



## **Separate Financial Statements 2019**



## SEPARATE FINANCIAL STATEMENTS 2019

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Miuccia Prada and Patrizio Bertelli

## CORPORATE INFORMATION

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## PRADA S.P.A. CORPORATE INFORMATION

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



<b>Nomination Committee</b>	Gian Franco Oliviero Mattei ( <i>Chairman</i> ) Carlo Mazzi Sing Cheong Liu
<b>Board of Statutory Auditors</b>	Antonino Parisi ( <i>Chairman</i> ) Roberto Spada ( <i>Standing member</i> ) David Terracina ( <i>Standing member</i> )
<b>Supervisory Board</b> (Italian Leg. Decr. 231/2001)	David Terracina ( <i>Chairman</i> ) Gian Franco Oliviero Mattei Gianluca Andriani ( <i>appointed on March 18, 2020 to replace Paolo De Paoli</i> )
<b>Main Shareholder</b>	PRADA Holding S.p.A. Via A. Fogazzaro, 28 20135 Milan, Italy
<b>Joint Company Secretaries</b>	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
<b>Authorized Representatives in Hong Kong</b>	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
<b>Alternate Authorized Representative to Carlo Mazzi in Hong Kong</b>	Sing Cheong Liu Flat A, 17/F Park Haven 38 Haven Street Causeway Bay, Hong Kong
<b>Hong Kong Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
<b>Auditor</b>	Deloitte & Touche S.p.A. Via Tortona, 25 20144 Milan, Italy



## FINANCIAL REVIEW

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## 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, 2019, 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.

## 2019 HIGHLIGHTS

2019 featured important strategical decisions that, relying on the innovation and excellence that consumers throughout the world associate with the Group's brands, led to obtaining important results under a long-term growth perspective.

Markdown sales were eliminated at the directly operated stores, and a stricter policy was adopted in the wholesale channel, both in terms of geography and volumes. These decisions, in addition to a product offer that had cross-generational appeal, while remaining consistent with the brand identity, enabled to enhance the product value and optimize the control of pricing policies throughout the distribution channels. The growth of full-price retail sales and the positive market response represented important achievements of the whole action plan.

This result, which was particularly evident in the latter months of the year, enabled to completely absorb the reduction in revenues following the termination of markdown sales and ensuing from the social unrest in Hong Kong.

The Group's brands managed to attract prestigious partners for collaborations which included expanding the communication channel.

From a product standpoint, two capsule collections with high symbolic value are worth mentioning: "Prada Invites", held in April and May, and "Prada for adidas Limited Edition", held in November. Illustrious proponents of twenty-first century design collaborated on the "Prada Invites" project, coming up with a limited series of new articles in nylon, the brand's iconic material. "Prada for adidas Limited Edition" paid tribute to the heritage of the two brands and marked the beginning of an important business alliance for the two companies. Meanwhile, two new editions of "Prada Mode", the traveling social club focusing on contemporary culture, came to life, first in Hong Kong and then in London. For Miu Miu, two new episodes of the Women's Tales film series were released.

Consumer interaction with such intensive creative work was the focus of a communication plan that invested considerable financial resources to ensure very extensive geographical and channel coverage of the communication content regarding products, the brand and the Group's profile in general.

Investments were made to complete important projects for bolstering the Group's image and its store network. The Milan-based related company Fratelli Prada spa

was purchased, thanks to which the Company now fully controls the retail network all over the world. Important partnerships with leading technology suppliers were established to assist the marketing and merchandising processes.

Sustainability, which has become increasingly relevant for value creation, made significant progress during the year. The Prada Re-Nylon capsule collection was created to announce the ambitious plan to transition from virgin nylon to regenerated nylon, and the Fashion Pact was signed, a commitment shared among the leading fashion companies to reduce the fashion industry's environmental footprint.

Last but not least, in 2019 the Patent Box Agreement was signed with the Italian Revenue Agency, under which the Company obtained a significant income tax benefit for the tax periods from 2015 to 2019.

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

(amounts in thousands of Euro)	twelve months ended December 31 2019	%	twelve months ended December 31 2018	%
Net sales	1,780,423	97.7%	1,691,476	97.5%
Royalties	42,400	2.3%	44,217	2.5%
<b>Net Revenues</b>	<b>1,822,823</b>	<b>100.0%</b>	<b>1,735,693</b>	<b>100.0%</b>
Cost of goods sold	(841,844)	-46.2%	(801,248)	-46.2%
<b>Gross Margin</b>	<b>980,979</b>	<b>53.8%</b>	<b>934,445</b>	<b>53.8%</b>
Operating expenses	(774,134)	-42.5%	(728,846)	-42.0%
<b>EBIT</b>	<b>206,845</b>	<b>11.3%</b>	<b>205,599</b>	<b>11.8%</b>
Interest and other financial expenses, net	(55,124)	-3.0%	(41,879)	-2.3%
Dividends from investments	48,741	2.7%	603,102	34.7%
<b>Income before taxation</b>	<b>200,462</b>	<b>11.3%</b>	<b>766,822</b>	<b>44.2%</b>
Taxation	48,565	2.6%	(58,274)	-3.4%
<b>Net income for the period</b>	<b>249,027</b>	<b>13.7%</b>	<b>708,548</b>	<b>40.8%</b>
Depreciation, amortization and impairment	101,052	5.5%	59,485	3.4%
<b>EBITDA</b>	<b>307,897</b>	<b>16.8%</b>	<b>265,084</b>	<b>15.2%</b>
Roe	13.00%		49.91%	
Roi	6.29%		9.01%	
Ros	11.35%		11.85%	

Net revenues for the year ended December 31, 2019 amounted to Euro 1,823 million, up by 5% with respect to the previous period's revenues of Euro 1,736 million.

The gross margin remained consistent with that of 2018, whereas the operating expenses grew as a percentage of net revenues, resulting in slight drop in EBIT: from 11.8% to 11.3%. The increase in operating expenses is detailed in the Notes to the Financial Statements (Note 25).

The net financial expenses consist primarily of the following income and expenses:

- Euro 49 million in dividends received;
- Euro 15 million in net exchange losses;
- Euro 1 million in net interest expense;
- Euro 36 million in impairment adjustments and loss coverage of investments in subsidiaries;
- Euro 3 million in other financial expenses.

The taxation for the period benefits from income of Euro 100 million, i.e. the economic contribution recognized for the years from 2015 to 2019 pursuant to the participation in the Patent Box regime. In this respect, on July 1, 2019 PRADA spa and the Italian Revenue Agency - Preliminary Agreements Office stipulated the agreement regarding the tax benefit regime for income deriving from the use of qualifying intangible assets.

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 2019	December 31 2018
Right of use assets	274,318	-
Non-current assets (excluding deferred tax assets)	2,003,026	1,944,372
Trade receivables, net	776,685	686,172
Inventories, net	319,433	300,498
Trade payables	(865,380)	(807,824)
Net operating working capital	230,738	178,846
Other current assets (excluding items of financial position)	175,054	131,081
Other current liabilities (excluding items of financial position)	(189,644)	(172,372)
Other current assets/(liabilities), net	(14,590)	(41,291)
Provision for risks	(4,675)	(2,178)
Long-term employee benefits	(25,049)	(26,713)
Other long-term liabilities	(14,142)	(30,461)
Deferred taxation, net	29,299	28,548
Other non-current assets/(liabilities)	(14,567)	(30,803)
Net invested capital	2,478,925	2,051,123
Shareholder's equity	(2,016,425)	(1,914,992)
Total shareholders' equity	(2,016,425)	(1,914,992)
Long-term financial, net surplus/(deficit)	(314,186)	(207,416)
Short-term financial, net surplus/(deficit)	125,072	71,286
Dividend payable	(2)	(2)
Net financial position surplus/(deficit)	(189,116)	(136,131)
Long-term lease liability	(264,616)	-
Short-term lease liability	(39,467)	-
Financial receivables IFRS16 - leases	30,699	-
Total lease liability	(273,384)	-
Shareholders' equity and net financial position	(2,478,925)	(2,051,123)
Debt to Equity ratio	7.6%	6.6%

The introduction of IFRS 16 required recognizing the Right of Use of the assets underlying the lease contracts (Euro 274 million at December 31, 2019) as non current assets, and the Lease Liabilities (Euro 304 million at December 31, 2019) as liabilities, with consequential changes in the Statement of Financial Position amounts.

In addition, on January 1, 2019, when the new standard was adopted, the Right of Use assets were reduced by deferred lease liabilities (Euro 19 million), increased by the net carrying amount of key money (Euro 10 million) and prepayments (Euro 6 million), as reported in the Notes to the Separate Financial Statements.

Non-current assets, consisting of tangible assets, intangible assets and equity

investments, rose by Euro 59 million due primarily to financial investments and capital expenditures made during the period, net of depreciation, amortization and impairment.

During the year the Company paid Euro 153.5 million in dividends.

As of December 31, 2019, the Company had net invested capital of Euro 2,478 million, net financial indebtedness of Euro 189 million and equity of Euro 2,016 million.

Net operating working capital was Euro 231 million at December 31, 2019, up by Euro 52 million from that of December 31, 2018.

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Net operating working capital	230,739	178,846
Derivative Financial instruments	(6,556)	(3,166)
Other receivables from parent, subsidiaries, associated companies and related parties	26,355	23,063
Other current assets	35,997	39,071
Current tax receivables (payables)	88,490	27,219
Other liabilities to parent, subsidiaries, associated companies and related parties	(30,645)	(7,747)
Other current liabilities	(128,232)	(119,732)
Other current assets (liabilities), net	(14,591)	(41,292)
Net working capital	216,148	137,554

Net working capital increased by Euro 79 million due largely to the increase in the net operating working capital, and the increase in the current tax receivables, attributable substantially to the recognition of the tax credit under the Patent Box regime.

## NET FINANCIAL POSITION

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Long term debt, net of current portion	(488,108)	(365,971)
Payables to parent company, subsidiaries, associates and related parties	-	(13,878)
<b>Total financial payables - non-current</b>	<b>(488,108)</b>	<b>(379,849)</b>
Financial payables and bank overdrafts - current	(122,678)	(340,803)
Payables to parent company, subsidiaries, associates and related parties	(44,007)	(32,340)
<b>Total financial payables - current</b>	<b>(166,685)</b>	<b>(373,142)</b>
<b>Total financial payables</b>	<b>(654,793)</b>	<b>(752,991)</b>
Financial receivables from parent company, subsidiaries, associates and related parties - non-current	173,922	172,433
Financial receivables from parent company, subsidiaries, associates and related parties - current	221,061	145,541
Cash and cash equivalents	70,696	298,887
<b>Total financial receivables and cash and cash equivalents - current</b>	<b>291,757</b>	<b>444,428</b>
<b>Total financial receivables and cash and cash equivalents</b>	<b>465,679</b>	<b>616,861</b>
<b>Net financial surplus/(deficit), total</b>	<b>(189,114)</b>	<b>(136,129)</b>
Dividend payable	(2)	(2)
<b>Net financial position surplus/(deficit)</b>	<b>(189,116)</b>	<b>(136,131)</b>
<b>Net financial surplus/(deficit) third parties</b>	<b>(540,092)</b>	<b>(407,886)</b>
Lease liability	(304,083)	-
Financial Receivables IFRS 16 (Leases)	30,699	-
<b>Net financial surplus/(deficit) including Financial Receivables IFRS 16 and Lease liability</b>	<b>(813,476)</b>	<b>(407,888)</b>
<b>Net financial position surplus/(deficit) including lease liability third parties</b>	<b>(844,175)</b>	<b>(407,888)</b>

As at December 31, 2019, the net financial position shows net debt of Euro 189 million, increased by Euro 53 million compared with the previous reporting date. Long-term financial payables increased by Euro 122, due to the new long-term loans arranged and to the reclassification to short-term financial payables of payments due within 12 months. Long term intercompany loan was repaid in the period.

At the end of the reporting period, the Company had access to additional credit lines totaling Euro 574 million (Euro 497 million as at December 31, 2018).

As shown in the Statement of Cash Flows, cash flows from operating activities amount to Euro 201 million and cash used by the investing activities amount to Euro 63 million. A detailed analysis of dividends by counterparty is provided in Note 26 "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 28.

#### TREASURY STOCK

As of December 31, 2019, 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.

#### EVENTS AFTER THE REPORTING DATE

On February 23, 2020, the Company announced that on April 2, 2020 Raf Simons will become the creative co-director of the Prada brand, working in partnership with Miuccia Prada with equal responsibility in terms of creative input and decision-making processes.

As reported in the PRADA spa Announcement dated March 1, 2020, the Company

signed a sponsorship agreement with Challenger of Record 36 srl (COR 36), a related company in charge of organizing and managing the preliminary activities of the 36th America's Cup.

