

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**PRADA spa**  
**(Stock Code: 1913)**

**ANNOUNCEMENT  
OF THE CONSOLIDATED RESULTS  
FOR THE SIX-MONTH PERIOD  
ENDED JUNE 30, 2019**

- Net revenues were Euro 1,570 million, up by 2% at current exchange rates.
- Retail net sales, significantly impacted by the decision to reduce markdown sales, were Euro 1,232 million, in line with the same six month period of 2018.
- EBITDA, impacted by the new IFRS 16, was Euro 491 million, 31.2% on net revenues, while the EBIT was Euro 150 million, 9.6% on net revenues.
- The Group's net income for the period, positively impacted by the Patent Box tax benefit, was Euro 155 million, 9.9% on net revenues.
- The Net Operating Cash Flows, after the repayment of lease liabilities, were Euro 137 million.
- The net financial position, after dividend payments totaling Euro 146 million and real estate investments of Euro 60 million, is indebtedness at Euro 507 million.

## **Presentation of the Prada Group**

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

As of June 30, 2019, the Group's products are sold in 70 countries worldwide through a network of 637 directly operated stores ("DOS") and a select network of luxury department stores, independent retailers and franchise stores.

The Company is a joint-stock company with limited liability, registered and domiciled in Italy. Its registered office is at via Fogazzaro 28, Milan.

## **Basis of Presentation**

The financial information for the six months ended June 30, 2019 presented herein refers to the group of companies controlled by the Company, holding company of the Group, and is based on the unaudited Interim condensed consolidated financial statements of the six-month period ended June 30, 2019.

The International Financial Reporting Standards (IFRSs) adopted to prepare this report differ from those applied to prepare the consolidated financial statements for the year ended December 31, 2018 due to the transition to a new standard, IFRS 16 - Leases.

For the sake of comparability, on a voluntary basis the management has prepared a restated version of the Statement of Profit or Loss for the six months ended June 30, 2018 ("2018 Pro-forma") in which the retrospective effects of IFRS 16 were estimated. The adjustment resulted in a Euro 6.2 million decrease in the profit for the first six months of 2018, attributable essentially to interest expense.

New IFRS and Amendments to existing standards	Effective Date for Prada Group	EU endorsement date
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
Amendments to IAS 28 Long-Term interests in Associates and Joint Ventures	January 1, 2019	Endorsed in February 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	January 1, 2019	Endorsed in March 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	January 1, 2019	Endorsed in March 2019

## IFRS 16 Lease

On January 1, 2019 "IFRS 16 Leases" replaced "IAS 17 Leases" and the related interpretations.

The new standard applies to all existing leases that provide for the payment of fixed rents, including indexed ones, or a guaranteed minimum ("rent in scope"). Purely variable rent, typically linked to sales without a guaranteed minimum, is excluded from the scope of application of the standard ("out of scope rent").

The standard is effective for annual periods beginning on or after January 1, 2019 and the Company opted to apply it retrospectively according to the "modified retrospective approach". The main impacts on financial statements at the transition date (January 1, 2019) can be summarized as follows:

- recognition of lease liabilities, i.e. the present value of the residual future payments, of Euro 2,448.9 million;
- recognition of the Right of Use assets in the non-current assets for Euro 2,414.4 million. This amount is mainly made up of the value of the lease liability:
  - increased by key money of Euro 94.5 million (reclassified from intangible assets to this new asset category);
  - reduced by the deferred rent expenses of Euro 162.9 million already accrued as at January 1, 2019 pursuant to the previous "IAS 17 Leases" standard (reversing this item from non-current liabilities);
  - increased by the reinstatement costs, included in the leasehold improvements, and prepayment of Euro 36.5 million;
  - reduced by onerous lease of Euro 2.6 million;
- introduction of two new cost components: the depreciation of the Right of Use assets (Euro 229.4 million for the first six months of 2019) and the interest expense related to the updating of the present value of the lease liability (Euro 24.8 million at June 30, 2019).

The variable rent ("rent out of scope") remained accounted for as operating expenses as in the past, consistently with the comparative period of 2018.

In adopting IFRS 16, the Prada Group used the exemption allowed by IFRS 16:5(a) regarding short-term leases and low-value assets, although the effects of these exemptions were immaterial. For such leases, the introduction of IFRS 16 did not entail recognition of the lease liability and the related Right of Use assets, as the lease payments are still recognized in the Statement of Profit or Loss on a straight-line basis over the terms of the respective leases, as it was under the "IAS 17 Leases".

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

- the identification of a lease term is very important because the form, legislation and common business practice regarding leases for real estate vary considerably from one jurisdiction to another. Based on its past experience, the Group has set an accounting policy for inclusion of the lease renewal period beyond the non-cancellable period, limited to cases in which the lease assigns an enforceable right that the Group is reasonably certain to exercise;
- since most leases stipulated by the Group do not have an interest rate implicit in the lease, the discount rate applicable to future lease payments was determined as the risk-free rate of each country in which the leases were stipulated, with payment dates based on the terms of the specific lease, increased by the parent company's credit spread.

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

The adoption of the new standard entailed the increase of the EBITDA following the reclassification of fixed rental costs (so called "rent in scope") within the charges for depreciation (Euro 229.4 million in the first half of 2019).

EBIT raised too, albeit to a limited extent, but not insignificant, following the reclassification of a component of fixed rent cost within the interest expense (Euro 24.7 million in the first half of 2019).

Following these changes in non-IFRS Measures, the 2018 Profit or Loss was presented in a Pro-forma basis to facilitate comparability with the current period.

#### New Non-IFRS Measures

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

The Prada Group, with the introduction of the new standard "IFRS 16 Lease", used the following non-IFRS measures in this Interim Financial Report:

2018 Pro-forma: 2018 Consolidated Statement of Profit or Loss for the six months ended June 30, 2018 ("2018 IFRS Consolidated Statement of Profit or Loss") adjusted following the application of IFRS 16. The adjustments were determined by applying the same criteria and assumptions adopted in the first time application of the new standard at January 1, 2019, as reported above. These adjustments made to 2018 IFRS Consolidated Statement of Profit of Loss represent the management's best estimate to facilitate comparison with the 2019 Consolidated Statement of Profit of Loss.

EBITDA: Earnings before Interest and taxation, i.e. "Consolidated net income for the period", adjusted to exclude "total financial income/(expenses)", "taxation" and "Total depreciation, amortization and impairment (included the Depreciation of the Rights of Use assets)".

Net financial position surplus/(deficit): Short-term and long-term financial payables due to third parties and related parties, net of cash and cash equivalents and short-term and long-term financial receivables due from third parties and related parties.

Net financial position surplus/(deficit), including lease liabilities: Net Financial Position including lease obligations.

