Group's success is reliant on its ability to create and define fashion and product trends, and to anticipate shifts in consumer tastes and luxury market trends in a timely manner.
The Group pursues those objectives through strong efforts dedicated to the creative activities of its design and product development departments. Approximately 1,000 individuals work in such departments between the design area, where a mix of nationalities, cultures and talents contribute to creativity, and the development area, where craft skills combined with solid manufacturing processes enable the Group to continue to compete and keep abreast of emerging consumer trends and lifestyles.
Close collaboration with the world of art and culture serves as another fundamental way to understand changes in society and consumer patterns.

RISKS SPECIFIC TO THE PRADA GROUP

STRATEGIC RISKS

The possibility for the Group to improve its business performance depends on the successful implementation of its strategy for each brand, which is achieved primarily through the continuous support and development of retail sales.
The Group provides support to the retail network by offering leather goods, clothing and footwear that reflect the brand positioning, accompanied by store operations geared toward making the buying experience unique. The restyling of the store layout, as for example the recent revamping of concepts, aims to further expand the capacity to attract customers. The performance of the retail channel is also supported by marketing initiatives intended to enhance the identity of the brands in the specific markets and emphasize the unique features that distinguish the style and craftsmanship of the products.

Moreover, the implementation of the omnichannel strategy has paved the way for medium to long-term business development based on product quality, high-performance innovation and distribution and communication channels that are constantly evolving and in line with the needs of the new generations of consumers.

RISKS REGARDING THE IMPORTANCE OF KEY PERSONNEL

The Group's success depends on the contribution of key individuals who have played an essential role in the Group's expansion and who have substantial experience in the fashion and luxury goods business. Its success also depends on Prada's ability to attract and retain people who are qualified in the design, marketing, merchandising and distribution of the products.

The Group considers its management structure to be capable of ensuring business continuity, and has recently implemented a long-term incentive plan to retain key employees so that they will continue to cover the roles essential to the achievement of the challenging objectives that the Group constantly sets itself.

RISKS REGARDING THE OUTSOURCING OF MANUFACTURING ACTIVITIES

While the Group designs, controls and produces in-house most of its prototypes, samples and most sophisticated work, it outsources the remaining production of its finished products to external manufacturers ("contract manufacturers") with appropriate expertise and capacity, and centralizes the management of all raw materials.

The Group has implemented a strict inspection and quality control process for all outsourced production and contractually requires its contract manufacturers to comply with all regulations on brand ownership and other intellectual property rights. Moreover, the Group demands compliance with applicable regulations concerning labor, social security, and occupational health and safety. The Group also requires its contract manufacturers to read the Prada Group Code of Ethics and comply with the principles set forth therein. Risk of contractual non-compliance is mitigated by a control system based on procedures that define internal responsibilities for the assessment of the suppliers' ethical, technical and financial soundness.

CREDIT RISK

Credit risk is defined as the risk of financial loss caused by the failure of a counterparty to meet its contractual obligations. The maximum risk to which an entity is exposed is represented by all the financial assets recognized in the financial statements. The Group considers its credit risk to involve primarily trade receivables generated from the wholesale channel and liquid assets. The Group manages credit risk and mitigates the related effects through its business and financial strategies.

The credit risk management for trade receivables is carried out by monitoring the reliability and solvency of customers, as well as through insurance agreements.

Concerning liquid assets, the risk of default substantially relates to bank deposits, which represent the Group's most widely-used financial product for investing surplus operating cash flows. Default risk is mitigated by the allocation of cash holdings to bank deposits that are diversified in terms of counterparty (always investment grade), country and currency, and by the consistently short-term period. The residual portion of liquid assets consists of cash and bank accounts. The Group considers no significant risk to exist on these kinds of liquid assets given that they are used for operating activities and business processes and, consequently, the number of independent parties involved is fragmented.

LIQUIDITY RISK

Liquidity risk refers to difficulty that the Group could have in meeting its financial obligations. The Directors are responsible for managing liquidity risk, whereas the Corporate Finance management, which reports to the CFO, is responsible for optimizing financial resources.

The Directors consider the current funds and credit lines, in addition to those that will be generated by operating and financing activities, to be sufficient for enabling the Group to meet its requirements resulting from investing activities, manage working capital, make punctual loan repayments and pay dividends as planned.

TAX RISKS

The Group's tax risks, which could derive from compliance errors or incorrect interpretation of regulations, are constantly monitored within the scope of the internal control system, specifically in the tax control framework implemented by the Group. The effectiveness of the tax risk management system has entitled Prada spa to participate in the Cooperative Compliance Tax Regime in Italy (under Italian Legislative Decree 128/2015). Under the Cooperative Compliance Tax Regime, the Group has set up a systematic, continuous and open communication channel with the Italian tax authorities based on reciprocal transparency and trust, which will enable to minimize uncertainties about the tax aspects of its business operations. Following the admission to such Regime, the Italian Tax Authority invited PRADA spa to join an international collaborative compliance program (International Compliance Assurance Programme) recently promoted by the OECD (Organisation for Economic Co-operation and Development), which allows the management of potential tax risks. PRADA spa and its subsidiaries operating in the countries involved in such project decided to join the Programme, currently ongoing in its pilot phase.

LEGAL AND REGULATORY RISKS

The Prada Group operates in a complex regulatory environment and so is exposed to the following legal risks:

- risks associated with non-compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong or with other laws or regulations in force in Hong Kong that the Company must observe as it is listed on the Stock Exchange of Hong Kong Limited;
- risks associated with occupational health and safety under Italian Legislative Decree 81/08 and equivalent regulations in force in other countries;
- possible legal penalties for wrongful acts pursuant to Italian Law 231/2001, as subsequently amended;
- possible events that could adversely affect the accuracy of the annual financial statements and the protection of assets;
- changes in international tax rules applicable in the various countries where the Group operates;
- possible manufacturing compliance risks regarding Italian and international laws and regulations for finished goods distributed and raw materials and consumables used.

The Group involves various divisions and uses external experts as necessary to keep its processes and procedures constantly updated in order to comply with changing rules and regulations, thereby reducing legal and regulatory risk to an acceptable level. Monitoring activities are performed by divisional managers, auditors, and special entities and committees such as the Supervisory Board, Internal Control Committee and Industrial Compliance Committee.

FOREIGN EXCHANGE RISK

The Group has a vast international presence, and therefore is exposed to the risk that changes in currency exchange rates could adversely impact revenue, expenses, margins and profit. In order to hedge the foreign exchange risk, the Group enters into derivative contracts designed to fix the value in Euro (or other functional currency) of identified future cash flows. The future cash flows consist primarily of inflows of trade and financial receivables and outflows of trade payables. They refer mainly to PRADA spa, the Group's parent company and worldwide distributor of Prada and Miu Miu brand products.
The management of foreign exchange risk is described in more detail in the Notes to the Consolidated Financial Statements.

INTEREST RATE RISK

Interest rate risk is the risk that future cash flows could be affected by interest rate fluctuation. In order to hedge this risk, which refers mainly to PRADA spa, the Group uses derivatives (such as interest rate swaps) to convert variable-rate debt into fixed-rate debt or debt at rates within a specified range.
The management of interest rate risk is described in more detail in the Notes to the Consolidated Financial Statements.

DATA PROCESSING RISK

Data is processed using information systems whose governance model ensures that:

- information is adequately protected against the risk of unauthorized access and disclosure (including with means to protect personal privacy and proprietary information), improper information modification or destruction (including accidental loss), and use that is incompatible with the job assigned;
- data is processed in accordance with the applicable laws and regulations.

In accordance with the specific legislative and regulatory developments on this matter, the Group has set up organizational and operational controls to adapt processes and procedures in order to adopt effective security measures to minimize the risks of non-compliance.

OTHER INFORMATION

INFORMATION ON RELATED-PARTY TRANSACTIONS

Information on the Group's transactions and balances with related parties is provided in the Notes to the Consolidated Financial Statements, insofar as required by IFRS, and in the Board of Directors' Report and Corporate Governance Report, insofar as required by the Hong Kong Stock Exchange rules.

NON-IFRS MEASURES

The Group uses certain financial measures ("non-IFRS measures") to measure its business performance and to help readers understand and analyze its statement of financial position. Although such measures are used by the Group's management, they are not universally or legally defined and are not regulated by the IFRS adopted to prepare the Consolidated Financial Statements. Other companies operating in the luxury goods business might use the same measures, but with different calculation criteria, so non-IFRS measures should always be read in conjunction with the related explanatory notes, and may not be directly comparable with those used by other companies.
The Prada Group uses the following non-IFRS measures in this Annual Report:

EBITDA: Earnings Before Interest, Taxation, Depreciation and Amortization, i.e. "consolidated net income for the period" adjusted to exclude "interest and other financial costs/(income) and dividends from investments", "taxes on income" and "depreciation, amortization and impairment".

EBIT: Earnings Before Interest and Taxation, i.e. "consolidated net income for the period" adjusted to exclude "interest and other financial income/(costs) and dividends from investments" and "taxation".

Net Financial Position: short-term and long-term financial payables due to third parties and related parties, including financial lease obligations, net of cash and cash equivalents and short-term and long-term financial receivables due from third parties and related parties.

Free cash flows: net cash flows generated by operating activities, net of cash flows used in investing activities.

The following table sets forth the EBITDA and EBIT of the past two periods:

(amounts in thousands of Euro)	IFRS twelve months ended December 31 2018	PRO-FORMA twelve months ended December 31 2017
Consolidated net income for the period	208,182	249,238
Taxation	94,356	105,284
Interest and other financial (income)/expense and dividends from investments	21,308	5,498
EBIT (Earnings Before Interest and Taxation)	323,846	360,020
Depreciation, amortization and impairment	227,357	227,960
EBITDA (Earnings Before Interest, Taxation, Depreciation and Amortization)	551,203	587,979

RESEARCH AND DEVELOPMENT ACTIVITIES

Research and development activities are described within section "The Prada Group" of this Annual Report, especially in the paragraph on creativity. The design and product development costs for the 2018 twelve-month period amounted to Euro 125,2 million, as above reported in this Financial Review.

TREASURY SHARES

At December 31, 2018 the Group does not hold treasury shares, as reported in the section relating to the Report on Corporate Governance.

EVENTS AFTER THE REPORTING DATE

No significant events.

OUTLOOK

The process of business transformation started in 2017 is delivering positive results.

The strategic renewal and subsequent organizational review, which will be completed in the months to come, will give the Group a more dynamic structure and a renewed capacity to interpret the cultural evolution of the new generations with which to share the identity of Group's brands.

The Group has already started a technological upgrade program that will increase control and efficiency of all business factors, from marketing to logistics and from product to customer service.

It's clear that the digital transformation has radically altered relationships with

consumers, making them ever more aware of their purchasing choices. In this context, communication takes on an even more crucial importance to effectively reach Group's customers.
With this objective in mind the Group will continue to invest in all its digital assets to create an increasingly immersive brand experience with a unique and engaging involvement at all touch points.
The Group is also investing to strengthen the industrial infrastructure to ensure timely responses to the different needs of the individual markets, translating its creative vision of the evolution of looks into products readily available at stores.
It's on the basis of these plans that the Group's expectation of a progressive recovery of volumes and margins is based.

Milan; March 15, 2019

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

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

CHAIRMAN

MAZZI, Carlo, aged 72, is the Chairman of the Board, first appointed on February 14, 2014 and most recently re-elected on April 27, 2018. He was first appointed to the Board in 2004 – who served mainly as Vice Chairman – until his appointment as Chairman of the Board. Mr. Mazzi holds directorships in subsidiaries of the Company. He holds directorships in Prada Holding S.p.A., Bellatrix S.p.A. and Ludo S.r.l., which are substantial shareholders 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 Chora S.r.l. - Milan (a service company) and an independent board member of Banca Profilo S.p.A. (a bank listed on the Italian Stock Exchange) since April, 2018. He was previously a board member of IMI-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). He is a member of the Remuneration Committee and Nomination Committee. Save as disclosed herein, 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.

EXECUTIVE DIRECTORS

PRADA BIANCHI, Miuccia, aged 70, is a Chief Executive Officer of the Company. She was first appointed as the Chairperson of the Board on November 20, 2003 until February 14, 2014 and she was most recently re-elected as Executive Director on April 27, 2018. Ms. Prada holds directorships in Prada Holding S.p.A., Bellatrix S.p.A. and Ludo S.r.l., which are substantial shareholders 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. Patrizio Bertelli. Ms. Prada is the wife of Mr. Bertelli, one of our Chief Executive Officers and is the mother of Mr. Lorenzo Bertelli. 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.

BERTELLI, Patrizio, aged 72, is a Chief Executive Officer of the Company. He was first appointed to the Board on November 20, 2003 and was most recently re-elected as Executive Director on April 27, 2018. Mr. Bertelli holds directorships in subsidiaries of the Company. He holds directorship in PA BE 1 S.r.l., which is a substantial shareholder 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. Miuccia Prada Bianchi. Mr. Bertelli is the husband of Ms. Prada, one of our Chief Executive Officers, and is the father of Mr. Lorenzo Bertelli. 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.

COZZANI, Alessandra, aged 56, is the Chief Financial Officer of the Company. She was first appointed to the Board as Executive Director on December 20, 2013 and she was most recently re-elected on April 27, 2018. She has been our Investor Relations Director since July 2010, responsible for managing financial communication and for relationships with investment community, and was further appointed as Chief Financial Officer on February 19, 2016. Ms. Cozzani holds directorships in subsidiaries of the Company. 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 (Italy) 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.

NON-EXECUTIVE DIRECTORS

SIMONTACCHI, Stefano, aged 48, has been appointed as Non-Executive Director of the Company on April 8, 2016 and most recently re-elected on April 27, 2018. On December 2018 Mr. Simontacchi has been appointed as President of BonelliErede Law Firm, a leading law firm in Italy; he has been on the firm's board since 2010 and Managing Partner from 2013 to 2018. His practice focuses on international taxation, transfer pricing, tax planning, private equity, and tax aspects related to real-estate transactions, real-estate and equity funds, M&A and reorganisations. In addition, Mr. Simontacchi is a member of the EU Joint Transfer Pricing Forum (which assists and advises the European Commission on transfer pricing tax matters) and has authored widely on tax law, including for Il Sole 24 Ore (a leading, daily business newspaper). Mr. Simontacchi obtained a degree with praise (cum laude) in business administration from L. Bocconi University of Milan in 1995. In 2000, he obtained an Adv. LLM with praise (cum laude) in International Taxation from Leiden University. In January 2007, Mr. Simontacchi obtained his PhD in International Taxation from the Faculty of Law of Leiden University. In April 2015, Mr. Simontacchi was appointed as board member of RCS MediaGroup S.p.A., an Italian listed company, leader in the newspaper sector. In addition, he has been serving as board member of Cabara Insurance Broker S.r.l. since 2010, as Chairman of the Fondazione Ospedale Buzzi since July 2015 and as board member of Assoedilizia Servizi S.r.l. since 2017. Save as disclosed herein, Mr. Simontacchi has not held any directorship in other listed companies in Hong Kong or overseas in the last three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MATTEI, Gian Franco Oliviero, aged 73, was first appointed as Independent Non-Executive Director on May 28, 2009 and was most recently re-elected on April 27, 2018. Mr. Mattei obtained a degree in Economics from The Sapienza University of Rome (Italy) in 1970 and became a Public Chartered Accountant (member of the Registro dei Revisori Legali) 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. He is Deputy Chairman of Officine CST - Consulting Services & Technology - S.p.A.. Mr. Mattei is the Chairman of the Audit Committee and the Nomination Committee and a member of the Remuneration Committee. 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 72, was appointed to the Board first on May 31, 2007 and was most recently re-elected as Independent Non-Executive Director on April 27, 2018. Mr. Forestieri obtained a degree in Economics and Banking from the University of Siena (Italy) in 1970 and obtained a Specialization in Corporate Finance from the Scuola Mattei - ENI in 1971. From 1988 to 2016, Mr. Forestieri was 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 2013 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. 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 63, was first appointed as Independent Non-Executive Director on May 9, 2011 and was most recently re-elected on April 27, 2018. He has been the Chairman of My Top Home (China) Holdings Limited, 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 percentage of shares in Hongkong Sales (International) Limited ("HKSI"), an investment holding, knitwear manufacturing company), Non-executive Director of HKSI since 2005 and Non-executive Chairman of Grosvenor Asia Pacific Limited since November 2018, 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). 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. Mr. Liu is a member of the Nomination Committee. Save as disclosed herein, 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.

CEREDA, Maurizio, aged 55, has been appointed as Independent Non-Executive Director of the Company on April 27, 2018 and previously has been a Non-Executive Director since May 24, 2016. Mr. Cereda's practice focuses on providing consultancy services to entrepreneurs, family offices, companies and financial institutions. Since 2015, he has also been founding partner and board member of FIEE (Fondo Italiano per l'Efficienza Energetica) Sgr S.p.A. Mr. Cereda obtained a degree in business economics from L. Bocconi University of Milan in 1989. Mr. Cereda has been serving as board member of various companies listed on the Italian Stock Exchange including Technogym S.p.A. (since 2016) and Enervit S.p.A. (since 2007). Mr. Cereda started his career as an analyst in the equity capital markets division in Rasfin S.p.A. and then he worked fifteen years at Mediobanca S.p.A., till his appointment as deputy general manager and head of corporate finance covering large corporate clients, a role that he covered from 2007 to 2015. From 2007 to 2014, he was a board member of Mediobanca S.p.A., and from 2006 to 2014, he was also a board member of Ansaldo STS S.p.A., both companies listed on the Italian Stock Exchange. Mr. Cereda is the Chairman of the Renumeration Committee and a member of the Audit Committee. Save as disclosed herein, Mr. Maurizio Cereda has not held any directorship in any other listed companies in Hong Kong or overseas in the last three years.

SENIOR MANAGEMENT

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

ANTONACCI, Nicola, aged 55, has been Southern Europe Regional Director since 2017. Mr. Antonacci is primarily responsible for overseeing the Group's operations in Italy, Spain, Portugal and Southern East Mediterranean Region. Mr. Antonacci joined our Group in 1996 and covered, until 2010, different managerial roles within the commercial and the collections development areas. Mr. Antonacci, from 2012 to 2015 served as Senior Vice President Prada Retail/Wholesale of Prada USA and from 2015 as Regional Director North America. From 2010 to 2011 he worked in Paris, as Men's Ready to Wear Director for Givenchy. Prior to joining our Group, he worked for Giorgio Armani S.p.A. and Hermes as store manager and visual merchandiser.

BERTELLI, Lorenzo, aged 31, has been Head of Group Marketing and Communication since 2018. He is primarily responsible for the Group's communication strategy and for the development of the e-commerce for all the brands belonging to the Group. Mr. Bertelli obtained a degree in Philosophy at San Raffaele University in Milan in 2008. He joined the Group in 2017 to oversee the development of the food and beverage activities carried out by the Group through the Pasticceria Marchesi brand. Mr Lorenzo Bertelli has been Director of Prada Holding S.p.A. since 2015. Mr. Lorenzo Bertelli is the son of Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli, the Chief Executive Officers of the Company.

BOZZI, Bruno, aged 57, has been Prada Women's Ready to Wear Industrial Director since 2010. Mr. Bozzi is primarily responsible for the manufacturing of the women's ready to wear collection of the Prada brand. He joined our Group in 1996 and undertook managerial roles in the planning and production of ready to wear for both Prada and Miu Miu brands. In 2009 he was appointed as Knitwear Division Director, a role which he is still covering. Prior to joining the Group he covered different roles in the production departments of a number of manufacturing companies.

BUSO, Daniele, aged 51, has been Prada Men's Ready to Wear Industrial Director since 2009. Mr. Buso is primarily responsible for the manufacturing of the men's ready to wear collection of the Prada brand. He obtained a high school diploma at Giulio Natta Technical High School in Padova in 1986. Mr. Buso joined our Group in 2004 as Operations Director for Jil Sander brand and in 2008 was appointed as Linea Rossa Ready to Wear Operations Director. He started his career in a Venetian fashion company before joining Gilmar in 1988. In 2001 he joined the Ferrè Group as Industrial Director.

CAROLA, Pablo, aged 51, has been Middle East and South Africa Regional Director since 2017. Mr. Carola is primarily responsible for overseeing the Group's operations in the Middle East area and in South Africa, where he covers several managerial roles at the Company's subsidiaries. Mr. Carola obtained a University degree in Business Administration at Universidad de Politecnica de Catalunya (Spain). He joined the Group in 2011 to manage human resources of both Miu Miu and Prada stores worldwide and from 2013 to 2017 he was Regional Director for Iberian Peninsula and North Africa. Prior to joining our Group he worked for almost twelve years as human resources director at Louis Vuitton.

CHAN, Li Sa, aged 47, has been South East Asia General Manager since 2017. She is primarily responsible for overseeing the Group's commercial operations in Singapore, Malaysia and Thailand. Ms. Chan obtained a Master's degree in Business Administration at the University of Stirling (UK). She joined Prada first in 2008 as Retail Merchandising Manager after spending a few years as Brand Manager in a number of brands in Singapore. In 2013, she was appointed as Retail Director for Miu Miu responsible for the retail merchandising, retail operations and visual merchandising of the brand in the South East Asia. From 2016 to 2017, she worked for Valentino as General Manager in Singapore.

CHOI, Moonyoung, aged 56, has been Prada Korea General Manager since 2007. She is primarily responsible for overseeing the Group's commercial operations in Korea. She started her career at Louis Vuitton, as the first Louis Vuitton Store Manager in Korea (1991 - 1999). From 1999 to 2007 Ms. Choi worked at Celine Korea, LVMH Group, as Retail Manager, subsequently becoming Country Manager for Korea.

CLARK, Sophie, aged 46, has been Prada Australia General Manager since 2016. She is primarily responsible for overseeing the Group's commercial operations in Australia and New Zealand. Ms. Clark graduated from Sydney's exclusive Kincoppal-Rose Bay School. Ms. Clark had an extensive career at leading Department store David Jones in Sydney (1999 - 2016) where she most recently held the position of General Manager Womenswear. Ms. Clark was elected as a judge for the prestigious International Woolmark Fashion Awards in Milan 2014, Bejing 2015 and New York 2016.

COVIELLO, Letizia, aged 51, has been Group Tax Director since 2016. She is primarily responsible for overseeing all Group strategic tax matters. Ms. Coviello obtained a Degree in Economics from the University La Sapienza in Rome in 1991 followed by a Tax Specialization Master at Ipsoa in Milan. Before joining the Group in 1998 she worked for a Legal Firm, Studio Simonelli e Associati in Milan and afterwards as Tax Senior Assistant in the Fiscal Department at Eni Spa, in Milan.

DE PAOLI, Paolo, aged 42, has been Group Internal Audit and Risk Management Director since 2016. He is primarily responsible for the appropriateness of the control systems and the risk management and the application of procedures, to ensure protection against risks at Group level. Mr. De Paoli obtained a degree in Economics at Bocconi University. After spending 5 years in KPMG Spa as Senior Supervisor, he joined Prada in 2008, first as Internal Audit Manager, then as Administration and Finance Manager for EMEA and New Markets.

FAYARD, Pierre, aged 56, has been North America Regional Director since September 2017. He is primarily responsible for overseeing the Group's operations in USA and Canada, where he covers several managerial roles at the Company's subsidiaries. Mr. Fayard obtained a degree in Business Administration from Paris Business School in 1984. He joined our Group in 2011 as Regional Director for the Middle East area and South Africa. 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.

GRECO, Enzo, aged 53, has been Group Information Technology Director since 2014. He is primarily responsible for the management of the Group's information technology system. Mr. Greco obtained a degree in Mathematics, from the

University of Florence (Italy) and a master's degree in Business Administration "cum laude" (with praise) from SDA Bocconi University in Milan (Italy) in 1996. He started his career as IT Director for Federazione Toscana BCC in Florence (1997-2001). Later he was responsible for Outsourcing Application Management Contract in Infogroup Spa, Bank Group in Florence (2002-2005). He worked for eight years for Esselunga Spa in Milan as IT Director managing the whole group's Information System.

LOMANTO, Maria Cristina, aged 44, has been Miu Miu brand General Manager since 2015. She is primarily responsible for overseeing worldwide operations and strategy of the Miu Miu brand. Ms. Lomanto obtained a degree in Law from the University of Milan (Italy) in 1998. She joined our Group in 2006 and before being appointed to her current position she covered different managerial roles in wholesale, retail and collection merchandising areas. Prior to joining Prada, she worked in Yves Saint Laurent as Commercial Director for Italy and Switzerland.

LOUIS, Marie Celine Florence, aged 39, has been appointed as General Manager for France, Belgium and Principality of Monaco on September 2018. She is primarily responsible for overseeing the Group's commercial activities in France, Belgium and Principality of Monaco. After obtaining her Master's Degree at the EDHEC Business School in France, she joined the Christian Dior Couture as management trainee and then became the Retail Manager in Australia and also in China (2002 - 2009). In 2009, Ms. Louis moved to Chanel Fashion China as Retail Manager and in 2011 she joined Prada China as Retail Operations Manager where she stayed until 2014. From 2014 to 2015 she worked for Saint Laurent China as General Manager and from 2015 to 2018 she was the General Manager for Prada in Hong Kong.

LUPAS, Domnica Alexandra, aged 46, has been Central Europe Regional Director since 2012. She is primarily responsible for overseeing the Group's operations in Germany, Austria, Switzerland, Netherlands and Czech Republic area, where she covers several managerial roles at the Company's subsidiaries. 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.

MARSICOLA, Alessandra, aged 59, has been North West Europe Regional Director since May 2018. She is primarily responsible for overseeing the Group's operations in United Kingdom, Ireland, Sweden, Finland, Denmark, France, Belgium and Principality of Monaco. Ms. Marsicola joined our Group in 1991 and before being appointed to her current position she covered different managerial roles in the commercial department, including Retail Development Director for Japan and Asia, Chief Executive Officer of Prada Fashion Commerce (Shanghai), Prada Worldwide Store Operation Director and Prada Retail Director for Prada Japan. From 2006 to 2009, she worked first as Sales Director for La Rinascente then as Asia Pacific Retail Director for Fendi.

NOSCHESE, Marcelo, aged 54, has been Latin America Regional Director since 2017. He is primarily responsible for overseeing the Group's operations in Central America, South America (since 2011) and Carribean area. Mr. Noschese obtained a master's 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 in 2011 as Regional Director for South America, 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).

RASTRELLI, Stefano, aged 56, has been Group Human Resources Director since 2013. Mr. Rastrelli obtained a degree in Law, from the University of Naples. He first joined the PRADA Group in 2007 to manage the human resources of the Industrial Departments and subsequently extended also to the Commercial Departments. Prior to joining our Group he worked for almost twenty years for the Fiat Group, covering different managerial roles within the Fiat Group for different branches in Italy and abroad (Argentina, Brazil). From 2005 to 2007 Mr. Rastrelli was in Spain as Human Resources Director for GKN Driveline.

ROMANO, Anthony, aged 52, has been Church Group Chief Executive Officer since 2017. Mr. Romano is primarily responsible for overseeing worldwide operations and strategy of the Church Group and the Car Shoe brand. He joined the Group in 2013 as Regional Director for the South East Mediterranean area. After his bachelor's degree in Business in New Zealand, he was employed at Deloitte & Touche and then at Timberland Europe before working for almost ten years for Calvin Klein Europe (1995 - 2004) where he became C.E.O. and Managing Director. From 2004 to 2007, he was General Manager and Company Director of Luna Rossa Challenge for the 2007 America's Cup. He was partner of ADR - fashion and sport strategic consultancy company, from 2008 to 2013.

SESIA, Davide, aged 51, has been Japan and Hawaii Regional Director since February 2004. He is primarily responsible for overseeing the Group's operations in Japan, Guam, Saipan and Hawaii area, where he covers several managerial roles at the Company's subsidiaries. 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).