The agreement will ensure the Prada brand's visibility during the Prada Cup races and events, which will be organized adhering to the brand's quality standards. The contract provides for a financial commitment of up to Euro 23 million from the agreement date until the end of 2021.

## OUTLOOK

The combination of investment and operational initiatives implemented over the past few years is now translating into brand heat and sales. The Company is sure that its commitment to ensuring outstanding quality standards as well as strengthening brand desirability has been the right choice to support profitable and sustainable long-term growth.

The start of 2020 has been very positive for the Company until the end of January; unexpectedly, the Coronavirus outbreak has interrupted the growth trajectory.

This is a huge and unprecedented event that will draw deeply on the sense of responsibility and the Company will do everything it can to help overcome this crisis together with its people and customers, which safety and the well-being are of the greatest importance. Full concern and support go to all the people who are facing these tough times.

Although it is difficult to forecast the evolution of the epidemic, the Company is expecting a negative impact on this year's results and it is implementing a comprehensive contingency plan to mitigate such effects, relying on its flexible supply chain and lean organization.

The soundness of the Company's financial structure gives Directors the confidence to overcome this exceptional moment and to be ready to capture the recovery.

## PROPOSED ALLOCATION OF NET INCOME FOR THE YEAR

On March 18, 2020 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, 2019, as follows: (i) Euro 51,176,480.00 to Shareholders as final dividend, in particular to declare and distribute a final dividend of Euro 0.02 per share, and (ii) Euro 197,850,908.03 to retained earnings of the Company.

Chief Executive Officer

Patrizio Bertelli



Milan; March 18, 2020



## **CORPORATE GOVERNANCE PRACTICES**

The Company is seamlessly engaged in 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, 2019). 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.

### **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 83.3%.

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
<b>Executive Directors</b>					
Mr. Carlo MAZZI (Chairman)	4/4		2/2	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
<b>Non-Executive Directors</b>					
Mr. Stefano SIMONTACCHI	3/4				0/1
<b>Independent Non-Executive Directors</b>					
Mr. Gian Franco Oliviero MATTEI <sup>1</sup>	4/4	6/6	2/2	1/1	1/1
Mr. Maurizio CEREDA <sup>2</sup>	3/4	5/6	2/2		1/1
Mr. Giancarlo FORESTIERI <sup>3</sup>	4/4	6/6			1/1
Mr. Sing Cheong LIU <sup>4</sup>	4/4			1/1	1/1
<b>Statutory Auditors</b>					
Mr. Antonino PARISI (Chairman)	4/4				1/1
Mr. Roberto SPADA	3/4				1/1
Mr. David TERRACINA	3/4				1/1
Date(s) of Meeting	Mar 15, 2019	Jan 23, 2019	Mar 15, 2019	Mar 15, 2019	Apr 30, 2019
	May 16, 2019	Feb 14, 2019	Nov 15, 2019		
	Aug 1, 2019	Mar 12, 2019			
	Nov 15, 2019	May 16, 2019			
		Aug 1, 2019			
		Nov 15, 2019			
Average Attendance Rate of Directors	83.3%	94.4%	100%	100%	66.7%
Notes:					
1. Chairman of Audit Committee and Nomination Committee and member of Remuneration Committee					
2. Chairman of Remuneration Committee and member of Audit Committee					
3. Member of Audit Committee					
4. Member of Nomination Committee					

#### 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. As a consequence, the Board reserves for its own consideration and decision all matters concerning the overall Group strategy, the Group's strategic objectives, annual budgets, as well as annual and interim results, approval of major transactions, connected transactions (including major acquisitions and disposals) 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 18, 2020. 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. 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.

## **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 transactions 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. 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 six meetings (with an attendance rate of 94.4%) 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 2019, 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 2018, tax and legal updates and the financial reporting matters (including the annual results for the year ended December 31, 2018 and the interim financial results as at June 30, 2019) before recommending them to the Board for approval. The Audit Committee has also held two meetings on March 4 and 17, 2020 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.	500
Other advisory services	Deloitte Network	214
Total fees of audit firm for period ended December 31, 2019		714

The other consultancy services provided by Deloitte & Touche S.p.A to Prada S.p.A. mainly refer to the methodological analysis activity relating to the first application of the new IFRS16 standard.

## 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), Mr. Gian Franco Oliviero Mattei and one Executive Director, Mr. Carlo Mazzi.

During the Reviewed Period, the Remuneration Committee held two meetings (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.

## 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.



This 'Human Capital' is preserved with constant monitoring actions in order to maintain engagement with the Company and an equal remuneration policy with the internal practice and the market.

The Company's remuneration policy is designed to reward and retain highly professional staff and skilled managers, newly graduates and workers, with the certainty that the creation of value is achieved in the medium and long term through constant organizational learning and the consolidation of collaborators' experiences and skills.

The policy features a balanced combination of components that are fixed and variable, direct and deferred, tailored to the position and professional qualifications, and consistent with the needs of the various geographical areas.

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 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. 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 the Independent Non-Executive Directors of the Company for the 2018 financial year and to recommend to the Board for its approval the procedures for the selection of the candidates to be proposed as a Director of the Company. On March 18, 2020, 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.

In discharging its duties, the Nomination Committee has considered and proposed to the Board for adoption, the Board diversity policy in 2013 and the Director nomination policy in 2019.

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 in September 2013 (the "Board Diversity Policy"). According to the principles included in the Board Diversity Policy, 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.

On March 15, 2019, the Board has adopted the nomination policy for Directorship ("Director Nomination Policy"), which provides guidance in relation to the proposal for the appointment or re-appointment of Directors or to fill casual vacancies and sets out the processes and criteria for the nomination of a candidate for directorship in the Company. The Company adopts the Director Nomination Policy to ensure that all nominations of Board members are fair and transparent in order to facilitate the constitution of the Board with a balance of skills, experience and diversity of perspectives that is appropriate to the requirements of the Company's business.

The Director Nomination Policy contains a number of factors in assessing the suitability of a proposed candidate which includes the high ethical character and reputation for integrity, professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy which may be relevant to the Company's business and strategic direction, commitment in respect of available time, merit and potential contributions to the Board, and the independence criteria under the Listing Rules, if the candidate is proposed to be appointed as an independent non-executive director. The policy also lays down the nomination process on appointment or re-appointment of directors. The Nomination Committee will conduct the relevant selection process (coupled with the relevant selection criteria) against the nominated candidate for new directorship or director offer for re-election and make recommendations to the Board for consideration. The Board will then make a decision as to whether the nominated candidate or the director offer for re-election shall be eligible to be appointed as a director or eligible to be re-appointed as a director of the Company respectively.

#### 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. Gianluca Andriani, who has replaced Mr. Paolo De Paoli as of March 18<sup>th</sup>, 2020.

## **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, 2019 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 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](mailto: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](mailto: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. DIVIDEND POLICY**

On March 15, 2019, the Board has formalized and adopted a Dividend Policy to set out the framework that the Company has put in place in relation to dividend payout to shareholders. The Company aims to provide its shareholders a sustainable dividend stream, taking into account financial results, cash flow situation, working capital requirements, capital expenditures, investment requirements, future operations and earnings, business conditions and strategies, interests of shareholders and any statutory or regulatory restrictions on payment of dividends including applicable provisions under the Italian law and the Company's By-laws.

The Board will review the Dividend Policy from time to time and may adopt changes as appropriate, at the relevant time to ensure the effectiveness of the Dividend Policy.

##### **B. 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, 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](http://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.

### C. 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).

A shareholders' annual general meeting of the Company was held on April 30, 2019 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 "2019 AGM"). 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 2019 AGM

Separate resolutions were proposed at the 2019 AGM relating to each issue and the voting results of such resolutions were disclosed in the announcement of the Company dated April 30, 2019.

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 2019 AGM	Number of Votes cast in favour (%)
1. To approve the Audited Separate Financial Statements which show a net income of Euro 708,548,197 and the Audited Consolidated Financial Statements of the Company for year ended December 31, 2018 together with the Reports of the Board of Directors, the Board of Statutory Auditors and the Independent Auditors.	2,467,446,644 (99.98%)
2. To approve 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.	2,467,758,544 (99.99%)
3. To appoint Deloitte & Touche S.p.A. as the auditor (" <i>revisore legale dei conti</i> ") of the Company for a term of three financial years (financial year ending December 31, 2019 to financial year ending December 31, 2021), ending on the date of the shareholders' general meeting to be called to approve the financial statements for the last year of the auditor's appointment being the year ending December 31, 2021 and to approve its remuneration of Euro 620,500, for each financial year of its three-year term, for the provision to the Company of the audit of the Separate Financial Statements and the Consolidated Financial Statements, which is included in the overall annual remuneration of Euro 1,704,365 for Deloitte & Touche S.p.A. and its network in respect of provision of audit services to the Prada Group as a whole. The auditor's annual remuneration shall be subject to adjustment in accordance with changes in relevant applicable laws or in the requirements for the audit services as well as the annual adjustment linked to the changes in CPI - consumer price index.	2,467,148,941 (99.97%)

All resolutions put to the shareholders at the 2019 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 2019 AGM.

#### D. 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](http://www.pradagroup.com).

## FINANCIAL STATEMENTS

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## STATEMENT OF FINANCIAL POSITION

(amounts in Euro)	Note	December 31 2019	December 31 2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	1	70,695,601	298,887,284
Trade receivables, net	2	776,685,379	686,171,738
Inventories	3	319,433,394	300,497,535
Derivative financial instruments - current	4	4,750,477	11,004,713
Financial and other receivables from, and advance payments to, parent company, subsidiaries, associates and related parties - current	5	250,527,495	168,604,832
Other current assets	6	143,948,556	97,013,278
<b>Total current assets</b>		<b>1,566,040,902</b>	<b>1,562,179,380</b>
<b>Non-current assets</b>			
Property, plant and equipment	7	805,676,261	766,697,446
Intangible assets	8	194,608,279	196,383,875
Right of use assets	9	274,317,989	-
Investments	10	978,436,166	954,182,632
Deferred tax assets	27	30,833,620	30,796,611
Other non-current assets	11	80,801,574	21,817,296
Derivative financial instruments - not current	4	6,103,283	5,290,462
Financial and other receivables from, and advance payments to, parent company, subsidiaries, associates and related parties	5	201,510,026	172,432,964
<b>Total non-current assets</b>		<b>2,572,287,199</b>	<b>2,147,601,285</b>
<b>Total Assets</b>		<b>4,138,328,100</b>	<b>3,709,780,665</b>
<b>Liabilities and Shareholders' equity</b>			
<b>Current liabilities</b>			
Short-term financial payables and bank overdrafts	13	122,677,897	340,802,550
Financial and other payables due to parent company, subsidiaries, associates and to related parties - current	14	74,652,660	40,086,853
Trade payables	15	865,379,896	807,823,710
Tax payables	16	19,461,981	30,723,910
Derivative financial instruments - current	4	11,305,987	14,170,720
Other current liabilities	17	128,232,431	119,732,137
Short-term lease liability	12	39,466,571	-
<b>Total current liabilities</b>		<b>1,261,177,422</b>	<b>1,353,339,880</b>
<b>Non-current liabilities</b>			
Long-term financial payables	18	488,108,349	365,970,860
Long-term employee benefits	19	25,048,799	26,712,584
Provision for risk and charges	20	4,674,948	2,177,872
Deferred tax liabilities	27	1,534,622	2,248,721
Other non-current liabilities	21	47,293,614	23,388,491
Derivative financial instruments- not current	4	8,788,752	7,072,159
Financial and other payables to parent company, subsidiaries, associates and related parties	14	20,660,000	13,877,911
Long-term lease liability	12	264,616,390	-
<b>Total non-current liabilities</b>		<b>860,725,474</b>	<b>441,448,598</b>
<b>Total liabilities</b>		<b>2,121,902,896</b>	<b>1,794,788,477</b>
<b>Shareholders' equity</b>			
Share capital		255,882,400	255,882,400
Total other reserves		1,511,515,416	950,561,591
Net income/(loss) of the year		249,027,388	708,548,197
<b>Shareholders' equity</b>	<b>22</b>	<b>2,016,425,204</b>	<b>1,914,992,188</b>
<b>Total liabilities and shareholders' equity</b>		<b>4,138,328,100</b>	<b>3,709,780,665</b>

