PRADA

MILANO

DAL 1913

Separate Financial Statements 2018

PRADA spa
(Hong Kong Stock code: 1913)

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Miuccia Prada and Patrizio Bertelli

COMPANY INFORMATION

PRADA S.P.A. COMPANY 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 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 (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

INTRODUCTION

PRADA spa is the parent company of the PRADA Group. PRADA spa acts as a holding company and carries out manufacturing, distribution, retail, and brand management operations in the luxury goods sector, both directly and through its subsidiaries and associates.

Its main activities are as follows:

- production of leather goods, clothing, footwear, and accessories of all kinds bearing the Prada, Miu Miu, Car Shoe and Church's brands;
- wholesale worldwide distribution of leather goods, footwear and clothing bearing the Prada, Miu Miu and Car Shoe brands;
- retail sales at sales outlets and stores in Italy and online;
- management of equity investments;
- services to Group companies, including:
  - retail management services (preparation of budgets, selection of product mix, visual displaying, store management);
  - advertising and promotional services, in particular media planning and design;
  - information technology services regarding the IT infrastructure and the centralized, integrated management of software;
  - engineering services for store openings, renovation and maintenance;
  - financial services involving the granting of loans;
  - corporate services regarding legal affairs and tax advisory, administration/ accounting, human resource, security and logistics consultancy.

The Board of Directors' Financial Review refers to PRADA spa (the "Company"), the operational holding company of the PRADA Group. It is based on the separate financial statements for the year ended December 31, 2018, prepared in accordance with the International Financial Reporting Standards ("IFRSs") adopted in the European Union. The Financial Review should be read in conjunction with the financial statements and the related notes, which form an integral part of the Separate Financial Statements.

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 Company's 2018 Statement of Profit or Loss prepared in accordance with IFRSs

(“2018 IFRS Statement of Profit or Loss”) refers to a twelve-month reporting period ended December 31, 2018, whereas the corresponding 2017 statement refers to an eleven-month period (“2017 IFRS Statement of Profit or Loss”, from February 1, 2017 to December 31, 2017).

Therefore, comparison with the previous IFRS Statement of Profit or Loss for the eleven months ended December 31, 2017 does not enable a comprehensive understanding of PRADA spa’s business and financial performance.

2018 HIGHLIGHTS

In 2018 Prada’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 Prada 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 2018 Spring/Summer collection and of the Fall/Winter Linea Rossa collection, 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 brand entailed revising the promotional sales policies to achieve more effective product positioning.
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. 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 investments of the year involved the industrial area, with the beefing up 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 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.

The following tables show some key performance and financial indicators for the past two reporting periods.

(amounts in thousands of Euro)	eleven months ended December 31 2018	%	eleven months ended December 31 2017	%
Net sales	1,691,476	97.5%	1,453,059	97.0%
Royalties	44,217	2.5%	45,495	3.0%
Net Revenues	1,735,693	100.0%	1,498,554	100.0%
Cost of goods sold	(801,248)	-46.2%	(668,697)	-44.6%
Gross Margin	934,445	53.8%	829,857	55.4%
Operating expenses	(728,846)	-42.0%	(600,210)	-40.1%
EBIT	205,599	11.8%	229,647	15.3%
Interest and other financial expenses, net	(41,879)	-2.3%	(46,810)	-3.1%
Dividends from investments	603,102	34.7%	24,779	1.7%
Income before taxation	766,822	44.2%	207,616	13.9%
Taxation	(58,274)	-3.4%	(46,062)	-3.1%
Net income for the period	708,548	40.8%	161,554	10.8%
Depreciation, amortization and impairment	59,485	3.4%	47,806	3.2%
EBITDA	265,084	15.2%	277,453	18.5%
Roe	49.91%		10.86%	
Roi	9.01%		11.82%	
Ros	11.85%		15.32%	

Net revenues for the year ended December 31, 2018 amounted to Euro 1,735 million, up by 16% with respect to the previous period's revenues of Euro 1,499 million.

The increase in operating expenses is detailed in the Notes to the Financial Statements (Note 23).

EBITDA came to Euro 265 million for the year, down by 4.4% from the 2017 amount. EBITDA fell by Euro 12 million as a result of higher operating expenses.

The net financial expenses consist primarily of the following income and expenses:
- Euro 603 million in dividends received;
- Euro 11 million in net exchange losses;
- Euro 3 million in net interest expense;
- Euro 26 million in impairment adjustments and loss coverage of investments in subsidiaries;
- Euro 2 million in other financial expenses.

The tax burden for the reporting period, stated as a percentage of pre-tax income, was 8%, compared with 22% for the prior reporting period. The difference is due largely to the dividends received from subsidiaries, 95% of which are tax-exempt.

During the reporting period, the Company did not carry out any unusual and/or atypical transactions that had a material effect on the financial statements.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

NET INVESTED CAPITAL

The statement of financial position is reclassified below to provide a better view of net invested capital.

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Non-current assets (excluding deferred tax assets)	1,944,372	1,797,238
Trade receivables, net	686,172	577,317
Inventories, net	300,498	248,933
Trade payables	(807,824)	(706,732)
Net operating working capital	178,846	119,518
Other current assets (excluding items of financial position)	131,081	143,254
Other current liabilities (excluding items of financial position)	(172,372)	(129,960)
Other current assets/(liabilities), net	(41,291)	13,294
Provision for risks	(2,178)	(10,153)
Post-employment benefits	(26,713)	(30,549)
Other long-term liabilities	(30,461)	(33,979)
Deferred taxation, net	28,548	24,161
Other non-current assets/(liabilities)	(30,803)	(50,520)
Net invested capital	2,051,123	1,879,530
Shareholder's equity	(1,914,992)	(1,419,666)
Total shareholders' equity	(1,914,992)	(1,419,666)
Long-term finacial, net surplus/(deficit)	(207,416)	(430,049)
Short-term financial, net surplus/(deficit)	71,286	(29,813)
Dividend payable	(2)	-
Net financial position surplus/(deficit)	(136,131)	(459,863)
Shareholders' equity and net financial position	(2,051,123)	(1,879,530)
Debt to Equity ratio	6.6%	24.5%

As of December 31, 2018, the Company had net invested capital of Euro 2,051 million, net financial indebtedness of Euro 136 million and equity of Euro 1,915 million.

Non-current assets, consisting of tangible assets, intangible assets and equity investments, rose by Euro 147 million due primarily to financial investments and capital expenditures made during the period, net of depreciation, amortization and impairment.

Net operating working capital was Euro 179 million at December 31, 2018, up by Euro 59 million from that of December 31, 2017.

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Net operating working capital	178,846	119,518
Derivative Financial instruments	(3,166)	7,941
Other receivables from parent, subsidiaries, associated companies and related parties	23,063	10,521
Other current assets	39,071	39,204
Current tax receivables (payables)	27,219	59,562
Other liabilities to parent, subsidiaries, associated companies and related parties	(7,747)	(4,933)
Other current liabilities	(119,732)	(99,002)
Other current assets (liabilities), net	(41,292)	13,293
Net working capital	137,554	132,811

Net working capital increased by Euro 5 million due largely to the increase in the net operating working capital, reduced by the effect of the net other current liabilities.

Current tax assets present a Euro 33 million reduction attributable substantially to lower tax credits following the netting of taxes due for the period with taxes paid in advance in the prior period.

NET FINANCIAL POSITION

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Bank borrowing – non-current	(365,971)	(523,909)
Payables to parent company, subsidiaries, associates and related parties - non current	(13,878)	(68,874)
Total financial payables - non-current	(379,849)	(592,783)
Bonds - current	-	(130,000)
Financial payables and bank overdrafts - current	(340,803)	(134,498)
Payables to parent company, subsidiaries, associates and related parties	(32,340)	(81,099)
Total financial payables - current	(373,142)	(345,597)
Total financial payables	(752,991)	(938,380)
Financial receivables from parent company, subsidiaries, associates and related parties - non-current	172,433	162,734
Financial receivables from parent company, subsidiaries, associates and related parties - current	145,541	135,350
Cash and cash equivalents	298,887	180,434
Total financial receivables and cash and cash equivalents - current	444,428	315,784
Total financial receivables and cash and cash equivalents	616,861	478,518
Net financial surplus/(deficit), total	(136,129)	(459,862)
Net financial surplus/(deficit) excluding parent company, subsidiaries, associates and related parties balances	(407,886)	(607,973)
Dividend payable	(2)	(1)
Net financial position surplus/(deficit)	(136,131)	(459,863)

As at December 31, 2018, the net financial position shows net debt of Euro 136 million, reduced by Euro 324 million compared with the previous reporting date.

Long-term financial payables decreased by Euro 213 million due to intercompany loan repayments and to the reclassification to short-term financial payables of payments due within 12 months. The decrease is partially compensated by a new long-term loan of Euro 100 million.

At the end of the reporting period, the Company had access to additional credit lines totaling Euro 497 million (Euro 523 million as at December 31, 2017).

As shown in the Statement of Cash Flows, cash flows from operating activities amount to Euro 201 million and cash generated by the investing activities amount to Euro 361 million, mainly due to dividends received from subsidiaries. A detailed analysis of dividends by counterparty is provided in Note 24 “Interest and other financial income/(expenses), net”.

FINANCIAL RISK HEDGING POLICIES

The Company's financial risk hedging policies and the effects of the strategies adopted are described in the notes to the financial statements.

RESEARCH AND DEVELOPMENT

The Company sees the creative process as the first step toward quality.
This unique approach enables the Company to anticipate and set trends, by experimenting constantly with shapes, fabrics, leathers and production techniques. Research and development activities aim to create innovative products through the search for new or improved materials, the research and definition of design concepts, and the development of prototypes.

RELATED PARTY TRANSACTIONS

Details of related party transactions are provided in Note 26.

TREASURY STOCK

As of December 31, 2018, the Company did not own any treasury stock.

SIGNIFICANT EVENTS OF THE REPORTING PERIOD

The "company information" and "significant acquisitions and divestments" sections of the Notes to the Financial Statements provide the information on the most significant events of the reporting period.

SUBSEQUENT EVENTS

No significant events occurred after the end of the reporting period.

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 Company 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 Company 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 Company 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 Company 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 Company's expectation of a progressive recovery of volumes and margins is based.

PROPOSED ALLOCATION OF NET INCOME FOR THE YEAR

On March 15, 2019 the Board recommended the approval at the Shareholders' General Meeting of the allocation of the net income of the Company, for the year ended December 31, 2018, as follows: (i) Euro 153,529,440 to Shareholders as final dividend, in particular to declare and distribute a final dividend of Euro 0.06 per share, and (ii) Euro 555,018,757 to retained earnings of the Company.

Chief Executive Officer
Patrizio Bertelli

Milan; 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 for securities transactions by directors of listed companies (the "Model Code") contained in Appendix 10 of the Listing Rules. 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.

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 business activities and strategic development of the Company and the Group. The Company has maintained both on its own website and on the website of The Stock Exchange of Hong Kong Limited (the "HKSE") 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 the 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 Consolidated financial statements and the Separate financial statements for the Reviewed Period, together with non-audit services rendered to Prada S.p.A. are illustrated below.

Type of service	Audit firm	Fees in thousands of euro
Audit services	Deloitte & Touche S.p.A.	555
Other advisory services	Deloitte Network	583
Total fees of audit firm for period ended December 31, 2018		1,138

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 versted with special authorities, and to review and recommend certain updates to the long-term incentive plan for executives and Directors.

REMUNERATION POLICY

The Company compensation policy is aimed at attracting, rewarding and protecting personnel, who are considered to be the key to the success of the Company business.

The Company has an incentive system that links compensation with the annual performance of the Group, taking into account the Group's objectives in net sales, as well as the objectives of each department.

The Company 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. In addition, technicians of the Company 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 SEPARATE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Separate financial statements of the Company for the year ended December 31, 2018 with a view to ensuring such Separate financial statements give a true and fair view of the state of affairs of the Company itself. In preparing these Separate financial statements, the Directors have selected suitable accounting policies and made judgments and estimates that are prudent and reasonable. The Separate 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 Separate 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 Company's legal advisor (Slaughter and May) relating to the Listing Rules.

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.

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(amounts in Euro)	Note	December 31 2018	December 31 2017
Assets			
Current assets			
Cash and cash equivalents	1	298,887,284	180,434,357
Trade receivables, net	2	686,171,738	577,316,531
Inventories	3	300,497,535	248,933,219
Derivative financial instruments - current	4	11,004,713	15,498,172
Financial and other receivables from, and advance payments to, parent company, subsidiaries, associates and related parties - current	5	168,604,832	145,870,840
Other current assets	6	97,013,278	117,234,513
Total current assets		1,562,179,380	1,285,287,631
Non-current assets			
Property, plant and equipment	7	766,697,446	712,896,252
Intangible assets	8	196,383,875	192,330,401
Investments	9	954,182,632	860,177,724
Deferred tax assets	25	30,796,611	29,616,722
Other non-current assets	10	21,817,296	23,815,498
Derivative financial instruments - not current	4	5,290,462	8,018,402
Financial and other receivables from, and advance payments to, parent company, subsidiaries, associates and related parties	5	172,432,964	162,733,949
Total non-current assets		2,147,601,285	1,989,588,948
Total Assets		3,709,780,665	3,274,876,579
Liabilities and Shareholders' equity			
Current liabilities			
Bank overdrafts and short terms loans	11	340,802,550	264,498,871
Financial and other payables parent company, subsidiaries, associates and to related parties - current	12	40,086,853	86,032,136
Trade payables	13	807,823,710	706,731,930
Tax payables	14	30,723,910	18,469,338
Derivative financial instruments - current	4	14,170,720	7,556,775
Other current liabilities	15	119,732,137	99,001,682
Total current liabilities		1,353,339,880	1,182,290,731
Non-current liabilities			
Long-term financial payables	16	365,970,860	523,909,041
Post-employment benefits	17	26,712,584	30,549,250
Provision for risk and charges	18	2,177,872	10,152,713
Deferred tax liabilities	25	2,248,721	5,455,950
Other non-current liabilities	19	23,388,491	26,892,917
Derivative financial liabilities - not current	4	7,072,159	7,085,978
Financial and other payables to parent company, subsidiaries, associates and related parties	12	13,877,911	68,873,510
Total non-current liabilities		441,448,598	672,919,358
Total liabilities		1,794,788,477	1,855,210,089
Share capital		255,882,400	255,882,400
Total other reserves		950,561,591	1,002,230,125
Net income/(loss) of the year		708,548,197	161,553,965
Shareholders' equity	20	1,914,992,188	1,419,666,490
Total liabilities and shareholders' equity		3,709,780,665	3,274,876,579

STATEMENT OF PROFIT OR LOSS

(amounts in Euro)	Note	December 31 2018	December 31 2017
Net Revenues	21	1,735,692,641	1,498,554,124
Cost of goods sold	22	(801,248,073)	(668,697,357)
Gross Margin		934,444,568	829,856,768
Operating expenses	23	(728,845,492)	(600,209,546)
EBIT		205,599,075	229,647,221
Interest and other financial expenses, net	24	(41,878,911)	(46,810,059)
Dividends from investments	24	603,102,126	24,778,793
Income before taxation		766,822,290	207,615,956
Taxation	25	(58,274,094)	(46,061,991)
Net income for the period		708,548,197	161,553,965