TAO, Yu Hua Irene, aged 52, has been Prada Taiwan General Manager since 2017. She is primarily responsible for overseeing the Group's commercial operations in Taiwan. Ms. Tao obtained the degree in Japanese Language at the Soochow University (Taiwan). Prior to joining the Group, she worked for almost 11 years at Louis Vuitton in Taiwan. Then she held the Retail Operations positions in Fendi and Cartier from 2007 to 2013 and became the General Manager at Chloe Taiwan from 2014 to 2017.

TOLOMELLI, Armando, aged 52, has been Asia Pacific Regional Director since 2012. Mr. Tolomelli is primarily responsible for overseeing the Group's operations in the Asia Pacific region, where he covers several managerial roles at the Company's subsidiaries. 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) and Corporate Controlling Director of Kamps in Düsseldorf, Germany (2002 to 2005). He graduated in business economics from the University of Parma (Italy) in 1989.

TOSATO, Chiara, aged 41, has been Prada brand General Manager since 2017. She is primarily responsible for overseeing worldwide operations and strategy of the Prada brand. Ms. Tosato obtained a degree in Engineering at the University of Pavia (Italy) and a master's degree in Business Administration from INSEAD, Fontainebleau, France. Prior to joining Prada, she worked as Senior Associate in Booz Allen Hamilton (Strategy Innovation and Technology Division) and as Infinity Commercial Director in Mediaset.

ZAMBERNARDI, Fabio, aged 56, has been Group Design Director 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 of both Prada and Miu Miu brands. He has been collaborating with the Group since 1981. He was promoted Shoe Design Director in 1997 and Design Fashion Coordinator in 1999.

ZENKOVSKAYA, Vera, aged 42, has been Russian area Regional Director since 2013. Ms. Zenkovskaya is primarily responsible for overseeing the Group operations in Russia, Kazakhstan and Ukraine, where she covers several managerial roles at the Company's subsidiaries. Ms. Zenkovskaya obtained a Foreign Languages Degree at Language University of Kazakhstan. Prior to joining our Group in 2011 as Russia Country Manager, she worked within the beauty sector (L'Oreal, Temtrade) in marketing and retail areas. From 2006 to 2011, she covered several managerial roles in Russia and Ukraine for Louis Vuitton.

ZHU, Liang Jimmy, aged 33, has been General Manager for Hong Kong and Macau since 2018. He is primarily responsible for overseeing the Group's commercial operations in Hong Kong and Macau. Mr. ZHU obtained the degree in Commerce at the Macquarie University (Australia). He worked in Japan and Taiwan from 2004 to 2007 and then moved to Australia to start his career as Brand Manager at Giorgio Armani. Then he moved to Taiwan in 2013 to join Prada Taiwan as Retail

Operations Manager for Prada and Miu Miu. In 2016, he became the Country Manager of Macau.

None of the Group's senior management listed above is or has been a director of any listed companies in Hong Kong or overseas in the past three years.

COMPANY SECRETARY

ALBANO, Patrizia, aged 65, is the joint company secretary of the Company. Ms. Patrizia Albano has been the Head of 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 has been Chairman of the Board of Statutory Auditors of Artemide Italia S.r.l., a member of the Board of Statutory Auditors in Artemide Group S.p.A. and Artemide S.p.A. since May 2014. In 2017 she was appointed as Board member of FinecoBank S.p.A. and in April 2018 she was appointed as Independent Board member of Piaggio & C. S.p.A., both companies listed on the Italian Stock Exchange. Ms. Albano also served as board member of Cassa di Risparmio di Rimini S.p.A. from April to November 2015, of Mediacontech S.p.A. from June to December 2016 and as Chairman of Gruppo Moda, Design e Arredo of Assolombarda (Association of Industrial provinces of Milan, Lodi, Monza and Brianza) from February 2015 to December 2017. Ms. Albano is the wife of Mr. Carlo Mazzi, the Chairman of the Board of our Company. Save as disclosed herein, 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 52, is the joint company secretary of the Company. 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 25 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's 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 ("HKICS") and the Institute of Chartered Secretaries and Administrators, UK since 2001. Ms. Yuen has been a member of the Membership Committee of HKICS since 2016 and was the past member of the Company Secretaries Panel of HKICS (2012 - 2015). 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 AND BUSINESS REVIEW

PRADA S.p.A. (the "Company"), together with its subsidiaries (the "Group"), is a leading global luxury group in the design, production and distribution of high-end leather goods, handbags, footwear, apparel and accessories, as well as operates, under licensing agreements, in the eyewear and fragrance sectors. Through its Directly Operated Stores network (the "DOS"), franchise stores and a selected number of luxury department stores and independent retailers, 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 20135, Italy.

Further discussion and analysis of these activities as required by section 388(2) and Schedule 5 to the Hong Kong Companies Ordinance, including a review of the business of the Company, a discussion and analysis of the Group's performance during the year ended December 31, 2018 (the "Reviewed Period") and the material factors underlying its results and financial position, a description of the risks and uncertainties facing the Group, and the future development of the business of the Company, is set out in the Financial Review section of this annual report. Particulars of important events affecting the Company that have occurred since the end of the reporting period is set out in note 44 to the Consolidated financial statements. These discussions form part of this directors' report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

A key ethical value fundamental to the Group is the compliance with legislative and regulatory provisions in all countries in which the Group operates. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those that have a significant impact on the Group.

The Group's products are distributed and sold across 70 countries; therefore they have to comply with all applicable laws, standards and regulations in each of these countries. To properly address this matter, the Group established an Industrial Compliance Committee in 2010 to constantly oversee the Group's products compliance with international and local legislative requirements of the manufacturing and distribution process at a worldwide level.

A detailed analysis of the legal and regulatory risks to which the Group is exposed is set out in the paragraph headed "Legal and regulatory risks" of the Financial Review section of this annual report, which forms part of this directors' report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group aims to a continuous improvement in creating value for its stakeholders by combining economic profitability with employee and customer satisfaction, as well as respecting ethical and environmental values and maintaining a high standard of sustainability.

Environmental protection is one of interests of the Group, which feels responsible for engaging in and cultivating virtuous behaviors that contribute to its sustainable growth and are examples of good practices within the entire industry.

Commitment to environmental respect is a key element of the Code of Ethics, applied both within the organization, by constantly raising staff awareness, and to third parties working with the Group.

The main direct impact of the Group's business originates from the use of energy for offices, factories, logistics centers and stores in the various parts of the world. The objective is to reach ever-higher levels of energy efficiency, waste reduction and responsible use of natural resources.

Further analysis on the environmental policies and perfomances is set out in "The PRADA Group" section to this annual report.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group's success also depends on the support from key stakeholders such as employees, customers, suppliers and shareholders.

EMPLOYEES

The Group is built on people. The Group has always considered human capital to be the key to its competitive edge and makes every effort to promote and reward productivity, professional skills and teamwork, with an emphasis on results. The employees' enthusiasm, craft skills and intellectual curiosity are the indispensable elements which underpin the innovation and quality of the Group's products. The

Company searches for people that can combine these exceptional qualities with the values of the Group.

As of December 31, 2018 the Group had 13,556 employees (headcount), of whom 37% work in Italy, showing a 5.5% growth compared to the previous financial year.

The Group's remuneration policy aims to attract, reward and retain skilled personnel and expert managers, while bringing the interests of the management in line with the primary objective of creating value over the medium and long term.

Further analysis on the value of human resources of the Group is set out in the "The PRADA Group" section to this annual report, while further analysis on the remuneration policy of the Group is set out in the "Corporate Governance" section of this annual report, both of which form part of this directors' report.

CUSTOMERS

The Group believes that it has a reputation for being a leader in style, maker of outstanding products and providing excellent customer service.

The distinctive features and the prestige of the Group, derived from an original management of the creative and industrial processes, places the Group itself in a position to offer customers around the world with unique products, which represent an inimitable synthesis of creativity, quality and exclusivity. In addition, the Group believes that an effective communication is crucial to build and convey an image of strong and consistent brand identity.

The result of the Group's approach to its customers is the unique relationship between each customer and the Group's brands, its products and its stores.

SUPPLIERS

The Group regards its relationship with its suppliers - built up through years of day-to-day collaboration and directed towards continuous improvement - as fundamental to it. The Group has a diverse range of raw materials suppliers and external manufacturers. About 88% of them are located in the European Union and mainly in Italy.

Raw materials are a key component of the quality of the Group's products and therefore constitute a primary focus for the Group itself. Their procurement process, import, use and export are carried out in compliance with the most stringent international and local regulations. Every raw material used in the manufacturing process has a certificate of origin that attests its geographical origin. In addition, raw materials undergo extreme quality controls by the Group's inspectors and experts.

In fact, the Group has always intended to act as a stimulus for its suppliers, not only in terms of the excellent quality level required, but also through the promotion of a culture and modus operandi which comply with the highest ethical standards. The Group thus requires that its suppliers act in a responsible manner and that each of them undertakes and acknowledges the Group's Code of Ethics, which expresses the inalienable rights of employees, proper working conditions, equal opportunity, freedom of association, health insurance coverage and protection of the environment in the collection of the materials and in the production processes.

In order to achieve the highest quality standards, the Group undergoes a strict process in selecting and maintaining its suppliers with the aim of establishing long-term relationships.

SHAREHOLDERS

One of the corporate goals of the Group is to enhance corporate value to its shareholders by granting dividend payouts, taking into account the liquidity positions and business expansion needs of the Group. Details of the Group's communication with its shareholders are set out in the "Corporate Governance" section of this annual report, which forms part of this directors' report.

An analysis of the Group's environmental policies and performance and of the relationships with key stakeholders (employees, customers, suppliers and shareholders) will be included in the Group's Social Responsibility Report 2018, which will be published in due course.

RESULTS AND DIVIDENDS

The results of the Group for the Reviewed Period are set out in the Consolidated Statement of Profit or Loss.

The Board recommends, for the Reviewed Period, a final dividend of Euro 153,529,440 (Euro 0.06 per share). The payments shall be made:

(i) in Euro to the shareholders recorded in the section of the Company's shareholders register kept by the Company at its registered office in Milan (Italy), and

(ii) 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 the final dividend is approved 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 Tuesday, April 30, 2019. The shareholders recorded on the Company's shareholders register on Friday, April 26, 2019, will be allowed to attend and vote at the shareholders' general meeting of the Company.

In order to qualify to attend and vote at the shareholders' general meeting of the Company, all transfers accompanied by the relevant share certificate(s) must be lodged with:

(i) 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, if the transfer concerns shares registered in the section of the Company's shareholders register kept by the Company's Hong Kong share registrar itself, or

(ii) the Company's registered office in Milan (Italy), Via A. Fogazzaro, 28, if the transfer concerns shares registered in the section of the Company's shareholders register kept by the Company itself,

in any case, no later than 4:30 p.m. (Hong Kong time)/10:30 a.m. (CET time) on Thursday, April 25, 2019. The Company's shareholders register (both sections) will be closed from Friday, April 26, 2019 to Tuesday, April 30, 2019, both days inclusive, during which period no share transfer can be registered.

Subject to the shareholders' approving the recommended final dividend, such dividend will be paid on Friday, May 24, 2019.

The final dividend will be paid to shareholders recorded on the Company's shareholders register on Wednesday, May 8, 2019.

In order to qualify for the payment of the final dividend, all transfers accompanied by the relevant share certificate(s) must be lodged with:

(i) 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, if the transfer concerns shares registered in the section of the Company's shareholders register kept by the Company's Hong Kong share registrar, or

(ii) the Company's registered office in Milan (Italy), Via A. Fogazzaro, 28, if the transfer concerns shares registered in the section of the Company's shareholders register kept by the Company,

in any case, no later than 4:30 p.m. (Hong Kong time)/10:30 a.m. (CET time) on Tuesday, May 7, 2019. The Company's shareholders register (both sections) will be closed on Wednesday, May 8, 2019, during which no share transfer can be registered.

The dividend will be paid net of Italian withholding tax, where applicable. The current rate of Italian withholding tax applied to applicable dividend payments is 26%.

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 both the Group and the Company during the Reviewed Period 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 December 31, 2018, the Company's reserves available for distribution to shareholders in accordance with the Company's by-laws amounted to Euro 878.9 million.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Reviewed Period, are set out in Note 15 to the Consolidated financial statements.

PRE-EMPTIVE RIGHTS

The Company's by-laws do not provide for pre-emptive rights.

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 Reviewed Period, except as disclosed in the section "Issuance of debt securities" below.

CAPITAL GAINS TAX IN ITALY

Capital gains realized from the sale in an Italian company by shareholders resident in Hong Kong are not subject to taxation in Italy.

Further details on Italian capital gains taxation have already been reported in the Tax Booklet available on the Company's website www.pradagroup.com.

SUBSIDIARIES

Details of the Company's subsidiaries as at December 31, 2018, are set out in Note 42 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
Mr. Carlo MAZZI (Chairman of the Board)
Ms. Miuccia PRADA BIANCHI (Chief Executive Officer)
Mr. Patrizio BERTELLI (Chief Executive Officer)
Ms. Alessandra COZZANI (Chief Financial Officer)

NON-EXECUTIVE DIRECTORS
Mr. Stefano SIMONTACCHI

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Gian Franco Oliviero MATTEI
Mr. Giancarlo FORESTIERI
Mr. Sing Cheong LIU
Mr. Maurizio CEREDA (who has been re-designated from Non-Executive Director to Independent Non-Executive Director on April 27, 2018)

In accordance with the by-laws of the Company, the Board of Directors was appointed by the shareholders' general meeting on April 27, 2018 for a period of three financial years. Therefore, the Board's mandate will lapse on the date of the shareholders' general meeting to be called to approve the financial statements for the year ending December 31, 2020. The Directors may be reappointed.

BIOGRAPHICAL INFORMATION OF DIRECTORS

A brief biography on each of the Directors of the Company is set out in the "Directors and Senior Management" section of this annual report.

DIRECTORS' PERMITTED INDEMNITY

There is no permitted indemnity provision in a contract entered into by the Company or any of its associated corporation that is or was in force during the Reviewed Period and until the date when this directors' report is approved by the Board, which is required to be disclosed under section 470 of the Hong Kong Companies Ordinance.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of any business of the Company, that is not a contract of service with any Director or any person engaged in full-time employment of the Company, to which the Company or any of its subsidiaries was part, was entered into or existed during the Reviewed Period.

DIRECTORS' SERVICE CONTRACTS

None of the Directors of the Company has or is proposed to have a service contract with any company of the Group that cannot be terminated 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, held any interest in a business which competes, or is likely to compete, either directly, or indirectly, with the business of the Company or the Group.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at December 31, 2018, the Directors (including the Chief Executive Officers) of the Company held 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 (the "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 (the "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"):

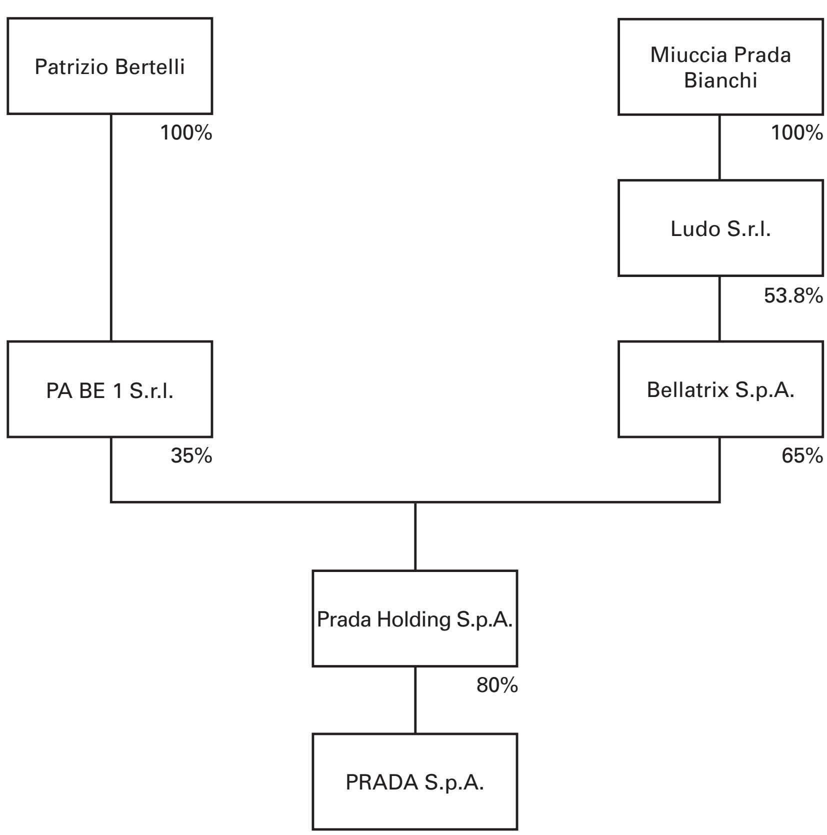
(a) Long positions in shares and underlying shares of the Company

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 S.p.A. owns approximately 80% of the issued capital in the Company and is therefore the holding company of the Company.
2. Ms. Miuccia Prada Bianchi, owns indirectly through Ludo S.r.l., 53.8% (comprised of 438,460 ordinary shares and 100,000 preference shares) of the capital in Bellatrix S.p.A., which in turn owns 65% (comprised of 1,650 ordinary shares and 300 preference shares) of the capital in Prada Holding S.p.A.. Ms. Miuccia Prada Bianchi is therefore deemed under the SFO to be interested in all the shares registered in the name of Prada Holding S.p.A.. Ms. Miuccia Prada Bianchi is also a director of Prada Holding S.p.A., Bellatrix S.p.A. and Ludo S.r.l..
3. Mr. Patrizio Bertelli owns, indirectly through PA BE 1 S.r.l., 35% (comprised of 750 ordinary shares and 300 preference shares) of the capital in Prada Holding S.p.A.. Mr. Patrizio Bertelli is therefore deemed under the SFO to be interested in all the shares registered in the name of Prada Holding S.p.A.. Mr. Patrizio Bertelli is also a director of PA BE 1 S.r.l..

The interests of Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli in the shares of the Company as at December 31, 2018 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 S.p.A.	Ordinary Shares	1,650	Controlled Corporation	68.75%
	Prada Holding S.p.A.	Preference Shares	300	As above	50%
	Prapar Corporation	Common Shares	50	As above	100%
	MFH Munich Fashion Holding GmbH	Registered Share	1	As above	100%
	Bellatrix S.p.A.	Ordinary Shares	438,460	As above	49.83%
	Bellatrix S.p.A.	Preference Shares	100,000	As above	83.34%
	Ludo S.r.l.	Ordinary Shares	100,311	Beneficial Owner	100%
	C.I.D. - Cosmetics International Distribution Corp.	Common Shares	1	Controlled Corporation	100%
	Fratelli Prada S.p.A.	Ordinary Shares	890,094	Controlled Corp.	89.01%
			16,706	Beneficial Owner	1.67%
	*PH-RE LLC	Capital Contribution (JPY)	1,000,000	Controlled Corporation	100%
Mr. Patrizio Bertelli	Prada Holding S.p.A.	Ordinary Shares	750	Controlled Corporation	31.25%
	Prada Holding S.p.A.	Preference Shares	300	As above	50%
	Prapar Corporation	Common Shares	50	As above	100%
	MFH Munich Fashion Holding GmbH	Registered Share	1	As above	100%
	C.I.D. - Cosmetics International Distribution Corp.	Common Shares	1	As above	100%
	*PH-RE LLC	Capital Contribution (JPY)	1,000,000	As above	100%

* Formerly known as PABE-RE LLC

Save as disclosed above, as at December 31, 2018, none of the Directors (including the Chief Executive Officers) of the Company held any interest or short position in the shares, underlying shares and/or 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 December 31, 2018, other than the interests of the Directors of the Company as disclosed above, the following persons held interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of issued capital
Long Positions			
Prada Holding S.p.A.	Legal and beneficial owner	2,046,470,760	80%
Bellatrix S.p.A.	Interest of controlled corporation	2,046,470,760	80%
Ludo S.r.l.	Interest of controlled corporation	2,046,470,760	80%
PA BE 1 S.r.l.	Interest of controlled corporation	2,046,470,760	80%
JPMorgan Chase & Co.	Interest of controlled corporation (9,416,143) Person having a security interest in shares (801,840) Approved lending agent (123,836,110)	134,054,093	5.23%
Short Positions			
JPMorgan Chase & Co.	Interest of controlled corporation	2,378,415	0.09%
Lending Pool			
JPMorgan Chase & Co.	Approved lending agent	123,836,110	4.83%

Note:

Prada Holding S.p.A. owns approximately 80% of the issued capital in the Company. As Ludo S.r.l. owns 53.8% of Bellatrix S.p.A. which in turn owns 65% of Prada Holding S.p.A. and PA BE 1 S.r.l. owns 35% of Prada Holding S.p.A., Bellatrix S.p.A., Ludo S.r.l. and PA BE 1 S.r.l. are all deemed to be interested in the 2,046,470,760 shares of the Company held by Prada Holding S.p.A..

SHARE CAPITAL

Details of the share capital of the Company during the Reviewed Period are set out in both the Consolidated Statement of Changes in Shareholders' Equity and Note 28 to the Consolidated financial statements.

MATERIAL INTERESTS OF DIRECTORS AND ENTITIES CONNECTED WITH A DIRECTOR IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save for those contracts disclosed under the section on Continuing Connected Transactions below and in Consolidated financial statements Note 39, Transactions with Related Parties, and Note 38, Remuneration of the Board of Directors, in the opinion of the Directors, no transaction, arrangement or contract of significance to the Company or the Group subsists as at December 31, 2018, or in fact subsisted during the Reviewed Period in relation to the Company or the Group's business in which the direct or indirect interest of a Director or an entity connected with a Director 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, these being arrangements whose objects are, or one of whose objects is, to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company.

ISSUANCE OF DEBT SECURITIES

Neither the Company nor any of its subsidiaries issued any debt securities during the Reviewed Period.

On August 1, 2018, the Company redeemed Euro 130 million 2.75 per cent notes on their maturity date (the "Notes"). The aggregate price paid for the redemption of the Notes was Euro 130 million. The Notes were issued by the Company on August 1, 2013 for subscription by professional and institutional investors only and were admitted to the official list on the Irish Stock Exchange. Following the redemption, the Notes were cancelled and delisted from the Irish Stock Exchange listing.

CONTINUING CONNECTED TRANSACTIONS

During the Reviewed Period, the Group had the following non-exempt continuing connected transactions, details of which were disclosed in the Company's announcements dated July 15, 2015, January 25, 2017, March 13, 2017, May 26, 2017 and December 1, 2017, respectively:

(a) Franchise Agreement – Prada Milan Stores

The Company was established in 1913 as a family business operating 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.

Against this historical background, on January 28, 2009, the Company entered into a franchise agreement in relation to the Prada stores based in Milan (the "Franchise Agreement") with five companies that operated the stores and their controlling entity, all of which subsequently merged with Fratelli Prada S.p.A. (the "Franchisee"). The Franchisee is a company indirectly controlled by Ms. Miuccia Prada Bianchi, a Chief Executive Officer, an executive director and a substantial shareholder of the Company. The Franchise Agreement will expire on January 31, 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.

The estimated annual caps in respect of the Franchise Agreement, already disclosed in the Company's announcement dated January 25, 2017, and further details of which are disclosed in the Company's announcement dated March 13, 2017 are as follows:

	Euro million for the year ended December 31, 2018
Revenues from sales of goods	42
Revenues from services, net	3.5
Royalties income	1.3
Purchases by the Group	(3.5)
Net amount	43.3

(b) Luna Rossa sponsorship agreement

On December 1, 2017 the Company has entered into a sponsorship agreement with Luna Rossa Challenge S.r.l., a company which is indirectly controlled by Mr. Patrizio Bertelli, who is a Chief Executive Officer, an Executive Director and a substantial shareholder of the Company, for the participation of the Luna Rossa sailing team in the XXXVI edition of the America's Cup, which will be held in New Zealand in 2021. The payment to be made by the Company to Luna Rossa Challenge S.r.l. according to the terms of the sponsorship agreement will be due over the period from January 2018 to June 2021, as disclosed in the Company's announcement dated December 1, 2017 (the "Luna Rossa Sponsorship Agreement").

The annual cap of the sponsorship contribution paid by the Company to Luna Rossa Challenge S.r.l. under the Luna Rossa Sponsorship Agreement for the Reviewed Period is Euro 25 million.

(c) Lease Agreement and Guarantee for Prada Aoyama Building in Japan

On July 15, 2015, PH-RE LLC, formerly known as PABE-RE LLC, purchased a building in Minami-Aoyama, Tokyo, Japan ("the Aoyama Building"). Prada Japan Co. Ltd ("Prada Japan"), a wholly owned subsidiary of the Company, has been leasing the Aoyama Building for use as its flagship store in Tokyo since 2004.

On May 25, 2015, Prada Japan, as lessee, and the former lessor, renewed the lease of the Aoyama Building by entering into a lease agreement for a term of 20 years (the "Lease Agreement"). On the same date, the Company granted a guarantee in favour of the former lessor to guarantee the punctual performance by Prada Japan of all its obligations under the Lease Agreement (the "Guarantee").

As a result of purchasing the Aoyama Building, PH-RE LLC, a connected person of the Company, has become the lessor under the Lease Agreement and the beneficiary of the Guarantee granted by the Company in favour of the former lessor. Accordingly, the Lease Agreement and the Guarantee, which were continuing transactions of the Group, have become continuing connected transactions of the Group under Chapter 14A of the Listing Rules.

On April 28, 2017 PH-RE LLC, which was previously a wholly owned subsidiary of PA BE 1 S.r.l., became a wholly owned subsidiary of Prada Holding S.p.A., a substantial shareholder of the Company. Both Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli - Chief Executive Officers, Executive Directors and substantial shareholders (as defined in the Listing Rules) of the Company - are indirect shareholders of Prada Holding S.p.A..

As a consequence of this transaction, the Lease Agreement and the Guarantee remained as subsequent continuing connected transaction of the Group with no variation of their terms.

The annual cap for the Reviewed Period for the rent paid to PH-RE LLC, or accrued by the Company in accordance with applicable accounting rules, under the Lease Agreement and the Guarantee is JPY 2,040,703,000. The estimated annual cap for the Reviewed Period is disclosed in the Company's announcement dated May 26, 2017.

(d) Lease Agreement and Guarantee for Miu Miu Aoyama Building in Japan

On May 26, 2017, PH-RE LLC, formerly known as PABE-RE LLC, purchased a building in Minami-Aoyama, Tokyo, Japan ("the MM Aoyama Building"). Prada Japan has been leasing the MM Aoyama Building for use as flagship store for the Miu Miu brand in Tokyo since 2015 under a lease agreement entered into with the former owner of the MM Aoyama Building (the "MM Lease Agreement"). In the context of the MM Lease Agreement, the Company granted a guarantee in favour of the former owner to secure the punctual performance by Prada Japan of all its obligations under the MM Lease Agreement (the "MM Guarantee").

As a result of purchasing the MM Aoyama Building, PH-RE LLC has become the lessor under the MM Lease Agreement and the beneficiary of the MM Guarantee granted by the Company in favour of the former owner.

PH-RE LLC is a wholly owned subsidiary of Prada Holding S.p.A., a substantial shareholder (as defined in the Listing Rules) of the Company. Both Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli - Chief Executive Officers, Executive Directors and substantial shareholders (as defined in the Listing Rules) of the Company - are indirect shareholders of Prada Holding S.p.A..

In this context, the MM Lease Agreement and the MM Guarantee, which were continuing transactions of the Group, have become subsequent continuing connected transactions of the Group under Chapter 14A of the Listing Rules.

The annual cap for the Reviewed Period for the rent paid to PH-RE LLC, or accrued by the Company in accordance with applicable accounting rules, under the MM Lease Agreement and the MM Guarantee is JPY 630,000,000.