## STATEMENT OF PROFIT OR LOSS

(amounts in Euro)	Note	December 31 2019	December 31 2018
Net Revenues	23	1,822,823,191	1,735,692,641
Cost of goods sold	24	(841,844,065)	(801,248,073)
Gross Margin		980,979,127	934,444,568
Operating expenses	25	(774,133,905)	(728,845,492)
EBIT		206,845,221	205,599,075
Interest and other financial expenses, net	26	(52,214,242)	(41,878,911)
Interest income/(expenses) on lease liabilities	26	(2,910,324)	-
Dividends from investments	26	48,741,382	603,102,126
Total financial income/(expenses)		(6,383,183)	561,223,215
Income before taxation		200,462,038	766,822,290
Taxation	27	48,565,350	(58,274,094)
Net income for the period		249,027,388	708,548,197

## STATEMENT OF COMPREHENSIVE INCOME

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Net income for the period	249,027	708,548
<b>Items recycled to P&amp;L</b>		
Change in Cash Flow Hedge reserve	3,783	(8,423)
Tax impact	(908)	2,021
Change in Cash Flow Hedge reserve less Tax Impact	2,875	(6,402)
<b>Items not recycled to P&amp;L</b>		
Change in Fair Value reserve	58	(6,706)
Tax impact	-	-
Change in Fair Value reserve less Tax Impact	58	(6,706)
Change in Actuarial reserve	(1,531)	5
Tax impact	-	-
Change in Actuarial reserve less Tax Impact	(1,531)	5
Total comprehensive income	250,429	695,445

## STATEMENT OF CASH FLOWS

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Income before taxation	200,462	766,822
<u>Profit or loss adjustments</u>		
Depreciation of Right of Use assets	39,346	-
Depreciation and amortization of property, plant and equipment and intangible assets	61,706	58,425
Impairment of fixed assets	1	1,061
Losses/(gains) on disposal of fixed assets	(559)	(1,523)
Impairment of investments	32,661	26,311
Interest expenses on Lease liabilities, net	2,910	-
Non-monetary financial income (expenses)	(48,741)	(603,316)
Provisions and other non-monetary charges	8,384	68
<u>Balance sheet changes</u>		
Trade receivables, net	(95,815)	(113,527)
Inventories, net	(15,173)	(28,022)
Trade payables	57,556	101,092
Other current assets and liabilities	(49,304)	8,461
Other non-current assets and liabilities	7,916	(14,991)
<b>Cash flows generated by operating activities</b>	<b>201,350</b>	<b>200,861</b>
Interest paid, (net), including interest paid of Lease liabilities	(143)	(1,779)
Taxes paid	0	(21,870)
<b>Net cash flows from operating activities</b>	<b>201,207</b>	<b>177,212</b>
Purchase of tangible and intangible assets	(112,231)	(142,507)
Disposal of property, plant and equipment	720	4,250
Investments in subsidiaries	(23,101)	(7,084)
Financial investments	23,131	(96,267)
Dividends received	48,741	603,102
<b>Net cash flows (used)/generated by investing activities</b>	<b>(62,740)</b>	<b>361,494</b>
Dividends paid	(153,529)	(191,912)
Change in short-term bank loans	(42,000)	90,000
Change in short-term intercompany loans	(8,851)	(51,727)
Repayment of loans from subsidiaries	41,885	44,406
Repayment of Lease liabilities, net	(43,003)	0
(Disbursement) of loans to subsidiaries	(111,160)	(140,688)
Repayment of short-term portion of long-term bank loans	(250,000)	(140,332)
Repayment of bond	-	(130,000)
New long term borrowings arranged	200,000	100,000
<b>Cash flow generated/(used) by financing activities</b>	<b>(366,658)</b>	<b>(420,253)</b>
<b>Change in cash and cash equivalents net of bank overdraft</b>	<b>(228,191)</b>	<b>118,453</b>
Opening cash and cash equivalents, net of bank overdraft	298,887	180,434
<b>Closing cash and cash equivalents, net of bank overdraft</b>	<b>70,696</b>	<b>298,887</b>

# 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 shareholder's equity
Balance at January 1, 2018	2,558,824,000	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
Comprehensive income for the year (not recycled to P&L)	-	-	-	-	-	5	-	(6,706)	-	(6,701)
Balance at December 31, 2018	2,558,824,000	255,882	410,047	51,176	182,899	325,300	(6,585)	(12,275)	708,548	1,914,992
Net result Allocation	-	-	-	-	-	708,548	-	-	(708,548)	-
Gain/(losses) from the disposal of equity instruments	-	-	-	-	-	2,298	-	2,235	-	4,533
Dividends paid	-	-	-	-	-	(153,529)	-	-	-	(153,529)
Comprehensive income for the year (recyclable to P&L)	-	-	-	-	-	-	2,875	-	249,027	251,902
Comprehensive income for the year (not recyclable to P&L)	-	-	-	-	-	(1,531)	-	58	-	(1,473)
Balance at December 31, 2019	2,558,824,000	255,882	410,047	51,176	182,899	881,086	(3,710)	(9,982)	249,027	2,016,425





## NOTES TO THE FINANCIAL STATEMENTS

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## 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, 2019, 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 18, 2020.

## 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 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.

### 3. NEW IFRS AND AMENDMENTS TO IFRS

New Standards and Amendments issued by the IASB, endorsed by the European Union and applicable to the PRADA spa from January 1, 2019.

New IFRS and Amendments to existing Standards	Effective date for Prada spa	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
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
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

Only the IFRS 16 had a significant impact for the Company and below are explained the details on how the Company applied, for the first time, the new standard.

## **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 Liability, i.e. the present value of the residual future payments, of Euro 337 million;
- recognition of the Right of Use assets in the non-current assets for Euro 307 million. This amount is mainly made up of the value of the Lease Liability:
  - increased by key money of Euro 11 million (reclassified from intangible assets to this new asset category);
  - reduced by the deferred rent liabilities of Euro 18 million already accrued as at January 1, 2019 pursuant to the previous "IAS 17 Leases" standard (reversing this item mainly from non-current liabilities);
  - reduced by sublease of Euro 29 million
  - increased by prepayments of Euro 6 million.

The adoption of the standard entailed the introduction of two new cost components in the Profit or Loss:

- the depreciation of the Right of Use assets (Euro 39 million for the twelve months ended December 31, 2019)
- the interest expenses related to the updating of the present value of the Lease Liability (Euro 3 million for the twelve months ended December 31, 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 Company 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:

- Based on its past experience, the Company has set an accounting policy for inclusion of the lease renewal period beyond the noncancellable 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 Italia risk-free increased by the Company's credit spread.

The adoption of the new IFRS Standard did not have any 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 39 million for the twelve months ended December 31, 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 3 million for the twelve months ended December 31, 2019).

**Reconciliation between lease commitments presented in accordance with IAS17 as at December 31, 2018 and the Lease Liabilities determined in accordance with IFRS16 as at January 1, 2019:**

(amounts in thousands of Euro)	
Commitments relating to operating leases as at December 31, 2018 (audited)	278,308
Contracts out of scope	(78)
Impact of discounting	(18,423)
Optional period and other impacts	44,276
Lease Liabilities as at January 1, 2019 (audited)	304,083

**New Standards and Amendments issued by the IASB, endorsed by the European Union, but not yet applicable to the Company as effective for financial years beginning on January 1, 2020.**

New IFRS and Amendments to existing standards	Effective date for Prada spa	EU endorsement status
IAS 1 e IAS 8: definition of material	January 1, 2020	Endorsed in November 2019
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	Endorsed in November 2019

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

New IFRS and Amendments to existing standards	Effective date for Prada spa	EU endorsement status
IFRS 17 Insurance Contracts	January 1, 2020	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

As at the date of these Financial Statements, the Directors have not yet completed the analysis necessary to assess the impacts of the above new standards and interpretations not yet applicable to the Company, both in terms of those already endorsed by the European Union and those undergoing the endorsement.

## 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 function.

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 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 or 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 performed 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.

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.

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.

## RIGHT OF USE ASSETS AND LEASE LIABILITY

Right of Use of leased assets and Lease Liabilities are regulated by IFRS 16 Leases which apply to all lease contracts that provide for the payment of fixed rents, including those indexed and those that set a guaranteed minimum.

The Company recognize the Right of use assets and the lease liability at the commencement date of the lease and based on the lease term.

The Company determines the lease term as the non-cancellable period of a lease, together with the periods covered by an option to extend/terminate the lease. The management evaluates the exercise of the option if it's considered "reasonably certain" based on several factors and circumstances that create an incentive for the lessee to exercise, or not to exercise the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

The lease term begins on the 'commencement date' of the lease. This is defined as the date on which the lessor makes an underlying asset available for use by a lessee. It is the date on which the lessee initially recognises and measures Right of Use assets and lease liabilities.

The commencement date is not necessarily the date on which start the depreciation of the Right of Use. For retail premises, the asset leased is ready for use when works on premises are completed and, therefore the depreciation of Right of Use shall begin after the completion of works necessary to bring a store to its working condition according to the management instructions.

The Right of use assets is measured at cost, identified as the initial measurement of the lease liability, increased by any initial direct costs incurred by the lessee (key money, legal fees, agent fees or other fees paid to enter in the agreement) or by any dismantling cost necessary to bring back the premises to its original condition. The Right of use Assets is depreciated over the Lease term.

The lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using an incremental borrowing rate. The profit or loss caption "interest expenses IFRS 16" represent the adjustment of the present value of the lease liability. 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 Italian risk-free rate, with payment dates based on the terms of the specific lease, increased by the Company's credit spread.

A lease modification occurs when there is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions

of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term). The effective date of the modification is defined as "the date when both parties agree to a lease modification". When this occurs, the Right of use and the lease liability are updated accordingly. If a lease is terminated before the original lease term date defined at the commencement date, both Right of Use assets and the lease liability are remeasured, impacting also the profit or loss statement.

Low value contracts (the price of the asset, when new and recognized on a single component basis approach, is less than Euro 5,000) and leases whose lease term is shorter than 12 months are not in the scope of "IFRS 16 Leases", so they are recognized through profit or loss on a straight-line basis over the lease term. Purely variable rent, typically linked to sales without a guaranteed minimum, are excluded too from the scope of application of such standard.

## **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 and other intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at least once a year.

When the carrying amount of these assets exceeds their recoverable amount, it is reduced accordingly and the impairment is recognized in the profit or loss.

The recoverable amount of the asset is calculated as 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 tested for impairment 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 measures 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 it 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.

## **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 classified 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.

Dividends are booked in the profit or loss when the shareholders' become entitled to receive payment and are classified in the caption "Dividend from investments".

## **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.

## **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, 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, Profit or loss 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 classified 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 profit or loss.

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, lease term assessment for the

lease contracts in scope for IFRS 16. 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.

As known, starting from January 2020, the global scenario was characterized by the outbreak of the Coronavirus and the consequent restrictive measures for its containment put in place by the public authorities of the countries concerned. These circumstances, extraordinary in nature and extent, have direct and indirect impacts on economic activity, creating a context of general uncertainty, the evolution of which is not foreseeable. The potential effects of the Coronavirus outbreak on the financial statements cannot currently be determined at the date of preparation of these Separate Financial Statements and will be subject to constant monitoring during the 2020 financial year.

## **SIGNIFICANT ACQUISITIONS AND DISINVESTMENTS**

On January 24, 2019, Prada spa established in Italy the company Figline srl in order to develop the production activities of the leather goods division.

On October 29, 2019 Prada spa acquired full ownership of Fratelli Prada spa from a related company, Bellatrix, and Bellatrix's ultimate shareholder. With this acquisition, legally effective from November 1, 2019, the Company has gained full control of its retail network in Milan, where until now the monobrand Prada stores had been operated by Fratelli Prada under a franchising agreement whose duration exceeded ten years.

## STATEMENT OF FINANCIAL POSITION

### 1. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of December 31, 2019 and December 31, 2018 is presented hereunder:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Cash on hand	784	858
Bank deposit accounts	1	1
Bank current accounts	69,911	298,028
Total cash and cash equivalents	70,696	298,887

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 2019	December 31 2018
Trade receivables due from third parties	162,903	178,982
Trade receivables due from Parent company	191	142
Trade receivables due from subsidiaries and associates	609,724	498,472
Trade receivables due from related companies	3,867	8,576
Total trade receivables	776,685	686,172

The reduction in trade receivables from related parties was mainly due to the acquisition of Fratelli Prada spa from November 1, 2019.

The increase in trade receivables due from subsidiaries is attributable to the sales growth.

The breakdown by counterparty is provided in Note 28, "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 based on specific credit rating assigned to each customer, was set up to represent the creditworthiness of wholesale clients.