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)	June 30 2018 (unaudited)
<b>Net financial position surplus/(deficit)</b>	<b>(506,634)</b>	<b>(313,506)</b>	<b>(240,201)</b>
Short-term Lease Liability	(354,140)		
Long-term Lease Liability	(2,064,920)		
<b>Total Lease Liability</b>	<b>(2,419,060)</b>		
<b>Net financial position surplus/(deficit), including Lease Liability</b>	<b>(2,925,694)</b>		

Net Operating Cash Flow: Net Cash Flow generated by operating activities, less the repayment of Lease Liability.

Free Cash Flow: Net Operating Cash Flow, net of operating Investment

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)	June 30 2018 (unaudited)
<b>Cash Flow from operating activities</b>	<b>404,939</b>	<b>434,870</b>	<b>202,256</b>
Cost of net financial debt: interest paid	(452)	(7,566)	(1,446)
Lease Liabilities: interest paid	(24,580)	-	-
Tax Paid	(15,724)	(62,196)	(20,792)
<b>Net Cash Flow from operating activities</b>	<b>364,183</b>	<b>365,108</b>	<b>180,018</b>
Repayment of Lease Liabilities	(226,849)	-	-
<b>Net Operating Cash Flow</b>	<b>137,334</b>	<b>365,108</b>	<b>180,018</b>
Net cash flow utilized by investing activities	(184,748)	(379,421)	(139,125)
<b>Free Cash Flow</b>	<b>(47,414)</b>	<b>(14,313)</b>	<b>40,893</b>

## Key financial information

	IFRS	Pro-forma	
Key economic figures (amounts in thousands of Euro)	six months ended June 30 2019 (unaudited)	six months ended June 30 2018 (unaudited)	% change
Net revenues	1,570,123	1,535,326	2.3%
EBITDA	490,623	501,381	-2.1%
EBITDA %	31.2%	32.7%	-
EBIT	150,474	173,374	-13.2%
EBIT %	9.6%	11.3%	-
Net income of the Group	154,894	99,457	55.7%
Earnings per share (Euro)	0.061	0.039	55.7%
Average number of employees	13,618	13,044	4.4%
Net Operating Cash Flows	137,334	180,018	23.7%

  

	IFRS	IFRS	
Key indicators (amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)	change
Net operating working capital	700,936	638,493	9.8%
Net invested capital	5,845,267	3,210,574	82.1%
Net financial position surplus/(deficit)	(506,634)	(313,505)	61.6%
Group shareholders' equity	2,899,943	2,877,986	0.8%

## Highlights of the first six months of 2019

The first half of 2019 featured important commercial decisions intended to strengthen the brand equity of the Prada and Miu Miu brands and enhance their product value.

In the retail channel seasonal markdowns were stopped to the benefits of full price sales, whereas in the wholesale channel a more selective approach to buyers was adopted in order to raise the level of control over the markets. Those decisions are improving consistency in pricing, as well as reinforcing the relationships with customers. The markets are responding positively to these initiatives, with a gradual improvement of full price retail sales over the period.

The design content of the collections presented to the market over the six-month period was built from the creative talent of the internal design department and pursued through creative dialogue in areas outside the industry. For example, some of the most illustrious proponents of twenty-first century design collaborated with Prada on the "Prada Invites" capsule collection, coming up with a limited series of new articles in nylon. Nylon, an industrial material that has become a symbol of Prada, is also the focus of the Re-Nylon Project whereby the Group plans to replace, by 2021, all the virgin nylon used in its production cycle with repurposed nylon. A capsule collection and a communication campaign developed in collaboration with National Geographic inaugurated the ambitious plan in June.

The fashion shows, as usual rich in content and impeccably executed, benefited from a special innovative impulse, particularly in the exceptional installations of Prada 2020 S/S Menswear at the Minsheng Wharf's Silo Hall in Shanghai, and Miu Miu Croisière 2020 at the Auteuil Hippodrome in Paris.

Among the retail events of the period, essential for telling the brand story and enhancing the buying experience, "Prada Mode" stands out for the international resonance acquired. On the heels of the successful experiment in Miami in 2018, this exclusive experience centering on contemporary culture arrived in March at the Barrack Block at Tai Kwun in Hong Kong for the Art Basel show.

The determination demanded by the Board of Directors to make technological progress was behind the information technology developments of the period, which advanced in all business areas (retail, industrial and corporate) and led to the stipulation of important partnership agreements having a twofold purpose: to ensure that the digital evolution roadmap is followed and to obtain a competitive edge in the monitoring of new technologies in the industry. For the first objective, partnerships were entered into for the implementation of advanced solutions assisting the optimization of processes in the sales area, particularly those related to the customer experience and merchandising. For the second objective, a partnership agreement was stipulated with a startup accelerator for the launching of a global hub of innovation in Milan, dedicated to the fashion industry.

The capital expenditures of the period involved the retail and corporate areas with important projects aimed to innovate and boost the store network and the Group's image.



Lastly, during the period, the application procedure for the Patent Box regime was completed and on July 1, 2019 PRADA spa and the Italian Tax Authority formally signed the agreement. Such agreement, effective for the tax years from 2015 to 2019, enabled to state significant extraordinary income in the six-month period under review in the taxation line.

## Consolidated statement of Profit or Loss for the six months closed at June 30, 2019

	IFRS		Pro-forma	
(amounts in thousands of Euro)	six months ended June 30 2019 (unaudited)	%	six months ended June 30 2018 (unaudited)	%
Net sales (Note 1)	1,546,378	98.5%	1,510,603	98.4%
Royalties	23,745	1.5%	24,723	1.6%
Net revenues	1,570,123	100.0%	1,535,326	100%
Cost of goods sold	(444,374)	-28.3%	(429,256)	-28.0%
Gross margin	1,125,749	71.7%	1,106,070	72.0%
Operating expenses	(975,275)	-62.1%	(932,696)	-60.7%
EBIT	150,474	9.6%	173,374	11.3%
Interest and other financial expenses, net	(7,749)	-0.4%	(10,752)	-0.7%
Interest expenses on Lease Liability	(24,735)	-1.6%	(22,970)	-1.5%
Dividends from investments	2,023	0.1%	302	0.0%
Total financial income/(expenses)	(30,461)	-1.9%	(33,420)	-2.2%
Income before taxation	120,013	7.7%	139,954	9.1%
Taxation	34,418	2.2%	(41,001)	-2.7%
Net income for the period	154,431	9.9%	98,953	6.4%
Net income/(loss) - Non-controlling interests	(463)	0.0%	(504)	0.0%
Net income - Group	154,894	9.9%	99,457	6.5%
Basic and diluted earnings per share (in Euro per share) - (Note 3)	0.061		0.039	
Depreciation, amortization and impairment on tangible and intangible fixed assets	110,730	7.1%	105,283	6.9%
Depreciation of the Rights of Use assets	229,419	14.6%	222,724	14.5%
Total depreciation, amortization and impairment	340,149	21.7%	328,007	21.4%
EBITDA	490,623	31.2%	501,381	32.7%