Below is a table setting out the aggregate value for each of the non-exempt continuing connected transactions for the Reviewed Period:

	Continuing Connected Transaction ("CCT")	Accounting adjustment to the CCT following the application of "IAS 1 Presentation of Financial Statements"	Total impact on the profit or loss for the year ended December 31, 2018
(a) Franchise Agreement - Prada Milan Stores	Euro million	Euro million	Euro million
Revenues from sales of goods	20.8	-	20.8
Revenues from services, net	0.3	-	0.3
Royalties income	0.6	-	0.6
Purchases by the Group	(2.1)	-	(2.1)
Net transaction amount	19.7	-	19.7
(b) Luna Rossa Sponsorship Agreement			
Sponsorship contribution	23	(6.8)	16.2
(c) Lease Agreement and Guarantee for Prada Aoyama Building	Japanese Yen million	Japanese Yen million	Japanese Yen million
Rent	2,040.7	-	2,040.7
(d) Lease Agreement and Guarantee for Miu Miu Aoyama Building	Japanese Yen million	Japanese Yen million	Japanese Yen million
Rent	630.0	-	630.0

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 Group;

(ii) either on normal commercial terms or better; and

(iii) in accordance with the relevant agreement governing them on terms that are considered 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 nothing has come to their attention that causes them to believe that the continuing connected transactions:

(i) have not been approved by the Company's Board of Directors;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transaction involved the provision of goods or services by the Group;

(iii) were not entered into, in all material respects, in accordance with the terms of the relevant agreements governing such transactions; and

(iv) have exceeded the relevant annual limits set out in the Company's announcements dated July 15, 2015, January 25, 2017, March 13, 2017, May 26, 2017 and December 1, 2017, as applicable.

Save as disclosed above, none of the transactions disclosed as related party transaction in note 39 to the consolidated financial statements is a connected transaction or continuing connected transaction which is subject to the reporting or disclosure requirements under 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 December 31, 2018 are set out in Notes 19 and 24 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 less than 30% of the total sales or purchases and the Directors do not consider any one customer or supplier to have an influence on the Group.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in Note 25 to the Consolidated financial statements.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

EVENTS AFTER THE REPORTING PERIOD – IF APPLICABLE

Details of significant events occurring after the reporting date – if any - 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 December 31, 2018 are set out in Notes 40 and 26 respectively to the Consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

At the time the Company was listed, the Stock Exchange granted a waiver from strict compliance with Rule 8.08(1) of the Listing Rules (the "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 an amount of public float as approved by the 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 the consolidated financial statements for the year ended December 31, 2018, with a view to ensuring such Consolidated financial statements give a true and fair view of the state of affairs of the Group. In preparing these Consolidated financial statements, the Directors have selected suitable accounting policies, made judgments and estimates that are prudent and reasonable, and prepared the Consolidated 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 the Company 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 of the Company in a general meeting, 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 is appointed and its remuneration determined every three years at the shareholders' general meeting of the Company under the applicable Italian laws.

At the shareholders' general meeting of the Company held on May 24, 2016, it was resolved to appoint Deloitte & Touche S.p.A. as the auditor of the Company 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 December 31, 2018.

On March 15, 2019, the Board resolved, in accordance with the recommendations received from the Board of statutory auditors and the Audit Committee, to propose a resolution at the forthcoming shareholders' general meeting of the Company to reappoint Deloitte & Touche S.p.A. as the auditor of the Company for a term of three financial years and to fix its remuneration.

By order of the Board

Carlo Mazzi
Chairman

March 15, 2019

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices as part of its commitment to effective corporate governance. The corporate governance model adopted by the Company consists of a set of rules and standards aimed toward 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 such practices have complied with the code provisions set out in the Code, for the entire Reviewed Period (i.e. the year ended December 31, 2018). This Corporate Governance report summarizes the way in which the Company has applied the principles and implemented the code provisions contained in the Code for the duration of the Reviewed Period.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted written procedures governing Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific written acknowledgments have been obtained from each Director to confirm his/her compliance with the required standard set out in the Model Code and the Company's relevant procedures regarding directors' securities transactions for the duration of the Reviewed Period. There were no incidents 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 December 31, 2018, in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) 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, one is Non-Executive Director and four are Independent Non-Executive Directors. All Directors have distinguished themselves in their field of expertise and have advised the Board in the area of their respective specialty, where this is relevant to the Group's business activities and strategic development. Biographical details of the Directors and their relationships, where applicable, are set out in the Directors and Senior Management section of this annual report. The Company has maintained both on its own website and on the website of the Stock Exchange an updated list of its Directors, identifying their respective roles and functions and also specifying if they are an Independent Non-Executive Director.

With a view to achieving a sustainable and balanced development, the Company has viewed diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its development. The Board diversity policy has been considered and adopted by the Board. All Board appointments are based on meritocracy and candidates are proposed and selected based on objective criteria, with due regard for the benefits of diversity within the Board. Diversity in this sense encompasses a wide range of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The final selection is based on merit and the contribution which the candidates can bring to the Board.

The Nomination Committee has been delegated the overall responsibility for implementing and monitoring the application of the board diversity policy. The Nomination Committee will discuss any revisions that may be required to ensure the effectiveness of the board diversity policy and will recommend any such revisions to the Board for its consideration and approval. The Board will review its composition on a regular basis to assess its optimal structure.

B. BOARD MEETINGS

During the Reviewed Period, the Board held four meetings to discuss the Group's overall corporate strategic direction and objectives, assess its operational and financial performance (including the annual budget, as well as the annual and interim results) and to approve connected transactions and the Group's main investments and corporate reorganization plans. The average attendance rate of the Directors for these four meetings either in person or through electronic means was 86.1%.

Minutes of the Board meetings are kept by the Group Corporate Affairs Director and Joint Company Secretary, Ms. Patrizia Albano. Minutes of the Board meetings and all Board Committee meetings are available for inspection by any Director 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	Remuneration Committee	Nomination Committee	Shareholders' Meeting
Executive Directors					
Mr. Carlo MAZZI (Chairman)	4/4		3/3	1/1	1/1
Ms. Miuccia PRADA BIANCHI (Chief Executive Officer)	2/4				0/1
Mr. Patrizio BERTELLI (Chief Executive Officer)	2/4				0/1
Ms. Alessandra COZZANI (Chief Financial Officer)	4/4				1/1
Non-Executive Directors					
Mr. Stefano SIMONTACCHI	4/4				1/1
Independent Non-Executive Directors					
Mr. Gian Franco Oliviero MATTEI [1]	4/4	8/8	3/3	1/1	1/1
Mr. Maurizio CEREDA [2]	4/4	6/6	2/2		1/1
Mr. Giancarlo FORESTIERI [3]	4/4	8/8	1/1		1/1
Mr. Sing Cheong LIU [4]	3/4	2/2		1/1	1/1
Statutory Auditors					
Mr. Antonino PARISI (Chairman)	4/4				1/1
Mr. Roberto SPADA	4/4				1/1
Mr. David TERRACINA	4/4				1/1
Date(s) of Meeting	Mar 9, 2018	Feb 6, 2018	Mar 7, 2018	Mar 7, 2018	Apr 27, 2018
	May 23, 2018	Mar 7, 2018	Jun 14, 2018		
	Aug 1, 2018	May 23, 2018	July 17, 2018		
	Nov 15, 2018	May 29, 2018			
		July 24, 2018			
		Aug 1, 2018			
		Nov 15, 2018			
		Dec 4, 2018			
Average Attendance Rate of Directors	86.1%	100%	100%	100%	77.8%

Notes:
1. Chairman of Audit Committee and Nomination Committee; Chairman of Remuneration Committee changed to a member as of May 23, 2018
2. Re-designated from Non-Executive Director to Independent Non-Executive Director on April 27, 2018; appointed as the Chairman of Remuneration Committee and member of Audit Committee as of May 23, 2018
3. Member of Audit Committee throughout the Reviewed Period and ceased as a member of Remuneration Committee as of May 23, 2018
4. Member of Nomination Committee throughout the Reviewed Period and ceased as a member of Audit Committee as of May 23, 2018

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 successful implementation and attainment of the Company's corporate purposes, 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 and the Group. The Board reserves for its own consideration and decision all matters concerning the overall Group strategy, the Group's strategic objectives, major acquisitions and disposals, annual budgets, as well as annual and interim results, approval of major transactions, connected transactions and any other significant operational and financial matters. The Board is also responsible for evaluating the effectiveness of the risk management and internal control systems on an ongoing basis.

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

The Executive Directors are responsible for the day-to-day management of the Company and to make operational and business decisions within the control and delegation framework of the Company.

The types of decisions delegated by the Board to the management include:

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

E. NON-EXECUTIVE DIRECTORS

The Non-Executive Directors, including the Independent Non-Executive Directors, provide the Company with diversified skills, expertise, qualifications as well as varied backgrounds and perspectives. They participate in the Board and Board Committees meetings to bring independent and objective opinions, advice and judgment on important issues relating to the Company's strategy, policy, financial performance, and take the lead on matters where potential conflicts of interests arise. They also attend the shareholders' general meetings of the Company to understand the views of the shareholders. They make a positive contribution to the development of the Company's strategy and policy through independent, constructive and informed comments.

F. INDEPENDENT NON-EXECUTIVE DIRECTORS

The independence of the Independent Non-Executive Directors has been assessed in accordance with the applicable Listing Rules. Each Independent Non-Executive Director meets the independence guidelines set out in Rule 3.13 of the Listing Rules and provided the Company with the annual confirmation as to his independence. The independence of the Independent Non-Executive Directors was further confirmed by the review of the Nomination Committee made on March 15, 2019. None of the Independent Non-Executive Directors of the Company has any business or financial interest in the Company or its subsidiaries and they continue to be considered independent by the Company.

G. LIABILITY INSURANCE FOR THE DIRECTORS

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

H. 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.

The Directors have participated in continuous professional training to develop and refresh their knowledge and skills during the Reviewed Period, through for example, receiving regular updates on changes to and developments of the Group's business and on the latest development of the laws, rules and/or regulations relating to Directors' duties and responsibilities and a summary of the latest developments of the rules and regulations applicable to the companies listed in Hong Kong from the Group Corporate Affairs Director and Joint Company Secretary, Ms. Patrizia Albano. These initiatives are taken to ensure the Directors' awareness of the latest corporate governance practices and that their contribution to the Board remains informed and relevant.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICERS

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

APPOINTMENT OF DIRECTORS

At the shareholders' general meeting of the Company held on April 27, 2018 ("2018 AGM"), the Board (including the Non-Executive Directors) was appointed for a term of three financial years. The mandate of all the current Directors will lapse on the date of the shareholders' general meeting to be called to approve the financial statements of the Company for the year ending December 31, 2020.

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

RE-DESIGNATION OF DIRECTOR

Mr. Maurizio Cereda was elected and re-designated by the 2018 AGM from a Non-Executive Director to an Independent Non-Executive Director of the Company.

Mr. Cereda was first appointed as a Non-Executive Director on May 24, 2016. The Board and the Nomination Committee considered that Mr. Cereda's previous non-executive role in the Company had not affected his independence. As a Non-Executive Director, Mr. Cereda (a) was not involved in the daily management of the Company and did not have any executive or management role or function in the Company or any of its subsidiaries, (b) was not a member of any Board committee, (c) was not connected with other directors, the chief executives and substantial shareholders of the Company and (d) was not financially dependent on the Company.

The Board and the Nomination Committee considered that, notwithstanding Mr. Cereda's previous non-executive role in the Company, Mr. Cereda had demonstrated his ability to provide an independent, balanced and objective view in respect of the affairs of the Company and has performed roles similar to that of the Independent Non-Executive Directors, such as providing impartial views at Board meetings and requesting further information and details from the Company on various matters discussed by the Board.

The Board and the Nomination Committee were satisfied that Mr. Cereda met the independence criteria set out in Rule 3.13 of the Listing Rules notwithstanding his previous role as a Non-Executive Director, and the Company had demonstrated the same to the satisfaction of The Stock Exchange of Hong Kong Limited.

Mr. Cereda has provided the Company with a written confirmation of his independence.

CORPORATE GOVERNANCE FUNCTIONS OF THE BOARD

The Board is responsible for determining and supervising the application of the Company's appropriate corporate governance policies and ensuring its compliance 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 regarding compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the Code of Ethics, the Organisation, Management and Control Model (adopted pursuant to Italian Legislative Decree no. 231 of June 8, 2001) and the Company's procedures applicable to employees and directors;
(v) to review the Company's compliance with the Code and disclosure of such 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 considered the following corporate governance matters:
(i) reviewed and approved connected transactions of the Company;
(ii) reviewed the level of compliance with the Code;
(iii) reviewed the effectiveness of the internal control and risk management systems of the Company through the Internal Control Department and the Audit Committee; and
(iv) approved the Group's main investments and corporate reorganization plans.

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. Each of the Committees' terms of reference is available on both the website of the Company and the Stock Exchange. The terms of reference in respect of each Committee are of no less exacting than those terms set out in the Code.
In addition, the Board has established a supervisory body under the Italian Legislative Decree no. 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 possesses 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.

Maurizio Cereda who, as of May 23, 2018, has replaced 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 its internal control and risk management systems, to oversee the external audit process, the internal audit process, the implementation of the Company's risk management functions and to perform any other duties and responsibilities as are assigned to it by the Board.

During the Reviewed Period, the Audit Committee held eight meetings (with an attendance rate of 100 %) mainly to review with senior management, the Group's internal and external auditor and the board of statutory auditors, the significant internal and external audit findings and financial matters as required under the Audit Committee's terms of reference and make relevant recommendations to the Board. The Audit Committee's review covered the audit plan for the year 2018, the findings of both the internal and the external auditors, internal controls, risk assessment, annual review of the continuing connected transactions of the Group for 2017, tax and legal updates (including litigations and cooperative compliance regime with the Italian tax authorities) and the financial reporting matters (including the annual results for the year ended December 31, 2017 and the interim financial results as at June 30, 2018), before recommending them to the Board for approval.

The Audit Committee has also held two meetings on March 12 and 15, 2019, to review the Group results for the Reviewed Period, before recommending it to the Board for approval.

AUDITOR'S COMPENSATION

The total fees and expenses accrued in favor of Deloitte & Touche S.p.A. and its network for the audit of the financial statements for the Reviewed Period and for the eleven months period ended December 31, 2017, together with non-audit services, are illustrated below:

Type of service	Audit Firm	Provided to	twelve months ended December 31 2018 (Euro '000s)	eleven months ended December 31 2017 (Euro '000s)
Audit services	Deloitte & Touche spa	PRADA spa	555	516
Audit services	Deloitte & Touche spa	Subsidiaries	126	121
Audit services	Deloitte Network	Subsidiaries	1,139	1,186
Total audit fees to Deloitte Network			1,820	1,823
Other advisory services	Deloitte Network	PRADA spa	583	1,408
Other advisory services	Deloitte Network	Subsidiaries	108	79
Total non-audit fees to Deloitte Network			691	1,487
Total compensation to Deloitte Network			2,511	3,310

The other advisory services provided by Deloitte to PRADA spa were mainly related to the last phase of an assistance project aimed at restyling the Prada web site.

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 package of Directors and senior management and the establishment of a formal and transparent procedure for developing policies 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. Maurizio Cereda (Chairman) who has replaced Mr. Giancarlo Forestieri as a member and Mr. Gian Franco Oliviero Mattei as the Chairman, as of May 23, 2018, and Mr. Gian Franco Oliviero Mattei and one Executive Director, Mr. Carlo Mazzi.

During the Reviewed Period, the Remuneration Committee held three meetings (with an attendance rate of 100%) mainly to recommend the aggregate basic remuneration of the Board for each year of its three-year term to the shareholders for approval at the 2018 AGM, and to review and, if deemed appropriate, to make recommendations on the additional remuneration of the directors vested with special authorities, and to review and recommend certain updates to the long-term incentive plan for executives and Directors.

REMUNERATION POLICY

The Group's compensation policy is aimed at attracting, rewarding and protecting its personnel, who are considered to be the key to the success of the Group's business.
The Group has an incentive system that links compensation with the annual performance of the Group itself, taking into account the Group's objectives in net sales, as well as the objectives of each department.

The Group has adopted long term cash incentive plans for senior managers and key managers for retention purposes, under which the benefit of a senior manager or a key manager 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 following the development of a seasonal collection.

The aggregate basic remuneration of the Board is approved by the shareholders in a general meeting. The additional remuneration of each Director vested with special authorities (that is to the Executive Directors and members of the Board's Committees) is determined by the Board - having considered the recommendation of the Remuneration Committee and the opinion of the Board of Statutory Auditors.

Under the current compensation arrangements, the Executive Directors receive compensation in the form of fees, salaries and other benefits, discretionary bonuses and/or other incentives, including non-monetary benefits and other allowances and contributions such as to retirement benefits schemes. The Non-Executive Directors (including Independent Non-Executive Directors) receive compensation in the form of fees 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 has established a Nomination Committee in compliance with the Code. The primary duties of the Nomination Committee are to determine the policy for the nomination of Directors and to make recommendations to the Board regarding 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, where appropriate, adoption. The Nomination Committee consists of two Independent Non-Executive Directors, Mr. Gian Franco Oliviero Mattei (Chairman) and Mr. Sing Cheong Liu and one Executive Director, Mr. Carlo Mazzi.

During the Reviewed Period, the Nomination Committee held one meeting (with an attendance rate of 100%), to assess and confirm the independence of the Independent Non-Executive Directors of the Company for the 2017 financial year, to recommend the structure and composition of the Board for a term of three financial years, to recommend the re-election of Mr. Giancarlo Forestieri and Mr. Gian Franco Oliviero Mattei, who served the Board for more than nine years and for almost nine years, respectively, as independent non-executive directors of the Company and to recommend the re-designation of Mr. Maurizio Cereda as an independent non-executive director upon his election at the 2018 AGM.

On March 15, 2019, the Nomination Committee held one meeting to assess and confirm the independence of the Independent Non-Executive Directors of the Company for the Reviewed Period and to recommend to the Board the adoption of the nomination policy for the appointment of Directors.

D. SUPERVISORY BODY

In compliance with Italian Legislative Decree no. 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 Independent Non-Executive Directors, qualified auditors, executives or external individuals. The supervisory body consists of Mr. David Terracina (Chairman), Mr. Gian Franco Oliviero Mattei and Mr. Paolo De Paoli.

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, as well as 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 its functioning.

At the shareholders' general meeting of the Company held on April 27, 2018, the board of statutory auditors (including the alternate statutory auditors) was appointed for a term of three financial years. The mandate of the Board of Statutory Auditors will expire at the shareholders' general meeting to be called to approve the financial statements of the Company for the year ending December 31, 2020.

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 are Ms. Stefania Bettoni and Mr. Cristiano Proserpio.

DIRECTORS' RESPONSIBILITY AND AUDITORS' RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for preparing the Consolidated financial statements of the Company for the year ended December 31, 2018 with a view to ensuring such Consolidated financial statements give a true and fair view of the state of affairs of the Group. In preparing these Consolidated financial statements, the Directors have selected suitable accounting policies and made judgments and estimates that are prudent and reasonable. The Consolidated 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.

In addition the Board is generally satisfied of the adequacy of resources, staff qualifications and experience, training program and budget of the Company's accounting and financial reporting function during the Reviewed Period.
As regards the auditor of the Company, its responsibilities are stated in the auditor's reports on the Consolidated financial statements.

INTERNAL CONTROL AND RISK MANAGEMENT

The Group's internal control system has mainly been designed to safeguard the assets of the Group itself, 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 the relevant laws and regulations.

To better control its activities in moving toward the achievement of the established objectives, the Group has adopted procedures to identify, evaluate and manage the specific risks arising out of the continuous changes which affect the regulatory framework and the Group's operations.

The Board places great importance on maintaining a sound and effective system of risk management and internal control to safeguard the shareholders' investment and the Company's assets.

The Board has acknowledged its responsibility for the risk management and internal control systems - including financial, operational and compliance controls functions - and for the ongoing monitoring and review of their effectiveness. Such systems are designed to manage rather than eliminate risks and are aimed at providing reasonable and not absolute assurance against material misstatement or loss.

The management with the support of the Internal Audit Department has been granted by the Board with the responsibility on the process to identify, evaluate and manage the risk factors that may affect the Group's operations and to resolve material internal control defects in the event such defects arise.

The Internal Audit Department provides an independent review of the adequacy and effectiveness of the internal control and the risk management systems. The audit plan is discussed and agreed every year by 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 risk assessment documents are periodically updated by the Internal Audit Department - with the support of the management - then reviewed by the Audit Committee and submitted to the Board for the relevant approval.

The Board has received a specific confirmation from the relevant management of the Company on the effectiveness of the Company's risk management and the internal control systems throughout the Reviewed Period.

During the Reviewed Period, no significant control failings or weaknesses were identified.

The Board - also through the support of the Audit Committee – has been reviewing on an ongoing basis (with the same frequency as regular Board meetings were held) and is generally satisfied that the internal control and the risk management systems have functioned effectively and have been adequate for the Group as a whole, throughout the Reviewed Period.

Moreover, the Board is generally satisfied of the adequacy of resources, staff qualifications and experience, training program and budget of the Company's internal audit and risk management function during the Reviewed Period.

INSIDE INFORMATION

The Company handles and disseminates inside information in accordance with the requirements of the Securities and Futures Ordinance and the Listing Rules.

With regard to the procedures and internal controls for the handling and dissemination of inside information, the Company:

- has adopted certain policies to ensure potential inside information is captured and confidentiality is maintained until timely and proper disclosure is made (the "Policy on Inside Information");
- has made available on the Company's intranet the Policy on Inside Information in order to ensure immediate access to it by all the Group's staff;
- has included in the procedures governing Directors and relevant employees a prohibition on dealing in the Company's shares whilst in possession of inside information; and
- has authorized only the Executive Directors and few selected members of management to act as spokespersons and respond to external enquiries.

In addition, the Board has established an Inside Information Committee, which comprises the Chairman, the Chief Executive Officer, Mr. Patrizio Bertelli, and the Chairman of the Audit Committee. The Inside Information Committee has been delegated with the power to assess, if necessary, any potential inside information, and to keep all other Directors timely informed about its decisions.

JOINT COMPANY SECRETARIES

The Company has appointed Ms. Patrizia Albano and Ms. Yuen Ying Kwai as joint company secretaries. Given that the headquarter of the Company is located outside Hong Kong and the Company is incorporated in Italy, the Company is of the view that it is in the best interests of the Company and is of good corporate governance to maintain Ms. Patrizia Albano and Ms. Yuen Ying Kwai as the joint company secretaries. During the Reviewed Period, each of Ms. Patrizia Albano and Ms. Yuen Ying Kwai, respectively, undertook over 15 hours of relevant professional training to update their skills and knowledge. In addition, they have attended two hours of training sessions held by the Compnay's legal advisor (Slaughter and May) relating to the Listing Rules. Their biographies are set out in the Directors and Senior Management section.

SHAREHOLDERS' RIGHTS

A. CONVENING OF THE SHAREHOLDERS' GENERAL MEETING AT THE SHAREHOLDERS' REQUEST

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 from the notice of call for a shareholders' general meeting, by setting out the proposed additions (five days in advance in the circumstances indicated under the second paragraph of Article 14.4). The proposals 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 A. Fogazzaro n. 28, Milan 20135, Italy.

C. MAKING AN 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 Ms. Patrizia Albano by email at corporateaffairs@pradagroup.com or at the Company's address: Via A. Fogazzaro n. 28, Milan 20135, Italy. The Company will not normally deal with verbal or anonymous enquiries.

D. PROCEDURES FOR SHAREHOLDERS' TO PROPOSE A PERSON FOR ELECTION AS DIRECTOR

The procedures for a shareholder to nominate a person for election as a 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 change to the Company's constitutional documents.

COMMUNICATION WITH SHAREHOLDERS

A. INVESTOR RELATIONS AND COMMUNICATIONS

The Company endeavors to maintain a high level of transparency when communicating with the shareholders and the financial community in general. The Company has maintained regular dialogue and fair disclosure with institutional shareholders, fund managers, research analysts and the finance media. Investor/analysts briefings and one-on-one meetings, roadshows, investor conferences, site visits and results briefings are conducted on a regular basis in order to facilitate communication between the Company, shareholders and the investment community. The Company strives to ensure effective and timely dissemination of information to shareholders and the investment community at all times and will regularly review the arrangements to ensure its effectiveness.

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, presentations, announcements, circulars to shareholders and notices of general meetings, etc.

B. SHAREHOLDERS' MEETINGS

The Company strives to maintain an on-going dialogue with its shareholders. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend such meetings. The process of the Company's general meeting is monitored and reviewed on a regular basis.

The Company uses the shareholders' general meeting as one of the principal channels for communicating with the shareholders and to ensure that shareholders' views are communicated to the Board. At the shareholders' general meeting, each substantially separate issue is proposed and considered by a separate resolution (including the election of individual directors).

The 2018 AGM of the Company was held on April 27, 2018 at the Company's registered office at Via A. Fogazzaro n. 28, Milan, Italy with a video-conference system located at the registered office of Prada Asia Pacific Limited at 36/F, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong. The Directors, including the Chairman of the Board, the Chairman of the Board Committees and the auditor of the Company, Deloitte & Touche S.p.A., attended the 2018 AGM.

Separate resolutions were proposed at the 2018 AGM relating to each issue and the voting results of such resolutions were disclosed in the announcement of the Company dated April 27, 2018. The number of votes cast in favour of each resolution (and the corresponding percentage level) are set out below.

Brief summary of the Ordinary Resolutions passed at the 2018 AGM	Number of Votes cast in favour (%)
1. To approve the Audited Separate Financial Statements and the Audited Consolidated Financial Statements of the Company for the 11-month period from February 1, 2017 to December 31, 2017 (the "2017 Financial Year") together with the Reports of the Board of Directors, the Board of Statutory Auditors and the Independent Auditors.	2,430,703,233 (99.99%)
2. To approve the distribution of the net income for the 2017 Financial Year and the utilization of retained earnings, in the form of a final dividend of Euro 7.5 cents per share.	2,430,865,833 (100%)
3. To approve the Board of Directors will consist of nine Directors for a term of three financial years.	2,430,239,813 (99.97%)
4. To elect Mr. Carlo Mazzi as a Director of the Company.	2,411,940,134 (99.22%)
5. To elect Ms. Miuccia Prada Bianchi as a Director of the Company.	2,426,358,984 (99.81%)
6. To elect Mr. Patrizio Bertelli as a Director of the Company.	2,316,893,425 (95.31%)
7. To elect Ms. Alessandra Cozzani as a Director of the Company.	2,418,155,010 (99.48%)
8. To elect Mr. Stefano Simontacchi as a Director of the Company.	2,408,596,068 (99.08%)
9. To elect Mr. Maurizio Cereda as an Independent Non-Executive Director of the Company.	2,419,995,573 (99.55%)
10. To elect Mr. Gian Franco Oliviero Mattei as an Independent Non-Executive Director of the Company.	2,418,244,574 (99.48%)
11. To elect Mr. Giancarlo Forestieri as an Independent Non-Executive Director of the Company.	2,419,718,155 (99.54%)
12. To elect Mr. Sing Cheong Liu as an Independent Non-Executive Director of the Company.	2,165,935,055 (89.10%)
13. To elect Mr. Carlo Mazzi as Chairman of the Board of Directors of the Company.	2,411,998,705 (99.22%)
14. To approve the aggregate basic remuneration of the Board of Directors for its three-year term.	2,430,239,813 (99.97%)
15. To elect Mr. Antonino Parisi as effective member of the Board of Statutory Auditors of the Company for a term of three financial years.	2,425,810,038 (99.79%)
16. To elect Mr. Roberto Spada as effective member of the Board of Statutory Auditors of the Company for a term of three financial years.	1,919,100,933 (78.95%)
17. To elect Mr. David Terracina as effective member of the Board of Statutory Auditors of the Company for a term of three financial years.	1,919,100,933 (78.95%)
18. To elect Ms. Stefania Bettoni as alternate statutory auditor of the Company for a term of three financial years.	2,430,865,733 (100.00%)
19. To elect Mr. Cristiano Proserpio as alternate statutory auditor of the Company for a term of three financial years.	2,430,865,733 (100.00%)
20. To approve the aggregate remuneration of the Board of Statutory Auditors for its three-year term.	2,430,865,733 (100.00%)

All resolutions put to the shareholders at the 2018 AGM were duly passed. Computershare Hong Kong Investor Services Limited, the Company's Hong Kong share registrar, acted as scrutineer for the vote taking at the 2018 AGM.