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Trade receivables, third, parent and related parties, gross	171,205	192,879
Allowance for bad and doubtful debts	(4,244)	(5,179)
Trade receivables third parties, net	166,961	187,700

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Trade receivables due from subsidiaries and associates, gross	613,534	502,097
Allowance for bad and doubtful debts	(3,810)	(3,625)
Trade receivables due from subsidiaries and associates, net	609,724	498,472
Total	776,685	686,172

The annual changes in the allowance were as follows:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Opening balance	8,803	4,724
IFRS 9 First time adoption - Provision for expected loss (Third parties and Intercompany)	-	4,723
Increases	430	751
Utilized	(289)	(1,235)
Reversals	(891)	(160)
Closing amount	8,053	8,803

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, 2019	Current	Overdue (in days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade receivables, third, parent and related parties	171,205	166,245	33	36	3	136	4,752
Trade receivables, subsidiaries and associates	613,534	544,457	5,564	4,760	5,451	7,444	45,859
Total	784,739	710,702	5,597	4,796	5,454	7,580	50,611

(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

### 3. INVENTORIES, NET

Inventories can be broken down as follows:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Raw materials	102,844	98,384
Work in progress	22,249	26,677
Finished products	200,592	187,975
Returns asset	32,690	26,427
Allowance for obsolete and slow-moving inventories	(38,942)	(38,965)
Inventories, net	319,433	300,498

Inventories are measured at their average weighted cost.

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 2018	20,200	18,766	38,966
Increases	-	10	10
Utilized	-	(33)	(33)
Balance at December 31 2019	20,200	18,743	38,943

## 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 2019	December 31 2018
Financial assets regarding derivative instruments, current	4,751	11,005
Financial assets regarding derivative instruments, non-current	6,103	5,290
<b>Total Financial Assets - Derivative financial instruments</b>	<b>10,854</b>	<b>16,295</b>

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

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Financial liabilities regarding derivative instruments, current	(11,306)	(14,171)
Financial liabilities regarding derivative instruments, non-current	(8,789)	(7,072)
<b>Total Financial Liabilities - Derivative financial instruments</b>	<b>(20,095)</b>	<b>(21,243)</b>
<b>Net carrying amount - current and non-current portion</b>	<b>(9,241)</b>	<b>(4,948)</b>

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

(amounts in thousands of Euro)	December 31 2019	December 31 2018	IFRS7 Category
Forward contracts	1,956	9,974	Level II
Options	1,359	7	Level II
Interest rate swap - fair value through profit and loss	7,539	6,314	Level II
<b>Positive fair value</b>	<b>10,854</b>	<b>16,295</b>	
Forward contracts	(7,112)	(10,196)	Level II
Options	(1,334)	(1,095)	Level II
Interest rate swap - cash flow hedge	(4,303)	(3,843)	Level II
Interest rate swap - fair value through profit and loss	(7,346)	(6,108)	Level II
<b>Negative fair value</b>	<b>(20,095)</b>	<b>(21,243)</b>	
<b>Net carrying amount</b>	<b>(9,241)</b>	<b>(4,948)</b>	

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, 2019) are listed below.



Contracts in effect as of December 31, 2019 to hedge projected future trade cash flows:

(amounts in thousands of Euro)	Options	Forward sale contracts (*)	December 31 2019
Currency			
Chinese Renminbi	117,128	118,535	235,663
Japanese Yen	52,895	77,497	130,392
US Dollar	75,841	67,118	142,959
Korean Won	7,406	61,175	68,581
Other currencies	4,631	43,819	48,450
Hong Kong Dollar	22,864	41,841	64,706
GB Pound	29,149	37,612	66,761
Canadian Dollar	-	22,880	22,880
Singapore Dollar	-	21,706	21,706
Swiss Franc	-	16,003	16,003
Russian Ruble	-	15,710	15,710
Australian Dollar	-	10,535	10,535
	-		-
<b>Total</b>	<b>309,914</b>	<b>534,431</b>	<b>844,344</b>

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

Contracts in effect as at December 31, 2019 to hedge projected future financial cash flows:

(amounts in thousands of Euro)	Forward sale contracts (*)
Currency	
Swiss Franc	52,515
GB Pound	24,389
Other currencies	18,544
Singapore Dollar	15,221
Australian Dollar	10,003
US Dollar	5,675
<b>Total</b>	<b>126,347</b>

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

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

(amounts in thousands of Euro)	Options	Forward sale 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
<b>Total</b>	<b>63,351</b>	<b>700,278</b>	<b>763,629</b>

(\*) 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)	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	13,860	-	13,860
<b>Total</b>	<b>222,668</b>	<b>(77,644)</b>	<b>145,024</b>

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

All contracts in place at December 31, 2019 will mature within 12 months.

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, therefore the related credit default risk is not considered to be significant.

## 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, 2019 and December 31, 2018 are summarized below:

Interest Rate Swap (IRS)						Hedged loan			
Contract	Currency	Notional amount	Interest rate	Maturity date	December 31, 2019	Currency	Type of debt	Amount	Expiry
IRS	Euro/000	38,500	1.457%	May-2030	(2,991)	Euro/000	Term loan	38,500	May-2030
IRS	Euro/000	75,500	-0.094%	Feb-2022	(267)	Euro/000	Term loan	75,500	Feb-2022
IRS	Euro/000	90,000	0.013%	Feb-2021	(362)	Euro/000	Term loan	90,000	Feb-2021
IRS	Euro/000	100,000	0.252%	Jun-2021	(683)	Euro/000	Term loan	100,000	Jun-2021
Total					(4,303)				

Interest Rate Swap (IRS)						Hedged loan			
Contract	Currency	Notional amount	Interest rate	Maturity date	December 31, 2018	Currency	Type of debt	Amount	Expiry
IRS	Euro/000	42,167	1.457%	May-2030	(2,342)	Euro/000	Term loan	42,167	May-2030
IRS	Euro/000	60,000	0.105%	Mar-2019	(63)	Euro/000	Term loan	60,000	Mar-2019
IRS	Euro/000	90,000	0.013%	Feb-2021	(510)	Euro/000	Term loan	90,000	Feb-2021
IRS	Euro/000	100,000	0.252%	Jun-2021	(927)	Euro/000	Term loan	100,000	Jun-2021
Total					(3,843)				

The IRSs convert the variable interest rates on bank loans into fixed interest rates. They have been arranged with major financial institutions, therefore the related credit default risk is not considered to be significant.

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	Interest rate paid	Interest rate received	Maturity date	December 31 2019 <i>Fair value Euro/000</i>	December 31 2018 <i>Fair value Euro/000</i>	Counterparty
IRS	GBP/000	51,600	2.778%	Libor GBP/365	31/01/2029	(7,346)	(6,108)	Unicredit
IRS	GBP /000	51,600	Libor GBP/365	2.83%	31/01/2029	7,539	6,314	Kenon Ltd
Total IRS - <i>Fair value through profit or loss</i>						193	206	

## 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	70,696	-	70,696	1
Trade receivables, net	776,685	-	776,685	2
Derivative financial instruments	-	10,854	10,854	4
Financial receivables from parent, subsidiary and associated companies and related parties	394,983	-	394,983	5
Financial receivables IFRS 16 - lease	30,699	-	30,699	5
Investments in equity instruments	79,408	-	79,408	10
<b>Total at December 31, 2019</b>	<b>1,352,471</b>	<b>10,854</b>	<b>1,363,325</b>	

(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
Investments in equity instruments	97,948	-	97,948	10
Financial receivables from parent, subsidiary and associated companies and related parties	317,974	-	317,974	5
<b>Total at December 31, 2018</b>	<b>1,400,981</b>	<b>16,295</b>	<b>1,417,276</b>	

## FINANCIAL LIABILITIES

(amounts in thousands of Euro)	Loans and payables	Derivative financial instruments	Total	Note
Financial payables - third party	610,786	-	610,786	13, 18
Financial payables - parent, subsidiary and associated companies and related parties	44,007	-	44,007	14
Trade payables	865,380	-	865,380	15
Derivative financial instruments	-	20,095	20,095	4
Lease liabilities (IFRS16)	304,083		304,083	12
<b>Total at December 31, 2019</b>	<b>1,824,256</b>	<b>20,095</b>	<b>1,844,351</b>	

(amounts in thousands of Euro)	Loans and payables	Derivative financial instruments	Total	Note
Financial payables - third party	706,773	-	706,773	13,18
Financial payables - parent, subsidiary and associated companies and related parties	46,218	-	46,218	14
Trade payables	807,824	-	807,824	15
Derivative financial instruments	-	21,243	21,243	4
<b>Total at December 31, 2018</b>	<b>1,560,815</b>	<b>21,243</b>	<b>1,582,058</b>	

## 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 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, 2019, the Company had undrawn cash credit lines of Euro 574 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, 2019 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, 2019	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	(7,112)	(5,196)	(1,916)	-	-	-
Other contracts designated as cash flow hedges (Options)						
Cash outflows	(183)	(129)	(54)	-	-	-
Interest rate swaps	(4,110)	(449)	(867)	(989)	(606)	(1,199)
Net value	(11,405)	(5,774)	(2,837)	(989)	(606)	(1,199)

(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)

## FINANCIAL LIABILITIES

(amounts in thousands of Euro)	Reported amount at December 31, 2019	Future contractual cash flows at December 31, 2019	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
Lease liabilities (IFRS16)	304,083	304,083	-	19,803	19,679	36,324	33,042	31,160	164,075
Financial payables to banks	610,786	611,500	-	83,945	38,944	259,389	148,389	35,889	44,944
Financial payables to subsidiaries, parent company and related parties	44,007	44,007	30,129	13,878	-	-	-	-	-
Total	958,876	959,590	30,129	117,626	58,623	295,713	181,431	67,049	209,019

(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	more than 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	13,878	-	-	-	13,878	-	-	-
Total	720,651	721,045	-	317,833	22,833	59,545	227,167	66,167	27,500

## 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, 2019:

(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	(1,946)	(910)	(2,311)	(5,330)
Hong Kong Dollar	3,716	5,521	(4,325)	(5,969)
Japanese Yen	2,639	9,412	(2,736)	(6,679)
Chinese Remnmbi	(1,153)	4,847	304	(7,487)
US Dollar	(1,210)	3,370	1,657	(1,772)
Other currencies	(265)	5,758	(2,928)	(13,291)
Total	1,781	27,999	(10,339)	(40,528)

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, 2019.

(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%	(4,542)	(1,814)	-0.50%	4,601	1,813
GB Pound	+ 0.50%	111	111	-0.50%	(111)	(111)
Hong Kong Dollar	+ 0.50%	24	24	-0.50%	(24)	(24)
US Dollar	+ 0.50%	205	213	-0.50%	(213)	(213)
Other currencies	+ 0.50%	1,803	1,795	-0.50%	(1,795)	(1,795)
Total		2,400	328		(2,459)	(329)

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 2019	December 31 2018
Financial receivables	221,061	145,541
Other receivables	26,355	23,063
Short term loan receivable IFRS16	3,112	-
Financial and other receivables – due within a year	250,528	168,604

Financial receivables include current portions of long-term loans of Euro 120 million, short-term loans of Euro 71 million, shown net of the allowance for expected credit losses of Euro 1.2 million and deposits of Euro 30 million. The intercompany loans bear interest and are part of the Group's centralized treasury management.

Other receivables at December 31, 2019 regard mainly the contract in place between PRADA spa and Luna Rossa Challenge srl, under the newsponsorship agreement for participation in the 36th America's Cup.

The amount is broken down by counterparty in Note 28.

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

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Financial receivables	201,510	172,433
Financial receivables – due after or more than a year	201,510	172,433

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 2.6 million.

## 6. OTHER CURRENT ASSETS

The other current assets are set forth below:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
VAT	29,429	25,769
Income tax and other tax receivables	78,523	32,173
Other assets	5,333	7,181
Prepayments	30,520	31,665
Deposits	144	225
<b>Total other current assets</b>	<b>143,949</b>	<b>97,013</b>

The Income tax and other tax receivables consist of the total advances paid net of the current tax liability. The increase in the tax balance is mainly due to the recognition of the tax income related to the Patent Box benefit.

The other current assets are detailed hereunder:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Advances to suppliers	2,002	1,911
Advances to employees	439	400
Other receivables	2,892	4,871
<b>Total other current assets</b>	<b>5,333</b>	<b>7,182</b>

The prepayments and accrued income are broken down below:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Rental costs	199	3,742
Insurance	432	450
Design costs	11,631	12,354
Fashion shows and advances on advertising campaigns	11,826	9,666
Other	6,432	5,453
<b>Total prepayments and accrued income</b>	<b>30,520</b>	<b>31,665</b>

Rental costs prepayments reduction was related to the reclassification into the Right of Use assets category of "in scope" prepayments following the first time adoption of IFRS 16 (as described in the paragraph "new IFRS and amendments to IFRS").