STATEMENT OF COMPREHENSIVE INCOME

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Net income for the period	708,548	161,554
Items recycled 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
Change in Fair Value reserve	(6,706)	(5,569)
Tax impact	-	-
Change in Fair Value reserve less Tax Impact	(6,706)	(5,569)
Items not recycled to P&L		
Change in Actuarial reserve	5	(681)
Tax impact	-	90
Change in Actuarial reserve less Tax Impact	5	(591)
Total comprehensive income	695,445	158,876

STATEMENT OF CASH FLOWS

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Cash flows generated by operating activities:		
Income before taxation	766,822	207,616
Adjustments for:		
Depreciation and amortization	58,425	45,559
Impairment of fixed assets	1,061	2,247
Losses/(gains) on disposal of fixed assets	(1,523)	(101)
Impairment of investments	26,311	33,433
Monetary financial income (expenses)	(603,316)	(21,438)
Provisions and other non-monetary charges	68	(16,287)
Changes in statement of financial position:		
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 generated by operating activities	200,861	219,606
Interest paid, net	(1,779)	(8,963)
Income taxes paid, net	(21,870)	-
Net cash flows generated by operating activities	177,212	210,643
Cash flow generated (used) by investing activities:		
Purchase of tangible and intangible assets	(142,507)	(112,177)
Disposal of property, plant and equipment	4,250	256
Investments in subsidiaries	(7,084)	(10,168)
Financial investments	(96,267)	
Dividends received	603,102	24,779
Cash flows generated (used) by investing activities	361,494	(97,310)
Cash flows generated (used) by financing activities:		
Dividends paid	(191,912)	(307,059)
Change in short-term bank loans	90,000	(218)
Change in short-term intercompany loans	(51,727)	-
Repayment of loans from subsidiaries	44,406	27,415
(Disbursement) of loans to subsidiaries	(140,688)	(34,964)
Repayment of short-term portion of long-term bank loans	(140,332)	(30,356)
Repayment of bond	(130,000)	
New long term borrowings arranged	100,000	299,500
Cash flow generated (used) 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 bank balances	298,887	180,434
Bank overdraft	-	-
Closing cash and cash equivalents, net of bank overdraft	298,887	180,434

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 reserve	Net profit (loss) for the year	Total sharehol-der's equity
Balance at January 31, 2017	2,558,824	255,882	410,047	51,176	182,899	405,803	(1,602)	-	183,355	1,487,560
Net result Allocation	-	-	-	-	-	183,355	-	-	(183,355)	-
Other movements	-	-	-	-	-	80,290	-	-	-	80,290
Dividends paid	-	-	-	-	-	(307,059)	-	-	-	(307,059)
Comprehensive income for the year (recycled to P&L)	-	-	-	-	-	-	3,481	(5,569)	161,554	159,466
Comprenhensive income for the year (not recycled to P&L)	-	-	-	-	-	(591)	-	-	-	(592)
Balance at December 31, 2017	2,558,824	255,882	410,047	51,176	182,899	361,798	1,879	(5,569)	161,554	1,419,666
IFRS 15 First Time Adoption - Provision for Return Asset	-	-	-	-	-	(2,740)	-	-	-	(2,740)
IFRS 9 First Time Adoption - Provision for expected credit loss	-	-	-	-	-	(5,467)	-	-	-	(5,467)
IFRS 9 First Time Adoption - Time Value of derivatives	-	-	-	-	-	2,063	(2,063)	-	-	-
Balance at January 1, 2018	2,558,824	255,882	410,047	51,176	182,899	355,653	(183)	(5,569)	161,554	1,411,459
Net result Allocation	-	-	-	-	-	161,554	-	-	(161,554)	-
Dividends paid	-	-	-	-	-	(191,912)	-	-	-	(191,912)
Comprehensive income for the year (recycled to P&L)	-	-	-	-	-	-	(6,402)	-	708,548	702,146
Comprenhensive income for the year (not recycled to P&L)	-	-	-	-	-	5	-	(6,706)	-	(6,701)
Balance at December 31, 2018	2,558,824	255,882	410,047	51,176	182,899	325,300	(6,585)	(12,275)	708,548	1,914,992

NOTES TO THE FINANCIAL STATEMENTS

COMPANY INFORMATION

PRADA spa is a joint-stock company, registered and domiciled in Italy. Its headquarters are in via A. Fogazzaro 28, Milan, Italy. As of December 31, 2018, approximately 79.98% of PRADA spa's share capital was owned by PRADA Holding spa, an Italian company, and the remainder was listed on the Main Board of the Hong Kong Stock Exchange.

The ultimate indirect shareholders of PRADA Holding spa are Patrizio Bertelli and the Prada family.

The Company is not subject to the management and control of any other companies or entities, noted in accordance with the disclosure requirements of Italian Civil Code Article Art. 2497 et seq.

The Financial Statements were approved by the Board of Directors on March 15, 2019.

BASIS OF PRESENTATION

The Financial Statements, comprising the Statement of financial position, Statement of profit or loss, Statement of comprehensive income, Statement of cash flows, Statement of changes in shareholders' equity and Notes to the financial statements, are prepared in compliance with International Financial Reporting Standards (IAS/IFRS) and related interpretations (SIC/IFRIC) as approved by the European Commission and in force at the reporting date.

The Financial Statements have been prepared on a going concern basis.

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

New standards IFRS and interpretations	Effective date for Prada	EU endorsement status
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 Company 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 (FVTOCI). 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 Company's Separate Financial Statements.

CLASSIFICATION AND MEASUREMENT

The Company 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. The Company has concluded that most of the non-derivative financial assets in the Company's Separate 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 Investments available for sale, are now reported in the "Investments in equity instruments" category. For each investment in equity instrument, the Company has decided whether the fair value measurement will have to be recognized through profit or loss (FVTPL) or through the statement of comprehensive income (FVTOCI), not recyclable to profit or loss. This option, applicable to each investment in equity instrument, it’s an irrevocable election and cannot change. The Company 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 Company are essentially the trade receivables and intercompany financial receivables, a new impairment procedure was developed deriving in part from the commercial scoring system already in place in the Company. 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; intercompany receivables are measured on the basis of the probability of default of the country in which the subsidiary owning the receivable operates and of subsidiary’s rating.

The new standard was adopted without restating the December 31, 2017 balances and the effect on the opening equity reserves was Euro 5.5 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 Company 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 Company. 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 26 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 2.7 million).

No material adjustment to the classification of revenue and expense in the statement of profit or loss was identified given that the Company 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 PRADA spa as effective for financial years beginning on January 1, 2019.

New IFRS and Amendments to existing standards	Effective date for Prada	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 but the Company opted to apply it retrospectively (modified retrospectively approach), accounting leases previously classified as operating leases with:

- a lease liability of about Euro 340 million 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 commitments (prepared in accordance with IAS 17) reported in the additional information paragraph "Commitments - Operating leases", because the discount component is almost balanced by the renewal 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 about Euro 338 million, obtained from the amount of the above lease liability reduced by the total accruals for deferred rent recognized in the financial statements at December 31, 2018, reclassified from liabilities to this new asset category pursuant to the transition. The right-of-use asset was also increased by the December 31, 2018 carrying amount of the "store lease acquisition" and other balance sheet items that were immaterial on the whole.

The adoption of the standard will not have any material effect on the opening equity of the year.

In adopting IFRS 16, the Company 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 Company 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 Company is reasonably certain to exercise.
- since most leases stipulated by the Company 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 Euro area in which the leases were stipulated, increased by the Company’s credit spread.

The implementation of the technological solution chosen by the Company to adopt IFRS 16 was nearly completed at the end of the reporting period. The new structure, designed to satisfy the new regulatory requirements and to improve 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, as well as full integration of the ERP systems with the financial reporting systems.

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

New IFRS and Amendments to existing standards	Effective date for Prada	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

FINANCIAL STATEMENTS

The Company has prepared the Statement of financial position classifying separately current and non-current assets and liabilities. The Notes contain more detailed information with further breakdowns of the items reported in the Statement of Financial Position.

The Profit or Loss is classified by destination.

Cash flow information is reported in the Statement of cash flows which forms an integral part of the Financial Statements.

The accounting policies and the notes are an integral part of the Financial Statements.

Every item in the Statement of financial position, Statement of profit or loss, Statement of cash flows and Statement of changes in shareholder’s equity is detailed in the Notes to the financial statements.

MAIN ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statement of financial position at nominal value. Cash equivalents include all highly liquid investments with an original maturity of three months or less. For the purposes of the cash flow statement only, cash and cash equivalents comprise cash on hand, bank accounts, 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 payables are recorded at nominal amount.

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

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

INVENTORIES

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

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.

ASSETS HELD FOR SALE

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at purchase cost or production cost, including any charges directly attributable. They are shown net of accumulated depreciation calculated on the basis of the useful lives of the assets and any impairment losses.

Ordinary maintenance expenses are charged in full to 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 work carried out on premises, mainly commercial, not owned by the Company.

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

Depreciation methods, useful lives and net book values are reviewed annually. The depreciation rates representing the useful lives are listed below:

Category of Property, Plant and Machinery	Depreciation rate or period
Buildings	2.5% - 10%
Production plant and equipment	4% - 25%
Improvements to leased retail premises	shorter of useful life and lease term (*)
Improvements to leased industrial and corporate premises	shorter of useful life and lease term (*)
Furniture and fixture retail	shorter of useful life and lease term (*)
Furniture and fixture corporate	7% - 25%
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 a rental agreement is terminated in advance with respect to the original lease term, the residual useful life of property, plant and equipment allocated on it is adjusted consistently.

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

Fair value is determined based on the best information available to reflect the amount that could be obtained from the disposal of the asset at the reporting date. Value in use is an estimate of the present value of future cash flows expected to derive from the asset tested for impairment.
Impairment losses are recorded immediately in the 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 licenses, store lease acquisition costs, software, development costs and goodwill.

Store lease acquisition costs represent expenditures incurred to enter into or take over retail store lease agreements. These costs are capitalized and amortized over the period of the lease term. If a rental agreement is terminated in advance with respect to the original lease term, the residual useful life of store lease acquisition allocated on it is adjusted consistently.

Software refers to Information Technology development projects and includes all internal and external costs incurred to bring the asset into use. IT projects include costs incurred to acquire licenses as well as the cost of development and installation. Software is capitalized on condition that it is identifiable, reliably measurable and if it is probable that the asset will generate future economic benefits.

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
Store lease acquisition costs	shorter of useful life and lease term (*)
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	

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

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

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

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

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

IMPAIRMENT OF ASSETS

IAS 36 requires an impairment test to be performed on property, plant and equipment, intangible assets and investments whenever there is an indication of impairment.

Goodwill, investments and other intangible assets with an indefinite useful life and assets not yet available for use are tested for impairment at least once a year.
When the carrying amount of these assets exceeds their value in use or their fair value, it is reduced accordingly and the impairment is recognized in the profit or loss.

The recoverable amount of the asset is calculated comparing its carrying amount with the higher of its net selling price (where there is an active market) and its value in use.

Value in use is determined by discounting cash flows expected to arise from the use of the asset or Cash Generating Unit, as well as from the cash flow expected to arise from its disposal at the end of its useful life.

Cash flow projections are based on budgets and forecasts and on long-term plans (generally 5 years) approved by the management and by the relevant business units.

Cash Generating Units are determined based on the organizational structure and represent groups of assets that generate independent cash inflows from continuing use of the relevant assets.

Prada's Cash Generating Units include brands, sales channels and geographical areas.

INVESTMENTS

Investments in subsidiaries, associated undertakings and joint ventures are accounted for under the cost method and periodically tested for impairment. This test is performed at least once a year or whenever there is an indication of impairment.

The valuation method used is the Discounted Cash Flow model, adopting the process described in the Note Impairment of assets. If an impairment loss has to be recognized, it is charged to the profit or loss in the period in which it is identified. If the reason for the impairment loss no longer applies, the carrying amount of the investment is restored but not to more than its original cost. Such reversals are recorded in the profit or loss.

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 Company evaluates these instruments at fair value and the related changes are recorded in a specific equity reserve. This change (FVTOCI) 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 Company. 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 FVTOCI) 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 Separate 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;
- 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 timing differences, tax losses carry-forwards and unused tax credits only to the extent that is probable that taxable profit will be available in future years against which the deductible timing differences can be used. Recoverability is reviewed at every year end. Deferred tax assets are measured at the tax rates which are expected to apply to the period when the asset is realized based on tax rates (and tax laws) in force at the reporting date.

Deferred tax assets are not discounted.

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

Deferred tax assets relating to items credited or debited directly to shareholders' equity are also credited or debited directly to shareholders' equity.

OBLIGATIONS UNDER FINANCE LEASES

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

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

NON-CURRENT FINANCIAL LIABILITIES

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

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

After initial recognition, non-current financial liabilities are valued at amortized cost i.e. 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.

The effective rate of interest is the rate used to discount payments based on the contractual term of the loan or on a shorter period, if appropriate.

EMPLOYEE BENEFITS

Post-employment benefits mainly consist of Italian Staff Leaving Indemnities (hereinafter TFR) which are classed as defined-benefit plans.

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 Company’s obligations.

The actuarial valuation is carried out by an independent actuary using the Projected Unit Credit Method.

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

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

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

PROVISIONS FOR RISKS AND CHARGES

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

Where the Company 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 by the balance sheet date.

Deferred tax liabilities are not discounted.

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

Taxation for deferred tax liabilities relating to items credited or debited directly to shareholders' equity is also credited or debited directly to shareholders' equity.
The deferred tax liabilities is only offset against deferred tax assets, when the two items refer to the same tax and the same period.

REVENUE RECOGNITION

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

- identify the contract (in writing, orally or in accordance with other customary business practices) with a customer;
- identify the performance obligations in the contract;
- determine 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 Company;
- the costs pertaining to the transaction can be reliably measured;
- each performance obligations has been satisfied.

Royalties are accounted for based on sales made by the licensees and the terms of the contracts. Royalties under franchise agreements are recorded based on the sales made by the Company to the franchisees. Cash discounts are recorded as financial expenses.

Dividends are booked in the profit or loss when the shareholders' become entitled to receive payment.

ACCOUNTING FOR COSTS

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 recorded.

OPERATING LEASES

Operating leases are recorded 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 or can be estimated.

STORE OPENING COSTS

Costs incurred during the pre-opening period of new or refurbished retail stores are charged to the profit or loss when incurred, except for those capitalized as leasehold improvements. If a store is closed in advance with respect to the initial estimate of the lease term, the net book value of the leasehold improvements, less the expected recoverable amount, is charged to the profit or loss.

FINANCIAL EXPENSES

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

INCOME TAXES

The provision for income taxes is determined based on a realistic estimate of the tax charge of each entity included in the tax consolidation, in accordance with the tax rates and tax laws in force or substantially approved at the reporting date.

Current taxes are recorded 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.

CHANGES OF ACCOUNTING POLICY, ERRORS AND CHANGES IN ACCOUNTING ESTIMATES

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

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

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

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

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

FINANCIAL RISK MANAGEMENT

The Company's international activities expose it to a variety of financial risks including the risk of exchange rate and interest rate fluctuation. The Company's overall risk management policy takes account of the volatility of financial markets and seeks to minimize uncertainty regarding cash flow and the resulting potential adverse effects on its results.