C. CORPORATE COMMUNICATIONS

In order to increase efficiency in communication with shareholders and to contribute to environmental protection, the Company has made arrangements from September 2011 to ascertain how its shareholders wish to receive corporate communications. Shareholders have the right to choose the language, either in English or Chinese, or both, and means of receipt of the corporate communications, in printed form or by electronic means through the Company's website at www.pradagroup.com.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(amounts in thousands of Euro)	Note	December 31 2018	December 31 2017
Assets			
Current assets			
Cash and cash equivalents	9	599,821	892,610
Trade receivables, net	10	321,913	289,973
Inventories, net	11	631,791	569,929
Derivative financial instruments – current	12	9,718	13,923
Receivables from, and advance payments to, related parties - current	13	12,626	6,107
Other current assets	14	185,741	192,072
Total current assets		1,761,610	1,964,614
Non-current assets			
Property, plant and equipment	15	1,577,352	1,522,782
Intangible assets	16	920,011	921,458
Investments in equity instruments	17	99,538	8,416
Deferred tax assets	35	217,104	209,402
Other non-current assets	18	102,992	110,698
Derivative financial instruments - non-current	12	205	2,005
Total non-current assets		2,917,202	2,774,761
Total Assets		4,678,812	4,739,375
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term financial payables and bank overdraft	19	421,481	352,971
Payables to related parties – current	20	4,477	4,488
Trade payables	21	315,211	313,697
Tax payables	22	85,043	68,116
Derivative financial instruments - current	12	14,220	7,654
Other current liabilities	23	146,429	157,346
Total current liabilities		986,861	904,272
Non-current liabilities			
Long-term financial payables	24	487,431	638,954
Long-term employee benefits	25	60,001	61,444
Provision for risks and charges	26	51,310	61,815
Deferred tax liabilities	35	30,050	32,012
Other non-current liabilities	27	159,013	167,595
Derivative financial instruments non-current	12	7,077	7,112
Total non-current liabilities		794,882	968,932
Total Liabilities		1,781,743	1,873,204
Share capital		255,882	255,882
Total other reserves		2,383,720	2,375,084
Translation reserve		32,941	(4,035)
Net income for the period		205,443	217,721
Net Equity attributable to owners of the Group	28	2,877,986	2,844,652
Net Equity attributable to Non-controlling interests	29	19,083	21,519
Total Net Equity		2,897,069	2,866,171
Total Liabilities and Total Net Equity		4,678,812	4,739,375
Net current assets		774,749	1,060,342
Total Assets less current Liabilities		3,691,951	3,835,103

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(amounts in thousands of Euro)	Note	twelve months ended December 31 2018	%	eleven months ended December 31 2017	%
Net revenues	30	3,142,148	100.0%	2,741,095	100.0%
Cost of goods sold	31	(879,554)	-28.0%	(710,399)	-25.9%
Gross margin		2,262,594	72.0%	2,030,696	74.1%
Operating expenses	32	(1,938,748)	-61.7%	(1,714,818)	-62.6%
EBIT		323,846	10.3%	315,878	11.5%
Interest and other financial income/(expenses), net	33	(21,940)	-0.7%	(6,731)	-0.2%
Dividends from investments	34	632	0.0%	670	0.0%
Income before taxation		302,538	9.6%	309,817	11.3%
Taxation	35	(94,356)	-3.0%	(91,800)	-3.3%
Net income for the period		208,182	6.6%	218,017	8.0%
Net income - Non-controlling interests	29	2,739	0.1%	296	0.0%
Net income - Group	28	205,443	6.5%	217,721	7.9%
Basic and diluted earnings per share (in Euro per share)	36	0.080		0.085	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Net income for the period - Consolidated	208,182	218,017
A) Items recyclable to P&L:		
Change in Translation reserve	37,804	(151,016)
Tax impact	-	-
Change in Translation reserve less tax impact	37,804	(151,016)
Change in Cash Flow Hedge reserve	(7,300)	5,729
Tax impact	2,016	(1,105)
Change in Cash Flow Hedge reserve less tax impact	(5,284)	4,624
B) Item not recyclable to P&L:		
Change in Fair Value Investments in equity instruments reserve	(6,706)	(3,362)
Tax impact	-	(552)
Change in Fair Value Investments in equity instruments reserve less tax impact	(6,706)	(3,914)
Change in Actuarial reserve	(826)	1,921
Tax impact	98	(330)
Change in Actuarial reserve less tax impact	(728)	1,591
Consolidated comprehensive income for the period	233,268	69,302
Comprehensive income for the period - Non-controlling Interests	3,558	(1,907)
Comprehensive income for the period - Group	229,710	71,209

CONSOLIDATED STATEMENT OF CASH FLOWS

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Income before taxation	302,538	309,817
Profit or loss adjustments		
Depreciation and amortization	219,882	199,000
Impairment of property, plant and equipment and intangible assets	7,475	10,912
Non-monetary financial (income) expenses	38,812	(23,753)
Other non-monetary (income) expenses	(10,407)	12,222
Balance Sheet changes		
Other non-current assets and liabilities	(16,796)	(16,597)
Trade receivables, net	(31,724)	(8,444)
Inventories, net	(60,731)	(66,125)
Trade payables	571	64,281
Other current assets and liabilities	(14,750)	986
Cash flows from operating activities	434,870	482,299
Interest paid, net - third parties	(7,566)	(8,796)
Taxes paid	(62,196)	(26,986)
Net cash flows from operating activities	365,108	446,517
Purchases of property, plant and equipment and intangible assets	(282,135)	(212,653)
Disposals of property, plant and equipment and intangible assets	2,807	1,649
Dividends from investments	632	670
Acquisition of additional shares from Non-Controlling Interests	(2,570)	(1,275)
Financial investments	(98,155)	-
Net cash flow utilized by investing activities	(379,421)	(211,609)
Dividends paid to shareholders of PRADA spa	(191,912)	(307,059)
Dividends paid to non-controlling shareholders	(5,729)	(1,014)
Repayment of Notes	(130,000)	-
Repayment of short-term portion of long-term borrowings - third parties	(144,877)	(46,830)
Arrangement of long-term borrowings - third parties	119,865	343,268
Change in short-term borrowings - third parties	63,480	11,870
Share capital increases by non-controlling shareholders of subsidiaries	345	89
Cash flows generated/(utilized) by financing activities	(288,828)	324
Change in cash and cash equivalents, net of bank overdrafts	(303,141)	235,232
Foreign exchange differences	10,352	(64,836)
Opening cash and cash equivalents, net of bank overdraft	892,610	722,214
Closing cash and cash equivalents, net of bank overdraft	599,821	892,610
Cash and cash equivalents, net of bank overdraft	599,821	892,610
Closing cash and cash equivalents, net of bank overdraft	599,821	892,610

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(AMOUNTS IN THOUSANDS OF EURO, EXCEPT NUMBER OF SHARES)

(amounts in thousands of Euro)	Number of shares	Share Capital	Translation reserve	Share premium reserve	Cash flow hedge reserve	Actuarial reserve	Fair Value Investments in equity instruments Reserve	Other reserves	Total other reserves	Net income for period	Equity Net Equity attributable to owners of the Group	Equity Net Equity attributable Non-controlling interests	Equity Total Net Equity
Balance at January 31, 2017	2,558,824,000	255,882	144,791	410,047	(7,897)	(5,707)	(1,656)	2,006,713	2,401,500	278,329	3,080,502	24,028	3,104,530
Allocation of 2016 net income	-	-	-	-	-	-	-	278,329	278,329	(278,329)	-	-	-
Dividends	-	-	-	-	-	-	-	(307,059)	(307,059)	-	(307,059)	(1,014)	(308,073)
Share capital increase	-	-	-	-	-	-	-	-	-	-	-	89	89
Transactions with Non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	323	323
Comprehensive income for the period (recyclable to P&L)	-	-	(148,826)	-	4,624	-	(3,914)	-	710	217,721	69,605	(1,894)	67,711
Comprehensive income for the period (not recyclable to P&L)	-	-	-	-	-	1,604	-	-	1,604	-	1,604	(13)	1,591
Balance at December 31, 2017	2,558,824,000	255,882	(4,035)	410,047	(3,273)	(4,103)	(5,570)	1,977,983	2,375,084	217,721	2,844,652	21,519	2,866,171
First Time Adoption IFRS 15 - Allowance for return assets	-	-	-	-	-	-	-	(2,740)	(2,740)	-	(2,740)	-	(2,740)
First Time Adoption IFRS 9 - Allowance for bad and doubtful debts	-	-	-	-	-	-	-	(1,724)	(1,724)	-	(1,724)	(33)	(1,757)
First Time Adoption IFRS 9 – Derivatives	-	-	-	-	(2,063)	-	-	2,063	-	-	-	-	-
Balance at January 1, 2018	2,558,824,000	255,882	(4,035)	410,047	(5,336)	(4,103)	(5,570)	1,975,582	2,370,620	217,721	2,840,188	21,486	2,861,674
Allocation of 2017 net income	-	-	-	-	-	-	-	217,721	217,721	(217,721)	-	-	-
Dividends	-	-	-	-	-	-	-	(191,912)	(191,912)	-	(191,912)	(5,729)	(197,641)
Share capital increase	-	-	-	-	-	-	-	-	-	-	-	345	345
Transactions with Non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(577)	(577)
Comprehensive income for the period (recyclable to P&L)	-	-	36,976	-	(5,284)	-	-	-	(5,284)	205,443	237,135	3,567	240,702
Comprehensive income for the period (not recyclable to P&L)	-	-	-	-	-	(719)	(6,706)	-	(7,425)	-	(7,425)	(9)	(7,434)
Balance at December 31, 2018	2,558,824,000	255,882	32,941	410,047	(10,620)	(4,822)	(12,276)	2,001,391	2,383,720	205,443	2,877,986	19,083	2,897,069

PRADA SPA SEPARATE FINANCIAL STATEMENTS

PRADA SPA STATEMENT OF FINANCIAL POSITION

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Assets		
Current assets		
Cash and cash equivalents	298,887	180,434
Trade receivables, net	686,172	577,317
Inventories, net	300,498	248,933
Derivative financial instruments - current	11,005	15,498
Financial receivables and other receivables from parent company, subsidiaries, associates and related parties - current	168,605	145,871
Other current assets	97,013	117,235
Total current assets	1,562,180	1,285,288
Non-current assets		
Property, plant and equipment	766,697	712,896
Intangible assets	196,384	192,330
Investments	954,183	860,178
Deferred tax assets	30,797	29,617
Other non-current assets	21,817	23,816
Derivative financial instruments - non-current	5,290	8,018
Financial receivables and other receivables from parent company, subsidiaries, associates and related parties - non-current	172,433	162,734
Total non-current assets	2,147,601	1,989,589
Total assets	3,709,781	3,274,877
Liabilities and Shareholders' equity		
Current liabilities		
Short-term financial payables and bank overdraft	340,803	264,499
Financial payables and other payables to parent company, subsidiaries, associates and related parties - current	40,087	86,032
Trade payables	807,824	706,732
Tax payables	30,724	18,469
Derivative financial instruments - current	14,171	7,557
Other current liabilities	119,732	99,002
Total current liabilities	1,353,341	1,182,291
Non-current liabilities		
Long-term financial payables	365,971	523,909
Long-term employee benefits	26,712	30,549
Provisions for risks and charges	2,178	10,153
Deferred tax liabilities	2,249	5,456
Other non-current liabilities	23,388	26,893
Derivative financial instruments - non-current	7,072	7,086
Financial payables and other payables to parent company, subsidiaries, associates and related parties - non-current	13,878	68,874
Total non-current liabilities	441,448	672,920
Total liabilities	1,794,789	1,855,211
Share capital	255,882	255,882
Total other reserves	950,562	1,002,230
Net income of the period	708,548	161,554
Total Net Equity	1,914,992	1,419,666
Total Liabilities and Total Net Equity	3,709,781	3,274,877

PRADA SPA STATEMENT OF PROFIT OR LOSS

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Net revenues	1,753,693	1,498,554
Cost of goods sold	(801,248)	(668,697)
Gross Margin	934,445	829,857
Operating expenses	(728,846)	(600,210)
EBIT	205,599	229,647
Interest and other financial income / (expenses), net	(41,879)	(46,810)
Dividends from investments	603,102	24,779
Income before taxation	766,822	207,616
Taxation	(58,274)	(46,062)
Net income for the period	708,548	161,554

PRADA SPA STATEMENT OF COMPREHENSIVE INCOME

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Net income for the period	708,548	161,554
A) Items recyclable to P&L:		
Change in Cash Flow Hedge reserve	(8,423)	4,581
Tax impact	2,021	(1,099)
Change in Cash Flow Hedge reserve less tax impact	(6,402)	3,482
B) Item not recyclable to P&L:		
Change in Fair Value Investments in equity instruments reserve	(6,706)	(5,569)
Tax impact	-	-
Change in Fair Value Investments in equity instruments reserve less tax impact	(6,706)	(5,569)
Change in Actuarial reserve	5	(681)
Tax impact	-	90
Change in Actuarial reserve less tax impact	5	(591)
Comprehensive income for the period	695,445	158,876

PRADA SPA STATEMENT OF CASH FLOWS

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Cash flows from operating activities:		
Income before taxation	766,822	207,616
Profit of loss adjustments		
Depreciation and amortization	58,425	45,559
Impairment of property, plant and equipment and intangible assets	1,061	2,247
Losses/(gains) on disposal of non-current assets	(1,523)	(101)
Impairment of investments	26,311	33,433
Monetary financial (income) expenses	(603,316)	(21,438)
Other non-monetary (income) expenses	68	(16,287)
Balance sheet changes		
Trade receivables, net	(113,527)	6,167
Inventories, net	(28,022)	(28,728)
Trade payables	101,092	(37,402)
Other current assets and liabilities	8,461	46,708
Other non-current assets and liabilities	(14,991)	(18,168)
Cash flows from operating activities	200,861	219,606
Interest paid, net	(1,779)	(8,963)
Taxes paid	(21,870)	-
Net cash flows from operating activities	177,212	210,643
Purchase of property, plant and equipment and intangible assets	(142,507)	(112,177)
Disposal of property, plant and equipment and intangible assets	4,250	256
Investments in subsidiaries	(7,084)	(10,168)
Financial investments	(96,267)	
Dividends from investments	603,102	24,779
Net cash flow utilized by investing activities	361,494	(97,310)
Dividends paid to shareholders	(191,912)	(307,059)
Change in short-term borrowing - third parties	90,000	(218)
Change in intercompany loans	(51,727)	-
Loans repaid by subsidiaries	44,406	27,415
Loans made to subsidiaries	(140,688)	(34,964)
Repayment of short-term portion of long-term borrowings - third parties	(140,332)	(30,356)
Repayment of Notes	(130,000)	
Arrangement of long-term borrowings - third parties	100,000	299,500
Cash flows generated/(utilized) by financing activities	(420,253)	(45,682)
Change in cash and cash equivalents, net of bank overdraft	118,453	67,651
Opening cash and cash equivalents, net of bank overdraft	180,434	112,783
Closing cash and cash equivalents, net of bank overdraft	298,887	180,434
Cash and cash equivalents, net of bank overdraft	298,887	180,434
Closing cash and cash equivalents, net of bank overdraft	298,887	180,434

PRADA S.P.A. STATEMENT OF CHANGES IN EQUITY (AMOUNTS IN THOUSANDS OF EURO, EXCEPT 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	Fair Value Invest-ments in equity in-struments Reserve	Total other reserves	Net income for the period	Total equity
Balance at January 31 2017	2,558,824,000	**255,882**	**410,047**	51,176	182,899	405,803	(1,602)	-	**1,048,323**	**183,355**	**1,487,560**
Allocation of 2016 net income	-	**-**	**-**	-	-	183,355	-	-	**183,355**	**(183,355)**	**-**
Dividends	-	**-**	**-**	-	-	(307,059)	-	-	**(307,059)**	**-**	**(307,059)**
Other Movements	-	**-**	**-**	-	-	80,290	-	(2,207)	**78,083**	**-**	**78,083**
Comprehensive income for the period (recyclable to P&L)	-	**-**	**-**	-	-	-	3,482	(3,362)	**120**	**161,554**	**161,674**
Comprehensive income for the period (not recyclable to P&L)	-	**-**	**-**	-	-	(592)	-	-	**(592)**	**-**	**(592)**
Balance at December 31 2017	2,558,824,000	**255,882**	**410,047**	51,176	182,899	361,797	1,880	(5,569)	**1,002,230**	**161,554**	**1,419,666**
First Time Adoption IFRS 15 - Allowance for return assets	-	**-**	**-**	-	-	(2,740)	-	-	**(2,740)**	**-**	**(2,740)**
First Time Adoption IFRS 9 - Allowance for bad and doubtful debts	-	**-**	**-**	-	-	(5,467)	-	-	**(5,467)**	**-**	**(5,467)**
First Time Adoption IFRS 9 - Derivatives	-	**-**	**-**	-	-	2,063	(2,063)	-	**-**	**-**	**-**
Balance at January 1 2018	2,558,824,000	**255,882**	**410,047**	51,176	182,899	355,653	(183)	(5,569)	**994,023**	**161,554**	**1,411,459**
Allocation of 2017 net income	-	**-**	**-**	-	-	161,554	-	-	**161,554**	**(161,554)**	**-**
Dividends	-	**-**	**-**	-	-	(191,912)	-	-	**(191,912)**	**-**	**(191,912)**
Comprehensive income for the period (recyclable to P&L)	-	**-**	**-**	-	-	-	(6,402)	-	**(6,402)**	**708,548**	**702,146**
Comprehensive income for the period (not recyclable to P&L)	-	**-**	**-**	-	-	5	-	(6,706)	**(6,701)**	**-**	**(6,701)**
Balance at December 31 2018	2,558,824,000	**255,882**	**410,047**	51,176	182,899	325,300	(6,585)	(12,275)	**950,562**	**708,548**	**1,914,992**

1. GENERAL INFORMATION

PRADA spa (the "Company"), together with its subsidiaries (collectively the "Group"), is listed on the Hong Kong Stock Exchange (HKSE code: 1913). It is one of the leading companies in the luxury goods industry, 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, clothing and accessories. The Group also operates in the eyewear and fragrance industries under specific licensing agreements. In addition, with its acquisition of Pasticceria Marchesi 1824, the Group made, in the last years, its entry into the food industry , where it's consistently positioned at the highest levels of quality.

As of December 31, 2018, the Group's products are sold in 70 countries worldwide through a network of 634 directly operated stores ("DOS") and a select 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. At the reporting date of the Consolidated Financial Statements, 79.98% of the share capital was owned by PRADA Holding spa, a company domiciled in Italy, and the remainder consisted of floating shares 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 March 15, 2019.

2. BASIS OF PREPARATION OF IFRS CONSOLIDATED FINANCIAL STATEMENT

The Consolidated Financial Statements of the Prada Group as at December 31, 2018, which consist of the Consolidated Statement of Financial Position, the Consolidated Statement of Profit or Loss for the twelve months ended December 31, 2018, the Consolidated Statement of Comprehensive Income for the twelve months ended December 31, 2018, the Consolidated Statement of Cash Flows for the twelve months ended December 31, 2018, the Consolidated Statement of Changes in Shareholders' Equity and the Notes to the Consolidated Financial Statements, have been prepared in accordance with the International Financial

Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union.

At the date of presentation of these Consolidated Financial Statements, there were no differences between the IFRSs 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 Consolidated Statement of Financial Position presents separately the current and non-current assets and liabilities. All information necessary for accurate and complete disclosure is provided in the Notes to the Consolidated Financial Statements. The Consolidated Statement of Profit or Loss is classified by destination. The Consolidated Statement of Cash Flows has been prepared with 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 PRADA spa.

3. NEW IFRS AND AMENDMENTS TO IFRS

New Standards and Amendments issued by the IASB, endorsed by the European Union and applicable to the Prada Group from January 1, 2018.

New IFRS and Amendments to existing standards	Effective date for Prada Group	EU endorsement dates
IFRS 9 Financial Instruments	January 1, 2018	Endorsed in November 2016
IFRS 15 Revenue from Contracts with Customers	January 1, 2018	Endorsed in September 2016
Amendments to IFRS 4	January 1, 2018	Endorsed in November 2017
Clarifications to IFRS 15 Revenue from Contracts with Customers	January 1, 2018	Endorsed in October 2017
2014-2016 Cycle affecting IFRS 1, IAS 28, IFRS 12	January 1, 2018	Endorsed in February 2018
IFRS 2 Classification and Measurement of Share-based Payment Transactions	January 1, 2018	Endorsed in February 2018
IAS 40: Transfers of Investment Property	January 1, 2018	Endorsed in March 2018
IFRIC Interpretation 22: "Foreign Currency Transactions and Advance Consideration"	January 1, 2018	Endorsed in March 2018

IFRS 9 FINANCIAL INSTRUMENTS

On January 1, 2018, IFRS 9 "Financial instruments" replaced IAS 39 "Financial instruments: recognition and measurement".

The Group adopted the Standard using the exemption which allows not to restate comparative figures of previous years in terms of classification, measurement and impairments. Changes in the carrying amounts of financial assets and liabilities deriving from the adoption of IFRS 9 were recognized in the retained earnings as at January 1, 2018.

IFRS 9 introduced new provisions for the classification and measurement of financial assets based on the business model with which these activities are managed, taking into account the characteristics of their financial flows. IFRS 9 classifies financial assets into three main categories: at amortized cost, at fair value recognized through profit or loss (FVTPL) and at fair value through other comprehensive income (FVOCI). Categories indicated by IAS 39, like assets held to maturity, loans and receivables and assets available for sale are eliminated.

Below are reported the results of the analyzes carried out and the impacts deriving from the introduction of the new IFRS 9 Standard in the Group's Consolidated Financial Statements.

CLASSIFICATION AND MEASUREMENT

The Group carried out an analysis of financial assets and liabilities to determine impacts deriving from the first time application of IFRS 9, considering the contractual cash flows of financial instruments and the business model of the Group. The Group has concluded that most of the non-derivative financial assets in the Group's financial statements are classified in the IFRS 9 category of assets valued at amortized cost.

On the basis of the new classification criteria, Investments in equity instruments, whose fair value at December 31, 2017 was Euro 8.4 million and classified as assets available for sale, are now reported in the "Investments in equity instruments" category. For each investment in equity instrument, the Group has decided whether the fair value measurement will have to be recognized through profit or loss (FVTPL) or through the statement of comprehensive income (FVOCI), not recyclable to profit or loss. This option, applicable to each investment in equity instrument, it's an irrevocable election and cannot change. The Group applied the FVTOCI criteria for equity investments existing at year end.

IMPAIRMENT

The new Standard introduced a new method based on the "expected loss", replacing the previous "incurred loss" model. In response to this new method for measuring financial assets, which for the Prada Group are essentially the trade receivables, a new impairment procedure was developed deriving in part from the commercial scoring system already in place in the Group. Such procedure is based on the probabilities of default of the country in which the subsidiary owner of the receivable operates and the probability of default of the counterparty itself.

The new standard was adopted without restating the December 31, 2017 balances and the effect on the opening equity reserves was Euro 1.7 million, net of taxes.

HEDGE ACCOUNTING

The new model introduced by IFRS 9 aims to simplify hedge accounting, bringing it closer to the company's risk management activities. The application of the new standard entails a different way of recording derivatives in the financial statements, now based on the recognition of all changes in the fair value in the cash flow hedge reserve, provided that the hedged cash flow does not already affect the profit o the loss of the year (as already established by IAS 39).

The application of the new Standard involved a reclassification within equity reserves, between the "cash flow hedge reserve" and the "other reserves", of Euro 2.1 million, net of taxes.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

On January 1, 2018, IFRS 15 "Revenue from Contracts with Customers" replaced IAS 18 "Revenue" and IAS 11 "Construction Contracts".

IFRS 15 establishes a new model of revenue recognition based on the allocation of the transaction selling price between the various obligations identified within a contract with a customer.

The criteria for the revenues recognition depends on how a performance obligation is satisfied, whether at a point in time or over time. The new standard does not allow revenue to be recognized before the control of the promised goods or services is transferred to the customer. Moreover, the costs of fulfilling customer contracts may be capitalized when such costs are directly related to the contract and recovered over the life of the contract.

The new standard was adopted by the Group without restating previous periods and it did have an impact on the opening equity as at January 1, 2018 amounting

to Euro 2.7 million, net of taxes.
The adoption of the new standard had two applications for the Group. The first one related to a different method for recognizing future liabilities for returns of finished products, resulting in an increase in the current liabilities accounted for at December 31, 2017 balanced by a corresponding new inventory item, "return assets" (Euro 4.6 million at January 1, 2018). The second one related to the write-off of such return assets in order to adjust its carrying value to the net realizable value (Euro 3.8 million).
No material adjustment to the classification of revenue and expense in the statement of profit or loss was identified given that the Prada Group acts on its own behalf ("principal") in each activity concerning finished product sales. Moreover, the new standard did not produce effects with reference to the license agreements.

New Standards and Amendments issued by the IASB, endorsed by the European Union, but not yet applicable to the Prada Group as effective for financial years beginning on January 1, 2019.

New IFRS and Amendments to existing standards	Effective date for Prada Group	EU endorsement status
IFRS 16 Leases	January 1, 2019	Endorsed in October 2017
IFRS 9: Prepayment Features with Negative Compensation	January 1, 2019	Endorsed in March 2018
IFRIC Interpretation 23: "Uncertainty over Income Tax Treatments"	January 1, 2019	Endorsed in October 2018

IFRS 16 LEASES

On January 13, 2016 IASB published IFRS 16 "Leases", intended to supersede IAS 17 - "Leases", as well as IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating Leases — Incentives", and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".
The new standard provides a new definition of leases and introduces a method based on the right of use of an asset to distinguish between a lease and a service contract, using as discriminating factors: identification of the asset, right of substitution of the asset, right to obtain substantially all the economic benefits from use of the asset and right to direct the identified leased asset's use.
The standard provides for a single model to recognize and measure leases whereby a lessee recognizes a right-of-use asset (including for operating leases) and a lease liability. The standard does not include significant changes for lessors.
The standard is effective for annual periods beginning on or after January 1, 2019

and the Company opted to apply it retrospectively according to the "modified retrospective approach". As a result, the adoption of the standard will entail the recognition on January 1, 2019 of:

- a lease liability of Euro 2.4 billion, corresponding to the present value of future lease payments at the transition date, discounted using the incremental borrowing rate applicable at the transition date for each lease. Such amount does not differ significantly from the total lease obligations reported in Note 40 of the 2018 Annual Report because the discount component is more or less balanced out by the optional periods, considered only in the estimated lease liability. Leases for which the underlying asset is of low value ("low-value assets") and short-term leases constitute an immaterial difference between the two amounts;
- a right-of-use asset of Euro 2.4 billion obtained from the amount of the above lease liability reduced by the total allowances for deferred rent recognized in the December 31, 2018 financial statements, reclassified from liabilities to this new asset item pursuant to the transition. The right-of-use asset was also increased by the carrying amount of the "store lease acquisition" at December 31, 2018 and other Statement of Financial Position components that were immaterial on the whole.

The adoption of the new IFRS Standard will not have any material effect on the opening equity of the year 2019.