## Consolidated statement of financial position

(amounts in thousands of Euro)	Note	June 30 2019 (unaudited)	December 31 2018 (audited)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		327,500	599,821
Trade receivables, net	4	336,337	321,913
Inventories	5	685,282	631,791
Derivative financial instruments – current		8,555	9,718
Receivables from, and advance payments to, related parties – current	6	15,608	12,626
Other current assets	7	184,528	185,741
<b>Total current assets</b>		<b>1,557,810</b>	<b>1,761,610</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	1,637,048	1,577,352
Intangible assets	8	824,560	920,011
Right of Use assets	9	2,382,864	-
Investments in equity instruments		114,844	99,538
Deferred tax assets		228,973	217,104
Other non-current assets	10	133,285	102,992
Derivative financial instruments – non-current		70	205
Receivables from, and advance payments to, related parties – non-current		203	-
<b>Total non-current assets</b>		<b>5,321,847</b>	<b>2,917,202</b>
<b>Total Assets</b>		<b>6,879,657</b>	<b>4,678,812</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Short-term lease liability		354,140	-
Short-term financial payables and bank overdrafts		293,774	421,481
Payables to related parties – current	11	3,347	4,477
Trade payables	12	320,683	315,211
Tax payables		85,486	85,043
Derivative financial instruments – current		18,487	14,220
Other current liabilities	13	120,194	146,429
<b>Total current liabilities</b>		<b>1,196,111</b>	<b>986,861</b>
<b>Non-current liabilities</b>			
Long-term lease liability		2,064,920	-
Long-term financial payables		537,017	487,431
Post-employment benefits		57,635	60,001
Provision for risks and charges	14	47,242	51,310
Deferred tax liabilities		30,691	30,050
Other non-current liabilities		16,445	159,013
Derivative financial instruments non-current		10,023	7,077
<b>Total non-current liabilities</b>		<b>2,763,973</b>	<b>794,882</b>
<b>Total Liabilities</b>		<b>3,960,084</b>	<b>1,781,743</b>
<b>Share capital</b>		<b>255,882</b>	<b>255,882</b>
<b>Total other reserves</b>		<b>2,447,228</b>	<b>2,383,720</b>
<b>Translation reserve</b>		<b>41,939</b>	<b>32,941</b>
<b>Net income for the period</b>		<b>154,894</b>	<b>205,443</b>
<b>Net Equity attributable to owners of Group</b>		<b>2,899,943</b>	<b>2,877,986</b>
<b>Net Equity attributable to Non-controlling interests</b>		<b>19,630</b>	<b>19,083</b>
<b>Total Net Equity</b>		<b>2,919,573</b>	<b>2,897,069</b>
<b>Total Liabilities and Total Net Equity</b>		<b>6,879,657</b>	<b>4,678,812</b>
<b>Net current assets</b>		<b>361,699</b>	<b>774,749</b>
<b>Total assets less current liabilities</b>		<b>5,683,546</b>	<b>3,691,951</b>

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

(amounts in thousands of Euro)	Number of Shares (in thousands)	Share Capital	Translation Reserve	Share premium reserve	Cash flow hedge reserve	Actuarial Reserve	Fair Value investments in equity instruments Reserve	Other reserves	Total Other Reserves	Net income for year	Equity		
											Net Equity attributable to owners of Group	Net Equity attributable to Non-controlling interests	Total Net Equity
<b>Balance at January 1, 2018 (audited)</b>	2,558,824	<b>255,882</b>	<b>(4,035)</b>	410,047	(5,336)	(4,103)	(5,570)	1,975,582	<b>2,370,620</b>	<b>217,721</b>	<b>2,840,188</b>	<b>21,486</b>	<b>2,861,674</b>
Allocation of 2017 net income	-	-	-	-	-	-	-	217,721	<b>217,721</b>	<b>(217,721)</b>	-	-	-
Dividends	-	-	-	-	-	-	-	(191,912)	<b>(191,912)</b>	-	(191,912)	(3,835)	(195,747)
Transactions with Non-controlling shareholders	-	-	-	-	-	-	-	197	197	-	197	(225)	(28)
Share capital increase	-	-	-	-	-	-	-	-	-	-	-	297	297
Comprehensive income for the period (recyclable to P&L)	-	-	23,405	-	(4,857)	-	740	(3)	(4,120)	105,668	124,953	(82)	124,871
<b>Balance at June 30, 2018 (unaudited)</b>	2,558,824	<b>255,882</b>	<b>19,370</b>	410,047	(10,193)	(4,103)	(4,830)	2,001,585	<b>2,392,506</b>	<b>105,668</b>	<b>2,773,426</b>	<b>17,641</b>	<b>2,791,067</b>
Dividends	-	-	-	-	-	-	-	-	-	-	-	(1,894)	(1,894)
Transactions with Non-controlling shareholders	-	-	-	-	-	-	-	(197)	(197)	-	(197)	(352)	(549)
Share capital increase	-	-	-	-	-	-	-	-	-	-	-	48	48
Comprehensive income for the period (recyclable to P&L)	-	-	13,571	-	(427)	-	-	3	(424)	99,775	112,922	3,649	116,571
Comprehensive income for the period (not recyclable to P&L)	-	-	-	-	-	(719)	(7,446)	-	(8,165)	-	(8,165)	(9)	(8,174)
<b>Balance at December 31, 2018 (audited)</b>	2,558,824	<b>255,882</b>	<b>32,941</b>	410,047	(10,620)	(4,822)	(12,276)	2,001,391	<b>2,383,720</b>	<b>205,443</b>	<b>2,877,986</b>	<b>19,083</b>	<b>2,897,069</b>
Allocation of 2018 net income	-	-	-	-	-	-	-	205,443	<b>205,443</b>	<b>(205,443)</b>	-	-	-
Dividends	-	-	-	-	-	-	-	(153,529)	<b>(153,529)</b>	-	(153,529)	(310)	(153,839)
Share capital increase	-	-	-	-	-	-	-	-	-	-	-	1,106	1,106
Comprehensive income for the period (recyclable to P&L)	-	-	8,998	-	(3,319)	-	-	(2)	(3,321)	154,894	160,571	(249)	160,322
Comprehensive income for the period (not recyclable to P&L)	-	-	-	-	-	-	14,915	-	14,915	-	14,915	-	14,915
<b>Balance at June 30, 2019 (unaudited)</b>	2,558,824	<b>255,882</b>	<b>41,939</b>	410,047	(13,939)	(4,822)	2,639	2,053,303	<b>2,447,228</b>	<b>154,894</b>	<b>2,899,943</b>	<b>19,630</b>	<b>2,919,573</b>