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 improvements	Furniture & fittings	Other tangibles	Assets under construction	Total Net carrying amount
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 January 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
Historical cost	618,150	199,599	137,879	180,547	108,554	22,452	1,267,181
Accumulated depreciation	(99,775)	(142,366)	(86,628)	(66,143)	(66,592)	-	(461,504)
Net carrying amount at December 31, 2019	518,375	57,233	51,251	114,404	41,962	22,452	805,677

The changes in the carrying amount of “property, plant and equipment” for the year ended December 31, 2019 are as follows:

(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	520,569	55,974	60,025	43,205	43,216	43,710	766,699
First time adoption of IFRS 16	-	-	(306)	-	-	-	(306)
Additions	9,990	10,622	1,047	37,953	4,674	18,607	82,893
Depreciation	(13,997)	(9,871)	(8,461)	(4,908)	(5,887)	-	(43,124)
Disposals	-	(22)	-	(20)	(41)	(21)	(104)
Other movements	1,813	538	(1,030)	38,249	-	(39,844)	(276)
Impairment	-	(8)	(22)	(75)	-	-	(105)
Balance at December 31, 2019	518,375	57,233	51,251	114,404	41,962	22,452	805,677

The increases for “land and buildings” and “production 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 increases in furniture and fittings and in leasehold improvements regarded largely 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	13,430	111,875	58,521	106,477	26,530	12,486	329,319
Accumulated depreciation	(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 depreciation	(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
Historical cost	13,756	111,875	33,665	153,503	26,530	15,161	354,490
Accumulated depreciation	(8,624)	(3,463)	(32,512)	(95,767)	(19,516)	-	(159,882)
Net carrying amount at December 31, 2019	5,132	108,412	1,153	57,736	7,014	15,161	194,608

The changes in the carrying amount of intangible assets for the year ended December 31, 2019 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, 2018	8,064	108,412	11,754	44,518	8,968	14,668	196,384
First time adoption adoption of IFRS 16	-	-	(10,279)	-	-	-	(10,279)
Additions	-	-	-	14,549	-	12,488	27,037
Amortization	(2,933)	-	(322)	(13,268)	(1,954)	-	(18,477)
Disposals	-	-	-	(57)	-	-	(57)
Other movements	1	-	-	11,994	-	(11,995)	-
Balance at December 31, 2019	5,132	108,412	1,153	57,736	7,014	15,161	194,608

The store lease acquisitions fell by Euro 10.3 million as a result of the reclassification of key money to the Right of Use assets upon adoption of IFRS 16 on January 1, 2019. The remaining Euro 1.2 million at December 31, 2019 regards out-of-scope leases.

The investments in information technology, classified as software and mostly assets in progress, referred to several retail, manufacturing and corporate projects.

## GOODWILL

"Goodwill" as at December 31, 2019 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 annually. No other indefinite life intangible assets, apart from goodwill, has been identified by the company.

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. Cash flows are estimated considering the operating conditions of the tested CGU at the reporting date while 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 8.22% determined taking into consideration specific parameters: market risk premium and sovereign bond yield. The "g" rate of growth used to calculate the terminal value has been set at 1.5%, and can be considered prudent given the average growth expected for the luxury goods market at the reporting date.

The impacts deriving from the spread of Coronavirus (Covid-19) have not been considered in the assessment of expected cash flows, since they relate to an event occurred after the reporting date, which potential effects, by the way, are not currently determinable and quantifiable but will be constantly monitored in the following months of 2020.

As a result of the impairment test performed, no impairment losses have been identified on goodwill. Furthermore, in the light of the uncertainty generated by the aforementioned health emergency, some scenario analysis were made with the objective of testing the sensitivity of the recoverable value by identifying the rate (WACC) which determines the equality between the recoverable value of the CGU and the relevant carrying amount. Such analysis highlighted that even in the presence of a significant increase in the WACC used for the execution of the impairment tests, no impairment losses would be generated for the CGUs where goodwill is allocated. However, since value in use is measured on the basis of estimates and assumptions, management cannot guarantee that the value of goodwill or other tangible or intangible assets will not be subject to impairment in the future.

## 9. RIGHT OF USE ASSETS

The changes in the net book value of the Right of Use assets for the period ended December 31, 2019 are shown below:

(amounts in thousands of Euro)	Right of Use Buildings	Right of Use Cars transport vehicles	Right of Use Plant & Machinery	Total Net Book Value
Opening Balance	-	-	-	-
First Time Adoption IFRS 16	304,344	1,306	1,789	307,439
Additions	7,887	965	703	9,555
Depreciation	(37,685)	(931)	(731)	(38,714)
Disposals	(3,328)	(2)	-	(3,964)
Other movements	-	-	(1)	-
Total	271,218	1,339	1,762	274,319

The adoption of IFRS16 is explained in the section on new IFRSs and amendments to IFRSs. The additions for the period mainly relate to the renewal of contracts, while the disposals relate substantially to early termination of contracts.

## 10. INVESTMENTS

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Investments in subsidiaries and associated undertakings	898,984	856,222
Investments at FVTOCI	79,408	97,948
Other investments	43	13
Total	978,435	954,183

The Company, after appropriate evaluation by the Boards, invested surplus liquidity in highly rated equity securities listed on the most important electronic stock markets in the world. The change for the year in "investments at FVTOCI" refers to the change in the value of such securities and was recognized in the specific equity reserve.



The investments in subsidiaries and associates as at December 31, 2019 and December 31, 2018 are presented hereunder:

(amounts in thousands of Euro)	Note	December 31 2018	Increases	Decreases	December 31 2019
Investments in subsidiaries:					
Artisans Shoes S.r.l.		2,706			2,706
Church & Co Ltd	(1)	136,770		(19,040)	117,730
Fratelli PRADA spa	(2)		66,000		66,000
Figline Srl	(3)		10		10
Hipic Prod Impex Srl		3,836			3,836
IPI Logistica S.r.l.		1,798		-	1,798
Kenon Limited		99,478			99,478
Les Femmes Srl	(4)	1,560	400		1,960
Marchesi 1824 srl	(1), (5)	5,146	5,762	(5,816)	5,092
PRM Services S. De R.L. de CV		407			407
Pelletteria Ennepi S.r.l.		4,695			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		4,004			4,004
PRADA Bosphorus Deri Mamuller Limited Sirketi		22,897		-	22,897
PRADA Brazil	(1)	3,822		(3,822)	-
PRADA Canada Corp.		5,086			5,086
PRADA Czech Republic s.r.o.		1,894			1,894
PRADA Denmark		3,491			3,491
PRADA Finnish Oy	(1)	303		(303)	-
PRADA Germany GmbH		14,122			14,122
PRADA Hellas Single Partner Limited Liability Company		1,764			1,764
PRADA Japan Co., Ltd.		28,770			28,770
PRADA Kazakhstan LLP		4,938			4,938
PRADA Korea Ltd.		10,631			10,631
PRADA Middle East FZCO		2,069	24		2,093
PRADA Montecarlo Sam		17,529			17,529
PRADA Netherlands B.V.		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		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		39,388		-	39,388
PRADA SA		23,315			23,315
PRADA ST. Barthelemy		1,600			1,600
PRADA Saudi Arabia	(5)	7,337	3,335		10,671
PRADA Singapore Pte, Ltd.		2,478			2,478
PRADA South Africa (Pty) Ltd		3,709			3,709
PRADA Spain S.A.		29,375			29,375
PRADA Sweden AB		8,121			8,121
PRADA Switzerland sa	(1)	60,151		(3,794)	56,357
PRADA USA Corp.		145,759			145,759
PRADA Ukraine		-	6	-	6
PRADA Vietnam		2,637			2,637
TRS Hong Kong Ltd		31			31

(amounts in thousands of Euro)	Note	December 31 2018	Increases	Decreases	December 31 2019
TRS Saipan		4			4
TRS Singapore Pte Limited		156			156
Tannerie Limoges S.A.S.		1,374			1,374
Investments in other entities		97,961	31	(18,540)	79,452
<b>Total</b>		<b>954,187</b>	<b>75,568</b>	<b>(51,315)</b>	<b>978,439</b>

Investments for which indications of impairment had been identified were tested for impairment. Such test is carried out whenever there is an indication of impairment on the investments value. In order to perform the impairment test, management assessed the recoverable amount based on the investment value in use, calculated as the sum of the present value of future cash flows expected from the business plan projections and the present value of the subsidiary net assets at the end of the business plan period (terminal value).

The business plans used to prepare the impairment test cover a period of five years and have been constructed on the basis of the 2020 budget prepared by management. Prudently, no business growth was forecast after 2020, meaning that no significant improvement in the performance of the subsidiaries net assets existing at December 31, 2019 was projected for the years of the plan. Likewise, the impacts deriving from the spread of Coronavirus (Covid-19) have not been considered in the preparation of the business plans since they relate to an event occurred after the reporting date, which potential effects, by the way, are not currently determinable and quantifiable, but will be constantly monitored in the following months of 2020.

The rate used to discount cash flows was calculated using the weighted average cost of capital (WACC). For the year ended December 31, 2019, the WACC used for discounting purposes ranged between 4.2% and 12.6% (between 5.1% and 14.7% at December 31, 2018). The WACC was calculated ad hoc for each investment subject to impairment, considering the parameters specific to the related geographical area: market risk premium and sovereign bond yield. The “g” rate of growth used to calculate the terminal value ranged between 0% and 9.2%, according to the diverging inflation and GDP outlooks in the various countries. However, the prevalent growth rate was 1.5%, which can be considered prudent given the average growth expected for the luxury goods market in general and the

specific growth rate projected for the PRADA Group at the reporting date.  
As a result of the impairment test, the following impairment losses have been identified:

(amounts in thousands of Euro)	December 31 2019
Church & Co Ltd	(19,040)
Marchesi 1824 srl	(5,816)
Prada Brazil	(3,822)
Prada Finnish Oy	(190)
Prada Switzerland sa	(3,794)
<b>Total</b>	<b>(32,662)</b>

Where deemed appropriate, sensitivity analysis were carried out to ensure that changes in the main assumptions did not significantly affect the impairment test results. The outcome of these simulations confirmed that the result obtained through the DCF method was reasonable. Furthermore, in the light of the uncertainty generated by the aforementioned health emergency, some scenario analysis were made with the objective of testing the sensitivity of the recoverable value by identifying the rate (WACC) which determines the equality between the recoverable value of the investments and the relevant carrying value. Such analysis highlighted that even in the presence of a significant increase in the WACC used for the execution of the impairment tests, no impairment losses would be generated for the company's main investments.

However, since value in use is measured on the basis of estimates and assumptions, management cannot guarantee that the value of the investments will not be subject to impairment in the future.

#### Notes:

1. The decrease reflects the writedown ensuing from the impairment test conducted to determine the recoverable amount.
2. On October 29, 2019 Prada spa acquired full ownership of Fratelli Prada spa from a related company, Bellatrix, and Bellatrix's ultimate shareholder. With this acquisition, legally effective from November 1, 2019, the Company has gained full control of its retail network in Milan, where until now the monobrand Prada stores had been operated by Fratelli Prada under a franchising agreement whose duration exceeded ten years.
3. In January 24, 2019, Prada spa established in Italy the company Figline srl in order to develop the production activities of the leather goods division.