In adopting IFRS 16, the Prada Group intends to use the exemption allowed by IFRS 16:5(a) regarding short-term leases and low-value assets, although the effects of the exemption are expected to be immaterial. For such leases, the introduction of IFRS 16 will not entail recognition of the lease liability and the related right of use, but the lease payments will be recognized in the Statement of Profit or Loss on a straight-line basis over the terms of the respective leases.

Transition to IFRS 16 introduces areas where professional judgment may be required, involving the establishment of some accounting policies and the use of estimates. The main ones are summarized below:

- the identification of a lease term is very important because the form, legislation and common business practice regarding leases for real estate vary considerably from one jurisdiction to another. Based on its past experience, the Group has set an accounting policy for inclusion of the lease renewal period beyond the non-cancellable period, limited to cases in which the lease assigns an enforceable right that the Group is reasonably certain to exercise;
- since most leases stipulated by the Group do not have an interest rate implicit in

the lease, the discount rate applicable to future lease payments was determined as the risk-free rate of each country in which the leases were stipulated, with payment dates based on the terms of the specific lease, increased by the parent company's credit spread.
The implementation of the technological solution chosen by the Group to adopt IFRS 16 was nearly completed at the end of the reporting period. The new structure, designed to satisfy the new regulatory requirements, while improving the business processes involved in managing the underlying assets of leases, intends to ensure an adequate level of internal control based on the standardization and automation of the processes and full integration of the ERP systems with the financial reporting systems.
The final amount of lease liability is likely to change between the date of this Financial Statement and the publication of the financial statement for the interim financial report ended June 30, 2019 as regards the estimated term of certain leases. This is because market and technical positions in certain countries could still evolve in this period, thereby calling into question some of the assumptions used to date to estimate lease terms.

New Standards, changes and operational guidelines issued by the IASB, but not yet endorsed by the European Union at the date of this Consolidated Financial Statements.

New IFRS and Amendments to existing standards	Effective date for Prada Group	EU endorsement status
IFRS 17 Insurance Contracts	January 1, 2021	Not endorsed yet
IAS 28: Long-term Interests in Associates and Joint Ventures	January 1, 2019	Not endorsed yet
2015-2017 Cycle affecting IFRS 3, IFRS 11, IAS 12, IAS 23	January 1, 2019	Not endorsed yet
IAS 19: Plan Amendment, Curtailment or Settlement	January 1, 2019	Not endorsed yet
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	Not endorsed yet
IFRS 3: Business Combination	January 1, 2020	Not endorsed yet
IAS 1 and IAS 8: Definition of Material	January 1, 2020	Not endorsed yet

As at the date of these Consolidated Financial Statements, the Directors have not yet completed the analysis necessary to assess the impacts of the above reported new standards, amendments and operational guides not yet applicable to the Prada Group.

4. SCOPE OF CONSOLIDATION

The consolidated financial information comprises the accounts of PRADA spa and the Italian and foreign companies over which the Company has the right to exercise control either directly or indirectly. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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 from the date on which the Group acquires control until the date on which that control ends.

Associated undertakings ("associates") are consolidated using the equity method. Associates are companies in which the Group has significant influence but does not exercise control. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee without having control or joint control.
The companies included in the Consolidated Financial Statements are listed in Note 42.

5. BASIS OF CONSOLIDATION

The main consolidation criteria applied to prepare these Consolidated Financial Statements are as follows:
- the separate financial statements of PRADA spa ("holding company") 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 controlled companies are fully included on a line-by-line basis 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 the holding company, the share of the net equity and net results for the year of non-controlling interests are disclosed as "Shareholders' equity - Non-controlling interests" in the Consolidated statement of financial position and "Net income - Non-controlling interests" in the Consolidated statement of Profit or Loss;
- on business combinations, the difference between the acquisition cost of investments acquired and the corresponding share of shareholders' equity at the date of acquisition is allocated, if positive, to the identifiable assets acquired and liabilities assumed 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 profit or loss 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 reserves; in business combinations achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognizes the resulting gain or loss, if any, in profit or loss;
- the acquisition cost of an investment or an activity which does not constitute a business, and which therefore does not constitute a business combination, is allocated to the individual assets acquired and liabilities assumed based on their fair value at the acquisition date;
- profits and losses, assets and liabilities of associated undertakings are accounted for using the equity method. According to this method, investments in associated undertakings are recognized 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 recognized 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 in the net fair value of acquired assets and liabilities assumed is recognized 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's interest in the fair value of identifiable assets, liabilities and contingent liabilities, the difference is recognized in the profit or loss 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. Unrealized gains or losses generated by transactions between the Group's consolidated companies and included in inventories at the balance sheet date are also eliminated, if any. 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 profit or loss 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 profit or loss is translated using the average exchange rate for the year. When the translation of a transaction is not properly represented by the average exchange rate of the period, the prevailing exchange rate at the date of such transaction is used to translate its impacts in the profit or loss of the Consolidated Financial Statements. 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 profit or loss using the average rate for the period (or other exchange rate as explained above) 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 recognized 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. Exchange differences arising on a monetary item qualified as a net investment in a foreign operation are initially recognized in the currency translation reserve and released to profit or loss upon disposal of the investment;
- 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 short term maturity.

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 receivables are recognized at their nominal value net of the bad debt provision determined on the basis of the requirements set by IFRS 9. According to this standard, receivables are written off following the application of the "expected loss" impairment method together with, if necessary, further impairments recognized upon specific doubtful conditions on the single credit positions.

Trade accounts payable are recorded at nominal amount.

Transactions denominated in foreign currency are recognized 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 profit or loss.

INVENTORIES

Raw materials, work in progress and finished products are recognized at the lower of acquisition cost, production cost and net realizable value. Cost comprises direct production costs and those indirect 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 or if, in the end, the estimated selling price is lower than the cost.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognized 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.

Ordinary maintenance expenses are charged in full to the profit or loss 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 works carried out on premises, mainly commercial, not owned by the Group.

Rent expenses 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 corporate 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 Machinery	Depreciation rate or period
Land	not depreciated
Buildings abd construction	2.5% - 10%
Production plant and equipment	4% - 25%
Improvements to leased retail premises	Shorter of lease term (*) and useful life
Improvements to leased industrial and corporate premises	Shorter of lease term (*) and useful life
Furniture and fixture retail	Shorter of lease term (*) and useful life
Furniture and fixture corporate and industrial	7% - 20%
Other tangible fixed assets	4% - 50%
(*) the lease term includes the renewal period when the exercise of the option is deemed reasonably certain	

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 profit or loss. If the term of a rental agreement is posponed, all capital expenditures incurred from that change onwards are depreciated consistently with the new lease term. Instead, if the term of a rental agreement is anticipated, the useful life of all the fixed assets allocated on the store is adjusted accordingly.

The value of land is stated separately from the value of buildings. Depreciation is only charged on the value of buildings.
Every year end, 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 profit or loss.

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.

The caption trademark also includes other intellectual property rights which useful life is determinated in accordance with the relevant contracts.

Store lease acquisition costs represent expenditures incurred to enter into or take over retail store lease agreements.

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

Category of intangible assets	Amortization rate or period
Trademarks and other intellectual property rights	2.5% - 25%
Store lease acquisition costs	Shorter of lease term (*) and useful life
Software	10% - 33%
Development costs and other intangible assets	10% - 33%
(*) the lease term includes the renewal period when the exercise of the option is deemed reasonably certain	

If the term of a rental agreement is posponed, all capital expenditures incurred from that change onwards are depreciated consistently with the new lease term. Instead, if the term of a rental agreement is anticipated, the useful life of all the fixed assets allocated on the store is adjusted accordingly.
Goodwill, 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.
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 unit is compared with their recoverable amount.

The carrying amount of CGUs tested for impairment for consolidation purposes is represented by the net invested capital, which means the net equity adjusted by the net financial position.

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.

An impairment loss is recognized in the profit or loss for the period whenever the recoverable amount of the cash generating unit is lower than its book value.
An impairment loss recognized for goodwill is never reversed in subsequent years.

INVESTMENTS IN EQUITY INSTRUMENTS

The initial recognition of Investments in equity instruments (previously "available for sale") is at purchase cost, increased by any directly attributable transaction costs. The Group evaluates these instruments at fair value and the related changes are recorded in a specific equity reserve. This change (FVOCI) is also included in the statement of comprehensive income as "items not recyclable to profit or loss", therefore only dividends received will be recorded in the statement of profit or loss of the Group. IFRS 9 also provides for an alternative treatment that allows the recognition of fair value changes directly to profit or loss (FVTPL). The choice of this accounting treatment (FVTPL or FVOCI) has to be done for each investment and has to be considered irrevocable once adopted. Any exceptions to the initial recognition will be reported in the Notes to the Consolidated financial statements.
In the case of securities listed on active markets, the fair value is the price recorded at the end of the trading day of the period under review. For investments for which there is no an active market, the fair value is determined based on the price of recent transactions between independent parts of substantially similar instruments, or by using other valuation techniques such as, for example, income assessments or based on flow analysis discounted financial figures.

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) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets are not discounted.
Deferred tax assets are recognized through the profit or loss unless the tax amount is generated from a transaction or an event directly recognized in equity or from a business combination.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments that hedge interest rate risk and exchange rate risk exposure are recognized 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 recognized in the profit or loss for the period in which the profit or loss effect of the hedged operation is recognized.

Any gain or loss on a hedging instrument (or portion thereof) which is no longer effective as a cash flow hedge is immediately recognized in the profit or loss. 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 profit or loss.

NON-CURRENT FINANCIAL LIABILITIES

Non-current financial liabilities include payables to banks for medium and long-term loans and financial leases.
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

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.

Actuarial gains and losses are recognized directly in equity, net of the tax effect.
Other long-term employee benefits are recognized 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. Alike defined benefit plans, other long-term benefits are also valued using the Projected Unit Credit Method. Unlike defined benefits plans the actuarial gains and losses of other long-term benefits are recognized though profit or loss rather then through net equity.

PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT ASSETS

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 recorded following a legal or constructive obligation as a result of past events and when it is probable that an outflow of resources will be required.

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.
Deferred tax liabilities are recognized through the profit or loss unless the tax amount is generated from a transaction or an event directly recognized in equity or from a business combination.

REVENUE RECOGNITION AND COST RECOGNITION

Revenues from the sale of goods are recognized in the profit or loss when all of the following criteria have been satisfied:

- identication of the contract (in writing, orally or in accordance with other customary business practices) with a customer;
- identication of the performance obligations in the contract;
- determination of the transaction price for each performance obligations;
- the amount of revenue (transaction selling price) can be measured reliably;
- the significant risks and rewards of ownership are transferred to the buyer;
- all control over the goods sold has ceased;

- the economic benefits generated by the transaction will probably be enjoyed by the Group;
- the costs pertaining to the transaction can be reliably measured;
- each performance obligation has been satisfied.

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

Costs are recorded on an accrual basis. In particular, a cost is immediately recognized in the profit or loss 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 recognized in the profit or loss 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.

OBLIGATIONS UNDER FINANCE LEASES
Fixed assets acquired under finance leases are recognized 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 recognized among current liabilities, while medium and long-term portions are recognized among non-current liabilities.

PRE-OPENING RENTS
Costs incurred during the pre-opening period of new or refurbished retail stores are charged to the profit or loss when incurred, except for rent expenses capitalized as leasehold improvements.

INTEREST EXPENSES
Interest expenses might include interest on bank overdrafts, on short and long term loans, financial charges on finance leases, amortization of initial costs of

loan operations, changes in the fair value of derivatives - insofar as chargeable to the profit or loss -, annual interest maturing on the present value of post-employment benefits and interests on late payments.

TAXATION

The provision for taxation 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 in each country at the reporting date.

Current taxes are recognized in the profit or loss 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

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

CHANGES OF ACCOUNTING POLICIES, ERRORS AND CHANGES OF ESTIMATES

The accounting policies adopted change from one year to the next only if the change is required by an accounting standard or if it helps provide more reliable and meaningful information on the impact of operations on the entity's statement of financial position, profit or loss or cash flows.

Changes of accounting policy are accounted for retroactively with the effect allocated to the opening equity of the earliest of the periods presented. The other comparative amounts reported for each prior period are also adjusted as if the new policy had been applied from the outset. A prospective approach is adopted only when it would be impracticable to restate the comparative information.

The application of a new or amended accounting standard is accounted for as requested by the standard itself. If the standard does not regulate the transition method, the change is accounted for on a retroactive basis or, if impracticable, on a prospective basis.

Material errors are treated on the same basis as changes of accounting policy as described above. Non-material errors are corrected through the profit or loss for the period in which the error was identified.
Changes of accounting estimates are accounted for prospectively in the profit or loss for the year in which the change is made if it only affects the profit or loss for that year, or in the profit or loss for the year in which the change is made and in subsequent periods if they are also affected by the change.

USE OF ESTIMATES

In accordance with IFRS, preparation of these Consolidated financial statements requires the use of estimates and assumptions when determining certain types of assets, liabilities, revenues and costs and when assessing contingent assets and liabilities.
These assumptions refer, first of all, to operations and events not settled at the end of the period. Therefore, upon payment, the actual outcome may differ from the estimated amounts. Estimates and assumptions are reviewed periodically and the effects of each change are immediately recorded in the profit or loss.

Estimates are used also for impairment tests, when determining provisions for risks and charges, the provision for bad debts, the inventory obsolescence provision, post-employment benefits, the tax computation, measurement of derivatives and useful life of property, plant and equipment and intangible assets.

7. MERGERS AND ACQUISITIONS

On January 11, 2018 a transaction was concluded by PRADA spa and the non-controlling shareholder of Angelo Marchesi srl for the acquisition of the remaining 20% stake in the latter company. To simplify the Group's corporate structure, on March 29, 2018 a deed for a merger involving the Group's three companies in the food industry was stipulated: Montenapoleone 9 srl and Isarcodue srl were merged into Marchesi Angelo srl, whose name was changed to Marchesi 1824 srl. The merger took effect on April 1, 2018.

On May 22, 2018 the liquidation of TRS New Zealand Limited was concluded.
On July 24, 2018 the liquidation of Church Holding UK ltd was concluded.
On August 8, 2018 the liquidation of PT Prada Indonesia was concluded.

On September 3, 2018 Church Korea Llc was founded with the goal of developing retail business in Korea.
On September 18, 2018 Church Germany GmbH was founded with the goal of developing retail business in Germany.
On December 21, 2018 the Group increased its ownership of Pelletteria Ennepi Srl from 80% to 90%.

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 defined as a business division whose operating results are regularly reviewed by top management in order to allocate appropriate resources to the segment and assess its performance.
Because of the Group's matrix-based organizational structure (whereby responsibility is assigned cross-functionally in relation to brands, products, distribution channels and geographical areas), the complementary nature of the various brands' production processes and the many relationships between the different business divisions, it is not possible to designate operating segments as defined by IFRS 8 since the top management is provided with the financial performance solely on a Group-wide level. For this reason, the business is considered a single operating segment, as it best represents the specific characteristics of the Prada Group business model.

Detailed information on the net revenues by distribution channel, brand, geographical area and product for the twelve months ended December 31, 2018 is provided in the Financial Review together with the comments thereon.

GEOGRAPHICAL INFORMATION

The following table reports the carrying amount of the Group's non-current assets by geographical area, as required by IFRS 8, "Operating Segments", for entities like the Prada Group that have a single reportable segment:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Europe	2,161,446	2,005,887
Americas	188,340	193,757
Asia Pacific	218,826	235,010
Japan	72,473	81,709
Middle East and Africa	47,090	34,015
Total	2,688,175	2,550,378

The total amount of Euro 2,688.2 million (Euro 2,550.4 million at December 31, 2017) refers to the Group's non-current assets with the exception of derivative financial instruments, deferred tax assets and the pension fund surplus, as required by IFRS 8.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9. CASH AND CASH EQUIVALENTS

The composition of Cash and cash equivalents is shown below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Cash on hand	54,893	66,162
Bank deposit accounts	98,723	477,950
Bank current accounts	446,205	348,498
Total	599,821	892,610

As of December 31, 2018, interest income of between 0% and 5% per year was accrued on bank accounts and deposits (between 0% and 6.8% at December 31, 2017).

10. TRADE RECEIVABLES, NET

Trade receivables are detailed below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Trade receivables – third parties	319,945	284,602
Allowance for bad and doubtful debts	(8,821)	(7,892)
Trade receivables – related parties	10,789	13,263
Total	321,913	289,973

Trade receivables from related parties refer principally to sales of products to Fratelli Prada spa, a related party and franchisee of the Prada Group. Further details of related party transactions are provided in Note 39.

The changes during the period were as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Opening balance	7,892	6,654
IFRS 9 First Time Adoption - Bad Debt Provision	2,246	-
Exchange differences	7	(171)
Increases	413	1,926
Reversals	(325)	-
Utilization	(1,412)	(517)
Closing balance	8,821	7,892

11. INVENTORIES, NET

Inventories can be broken down as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Raw materials	104,036	102,246
Work in progress	36,327	30,556
Finished products	530,324	484,709
Allowance for obsolete and slow-moving inventories	(39,312)	(47,582)
Total	631,375	569,929
Return assets	2,391	-
Allowance for return assets	(1,975)	-
Total	631,791	569,929

Net inventories rose by Euro 61.9 million from December 31, 2017 due essentially to the restocking of finished products at the retail network.
Materials being processed by third parties are included in raw materials. Work in progress refers to goods being manufactured by PRADA spa, other manufacturing companies included in the consolidation perimeter and contract manufacturers.

The changes in the allowance for obsolete and slow-moving inventories and the allowance for return assets are as follows:

(amounts in thousands of Euro)	Raw materials	Finished Products	Total allowance for obsolete and slow-moving inventories	Allowance for return assets	Total allowance on inventories
Balance at December 31, 2017	23,774	23,808	47,582	-	47,582
First Time Adoption IFRS 15 - Allowance for return assets	-	-	-	3,800	3,800
Exchange differences	(1)	(32)	(33)	-	(33)
Increases	130	6,855	6,985	-	6,985
Utilization	(707)	(11,996)	(12,703)	(1,825)	(14,528)
Reversal	(2,506)	(13)	(2,519)	-	(2,519)
Balance at December 31, 2018	20,690	18,622	39,312	1,975	41,287

The change of the allowance is mainly related to the use of merchandise written down in prior years.

12. DERIVATIVE FINANCIAL INSTRUMENTS: ASSETS AND LIABILITIES

Derivative financial instruments: assets and liabilities, current and non-current portions:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Financial assets regarding derivative instruments - current	9,718	13,923
Financial assets regarding derivative instruments – non-current	205	2,005
Total Financial Assets - Derivative financial instruments	9,923	15,928
Financial liabilities regarding derivative instruments – current	(14,220)	(7,654)
Financial liabilities regarding derivative instruments – non-current	(7,077)	(7,112)
Total Financial Liabilities - Derivative financial instruments	(21,297)	(14,766)
Net carrying amount – current and non-current portion	(11,374)	1,162

The carrying amount of the derivatives, both the current and non-current portion, has the following composition:

(amounts in thousands of Euro)	December 31 2018	December 31 2017	IFRS7 Category
Forward contracts	9,916	15,721	Level II
Options	7	207	Level II
Positive fair value	9,923	15,928	
Forward contracts	(10,196)	(3,573)	Level II
Options	(1,095)	(501)	Level II
Interest rate swaps	(10,064)	(10,692)	Level II
Negative fair value	(21,297)	(14,766)	
Net carrying amount – current and non-current	(11,374)	1,162	

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

The fair values of derivatives arranged to hedge interest rate risks (interest rate swaps, "IRS") and of derivatives arranged to hedge foreign exchange risks (forward contracts and options) were determined by using one of the most widely used valuation platforms on the financial market and are based on the interest rate

curves and spot and forward exchange rates at the reporting date.
The Group entered into the derivative contracts in the course of its risk management activities, in order to hedge financial risks stemming from exchange rate and interest rate fluctuation.

FOREIGN EXCHANGE 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 of identified cash flows in Euro (or in other currencies used locally). The projected future cash flows mainly regard the collection of trade receivables, the settlement of trade payables and financial cash flows.

The notional amounts of the derivative contracts designated as foreign exchange risk hedges (translated at exchange rate as at December 31, 2018, reported in Note 37) are listed below.

Contracts in effect as of December 31, 2018 to hedge projected future trade cash flows.

(amounts in thousands of Euro)	Options	Forward sale contracts (*)	Forward purchase contracts (*)	December 31 2018
Currency				
US Dollar	41,048	103,057	-	144,105
Chinese Renminbi	-	154,538	-	154,538
Japanese Yen	-	104,887	-	104,887
GB Pound	-	81,607	-	81,607
Hong Kong Dollar	22,303	92,556	-	114,859
Korean Won	-	57,984	-	57,984
Singapore Dollar	-	19,370	-	19,370
Canadian Dollar	-	17,110	-	17,110
Russian Ruble	-	9,321	-	9,321
Swiss Franc	-	11,847	-	11,847
Australian Dollar	-	11,221	-	11,221
Other currencies	-	36,780	-	36,780
Total	63,351	700,278	-	763,629

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

Contracts in effect as of December 31, 2018 to hedge projected future financial cash flows.

(amounts in thousands of Euro)	Options	Forward sale contracts (*)	Forward purchase contracts (*)	December 31 2018
Currency				
US Dollar	-	81,769	(55,459)	26,310
Japanese Yen	-	9,535	-	9,535
GB Pound	-	20,122	-	20,122
Swiss Franc	-	72,766	(22,185)	50,581
Singapore Dollar	-	14,752	-	14,752
Australian Dollar	-	9,864	-	9,864
Other currencies	-	13,860	-	13,860
Total	-	222,668	(77,644)	145,024

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

Contracts in effect as of December 31, 2017 to hedge projected future trade cash flows.

(amounts in thousands of Euro)	Options	Forward sale contracts (*)	Forward purchase contracts (*)	December 31 2017
Currency				
US Dollar	-	175,102	-	175,102
Chinese Renmibi	-	142,548	-	142,548
Japanese Yen	-	87,031	-	87,031
GB Pound	-	80,306	-	80,306
Hong Kong Dollar	6,936	78,852	-	85,788
Korean Won	-	55,876	-	55,876
Singapore Dollar	-	22,421	-	22,421
Canadian Dollar	-	20,181	-	20,181
Russian Ruble	-	13,907	-	13,907
Swiss Franc	-	10,212	-	10,212
Other currencies	-	49,414	-	49,414
Total	6,936	735,850	-	742,786

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

Contracts in effect as of December 31, 2017 to hedge projected future financial cash flows.

(amounts in thousands of Euro)	Options	Forward sale contracts (*)	Forward purchase contracts (*)	December 31 2017
Currency				
US Dollar	-	9,068	(52,948)	(43,880)
Japanese Yen	-	18,073	-	18,073
GB Pound	-	21,573	(1,285)	20,288
Swiss Franc	-	48,710	-	48,710
Other currencies	-	8,475	-	8,475
Total	-	105,899	(54,233)	51,666

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

All contracts in place at December 31, 2018 will mature within 12 months, except for one forward contract to hedge future financial cash flows which matures after December 31, 2019 and whose net notional amount is Euro 20.1 million (referring entirely to forward sale contracts).

All contracts in place at the reporting date were entered into with major financial institutions, and no counterparties are expected to default. A liquidity analysis of the derivative contracts maturities is provided in the financial risks section of these Notes.

INTEREST RATE TRANSACTIONS

The Group enters into interest rate swaps ("IRS") in order to hedge the risk of interest rate fluctuations on bank loans. The key features of the IRS agreements in place at December 31, 2018 and December 31, 2017 are summarized below:

Interest Rate Swap (IRS) Agreement						Hedged loan			
Contract	Currency	Notional amount	Interest rate	Maturity date	December 31, 2018	Currency	Type of debt	Amount	Expiry
IRS	Euro/000	42,167	1.457%	May-2030	(2,343)	Euro/000	Term Loan	42,167	May-2030
IRS	Euro/000	60,000	0.105%	Mar-2019	(64)	Euro/000	Term Loan	60,000	Mar-2019
IRS	Euro/000	90,000	0.013%	Feb-2021	(511)	Euro/000	Term Loan	90,000	Feb-2021
IRS	Euro/000	100,000	0.252%	Jun-2021	(928)	Euro/000	Term Loan	100,000	Jun-2021
IRS	GBP/000	53,925	2.778%	Jan-2029	(6,164)	GBP/000	Term Loan	53,925	Jan-2029
IRS	Yen/000	900,000	1.360%	Mar-2020	(54)	Yen/000	Term Loan	900,000	Mar-2020
Total fair value (amounts in thousands of Euro)					(10,064)				

Interest Rate Swap (IRS) Agreement						Hedged loan			
Contract	Currency	Notional amount	Interest rate	Maturity date	December 31, 2017	Currency	Type of debt	Amount	Expiry
IRS	Euro/000	45,833	1.457%	May-2030	(2,204)	Euro/000	Term loan	45,833	May-2030
IRS	Euro/000	60,000	0.105%	Mar-2019	(304)	Euro/000	Term loan	60,000	Mar-2019
IRS	Euro/000	90,000	0.013%	Feb-2021	(177)	Euro/000	Term loan	90,000	Feb-2021
IRS	Euro/000	100,000	0.252%	Jun-2021	(523)	Euro/000	Term loan	100,000	Jun-2021
IRS	GBP/000	55,950	2.778%	Jan-2029	(7,361)	GBP/000	Term loan	55,950	Jan-2029
IRS	Yen/000	1,800,000	1.360%	Mar-2020	(123)	Yen/000	Term loan	1,800,000	Mar-2020
Total fair value (amounts in thousands of Euro)					(10,692)				

The IRS convert variable interest rates on bank loans into fixed interest rates. They have been arranged with major financial institutions, and no counterparties are expected to default.

INFORMATION ON FINANCIAL RISKS

CAPITAL MANAGEMENT

The Group's capital management strategy is intended to safeguard its ability to guarantee a return to shareholders, protect the interests of other stakeholders and comply with loan covenants, while maintaining a viable and balanced capital structure.

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES ACCORDING TO IFRS 7

FINANCIAL ASSETS

(amounts in thousands of Euro)	Loans, receivables and financial investments	Derivative financial instruments	Total	Note
Cash and cash equivalents	599,821	-	599,821	9
Trade receivables, net	321,913	-	321,913	10
Derivative financial instruments	-	9,923	9,923	12
Investments in equity instruments	97,948	-	97,948	17
Other Investments	1,590	-	1,590	17
Total at December 31, 2018	1,021,272	9,923	1,031,195	

(amounts in thousands of Euro)	Loans, receivables and financial investments	Derivative financial instruments	Total	Note
Cash and cash equivalents	892,610	-	892,610	9
Trade receivables, net	289,973	-	289,973	10
Derivative financial instruments	-	15,928	15,928	12
Investments in equity instruments	8,387	-	8,387	17
Other Investments	29		29	17
Total at December 31, 2017	1,190,999	15,928	1,206,927	

FINANCIAL LIABILITIES

(amounts in thousands of Euro)	Loans and payables	Derivative financial instruments	Total	Note
Financial payables	911,269	-	911,269	19,20,24
Trade payables	315,211	-	315,211	21
Derivative financial instruments	-	21,297	21,297	12
Financial lease	2,057	-	2,057	19,24
Total at December 31, 2018	1,228,537	21,297	1,249,834	

(amounts in thousands of Euro)	Loans and payables	Derivative financial instruments	Total	Note
Financial payables	994,057	-	994,057	19, 20, 24
Trade payables	313,697	-	313,697	21
Derivative financial instruments	-	14,766	14,766	12
Financial lease	2,291	-	2,291	19, 24
Total at December 31, 2017	1,310,045	14,766	1,324,811	

FAIR VALUE

The reported amount of derivative instruments, whether assets or liabilities, reflects their fair value, as explained in this Note.