## Summarized statement of consolidated cash flows for the six months closed at June 30, 2019

	IFRS	IFRS
(amounts in thousands of Euro)	six months ended June 30 2019 (unaudited)	six months ended June 30 2018 (unaudited)
Income before taxation	120,013	148,738
Profit or loss adjustments		
Depreciation and amortization of Right of Use assets	229,419	-
Depreciation and amortization of property, plant and equipment and intangible assets	108,561	109,870
Impairment of property, plant and equipment and intangible assets	2,169	1,746
Non-monetary financial (income) expenses	3,156	12,152
Interest expenses on Lease Liability	24,735	-
Other non-monetary (income) expenses	3,492	10,648
Balance Sheet changes		
Other non-current assets and liabilities	(7,414)	(11,969)
Trade receivables, net	(13,864)	(1,365)
Inventories, net	(50,401)	(41,106)
Trade payables	11,563	(11,967)
Other current assets and liabilities	(26,490)	(14,491)
Cash flows from operating activities	404,939	202,256
Interest paid (net), including interest paid of Lease Liability	(25,032)	(1,446)
Taxes paid	(15,724)	(20,792)
Net cash flows from operating activities	364,183	180,018
Purchases of property, plant and equipment and intangible assets	(187,231)	(139,064)
Disposals of property, plant and equipment and intangible assets	860	1,638
Dividends from investments	2,023	301
Acquisition of additional shares from Non-Controlling interests	(400)	(2,000)
Net cash flow utilized by investing activities	(184,748)	(139,125)
Dividends paid to shareholders of PRADA spa	(145,536)	(181,912)
Dividends paid to Non-Controlling shareholders	(310)	(3,835)
Repayment of Lease Liability	(226,849)	-
Repayment of short term portion of long term borrowings - third parties	(222,580)	(39,227)
Arrangement of long-term borrowings - third parties	100,000	103,875
Change in short-term borrowings - third parties	41,425	52,371
Share capital increases by non-controlling shareholders of subsidiaries	-	297
Cash flows generated/(utilized) by financing activities	(453,850)	(68,431)
Change in cash and cash equivalents, net of bank overdrafts	(274,415)	(27,538)
Foreign exchange differences	2,094	15,881
Opening cash and cash equivalents, net of bank overdraft	599,821	892,610
Closing cash and cash equivalents, net of bank overdraft	327,500	880,953
Cash and cash equivalents, net of bank overdraft	327,500	880,953
Closing cash and cash equivalents, net of bank overdraft	327,500	880,953

## Statement of consolidated comprehensive income for the six months closed at June 30, 2019

	IFRS	IFRS
(amounts in thousands of Euro)	six months ended June 30 2019 (unaudited)	six months ended June 30 2018 (unaudited)
Net income for the period – Consolidated	154,431	105,164
A) Items recyclable to P&L:		
Change in Translation reserve	9,210	23,824
Tax impact	-	-
Change in Translation reserve less tax impact	9,210	23,824
Change in Cash Flow Hedge reserve	(4,371)	(6,710)
Tax impact	1,052	1,853
Change in Cash Flow Hedge reserve less tax impact	(3,319)	(4,857)
B) Item not recyclable to P&L:		
Change in Fair Value investments in equity instruments Reserve	14,915	740
Tax impact	-	-
Change in Fair Value investments in equity instruments Reserve less tax impact	14,915	740
Consolidated comprehensive income for the period	175,237	124,871
Comprehensive income for the period – Non-controlling Interests	(249)	(82)
Comprehensive income for the period – Group	175,486	124,953

# Notes to the consolidated results for the period closed at June 30, 2019

## 1. Analysis of Net Revenues

	IFRS		IFRS		
(amounts in thousands of Euro)	six months ended June 30 2019 (unaudited)		six months ended June 30 2018 (unaudited)		% change
<b>Net Sales by geographical area</b>					
Europe	598,364	38.7%	563,003	37.3%	6.3%
Asia Pacific	498,578	32.2%	519,594	34.4%	-4.0%
Americas	215,676	14.0%	203,967	13.5%	5.7%
Japan	180,556	11.7%	171,278	11.3%	5.4%
Middle East	51,300	3.3%	50,805	3.4%	1.0%
Other countries	1,904	0.1%	1,956	0.1%	-2.7%
<b>Total Net Sales</b>	<b>1,546,378</b>	<b>100%</b>	<b>1,510,603</b>	<b>100%</b>	<b>2.4%</b>
<b>Net Sales by brand</b>					
Prada	1,284,429	83.1%	1,236,703	81.9%	3.9%
Miu Miu	220,774	14.3%	234,545	15.5%	-5.9%
Church's	32,844	2.1%	31,663	2.1%	3.7%
Other	8,331	0.5%	7,692	0.5%	8.3%
<b>Total Net Sales</b>	<b>1,546,378</b>	<b>100%</b>	<b>1,510,603</b>	<b>100%</b>	<b>2.4%</b>
<b>Net Sales by product line</b>					
Leather goods	867,852	56.1%	858,769	56.8%	1.1%
Footwear	309,393	20.0%	307,860	20.4%	0.5%
Clothing	339,442	22.0%	315,354	20.9%	7.6%
Other	29,691	1.9%	28,620	1.9%	3.7%
<b>Total Net Sales</b>	<b>1,546,378</b>	<b>100%</b>	<b>1,510,603</b>	<b>100%</b>	<b>2.4%</b>
<b>Net Sales by channel</b>					
Net Sales of direct operated stores (DOS)	1,231,918	79.7%	1,236,991	81.9%	-0.4%
Sales to Independent customers and franchisees	314,460	20.3%	273,612	18.1%	14.9%
<b>Total Net Sales</b>	<b>1,546,378</b>	<b>100%</b>	<b>1,510,603</b>	<b>100%</b>	<b>2.4%</b>
<b>Net Revenues</b>					
Net Sales	1,546,378	98.5%	1,510,603	98.4%	2.4%
Royalties	23,745	1.5%	24,723	1.6%	-4.0%
<b>Total Net revenues</b>	<b>1,570,123</b>	<b>100%</b>	<b>1,535,326</b>	<b>100%</b>	<b>2.3%</b>

## 2. Number of stores

	June 30, 2019		December 31, 2018		June 30, 2018	
	Owned	Franchisees	Owned	Franchisees	Owned	Franchisees
Prada	401	24	398	25	397	25
Miu Miu	164	9	166	9	166	9
Church's	62	-	63	-	59	-
Car Shoe	4	-	4	-	4	-
Marchesi and others	6	-	5	-	5	-
<b>Total</b>	<b>637</b>	<b>33</b>	<b>636</b>	<b>34</b>	<b>631</b>	<b>34</b>

	June 30, 2019		December 31, 2018		June 30, 2018	
	Owned	Franchisees	Owned	Franchisees	Owned	Franchisees
Europe	227	4	226	4	230	4
Americas	111	-	111	-	110	-
Asia Pacific	193	24	195	25	189	25
Japan	84	-	81	-	79	-
Middle East & Africa	22	5	23	5	23	5
<b>Total</b>	<b>637</b>	<b>33</b>	<b>636</b>	<b>34</b>	<b>631</b>	<b>34</b>

## 3. Earnings and dividends per share, basic and diluted

### Earnings per share

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

	IFRS	IFRS
	six months ended June 30 2019 (unaudited)	six months ended June 30 2018 (unaudited)
Group net income in Euro	154,893,688	105,668,240
Weighted average number of ordinary shares in issue	2,558,824,000	2,558,824,000
<b>Basic and Diluted earnings per share in Euro, calculated on weighted average number of shares</b>	<b>0.061</b>	<b>0.041</b>

### Dividend per share

During the six-month period ended June 30, 2019, the Company distributed dividends for Euro 153,529,440 as approved at the General Meeting held on April 30, 2019 to approve the December 31, 2018 financial statements.