The Company enters into hedging contracts to manage risks arising from exposure to the exchange rate and interest rate risks.

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

EXCHANGE RATE RISK

The Company's export sales activities expose it to an exchange rate risk due to fluctuations in the exchange rate of the Euro primarily against the US Dollar, Hong Kong Dollar, Chinese Renminbi, Japanese Yen and, to a lesser extent, other currencies. The Corporate Finance Department is responsible for foreign exchange risk hedging by entering into derivative contracts (forward sale and purchase, options) with third parties.

In accordance with IFRS 9, these hedging contracts are classed as cash flow hedges. The fair value of the hedging contracts designated as cash flow hedges is recorded under shareholders' equity net of the tax effect.

INTEREST RATE RISK

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

The fair value of derivative contracts designated as cash flow hedges is recorded under shareholders' equity net of the tax effect.
Meanwhile, for non-hedging derivatives qualified as fair value through profit or loss, fair value is recorded in full in the profit or loss.

USE OF ESTIMATES

In accordance with IAS/IFRS, the preparation of these financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses and when valuing contingent assets and liabilities.

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

Estimates have been used when performing impairment tests, in determining provisions for risks and charges, the allowance for doubtful accounts, the allowance for obsolete and slow moving inventories, post-employment benefits, returns, when calculating taxes, measuring derivative instruments and evaluating the useful lives of tangible and intangible assets. The fair value of derivatives and securities is based on market listed prices at the reporting date. The fair value of derivative instruments used to hedge the interest rate risk (IRS) and derivative instruments used to hedge the exchange rate risk (forward contracts and options) has been determined using one of the valuation platforms in most widespread use on the market and based on interest rate curves and spot and forward exchange rates at the reporting date.

SIGNIFICANT ACQUISITIONS AND DIVESTMENTS

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 such company. To simplify the corporate structure, on March 29, 2018 a deed for a merger involving the three companies operating in the food industry was stipulated: Montenapoleone 9 srl and Isarcodue srl were absorbed by 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 December 21, 2018 the Company increased its ownership of Pelletteria Ennepi Srl from 80% to 90%.

STATEMENT OF FINANCIAL POSITION

1. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of December 31, 2018 and December 31, 2017 is presented hereunder:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Cash on hand	858	2,396
Bank deposit accounts	1	1
Bank current accounts	298,028	178,037
Total cash and cash equivalents	298,887	180,434

The Statement of Cash Flows and Financial Review provide additional information on the cash flows of the period.

2. TRADE RECEIVABLES, NET

Trade receivables are detailed below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Trade receivables due from third parties	178,982	171,817
Trade receivables due from Parent company	142	53
Trade receivables due from subsidiaries and associates	498,472	392,732
Trade receivables due from related companies	8,576	12,715
Total trade receivables	686,172	577,317

Trade receivables due from third parties increased by Euro 7 million, in line with the growth in wholesale sales to major e-tailers in particular.
The increase in trade receivables due from subsidiaries is attributable to the sales growth.

Trade receivables due from related parties refer primarily to sales of finished products to Fratelli Prada spa, an affiliate and franchisee of the Prada Group. The breakdown by counterparty is provided in Note 26, "Transactions with parent companies, subsidiaries, associates and related parties".

The allowance for doubtful debts was estimated on an itemized basis, using all information available when the financial statements were prepared to align the receivables to their estimated realizable value. In addition, an allowance for expected credit losses, calculated with the ratings using internally at the Company, was set up to represent the creditworthiness of wholesale clients.

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Trade receivables due from, gross	184,161	176,542
Allowance for bad and doubtful debts	(5,179)	(4,724)
Trade receivables third parties, net	178,982	171,817

The annual changes in the allowance were as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Opening balance	4,724	3,545
IFRS 9 First time adoption - Provision for expected loss (Third parties and Intercompany)	4,723	-
Increases	751	1,695
Utilized	(1,235)	(516)
Reversals	(160)	-
Closing amount	8,803	4,724

An aging analysis of the total trade receivables at the reporting date before deducting the allowance for doubtful debts is as follows:

(amounts in thousands of Euro)	December 31, 2018	Current	Overdue (in days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade receivables, third, parent and related parties	192,879	179,848	2,443	2,448	449	1,333	6,358
Trade receivables, subsidiaries and associates	502,096	343,162	18,743	31,624	17,729	10,893	79,945
Total	694,975	523,010	21,186	34,072	18,178	12,226	86,303

(amounts in thousands of Euro)	December 31, 2017	Current	Overdue (in days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade receivables, third, parent and related parties	189,309	174,084	1,871	4,028	1,624	925	6,777
Trade receivables, subsidiaries and associates	392,732	263,326	17,371	27,604	15,962	7,192	61,277
Total	582,041	437,410	19,242	31,632	17,586	8,117	68,054

3. INVENTORIES, NET

Inventories can be broken down as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Raw materials	98,384	97,186
Work in progress	26,677	23,896
Finished products	187,975	173,596
Returns asset	26,427	-
Allowance for obsolete and slow-moving inventories	(38,965)	(45,745)
Inventories, net	300,498	248,933

Inventories are measured at their average weighted cost.

The table presents sepately the amount of the returns asset, as required by the new accounting standard, IFRS 15. The amount of Euro 26 million was obtained by estimating the returns expected prevalently from subsidiaries, using a percentage taking into account the average of the past three years, and considering their decrease in value as required by IFRS 15. When IFRS 15 was adopted for the first time on January 1, 2018, the value of the returns asset was Euro 18.5 million.

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

(amounts in thousands of Euro)	Raw materials	Finished Products	Total
Balance at December 31 2017	23,374	22,371	45,745
Increases	-	4,426	4,426
Utilized	(668)	(11,831)	(12,499)
Reversal	(2,506)	-	(2,506)
IFRS 15 First Time Adoption - Provision for Return asset	-	3,800	3,800
Balance at December 31 2018	20,200	18,766	38,966

4. DERIVATIVE FINANCIAL INSTRUMENTS: ASSETS AND LIABILITIES

The current and non-current portions of the assets are presented below by derivative instrument:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Financial assets regarding derivative instruments, current	11,005	15,499
Financial assets regarding derivative instruments, non-current	5,290	8,018
Total Financial Assets - Derivative financial instruments	16,295	23,517

The current and non-current portions of the liabilities are presented below by derivative instrument:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Financial liabilities regarding derivative instruments, current	(14,171)	(7,557)
Financial liabilities regarding derivative instruments, non-current	(7,072)	(7,086)
Total Financial Liabilities - Derivative financial instruments	(21,243)	(14,643)
Net carrying amount - current and non-current portion	(4,948)	8,874

The net balance of derivative assets and liabilities (current and non-current portions combined) is detailed hereunder:

(amounts in thousands of Euro)	December 31 2018	December 31 2017	IFRS7 Category
Forward contracts	9,974	15,722	Level II
Options	7	207	Level II
Interest rate swap – fair value through profit and loss	6,314	7,588	Level II
Positive fair value	16,295	23,517	
Forward contracts	(10,196)	(3,573)	Level II
Options	(1,095)	(501)	Level II
Interest rate swap – cash flow hedge	(3,843)	(3,208)	Level II
Interest rate swap – fair value through profit and loss	(6,108)	(7,361)	Level II
Negative fair value	(21,243)	(14,643)	
Net carrying amount	(4,948)	8,874	

All of the above derivative instruments are classified as Level II in the fair value hierarchy introduced by IFRS 7. The Company has not entered into any derivative contracts classifiable as Level I or Level III.

The fair values of derivatives arranged to hedge interest rate risks (IRS) and of derivatives arranged to hedge exchange rate risks (forward contracts and options) have been determined according to one of the most widely used valuation platforms on the financial market and are based on the interest rate curves and on the spot and forward exchange rates at the reporting date.

The Company 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 fluctuations.

FOREIGN EXCHANGE TRANSACTIONS

The cash flows resulting from the Company's international activities, especially sales-related activities, are exposed to exchange rate volatility. The Company mitigates this risk by stipulating options and forward sale and purchase agreements, so as to guarantee the Euro value of identified cash flows.

The estimated future cash flows are identified mainly as the inflows from trade receivables and outflows for trade payables. In terms of the hedged amounts, the most important currencies are: U.S. Dollar, Chinese Renminbi, Japanese Yen, Hong Kong Dollar, GB Pound, Swiss Franc and Korean Won.

The notional amounts at the reporting date of the derivative contracts designated as foreign exchange risk hedges (translated at the European Central Bank exchange rate of December 31, 2018) 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 Renmimbi	-	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 Rublo	-	9,321	-	9,321
Swiss Franc	-	11,847	-	11,847
Australian dollar	-	11,221	-	11,221
Other	-	36,780	-	36,780
Totale	63,351	700,278	-	763,629

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

Contracts in effect as at 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 (*)	January 31 2018
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 at December 31, 2017 to hedge projected future financial cash flows.

(amounts in thousands of Euro)	Options	Forward sale contracts (*)	Forward purchase contracts (*)	January 31 2018
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 some forward contracts to hedge future financial cash flows which mature after December 31, 2019 and whose net notional amount is Euro 20.1 million (referring entirely to forward sale contracts).

A liquidity analysis of the derivative contracts' maturities is provided in the financial risks section of these Notes.

All contracts in place at the reporting date were entered into with major financial institutions, and no counterparties are expected to default.

INTEREST RATE TRANSACTIONS

The Company enters into interest rate swaps ("IRS") in order to hedge the risk associated with interest rate fluctuations on 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)						Hedged loan			
Contract	Currency	Notional amount	Interest rate	Maturity date	December 31, 2018	Currency	Lending institution	Amount	Maturity
IRS	Euro/000	42,167	1.457%	May-2030	(2,342)	Euro/000	Intesa-Sanpaolo	42,167	May-2030
IRS	Euro/000	60,000	0.105%	Mar-2019	(63)	Euro/000	Unicredit	60,000	Mar-2019
IRS	Euro/000	90,000	0.013%	Feb-2021	(510)	Euro/000	Unicredit	90,000	Feb-2021
IRS	Euro/000	100,000	0.252%	Jun-2021	(927)	Euro/000	CR Firenze	100,000	Jun-2021
Total					(3,843)				

Interest Rate Swap (IRS)						Hedged loan			
Contract	Currency	Notional amount	Interest rate	Maturity date	December 31, 2017	Currency	Lending institution	Amount	Maturity
IRS	Euro/000	45,833	1.457%	May-2030	(2,204)	Euro/000	Intesa-Sanpaolo	45,833	May-2030
IRS	Euro/000	60,000	0.105%	Mar-2019	(304)	Euro/000	Unicredit	60,000	Mar-2019
IRS	Euro/000	90,000	0.013%	Feb-2021	(177)	Euro/000	Unicredit	90,000	Feb-2021
IRS	Euro/000	100,000	0.252%	Jun-2021	(523)	Euro/000	CR Firenze	100,000	Jun-2021
Total					(3,208)				

The IRSs convert the 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.

According to the applicable regulations, the derivatives presented above meet the requirements for designation as cash flow hedges.

The Company entered into an IRS for loans taken out by a UK subsidiary, and stipulated an IRS having the same characteristics with the same subsidiary. Therefore, those contracts are accounted for as non-hedging instruments (fair value through profit or loss):

Contract	Currency	Notional amount	Interest rate paid	Interest rate received	Maturity date	December 31 2018	December 31 2017	Counterparty
						Fair value Euro/000	*Fair value Euro/000*	
IRS	GBP/000	55,950	2.778%	Libor GBP/365	31/01/2029	(6,108)	(7,361)	Unicredit
IRS	GBP/000	55,950	Libor GBP/365	2.83%	31/01/2029	6,314	7,588	Kenon Ltd
Total IRS – Fair value through profit or loss						206	227	

INFORMATION ON FINANCIAL RISKS

CAPITAL MANAGEMENT

The Company's capital management strategy is intended to safeguard the Group's ability to guarantee a return to shareholders, protect the interests of other stakeholders, comply with loan covenants and maintain a viable, 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	298,887	-	298,887	1
Trade receivables, net	686,172	-	686,172	2
Derivative financial instruments	-	16,295	16,295	4
Financial receivables from parent, subsidiary and associated companies and related parties	317,974	-	317,974	5
Total at December 31, 2018	1,303,033	16,295	1,319,328	

(amounts in thousands of Euro)	Loans, receivables and financial investments	Derivative financial instruments	Total	Note
Cash and cash equivalents	180,434	-	180,434	1
Trade receivables, net	577,317	-	577,317	2
Derivative financial instruments	-	23,517	23,517	4
Financial receivables from parent, subsidiary and associated companies and related parties	298,084	-	298,084	5
Total at December 31, 2017	1,055,835	23,517	1,079,352	

FINANCIAL LIABILITIES

(amounts in thousands of Euro)	Loans and payables	Derivative financial instruments	Total	Note
Financial payables - third party	706,773	-	706,773	11,16
Financial payables - parent, subsidiary and associated companies and related parties	46,218	-	46,218	12
Trade payables	807,824	-	807,824	13
Derivative financial instruments	-	21,243	21,243	4
Total at December 31, 2018	1,560,815	21,243	1,582,058	

(amounts in thousands of Euro)	Loans and payables	Derivative financial instruments	Total	Note
Financial payables - third party	788,408	-	788,408	11,16
Financial payables - parent, subsidiary and associated companies and related parties	149,972	-	149,972	12
Trade payables	706,732	-	706,732	13
Derivative financial instruments	-	14,643	14,643	4
Total at December 31, 2017	1,645,112	14,643	1,659,755	

FAIR VALUE

The carrying amount of the derivative instruments, whether assets or liabilities, reflects the fair value as explained in this Note.
The carrying amount of the financial assets is a reasonable approximation of the fair value.

The carrying amount of the financial liabilities, excluding the bond notes, is a reasonable approximation of the 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 is represented by all the financial assets recognized in the financial statements.

The Directors consider the Company's credit risk to regard essentially the trade receivables generated from sales to independent clients in the wholesale channel. The Company manages credit risk and mitigates the related effects through its business and financial strategies. Credit risk is managed by monitoring and checking the reliability and solvency of customers, and is carried out by the Group's Sales Management.

The lack of concentration of the total trade receivables with any one customer and the evenly spread out geographical composition of the receivables worldwide mitigate the risk of incurring financial losses.
The expected loss on past-due receivables and doubtful accounts at the reporting date is fully covered by the allowance for doubtful debts.
The changes in the allowance for doubtful debts are shown in Note 2 on trade receivables.

LIQUIDITY RISK

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

According to the Directors, the funds and credit lines currently available, in addition to those that will be generated by operating and financing activities, will enable the Company to meet its financial requirement arising from investing activities, working capital management, punctual loan repayment and dividend payments without using all the available funding, so that surplus resources may be used to pay dividends.

As at December 31, 2018, the Company had undrawn cash credit lines of Euro 497 million.

As required by IFRS 7, with respect to forward contracts and options, only the anticipated cash flows that are negative at the reporting date are reported. Both positive and negative cash flows are presented for interest rate swaps. The anticipated cash flows from interest rate swaps as at December 31, 2018 were all negative.

The cash flows shown below have not been discounted and therefore differ from the amounts included in the table of derivative financial instruments (current and non-current) presented at the beginning of this section.