The carrying amount of cash and cash equivalents, financial receivables and trade receivables, as adjusted for impairment where necessary as required by IFRS 9, approximates their estimated realizable value and, hence, their fair value.

The reported amount of investments in equity instruments corresponds to its fair value (Level I), as explained in Note 17.

All financial liabilities, including fixed-rate financial debts, are carried at approximately their fair value.

CREDIT RISK

Credit risk is defined as the risk of financial loss caused by the failure of a counterparty to meet its contractual obligations. The maximum risk to which an entity is exposed is represented by all the financial assets recognized in the financial statements. Management considers its credit risk to regard primarily the trade receivables generated from the wholesale channel and its cash holding, and mitigates the related effects through specific business and financial strategies, as explained in the section describing risk factors in the Financial Review.

TRADE RECEIVABLES

The table below summarizes trade receivables by due date before the allowance for doubtful debts:

(amounts in thousands of Euro)	December 31, 2018	Not overdue	Overdue (in days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade receivables	330,734	283,862	18,226	12,021	1,565	2,278	12,782
Total	330,734	283,862	18,226	12,021	1,565	2,278	12,782

(amounts in thousands of Euro)	December 31, 2017	Not overdue	Overdue (in days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade receivables	297,865	267,271	9,871	6,225	2,052	1,622	10,824
Total	297,865	267,271	9,871	6,225	2,052	1,622	10,824

The following table summarizes trade receivables by due date less the allowance for doubtful debts:

(amounts in thousands of Euro)	December 31, 2018	Not overdue	Overdue (in days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade receivables less allowance for doubtful accounts	321,913	281,485	18,137	11,993	1,331	2,264	6,703
Total	321,913	281,485	18,137	11,993	1,331	2,264	6,703

(amounts in thousands of Euro)	December 31, 2017	Not overdue	Overdue (in days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade receivables less allowance for doubtful accounts	289,973	267,133	9,871	6,225	2,052	1,622	3,070
Total	289,973	267,133	9,871	6,225	2,052	1,622	3,070

As of the reporting date, the expected loss on receivables is fully covered by the allowance for doubtful debts. The changes in that allowance are presented in Note 10.

BANK CURRENT ACCOUNTS AND DEPOSITS

Bank deposits are broken down by currency as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Hong Kong Dollar	64,730	387,212
Chinese Renmimbi	8,244	66,611
Korean Won	15,259	12,269
US Dollar	210	1,868
Other Currencies	10,280	9,990
Total bank deposit accounts	98,723	477,950

During the year the subsidiary PRADA Asia Pacific ltd distributed dividends amounting to some HKD 4 billion to parent company PRADA spa. These funds, once converted into Euro, were used to meet the parent company's financial obligations, partially used for financial investments and in part transferred into bank accounts.

The Group aims to reduce the default risk on bank deposits by allocating the available funds to multiple accounts that differ by currency, country and bank (always investment grade); such investments are always short-term.

Bank accounts are broken down by currency as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Euro	246,883	188,438
US Dollar	87,671	74,525
GB Pound	12,409	8,408
Hong Kong Dollar	52,273	7,058
Korean Won	3,869	1,473
Other Currencies	43,100	68,596
Total bank current accounts	446,205	348,498

The Group considers no significant risk to exist on bank accounts given that their use is strictly connected with operating activities and business processes and, therefore, they are spread over a large number of banks.

LIQUIDITY RISK

Liquidity risk refers to the difficulty the Group could have in meeting its financial obligations. The Directors are responsible for managing liquidity risk, while the Chief Financial Office ("CFO") is in charge of optimizing the management of financial resources.

According to management, the funds and credit lines currently available, in addition to those that will be generated by operating and financing activities, will enable the Group to meet its financial requirement arising from investing activities, working capital management, punctual loan repayment and dividends payments as planned.

As of December 31, 2018, the Group has undrawn cash credit lines of Euro 597 million (Euro 681 million as of December 31, 2017) available at banks.

An aging analysis of the trade payables is set forth below:

(amounts in thousands of Euro)	December 31, 2018	Not overdue	Overdue (days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade payables	315,211	280,453	18,034	5,727	2,024	1,072	7,901
Total	315,211	280,453	18,034	5,727	2,024	1,072	7,901

(amounts in thousands of Euro)	December 31, 2017	Not overdue	Overdue (days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade payables	313,697	284,005	13,277	7,097	1,411	748	7,159
Total	313,697	284,005	13,277	7,097	1,411	748	7,159

The maturities of the financial liabilities according to the earliest date on which the Group could be required to pay (worst-case scenario) are presented in the following tables.

FINANCIAL LIABILITIES UNDER DERIVATIVE FINANCIAL INSTRUMENTS (FORWARD CONTRACTS AND OPTIONS)

As required by IFRS 7, the following tables show the financial liabilities under forward contracts and options where a negative cash flow is expected at the reporting date:

(amounts in thousands of Euro)	Future contractual cash flows at Dec. 31, 2018	6 mths or less	6 to 12 mths	1 to 2 years	2 to 3 years	3 to 4 years	more than 4 years
Forward contracts designated as cash flow hedges							
Net cash flows (outflows/inflows)	(10,196)	(4,945)	(5,251)	-	-	-	-
Options designated as cash flow hedges							
Net cash flows (outflows/inflows)	(1,095)	(594)	(183)	(224)	(94)	-	-
Net amount	(11,291)	(5,539)	(5,434)	(224)	(94)	-	-

(amounts in thousands of Euro)	Future contractual cash flows at Dec. 31, 2017	6 mths or less	6 to 12 mths	1 to 2 years	2 to 3 years	3 to 4 years	more than 4 years
Forward contracts designated as cash flow hedges							
Net cash flows (outflows/inflows)	(3,573)	(1,800)	(1,773)	-	-	-	-
Net amount	(3,573)	(1,800)	(1,773)	-	-	-	-

FINANCIAL LIABILITIES UNDER DERIVATIVE FINANCIAL INSTRUMENTS (INTEREST RATE SWAPS)

As required by IFRS 7, the following tables show interest rate swaps where a negative cash flow is expected at the reporting date:

(amounts in thousands of Euro)	Future contractual cash flows at Dec. 31, 2018	6 mths or less	6 to 12 mths	1 to 2 years	2 to 3 years	3 to 4 years	more than 4 years
Interest rate swap cash flow hedge	(10,064)	(1,405)	(1,270)	(2,104)	(1,343)	(1,018)	(2,922)
Net amount	(10,064)	(1,405)	(1,270)	(2,104)	(1,343)	(1,018)	(2,922)

(amounts in thousands of Euro)	Future contractual cash flows at Dec. 31, 2017	6 mths or less	6 to 12 mths	1 to 2 years	2 to 3 years	3 to 4 years	more than 4 years
Interest rate swap cash flow hedge	(11,500)	(1,693)	(1,595)	(2,343)	(1,188)	(897)	(3,784)
Net amount	(11,500)	(1,693)	(1,595)	(2,343)	(1,188)	(897)	(3,784)

FINANCIAL LIABILITIES

(amounts in thousands of Euro)	Carrying amount at Dec. 31, 2018	Future contractual cash flows at Dec. 31, 2018	on demand	6 mths or less	6 to 12 mths	1 to 2 years	2 to 3 years	3 to 4 years	more than 4 years
Obligations under finance leases	2,057	2,402	-	161	161	323	323	323	1,111
Financial liabilities - third parties (without deferred costs on loans)	907,930	931,446	-	389,238	36,279	77,216	257,811	85,374	85,528
Financial liabilities - related parties	4,415	4,415	-	-	4,415	-	-	-	-
Total	914,402	938,263	-	389,399	40,855	77,539	258,134	85,697	86,639

(amounts in thousands of Euro)	Carrying amount at Dec. 31, 2017	Future contractual cash flows at Dec. 31, 2017	on demand	6 mths or less	6 to 12 mths	1 to 2 years	2 to 3 years	3 to 4 years	more than 4 years
Obligations under finance leases	2,291	2,750	-	204	177	323	323	323	1,400
Financial liabilities - third parties (without deferred costs on loans)	991,382	1,017,094	-	69,781	284,143	254,073	53,260	239,488	116,349
Financial liabilities - related parties	4,423	4,423	-	-	4,423	-	-	-	-
Total	998,096	1,024,267	-	69,985	288,743	254,396	53,583	239,811	117,749

Some of the above financial liabilities contain loan covenants, as described in Note 24.

EXCHANGE RATE RISK

The exchange rate risk to which the Group is exposed is concentrated largely with PRADA spa, and results from fluctuation of foreign currencies against the Euro.

For PRADA spa, the foreign exchange risk substantially consists of the risk that cash flows from retail and distribution activities could fluctuate as a result of changes in exchange rates. In terms of exposure, the most important currencies for the Group are the U.S. Dollar, Hong Kong Dollar, Japanese Yen, British Pound and Chinese Renminbi.

The following table shows the sensitivity of the consolidated net income and equity to a range of hypothetical fluctuations in the main foreign currencies against the Euro, based on the statement of financial position of the Group's companies as of December 31, 2018:

(amounts in thousands of Euro)	Euro strengthens by 5%		Euro weakens by 5%	
	Effect on net income	Effect on shareholders' equity	Effect on net income	Effect on shareholders' equity
US Dollar	4,662	9,682	(5,590)	(11,450)
Hong Kong Dollar	1,055	5,517	(1,432)	(6,579)
Japanese Yen	1,855	6,885	(1,893)	(6,580)
GP Pound	1,218	4,006	(402)	(2,568)
Chinese Renminbi	(409)	5,005	460	(5,399)
Other currencies	(512)	6,253	314	(6,716)
Total	7,869	37,348	(8,543)	(39,292)

The total impact on equity (positive for Euro 37.3 million and negative for Euro 39.3 million) is the sum of the theoretical effect on the statement of profit or loss and on the cash flow hedge reserve of a hypothetical appreciation/depreciation of the Euro against the other currencies.

The effects on the financial statement items are presented above before taxes. The sensitivity analysis is based on currency exposure at the end of the period, which might not reflect the actual exposure during the period. For this reason it is purely indicative.

INTEREST RATE RISK

The PRADA Group is exposed to interest rate fluctuations mainly with regard to interest expense on the medium/long-term debt of the parent company, PRADA spa, and of some of its subsidiaries. Managing this risk falls within the scope of the risk management activities carried out by the CFO.

The following table shows the sensitivity of the consolidated net income and equity to a hypothetical shift in the interest rate curve based on the financial position of the Group's companies at December 31, 2018:

(amounts in thousands of Euro)	Interest rate curve shift			
	+0.50%		-0.50%	
	Impact on net result	Impact on net equity	Impact on net result	Impact on net equity
Euro	(2,320)	1,085	2,322	(1,143)
GB Pound	(244)	1,834	245	(1,834)
Hong Kong Dollar	585	585	(585)	(585)
Japanese Yen	(570)	(551)	569	551
US Dollar	346	346	(346)	(346)
Other currencies	356	356	(356)	(356)
Total	(1,847)	3,655	1,849	(3,713)

The total impact on equity (positive for Euro 3.7 million and negative for Euro 3.7 million) is the sum of the theoretical effect on the statement of profit or loss and on the cash flow hedge reserve of a hypothetical shift in the interest rate curve. The effects on the financial statement items are presented above before taxes.
The sensitivity analysis is based on the net financial position at the end of the period, which might not reflect the actual exposure to interest rate risk during the period. For this reason it is purely indicative.

OTHER RISKS

Risks factors affecting the international luxury goods market and those specific to the Prada Group other than the risks reported above (liquidity risk, credit risk, foreign exchange risk and interest rate risk) are disclosed in the Financial Review.

13. RECEIVABLES FROM, AND ADVANCE PAYMENTS TO, RELATED PARTIES – CURRENT

The current portions are as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Prepaid sponsorship	6,761	-
Other receivables and advances	5,865	6,107
Receivables from and advances to related parties - current	12,626	6,107

The sponsorship prepayment at December 31, 2018 regards Luna Rossa Challenge srl, under the new sponsorship agreement for participation in the 36th America's Cup. Additional information on related party transactions is provided in Note 39.

14. OTHER CURRENT ASSETS

The other current assets are set forth below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
VAT	48,576	42,444
Taxation and other tax receivables	54,181	69,652
Other assets	14,115	18,755
Prepayments	55,897	52,779
Deposits	12,972	8,442
Total	185,741	192,072

OTHER ASSETS

The other assets are detailed below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Advances to suppliers	2,741	1,760
Incentives for retail investments	3,574	5,247
Other receivables	7,800	11,748
Total	14,115	18,755

PREPAYMENTS

Prepayments are detailed as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Rental costs	17,704	16,889
Insurance	1,897	1,809
Design costs	12,354	11,743
Fashion shows and advances on advertising campaigns	10,254	8,363
Other	13,688	13,975
Total	55,897	52,779

The prepaid design costs consist primarily of costs incurred to design collections that will generate revenue the following year.

DEPOSITS

The deposits refer primarily to security deposits paid under retail leases.

15. PROPERTY, PLANT AND EQUIPMENT

The historical cost and accumulated depreciation of the past two years are set forth below:

(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	767,797	183,162	1,319,813	434,511	191,240	91,006	2,987,529
Accumulated depreciation	(108,447)	(137,425)	(862,814)	(259,040)	(97,021)	-	(1,464,747)
Net carrying amount at December 31, 2017	659,350	45,737	456,999	175,471	94,219	91,006	1,522,782
Historical cost	847,901	207,268	1,364,818	475,157	187,840	84,151	3,167,135
Accumulated depreciation	(124,751)	(145,474)	(936,231)	(281,571)	(101,756)	-	(1,589,783)
Net carrying amount at December 31, 2018	723,150	61,794	428,587	193,586	86,084	84,151	1,577,352

The changes in the carrying amount for the 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 carrying amount
Balance at December 31, 2017	659,350	45,737	456,999	175,471	94,219	91,006	1,522,782
Additions	31,880	17,733	63,933	46,549	11,303	75,645	247,043
Depreciation	(16,553)	(9,550)	(110,494)	(35,419)	(11,596)	-	(183,612)
Disposals	(1,153)	(74)	(2)	(67)	(8,063)	-	(9,359)
Exchange differences	(950)	(14)	5,111	2,389	102	537	7,175
Other movements	50,591	8,005	17,942	6,731	166	(82,715)	720
Impairment	(15)	(43)	(4,902)	(2,068)	(47)	(322)	(7,397)
Balance at December 31, 2018	723,150	61,794	428,587	193,586	86,084	84,151	1,577,352

The increases for "land and buildings" and "plant and machinery" are attributable mainly to the capital expenditure invested to ramp up and improve the manufacturing and logistics activities, within a broader plan to expand the production capacity.
The increases for "furniture and fittings" and "leasehold improvements" are due primarily to the layout restyling strategy for Prada and Miu Miu stores intended to adapt them to the new aesthetic concepts of the brands.
The impairment of Euro 7.4 million for the year referred principally to store closures and layout restyling projects.

16. INTANGIBLE ASSETS

The historical cost and accumulated amortization of the past two years are set forth below:

(amounts in thousands of Euro)	Trademarks	Goodwill	Store Lease Acquisitions	Software	Other intangibles	Assets in progress	Total
Historical cost	402,693	547,808	209,702	116,828	63,143	31,062	1,371,236
Accumulated amortization	(153,703)	(29,472)	(132,973)	(81,743)	(51,887)	-	(449,778)
Net carrying amount at December 31, 2017	248,990	518,336	76,729	35,085	11,256	31,062	921,458
Historical cost	403,525	547,594	235,702	137,766	63,144	15,383	1,403,114
Accumulated amortization	(167,450)	(29,328)	(139,569)	(92,792)	(53,964)		(483,103)
Net carrying amount at December 31, 2018	236,075	518,266	96,133	44,974	9,180	15,383	920,011

The changes in the carrying amount for the year are as follows:

(amounts in thousands of Euro)	Trademarks	Goodwill	Store Lease Acquisitions	Software	Other intangibles	Assets in progress	Total net carrying amount
Balance at December 31, 2017	248,990	518,336	76,729	35,085	11,256	31,062	921,458
Additions	1,431	-	11,973	9,280	118	13,742	36,544
Amortization	(14,021)	-	(9,136)	(11,019)	(2,094)	-	(36,270)
Disposals	-	-	(1,633)	(22)	-	-	(1,655)
Exchange differences	(325)	(70)	550	(4)	1	(14)	138
Other movements	-	-	17,650	11,655	(101)	(29,329)	(125)
Impairment	-	-	-	(1)	-	(78)	(79)
Balance at December 31, 2018	236,075	518,266	96,133	44,974	9,180	15,383	920,011

The carrying amount of "trademarks" at the reporting date is broken down in the following table:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Miu Miu	138,482	144,005
Church's	78,487	82,609
Prada	5,502	5,292
Other trademark and other intellectual property right	13,604	17,084
Total	236,075	248,990

No impairment was recognized for the Group's trademarks during the year.
"Key money" includes intangible assets recognized in respect of costs incurred

by the Group to stipulate or take over leases for retail premises in prestigious locations.
The total capital expenditure for tangibles and intangibles in the twelve months ended December 31, 2018 was Euro 283.6 million, as broken down below:

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Retail	135,997	110,026
Production, Logistics and Corporate	147,590	140,638
Total	283,587	250,664

IMPAIRMENT TEST

As required by IAS 36, "Impairment of Assets," intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least once per year. The Group reports no intangible assets with indefinite useful lives other than goodwill. As at December 31, 2018, goodwill amounted to Euro 518.3 million, detailed by cash generating unit ("CGU") as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
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 Montecarlo Retail	11,700	11,700
North America Retail and wholesale	48,000	48,000
Production Division	10,169	10,169
Church's	8,517	8,587
Pasticceria Marchesi 1824	7,975	7,975
Total	518,266	518,336

IAS 36 requires an entity to assess at each annual reporting date whether there are indications of impairment losses for any other asset recognized in the financial statements. In light of the performance of certain retail businesses during the year, CGUs other than those shown above were also tested for impairment.
The method used to identify the recoverable amount (value in use) involves discounting the projected cash flows produced by the CGU to which goodwill has been allocated. Value in use is the sum of the present value of future cash flows expected from the business plan projections prepared for each CGU and the

present value of the related operating assets at the end of the business plan period (terminal value).

The business plans cover a period of five years and have been constructed on the basis of the 2019 budget prepared by management. Prudently, no business growth was forecast after 2019, meaning that no significant improvement in the performance of the assets existing at December 31, 2018 was projected for the years of the plan.

The rate used to discount cash flows was calculated using the weighted average cost of capital ("WACC"). For the year ended December 31, 2018, the WACC used for discounting purposes ranged between 5.1% and 14.7% (between 4.2% and 13.3% for 2017). The WACC was calculated ad hoc for each CGU subject to impairment, considering the parameters specific to the geographical area: market risk premium and sovereign bond yield. The "g" rate of growth used to calculate the Terminal Value ranged between 0% and 9.3%, according to the diverging inflation and GDP outlooks in the various countries. However, the prevalent growth rate was 1.5%, which can be considered prudent given the average growth expected for the luxury goods market in general and the specific growth rate projected for the PRADA Group at the reporting date.

For the Church's Group, which has recently been relaunched, management decided to use evaluation methods based on fair value for the impairment tests (such as market multiples and comparable transactions), whose results were supported by control methods.

Where deemed appropriate, sensitivity analysis was carried out to ensure that changes in the main assumptions did not significantly affect the impairment test results. The outcome of these simulations confirmed that the result obtained through the DCF method was reasonable.

None of the impairment tests performed at December 31, 2018 identified any impairment losses. However, since value in use is measured on the basis of estimates and assumptions, management cannot guarantee that the value of goodwill or other tangible or intangible assets will not be subject to impairment in the future.

17. INVESTMENTS IN EQUITY INSTRUMENTS

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Investments in equity instruments	97,948	8,387
Other investments	1,590	29
Total	99,538	8,416

The Group, after appropriate evaluation by the respective Corporate bodies, invested surplus liquidity in highly rated equity securities listed on the most important regulated stock markets in the world. The change in fair value of investments in equity instruments is recognized through a specific equity reserve.

18. OTHER NON-CURRENT ASSETS

Other non-current assets are detailed as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Guarantee Deposits	64,770	66,511
Deferred rental income	9,606	13,004
Pension fund surplus	11,719	13,021
Other long-term assets	16,897	18,162
Total	102,992	110,698

Other non-current assets as of December 31, 2018 includes Euro 11.7 million representing the actuarial valuation of the Group’s pension plans in the United Kingdom (Note 25).

The guarantee deposits are set forth below by type and maturity:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Nature:		
Stores	59,590	61,398
Offices	3,900	3,889
Warehouses	117	100
Other	1,163	1,124
Total	64,770	66,511

(amounts in thousands of Euro)	December 31 2018
Maturity:	
from one to two years	18,963
from two to five years	14,505
After more than five years	31,302
Total	64,770

19. SHORT-TERM FINANCIAL PAYABLES AND BANK OVERDRAFTS

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Short-term bank loans	152,365	87,901
Current portion of long-term loans	269,195	265,447
Deferred costs on loans	(323)	(611)
Financial lease	244	234
Total	421,481	352,971

The short-term bank loans as at December 31, 2018 refer to the use of credit lines by PRADA spa for an amount of Euro 90.3 million and by PRADA Japan co ltd for a total equivalent value of Euro 62 million. Some of these credit lines contain covenants based on the results of PRADA Japan co ltd's financial statements, all of which were met as at December 31, 2018.

Short-term bank loans are broken down by currency below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Euro	90,365	31,994
Japanese Yen	62,000	54,979
Other currencies	-	928
Total	152,365	87,901

The Group generally borrows at variable interest rates (as explained in Note 24) and manages the risk of interest rate fluctuations by using hedging agreements, as explained in Note 12.

20. PAYABLES TO RELATED PARTIES – CURRENT

The current portions due to related parties are presented below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Financial payables	4,415	4,423
Other payables	62	65
Payables to related parties - current	4,477	4,488

The financial payables due to related parties regard two interest-free loans granted by non-controlling shareholders of the Group's subsidiaries in the Middle East. The payables due to related parties are analyzed in Note 39.

21. TRADE PAYABLES

Trade payables are detailed as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Trade payables – third parties	309,294	302,847
Trade payables – related parties	5,917	10,850
Total	315,211	313,697

22. TAX PAYABLES

The tax payables are detailed hereunder:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Current taxation	44,637	25,015
VAT and other taxes	40,406	43,101
Total	85,043	68,116

The Group recognized current tax liabilities of Euro 44.6 million at December 31, 2018 (Euro 25 million at December 31, 2017) against tax credits of Euro 54.2 million (Euro 69.7 million at December 31, 2017), as reported in Note 14.

23. OTHER CURRENT LIABILITIES

The other current liabilities are as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Payables for capital expenditure	50,085	62,357
Accrued expenses and deferred income	19,719	20,943
Other payables	76,625	74,046
Total	146,429	157,346

The other payables are detailed as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Short-term benefits for employees and other personnel	60,681	61,252
Customer advances	6,334	6,164
Returns from customers	6,145	4,724
Other	3,465	1,906
Total	76,625	74,046

24. LONG-TERM FINANCIAL PAYABLES

The long-term financial payables are as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Long-term bank borrowings	486,369	638,034
Deferred costs on loans	(751)	(1,137)
Financial lease - non-current	1,813	2,057
Total	487,431	638,954

In 2018 the parent company took out a new long-term loan of Euro 100 million containing covenants referring to PRADA spa's consolidated financial statements. All such covenants were met as at December 31, 2018.
In 2018 PRADA Japan co ltd drew the final tranche (JPY 2.5 billion) of the 11 billion multi-tranche syndicated loan stipulated in 2017 with a group of Japanese banks. The related loan covenants, based on the subsidiary's results, were fully met as at December 31, 2018.
Hipic Prod Impex srl stipulated a Romanian leu 13.8 million loan in 2017, which it used entirely in 2018 (Euro 3 million). The loan will be extinguished with a bullet repayment at maturity.
The current portions of long-term loans were repaid in the year for an amount of Euro 143.2 million and the Notes issued by Prada spa were redeemed for an amount of Euro 130 million.

The long-term bank borrowings as of December 31, 2018, excluding finance lease obligations and amortized costs, are set forth below:

Borrower	Amount in thousands of Euro	Type of loan	Currency	Expiry date	Interest rate (1)	Current Portion (Euro thousands)	Non-current Portion (Euro thousands)	Pledge
PRADA spa	92,500	Term-loan	EUR	02/2022	0.500%	17,000	75,500	-
PRADA spa	60,000	Term-loan	EUR	03/2019	0.755%	60,000	-	-
PRADA spa	42,167	Term-loan	EUR	05/2030	2.737%	3,667	38,500	Mortgage loan
PRADA spa	40,000	Term-loan	EUR	02/2019	0.608%	40,000	-	-
PRADA spa	100,000	Term-loan	EUR	06/2021	0.752%	-	100,000	-
PRADA spa	87,500	Term-loan	EUR	06/2022	0.480%	25,000	62,500	-
PRADA spa	90,000	Term-loan	EUR	02/2021	0.963%	-	90,000	-
PRADA spa	5,000	Term-loan	EUR	03/2019	0.710%	5,000	-	-
PRADA spa	100,000	Term-loan	EUR	06/2019	0.000%	100,000	-	-
PRADA Japan Co. Ltd	23,838	Syndicate loan	JPY	09/2022	0.469%	1,987	21,851	-
PRADA Japan Co. Ltd	23,838	Syndicate loan	JPY	09/2022	0.469%	1,987	21,851	-
PRADA Japan Co. Ltd	7,151	Term-loan	JPY	03/2020	1.360%	4,767	2,384	-
PRADA Japan Co. Ltd	2,384	Term-loan	JPY	03/2020	0.810%	1,589	795	-
PRADA Japan Co. Ltd	1,192	Term-loan	JPY	03/2020	1.180%	795	397	-
Kenon Ltd	60,282	Term-loan	GBP	01/2029	4.477%	2,598	57,684	Mortgage loan
Prada Middle East	14,192	Term-loan	USD	02/2022	4.523%	4,367	9,825	-
Tannerie Limoges sas	2,500	Term-loan	EUR	01/2024	1.200%	375	2,125	Mortgage loan
Pelletteria Ennepi srl	63	Term-loan	EUR	06/2019	2.500%	63	-	-
Hipic Prod Impex srl	2,957	Term-loan	RON	11/2021	3.990%	-	2,957	-
Total	755,564					269,195	486,369	

(1) the interest rates include the effect of interest rate risk hedges, if any

PRADA spa's mortgage loan is secured by the building in Milan used for the Group's headquarters, while Kenon ltd's mortgage loan is secured by the building on Old Bond Street, London, used for one of the most prestigious Prada stores in Europe. The loan to Tannerie Limoges sas is secured by such company's factory building.
The Group generally borrows at variable interest rates and manages the risk of interest rate fluctuations through hedging agreements, as described in Note 12.

The financial payables are set forth hereunder by their portions with fixed and variable interest rates:

(amounts in thousands of Euro)	December 31, 2018		December 31, 2017	
	variable interest rates	fixed interest rates	variable interest rates	fixed interest rates
Short-term financial payables	58%	42%	56%	44%
Long-term financial payables	40%	60%	27%	73%

25. LONG-TERM EMPLOYEE BENEFITS

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Post-employment benefits	47,407	46,338
Other long-term employee benefits	12,594	15,106
Total liabilities for long-term benefits	60,001	61,444
Pension plan surplus (note 18)	(11,719)	(13,021)
Net liabilities for long-term benefits	48,282	48,423

POST-EMPLOYMENT BENEFITS

The net balance of long-term employee benefits as of December 31, 2018 is Euro 48.3 million (Euro 48.4 million as of December 31, 2017) and all the benefits are classified as defined benefit plans.