The dividends net of the withholding taxes (Euro 145.5 million) were paid during the period under review, whereas such withholding tax (Euro 8 million), calculated by applying the ordinary Italian tax rate to the entire amount of the



dividends distributed to the beneficial owners of the Company's shares held through the Hong Kong Central Clearing and Settlement System, was paid in July 2019.

#### 4. Trade receivables, net

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)
Trade receivables – third parties	335,552	319,945
Allowance for bad and doubtful debts	(8,319)	(8,821)
Trade receivables – related parties	9,104	10,789
<b>Total</b>	<b>336,337</b>	<b>321,913</b>

The change in the provision for doubtful debts for the period is detailed below:

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)
Opening balance	8,821	7,892
IFRS 9 First Time Adoption - Bad Debt Provision	-	2,246
Exchange differences	26	7
Increases	359	413
Reversals	(288)	(325)
Utilization	(599)	(1,412)
<b>Closing balance</b>	<b>8,319</b>	<b>8,821</b>

An aging analysis of the trade receivables, before the provision for doubtful debts, is shown below:

(amounts in thousands of Euro)	June 30 2019 (unaudited)	Not overdue	Overdue (days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade receivables	344,656	292,015	21,893	10,454	5,330	1,917	13,047
<b>Total</b>	<b>344,656</b>	<b>292,015</b>	<b>21,893</b>	<b>10,454</b>	<b>5,330</b>	<b>1,917</b>	<b>13,047</b>

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

An aging analysis of the trade receivables, net of the provision for doubtful debts, is shown below:

(amounts in thousands of Euro)	June 30 2019 (unaudited)	Not overdue	Overdue (days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade receivables less allowance for doubtful accounts	336,337	290,302	21,615	10,442	5,300	1,912	6,766
<b>Total</b>	<b>336,337</b>	<b>290,302</b>	<b>21,615</b>	<b>10,442</b>	<b>5,300</b>	<b>1,912</b>	<b>6,766</b>

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

## 5. Inventories, net

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)
Raw materials	112,654	104,036
Work in progress	41,858	36,327
Finished products	569,795	530,324
Allowance for obsolete and slow-moving inventories	(39,391)	(39,312)
<b>Total</b>	<b>684,916</b>	<b>631,375</b>
Return assets	2,101	2,391
Allowance for return assets	(1,735)	(1,975)
<b>Total</b>	<b>685,282</b>	<b>631,791</b>

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

(amounts in thousands of Euro)	Raw materials	Finished products	Total allowance for obsolete and slow-moving inventories	Allowance for return assets	Total allowance on inventories
Balance at December 31, 2018 (audited)	20,690	18,622	39,312	1,975	41,287
Exchange differences	-	27	27	-	27
Increases	-	160	160	-	160
Utilization	-	(105)	(105)	(240)	(345)
Reversal	-	(3)	(3)	-	(3)
Balance at June 30, 2019 (unaudited)	20,690	18,701	39,391	1,735	41,126

## 6. Receivables from, and advance payments to, related parties

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)
Prepaid sponsorship	9,708	6,761
Other receivables and advances	5,900	5,865
<b>Total</b>	<b>15,608</b>	<b>12,626</b>

## 7. Other current assets

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)
VAT	51,989	48,576
Income tax and other tax receivables	56,233	54,181
Other assets	14,969	14,115
Prepayments	54,638	55,897
Deposits	6,699	12,972
<b>Total</b>	<b>184,528</b>	<b>185,741</b>

## 8. Capital expenditure

The changes in the carrying amount of property, plant and equipment for the period ended June 30, 2019 are shown below:

(amounts in thousands of Euro)	Land and buildings	Production plant and machinery	Leasehold improvements	Furniture & fittings	Other tangibles	Assets under construction	Total net carrying amount
Balance at December 31, 2018 (audited)	723,150	61,794	428,587	193,586	86,084	84,151	1,577,352
IFRS 16 Lease - First Time Adoption	(3,544)	-	(7,701)	(662)	-	-	(11,907)
Additions	66,912	4,818	26,764	31,076	2,154	31,901	163,625
Depreciation	(8,761)	(5,349)	(55,536)	(18,988)	(5,270)	-	(93,904)
Disposals	(674)	(5)	(2)	(164)	(15)	-	(860)
Exchange differences	315	(14)	3,941	1,410	46	75	5,773
Other movements	1,448	898	11,051	61,441	(14,956)	(60,655)	(773)
Impairment	-	-	(1,792)	(291)	(44)	(131)	(2,258)
Balance at June 30, 2019 (unaudited)	778,846	62,142	405,312	267,408	67,999	55,341	1,637,048

The changes in the carrying amount of intangible assets for the period ended June 30, 2019 are shown below:

(amounts in thousands of Euro)	Trade-marks	Goodwill	Store Lease Acquisitions	Software	Other intangibles	Assets in progress	Total net carrying amount
Balance at December 31, 2018 (audited)	236,075	518,266	96,133	44,974	9,180	15,383	920,011
IFRS 16 Lease - First Time Adoption	-	-	(94,480)	-	-	-	(94,480)
Additions	406	-	-	4,179	38	9,161	13,784
Amortization	(6,880)	-	(219)	(6,524)	(945)	-	(14,568)
Disposals	-	-	-	(1)	-	-	(1)
Exchange differences	(65)	(20)	-	-	-	(1)	(86)
Other movements	-	-	-	11,717	(107)	(11,710)	(100)
Balance at June 30, 2019 (unaudited)	229,536	518,246	1,434	54,345	8,166	12,833	824,560

## 9. Right of Use assets

The changes in the carrying amount of the Right of Use assets for the period ended June 30, 2019 are shown below:

(amounts in thousands of Euro)	Real Estate	Vehicles	Hardware	Plant and machinery	Total net carrying amount
Balance at December 31, 2018 (audited)	-	-	-	-	-
First Time Adoption IFRS 16	2,410,489	1,712	247	1,935	2,414,383
New contracts, initial direct costs and remeasurement	185,776	-	-	-	185,776
Depreciation	(228,385)	(594)	(42)	(398)	(229,419)
Contracts termination	(7,970)	-	-	-	(7,970)
Exchange differences	20,094	-	-	-	20,094
Balance at June 30, 2019 (unaudited)	2,380,004	1,118	205	1,537	2,382,864

The increase in the period of the "New contracts, initial direct costs and remeasurement" mainly refers to the renewal of some contracts in Far East.