Financial liabilities under derivative financial instruments.

(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	more than 3 years
Forward contracts designated as cash flow hedges						
Cash outflows	(10,196)	(4,946)	(5,251)	-	-	-
Other contracts designated as cash flow hedges (Options)						
Cash outflows	(394)	(389)	(5)	-	-	-
Interest rate swaps	(3,617)	(797)	(715)	(1,145)	(528)	(432)
Net value	(14,207)	(6,131)	(5,971)	(1,145)	(528)	(432)

(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	more than 3 years
Forward contracts designated as cash flow hedges						
Cash outflows	(3,573)	(1,800)	(1,773)	-	-	-
Other contracts designated as cash flow hedges (Options)						
Cash outflows	-	-	-	-	-	-
Interest rate swaps	(3,007)	(925)	(880)	(1,106)	(139)	43
Net value	(6,581)	(2,725)	(2,653)	(1,106)	(139)	43

FINANCIAL LIABILITIES

(amounts in thousands of Euro)	Reported amount at December 31, 2018	Future contractual cash flows at December 31, 2018	upon request	6 mths or less	6 to 12 mths	1 to 2 years	2 to 3 years	3 to 4 years	Beyond 4 years
Financial payables to banks	706,773	707,167	-	317,833	22,833	45,667	227,167	66,167	27,500
Financial payables to subsidiaries, parent company and related parties	13,878	-	-	-	-	-	-	-	-
Total	720,651	707,167	-	317,833	22,833	45,667	227,167	66,167	27,500

(amounts in thousands of Euro)	Reported amount at December 31, 2017	Future contractual cash flows at December 31, 2017	upon request	6 mths or less	6 to 12 mths	1 to 2 years	2 to 3 years	3 to 4 years	more than 4 years
Financial payables to banks	788,408	803,918	-	16,225	252,349	235,801	31,612	220,537	47,393
Financial payables to subsidiaries, par-ent company and related parties	82,751	87,678	-	16,164	822	70,692	-	-	-
Total	871,159	891,596	-	32,389	253,172	306,493	31,612	220,537	47,393

FOREIGN EXCHANGE RISK

The Company is exposed to foreign exchange risk deriving from fluctuations of foreign currencies against the Euro.

Foreign exchange risk consists of the risk that cash flows from distributors could fluctuate as a result of changes in exchange rates. The most important currencies for the Company are the U.S. Dollar, Hong Kong Dollar, Japanese Yen, Chinese Renminbi and British Pound Sterling.

Foreign exchange risk management is one of the risk management activities carried out by the centralized Treasury Department.

The following table shows the sensitivity of net income and equity to a fluctuation range for the main foreign currencies against the Euro, based on the Company's financial position and performance at December 31, 2018:

(amounts in thousands of Euro)	Euro --> + 5%		Euro --> - 5%	
	Positive/ (negative) effect on net income	Positive/ (negative) effect on shareholders' equity	Positive/ (negative) effect on net income	Positive/ (negative) effect on shareholders' equity
GB Pound	4,094	7,227	(2,543)	(4,365)
Hong Kong Dollar	(178)	3,815	(60)	(5,677)
Japanese Yen	1,603	1,633	(5,553)	(7,229)
Chinese Remnimbi	4,386	5,972	(8,123)	(10,530)
US Dollar	6,303	10,604	2,012	(4,566)
Other currencies	9,215	15,224	(8,315)	(16,101)
Total	25,423	44,475	(22,582)	(48,468)

The total impact on equity (increase of Euro 44.5 million and decrease of Euro 48.5 million) is the sum of the effect on 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 net income and equity are shown before taxes.

Management considers this sensitivity analysis to be purely indicative, as it is based on the end-of-period exposure, which might not reflect the effects actually generated during the year.

INTEREST RATE RISK

The Company is exposed to the risk of interest rate fluctuations with respect mainly to the interest expense on its financial debt. Interest rate risk management is one of the risk management activities carried out by the centralized Treasury Department.

The following table shows the sensitivity of net income and equity to a shift in the interest rate curve based on the Company's financial position as at December 31, 2018.

(amounts in thousands of Euro)	Shift in interest rate curve	Positive/ (negative) effect on net income for the period	Positive/ (negative) effect on shareholders' equity	Shift in interest rate curve	Positive/ (negative) effect on net income for the year	Positive/ (negative) effect on shareholders' equity
Euro	+ 0.50%	1,581	(1,825)	-0.50%	(1,638)	1,827
GB Pound	+ 0.50%	127	127	-0.50%	(127)	(127)
Hong Kong Dollar	+ 0.50%	239	239	-0.50%	(239)	(239)
US Dollar	+ 0.50%	283	283	-0.50%	(283)	(283)
Other currencies	+ 0.50%	458	458	-0.50%	(458)	(458)
Total		2,689	(718)		(2,746)	719

The total impact on equity is the sum of the effect on profit or loss and on equity of a hypothetical shift in the interest rate curve. The effects on net income and equity are shown before taxes.

Sensitivity analysis was based on the end-of-period net financial position, which may not reflect the actual exposure to interest rate risk during the year. For this reason it is considered purely indicative.

5. FINANCIAL AND OTHER RECEIVABLES DUE FROM PARENT COMPANIES, SUBSIDIARIES, ASSOCIATES AND RELATED PARTIES

The short-term receivables due from subsidiaries and other companies are detailed below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Financial receivables	145,541	135,350
Other receivables	23,063	10,521
Financial and other receivables - due within a year	168,604	145,871

Financial receivables include bank deposits of Euro 21.8 million and short-term loans of Euro 122.9 million, shown net of the allowance for expected credit losses of Euro 1.2 million. The intercompany loans bear interest and are part of the Group's centralized treasury management.

The amount is broken down by counterparty in Note 26.

Long-term receivables due from parent companies and other Group companies are set forth below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Financial receivables	172,433	162,734
Financial receivables - due after or more than a year	172,433	162,734

The financial receivables include the principal on the loans to subsidiaries due after more than 12 months, shown net of the allowance for expected credit losses of Euro 1.2 million.

6. OTHER CURRENT ASSETS

The other current assets are set forth below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
VAT	25,769	25,056
Income tax and other tax receivables	32,173	52,976
Other assets	7,181	10,709
Prepayments	31,665	28,277
Deposits	225	217
Total other current assets	97,013	117,235

The other tax receivables consist of the total advances paid net of the current tax liability.

The other current assets are detailed hereunder

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Advances to suppliers	1,911	250
Advances to employees	400	494
Other receivables	4,871	9,965
Total other current assets	7,182	10,709

The prepayments and accrued income are broken down below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Rental costs	3,742	3,979
Insurance	450	597
Design costs	12,354	11,743
Fashion shows and advances on advertising campaigns	9,666	8,126
Other	5,453	3,832
Total prepayments and accrued income	31,665	28,277

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

7. PROPERTY, PLANT AND EQUIPMENT

The historical cost and accumulated depreciation of the past three periods 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 Net carrying amount
Historical cost	502,566	151,417	133,875	92,406	95,136	27,537	1,002,937
Accumulated depreciation	(60,977)	(118,854)	(68,691)	(54,943)	(58,512)	-	(361,977)
Net carrying amount at January 31, 2017	441,589	32,563	65,184	37,464	36,623	27,537	640,960
Historical cost	527,914	166,083	135,839	98,746	113,576	62,793	1,104,950
Accumulated depreciation	(72,779)	(125,503)	(73,226)	(58,548)	(61,997)	-	(392,053)
Net carrying amount at December 31, 2017	455,133	40,580	62,613	40,198	51,579	62,793	712,896
Historical cost	606,356	188,701	137,764	105,592	104,674	43,710	1,186,797
Accumulated depreciation	(85,787)	(132,727)	(77,739)	(62,387)	(61,458)	-	(420,098)
Net carrying amount at December 31, 2018	520,569	55,974	60,025	43,205	43,216	43,710	766,699

The changes in the carrying amount of "property, plant and equipment" for the year ended December 31, 2018 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	455,133	40,580	62,613	40,198	51,579	62,793	712,896
Additions	30,322	16,641	5,399	7,487	5,668	41,234	106,751
Depreciation	(13,100)	(8,592)	(8,488)	(4,853)	(6,028)	-	(41,061)
Disposals	(1,152)	(597)	(20)	(275)	(8,002)	(384)	(10,430)
Other movements	49,381	7,985	1,445	648	(1)	(59,933)	(475)
Impairment	(16)	(43)	(924)	-	-	-	(983)
Balance at December 31, 2018	520,569	55,974	60,025	43,205	43,216	43,710	766,699

"Land and buildings" includes capitalized interest of Euro 1.2 million as at December 31, 2018.

The increases for "land and buildings" and "plant and machinery" are attributable mainly to the capital expenditure invested to bolster and improve the manufacturing and logistics activities, within a broader plan to expand the production capacity.

The increase for "furniture and fittings" is 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 1 million for the year refers principally to the store layout restyling projects.

"Other tangibles" includes the product archive, which expresses the identity and history of the Group's brands and serves as a constant source of inspiration.

8. INTANGIBLE ASSETS

The historical cost and accumulated amortization of the past three periods are set forth below:

(amounts in thousands of Euro)	Trade-marks and intellectual property rights	Goodwill	Store Lease Acquisitions	Software	Develop-ment costs and other intangibles	Assets in progress	Total
Historical cost	2,102	111,875	58,521	89,540	26,530	9,115	297,682
Accumulated deprecia-tion	(2,101)	(3,464)	(41,605)	(64,828)	(13,752)	-	(125,750)
Net carrying amount at January 31, 2017	1	108,411	16,916	24,712	12,778	9,115	171,932
Historical cost	13,430	111,875	58,521	106,477	26,530	12,486	329,319
Accumulated deprecia-tion	(2,809)	(3,464)	(43,401)	(71,734)	(15,581)		(136,989)
Net carrying amount at December 31, 2017	10,621	108,411	15,120	34,743	10,949	12,486	192,330
Historical cost	13,756	111,875	55,521	127,019	26,530	14,668	349,369
Accumulated deprecia-tion	(5,692)	(3,463)	(43,767)	(82,501)	(17,562)	-	(152,985)
Net carrying amount at December 31, 2018	8,064	108,412	11,754	44,518	8,968	14,668	196,384

The changes in the carrying amount of intangible assets for the year ended December 31, 2018 are set forth below:

(amounts in thousands of Euro)	Trade-marks and intellectual property rights	Goodwill	Store Lease Acquisitions	Software	Develop-ment costs and other intangibles	Assets in progress	Total
Balance at December 31, 2017	10,621	108,411	15,120	34,743	10,949	12,486	192,330
Additions	327	-	-	9,110	-	13,742	23,179
Amortization	(2,883)	-	(1,733)	(10,767)	(1,981)	-	(17,364)
Disposals	-	-	(1,633)	(22)	-	-	(1,655)
Other movements	(1)	-	(1)	11,454	-	(11,482)	(30)
Impairment	-	-	-	-	-	(78)	(78)
Balance at December 31, 2018	8,064	108,412	11,754	44,518	8,968	14,668	196,384

GOODWILL

"Goodwill" as at December 31, 2018 amounted to Euro 108.4 million, including Euro 78.3 million referring to wholesale distribution activities in Italy and Euro 25.9 million to retail activities. As required by IAS 36, the values of intangible assets with indefinite useful lives are not amortized, but they are tested for impairment at least once per year.

The method used to identify the recoverable amount (value in use) consists of discounting the projected cash flows generated by the activities directly attributable to the business to which the goodwill has been allocated (Cash Generating Unit or "CGU").

Value in use is the sum of the present value of future cash flows expected in the business plan projections and the present value of the related operating activities at the end of the business plan period (terminal value).

The business plans cover a period of five years and the discount rate used to discount cash flows is calculated using the weighted average cost of capital (WACC) approach. The weighted average cost of capital used for discounting purposes was 10.39%. Sensitivity analysis was performed to ensure that changes in the main assumptions (WACC and "g" growth rate) did not significantly affect the coverage results. The outcome of this simulation did not indicate that the value in use could be lower than the carrying amount.

The impairment testing performed as at December 31, 2018 did not identify any impairment losses for goodwill.

9. INVESTMENTS

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Investments in subsidiaries and associated undertakings	856,222	851,778
Investments at FVTOCI	97,948	8,387
Other investments	13	13
Total	954,183	860,178

The Company, after appropriate evaluation by the respective boards, invested surplus liquidity in highly rated equity securities listed on the most important electronic stock markets in the world. The change in "investments at FVTOCI" refers to the purchase of new equity securities. The Euro 6.7 million decrease in fair value from the purchase date to the reporting date of December 31, 2018 was recognized in the specific equity reserve.

The investments in subsidiaries and associates as at December 31, 2018 and December 31, 2017 are presented hereunder:

(amounts in thousands of Euro)	Note	December 31 2017	Increases	Decreases	December 31 2018
Investments in subsidiaries:					
Artisans Shoes S.r.l.		2,706			2,706
Church & Co Ltd.		136,770			136,770
Hipic Prod Impex Srl	(1)	2,311	1,525	-	3,836
IPI Logistica S.r.l.		1,798			1,798
Kenon Limited		99,478			99,478
Les Femmes Srl	(2)		1,560		1,560
Marchesi 1824 srl	(3)	8,662	4,247	(7,763)	5,146
Montenapoleone 9 S.r.l.	(4)	-	3,963	(3,963)	-
Prm Services S. De R.l. de CV		407			407
Pelletteria Ennepì S.r.l.	(5)	4,125	570		4,695
Post Development Corp.		54,807			54,807
PRADA (Thailand) Co.,Ltd.		4,845			4,845
PRADA Asia Pacific Ltd.		1,120			1,120
PRADA Australia Pty. Ltd.		7,267			7,267
PRADA Austria GmbH		2,185			2,185
PRADA Belgium sprl	(6)	1,804	2,200		4,004
PRADA Bosphorus Deri Mamuller Limited Sirketi		22,897		-	22,897
PRADA Brasil Importaçao e Comercio de Artigos de Luxo Ltd.a	(7)	11,749		(7,927)	3,822
PRADA Canada Corp.		5,086			5,086
PRADA Czech Republic s.r.o.		1,894			1,894
PRADA Denmark Aps		3,491			3,491
PRADA Finnish Oy	(1)	3	300		303
PRADA Germany GmbH		14,122			14,122
PRADA Hellas Single Partner Limited Liabil-ity Company		1,764			1,764
PT PRADA Indonesia	(8)	-		-	-
PRADA Japan Co., Ltd.		28,770			28,770
PRADA Kazakhstan Llp		4,938		-	4,938

(amounts in thousands of Euro)	Note	December 31 2017	Increases	Decreases	December 31 2018
PRADA Korea Ltd.		10,631			10,631
PRADA Maroc Sarlau		-		-	-
PRADA Middle East Fzco		2,069			2,069
PRADA Montecarlo Sam	(1)	14,029	3,500		17,529
PRADA Netherlands Bv		3,623			3,623
PRADA New Zealand Pty. Ltd.		2,192			2,192
PRADA Panama, Sa		1,760			1,760
PRADA Portugal, Unipessoal LDA		955			955
PRADA Retail Aruba nv		1,623			1,623
PRADA Retail France Sas		48,195			48,195
PRADA Retail Malaysia Sdn		292			292
PRADA Retail Spc		3,041			3,041
PRADA Retail UK Ltd.		21,170			21,170
PRADA Rus Llc	(9)	49,974		(10,586)	39,388
PRADA Sa		23,315			23,315
PRADA St. Barthelemy sarl	(10)	1,220	380		1,600
PRADA Saudi Arabia Ltd.	(1)	6,734	602		7,337
PRADA Singapore Pte, Ltd.		2,478			2,478
PRADA Retail South Africa (Pty) Ltd.		3,709			3,709
PRADA Spain Sa	(1)	13,500	15,875		29,375
PRADA Sweden Ab		8,121			8,121
PRADA Switzerland sa		60,151			60,151
PRADA Usa Corp.		145,759			145,759
PRADA Ukraine		-		-	-
PRADA Vietnam Limited Liability Company		2,637			2,637
TRS Hong Kong Ltd.		31			31
TRS New Zealand Pty. Ltd.	(11)	39		(39)	-
TRS Saipan Boutique		4			4
TRS Singapore Pte Limited		156			156
Tannerie Limoges Sas		1,374			1,374
Investments in other entities		8,400	89,561	-	97,961
Total		860,178	124,283	(30,278)	954,183

Investments for which indications of impairment had been identified were tested for impairment, and the resulting impairment losses as at December 31, 2018 were Euro 26 million, as set forth below:

(amounts in thousands of Euro)	December 31 2018
Marchesi 1824 srl	(7,763)
Prada Brazil	(7,927)
Prada Rus LLC	(10,586)
TRS New Zealand Pty. Ltd	(39)
Total	(26,315)

Impairment testing is performed whenever there is any indication that the equity investments may have suffered an impairment loss.