The post-employment benefits consist of Euro 22.5 million (Euro 23.8 million at December 31, 2017) in liabilities accounted for by Italian companies and Euro 25 million by the foreign subsidiaries (Euro 22.5 million in at December 31, 2017). The Italian liabilities regard the "Trattamento di Fine Rapporto" ("TFR", or staff leaving indemnities), a deferred benefit for employees that is mandatory for Italian businesses and is based on the employees' length of service and pay. The present value of the liability recognized was determined by projecting the amount accrued as of December 31, 2018 under Italian law to the estimated future date of employment termination, discounting it to the present value at the same reporting date using the projected unit credit method ("PUCM").

The following table presents the changes in long-term employee benefits as at December 31, 2018:

(amounts in thousands of Euro)	Defined Benefit Plans in Italy (TFR)	Defined Benefit Plans in other countries (including Japan)	Pension Funds in UK	Other long-term eployee benefits	Total
Balance at December 31, 2017	23,797	22,541	(13,021)	15,106	48,423
Acquisitions	-	-	-	-	-
Current service cost	442	3,366	944	3,858	8,610
Interest expenses (income)	-	-	(310)	173	(137)
Actuarial (gains)/losses	200	(112)	791	(1,762)	(883)
Benefits paid	(1,987)	(2,395)	-	(4,953)	(9,335)
Contributions	-	-	(216)	-	(216)
Exchange differences	-	1,555	93	172	1,820
Other movements	-	-	-	-	-
Balance at December 31, 2018	22,452	24,955	(11,719)	12,594	48,282

The actuarial gains and losses are as follows:

(amounts in thousands of Euro)	Defined Benefit Plans in Italy (TFR)	Defined Benefit Plans in Other Countries (including Japan)	Pension Funds in UK
Actuarial adjustments due to			
(a) Changes in financial assumptions	(28)	72	3,227
(b) Changes in other assumptions (e.g. demographic assumptions, remuneration increases)	228	(184)	(2,436)
(c) Other	-	-	-
Actuarial (gains)/losses	200	(112)	791

The current service cost and interest expense/(income) are recognized in the statement of profit or loss. The actuarial differences for "other long-term employee benefits" are also recognized in the statement of profit or loss.

The TFR liability was measured on the basis of an independent appraisal by Federica Zappari, an Italian actuary, member (n. 1134) of the Ordine Nazionale degli Attuari (Italian Society of Actuaries). The technical basis was processed using statistical data, whereas the demographic assumptions used variables such as probability of death, probabilities of retirement and resignations, probability of dismissals, contract expiration, leaving indemnity advances and supplementary pension schemes.

The post-employment benefits are stated net of the pension plan surplus attributable to Group companies operating in the United Kingdom that supply pension services to their employees. As of December 31, 2018, the fair value of such pension plans is a surplus of Euro 11.7 million (Euro 13 million as of December 31, 2017). The fair value of the plan assets was determined by the independent actuary of JLT Jardine Lloyd Thompson Group. It is detailed below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Fair value of plan assets	61,571	65,852
Fair value of plan liabilities	(49,852)	(52,831)
Pension plan surplus	11,719	13,021

The composition of the main plan assets on the reporting date is as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Equities	21,444	32,190
Alternatives	10,875	10,967
Bonds	25,907	19,550
Cash	3,345	3,145
Total	61,571	65,852

The main actuarial assumptions used as of December 31, 2018 are as follows:

December 31, 2017	Defined Benefit Plans in Italy (TFR)	Pension Funds in UK	Defined Benefit Plans in Japan
Average duration of plan (years)	10.7	15	14.4
Average increase in remuneration	1.30%	2.05%	3.37%
Rate of inflation	1.50%	2.05%	N/A

The main actuarial assumptions used as of December 31, 2017 were as follows:

December 31, 2017	Defined Benefit Plans in Italy (TFR)	Pension Funds in UK	Defined Benefit Plans in Japan
Average duration of plan (years)	11	15	15.5
Average increase in remuneration	1.80%	1.98%	3.37%
Rate of inflation	1.50%	1.98%	n/a

The discount rate used to measure defined benefit plans was determined on the basis of yields on bonds with an AA rating and a maturity date similar to that of the plans.

With respect to the December 31, 2018 liability, a sensitivity analysis was performed on the main actuarial variables such as discount rate, salary changes and inflation rate. The analysis did not lead to significant changes in the liability, except for the sensitivity analysis conducted on the interest rate curve, according to which a 50 basis point increase or decrease would cause an increase or decrease in the Group's total defined benefit obligation ("DBO") up to Euro 6 million.

OTHER LONG-TERM EMPLOYEE BENEFITS

The other long-term employee benefits meet the IAS 19 definition of long-term employee benefits and refer to retention and performance-based programs for employees. Their actuarial valuation as of December 31, 2018 under the PUCM methodology resulted in Euro 12.6 million (Euro 15.1 million as at December 31, 2017), according to an independent actuarial appraisal.

26. PROVISIONS FOR RISKS AND CHARGES

The changes in the provisions for risks and charges are as follows:

(amounts in thousands of Euro)	Provision for litigation	Provision for tax disputes	Other provisions	Total
Balance at December 31, 2017	3,094	9,928	48,793	61,815
Exchange differences	53	44	724	821
Reversals	(929)	(5,719)	(1,139)	(7,787)
Utilized	(928)	(652)	(4,437)	(6,017)
Increases	135	1,728	2,843	4,706
Reclassification	-	(2,228)	-	(2,228)
Balance at December 31, 2018	1,425	3,101	46,784	51,310

The provisions for risks and charges represent management's best estimate of the maximum amount of potential liabilities. In the Directors' opinion, based on the information available to them, the total amount allocated for risks and charges at the reporting date is adequate in respect of the liabilities that could arise from them.

TAX DISPUTES

The Group's main tax disputes are described hereunder.

In 2005 PRADA spa received two VAT assessment notices for tax year 2002 regarding the sale of two business divisions reclassified as sales of trademarks. In 2017 the related disputes that had emerged were resolved through the facilitated settlement procedure for pending tax disputes pursuant to Italian Law Decree 50/2017, Article 11. In 2018 the settlements were concluded and the corresponding tax proceedings were closed because the tax authorities did not notify PRADA spa of their denial within the prescribed time limits. Accordingly, the liability estimated in the past for such tax disputes was eliminated.

On April 23, 2018, pursuant to its adherence to the Cooperative Compliance Tax Regime, PRADA spa signed a formal agreement with the Italian Revenue Agency to reciprocally waive the disputes initiated in the past and due to the dismissal or inadmissibility of petitions filed to not apply the Controlled Foreign Company ("CFC") rules. After such date, the requirements were met at the various court levels to obtain recognition of claim dismissal for each pending dispute. The settlement of such disputes did not affect the financial statements because, since the associated risk had been deemed remote, the Directors had decided that it was reasonable not to recognize any risk provisions for them.

PRADA spa filed an appeal following an audit initiated in 2012 by the Italian Customs Agency for the tax years from 2007 to 2011, which resulted in notices of assessment for the 2010 tax year. In the first half of 2018 a new appeal was discussed with the Livorno Provincial Tax Commission and ruled in favor of the Company, just as a previous appeal had been discussed with and ruled favorably by the same Commission in 2017. The Customs Agency has lodged an appeal against the rulings and the first of such appeals was discussed with the Florence Regional Tax Commission on July 23, 2018, with an adverse ruling for the Company notified on October 19, 2018. PRADA spa will lodge an appeal before the Supreme Court within the prescribed time limit.

PRADA Korea underwent a customs audit for tax years 2013 to 2016 regarding the duty liability of the year-end transfer pricing adjustment. The customs audit began at the end of 2017 and lasted throughout 2018. Negotiations with the Korean customs authorities to close the audit concluded in December 2018 with the quantification of additional customs duties due in an amount of some Euro 1.2 million.

With respect to the notice of assessment of direct taxes regarding PRADA Germany GmbH issued by the German tax authorities for the tax years from 2008 to 2011, extended to 2014, in the first half of 2018 the Company paid the tax bills received, using the provision allocated, and lodged an appeal with a higher hierarchical level of tax authority. At the end of November 2018, an agreement was reached with the German tax authorities to settle the assessment with some Euro 1.8 million reduction of the originally estimated liability of some Euro 2.4 million.

LEGAL DISPUTES

The Euro 1.4 million provision for litigation as at December 31, 2018 refers to pending disputes regarding labor law.

OTHER RISK PROVISIONS

The other risk provisions amount to Euro 46.8 million as at December 31, 2018 and refer primarily to contractual obligations to restore leased commercial property to its original condition.

27. OTHER NON-CURRENT LIABILITIES

The other non-current liabilities amount to Euro 159 million (Euro 167.6 million as at December 31, 2017) and consist primarily of liabilities recognized to account for commercial lease costs on a straight-line basis.

28. EQUITY ATTRIBUTABLE TO OWNERS OF THE GROUP

The equity attributable to owners of the Group is set forth below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Share Capital	255,882	255,882
Share premium reserve	410,047	410,047
Other reserves	2,001,391	1,977,983
Actuarial reserve	(4,822)	(4,103)
Fair value Investments in equity instruments reserve	(12,276)	(5,570)
Cash flow hedge reserve	(10,620)	(3,273)
Translation reserve	32,941	(4,035)
Net income for the period	205,443	217,721
Total	2,877,986	2,844,652

SHARE CAPITAL

As at December 31, 2018, approximately 80% of PRADA spa's share capital is owned by PRADA Holding spa and the remainder consist of floating shares on the Main Board of the Hong Kong Stock Exchange.

SHARE PREMIUM RESERVE

The share premium reserve of Euro 410 million has not changed from that of December 31, 2017.

TRANSLATION RESERVE

Changes in this reserve derive from the translation into Euro of the foreign currency financial statements of the consolidated companies. The reserve increased from Euro -4 million at December 31, 2017 to Euro 33 million, due in part o the conversion impact related to the distribution of dividends totaling HKD 4 billion by Prada Asia Pacific Ltd. to PRADA spa.

OTHER RESERVES

The other reserves amount to Euro 2,001.4 million as at December 31, 2018. They increased by Euro 23.4 million compared with December 31, 2017 (Euro 1,978 million) primarily as a result of the allocation of the Euro 217.7 million profit of the previous period after the distribution of dividends totaling Euro 191.9 million to PRADA spa shareholders.

NET INCOME FOR THE PERIOD

The Group's net income for the twelve months ended December 31, 2018 was Euro 205.4 million (Euro 217.7 million for the eleven months ended December 31, 2017).

CAPITAL GAINS TAX IN ITALY

Capital gains from the sale of an Italian company by shareholders residing in Hong Kong have not been subject to taxation in Italy since January 1, 2016. Additional information on Italian capital gains tax is provided in the Tax Booklet available on the Company's website (www.pradagroup.com).

29. EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The following table sets forth the changes in the non-controlling interests as of December 31, 2018 and December 31, 2017:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Opening balance	21,519	24,028
Translation differences	828	(2,190)
Dividends	(5,729)	(1,014)
Net income for the period	2,739	296
Actuarial reserve	(9)	(13)
Capital injection in subsidiaries	345	89
Transactions with non-controlling shareholders	(577)	323
IFRS 9 First time Adoption - Bad Debt Provision	(33)	-
Closing balance	19,083	21,519

Dividends of Euro 5.7 million were distributed to non-controlling shareholders as of December 31, 2018, as detailed in Note 43.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The following Statement of Profit or Loss tables compare the results of the twelve months of 2018 with an eleven-month period of 2017 due to the 2017 change in the end of the annual reporting period from January 31 to December 31. For a better understanding of the performance of 2018, reference is made to the Financial Review, which provides a comparison of the results with the 12-month pro-forma period of 2017.

30. NET REVENUES

The consolidated net revenues are produced primarily by sales of finished products, and are stated net of returns and discounts.

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Net sales	3,098,068	2,696,644
Royalties	44,080	44,451
Total	3,142,148	2,741,095

The Financial Review describes the net revenues by distribution channel, geographical area, brand and product.

31. COST OF GOODS SOLD

The cost of goods sold has the following composition:

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Purchases of raw materials and production costs	790,465	642,609
Logistics costs, duties and insurance	154,052	129,627
Change in inventories	(64,963)	(61,837)
Total	879,554	710,399

32. OPERATING EXPENSES

The operating costs are detailed below:

(amounts in thousands of Euro)	twelve months ended December 31 2018	% of net revenues	eleven months ended December 31 2017	% of net revenues
Product design and development costs	125,179	4.0%	116,536	4.3%
Advertising and communications costs	207,278	6.6%	167,733	6.1%
Selling costs	1,414,153	45.0%	1,274,947	46.5%
General and administrative costs	192,138	6.1%	155,602	5.7%
Total	1,938,748	61.7%	1,714,818	62.6%

The following table sets forth depreciation, amortization, impairment, cost of labor and rent expense included within the operating expenses.

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Depreciation, amortization and impairment	211,638	196,852
Labor cost	598,503	520,569
Variable rent	329,199	294,962
Fixed rent	282,284	278,794
Total	1,421,624	1,291,177

33. INTEREST AND OTHER FINANCIAL INCOME/(EXPENSE), NET

The net interest and other financial income/(expense) is presented below:

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Interest expenses on borrowings	(13,543)	(13,786)
Interest income / (expenses) IAS 19	140	143
Interest income	9,405	5,070
Exchange gains / (losses) - realized	(15,138)	(5,911)
Exchange gains / (losses) - unrealized	1,301	9,360
Other financial income / (expenses)	(4,105)	(1,607)
Total	(21,940)	(6,731)

34. DIVIDENDS FROM INVESTMENTS

In the twelve months ended December 31, 2018, the Group accounted for dividends of Euro 0.6 million (Euro 0.7 million in 2017) from investments in equity instruments.

35. TAXATION

Taxation have the following composition:

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Current taxation	95,184	69,896
Deferred taxation	(828)	21,904
Total	94,356	91,800

The reconciliation between the Group's theoretical tax rate and its effective tax rate is presented in the table below:

(amounts in thousands of Euro)	twelve months ended December 31 2018
Weighted average tax rate of the Group	26.8%
Costs and revenues not taxable/deductible	1.7%
Effect of utilization of tax loss carryforwards	0.3%
Prior year taxes	0.4%
Withholdings	1.4%
Other	0.6%
Effective tax rate of the Group	31.2%

The changes in deferred tax assets and liabilities are set forth below:

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Opening balance	177,390	216,126
Exchange differences	4,650	(15,310)
Deferred taxes on derivative instruments recorded in equity (cash flow hedges)	2,669	(1,657)
Deferred taxes on post-employment benefits recorded in equity (reserve for actuarial differences)	102	(334)
Deferred taxes on FTA IFRS 9	444	-
Other movements	971	470
Deferred taxes for the period in profit or loss	828	(21,904)
Closing balance	187,054	177,390

Deferred tax assets and liabilities are classified by type hereunder:

(amounts in thousands of Euro)	December 31, 2018		December 31, 2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Inventories	108,491	-	100,620	-
Receivables and other assets	702	1,548	94	1,412
Useful life of non-current assets	48,238	8,743	46,405	9,048
Deferred taxes due to acquisitions	-	15,170	-	15,071
Provision for risks / accrued expenses	34,043	1,358	38,078	437
Non-deductible / taxable charges/income	7,830	65	9,416	2,024
Tax loss carryforwards	3,121	-	3,627	-
Derivative financial instruments	3,195	-	1,306	593
Long term employee benefits	9,916	1,992	8,986	2,214
Other	1,564	1,174	870	1,213
Total	217,104	30,050	209,402	32,012

Tax loss carryforwards as of December 31, 2018, including those already recognized in the Group's financial statements, are detailed below:

(amounts in thousands of Euro)	December 31 2018
Expiring within 5 years	19,142
Expiring after 5 years	16,149
Available for carryforward with no time limit	93,745
Total tax loss carryforwards	129,036

The Group's management updated the deferred tax assets recognized on tax loss carryforwards taking into consideration the macroeconomic scenario and the business developments of each of the Group's companies.

PRADA spa is eligible to benefit from the Patent box regime that grants a tax exemption for income derived from the use of the qualified intangible assets, for both Italian corporate income tax (IRES) and Italian regional tax (IRAP) purposes. This optional Patent box regime was introduced by the 2015 Italian Bill, Italian Law No. 190 of December 2014 (subsequently amended and supplemented) and lasts as of fiscal year 2015 to fiscal year 2019.
On January 29, 2016 PRADA spa formally applied for the Patent box regime to Italian Tax authorities for the direct use of intangibles, whose method for the determination of the exemption has to be mandatorily agreed in the framework of a tax ruling. The procedure has seen significant progresses in last period and the

Company's Directors expect to formally sign the agreement in 2019.
Therefore in 2019 Financial statements, PRADA spa will recognize the patent box benefit for the whole 5 years period.

36. EARNINGS AND DIVIDENDS PER SHARE

EARNINGS PER SHARE BASIC AND DILUTED

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

	twelve months ended December 31 2018	eleven months ended December 31 2017
Group net income in Euro	205,443,297	217,721,032
Weighted average number of ordinary shares in issue	2,558,824,000	2,558,824,000
Basic and Diluted earnings per share in Euro, calculated on weighted average number of shares	0.080	0.085

DIVIDENDS PER SHARE

The Board of Directors of PRADA spa has proposed a dividend of Euro 153,529,440 (Euro 0.06 per share) for the twelve months ended December 31, 2018.
During 2018 the Company distributed dividends of Euro 191,911,800 (Euro 0.075 per share), as approved at the General Meeting held on April 27, 2018 to approve the December 31, 2017 financial statements.
The dividends and the related Italian withholding tax (Euro 10 million), determined by applying the ordinary Italian tax rate to the entire amount of the dividends distributed to the beneficial owners of the Company's shares held through the Hong Kong Central Clearing and Settlement System, were fully paid during the year.

The dividends paid in the past three years are detailed hereunder:

	Financial statements ended December 31 2017	Financial statements ended January 31 2017	Financial statements ended January 31 2016
Total dividends paid (Euro)	191,911,800	307,058,880	281,470,640
Dividends per Share (Euro)	0.075	0.12	0.11
Date of approval by Shareholders' Meeting	27/04/2018	31/05/2017	24/05/2016
Date of payment	May 2018	June 2017	June 2016

37. ADDITIONAL INFORMATION

The average number of employees by business division is presented below:

(number of employees)	twelve months ended December 31 2018	eleven months ended December 31 2017
Production	2,959	2,741
Product design and development	1,023	985
Advertising and Communications	158	128
Selling	8,101	7,622
General and administrative services	956	924
Total	13,197	12,400

EMPLOYEE REMUNERATION

The employee remuneration by business division is presented below:

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Production	126,416	106,375
Product design and development	67,683	60,383
Advertising and Communications	14,907	13,733
Selling	423,874	367,888
General and administrative services	92,350	78,565
Total	725,230	626,944

The types of employee remuneration are presented below:

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Wages and salaries	547,990	475,135
Post-employment benefits and other long-term benefits	30,711	28,727
Social contributions	113,453	98,564
Other	33,076	24,518
Total	725,230	626,944

DISTRIBUTABLE RESERVES OF THE PARENT COMPANY, PRADA SPA

(amounts in thousands of Euro)	December 31 2018	Possible utilization	Distributable amount	Summary of utilization in the last three years	
				Coverage of losses	Distribution of dividends
Share Capital	255,882				
Share premium reserve	410,047	A, B, C	410,047	-	-
Legal reserve	51,176	B	-	-	-
Other reserves	182,899	A, B, C	182,899	-	-
Retained earnings	325,301	A, B, C	285,924	-	780,442
Fair Value reserve	(12,275)		-	-	-
Time Value reserve	(4,218)		-	-	-
Intrinsic Value reserve	(2,368)		-	-	-
Distributable amount			878,870	0	780,442

A share capital increase
B coverage of losses
C distributable to shareholders

Under Italian Civil Code Article 2431, the share premium reserve is fully distributable since the amount of the legal reserve is equal to or exceeds 20% of share capital. Under Italian Legislative Decree 38/2005, Article 7, Euro 20.5 million of the retained earnings is not distributable.

EXCHANGE RATES

The exchange rates against the Euro used for consolidation of the statements of financial position and statements of profit or loss whose presentation currency differed from that of the consolidated financial statements as of December 31, 2018 and December 31, 2017 are listed hereunder.

(amounts in thousands of Euro)	Average rate December 31 2018	Average rate December 31 2017	Closing rate December 31 2018	Closing rate December 31 2017
US Dollar	1.182	1.135	1.145	1.199
Canadian Dollar	1.530	1.469	1.561	1.504
GB Pound	0.885	0.878	0.895	0.887
Swiss Franc	1.155	1.115	1.127	1.170
Australian Dollar	1.579	1.477	1.622	1.535
Korean Won	1,299.544	1,277.502	1,277.930	1,279.610
Japanese Yen	130.496	127.044	125.850	135.010
Hong Kong Dollar	9.264	8.850	8.968	9.372
Singapore Dollar	1.593	1.562	1.559	1.602
Thai Bath	38.178	38.335	37.052	39.121
Taiwan Dollar	35.605	34.412	35.197	35.570
Russian Ruble	74.003	66.090	79.715	69.392
Czech Koruna	25.643	26.267	25.724	25.535
Macau Pataca	9.543	9.116	9.238	9.653
Chinese Renminbi	7.810	7.654	7.875	7.804
New Zealand Dollar	1.705	1.597	1.706	1.685
Malaysian Ringgit	4.765	4.861	4.732	4.854
Turkish Lira	5.684	4.133	6.059	4.546
Brazilian Real	4.307	3.622	4.444	3.973
Mexican Peso	22.712	21.210	22.492	23.661
UAE Dirham	4.342	4.169	4.206	4.405
Ukrainian Hryvna	32.143	30.104	31.714	33.495
Moroccan Dirham	11.086	10.978	10.947	11.206
Kuwait Dinar	0.357	0.334	0.348	0.362
Danish Kronor	7.453	7.439	7.467	7.445
Swedish Kronor	10.255	9.648	10.255	9.844
Kazakhstani Tenge	406.812	369.889	439.370	398.230
Qatari Riyal	4.322	4.183	4.181	4.398
Indian Rupia	80.722	73.602	79.730	76.606
Saudi Riyal	4.433	4.257	4.295	4.498
South African Rand	15.589	15.096	16.459	14.805
Vietnamese Dong	26,708.917	25,410.458	26,118.500	26,697.000
Indonesian Rupia	16,802.343	15,193.701	16,500.000	16,239.120
Panamanian Balboa	1.182	1.135	1.145	1.199
Romanian Lue	4.654	4.575	4.664	4.659

AUDITOR'S COMPENSATION

The total fees and expenses recognized to Deloitte & Touche spa and its network for auditing the financial statements of the periods ended December 31, 2018 and December 31, 2017 and providing non-audit services, are presented below:

Type of service	Audit Firm	Provided to	twelve months ended December 31 2018	eleven months ended December 31 2017
Audit services	Deloitte & Touche spa	PRADA spa	555	516
Audit services	Deloitte & Touche spa	Subsidiaries	126	121
Audit services	Deloitte Network	Subsidiaries	1,139	1,186
Total audit fees to Deloitte Network			1,820	1,823
Other advisory services	Deloitte Network	PRADA spa	583	1,408
Other advisory services	Deloitte Network	Subsidiaries	108	79
Total non-audit fees to Deloitte Network			691	1,487
Total compensation to Deloitte Network			2,511	3,310

The other advisory services provided by Deloitte to PRADA spa were mainly related to the last phase of an assistance project aimed at restyiling the Prada web site.

38. REMUNERATION OF BOARD OF DIRECTORS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGERS

Remuneration of PRADA spa Board of Directors for period ended December 31, 2018

(amounts in thousands of Euro)	Directors' fees	Remuneration and other benefits	Bonuses and other incentives	Benefits in kind	Pension, healthcare and TFR contributions	December 31 2018
Carlo Mazzi	1,020	-	-	74	22	1,116
Miuccia Prada Bianchi	12,382	-	-	-	23	12,405
Patrizio Bertelli	12,382	-	-	-	23	12,405
Alessandra Cozzani	50	280	178	12	139	659
Stefano Simontacchi	50	-	-	-	2	52
Maurizio Cereda	70	-	-	-	3	73
Gian Franco Oliviero Mattei	140	-	-	-	13	153
Giancarlo Forestieri	60	-	-	-	5	65
Sing Cheong Liu	60	-	-	-	7	67
Total	26,214	280	178	86	237	26,995

Remuneration of PRADA spa Board of Directors for fiscal year ended December 31, 2017

(amounts in thousands of Euro)	Directors' fees	Remuneration and other benefits	Bonuses and other incentives	Benefits in kind	Pension, healthcare and TFR contributions	December 31 2017
Carlo Mazzi	1,020	-	1,000	74	7	2,101
Miuccia Prada Bianchi	12,000	-	655	-	-	12,655
Patrizio Bertelli	12,000	-	655	-	-	12,655
Alessandra Cozzani	50	252	127	12	96	537
Stefano Simontacchi	50	-	-	-	2	52
Maurizio Cereda	50	-	-	-	2	52
Gian Franco Oliviero Mattei	150	-	-	-	-	150
Giancarlo Forestieri	70	-	-	-	11	81
Sing Cheong Liu	70	-	-	-	16	86
Total	25,460	252	2,437	86	134	28,369

REMUNERATION OF FIVE HIGHEST PAID INDIVIDUALS

The Group's five highest paid individuals included three Board of Director members for 2018 and three Board Members for 2017. The total remuneration of the remaining two highest paid individuals in the twelve months ended December 31, 2018 and the remaining two highest paid individuals in the eleven months ended December 31, 2017 is set forth below:

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Remuneration and other benefits	10,683	8,971
Bonuses and other incentives	1,001	1,367
Non-monetary benefits	345	256
Pension/social security, healthcare and TFR contributions	23	23
Total	12,052	10,617

Excluding the remuneration of the Board of Directors' members the remuneration range of the highest paid individuals is as follows:

	twelve months ended December 31 2018	eleven months ended December 31 2017
Less than HKD 8,000,000	-	-
Between HKD 8,000,000 and HKD 20,000,000	1	1
More than HKD 50,000,000	1	1
Total individuals	2	2

SENIOR MANAGERS REMUNERATION

The remuneration of the Senior Managers is as follows:

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Remuneration and other benefits	17,738	16,458
Bonuses and other incentives	3,614	3,773
Non-monetary benefits	2,066	2,262
Pension/social security, healthcare and TFR contributions	1,863	2,106
Total	25,281	24,599

There were 26 Senior Managers as of December 31, 2018, and 28 Senior Managers as of December 31, 2017.

The remuneration range of the Senior Mangers is as follows:

	twelve months ended December 31 2018	eleven months ended December 31 2017
Less than HKD 4,000,000	8	11
between HKD 4,000,000 and HKD 8,000,000	13	12
between HKD 8,000,000 and HKD 16,000,000	4	4
between HKD 16,000,000 and HKD 50,000,000	-	-
more than HKD 50,000,000	1	1
Total individuals	26	28

39. RELATED PARTY TRANSACTIONS

The Group carries out transactions with companies classifiable as related parties according to IAS 24, "Related Party Disclosures". The transactions regard mainly sales of goods, supplies of services, loans, sponsorships, leases and franchise agreements. The transactions take place on an arm's length basis.

The following tables present the effect of related-party transactions on the consolidated financial statements in terms of Statement of Financial Position balances at the reporting date and total transactions affecting the Statement of Profit or Loss.