## 10. Other non-current assets

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)
Guarantee deposits	71,986	64,770
Deferred rental income	615	9,606
Pension fund surplus	11,693	11,719
Other long-term assets	48,991	16,897
Total	133,285	102,992

The increase in the Other long-term assets was mainly due to the recognition of a portion of the tax benefit (Patent Box regime) equal to some Euro 32 million, estimated to be utilized after twelve months.

## 11. Payables to related parties - current

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)
Financial payables	3,343	4,415
Other payables	4	62
Total	3,347	4,477

## 12. Trade payables

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)
Trade payables – third parties	313,703	309,294
Trade payables – related parties	6,980	5,917
<b>Total</b>	<b>320,683</b>	<b>315,211</b>

An aging analysis of the trade payables at the reporting date is shown below:

(amounts in thousands of Euro)	June 30 2019 (unaudited)	Not overdue	Overdue (days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade payables	320,683	288,938	15,268	4,592	1,418	2,904	7,563
<b>Total</b>	<b>320,683</b>	<b>288,938</b>	<b>15,268</b>	<b>4,592</b>	<b>1,418</b>	<b>2,904</b>	<b>7,563</b>

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

## 13. Other current liabilities

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)
Payables for capital expenditure	36,443	50,085
Accrued expenses and deferred income	10,992	19,719
Other payables	72,759	76,625
<b>Total</b>	<b>120,194</b>	<b>146,429</b>

## 14. Provisions for risks and charges

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

(amounts in thousands of Euro)	Provision for litigation	Provision for tax disputes	Other Provisions	Total
Balance at December 31, 2018 (audited)	1,425	3,101	46,784	51,310
IFRS 16 Lease - First Time Adoption	-	-	(2,649)	(2,649)
Exchange differences	14	22	499	535
Reversals	(73)	-	(55)	(128)
Utilized	(1,092)	(622)	(1,265)	(2,979)
Increases	50	1,623	1,070	2,743
Reclassification		(1,590)	-	(1,590)
Balance at June 30, 2019 (unaudited)	324	2,534	44,384	47,242

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

## Management Discussion and Analysis for the period closed at June 30, 2019

### Distribution channels

The retail sales for the six months ended June 30, 2019 were substantially in line with those at current exchange rates for the same period of 2018. The 3.1% contraction emerging in the comparison at constant exchange rates is explained by the decision to stop markdowns sales, consistently with the objective of strengthening the brand desirability and the customer relationship. The responses of the markets were positive, as demonstrated by steady growth of the full-price sales over the six-month period.

There were 11 store openings and 10 closures during the period, for a total 635 Directly Operated Stores (DOS) as June 30, 2019.

Wholesale sales rose by 14.9% at current exchange and by 13.7% at constant exchange rates, mainly as the result of greater deliveries to *e-tailers*. The performance of this channel were not impacted yet by the decision to rationalize the network of independent account.

### Markets

The Asia Pacific market reported a sales decline of 4% at current exchange rates and of 6.4% at constant exchange rates. Greater China produced net sales of Euro 336.6 million, down by 2.3% at current exchange rates and by 5.1% at constant exchange rates. The contractions in Hong Kong, triggered by social unrest and unfavorable currency fluctuation, were mitigated by better trends in Mainland China, also supported by local advertising initiatives.

Full price retail sales in the overall region were broadly in line with last year.

Net sales in Europe rose by 6.3% at current exchange rates and by 6.5% at constant exchange rates.

The aforementioned increase in wholesale sales, greater for this region than for the others, contributed to the growth of the entire region. The performances of the retail channel were fairly consistent with those of the comparative period as the positive contribution of full price sales was offset by the negative impact of the markdowns reduction policy.

Net sales in the American market rose by 5.7% at current exchange rates and were substantially stable at constant exchange rates. Full price retail sales, sustained by local consumers, were positive.

Net sales in Japan rose by 5.4% at current exchange rates and fell by 0.5% at constant exchange rates. The positive performance of the full price retail sales were offset by the negative impact of the markdowns reduction policy.

Net sales in the Middle East were substantially consistent at current exchange rates and fell by 5.3% at constant exchange rates. The markdown reduction policy and distress in Kuwait were largely responsible for the results of the six-month period.



## Products

Clothing sales increased by 7.6% at current exchange rates and by 5.3% at constant exchange rates. The progress shown by this product category is visible across all regions and all brands. It is worth noting the positive performance of Linea Rossa.

Leather goods sales rose by 1.1% at current exchange rates and fell by 1.5% at constant exchange rates. Growth in Europe, the Americas and Japan at current exchange rates was offset in part by a contraction in Asia Pacific and in the Middle East.

Footwear sales were in line with those of the comparative period at current exchange rates and fell by 1.8% at constant exchange rates. The contraction in the Asia Pacific region affected the performances of this product category. Full price retail sales were positive driven by both women and men collection.

## Brands

Net sales of the Prada brand rose by 3.9% at current exchange rates and by 1.4% at constant exchange rates. All product categories, supported by the performance of full-price sales, showed progress from the comparative six-month period.

Net sales of the Miu Miu brand contracted by 5.9% at current exchange rates and by 8.4% at constant exchange rates. The decrease was entirely attributable to the reduction in markdown sales. Clothing reported a growth compared to the first six months of 2018.

Sales of Church's brand products rose by 3.7% at current exchange rates and by 2.7% at constant exchange rates.

"Other brands", consisting primarily of sales of Marchesi 1824 brand patisserie products, showed growth of 8.3%.

## Royalties

Licensing agreements generated royalty income of Euro 23.7 million, down by 4% at current exchange rates essentially as a result of a decline in the eyewear segment, which the Group and its business partners are handling with marketing and distributional new initiatives.

## Operating results

The gross margin narrowed slightly from the 72% of the 2018 Pro-forma to 71.7%. The dilution, caused by a less favorable sales mix, was mitigated by a better ratio of full-price sales to markdown sales.

The 2019 Statement of Profit or Loss, compared with 2018 Pro-forma, showed a Euro 42.6 million increase in operating expenses due to currency exchange impact (Euro 22 million), additional communication and advertising activities (Euro 8 million) and higher personnel costs due to the work force increase, mainly in the sales area (Euro 11 million).