4. The increase represents an additional payment for the stake acquired on December 20, 2018.
5. The increase in the investment refers to the recapitalization carried out by PRADA spa through the waiver of its receivables

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	788	7,750	66.70%
Les Femmes srl	1,960	n/a	n/a	n/a	40.00%
IPI Logistica S.r.l.	1,798	600	30	2,872	100.00%
Figline Srl	10	10	(31)	(21)	100.00%
Fratelli Prada spa	66,000	520	1,185	38,332	100.00%
Hipic Prod Impex Srl	3,836	42	(67)	70	80.00%
Marchesi 1824 srl	5,092	414	(5,239)	(2,907)	100.00%
Pelletteria Ennepi S.r.l.	4,695	93	98	2,513	90.00%
Post Development Corp.	54,807	40,180	3,354	80,313	100.00%
PRADA Austria GmbH	2,185	40	1,385	9,155	100.00%
PRADA Belgium sprl	4,004	4,000	(125)	4,050	100.00%
PRADA Bosphorus Deri Mamuller Limited Sirketi	22,897	10,921	(1,511)	8,484	100.00%
PRADA Brazil	-	46,504	(7,201)	(3,448)	100.00%
PRADA Canada Corp.	5,086	206	1,506	32,043	100.00%
PRADA Czech Republic s.r.o.	1,894	98	(109)	1,377	100.00%
PRADA Denmark	3,491	3,480	0	3,860	100.00%
PRADA Netherlands B.V.	3,623	20	630	13,094	100.00%
PRADA Finnish Oy	-	3	(8)	113	100.00%
PRADA Germany GmbH	14,122	215	369	18,854	100.00%
PRADA Hellas Single Partner Limited Liability Company	1,764	2,850	13	999	100.00%
PRADA Kazakhstan LLP	4,938	1,166	275	1,441	100.00%
PRADA Maroc Sarlau	-	8,842	(2)	1	100.00%
PRADA Middle East FZCO	2,093	4,362	(360)	43,774	60.00%
PRADA Montecarlo Sam	17,529	2,000	(1,793)	1,987	100.00%
PRADA Panama SA	1,760	27	3	1,866	100.00%
PRADA Portugal, Unipessoal LDA	955	5	90	2,611	100.00%
PRADA Retail Aruba	1,623	1,790	26	1,921	100.00%
PRADA Retail France SaS	48,195	4,000	(2,318)	25,437	100.00%
PRADA South Africa (Pty) Ltd	3,709	3,169	35	2,602	100.00%
PRADA Retail SPC	3,041	3,650	590	7,116	100.00%
PRADA Retail UK Ltd	21,170	5,877	3,999	39,119	100.00%
PRADA Rus LLC	39,388	4	2,938	43,518	100.00%
PRADA SA	23,315	31	(551)	(13,026)	100.00%
PRADA Saudi Arabia	10,671	6,327	(1,286)	5,241	75.00%
PRADA Spain S.A.	29,375	240	602	18,127	100.00%
PRADA ST. Barthelemy	1,600	1,600	(10)	1,474	100.00%
PRADA Switzerland sa	56,357	22,112	236	17,408	100.00%
PRADA Ukraine	6	9,083	366	1,884	100.00%
PRADA USA Corp.	145,759	135,491	7,806	257,143	100.00%
PRM Services S. De R.L. de CV	407	339	73	834	100.00%
PRADA Asia Pacific Ltd.	1,120	343	34,374	365,265	100.00%
Church & Co Ltd	117,730	3,304	(8,202)	54,567	100.00%
PRADA Singapore Pte, Ltd.	2,478	662	857	21,105	100.00%
PRADA Korea Ltd.	10,631	6,268	7,348	70,950	100.00%
PRADA (Thailand) Co.,Ltd.	4,845	11,133	292	15,527	100.00%
PRADA Australia Pty. Ltd	7,267	8,440	797	11,893	100.00%

(amounts in thousands of Euro)	Carrying amount	Share Capital	Latest net income / (loss)	Shareholders' equity	% interest held
TRS Saipan	4	1,251	(286)	3,167	55.00%
TRS Hong Kong Ltd	31	57	(7)	54	55.00%
PRADA Retail Malaysia Sdn	292	218	376	8,420	100.00%
TRS Singapore Pte Limited	156	331	25	1,087	55.00%
TRS MACAU	-	-	1,576	12,475	55.00%
PRADA New Zealand Pty. Ltd	2,192	2,102	45	2,021	100.00%
PRADA Vietnam	2,637	2,566	(548)	1,535	100.00%
PRADA India Fashion Private Limited	-	1	-	(40)	100.00%
PRADA Sweden AB	8,121	48	(257)	3,942	100.00%
Kenon Limited	99,478	98,731	339	89,393	100.00%
PRADA Japan Co., Ltd.	28,770	9,841	5,929	29,732	100.00%
Tannerie Limoges S.A.S.	1,374	600	(7)	477	60.00%
	898,984				

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.

## 11. OTHER NON-CURRENT ASSETS

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

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Prepaid for commercial agreements	62,600	-
Sundry other long-term receivables	15,656	16,569
Deferred rental income	-	2,706
Long-term guarantee deposits	2,545	2,542
Total	80,802	21,817

Prepaid for commercial agreements relate to a commercial contract signed during the period for which the related benefits are expected to flow to the Company beyond a period of 12 months.

Deferred rental income reduction was related to the reclassification into the Right of Use assets category of "in scope" prepayments following the first time adoption of IFRS 16 (as described in the paragraph "new IFRS and amendments to IFRS").

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 2019	December 31 2018
Nature:		
Stores	1,835	1,835
Offices	44	65
Warehouses	24	18
Other	642	624
<b>Total</b>	<b>2,545</b>	<b>2,542</b>

The security deposits are set forth below by maturity:

(amounts in thousands of Euro)	December 31 2019
Maturity:	
within 1-2 years	-
within 2-3 years	3
within 3-4 years	153
within 4-5 years	170
After 5 years	2,219
<b>Total</b>	<b>2,545</b>

## 12. LEASE LIABILITIES

The following table sets forth the lease liabilities:

(amounts in thousands of Euro)	December 31 2019
Short-term Lease Liabilities	39,467
Long-term Lease Liabilities	264,616
<b>Total</b>	<b>304,083</b>

The Lease Liabilities decreased from Euro 337 million at January 1, 2019 (IFRS 16 first time adoption) to Euro 304 million mainly as a result of payments made during the period.

### 13. SHORT-TERM FINANCIAL PAYABLES AND BANK OVERDRAFTS

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Bank overdrafts	-	31
Short-term loans	45,212	90,234
Current portion of long term loans	77,889	250,667
Deferred costs on loans	(423)	(129)
Short-term financial payables and bank overdrafts	122,678	340,803

The short-term bank loans as at December 31, 2019 refer to the use of credit lines by PRADA spa for an amount of Euro 45 million.

The remaining current portion of long-term loans is detailed in Note 18.

### 14. 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 2019	December 31 2018
Financial payables	44,007	32,340
Other payables	30,645	7,747
Total payables due within a year	74,652	40,087

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

The other payables increase refer to the short-term portion of the debt to purchase all the Fratelli Prada spa shares. The amount is broken down by counterparty in Note 28.

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 2019	December 31 2018
Financial payables due to subsidiaries	-	13,878
Other payables due to related parties	20,660	-
<b>Total payables due after more than a year</b>	<b>20,660</b>	<b>13,878</b>

## 15. TRADE PAYABLES

The trade payables are set forth below:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Trade payables - Third parties	211,304	190,151
Trade payables - Subsidiaries and associated undertakings	651,801	614,304
Trade payables - Related companies	2,275	3,369
<b>Total</b>	<b>865,380</b>	<b>807,824</b>

The breakdown by counterparty of payables due to subsidiaries and associates is provided in Note 28, "transactions with parent companies, subsidiaries, associates and related parties".

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

(amounts in thousands of Euro)	December 31, 2019	Current	Overdue (in days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade payables - third, parent and related parties	213,579	208,915	212	173	211	82	4,439
Trade payables - subsidiaries and associates	651,801	627,750	3,101	2,600	2,641	2,348	13,353
<b>Total</b>	<b>865,380</b>	<b>836,665</b>	<b>3,313</b>	<b>2,773</b>	<b>2,852</b>	<b>2,430</b>	<b>17,792</b>

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



## 16. TAX PAYABLES

The current tax liabilities are set forth below:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Current income taxes	-	11,124
VAT and other taxes	7,006	7,015
Social security and pension contribution liabilities	12,456	12,584
Total	19,462	30,723

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

## 17. OTHER CURRENT LIABILITIES

The "other current liabilities" are as follows:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Payables for capital expenditure	19,263	24,223
Payables to employees	22,075	28,652
Provision for returns	75,887	61,280
Accrued expenses and deferred income	8,830	2,069
Other payables	2,177	3,508
Total	128,232	119,732

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.

"Payables for capex" includes the amounts due for capital expenditure as at December 31, 2019, described in Notes 7 and 8 on property, plant and equipment and intangible assets.

"Other payables" includes Euro 0.5 million in advances received from customers and Euro 1.7 million in payables due to others.

## 18. LONG-TERM FINANCIAL PAYABLES

The non-current financial payables are as follows:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Long-term bank borrowings	488,611	366,500
Deferred costs on loans	(503)	(529)
<b>Total</b>	<b>488,108</b>	<b>365,971</b>

In 2019 Prada spa took out two new long-term loans of Euro 50 million and Euro 100 million respectively, both of which contained covenants referring to PRADA spa's consolidated financial statements that were fully complied with as at December 31, 2019.

In addition to such loans, in 2019 Prada spa took out its first sustainability-linked loan for an amount of Euro 50 million. The sustainability-linked loan provides for an adjustment to annual prices based on the achievement of ambitious sustainability targets regarding the number of leadership in energy and environmental design (LEED) certifications, the use of regenerated nylon and the number of training hours for employees.

In the same period, the company repaid the current portions of long-term loans for an amount of Euro 251 million.

The long-term bank borrowings as at December 31, 2019, 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	75,500	Term-loan	EUR	02/2022	0.407%	17,000	58,500	-
PRADA spa	50,000	Term-loan	EUR	06/2022	0.750%	-	50,000	-
PRADA spa	38,501	Term-loan	EUR	05/2030	2.737%	3,667	34,834	Mortgage loan
PRADA spa	50,000	Term-loan	EUR	10/2024	0.600%	10,000	40,000	-
PRADA spa	100,000	Term-loan	EUR	06/2021	0.752%	-	100,000	-
PRADA spa	62,500	Term-loan	EUR	06/2022	0.480%	25,000	37,500	-
PRADA spa	90,000	Term-loan	EUR	02/2021	0.963%	-	90,000	-
PRADA spa	100,000	Term-loan	EUR	06/2024	0.379%	22,222	77,778	-
<b>Total</b>	<b>566,501</b>					<b>77,889</b>	<b>488,612</b>	

(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 Company's headquarters.

A maturity analysis is provided in Note 4.

## 19. LONG-TERM EMPLOYEE BENEFITS

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Post-employment benefits	19,008	18,889
Other long term employee benefits	6,041	7,824
<b>Total</b>	<b>25,049</b>	<b>26,713</b>

### POST-EMPLOYMENT BENEFITS

The post-employment benefits recognized as at December 31, 2019 amount to Euro 19 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 2019	December 31 2018
Average duration of plan (years)	10,6	10,4
Discount rate	0.60%	1.25%
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	1,676
(c) Other	(145)
<b>Actuarial (gains)/losses</b>	<b>1,531</b>

Sensitivity analysis conducted on the main actuarial assumptions used as at

December 31, 2019 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)	2020	2021	2022	2023	After 2023
Defined Benefit Plans (TFR)	1,221	890	938	1,036	16,332

The changes in the liabilities for post-employment benefits as at December 31, 2019 are shown hereunder:

(amounts in thousands of Euro)	
Balance at December 31, 2018	18,889
Current service costs	57
Actuarial (Gains)/Losses	1,508
Indemnities paid	(1,446)
Balance at December 31, 2019	19,008

## 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, 2019, under the Projected Unit Cost Method, is Euro 6 million (Euro 8 million as at December 31, 2018). 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, 2019:

(amounts in thousands of Euro)	Other long-term benefits
Balance at December 31, 2018	7,824
Current service costs	1,021
Transfers	-
Utilization for payments	(2,804)
Balance at December 31, 2019	6,041

## 20. 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 2018	-	868	-	1,310	2,178
Increases	30	4,603	3,279	20	7,932
Utilization for payments	-	(5,224)	-	-	(5,224)
Reversals	-	(211)	-	-	(211)
Balance at December 31 2019	30	37	3,279	1,329	4,675

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 also by the opinions of independent tax advisors, 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.

The dispute filed by PRADA spa following an audit initiated in 2012 by the Italian Customs Agency for the tax years from 2007 to 2011 to determine the customs value of the products consists of three legal actions regarding the 2010 tax period, all of which are currently pending at the Supreme Court. Concerning the first action, on April 18, 2019 the Company lodged an appeal at the Supreme Court

against the adverse second-instance ruling issued on July 23, 2018, and is awaiting the notice of the hearing. Concerning the other two legal actions, the appeals against the adverse second-instance rulings issued on July 12, 2019 will be lodged at the Supreme Court within the prescribed time limit.

The audit of Prada Korea Ltd, initiated in 2019 by the Korean National Tax Service for the tax periods of 2014 and 2015 (and later extended to 2016 and 2017) regards primarily two matters concerning the tax treatment of a business reorganization carried out in 2016 and 2017 and the direct tax treatment of the flows between Prada Korea and Prada Spa under the related licensing agreement.

In 2019 the two disputes regarding the reorganization were closed with the final payment amounting to some Euro 2 million.

At the end of 2019 only the dispute about the intercompany flows relating to the licenses between Prada Spa and Prada Korea was pending, in relation to which the latter company, against the payment of an amount equal to Euro 2.5 million, is evaluating whether to initiate a Mutual Agreement Procedure (MAP) between the competent Italian and Korean authorities.

In 2019 the Company continued to hold effective dialogue with the tax authorities to preventively manage tax risk. Specifically, communication on specific topics was maintained between Prada spa and the Italian Revenue Agency within the context of the Cooperative Compliance tax regime (to which the Company was admitted in 2017). Moreover, an international cooperative compliance program was successfully completed that involved Prada spa and some Group companies within the scope of a project launched in 2017 at an OECD level that was dedicated to a selected number of taxpayers in the world. The Company was invited to participate in the final phase of the program for the consecutive years as well.