In order to perform the impairment test, management has adopted the value in use method for the investments for which an impairment indicator has been identified. For the investment in Church & Co Ltd, considering that the Church's Group has recently been relaunched, management decided to use evaluation methods based on fair value for the impairment test (such as market multiples and comparable transactions), whose results were supported by control methods.

Notes:

1. The increase in the investment refers to the recapitalization carried out by PRADA spa through the waiver of its receivables.
2. On December 20, 2018, PRADA spa purchased a 40% stake in Les Femmes S.r.l. The acquisition will take effect on January 1, 2019. The investee is specialized in the production of women's luxury footwear.
3. The increase consists of the purchase price for the remaining 20% stake, described in the section on significant acquisitions and divestments, and the additional value of the investment following the incorporation of Montenapoleone 9 srl. The decrease reflects the writedown ensuing from the impairment test conducted to determine the recoverable amount.
4. The change for the period refers to the recapitalization carried out by PRADA spa through the waiver of its receivables and the aborption merger into Marchesi 1824 srl, described in the section on significant acquisitions and divestments.
5. On December 21, 2018 the Company increased its stake in Pelletteria Ennepi Srl from 80% to 90%.
6. The increase represents the share capital increase subscribed and paid in on October 18, 2018.
7. The decrease represents the writedown equal to the loss shown by the subsidiary for the year.
8. On August 8, 2018 the liquidation of PT Prada Indonesia was concluded.
9. The decrease reflects the writedown ensuing from the impairment test conducted to determine the recoverable amount.
10. The increase represents the share capital increase subscribed on December 4, 2018.
11. On May 22, 2018 the liquidation of TRS New Zealand Limited was concluded.

Additional information on subsidiaries and associates:

(amounts in thousands of Euro)	Carrying amount	Share Capital	Latest net income / (loss)	Shareholders' equity	% interest held
Artisans Shoes S.r.l.	2,706	1,000	930	7,891	66.70%
Church & Co Ltd	136,770	3,878	(10,095)	57,656	100.00%
Hipic Prod Impex Srl	3,836	45	163	52	80.00%
IPI Logistica S.r.l.	1,798	600	56	2,842	100.00%
Kenon Limited	99,478	115,888	62	85,391	100.00%
Marchesi 1824 srl	5,146	1,000	(5,772)	(2,845)	100.00%
Pelletteria Ennepì S.r.l.	4,695	93	194	2,415	90.00%
Post Development Corp.	54,807	40,908	2,596	75,548	100.00%
Prada (Thailand) Co.,Ltd.	4,845	9,764	550	13,739	100.00%
Prada Asia Pacific Ltd.	1,120	351	53,666	345,068	100.00%
Prada Australia Pty. Ltd	7,267	9,096	841	10,942	100.00%
Prada Austria GmbH	2,185	40	786	7,770	100.00%
Prada Belgium sprl	4,004	4,000	28	4,175	100.00%
Prada Bosphorus Deri Mamuller Limited Sirketi	22,897	22,760	(341)	11,026	100.00%
Prada Brasil Importaçao e Comercio de Artigos de Luxo ltda	3,822	55,411	(8,197)	3,813	100.00%
Prada Canada Corp.	5,086	210	528	28,566	100.00%
Prada Czech Republic s.r.o.	1,894	92	()	1,467	100.00%
Prada Denmark	3,491	3,494	1	3,862	100.00%
Prada Finnish Oy	303	3	161	121	100.00%
Prada Germany GmbH	14,122	215	3,235	18,484	100.00%
Prada Hellas Single Partner Limited Liability Company	1,764	2,850	26	986	100.00%
Prada Japan Co., Ltd.	28,770	8,987	6,032	27,715	100.00%
Prada Kazakhstan Llp	4,938	1,908	(338)	1,139	100.00%
Prada Korea Ltd.	10,631	6,452	7,257	64,516	100.00%
Prada Maroc Sarlau	0	8,788	(2)	3	100.00%
Prada Middle East FZCO	2,069	4,441	(459)	43,301	60.00%
Prada Montecarlo Sam	17,529	2,000	3,697	3,780	100.00%
Prada Netherlands B.V.	3,623	20	337	12,464	100.00%
Prada New Zealand Pty. Ltd	2,192	2,184	68	1,930	100.00%
Prada Panama SA	1,760	27	(2)	1,828	100.00%
Prada Portugal, Unipessoal LDA	955	5	47	2,521	100.00%
Prada Retail Aruba	1,623	1,823	28	1,859	100.00%
Prada Retail France SaS	48,195	4,000	1,219	27,755	100.00%
Prada Retail Malaysia Sdn	292	228	439	7,812	100.00%
Prada Retail SPC	3,041	3,733	(163)	6,413	100.00%
Prada Retail UK Ltd	21,170	6,898	1,685	33,403	100.00%
Prada Rus LLC	39,388	4	1,050	35,612	100.00%
Prada SA	23,315	31	(302)	(12,476)	100.00%
Prada Saudi Arabia	7,337	6,443	(1,950)	2,053	75.00%
Prada Singapore Pte, Ltd.	2,478	656	840	19,625	100.00%
Prada South Africa (Pty) Ltd	3,709	3,446	(471)	2,461	100.00%
Prada Spain S.A.	29,375	240	421	17,525	100.00%
Prada ST. Barthelemy	1,600	1,600	(34)	1,484	100.00%
Prada Sweden AB	8,121	54	48	4,278	100.00%
Prada Switzerland sa	60,151	22,484	(1,984)	16,540	100.00%
Prada Ukraine	-	8,274	282	1,265	100.00%
Prada USA Corp.	145,759	137,944	10,347	244,634	100.00%
Prada Vietnam	2,637	2,757	(90)	2,070	100.00%
PRM Services S. De R.L. de CV	407	404	90	718	100.00%
Tannerie Limoges S.A.S.	1,374	600	64	484	60.00%
TRS Hong Kong Ltd	31	58	(7)	60	55.00%
TRS Saipan	4	1,273	464	3,388	55.00%
TRS Singapore Pte Limited	156	328	248	1,029	55.00%
	854,662				

The amounts shown are those reported for consolidation purposes before the resolutions of the respective Boards of Directors which approve the financial statements were passed, so they could differ from the final version.

10. OTHER NON-CURRENT ASSETS

The composition of the other non-current assets is set forth below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Sundry other long-term receivables	16,569	17,813
Deferred rental income	2,706	3,566
Long-term guarantee deposits	2,542	2,436
Total	21,817	23,815

The sundry other long-term receivables refer primarily to the portion of stamp duty paid on the Galleria Vittorio Emanuele II concession fees. They also include Euro 0.5 million for insurance policies in respect of leaving indemnities for some employees and other costs.

The security deposits are set forth below by type:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Nature:		
Stores	1,835	1,842
Offices	65	65
Warehouses	18	18
Other	624	511
Total	2,542	2,436

The security deposits are set forth below by maturity:

(amounts in thousands of Euro)	December 31 2018
Maturity:	
By 31.12.2019	94
By 31.12.2020	95
By 31.12.2021	7
within 4-5 years	82
After 31.12.2023	2,264
Total	2,542

11. SHORT-TERM FINANCIAL PAYABLES AND BANK OVERDRAFTS

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Bank overdrafts	31	1
Short-term loans	90,234	30,053
Current portion of long term loans	250,667	234,766
Deferred costs on loans	(129)	(321)
Short-term financial payables and bank overdrafts	340,803	264,499

The short-term financial payables as at December 31, 2018 refer to the use of credit lines by PRADA spa for an amount of Euro 90.3 million.
The remaining current portion of long-term loans is detailed in Note 16.

12. FINANCIAL AND OTHER PAYABLES DUE TO PARENT COMPANIES, SUBSIDIARIES, ASSOCIATES AND RELATED PARTIES

The composition of current payables due to parent companies, subsidiaries, associates and related parties is set forth below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Financial payables	32,340	81,099
Other payables	7,747	4,933
Total payables due within a year	40,087	86,032

The decrease in financial payables due to subsidiaries is attributable primarily to changes in intercompany bank account balances.

"Other payables" consists of interest-free payables due to subsidiaries.
The amount is broken down by counterparty in Note 26.

The composition of the non-current payables due to parent companies, subsidiaries, associates and related parties is set forth below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Financial payables	13,878	68,874
Total payables due after more than a year	13,878	68,874

The final balance refers entirely to PRADA SA. During the year the Euro 69 million loan granted by Prada Asia Pacific was repaid.

13. TRADE PAYABLES

The trade payables are set forth below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Trade payables - Third parties	190,151	197,196
Trade payables - Subsidiaries and associated undertakings	614,304	503,082
Trade payables - Related companies	3,369	6,454
Total	807,824	706,732

The breakdown by counterparty of payables due to subsidiaries and associates is provided in Note 26, "transactions with parent companies, subsidiaries, associates and related parties".

The trade payables due to related parties regard purchases of finished products from retail companies owned by shareholders of PRADA Holding spa.

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

(amounts in thousands of Euro)	December 31, 2018	Current	Overdue (in days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade payables - third, parent and related parties	193,520	177,251	8,191	2,324	794	449	4,511
Trade payables - subsidiaries and associates	614,304	574,010	4,050	7,672	2,748	3,172	22,653
Total	807,824	751,261	12,241	9,996	3,542	3,621	27,164

(amounts in thousands of Euro)	December 31, 2017	Current	Overdue (in days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade payables - third parties and parent	203,650	189,159	5,229	4,034	435	491	4,303
Trade payables - subsidiaries, associates and related parties	503,082	481,362	1,854	1,462	978	135	17,290
Total	706,732	670,521	7,083	5,496	1,413	626	21,593

14. CURRENT TAX LIABILITIES

The current tax liabilities are set forth below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Current income taxes	11,124	-
VAT and other taxes	7,015	6,786
Social security and pension contribution liabilities	12,584	11,683
Total	30,723	18,469

"VAT and other taxes" refers to personal income tax (IRPEF) withholdings on employee pay and professional fees, and VAT liabilities arising on e-commerce sales in EU countries.

15. 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	24,223	44,153
Payables to employees	28,652	27,700
Provision for returns	61,280	24,543
Accrued expenses and deferred income	2,069	1,691
Other payables	3,508	914
Total	119,732	99,002

The payables due to employees refer to wages and salaries, the 13th and 14th salary accruals, unused vacation time and performance bonuses.

The provision for returns is allocated to cover sales returns whose existence is certain but whose timing and amount are uncertain at the reporting date. The amount of the provision was estimated on the basis of historical/statistical data and forecasts of the number of items sold that could be returned in future.

The change in the provision for returns is attributable to IFRS 15 adoption, which resulted in recognition of the provision based on the selling price of the product returned, whereas previously the amount represented the average margin earned on the product.

If the provision for returns at December 31, 2017 had been recognized under IFRS 15 using the selling price, it would have been Euro 43 million. In 2018, pursuant to the first-time adoption, the additional value was recognized with a contra account as a returns asset among inventories.

"Payables for capex" includes the amounts due for capital expenditure as at December 31, 2018, described in Notes 7 and 8 on property, plant and equipment and intangible assets.

"Other payables" includes Euro 0.9 million in advances received from customers and Euro 2.6 million in payables due to others.

16. NON-CURRENT FINANCIAL PAYABLES

The non-current financial payables are as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Long-term bank borrowings	366,500	524,667
Deferred costs on loans	(529)	(758)
Total	365,971	523,909

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

Recipient	Principal (Euro/ thousands)	Type of loan	Loan currency	Maturity	Interest rate (1)	Short-term balance due (Euro/ thousands)	Long-term balance due (Euro/ thousands)	Guarantee
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
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	-	-
Total	617,167					250,667	366,500	

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

The mortgage loan is secured by the building in Milan used as the Group's headquarters.

In 2018 the 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.

A maturity analysis is provided in Note 4.

17. EMPLOYEE BENEFITS

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Post-employment benefits	18,889	20,480
Other long term employee benefits	7,824	10,069
Total	26,713	30,549

POST-EMPLOYMENT BENEFITS

The post-employment benefits recognized as at December 31, 2018 amount to Euro 18.9 million; they all refer to the provision for leaving indemnities and all the benefits are classified as defined benefit plans.

The provision for leaving indemnities was measured using the Projected Unit Credit Method by Federica Zappari, an independent Italian actuary, member (n. 1134) of the Ordine Nazionale degli Attuari (Italian Society of Actuaries). The main actuarial assumptions for the years of valuation were as follows:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Average duration of plan (years)	10,4	10,8
Discount rate	1,249%	1,137%
Inflation rate	1,5%	1,5%

The discount rate used to measure the 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.
The actuarial gains and losses are as follows:

(amounts in thousands of Euro)	Defined Benefit Plans (TFR
Actuarial adjustments due to	
(a) Changes in financial assumptions	8
(b) Changes in other assumptions (e,g, demographic assumptions, remuneration increases)	-
(c) Other	(13)
Actuarial (gains)/losses	(5)

Sensitivity analysis conducted on the main actuarial assumptions used as at December 31, 2018 showed that a 50 basis point increase or decrease in the parameters (discount rates, salary raises, inflation rate, probability of termination of service and percentage of leaving indemnity advances) would have an impact of 5% or less on the obligations. Accordingly, the result of the analysis was considered immaterial with respect to possible effects on the financial statements.