	IFRS		Pro-forma	
(amounts in thousands of Euro)	six months ended June 30 2019 (unaudited)	% on net revenues	six months ended June 30 2018 (unaudited)	% on net revenues
Product design and development costs	65,053	4.1%	64,570	4.1%
Advertising and communications costs	101,477	6.5%	93,287	6.1%
Selling costs	706,565	45.0%	678,374	44.3%
General and administrative costs	102,180	6.5%	96,465	6.2%
<b>Total Operating expenses</b>	<b>975,275</b>	<b>62.1%</b>	<b>932,696</b>	<b>60.7%</b>

EBIT for the six months ended June 30, 2019 was Euro 150.5 million, or 9.6% of net sales, whereas for the 2018 Pro-forma period was Euro 173.4 million, or 11.3% of net sales.

The finance costs consisted primarily of interest expenses regarding the adjustment of the present value of the lease liability (Euro 24.7 million at June 30, 2019 and Euro 23 million in the 2018 Pro-forma), while the remainder consisted mainly of the cost of bank borrowings.

The income tax for the period benefitted from the recognition of income of Euro 77 million, which was the tax relief for the four years from 2015 to 2018 and for the six months under review pursuant to the signature of the aforementioned Patent Box. In this respect, on July 1, 2019 PRADA spa and the Italian Tax Authority ("Ufficio Accordi Preventivi") stipulated an agreement for the tax benefit regime regarding income deriving from the use of qualifying intangible assets.

## Net invested capital

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

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)
Right of use assets	2,382,864	-
Non-current assets (excluding deferred tax assets)	2,709,808	2,700,098
Trade receivables, net	336,337	321,913
Inventories, net	685,282	631,791
Trade payables	(320,683)	(315,211)
Net operating working capital	700,936	638,493
Other current assets (excluding items of financial position)	208,893	208,085
Other current liabilities (excluding items of financial position)	(224,169)	(245,754)
Other current assets/(liabilities), net	(15,276)	(37,669)
Provision for risks	(47,242)	(51,310)
Post-employment benefits	(57,635)	(60,001)
Other long-term liabilities	(26,470)	(166,091)
Deferred taxation, net	198,282	187,054
Other non-current assets/(liabilities)	66,935	(90,348)
Net invested capital	5,845,267	3,210,574
Shareholder's equity - Group	(2,899,943)	(2,877,986)
Shareholder's equity - Non-controlling interests	(19,630)	(19,083)
Total Consolidated shareholders' equity	(2,919,573)	(2,897,069)
Long-term financial payables	(537,017)	(487,431)
Short-term financial, net surplus/(deficit)	30,383	173,926
Net financial position surplus/(deficit)	(506,634)	(313,505)
Long-term lease liability	(2,064,920)	-
Short-term lease liability	(354,140)	-
Total lease liability	(2,419,060)	-
Net financial position surplus/(deficit), including lease liability	(2,925,694)	(313,505)
Shareholders' equity and net financial position	(5,845,267)	(3,210,574)
Net Debt to Consolidated shareholders' equity ratio	17.3%	10.8%

The introduction of IFRS 16 required recognizing in non-current assets the Rights of Use assets (Euro 2,382.9 million at June 30, 2019) and in liabilities the Lease Liabilities (Euro 2,419.1 million at June 30, 2019), with consequential changes in the Statement of Financial Position.

In addition, on January 1, 2019, when the new standard was adopted, the Right of Use assets was reduced by deferred lease liabilities (Euro 162.9 million) and increased by the net carrying amount of key money (Euro 94.5 million).

Taking this into account, the net invested capital at June 30, 2019 amounts to Euro 5,845.3 million, offset by net bank debt of Euro 506.6 million, the aforementioned lease liabilities of Euro 2,419.1 million and the Group's equity of about Euro 2,900 million.

The capital expenditure is detailed below:

(amounts in thousands of Euro)	six months ended June 30 2019 (unaudited)	six months ended June 30 2018 (unaudited)
Retail	56,157	74,191
Real estate	60,000	-
Production, logistics and corporate	61,252	51,591
<b>Total</b>	<b>177,409</b>	<b>125,782</b>

Capital expenditure was invested in the retail area for the renovation and relocation projects, as well as store openings (11 in the period), while that related to Real estate referred to the purchase of a strategic building to enhance the image of the Prada brand in Spain. Other capital expenditures regarded the IT area, the reinforcement of production and logistics structures in Italy and office furnishings.

The net operating working capital stands at Euro 700.9 million at June 30, 2019, up by Euro 62.4 million compared to December 31, 2018. The change was almost entirely attributable to the higher level of inventories, due both to the temporary increase following the decision to reduce markdown sales and the seasonality of the manufacturing cycle.

The other current liabilities (net) decreased in the period by some Euro 22.4 million, mainly following the payment of capital expenditures and the aforementioned reclassification of the deferred rent liability (current portion) to reduce the Rights of Use assets.

The non-current liabilities (net) decreased in the period by Euro 157.3 million, essentially following the aforementioned reclassification of Euro 162.9 million of deferred rent liabilities (non-current portion) to reduce the Rights of Use assets. The decrease was also affected by the payment of long-term benefits to employees and the increase in deferred tax assets due to larger temporary differences between tax and statutory values of inventory.

## Net financial position surplus/(deficit)

The following table presents the composition of the net financial position:

(amounts in thousands of Euro)	June 30 2019 (unaudited)	December 31 2018 (audited)
Bank borrowing – non-current	(537,017)	(487,431)
<b>Total financial payables – non-current</b>	<b>(537,017)</b>	<b>(487,431)</b>
Financial payables and bank overdrafts – current	(293,774)	(421,481)
Payables to related parties	(3,343)	(4,415)
<b>Total financial payables – current</b>	<b>(297,117)</b>	<b>(425,896)</b>
<b>Total financial payables</b>	<b>(834,134)</b>	<b>(913,326)</b>
Cash and cash equivalents	327,500	599,821
<b>Total Cash and cash equivalents</b>	<b>327,500</b>	<b>599,821</b>
<b>Net financial surplus/(deficit), total</b>	<b>(506,634)</b>	<b>(313,505)</b>
<b>Net financial surplus/(deficit) excluding related party balances</b>	<b>(503,291)</b>	<b>(309,090)</b>

The Net Operating Cash Flow for the six months in question, after the payment of lease liabilities for Euro 226.8 million, amounted to Euro 137.3 million and made it possible to finance the vast majority of the capital expenditure of the period, amounting to Euro 184.7 million and also including the purchase of a prestigious real estate in Madrid for Euro 60 million. The net financial position at the end of the period, also reflecting the payment of dividends of Euro 145.8 million, is negative and it stands at Euro 506.6 million.

The following table sets forth the lease liabilities:

(amounts in thousands of Euro)	June 30 2019 (unaudited)
<b>Short-term lease liability</b>	<b>(354,140)</b>
<b>Long-term lease liability</b>	<b>(2,064,920)</b>
<b>Total lease liability</b>	<b>(2,419,060)</b>

The lease liabilities decreased from 2,449 million at January 1, 2019 (first-time adoption of IFRS 16) to Euro 2,419 million at June 30, 2019. The decrease referred to payments in the period (Euro 226.8 million), offset in part by interest recognized to adjust the present value of the Lease Liability (Euro 24.7 million), remeasurements due to contractual renewals (Euro 185.8 million) and exchange differences.