## **OTHER PROVISIONS**

The other provisions amount to Euro 1.3 million at December 31, 2019 and refer to contractual obligations to restore leased property to its original condition.

## 21. OTHER NON-CURRENT LIABILITIES

The other non-current liabilities are as follows:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Deferred Inc.Exp. Rent & Landlord Contribution	-	16,235
Deferred income for commercial agreements	40,000	-
Other LT liabilities	7,294	7,153
<b>Total</b>	<b>47,294</b>	<b>23,388</b>

Deferred income for commercial agreements relates to an amount received during the period but for which the related performance obligations will be satisfied starting from a period beyond 12 months. Deferred income expenses reduction was related to the reclassification into the Right of Use assets category of "in scope" lease following the first time adoption of IFRS 16 (as described in the paragraph "new IFRS and amendments to IFRS"). Other non-current liabilities amounts to Euro 7 million, Euro 4.5 million of which refers to the remaining balance due on the acquisition of usufruct for retail premises.

## 22. EQUITY

Equity composition is set forth hereunder:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
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	881,086	325,301
Fair value reserve	(9,982)	(12,275)
Cash flow hedge reserve	(3,711)	(6,586)
Net profit (loss) for the year	249,027	708,548
<b>Total</b>	<b>2,016,425</b>	<b>1,914,992</b>

## SHARE CAPITAL

As at December 31, 2019, 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, 2018.

## OTHER CAPITAL RESERVES

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

## DIVIDENDS

During the year ended December 31, 2019, the Company distributed dividends of Euro 153,529,440 (Euro 0.06 per share), as approved at the General Meeting held on April 30, 2019 to approve the December 31, 2018 financial statements.

## RETAINED EARNINGS

The increase in "retained earnings" is attributable to the allocation net results of previous year.

## AVAILABILITY OF EQUITY

(amounts in thousands of Euro)	December 31 2019	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	881,086	A, B, C	846,877		652,500
Fair value reserve	(9,982)		-	-	-
Time value reserve	(778)		-	-	-
Intrinsic value reserve	(2,933)		-	-	-
Distributable amount			1,439,823		652,500
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

### 23. 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 1.823 billion, up by 5% from those of the prior reporting period (Euro 1.735 billion in 2018).

Royalty income is Euro 42 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 0.9 million, down from those of the prior reporting period (Euro 1.9 million), due to the termination of the franchising agreement with Fratelli Prada spa, following the acquisition of the business.

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Net sales	1,780,423	1,691,476
Royalties	42,400	44,217
Net revenues	1,822,823	1,735,693

### 24. COST OF GOODS SOLD

The cost of goods sold is summarized below:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Purchases of raw materials and production costs	786,682	762,931
Logistics costs, duties and insurance	74,046	76,534
Change in inventories	(18,884)	(38,217)
Total	841,844	801,248

The cost of goods rose by Euro 40 million in line with the product volumes.

The following table sets forth depreciation, amortization, impairment, cost of labor and rent expenses included within the cost of goods sold:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Depreciation of Right of Use	823	-
Depreciation, amortization and impairment	12,636	11,779
Labour cost	77,896	80,038
Short term and low value lease (IFRS 16)	22	-
Fixed Rent (IAS 17)	2	474
<b>Total</b>	<b>91,379</b>	<b>92,291</b>

## 25. OPERATING EXPENSES

The operating expenses are summarized below:

(amounts in thousands of Euro)	December 31 2019	% of net revenues	December 31 2018	% of net revenues
Advertising and promotion expenses	139,782	7.7%	136,756	7.8%
Product design and development costs	112,227	6.2%	107,738	6.1%
Selling expenses	445,888	24.5%	405,410	23.1%
General and administrative costs	76,237	4.2%	78,942	4.5%
<b>Total</b>	<b>774,134</b>	<b>42.5%</b>	<b>728,846</b>	<b>41.5%</b>

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 patterns, fabrics, leather and production techniques and determination of the design concept – and the product development phase, involving planning, creation of prototypes and product manufacturing.

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

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Depreciation of Right of Use	38,155	-
Depreciation, amortization and impairment	46,216	45,598
Labour cost	178,909	185,514
Pure Variable Lease (IFRS 16)	767	5,136
Short term and low value lease (IFRS 16)	734	-
Fixed Rent (IAS 17)	468	37,765
<b>Total</b>	<b>265,249</b>	<b>274,013</b>

## 26. 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 2019	December 31 2018
Interest expenses on borrowings	(8,733)	(10,655)
Interest income	7,454	8,044
Interest income/(expenses) IAS 19	42	-
Exchange gains/(losses) - realized	(15,816)	(14,664)
Exchange gains/(losses) - unrealized	545	4,045
Other financial income/(expenses)	(35,706)	(28,649)
<b>Interest and other financial income/(expenses), net</b>	<b>(52,214)</b>	<b>(41,879)</b>
Interest income/(expenses) on lease liabilities	(2,910)	-
Dividends from investments	48,741	603,102
<b>Total</b>	<b>(6,383)</b>	<b>561,223</b>

Borrowing costs with banks, down from Euro 10.7 million in 2018 to Euro 8.7 million in 2019, benefited from better conditions in the credit market.

The exchange gains and losses refer exclusively to financial assets, including the effects of derivatives.

The interest on leases represents the present value adjustment of lease liabilities. In the twelve months ended December 31, 2019.

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 2019	December 31 2018
Artisans Shoes S.r.l.	620	1,635
Prada Asia Pacific Ltd.	23,111	575,335
Prada Japan Co., Ltd.	4,874	4,689
Prada Retail Malaysia Sdn	-	1,049
Prada SA	18,000	15,000
Prada Sweden AB	-	968
TRS Hong Kong Ltd	-	2,986
TRS New Zealand Pty. Ltd	-	109
TRS Singapore Pte Limited	-	700
3rd parties	2,135	632
<b>Total</b>	<b>48,741</b>	<b>603,103</b>

## 27. TAXATION

The income taxes for the year ended December 31, 2019 and the prior reporting period are set forth below:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Current taxation	32,772	58,829
Prior year taxes	(79,678)	(1,627)
Deferred taxes	(1,659)	1,072
<b>Total</b>	<b>(48,565)</b>	<b>58,274</b>

The income tax for the period benefitted from the recognition of income of Euro 100 million, which was the tax relief for the four years from 2015 to 2019 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.

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 2019	December 31 2018		
Employee benefits - defined benefit plans	338	457	(119)	-
Inventories	10,210	10,281	(71)	-
Property, plant and equipment	(39)	(861)	822	-
Intangible assets	1,142	841	301	-
Provisions for risks and charges	12,665	10,119	2,546	-
Allowance for doubtful debts	(88)	76	(164)	-
Derivative instruments	1,172	2,080	-	(908)
Other temporary differences	3,899	5,555	(1,656)	-
<b>Total</b>	<b>29,299</b>	<b>28,548</b>	<b>1,659</b>	<b>(908)</b>

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	48,831	24.00%	8,020	3.94%	56,851	27.94%
Dividends exempted	(11,113)	-5.46%			(11,113)	-5.46%
ACE	(3,439)	-1.69%			(3,439)	-1.69%
Impairment adjustment to investments	7,839	3.85%			7,839	3.85%
Other permanent differences	(17,972)	-8.83%	3,307	1.63%	(14,665)	-7.21%
Patent Box and Adjustments in annual tax return "UNICO"	(74,074)	-36.36%	(11,915)	-5.86%	(85,989)	-42.22%
Difference between income before taxation and net value of production	-	-	1,952	0.96%	1,952	0.96%
<b>Taxes for period</b>	<b>(49,929)</b>	<b>-24.50%</b>	<b>1,364</b>	<b>0.67%</b>	<b>(48,565)</b>	<b>-23.83%</b>
Temporary differences	996	0.45%	663	-0.15%	1,659	0.29%
<b>Current taxation</b>	<b>(48,933)</b>	<b>-24.05%</b>	<b>2,027</b>	<b>0.52%</b>	<b>(46,906)</b>	<b>-23.53%</b>

## 28. 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.

During the year under review PRADA spa acquired full ownership of Fratelli Prada

spa from related company Bellatrix and Bellatrix's ultimate shareholder. With this acquisition, legally effective from November 1, 2019, Prada gained full control of its retail network in Milan, ending the franchising agreement with Fratelli Prada spa.

As required by the Listing Rules, comprehensive disclosure of those continuing connected transactions is contained in PRADA spa's Announcements dated January 25, 2017 ("Renewal of Annual Caps for Franchise Agreement") and October 29, 2019 ("Termination of Continuing Connected Transaction").

The transactions with related party Luna Rossa Challenge srl for the twelve months ended December 31, 2019 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.

The sponsorship agreement with related party Challenger of Record 36 srl, effective from March 1, 2020, is regulated by Chapter 14A of the Listing Rules because it is considered a continuing connected transaction subject to disclosure, but it is exempt from the independent shareholders' approval requirement. As required by the Listing Rules, comprehensive disclosure of the continuing connected transaction is contained in PRADA spa's Announcement dated March 1, 2020.

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

## STATEMENT OF FINANCIAL POSITION

(amounts in thousands of Euro)	Trade receivables	Trade payables	Trade receivables	Trade payables
	December 31 2019	December 31 2019	December 31 2018	December 31 2018
Subsidiaries and associates	613,534	651,801	502,096	614,304
Artisans Shoes S.r.l.	171	19,976	450	22,390
Church & Co Ltd	35,824	1,708	22,692	1,466
Church & Co. (USA) Ltd.	121	1	55	1
Church Austria GmbH	11	-	7	-
Church English shoes SA	18	-	9	-
Church Footwear (Shanghai) Co., Ltd	107	-	77	-
Church Footwear Ab	137	-	98	-
Church France SA	73	1	70	-
Church Hong Kong Retail C	69	-	33	-
Church Ireland Retail Ltd	9	-	7	-
Church Italia S.r.l.	1,916	360	1,031	155
Church Japan Co., Ltd.	28	-	32	6
Church UK Retail Ltd	573	-	347	-
Church's Denmark	92	7	82	-
Church's Eng. Shoes Sw.SA	106	4	64	-
Church's Germany	26	-	19	-
Church's Korea	67	-	54	-
Church's Netherlands	153	-	109	-
Church's Singapore	155	-	147	-
Church's Spain	11	-	3	-
Figline Srl	256	999	-	-
Fratelli Prada spa	7,844	611	-	-
Hipic Prod Impex Srl	342	1,904	190	1,179
IPI Logistica S.r.l.	585	1,958	1,294	4,052
Kenon Limited	9	-	2	-
Marchesi 1824 srl	4,474	1,006	8,800	1,063
Marchesi UK	33	-	-	-
Pelletteria Ennepi S.r.l.	71	778	23	1,064
Post Development Corp.	21	-	9	-
Prada (Thailand) Co.,Ltd.	3,349	4,592	1,950	2,306
Prada Asia Pacific Ltd.	5,497	82,422	12,242	75,915
Prada Australia Pty. Ltd	2,670	5,651	1,902	10,446
Prada Austria GmbH	4,313	4,658	4,713	5,539
Prada Belgium sprl	1,530	1,471	1,870	1,759
Prada Bosphorus Deri Mamuller Limited Sirketi	7,100	2,396	4,345	2,002
Prada Brazil	11,722	372	9,366	3,467
Prada Canada Corp.	12,300	12,363	9,660	6,959
Prada Company SA	(4)	-	(4)	-
Prada Czech Republic s.r.o.	923	308	1,882	837
Prada Denmark	1.266	1,563	2,314	2,014
Prada Dongguan Trading co. LTD	51	452	45	162
Prada Fashion (Shanghai)	156.359	58,335	74,772	53,210
Prada Finnish Oy	-	-	236	975
Prada Germany GmbH	6.830	14,990	19,291	26,726
Prada Hellas Single Partner Limited Liability Company	617	1,384	779	1,620
Prada Japan Co., Ltd.	14,970	58,019	20,121	51,161
Prada Kazakhstan LLP	2.596	652	3,843	341
Prada Korea Ltd.	26.214	6,942	33,652	7,715
Prada Kuwait	1.010	1	777	1
Prada Macau Co., Ltd.	15.263	3,457	10,817	4,252
Prada Mexico	5.629	3,752	2,622	2,422