Concerning the provision for leaving indemnities reported above, the following plan payments are expected in subsequent years:

(amounts in thousands of Euro)	2019	2020	2021	2022	After 2022
Defined Benefit Plans (TFR)	1,195	973	950	1,013	17,860

The changes in the liabilities for post-employment benefits as at December 31, 2018 are shown hereunder:

(amounts in thousands of Euro)	
Balance at December 31 2017	20,480
Current service costs	80
Financial expenses	(53)
Actuarial (Gains)/Losses	(5)
Indemnities paid	(1,613)
Balance at December 31 2018	18,889

OTHER LONG-TERM EMPLOYEE BENEFITS

The other long-term employee benefits meet the IAS 19 definition of "other long-term employee benefits" and refer to the Company's long-term incentive plans and performance-based programs for employees. Their actuarial value as at December 31, 2018, under the Projected Unit Cost Method, is Euro 8 million (Euro 10 million as at December 31, 2017). The valuation was carried out by independent actuary Federica Zappari.

The following table presents the changes in other long-term employee benefits for the year ended December 31, 2018:

(amounts in thousands of Euro)	Other long-term benefits
Balance at December 31 2017	10,069
Current service costs	1,232
Transfers	49
Utilization for payments	(3,527)
Balance at December 31 2018	7,823

18. PROVISIONS FOR RISKS AND CHARGES

The changes in the provisions for risks and charges are summarized below:

(amounts in thousands of Euro)	Provision for litigation	Provision for tax disputes	Provision for coverage of losses of subsidiaries / associates	Other provision	Total
Balance at December 31, 2017	-	6,355	1,982	1,815	10,152
Increases		645		21	666
Utilization for payments	-	-	-	(469)	(469)
Reversals	-	(3,924)		(57)	(3,981)
Reclassification		(2,208)	(1,982)		(4,190)
Balance at December 31, 2018		868	-	1,310	2,178

The provisions for risks and charges represent the Directors' best estimate of the maximum amount of potential liabilities. According to the Directors and based on the information available, supported by the opinions of independent tax advisers, 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 Company'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 Tax Compliance program (explained in the 2017 Annual Report), PRADA spa signed a formal agreement with the Italian Revenue Agency to reciprocally waive continuation of the disputes initiated in the past by PRADA spa regarding the dismissal or inadmissibility of petitions filed to not apply 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 a dispute 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 authorities have 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 Court of Cassation within the prescribed time limit.

OTHER PROVISIONS

The other provisions amount to Euro 1.3 million at December 31, 2018 and refer to contractual obligations to restore leased property to its original condition.

19. OTHER NON-CURRENT LIABILITIES

"Other non-current liabilities" amounts to Euro 23.4 million, Euro 4.2 million of which refers to the remaining balance due on the acquisition of usufruct for retail premises. The rest of the amount includes liabilities recognized to account for, on a straight-line basis, the concession fees for the Galleria Vittorio Emanuele II premises in Milan and rental costs for other sales outlets and stores.

20. EQUITY

Equity is set forth hereunder:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Share capital	255,882	255,882
Legal reserve	51,176	51,176
Share premium reserve	410,047	410,047
Other capital reserves	182,899	182,899
Retained earnings	325,301	361,798
Fair value reserve	(12,275)	(5,569)
Cash flow hedge reserve	(6,586)	1,879
Net profit (loss) for the year	708,548	161,554
Total	1,914,992	1,419,666

SHARE CAPITAL

As at December 31, 2018, approximately 80% of PRADA spa's share capital was owned by PRADA Holding spa and the remainder consisted of floating shares on the Main Board of the Hong Kong Stock Exchange.
Share capital consists of 2,558,824,000 shares with a par value of Euro 10 cents per share.

SHARE PREMIUM RESERVE

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

OTHER CAPITAL RESERVES

The other capital reserves were created from cash contributions and debt waivers from shareholders.

DIVIDENDS

During the year ended December 31, 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.

RETAINED EARNINGS

The decrease in "retained earnings" is attributable to the use of Euro 30.3 million for dividend distribution.

During the year retained earnings were used to set up the provision for expected credit losses on trade and financial receivables, pursuant to first-time adoption of IFRS 9 and IFRS 15. The total use, net of tax effects, was Euro 8.2 million and represents the amount of such provisions at the opening date of the year (January 1, 2018).

The change in retained earnings is also attributable to the application of IFRS 9 to the cash flow hedge reserve for the ineffective portion of the hedges. Such effect increased the reserve by Euro 2.1 million, inclusive of tax effects.

AVAILABILITY OF EQUITY

(amounts in thousands of Euro)	December 31 2018	Possible utilization	Amount distributable	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		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 because the amount of the legal reserve is at least 20% of share capital.

A non-distributable portion of retained earnings amounting to Euro 20.516 million refers to restricted reserves under Legislative Decree 38/2005, Article 7.

STATEMENT OF PROFIT OR LOSS

21. NET REVENUES

The net revenues are generated primarily by sales of finished products, and are stated net of returns and discounts. The net sales for the year amount to Euro 1.691 billion, up by 16% from those of the prior reporting period (Euro 1.453 billion in 2017).

It is important to note that the previous reporting period consisted of 11 months as a result of changing the reporting date. Therefore, the 2018 information is not perfectly comparable with that of the prior reporting period.

Royalty income is Euro 44 million and derives from cosmetic sales by Fragrance and Skincare sl and Coty Geneve S.a. and eyewear sales by the Luxottica Group. Franchise royalties amount to Euro 1.9 million, down slightly from those of the prior reporting period (Euro 2.2 million).

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Net sales	1,691,476	1,453,059
Royalties	44,217	45,496
Net revenues	1,735,693	1,498,555

22. COST OF GOODS SOLD

The cost of goods sold is summarized below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Purchases of raw materials and production costs	762,931	636,393
Logistics costs, duties and insurance	76,534	60,311
Change in inventories	(38,217)	(28,007)
Total	801,248	668,697

The cost of goods rose by Euro 132 million in line with the product volumes.

23. OPERATING EXPENSES

The operating expenses are summarized below:

(amounts in thousands of Euro)	December 31 2018	% of net revenues	December 31 2017	% of net revenues
Advertising and promotion expenses	136,756	7.8%	110,847	7.4%
Product design and development costs	107,738	6.1%	99,532	6.6%
Selling expenses	405,410	23.1%	332,871	22.2%
General and administrative costs	78,942	4.5%	56,960	3.8%
Total	728,846	41.5%	600,210	40.1%

Advertising and communication costs consist of expenses incurred to carry out advertising campaigns, fashion shows and other events plus the overheads attributable to this business area.

Product design and development costs include both the design phase – i.e. research and testing of pattens, fabrics, leather and production techniques and determination of the design concept - and the product development phase, involving planning, creation of prototypes and product manufacturing.

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

Interest and exchange differences are presented below in comparison with the prior reporting period:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Interest expenses on borrowings	(10,655)	(11,634)
Interest income	8,044	8,251
Interest income/(expenses) IAS 19	-	43
Exchange gains/(losses) - realized	(14,664)	(9,382)
Exchange gains/(losses) - unrealized	4,045	536
Other financial income/(expenses)	(28,649)	(34,624)
Dividends from investments	603,102	24,778
Total	561,223	(22,032)

The net interest expense of Euro 2.6 million corresponds to the difference between interest income of Euro 8 million (Euro 8.2 million in 2017) and interest expense of Euro 10.6 million (Euro 11.6 million in 2017).

The other financial expense regards writedowns of investments in subsidiaries pursuant to the impairment testing results.

The dividends received are presented below by counterparty, in comparison with those of the prior period:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Artisans Shoes S.r.l.	1,635	903
Prada Asia Pacific Ltd.	575,335	-
Prada Japan Co., Ltd.	4,689	2,571
Prada Retail Malaysia Sdn	1,049	-
Prada SA	15,000	20,000
Prada Sweden AB	968	-
Sitoy Group Holdings Ltd	632	670
TRS Hong Kong Ltd	2,986	-
TRS New Zealand Pty. Ltd	109	634
TRS Singapore Pte Limited	700	-
Total	603,103	24,778

25. TAXES

The income taxes for the year ended December 31, 2018 and the prior reporting period are set forth below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Current taxation	58,829	49,331
Prior year taxes	(1,627)	(5,780)
Deferred taxes	1,072	2,511
Total	58,274	46,062

The increase in income taxes is attributable primarily to higher pre-tax income. In terms of percentage, the tax burden fell from 22% of pre-tax income to 7%, due to the effect of dividends received from subsidiaries, of which just 5% are taxable.

The deferred tax assets and liabilities recognized at the current and previous reporting dates are shown below by the item to which they refer:

(amounts in thousands of Euro)	Deferred taxes, net		Income statement effect	Equity effect
	December 31 2018	December 31 2017		
Employee benefits - defined benefit plans	457	457	-	-
Inventories	10,281	13,527	3,246	-
Property, plant and equipment	(861)	(1,655)	(794)	-
Intangible assets	841	1,127	286	-
Provisions for risks and charges	10,119	8,463	(1,656)	-
Allowance for doubtful debts	1,579	(1,236)	(29)	(2,786)
Derivative instruments	2,080	(593)	-	(2,673)
Other temporary differences	4,051	4,071	20	-
Total	28,548	24,161	1,072	(5,459)

The following table shows the reconciliation between the effective tax rate and the theoretical tax rate:

(amounts in thousands of Euro)	IRES	Eff, IRES rate	IRAP	Eff, IRAP rate	Total taxation	Eff, Total rate
Theoretical tax on income before taxation	184,037	24.00%	30,136	3.93%	214,173	27.93%
Dividends exempted	(137,185)	-17.89%	-		(137,185)	-17.89%
ACE	(2,045)	-0.27%	-		(2,045)	-0.27%
Impairment adjustment to investments	7,921	1.03%	-		7,921	1.03%
Other permanent differences	(2,554)	-0.33%	(326)	-0.07%	(2,880)	-0.41%
Adjustments in annual tax return "UNICO"	(1,264)	-0.16%	(336)	-0.04%	(1,600)	-0.21%
Difference between income before taxation and net value of production	-		(20,131)	-2.63%	(20,131)	-2.63%
Taxes for period	48,910	6.38%	9,344	1.19%	58,254	7.56%
Temporary differences	(877)	-0.10%	(192)	-0.03%	(1,069)	-0.13%
Current taxation	48,033	6.28%	9,152	1.16%	57,184	7.44%

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 statement, PRADA spa will recognize the patent box benefit for the whole 5 years period.

26. TRANSACTIONS WITH PARENT COMPANIES, SUBSIDIARIES, ASSOCIATES AND RELATED PARTIES

The Company carries out trade and financial transactions with companies owned by entities that directly or indirectly control PRADA spa (related parties). The balances listed in the following tables result from transactions with related parties.

The transactions regard mainly sales of goods, supplies of business services, loans, leases and franchise agreements. The transactions take place on an arm's length basis.

The following 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 following 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 "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, no transaction reported in the 2018 Separate 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.

STATEMENT OF FINANCIAL POSITION

(amounts in thousands of Euro)	Trade receivables December 31 2018	Trade payables December 31 2018	Trade receivables December 31 2017	Trade payables December 31 2017
Parent company	142	-	53	-
PRADA Holding Spa	142	-	53	-
Subsidaries and associates	502,103	614,298	392,734	503,082
Artisans Shoes S.r.l.	450	22,390	292	22,267
Church & Co Ltd	22,692	1,466	7,795	908
Church & Co. (USA) Ltd.	55	1	44	1
Church Austria Gmbh	7	-	4	-
Church English shoes SA	9	-	9	-
Church Footwear (Shanghai) Co., Ltd	77	-	31	-
Church Footwear Ab	98	-	117	-
Church France SA	70	-	26	-
Church Hong Kong Retail C	33	-	23	-
Church Ireland Retail Ltd	7	-	6	-
Church Italia S.r.l.	1,031	155	1,555	43
Church Japan Co., Ltd.	32	6	12	-
Church UK Retail Ltd	347	-	120	-
Church's Denmark	82	-	57	-
Church's Eng. Shoes Sw.SA	64	-	32	6
Church's Germany	19	-	-	-
Church's Korea	54	-	-	-
Church's Netherlands	109	-	88	-
Church's Singapore	147	-	138	-
Church's Spain	3	-	10	-
Hipic Prod Impex Srl	190	1,179	86	311
IPI Logistica S.r.l.	1,294	4,052	557	3,510
Isarcodue Srl	-	-	2	-
Kenon Limited	2	-	16	-
Marchesi 1824 srl	8,800	1,063	35	3
Montenapoleone 9 S.r.l.	-	-	3,178	212
PRM Services S. De R.L. de CV	80	1	36	1
Pelletteria Ennepì S.r.l.	23	1,064	21	753
Pellettieri d'Italia Srl	-	-	-	-
Post Development Corp.	9	-	9	-
Prada (Thailand) Co.,Ltd.	1,950	2,306	861	3,226
Prada Asia Pacific Ltd.	12,242	75,915	10,003	96,892
Prada Australia Pty. Ltd	1,902	10,446	2,734	3,662
Prada Austria GmbH	4,713	5,539	4,187	3,866
Prada Belgium sprl	1,870	1,759	2,743	1,397
Prada Bosphorus Deri Mamuller Limited Sirketi	4,345	2,002	1,224	3,354
Prada Brazil	9,366	3,467	8,361	42
Prada Canada Corp.	9,660	6,959	5,395	4,233
Prada Company SA	(4)	-	(5)	-
Prada Czech Republic s.r.o.	1,882	837	1,658	460
Prada Denmark	2,314	2,014	2,205	1,463
Prada Dongguan Trading co. LTD	45	162	38	313
Prada Fashion (Shanghai)	74,772	53,210	63,939	50,648
Prada Finnish Oy	236	975	227	1,197
Prada Germany GmbH	19,291	26,726	19,073	13,651
Prada Hellas Single Partner Limited Liability Company	779	1,620	379	873
Prada Japan Co., Ltd.	20,121	51,161	14,670	41,930
Prada Kazakhstan Llp	3,843	341	3,368	347
Prada Korea Ltd.	33,652	7,715	26,036	1,841