STATEMENT OF FINANCIAL POSITION BALANCES AS OF DECEMBER 31, 2018

(amounts in thousands of Euro)	Trade receivables	Receivables from, and advances to, related parties – current	Trade payables	Payables to related parties – current	Other Liabilities
Progetto Prada Arte srl	3	-	-	-	-
Al Tayer Insignia LLC	1,357	-	24	2,341	-
Danzas LLC - UAE	-	-	19	-	-54
DFS Hawaii	-	-	511	-	-
DFS Venture Singapore (Pte) Limited	-	-	42	-	-
Luna Rossa Challenge 2013 srl	949	6,761	18	62	-
Chora srl	-	5,848	828	-	-
DFS Cotai limitada	670	-	830	-	-
TRS New Zealand Pty. Ltd	-	-	2	-	-
Al Tayer Motors	-	-	1	-	-
Al Sanam Rent a Car LLC	-	-	2	-	-
Peschiera Immobiliare srl	-	17	-	-	-
Premiata srl	3	-	534	-	-
COR 36 srl	24	-	47	-	-
Conceria Superior spa	10	-	1,356	-	-
Prapar Corporation	-	-	3	-	-
Fratelli Prada spa	7,631	-	1,253	-	-
Prada Holding spa	142	-	-	-	-
Perseo srl	-	-	447	-	-
PH-RE srl	-	-	-	-	14,803
Rubaiyat Modern Lux.Pr.Co.Ltd	-	-	-	2,074	-
Members of the Board of Directors of PRADA spa	-	-	-	-	3,059
Relatives of members of the Board of Directors	-	-	-	-	146
Total at December 31, 2018	10,789	12,626	5,917	4,477	17,954

STATEMENT OF FINANCIAL POSITION BALANCES AS OF DECEMBER 31, 2017

(amounts in thousands of Euro)	Trade receivables	Receivables from, and advances to, related parties - current	Trade payables	Payables to related parties - current	Other Liabilities
STICHTING Prada (ex Stiching Fondazione Prada)	1	-	-	-	-
Progetto Prada Arte srl	3	-	-	-	-
Al Tayer Group LLC	-	-	10	-	-
Al Tayer Insignia LLC	353	-	35	2,235	-
Danzas LLC - UAE	-	-	-	-	-
DFS Hawaii	-	-	670	-	-
DFS Venture Singapore (Pte) Limited	-	-	52	-	-
Luna Rossa Challenge 2013 srl	512	-	18	65	-
Chora srl	-	5,847	578	-	-
DFS Cotai limitada	95	-	848	-	-
Al Tayer Trends	12	-	-	-	-
Al Tayer Motors	-	-	1	-	-
Al Sanam Rent a Car LLC	-	-	2	-	-
Peschiera Immobiliare srl	8	-	-	-	-
Premiata srl	7	-	658	-	-
Le Mazza srl	48	-	128	-	-
Conceria Superior spa	4	-	5,506	-	-
PRADA HOLDING spa	54	-	-	-	-
Fratelli Prada spa	12,158	118	923	-	-
PRA 1 srl	-	-	-	-	-
Perseo srl	8	-	1,421	-	-
LUDO srl	-	142	-	-	-
Rubaiyat Modern Lux.Pr.Co.Ltd	-	-	-	2,188	-
Members of the Board of Directors of PRADA spa	-	-	-	-	7,094
Relatives of members of the Board of Directors	-	-	-	-	494
Total at December 31, 2017	13,263	6,107	10,850	4,488	7,588

STATEMENT OF PROFIT OR LOSS TRANSACTIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018

(amounts in thousands of Euro)	Net revenues	Cost of goods sold	General, admin. & selling costs (income)	Royalties income
Al Tayer Group LLC	-	-	151	-
Al Tayer Insignia LLC	1,295	-	138	-
Danzas LLC - UAE	-	22	92	-
DFS Hawaii	-	-	3,128	-
DFS Venture Singapore (Pte) Limited	-	-	258	-
Luna Rossa Challenge 2013 srl	191	-	16,070	-
Al Tayer Motors	-	-	(1)	-
Chora Srl	-	-	1,930	-
DFS Cotai limitada	-	-	4,727	-
Al Sanam Rent a Car LLC	-	-	10	-
Peschiera Immobiliare srl	-	3	436	-
Premiata srl	-	1,071	668	-
La Mazza srl	-	92	-	-
SPELM sa	-	-	433	-
Conceria Superior spa	13	19,835	97	-
Prada Holding spa	-	-	(80)	-
Fratelli Prada spa	20,849	133	1,568	620
PH-RE LLC. (ex PABE-RE LLC)	-	-	20,466	-
Perseo srl	-	1,527	-	-
COR 36 S.r.l.	5	-	(12)	-
LUDO srl	-	-	1,321	-
Relatives of members of the Board of Directors	-	-	827	-
Total at December 31, 2018	22,353	22,683	52,227	620

STATEMENT OF PROFIT OR LOSS TRANSACTIONS FOR THE ELEVEN MONTHS ENDED DECEMBER 31, 2017

(amounts in thousands of Euro)	Net revenues	Cost of goods sold	General, admin. & selling costs (income)	Royalties income
Al Tayer Group LLC	-	-	36	-
Al Tayer Insignia LLC	1,047	-	193	-
Danzas LLC - UAE	-	345	21	-
DFS Hawaii	-	-	3,452	-
DFS New Zealand Limited	-	-	63	-
DFS Venture Singapore (Pte) Limited	-	-	245	-
DFS Hong Kong Limited	-	-	2	-
Luna Rossa Challenge 2013 srl	2	-	10,742	-
Al Tayer Motors	-	-	1	-
Chora Srl	-	-	2,128	-
DFS Cotai limitada	-	-	4,343	-
Al Sanam Rent a Car LLC	-	-	10	-
Peschiera Immobiliare srl	-	(8)	502	-
Premiata srl	-	1,237	621	-
Le Mazza srl	-	1,077	-	-
SPELM sa	-	-	411	-
Conceria Superior spa	5	22,252	108	-
PRADA HOLDING spa	-	-	(50)	-
Fratelli Prada spa	25,000	355	2,097	732
PRA 1 srl	-	-	778	-
PH-RE LLC. (ex PABE-RE LLC)	-	-	17,697	-
Perseo srl	-	2,788	-	-
LUDO srl	-	-	402	-
Relatives of members of the Board of Directors	-	-	811	-
Total at December 31, 2017	26,054	28,046	44,613	732

The foregoing tables report information on transactions with related parties in accordance with IAS 24, "Related Party Disclosures". The following transactions with related parties fall within the scope of application of the Hong Kong Stock Exchange Listing Rules.

The transactions with related party "PH-RE LLC" (formerly "PABE-RE LLC") refer to the transaction between the company itself and Prada Japan in relation to the lease for the Aoyama Building in Tokyo. The transactions reported for the twelve months ended December 31, 2018 are regulated by Chapter 14A of the Listing Rules because they are considered continuing connected transactions subject to disclosure, but they are exempt from the independent shareholders' approval requirement. As required by the Listing Rules, comprehensive disclosure of those continuing connected transactions is contained in PRADA spa's Announcements dated July 15, 2015 ("Prada Aoyama") and May 26, 2017 ("Miu Miu Aoyama").

The transactions with related party "Fratelli Prada spa - franchising" refer to transactions between the Company and Fratelli Prada spa in relation to the franchise agreement for the Prada stores in Milan. The transactions reported for the twelve months ended December 31, 2018 are regulated by Chapter 14A of the Listing Rules because they are considered continuing connected transactions subject to disclosure, but they are exempt from the independent shareholders' approval requirement. As required by the Listing Rules, comprehensive disclosure of those continuing connected transactions is contained in PRADA spa's Announcement dated January 25, 2017.

The transactions with related party Luna Rossa Challenge srl for the twelve months ended December 31, 2018 are regulated by Chapter 14A of the Listing Rules because they are considered continuing connected transactions subject to disclosure, but they are exempt from the independent shareholders' approval requirement. As required by the Listing Rules, comprehensive disclosure of those continuing connected transactions is contained in PRADA spa's Announcement dated December 1, 2017.

Apart from the non-exempt continuing connected transactions and non-exempt connected transactions reported in Note 39, no transaction reported in the 2018 Consolidated Financial Statements meets the definition of "connected transaction" or "continuing connected transaction" contained in Chapter 14A of the Hong Kong Stock Exchange Listing Rules or, if it does meet the definition of "connected transaction" or "continuing connected transaction" according to Chapter 14A, it is exempt from the announcement, disclosure and independent shareholders' approval requirements laid down in Chapter 14A.

40. COMMITMENTS

OPERATING LEASES

The operating leases in effect as of December 31, 2018 and December 31, 2017 are set forth below by maturity:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Within a year	456,736	411,323
After between one year and five years	1,394,625	1,166,798
After more than five years	645,727	1,038,987
Total	2,497,088	2,617,108

The operating lease commitments for the 2018 reporting period include Euro 2,421 million regarding leases for retail premises (Euro 2,552 million for the 2017 reporting period).
The decrease for commitments is split up evenly between the effects of lease expiration and the appreciation of the Euro against the main foreign currencies in which the Group conducts business.

Rental expense under leases in effect at December 31, 2018 and December 31, 2017, recognized in the statement of profit or loss, is presented below:

(amounts in thousands of Euro)	twelve months ended December 31 2018	eleven months ended December 31 2017
Fixed minimum lease expenses	284,882	281,107
Variable lease expenses (including minimum garantees)	329,199	294,962
Total	614,081	576,069

Some Group companies are required to pay rent based on a fixed percentage of net sales.

Future rental income under operating leases is set forth below by maturity:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Within a year	4,412	6,105
After between one year and five years	9,009	14,167
After more than five years	98	759
Total	13,519	21,031

OTHER COMMITMENTS

The Group had no significant binding purchases commitments as of December 31, 2018.

41. FINANCIAL TREND

(amounts in thousands of Euro)	December 31 2018	December 31 2017 (*)	January 31 2017	January 31 2016	January 31 2015
Net revenues	3,142,148	2,741,095	3,184,069	3,547,771	3,551,696
Gross margin	2,262,594	2,030,696	2,289,112	2,567,565	2,550,579
Operating income (EBIT)	323,846	315,878	431,181	502,893	701,551
Group net income	205,443	217,721	278,329	330,888	450,730
Total assets	4,678,812	4,739,375	4,656,929	4,756,555	4,738,877
Total liabilities	1,781,743	1,873,204	1,552,399	1,659,178	1,720,730
Total Group shareholders' equity	2,877,986	2,844,652	3,080,502	3,080,340	3,000,737

(*) eleven-month statement of profit or loss

42. CONSOLIDATED COMPANIES

Company	Local currency	Share capital (000s of local currency)	% interest	Registered office and principal country of operations	Date of incorporation/ establishment (MM/DD/YYYY)	Main business
Italy						
PRADA Spa	EUR	255,882		Milan, IT		Group Holding/ Production/ Distribution
Artisans Shoes Srl (*)	EUR	1,000	66.7	Montegranaro, IT	02/09/1977	Production
IPI Logistica Srl (*)	EUR	600	100	Milan, IT	01/26/1999	Services
Pelletteria Ennepì Srl (*)	EUR	93	90	Figline e Incisa Valdarno, IT	12/01/2016	Production
Church Italia Srl	EUR	51	100	Milan, IT	01/31/1992	Retail/Services
Marchesi 1824 Srl (*)	EUR	1,000	100	Milan, IT	07/10/2013	Food&Beverage
Europe						
PRADA Retail UK Ltd (*)	GBP	5,000	100	London, UK	01/07/1997	Retail
PRADA Germany Gmbh (*)	EUR	215	100	Munich, DE	03/20/1995	Retail/Services
PRADA Austria Gmbh (*)	EUR	40	100	Wien, AT	03/14/1996	Retail
PRADA Spain Sl (*)	EUR	240	100	Madrid, ES	05/14/1986	Retail
PRADA Retail France Sas (*)	EUR	4,000	100	Paris, FR	10/10/1984	Retail
PRADA Hellas Sole Partner Llc (*)	EUR	2,850	100	Athens, GR	12/19/2007	Retail
PRADA Monte-Carlo Sam (*)	EUR	2,000	100	Monte-Carlo, FR	05/25/1999	Retail
PRADA Sa (*)	EUR	31	100	Luxembourg, LU	07/29/1994	Trademarks/ Services
PRADA Company Sa	EUR	3,204	100	Luxembourg, LU	04/12/1999	Services
PRADA Netherlands Bv(*)	EUR	20	100	Amsterdam, NL	03/27/2000	Retail
Church Denmark Aps	DKK	50	100	Copenhagen, DK	03/13/2014	Retail
Church France Sas	EUR	2,856	100	Paris, FR	06/01/1955	Retail
Church UK Retail Ltd	GBP	1,021	100	Northampton, UK	07/16/1987	Retail
Church's English Shoes Switzer-land Sa	CHF	100	100	Lugano, CH	12/29/2000	Retail
Church & Co. Ltd (*)	GBP	2,811	100	Northampton, UK	01/16/1926	Sub-Holding/ Manufacturing/ Distribution
Church & Co. (Footwear) Ltd	GBP	44	100	Northampton, UK	03/06/1954	Trademarks
Church English Shoes Sa	EUR	75	100	Brussels, BE	02/25/1963	Retail
PRADA Czech Republic Sro (*)	CZK	2,500	100	Prague, CZ	06/25/2008	Retail
PRADA Portugal Unipessoal Lda (*)	EUR	5	100	Lisbon, PT	08/07/2008	Retail
PRADA Rus Llc (*)	RUB	250	100	Moscow, RU	11/07/2008	Retail
Church Spain Sl	EUR	3	100	Madrid, ES	05/06/2009	Retail
PRADA Bosphorus Deri Mamuller Ltd Sir-keti (*)	TRY	73,000	100	Istanbul, TR	02/26/2009	Retail
PRADA Ukraine Llc (*)	UAH	240,000	100	Kiev, UA	10/14/2011	Retail
Church Netherlands Bv	EUR	18	100	Amsterdam, NL	07/07/2011	Retail
Church Ireland Retail Ltd	EUR	50	100	Dublin, IE	11/20/2011	Retail
Church Austria Gmbh	EUR	35	100	Wien, AT	01/17/2012	Retail
Prada Sweden Ab (*)	SEK	500	100	Stockholm, SE	12/18/2012	Retail
Church Footwear Ab	SEK	100	100	Stockholm, SE	12/18/2012	Retail
Prada Switzerland Sa (*)	CHF	24,000	100	Lugano, CH	09/28/2012	Retail
Prada Kazakhstan Llp (*)	KZT	500,000	100	Almaty, KZ	06/24/2013	Retail
Kenon Ltd	GBP	84,000	100	London, UK	02/07/2013	Real Estate
Tannerie Limoges Sas (*)	EUR	600	60	Isle, FR	08/19/2014	Manufacturing
Prada Denmark Aps (*)	DKK	26,000	100	Copenhagen, DK	05/19/2015	Retail
Prada Finnish Oy (*)	EUR	3	100	Helsinki, FI	11/09/2015	Retail
Prada Belgium Sprl (*)	EUR	4,000	100	Brussels, BE	12/04/2015	Retail
Hipic Prod Impex Srl (*)	RON	200	80	Sibiu, RO	04/15/2016	Manufacturing
Church Germany Gmbh	EUR	200	100	Munich, DE	09/18/2018	Retail

Company	Local currency	Share capital (000s of local currency)	% interest	Registered office and principal country of operations	Date of incorporation/ establishment (MM/DD/YYYY)	Main business
Americas						
PRADA USA Corp. (*)	USD	152,211	100	New York, US	10/25/1993	Distribution/Services/Retail
TRS Hawaii Llc	USD	400	55	Honolulu, US	11/17/1999	Duty-Free Stores
PRADA Canada Corp. (*)	CAD	300	100	Toronto, CA	05/01/1998	Distribution/ Retail
Church & Co. (USA) Ltd	USD	85	100	New York, US	09/08/1930	Retail
Post Development Corp (*)	USD	45,138	100	New York, US	02/18/1997	Real Estate
PRADA Retail Mexico, S. de R.L. de C.V.	MXN	269,058	100	Mexico City, MX	07/12/2011	Retail
PRADA Brasil Importação e Comércio de Artigos de Luxo Ltda (*)	BRL	210,000	100	Sao Paulo, BR	04/12/2011	Retail
PRM Services S. de R.L. de C.V. (*)	MXN	7,203	100	Mexico City, MX	02/27/2014	Services
PRADA Panama Sa (*)	PAB	30	100	Panama, PA	09/15/2014	Retail
PRADA Retail Aruba Nv (*)	USD	2,011	100	Oranjestad, AW	09/25/2014	Retail
PRADA St. Barthelemy Sarl (*)	EUR	1,600	100	Gustavia, BL	04/01/2016	Retail
Asia-Pacific and Japan						
PRADA Asia Pacific Ltd (*)	HKD	3,000	100	Hong Kong, HK	09/12/1997	Retail/Services
PRADA Taiwan Ltd	TWD	3,800	100	Hong Kong, HK	09/16/1993	Retail
PRADA Retail Malaysia Sdn. Bhd. (*)	MYR	1,000	100	Kuala Lumpur, MY	01/23/2002	Retail
TRS Hong Kong Ltd	HKD	500	55	Hong Kong, HK	02/23/2001	Duty-Free Stores
PRADA Singapore Pte Ltd (*)	SGD	1,000	100	Singapore, SG	10/31/1992	Retail
TRS Singapore Pte Ltd (*)	SGD	500	55	Singapore, SG	08/08/2002	Duty-Free Stores
PRADA Korea Llc (*)	KRW	8,125,000	100	Seoul, KR	11/27/1995	Retail
PRADA (Thailand) co Ltd (*)	THB	372,000	100	Bangkok, TH	06/19/1997	Retail
PRADA Japan co Ltd (*)	JPY	1,200,000	100	Tokyo, JP	03/01/1991	Retail
TRS Guam Partnership	USD	1,095	55	Guam, GU	07/01/1999	Duty-Free Stores
TRS Saipan Partnership (*)	USD	1,405	55	Saipan, MP	07/01/1999	Duty-Free Stores
PRADA Australia Pty Ltd (*)	AUD	13,500	100	Sydney, AU	04/21/1997	Retail
PRADA Trading (Shanghai) co Ltd	RMB	1,653	100	Shanghai, CN	02/09/2004	Retail/Dormant
TRS Okinawa KK	JPY	10,000	55	Tokyo, JP	01/21/2005	Duty-Free Stores
PRADA Fashion Commerce (Shanghai) co Ltd	RMB	474,950	100	Shanghai, CN	10/31/2005	Retail
Church Japan Company Ltd	JPY	100,000	100	Tokyo, JP	04/17/1992	Retail
Church Hong Kong Retail Ltd	HKD	29,004	100	Hong Kong, HK	06/04/2004	Retail
Church Singapore Pte Ltd	SGD	7,752	100	Singapore, SG	08/18/2009	Retail
Prada Dongguan Trading Co., Ltd	RMB	8,500	100	Dongguan, CN	11/28/2012	Services
Church Footwear (Shanghai) Co., Ltd	RMB	31,900	100	Shanghai, CN	12/05/2012	Retail
Prada New Zealand Ltd (*)	NZD	3,500	100	Wellington, NZ	07/05/2013	Retail
PRADA Vietnam Limited Liability Company (*)	VND	66,606,570	100	Hanoi City, VN	09/09/2014	Retail
PRADA Macau Co Ltd	MOP	25	100	Macau, MO	01/22/2015	Retail
Church Korea Llc	KRW	650,000	100	Seoul, KR	09/03/2018	Retail

Company	Local currency	Share capital (000s of local currency)	% interest	Registered office and principal country of operations	Date of incorporation/ establishment (MM/DD/YYYY)	Main business
Middle East						
PRADA Middle East Fzco (*)	AED	18.000	60	Jebel Ali Free Zone, AE	05/25/2011	Distribution/ Services
PRADA Emirates Llc (**)	AED	300	29.4	Dubai, AE	08/04/2011	Retail
PRADA Kuwait Wll (**)	KWD	50	29.4	Kuwait city, KW	09/18/2012	Retail
PRADA Retail Wll (*)	QAR	15.000	100	Doha, QA	02/03/2013	Retail
PRADA Saudi Arabia Ltd (*)	SAR	26.666	75	Jeddah, SA	07/02/2014	Retail
Other countries						
PRADA Maroc Sarlau (*)	MAD	95,000	100	Casablanca, MA	11/11/2011	Retail
PRADA Retail South Africa pty ltd (*)	ZAR	50,000	100	Sandton, ZA	06/09/2014	Retail

(*) Company owned directly by PRADA spa
(**) Company consolidated based on definition of control per IFRS 10

43. DISCLOSURES REGARDING NON-CONTROLLING INTERESTS

The financial information of companies not entirely controlled by the Group is provided below, as required by IFRS 12. The amounts are stated before the consolidation adjustments:

December 31, 2018 financial statements (amounts in thousands of Euro):

Company	Group's percentage interest	Local currency	Total assets	Total equity	Net revenues	Net income/ (loss)	Dividends paid to non-controlling shareholders
Artisans Shoes srl	66.7	EUR	36,336	7,891	63,996	930	(816)
TRS Hawaii llc	55	USD	6,567	3,068	10,282	(277)	
TRS Hong Kong	55	HKD	68	60		(7)	(2,429)
TRS Singapore	55	SGD	1,416	1,029	1,966	248	(565)
TRS Guam Partnership	55	USD	5,525	4,795	9,089	924	(1,142)
TRS Saipan Partnership	55	USD	4,134	3,388	3,101	464	
TRS New Zealand ltd	55	NZD	-	-		-	(88)
TRS Okinawa KK	55	JPY	6,633	5,434	8,195	932	(690)
TRS Hong Kong branch in Macau	55	MOP	19,352	10,644	26,676	3,049	-
PRADA Emirates llc	29.4	AED	85,574	(16,922)	43,994	216	-
PRADA Middle East fzco	60	AED	123,167	43,301	19,430	(459)	-
Prada Kuwait Wll	29.4	KWD	20,553	979	21,607	392	-
PRADA Saudi Arabia ltd	75	SAR	15,434	2,053	12,378	(1,950)	-
Tannerie Limoges sas	60	EUR	9,936	484	8,718	64	-
Hipic Prod Impex srl	80	RON	4,189	52	-	163	-
Pelletteria Ennepì srl	90	EUR	6,698	2,415	-	194	-

Financial statements for fiscal year ended December 31, 2017 (amounts in thousands of Euro):

Company	Group's percentage interest	Local currency	Total assets	Total equity	Net revenues (11 months)	Net income/ (loss) for year (11 months)	Dividends paid to non-controlling shareholders
Artisans Shoes srl	66.7	EUR	31,039	9,415	54,579	2,451	(451)
TRS Hawaii llc	55	USD	4,961	3,202	11,240	(237)	-
TRS Hong Kong	55	HKD	73	65	-	(7)	-
TRS Singapore	55	SGD	2,350	2,003	1,869	247	-
TRS Guam Partnership	55	USD	7,145	6,168	8,696	549	-
TRS Saipan Partnership	55	USD	3,124	2,777	3,002	273	-
TRS New Zealand ltd	55	NZD	206	197	398	(17)	(563)
TRS Okinawa KK	55	JPY	7,535	5,637	7,535	849	-
TRS Hong Kong (branch in Macau)	55	MOP	19,696	12,538	23,875	3,179	-
PRADA Emirates llc	29.4	AED	54,376	(16,309)	36,304	(7,304)	-
PRADA Middle East fzco	60	AED	90,252	47,254	43,210	3,718	-
Prada Kuwait Wll	29.4	KWD	19,113	560	19,439	80	-
PRADA Saudi Arabia ltd	75	SAR	17,143	3,096	12,228	(2,096)	-
Marchesi Angelo srl	80	EUR	3,266	741	2,933	106	-
Tannerie Limoges sas	60	EUR	8,557	175	5,305	(196)	-
Hipic Prod Impex srl	80	RON	2,134	(1,604)	-	(541)	-
Pelletteria Ennepì srl	80	EUR	6,673	2,221	-	290	-

There are no significant restrictions on the Group’s ability to access or use assets and settle liabilities at the end of the reporting period.

In 2011, PRADA spa and Al Tayer Insignia llc stipulated an agreement to develop the Prada and Miu Miu brands in the Middle East retail business. The agreement gives PRADA spa a call option exercisable on up to 20% of PRADA Middle East Fzco’s share capital. At the reporting date, PRADA spa’s management could not estimate with reasonable certainty the likelihood that the option will be exercised and, therefore, they could not attribute an economic value to the contractual clause.

44. SUBSEQUENT EVENTS

No significant events.

INDEPENDENT AUDITORS' REPORTS

INDEPENDENT AUDITORS' REPORTS

The Independent Auditor's Reports included in this Annual Report are in two different formats taking into account the differences between the auditing standards adopted in the Italian jurisdiction (ISA Italia) and the International Auditing Standards (ISAs) issued by the International Auditing and Assurance Standard Boards (IAASB). Specifically, in Italy, where the Company is domiciled, the Independent Auditor's report is issued for statutory purposes in accordance with ISA Italia pursuant to art. 14 of Italian Legislative Decree no 39 of January 27, 2010, while in accordance to the regulations applicable in Hong Kong, where the Company's shares are listed on the Main Board of the Hong Kong Stock Exchange, the Independent Auditors' report is issued in accordance with ISAs.

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IDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Prada S.p.A.

Opinion

We have audited the consolidated financial statements of Prada S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment test	
Description of the key audit matter	As described in Note 16 to the consolidated financial statements, the Group accounts for goodwill of € 518.3 million allocated to the various "cash generating units" (CGUs) identified by Management, which is unchanged compared to the previous year. In accordance with IAS 36, Impairment of assets, goodwill is not amortised, but tested for impairment at least annually by comparing the recoverable amount of the CGUs and their carrying amount, which includes goodwill and other tangible and intangible assets allocated to the CGUs.

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In order to perform the impairment test, Management has adopted the "value in use" method for all the CGUs other than the Church's CGU, whose recoverable amount has been estimated by utilizing the fair value method based on market multiples and comparable transactions.

The determination of the recoverable amount of each CGU is based on estimates and assumptions made by Management using, among other things, projected cash flows of the CGUs, the determination of an appropriate discount rate (WACC), the long-term growth rate (g-rate) and the other key assumptions used to apply the fair value method for the Church's CGU.

No impairment losses have been recognized as a result of the impairment test. Given the materiality of the value of goodwill and other tangible and intangible assets allocated to the CGUs, the complexity of the assessment process for the determination of the cash flows of the CGUs and the other estimates and assumptions used in the impairment model, we considered the impairment test as a key audit matter.

Audit procedures performed

For our audit, we evaluated the methods used by Management to determine the recoverable amount of the CGUs and analysed the methods and assumptions used by Management in the impairment test.

Our audit procedures included, amongst others, the following, which were performed along with the support of our internal valuation specialists:

- Analysis of the reasonableness of the main assumptions used to develop cash flow forecasts through a sector data analysis (reports on the fashion & luxury industry related to the main geographical areas in which the Group operates) as well as obtaining supporting information from Management.
- Analysis of the reasonableness of the main assumptions adopted to estimate the fair value of the Church's CGU through a sector data and comparable transactions analysis as well as obtaining appropriate information from Management.
- Evaluation of the reasonableness of the discount rate (WACC) and long-term growth rate (g-rate) used by Management.
- Verification of the mathematical accuracy of the model used to determine the recoverable amount of each CGU.
- Verification of the correct determination of the carrying amount of each CGU.
- Evaluation of the sensitivity analysis prepared by Management and the development of an independent sensitivity analysis.
- Verification of the appropriateness of the methodologies used by Management and of the information disclosed in the notes to the consolidated financial statements.

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Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report 2018 but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those Charged with Governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE & TOUCHE S.p.A.

Patrizia Arienti

Patrizia Arienti
Partner

Milan, Italy
March 15, 2019

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Prada S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Prada S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Prada S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of Prada S.p.A. are responsible for the preparation of the report on operations of Prada Group as at December 31, 2018, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of Prada Group as at December 31, 2018 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the report on operations is consistent with the consolidated financial statements of Prada Group as at December 31, 2018 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Patrizia Arienti
Partner

Milan, Italy
March 15, 2019

This report has been translated into the English language solely for the convenience of international readers.