The lease liabilities of the Group are concentrated in the U.S.A., Japan and Italy.

The net financial indebtedness, including lease liabilities, amounted to Euro 2,925.7 million at June 30, 2019.

## Events after the reporting date

During the period, the application procedure for the Patent Box regime was completed and on July 1, 2019 PRADA spa and the Italian Tax Authority ("Ufficio Accordi Preventivi") signed an agreement to determine the economic contribution regarding the direct use of intangible assets (trademarks), effective for the tax years from 2015 to 2019.

## Outlook

The Group believes the strategic review of wholesale and the ending of seasonal markdowns, despite short-term impact, will reinforce the relationship with customers and enhance product value. Prada, aware that digital innovation is key to compete in an evolving market, is strongly committed to driving technology across the business, leading to more efficient decision making.

The execution of this program is the necessary step towards sustainable revenue and margin growth, which Prada will target by strengthening its brands' cultural heritage.

## **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 the Company's corporate governance practices have complied with the code provisions set out in the Code throughout the six months ended June 30, 2019 (the "Reviewed Period").

## **The Board**

The Board of Directors of the Company (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 is composed of nine directors of which four are executive directors, one is a non-executive director and four are independent non-executive directors.

The Board has established the following committees with written terms of reference, which are of no less exacting terms than those set out in the Code: Audit Committee; Remuneration Committee; and Nomination Committee.

## **Audit Committee**

The Company has established an Audit Committee in compliance with Rule 3.21 of the Listing Rules where at least one member possesses appropriate professional qualifications in accounting or related financial management expertise to discharge the responsibility of the Audit Committee. The Audit Committee consists of three independent non-executive directors, namely, Mr. Gian Franco Oliviero Mattei (Chairman), Mr. Giancarlo Forestieri and Mr. Maurizio Cereda. 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 and internal audit processes and the implementation of the Company's risk management functions and to perform other duties and responsibilities as are assigned to the Audit Committee by the Board. During the Reviewed Period, the Audit Committee held four meetings on January 23, February 14, March 12 and May 16, 2019, with an attendance rate of 100%. The Audit Committee often invites the Company's senior management, the Group's internal and external auditors and members of the

board of statutory auditors to their meeting. The Audit Committee's activities for the Reviewed Period covered: the audit plan for the year 2019, the findings of the internal auditors, internal controls, risk assessment, annual review of the Group's continuing connected transactions for 2018, tax and legal updates (including management of data privacy matters), the financial reporting matters (including the annual results for the year 2018), before recommending them to the Board for approval. The Audit Committee also recommended the appointment of an external auditor of the Company for the three financial years ending December 31, 2021.

The Audit Committee held a meeting on August 1, 2019 to, among others, review the interim results for the period ended June 30, 2019, before recommending them to the Board for approval.

### **Remuneration Committee**

The Company has established a Remuneration Committee in compliance with the Code. In compliance with Rule 3.25 of the Listing Rules, the Remuneration Committee is chaired by an independent non-executive director and comprises of a majority of independent non-executive directors. 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, where appropriate, adoption. The Remuneration Committee consists of two independent non-executive directors, namely, Mr. Maurizio Cereda (Chairman) and Mr. Gian Franco Oliviero Mattei, and one executive director, Mr. Carlo Mazzi. During the Reviewed Period, the Remuneration Committee held one meeting on March 15, 2019, with an attendance rate of 100% to review and recommend certain updates to the long term incentive plan and to the management by objectives plans for executives and Directors and to review and recommend the adoption of a welfare plan for employees.

### **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 for consideration and, where appropriate, adoption on the structure, size and composition of the Board itself, on the selection of new Directors and on the succession plans for Directors. In discharging its duties, the Nomination Committee has considered the Board Diversity Policy and the Directors' Nomination Policy, the latter was adopted by the Company at the Board meeting on March 15, 2019. 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 on March 15, 2019, with an attendance rate of 100% to perform the annual review of the independence of independent non-executive directors and to recommend to the



Board for its approval the procedure for the selection of the candidates to be proposed as a Director of the Company.

### **Supervisory Body**

In compliance with the Italian Legislative Decree 231 of June 8, 2001 (the "Decree"), 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, the Company is required to have a board of statutory auditors, appointed by the shareholders for a term of three financial years. The board of statutory auditors has the authority to supervise the Company on its compliance with the applicable law, regulations and the By-laws, as well as on its compliance with the principles of proper management, in particular, on the adequacy of the organizational, administrative and accounting structure adopted by the Company and its functioning.

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.

During the Reviewed Period, the members of board of statutory auditors attended two meetings of the Board on March 15, 2019 and May 16, 2019.

### **Dividends**

The Company may distribute dividends subject to the approval of the shareholders in a general shareholders' meeting.

No dividends have been declared or paid by the Company in respect of the Reviewed Period.

On March 15, 2019, in accordance with the Code, the Board adopted a Dividend Policy aimed at providing its shareholders a sustainable dividend stream, taking into account the cashflow from operating activities and underlying earnings achieved.

On March 15, 2019, the Board recommended for the financial year 2018 the payment of a final dividend of Euro/cents 6 per share in the capital of the Company, representing a total dividend of Euro 153,529,440. The Shareholders approved the distribution and payment of the final dividend at the annual general meeting held on April 30, 2019. The dividend was paid on May 24, 2019, while the relevant withholding tax was paid in July 2019.

### **Directors' Securities Transactions**

The Company has adopted written procedures governing Directors' securities transactions on terms no less exacting than the standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Specific written confirmations 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 Reviewed Period. There was no incident of non-compliance during the Reviewed Period.

The Company has also adopted written procedures governing securities transactions carried out by relevant employees who are likely to be in possession of 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.

### **Purchase, Sale, or Redemption of the Company's Listed Securities**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reviewed Period.

### **Publication of Interim Results Announcement and Interim Report**

The interim results announcement of the Company is published on the websites of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company at [www.pradagroup.com](http://www.pradagroup.com). The interim report will be available on the same websites and dispatched to the shareholders of the Company in due course.

By Order of the Board  
**PRADA S.p.A.**  
**Mr. Carlo Mazzi**  
*Chairman*

Milan (Italy), August 1, 2019

*As at the date of this announcement, the Company's executive directors are Mr. Carlo MAZZI, Ms. Miuccia PRADA BIANCHI, Mr. Patrizio BERTELLI and Ms. Alessandra COZZANI; the Company's non-executive director is Mr. Stefano SIMONTACCHI and the Company's independent non-executive directors are Mr. Gian Franco Oliviero MATTEI, Mr. Giancarlo FORESTIERI, Mr. Sing Cheong LIU and Mr. Maurizio CEREDA.*