(amounts in thousands of Euro)	Trade receivables December 31 2018	Trade payables December 31 2018	Trade receivables December 31 2017	Trade payables December 31 2017
Prada Kuwait	777	1	850	1
Prada Macau Co., Ltd.	10,817	4,252	6,419	7,806
Prada Maroc Sarlau	-	-	-	-
Prada Mexico	2,622	2,422	5,453	2,888
Prada Middle East FZCO	26,267	23,482	11,839	2,672
Prada Montecarlo Sam	1,374	5,964	997	2,852
Prada Netherlands B.V.	4,220	2,215	3,948	2,217
Prada New Zealand Pty. Ltd	270	907	470	728
Prada Panama SA	1,367	1,410	866	743
Prada Portugal, Unipessoal LDA	992	874	1,615	190
Prada Retail Aruba	1,284	991	800	482
Prada Retail France SaS	30,834	50,346	23,806	37,995
Prada Retail Malaysia Sdn	1,375	94	1,164	99
Prada Retail SPC	3,868	1,660	4,014	1,099
Prada Retail UK Ltd	34,130	22,543	41,178	27,153
Prada Retail UK Ltd. - Irish Branch	2,027	1,635	2,975	608
Prada Rus LLC	12,327	7,619	11,420	5,347
Prada SA	18	6,217	160	6,217
Prada SA,Lux,Swiss Branch	1,037	17,906	548	12,853
Prada ST. Barthelemy	3,975	2,106	2,728	759
Prada Saudi Arabia	1,286	13	879	12
Prada Singapore Pte, Ltd.	2,998	13,445	3,002	14,892
Prada South Africa (Pty) Ltd	3,281	2,451	3,336	1,124
Prada Spain S.A.	20,942	9,186	17,339	3,715
Prada Sweden AB	1,000	940	757	1,530
Prada Switzerland sa	7,739	11,840	7,172	11,176
Prada Taiwan Ltd Branch Taipei	2,988	6,506	2,127	3,787
Prada USA Corp.	73,576	127,359	43,927	92,169
Prada Ukraine	1,513	998	3,629	2,113
Prada United Arab Emirates (1)	3,462	704	2,073	138
Prada Vietnam	638	1,696	513	1,003
TRS Guam	397	24	601	31
TRS Hawaii LLC	1,034	1	587	55
TRS Hong Kong Ltd	-	-	2	-
TRS MACAU	2,252	728	2,259	773
TRS Okinawa	363	-	532	77
TRS Saipan	137	240	203	58
TRS Singapore Pte Limited	127	54	127	77
Tannerie Limoges S.A.S.	26	938	1,024	233
Related parties	8,576	3,369	12,715	6,375
Chora Srl	-	828	-	578
Conceria Superior S.p.A.	3	1,226	2	4,748
COR 36 S.r.l.	24	47	-	-
La Mazza srl	-	-	48	128
Luna Rossa Challenge 2013 Srl	920	18	512	18
Peschiera Immobiliare srl	-	-	8	-
Total	510,821	617,667	405,502	509,457

Note:
(1) Company consolidated according to IFRS 10 definition of control

(amounts in thousands of Euro)	Financial receivables December 31 2018	Other receivables December 31 2018	Financial receivables December 31 2017	Other receivables December 31 2017
Subsidaries and associates	319,185	10,456	298,083	4,413
Artisans Shoes S.r.l.	7,745	1,226	3,644	912
Church & Co Ltd.	-	42	3,490	-
Church Italia S.r.l.	-	3,728	-	2,396
IPI Logistica S.r.l.	-	38	-	19
Marchesi 1824 srl	4,035	79	-	264
Montenapoleone 9 S.r.l.	-	-	3,698	-
Prm Services S. De R.l. de CV	-	-	-	3
Pelletteria Ennepì S.r.l.	-	229	-	25
PRADA (Thailand) Co.,Ltd.	5,436	-	5,156	-
PRADA Asia Pacific Ltd.	-	128	-	179
PRADA Australia Pty. Ltd.	9,880	4,316	-	-
PRADA Austria GmbH	7,007	-	7,019	-
PRADA Brasil Importaçao e Comercio de Artigos de Luxo Ltd.a	8,224	5	4,105	5
PRADA Denmark Aps	815	-	825	-
PRADA Dongguan Trading co. Ltd.	-	6	-	6
PRADA Fashion (Shanghai)	-	93	-	110
PRADA Finnish Oy	804	-	1,639	-
PRADA Germany GmbH	27,409	-	27,484	116
PRADA Hellas Single Partner Limited Liability Company	1,816	9	1,821	9
PRADA Japan Co., Ltd.	8,431	-	18,259	-
PRADA Middle East Fzco	20,978	-	3,352	-
PRADA Montecarlo Sam	36,620	-	29,352	-
PRADA Netherlands Bv	-	-	224	-
PRADA New Zealand Pty. Ltd.	2,075	-	2,103	-
PRADA Portugal, Unipessoal LDA	1,264	-	1,261	-
PRADA Retail France Sas	73,952	63	59,822	-
PRADA Retail UK Ltd.	20,221	22	20,434	-
PRADA Retail UK Ltd. - Irish Branch	1,902	-	1,926	-
PRADA SA,Lux,Swiss Branch	-	-	23,064	-
PRADA Saudi Arabia Ltd.	6,223	-	6,566	13
PRADA Singapore Pte, Ltd.	14,772	-	-	-
PRADA Spain Sa	-	-	16,049	-
PRADA Switzerland sa	50,670	106	49,480	-
PRADA Usa Corp.	-	365	-	356
PRADA Ukraine	-	1	-	-
PRADA Vietnam Limited Liability Company	2,692	-	3,661	-
Tannerie Limoges Sas	6,214	-	3,649	-
Related parties	-	12,609	-	6,108
Chora Srl	-	5,848	-	5,848
FRATELLI PRADA S.P.A	-	-	-	118
LUDO S.R.L.	-	-	-	142
Luna Rossa Challenge 2013 Srl	-	6,761	-	-
Total	319,185	23,065	298,083	10,521

(amounts in thousands of Euro)	Fair value IRS *"fair value through profit or loss"* December 31 2018	December 31 2017
Kenon Ltd	6,314	7,588

(amounts in thousands of Euro)	Financial payables December 31 2018	Other payables December 31 2018	Financial payables December 31 2017	Other payables December 31 2017
Subsidaries and associates	46,217	7,685	149,973	4,872
Artisans Shoes S.r.l.	-	-	-	3
Church Italia S.r.l.	-	7	-	14
IPI Logistica S.r.l.	229	9	39	9
Marchesi 1824 srl	-	5,235	-	109
Montenapoleone 9 S.r.l.	-	-	-	2,630
Pelletteria Ennepì S.r.l.	-	317	-	-
Post Development Corp.	127	-	122	-
PRADA Asia Pacific Ltd.	-	-	70,571	-
PRADA Canada Corp.	-	1	-	-
PRADA Denmark Aps	-	-	-	1
PRADA Dongguan Trading co. Ltd.	-	61	-	61
PRADA Fashion (Shanghai)	-	141	-	143
PRADA Germany GmbH	6,995	1	5,341	-
PRADA Japan Co., Ltd.	-	5	-	-
PRADA Kuwait	-	-	-	17
PRADA Middle East Fzco	-	8	-	30
PRADA Netherlands Bv	-	-	224	-
PRADA New Zealand Pty. Ltd.	-	-	-	-
PRADA Portugal, Unipessoal LDA	-	-	-	-
PRADA Retail France Sas	-	-	741	4
PRADA Retail UK Ltd.	-	2	-	1
PRADA Retail UK Ltd. - Irish Branch	174	-	2,034	-
PRADA SA,Lux,Swiss Branch	38,483	1,572	70,698	1,572
PRADA Saudi Arabia Ltd.	-	-	-	22
PRADA Spain Sa	-	(3)	-	147
PRADA Sweden Ab	-	1	-	-
PRADA Switzerland sa	13	105	16	73
PRADA Usa Corp.	196	223	187	8
PRADA United Arab Emirates	-	-	-	28
Related parties	-	62	-	62
Luna Rossa Challenge Srl	-	62	-	62
Total	46,217	7,747	149,973	4,934

(amounts in thousands of Euro)	Other liabilities December 31 2018	Other liabilities December 31 2017
Remuneration of Board of Directors	3,059	7,094
Others [1]	146	411

Note:
1) Relative of a Director

STATEMENT OF PROFIT OR LOSS

(amounts in thousands of Euro)	Net Revenues December 31 2018	Net Revenues December 31 2017	Cost of goods sold December 31 2018	Cost of goods sold December 31 2017
Subsidaries and associates	1,083,082	888,640	101,565	84,377
Artisans Shoes S.r.l.	4	1	63,884	54,147
Church & Co Ltd.	13,531	9,744	285	839
Church Austria Gmbh	-	-	-	-
Church English shoes SA	-	-	-	-
Church Footwear Ab	1	-	-	-
Church France SA	6	1	-	-
Church Ireland Retail Ltd.	-	-	-	-
Church Italia S.r.l.	7	(10)	-	4
Church UK Retail Ltd.	2	15	-	-
Church's Denmark	1	-	-	-
Church's Eng. Shoes Sw.SA	2	-	-	-
Church's Germany	-	-	-	-
Church's Netherlands	1	-	-	-
Church's Spain	1	-	-	-
Hipic Prod Impex Srl	7	3	7,966	5,527
IPI Logistica S.r.l.	2	-	858	739
Marchesi 1824 srl	2	-	16	-
Montenapoleone 9 S.r.l.	-	-	-	9
Pelletteria Ennepì S.r.l.	-	-	6,921	6,883
PRADA (Thailand) Co.,Ltd.	8,741	4,258	-	-
PRADA Asia Pacific Ltd.	80,167	17,068	2,039	1,486
PRADA Australia Pty. Ltd.	3,790	7,759	1	(1)
PRADA Austria GmbH	17,097	15,423	93	-
PRADA Belgium sprl	635	1,148	-	-
PRADA Bosphorus Deri Mamuller Limited Sirketi	8,191	5,459	-	54
PRADA Brasil Importaçao e Comercio de Artigos de Luxo Ltd.a	4,019	7,025	-	(1)
PRADA Canada Corp.	26,630	23,936	(1)	(1)
PRADA Czech Republic s.r.o.	1,460	3,065	-	48
PRADA Denmark Aps	(487)	518	-	-
PRADA Dongguan Trading co. Ltd.	-	-	865	885
PRADA Fashion (Shanghai)	203,919	154,577	15	10
PRADA Finnish Oy	-	-	-	-
PRADA Germany GmbH	16,363	23,310	23	27
PRADA Hellas Single Partner Limited Liability Company	208	768	93	-
PRADA Hong Kong P.D. Limited	-	-	-	549
PRADA Japan Co., Ltd.	78,161	65,930	463	379
PRADA Kazakhstan Llp	723	1,697	-	-
PRADA Korea Ltd.	131,778	96,559	242	293
PRADA Kuwait	(9)	328	(2)	-
PRADA Macau Co., Ltd.	31,768	18,904	(1)	-
PRADA Maroc Sarlau	-	(313)	-	-
PRADA Mexico	5,162	5,428	14	-
PRADA Middle East Fzco	16,222	37,071	-	-
PRADA Montecarlo Sam	2,000	2,628	-	-
PRADA Netherlands Bv	19,793	17,522	-	53
PRADA New Zealand Pty. Ltd.	738	846	-	48
PRADA Panama, Sa	(120)	398	2	-
PRADA Portugal, Unipessoal LDA	1,882	3,687	-	-
PRADA Retail Aruba nv	(437)	67	-	-
PRADA Retail France Sas	25,965	16,815	3,512	2,588

(amounts in thousands of Euro)	Net Revenues	Net Revenues	Cost of goods sold	Cost of goods sold
	December 31 2018	December 31 2017	December 31 2018	December 31 2017
PRADA Retail Malaysia Sdn	8,200	7,544	14	13
PRADA Retail Spc	5,227	2,940	-	6
PRADA Retail UK Ltd.	55,950	64,372	2,141	1,915
PRADA Retail UK Ltd. - Irish Branch	5,291	2,911	-	-
PRADA Rus Llc	13,809	15,523	13	8
PRADA Sa	-	-	-	-
PRADA SA,Lux,Swiss Branch	25	-	-	-
PRADA Saudi Arabia Ltd.	170	170	-	-
PRADA Singapore Pte, Ltd.	6,507	6,269	25	21
PRADA Retail South Africa (Pty) Ltd.	(419)	747	-	48
PRADA Spain Sa	25,922	17,484	61	59
PRADA Sweden Ab	1,236	163	-	-
PRADA Switzerland sa	5,644	2,121	(2)	4
PRADA Taiwan Ltd. Branch Taipei	4,447	4,678	-	2
PRADA Usa Corp.	220,724	189,023	4,172	2,431
PRADA Ukraine	270	646	-	-
PRADA Emirates llc [1]	69	669	30	48
PRADA Vietnam Limited Liability Company	964	852	387	49
TRS Guam	4,180	4,161	-	-
TRS Hawaii Llc	5,097	6,264	-	-
TRS MACAU	15,419	13,212	-	-
TRS New Zealand Pty. Ltd.	-	(171)	-	-
TRS Okinawa	3,475	3,452	-	-
TRS Saipan Boutique	1,396	1,465	-	-
TRS Singapore Pte Limited	1,041	1,017	-	-
Tannerie Limoges Sas	1	-	7,436	5,208
Releted parties	21,632	25,723	18,816	22,277
Conceria Superior S.p.A.	-	-	18,650	21,008
FRATELLI PRADA S.P.A	21,439	25,723	79	203
La Mazza srl	-	-	92	1,077
Luna Rossa Challenge 2013 Srl	190	-	-	-
Peschiera Immobiliare srl	-	-	(5)	(8)
Premiata Srl	-	-	-	(3)
Perseo	3	-	-	-
Total	1,104,714	914,363	120,381	106,654

Note:
1) Company consolidated according to IFRS 10 definition of control

(amounts in thousands of Euro)	Operating expenses	Operating expenses	Interest and other financial income (expenses), net	Interest and other financial income (expenses), net
	December 31 2018	December 31 2017	December 31 2018	December 31 2017
Parent company	80	50	-	-
PRADA Holding Spa	80	50	-	-
Subsidaries and associates	(207,817)	(165,936)	6,364	6,523
Artisans Shoes S.r.l.	(2,451)	(2,749)	-	2
Church & Co Ltd.	1,090	856	1	62
Church & Co. (USA) Ltd.	11	11	-	-
Church Austria Gmbh	15	12	-	-
Church English shoes SA	10	13	-	-
Church Footwear (Shanghai) Co., Ltd.	46	19	-	-
Church Footwear Ab	13	10	-	-
Church France SA	86	72	-	-
Church Hong Kong Retail C	27	21	-	-
Church Ireland Retail Ltd.	13	8	-	-
Church Italia S.r.l.	882	1,042	-	-
Church Japan Co., Ltd.	45	24	-	-
Church UK Retail Ltd.	226	163	-	-
Church's Denmark	25	8	-	-
Church's Eng. Shoes Sw.SA	31	25	-	-
Church's Germany	19	-	-	-
Church's Korea	54	-	-	-
Church's Netherlands	19	16	-	-
Church's Singapore	9	10	-	-
Church's Spain	9	8	-	-
Hipic Prod Impex Srl	(55)	41	-	-
IPI Logistica S.r.l.	(72)	(239)	-	-
Isarcodue Srl	-	30	-	-
Kenon Limited	2	11	1,343	1,472
Marchesi 1824 srl	3,575	21	49	-
Montenapoleone 9 S.r.l.	-	2,849	-	47
Prm Services S. De R.l. de CV	43	14	-	-
Pelletteria Ennepì S.r.l.	(69)	2	-	-
Post Development Corp.	-	5	-	(61)
PRADA (Thailand) Co.,Ltd.	495	409	207	215
PRADA Asia Pacific Ltd.	(52,359)	(38,861)	(2,288)	(2,498)
PRADA Asia Pacific Macau Branch	-	(2)	-	-
PRADA Australia Pty. Ltd.	816	729	16	-
PRADA Austria GmbH	647	614	42	79
PRADA Belgium sprl	307	13	-	-
PRADA Bosphorus Deri Mamuller Limited Sirketi	(442)	(1,176)	-	-
PRADA Brasil Importaçao e Comercio de Artigos de Luxo Ltd.a	159	333	619	80
PRADA Canada Corp.	(5,800)	(3,158)	-	-
PRADA Company SA	-	4	-	-
PRADA Czech Republic s.r.o.	90	1	-	-
PRADA Denmark Aps	214	180	33	19
PRADA Dongguan Trading co. Ltd.	46	35	-	-
PRADA Fashion (Shanghai)	(20,120)	(20,683)	-	-
PRADA Finnish Oy	(967)	(1,189)	58	53
PRADA Germany GmbH	2,884	1,924	254	384
PRADA Hellas Single Partner Limited Liability Company	288	153	58	30
PRADA Hong Kong P.D. Limited	-	(347)	-	-
PRADA Japan Co., Ltd.	5,243	4,286	208	511
PRADA Kazakhstan Llp	68	113	-	-
PRADA Korea Ltd.	2,159	1,670	-	-

(amounts in thousands of Euro)	Operating expenses	Operating expenses	Interest and other financial income (expenses), net	Interest and other financial income (expenses), net
	December 31 2018	December 31 2017	December 31 2018	December 31 2017
PRADA Kuwait	324	286	-	-
PRADA Macau Co., Ltd.	210	277	-	-
PRADA Maroc Sarlau	-	51	-	58
PRADA Mexico	(1,530)	(1,491)	-	-
PRADA Middle East Fzco	(290)	2	-	-
PRADA Montecarlo Sam	(2,886)	(1,309)	1,257	927
PRADA Netherlands Bv	450	315	-	-
PRADA New Zealand Pty. Ltd.	49	37	91	79
PRADA Panama, Sa	(674)	(594)	-	-
PRADA Portugal, Unipessoal LDA	405	337	8	1
PRADA Retail Aruba nv	23	23	-	-
PRADA Retail France Sas	(4,658)	(7,077)	1,810	1,591
PRADA Retail Malaysia Sdn	152	207	-	-
PRADA Retail Spc	1,403	163	-	-
PRADA Retail UK Ltd.	3,303	3,127	272	536
PRADA Retail UK Ltd. - Irish Branch	83	149	12	40
PRADA Rus Llc	(1,975)	(2,684)	-	-
PRADA Sa	18	9	-	-
PRADA SA,Lux,Swiss Branch	(33,465)	(29,623)	(95)	(135)
PRADA St. Barthelemy sarl	(1,367)	(702)	-	-
PRADA Saudi Arabia Ltd.	334	350	-	-
PRADA Singapore Pte, Ltd.	203	281	20	-
PRADA Retail South Africa (Pty) Ltd.	(629)	(609)	-	-
PRADA Spain Sa	1,408	1,046	218	380
PRADA Sweden Ab	140	91	-	-
PRADA Switzerland sa	991	472	1,873	2,236
PRADA Taiwan Ltd.	-	(1)	-	-
PRADA Taiwan Ltd. Branch Taipei	949	1,054	-	-
PRADA Usa Corp.	(108,166)	(77,482)	-	-
PRADA Ukraine	(888)	(815)	-	110
PRADA United Arab Emirates	1,356	1,099	-	-
PRADA Vietnam Limited Liability Company	(959)	(914)	176	198
TRS Guam	128	108	-	-
TRS Hawaii Llc	137	84	-	-
TRS MACAU	224	290	-	-
TRS New Zealand Pty. Ltd.	-	12	-	-
TRS Okinawa	62	75	-	-
TRS Saipan Boutique	55	20	-	-
TRS Singapore Pte Limited	16	14	-	-
Tannerie Limoges Sas	(84)	35	122	107
Related parties	(22,251)	(17,522)	-	-
Chora Srl	(1,930)	(2,128)	-	-
Conceria Superior S.p.A.	(97)	(109)	-	-
FRATELLI PRADA S.P.A	(1,558)	(2,089)		
La Mazza srl	-	-		
LUDO S.R.L.	(1,321)	(402)	-	-
Luna Rossa Challenge 2013 Srl	(16,094)	(10,742)	-	-
Perseo srl	12	-	-	-
Peschiera Immobiliare srl	(436)	(502)	-	-
PRA 1 S.r.l.	-	(778)	-	-
Others [1]	(827)	(772)		
Total	(229,988)	(183,408)	6,364	6,523

Note:
1) Relative of a Director

COMMITMENTS

GUARANTEES GIVEN

The guarantees concern:

- sureties of Euro 416 million given to third parties and related parties on behalf of Group companies;
- letters of comfort for Euro 248 million issued to banks on behalf of subsidiaries.

OPERATING LEASES

The lease and concession obligations are set forth below by maturity:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Due within a year	44,032	40,124
Due between one and five years	135,896	146,453
Due after more than five years	98,380	161,330
Total commitments for operating lease/concession fees	278,308	347,907

The decrease in commitments regarding future lease payments is attributable to normal contractual developments.

Lease income is set forth by maturity hereunder:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Due within a year	7,709	3,218
Due between one and five years	18,854	8,976
Due after more than five years	7,471	121
Total rental/lease income commitments	34,034	12,315

OTHER COMMITMENTS

The Company had no significant binding purchase commitments as at December 31, 2018.

An agreement stipulated in 2011 between PRADA spa and Al Tayer Insignia llc was in effect as at the reporting date regarding the development of 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.

ADDITIONAL INFORMATION

BOARD OF DIRECTOR REMUNERATION

(amounts in thousands of Euro)	December 31 2018
Directors' fees	26,214
Remuneration and other benefits	280
Bonuses and other incentives	160
Benefits in kind	86
Pension, healthcare and TFR contributions	237
Total	26,977

DELOITTE & TOUCHE SPA FEES

The total fees of the independent audit firm, Deloitte & Touche spa for the audit of PRADA spa's accounts (audit of the separate financial statements and Group consolidated financial statements, controls over accountancy and correct disclosure of events in the accounting records) amount to Euro 0.6 million.

The total fees paid to Deloitte & Touche spa and its network for auditing the financial statements of the year ended December 31, 2018, and for other consulting services provided by Deloitte to PRADA spa amounting to Euro 1.138 million, are as follows:

Type of service	Audit firm	Fees in thousands of euro
Audit services	Deloitte & Touche spa	555
Other advisory services	Deloitte network	583
Total fees of audit firm for period ended December 31, 2018		1,138

NUMBER OF EMPLOYEES

The average number of employees by business division as at December 31, 2018 and December 31, 2017 is presented below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Production	1,842	1,675
Product design and development	999	957
Communications	72	58
Selling	950	901
General and administrative services	536	506
Total	4,399	4,097

COST OF LABOR

The remuneration of employees by business division as at December 31, 2018 and December 31, 2017 is presented below:

(amounts in thousands of Euro)	December 31 2018	December 31 2017
Production	91,928	76,934
Product design and development	66,288	57,649
Advertising and Communications	6,633	6,578
Selling	62,027	50,916
General and administrative services	49,174	40,181
Total	276,050	232,258

INDEPENDENT AUDITORS' REPORTS

INDEPENDENT AUDITORS' REPORTS

The Independent Auditor's Reports included in this Separate Financial Statements 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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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
PRADA S.p.A.

Opinion

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

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its 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 Separate Financial Statements* section of our report. We are independent of the Company 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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 Notes 8 and 9 to the separate financial statements, the Company accounts for goodwill of € 108.4 million, which is unchanged compared to the previous year, and investments in subsidiaries and associated undertakings of € 856.2 million. In accordance with IAS 36, Impairment of assets, these assets are tested for impairment at least annually (goodwill), or whenever there is an indication of impairment (investments in subsidiaries and associated undertakings), by comparing their recoverable amount and their carrying amount.

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	In order to perform the impairment test, Management has adopted the "value in use" method other than for the investment in Church & Co Ltd, 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 is based on estimates and assumptions made by Management using, among other things, projected cash flows, an appropriate discount rate (WACC), the long-term growth rate (g-rate) and other key assumptions in order to apply the fair value method for the impairment test on the investment in Church & Co Ltd. Based on the analysis performed by Management, no impairment losses have been recognized on goodwill and impairment losses of € 26.3 million have been recognized on investments in subsidiaries. Given the materiality of the value of these assets and the complexity of the assessment process for the determination of the related cash flows 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 assets tested 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 investment in Church & Co Ltd 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 (g-rate) used by Management. • Verification of the mathematical accuracy of the model used to determine the recoverable amount. • Evaluation of the sensitivity analysis prepared by Management and 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 separate financial statements.

Other Information

Management is responsible for the other information. The other information comprises the sections company information, financial review and corporate governance report of the Separate Financial Statements 2018 but does not include the separate financial statements and our auditor's report thereon.

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

Deloitte.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, Management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company's internal control.

- 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 Company'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 separate financial statements or, if such disclosures are inadequate, to modify our opinion.

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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 Company to cease to continue as a going concern.

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

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 separate 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

Deloitte.

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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 SEPARATE FINANCIAL STATEMENTS

Opinion

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

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its 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 Separate Financial Statements* section of our report. We are independent of 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 Separate Financial Statements

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

In preparing the separate financial statements, the Directors are responsible for assessing the Company'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 Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company'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 Company'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 separate 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 Company to cease to continue as a going concern.

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

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.

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 financial review of Prada S.p.A. as at December 31, 2018, including its consistency with the related separate financial statements and its compliance with the law.

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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 financial review with the separate financial statements of Prada S.p.A. 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 financial review is consistent with the separate financial statements of Prada S.p.A. 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 entity 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.

BOARD OF STATUTORY AUDITORS' REPORT

PRADA Spa

Registered Offices at Via Antonio Fogazzaro, 28 – 20135 Milan

Registered with the Business Registry of Milan under no. 1343952

Taxpayer's code no. and VAT no. 10115350158

Report of the Board of Statutory Auditors to the Shareholders' Meeting on the Financial Statements closed as at December 31st, 2018 pursuant to art. 2429, second paragraph of the Italian Civil Code.

Dear Shareholders,

during the financial year closed as at December 31st, 2018 the Board of Statutory Auditors carried out the supervisory activity set forth by the law, pursuant to the "Rules of conduct of the Board of Statutory Auditors" recommended by the Italian Board of Chartered Accountants and Accounting Consultants.

In particular, the following is reported:

The Board of Statutory Auditors supervised observance of the law and By-laws, as well as of fair management principles and we have no particular observations to make in this connection.

During the financial year closed as at December 31st, 2018 the Board of Statutory Auditors met eight times and took part in the Shareholders' Meetings, Board of Directors' Meetings and Audit Committee's Meetings, held in compliance with the law and the by-laws regulating them and for which it can be reasonably assured that the actions resolved are compliant with the law and the Company's by-laws and are not manifestly imprudent, hazardous, could not potentially determine a conflict of interest or compromise the integrity of the company's assets.

Pursuant to the Company's By-laws, the Board of Statutory Auditors received information from Directors on the company performance and its expected evolution, as well as on the most significant transactions in terms of size and characteristics implemented by the Company, verifying that such transactions have occurred according to the law and the Company's By-laws and they are not manifestly imprudent, hazardous, in potential conflict of interest, in contrast with the resolutions taken by the Shareholders' Meeting or such as to compromise the integrity of the Company's assets.

The Board of Statutory Auditors continuously acquired information by constantly liaising with all the company structures and periodically reviewed the Company's organization structure which showed no inadequacy.

During the year the Board of Statutory Auditors attended periodical meetings with the Company's Supervisory Body during which the relevant information was exchanged, acknowledging the content of reports prepared by the Supervisory Body on implemented activities.

The Board of Statutory Auditors also took part in all the Audit Committee's Meetings, during which the two bodies exchanged the necessary information, sharing and coordinating control planning activities with the Committee members, and sharing views with structures, in particular with the Internal Auditing structure on the activities carried out by the latter, ascertaining the appropriateness of the internal control system.

The presence of some Statutory Auditors of the Parent Company in the Boards of Statutory Auditors of subsidiaries favored a regular and constant exchange of information between the Board of Statutory Auditors and the corresponding control bodies of the above-mentioned subsidiaries. No facts or anomalies have emerged during the performance of this activity which need to be mentioned in this report.

The Board of Statutory Auditors evaluated and monitored the adequacy of the book-keeping and accounting system as well as its reliability for the representation of operating activities, by gathering information from the managers of functions and analysing corporate documents; no particular observation is made in this connection.

No complaints pursuant to art. 2408 of the Italian Civil Code was filed against the Company during the fiscal year closed as at December 31st, 2018.

No further significant fact to be mentioned in this report emerged during the supervising activity described herein above.

The Board of Statutory Auditors examined the financial statements as of December 31st, 2018 prepared in accordance with IAS/IFRS international accounting standards and relevant interpretation principles (SIC/IFRIC) adopted by the European Union and in force on the financial statements preparation date.

As the Board of Statutory Auditors is not required to make an analytical check of the content of the financial statements, the control body supervised over the general layout adopted and general compliance with the law of its preparation and structure, and we have no particular observations to make in this connection.

The Board of Statutory Auditors verified compliance with laws on the preparation of the Directors' Report as well as the correspondence of financial statements with the facts and information collected and no particular observations is to be made in this connection.

To the extent of our knowledge, Directors did not depart from the provisions of art. 2423, paragraph four of the Italian Civil Code in the preparation of financial statements.

The Board of Statutory Auditors examined the impairment test procedure adopted by directors and approved by the Audit Committee and the Board of Directors.

The Board of Statutory Auditors verified compliance of the financial statements with the facts and information acquired during the performance of its office and we have nothing to report in this connection.

During the year, the Board of Statutory Auditors held periodical meetings with the management of the Audit Company Deloitte & Touche S.p.A., appointed to audit the Company's accounts pursuant to art. 2409-*bis* of the Italian Civil Code in order to exchange relevant data and information for the performance of their respective duties. These meetings did not give rise to any important matters requiring disclosure in this report.

In light of the above, as well as of what emerged during the meetings with the Independent Auditors, the Board of Statutory Auditors, also in light of the Independent Auditors' declarations in this connection, believes that no critical issue has emerged concerning the independence of the Audit Company.

In compliance with applicable laws, on today's date, Deloitte & Touche S.p.A. issued an Independent Auditors' Report pursuant to art. 14, paragraph 2 letter e) of Legislative Decree 39/2010 and international auditing standards (ISA Italia), certifying that the financial statements as at December 31st, 2018 are compliant with the rules regulating their preparation criteria. They therefore give a true and fair view of the financial position of the Group and of its operations and cash flows of the period. The above-mentioned opinion also certifies that the Directors' Report is consistent with the financial statements closed as at December 31st, 2018, and it does not contain any exceptions or requests for disclosures.

The Company also prepared the consolidated financial statements and consolidated directors' report.

Also with reference to these documents, the Board of Statutory Auditors monitored their general layout, their compliance with the law in terms of preparation and structure and we have no particular observations to make in this respect.

On today's date, Deloitte & Touche S.p.A. issued the Independent Auditors' Opinion on the consolidated financial statements certifying that the Prada Groups' consolidated financial statements as at December 31st, 2018 are compliant with the rules regulating presentation criteria and give a true and fair view of the financial position of the Group and of the results of its operations and its cash flows. Said opinion also certifies that the Directors' Report is consistent with the Prada Group's consolidated financial statements as at December 31st, 2018.

Lastly, after taking into account the foregoing and within the limits of our responsibility, we have not found any reasons hindering the approval of the financial statements as at December 31st, 2018, showing a net profit for the year of Euro 708,548,196.47, and to the appropriation of the net profit for the year as proposed by the Directors.

Milan, 15 March 2019

The Board of Statutory Auditors

The Chairman

Mr. Antonino Parisi