(amounts in thousands of Euro)	Trade receivables	Trade payables	Trade receivables	Trade payables
	December 31 2019	December 31 2019	December 31 2018	December 31 2018
Prada Middle East FZCO	16,329	13,679	26,267	23,482
Prada Montecarlo Sam	1,855	3	1,374	5,964
Prada Netherlands B.V.	5,304	2,703	4,220	2,215
Prada New Zealand Pty. Ltd	605	1,282	270	907
Prada Panama SA	404	393	1,367	1,410
Prada Portugal, Unipessoal LDA	608	526	992	874
Prada Retail Aruba	1,468	1,562	1,284	991
Prada Retail France SaS	27,406	45,603	30,834	50,346
Prada Retail Malaysia Sdn	5,822	1,916	1,375	94
Prada Retail SPC	2,673	1,159	3,868	1,660
Prada Retail UK Ltd	61,552	44,193	34,130	22,543
Prada Retail UK Ltd. - Irish Branch	3,405	1,648	2,027	1,635
Prada Rus LLC	14,776	8,839	12,327	7,619
Prada SA	25	6,217	18	6,217
Prada SA,Lux,Swiss Branch	1,248	17,364	1,037	17,906
Prada ST. Barthelemy	4,061	1,919	3,975	2,106
Prada Saudi Arabia	1,846	1	1,286	13
Prada Singapore Pte, Ltd.	3,486	9,651	2,998	13,445
Prada South Africa (Pty) Ltd	969	1,337	3,281	2,451
Prada Spain S.A.	12,544	7,780	20,942	9,186
Prada Sweden AB	1,085	1,154	1,000	940
Prada Switzerland sa	6,656	13,561	7,739	11,840
Prada Taiwan Ltd Branch Taipei	7,590	3,710	2,988	6,506
Prada Ukraine	984	861	1,513	998
Prada Emirates llc (1)	3,749	315	3,462	704
Prada USA Corp.	88,675	167,393	73,576	127,359
Prada Vietnam	435	2,005	638	1,696
PRM Services S. De R.L. de CV	91	1	80	1
TRS Guam	880	5	397	24
TRS Hawaii LLC	643	8	1,034	1
TRS MACAU	1,984	925	2,252	728
TRS Okinawa	471	-	363	-
TRS Saipan	268	184	137	240
TRS Singapore Pte Limited	88	28	127	54
Tannerie Limoges S.A.S.	37	780	26	938
Parent company and related parties	4,058	2,275	8,718	3,369
Chora Srl	-	355	-	828
Conceria Superior S.p.A.	-	472	3	1,226
COR 36 S.r.l.	1,765	-	24	47
COR 36 S.r.l. New Zeland Branch	290	-	-	-
Fratelli Prada spa	-	-	7,629	1,250
Les Femmes Srl	391	1,448	-	-
Luna Rossa Challenge 2013 Srl	1,420	-	920	18
Prada Holding spa	191	-	142	-
Total	617,592	654,076	510,815	617,672
Note:				
(1) Company consolidated according to IFRS 10 definition of control				



(amounts in thousands of Euro)	Financial receivables	Other receivables	Financial receivables	Other receivables
	December 31 2019	December 31 2019	December 31 2018	December 31 2018
Subsidiaries and associates	427,210	6,985	320,369	10,455
Artisans Shoes S.r.l.	6,208	438	7,745	1,226
Church & Co Ltd.	3,255	86	-	42
Church Italia S.r.l.	29	5,177	-	3,728
Fratelli Prada spa	122	-	-	-
Figline Srl	1,381	6	-	-
IPI Logistica S.r.l.	-	20	-	38
Marchesi 1824 srl	40,709	134	4,035	79
Pelletteria Ennepi S.r.l.	-	251	-	229
PRADA (Thailand) Co.,Ltd.	6,028	-	5,436	-
PRADA Asia Pacific Ltd.	-	182	-	128
PRADA Australia Pty. Ltd.	10,011	-	9,880	4,316
PRADA Austria GmbH	5,005	-	7,007	-
PRADA Brasil Importação e Comercio de Artigos de Luxo Ltd.a	12,262	5	8,224	5
PRADA Denmark Aps	2,694	-	815	-
PRADA Dongguan Trading co. Ltd.	-	11	-	6
PRADA Fashion (Shanghai)	-	98	-	93
PRADA Finnish Oy	-	-	804	-
PRADA Germany GmbH	27,408	-	27,409	-
PRADA Hellas Single Partner Limited Liability Company	1,816	-	1,816	9
Prada Japan Co., Ltd.	-	-	9,613	-
PRADA Middle East Fzco	12,480	-	20,978	-
PRADA Montecarlo Sam	51,926	-	36,620	-
PRADA New Zealand Pty. Ltd.	2,109	-	2,075	-
PRADA Portugal, Unipessoal LDA	1,261	-	1,264	-
PRADA Retail France Sas	74,214	63	73,952	63
PRADA Retail UK Ltd.	21,251	30	20,221	22
PRADA Retail UK Ltd. - Irish Branch	1,902	-	1,902	-
PRADA Saudi Arabia Ltd.	3,004	-	6,223	-
PRADA Singapore Pte, Ltd.	15,240	-	14,772	-
PRADA Spain Sa	64,595	-	-	-
PRADA Switzerland sa	52,515	110	50,670	106
PRADA Usa Corp.	-	372	-	365
PRADA Ukraine	-	1	-	1
PRADA Vietnam	2,740	-	2,692	-
Tannerie Limoges Sas	7,044	-	6,214	-
Related parties	2,379	19,370	-	12,609
COR 36 S.r.l.	2,004	-	-	-
Chora Srl	-	5,848	-	5,848
Les Femmes Srl	375	-	-	-
Luna Rossa Challenge 2013 Srl	-	13,522	-	6,761
Total	429,588	26,355	320,369	23,063

(amounts in thousands of Euro)	Fair value IRS "fair value through profit or loss"	
	December 31 2019	December 31 2018
Kenon Ltd	7,539	6,314

(amounts in thousands of Euro)	Financial payables	Other payables	Financial payables	Other payables
	December 31 2019	December 31 2019	December 31 2018	December 31 2018
Subsidiaries and associates	44,007	7,973	46,217	7,685
Church Italia S.r.l.	-	46	-	7
Fratelli Prada spa	-	3	-	-
IPI Logistica S.r.l.	1,776	11	229	9
Marchesi 1824 srl	-	4,212	-	5,235
Pelletteria Ennepi S.r.l.	-	1,020	-	317
Post Development Corp.	130	-	127	-
Prada Australia Pty. Ltd	-	7	-	-
Prada Brazil	-	5	-	-
Prada Canada Corp.	-	4	-	1
Prada Denmark	-	5	-	-
Prada Dongguan Trading co. LTD	-	61	-	61
PRADA Fashion (Shanghai)	-	143	-	141
PRADA Germany GmbH	3,970	529	6,995	1
PRADA Japan Co., Ltd.	-	2	-	5
PRADA Middle East Fzco	-	8	-	8
PRADA Netherlands Bv	7,083	-	-	-
PRADA Retail France Sas	-	9	-	-
PRADA Retail UK Ltd.	-	9	-	2
PRADA Retail UK Ltd. - Irish Branch	1,345	-	174	-
PRADA SA,Lux,Swiss Branch	29,488	1,572	38,483	1,572
PRADA Spain Sa	-	(5)	-	(3)
Prada Sweden AB	-	12	-	1
PRADA Switzerland sa	16	134	13	105
PRADA Usa Corp.	199	186	196	223
Related parties	-	22,671	-	62
BELLATRIX S.P.A.	-	22,253	-	-
Luna Rossa Challenge 2013 Srl	-	-	-	62
Other related parties	-	418	-	-
Total	44,007	30,644	46,217	7,747

(amounts in thousands of Euro)	Other liabilities	
	December 31 2019	December 31 2018
Remuneration of Board of Directors	2,125	3,059
Others <sup>(1)</sup>	296	146
Note:		
1) Relative of a Director		

## STATEMENT OF PROFIT OR LOSS

(amounts in thousands of Euro)	Net Revenues	Net Revenues	Cost of goods sold	Cost of goods sold
	December 31 2019	December 31 2018	December 31 2019	December 31 2018
Subsidiaries and associates	1,178,593	1,083,082	114,601	101,565
Artisans Shoes S.r.l.	6	4	68,685	63,884
Church & Co Ltd	10,967	13,531	879	285
Church Footwear (Shanghai) Co., Ltd	1	-	(1)	-
Church Footwear Ab	-	1	-	-
Church France SA	1	6	-	-
Church Italia S.r.l.	1	7	3	-
Church UK Retail Ltd	2	2	-	-
Church's Denmark	-	1	-	-
Church's Eng. Shoes Sw.SA	-	2	-	-
Church's Netherlands	-	1	-	-
Church's Spain	-	1	-	-
Fratelli Prada spa	21,930	-	173	-
Figline Srl	2	-	5,361	-
Hipic Prod Impex Srl	9	7	9,204	7,966
IPI Logistica S.r.l.	-	2	964	858
Marchesi 1824 srl	-	2	23	16
Pelletteria Ennepi S.r.l.	2	-	7,251	6,921
Prada (Thailand) Co.,Ltd.	7,664	8,741	-	-
Prada Asia Pacific Ltd.	39,280	80,167	1,878	2,039
Prada Australia Pty. Ltd	4,025	3,790	-	1
Prada Austria GmbH	19,036	17,097	103	93
Prada Belgium sprl	895	635	-	-
Prada Bosphorus Deri Mamuller Limited Sirketi	8,262	8,191	15	-
Prada Brazil	6,251	4,019	(1)	-
Prada Canada Corp.	32,537	26,630	27	(1)
Prada Czech Republic s.r.o.	2,056	1,460	34	-
Prada Denmark	527	(487)	-	-
Prada Dongguan Trading co. LTD	-	-	808	865
Prada Fashion (Shanghai)	249,979	203,919	67	15
Prada Germany GmbH	26,983	16,363	69	23
Prada Hellas Single Partner Limited Liability Company	684	208	-	93
Prada Japan Co., Ltd.	98,251	78,161	738	463
Prada Kazakhstan LLP	1,798	723	58	-
Prada Korea Ltd.	125,020	131,778	91	242
Prada Kuwait	-	(9)	(1)	(2)
Prada Macau Co., Ltd.	23,485	31,768	15	(1)
Prada Mexico	7,824	5,162	(1)	14
Prada Middle East FZCO	8,743	16,222	(1,147)	-
Prada Montecarlo Sam	4,919	2,000	47	-
Prada Netherlands B.V.	21,958	19,793	-	-
Prada New Zealand Pty. Ltd	180	738	-	-
Prada Panama SA	396	(120)	5	2
Prada Portugal, Unipessoal LDA	3,363	1,882	-	-
Prada Retail Aruba	(7)	(437)	-	-
Prada Retail France SaS	22,662	25,965	2,897	3,512
Prada Retail Malaysia Sdn	15,618	8,200	5	14
Prada Retail SPC	5,101	5,227	-	-
Prada Retail UK Ltd	56,529	55,950	2,206	2,141
Prada Retail UK Ltd. - Irish Branch	5,298	5,291	-	-
Prada Rus LLC	18,258	13,809	11	13

(amounts in thousands of Euro)	Net Revenues	Net Revenues	Cost of goods sold	Cost of goods sold
	December 31 2019	December 31 2018	December 31 2019	December 31 2018
Prada SA, Lux, Swiss Branch	-	25	-	-
Prada ST. Barthelemy	562	511	-	-
Prada Saudi Arabia	218	170	(2)	-
Prada Singapore Pte, Ltd.	10,228	6,507	16	25
Prada South Africa (Pty) Ltd	375	(419)	19	-
Prada Spain S.A.	32,164	25,922	2	61
Prada Sweden AB	841	1,236	-	-
Prada Switzerland sa	4,112	5,644	-	(2)
Prada Taiwan Ltd Branch Taipei	12,075	4,447	3	-
Prada USA Corp.	239,596	220,724	3,251	4,172
Prada Ukraine	645	270	-	-
Prada Emirates Ilc <sup>(1)</sup>	1	69	24	30
Prada Vietnam	1,044	964	596	387
TRS Guam	4,869	4,180	-	-
TRS Hawaii LLC	3,981	5,097	-	-
TRS Macau	11,982	15,419	-	-
TRS Okinawa	3,956	3,475	-	-
TRS Saipan	821	1,396	-	-
TRS Singapore Pte Limited	626	1,041	-	-
Tannerie Limoges S.A.S.	1	1	10,226	7,436
Related parties	486	21,632	23,999	18,816
COR 36 S.r.l.	44	3	-	-
COR 36 S.r.l. New Zeland Branch	290	-	-	-
Conceria Superior S.p.A.	1	-	19,587	18,650
Fratelli Prada spa	-	21,439	-	79
La Mazza srl	-	-	-	92
Les Femmes Srl	-	-	4,418	-
Luna Rossa Challenge 2013 Srl	151	190	(1)	-
Peschiera Immobiliare srl	-	-	(5)	(5)
Total	1,179,079	1,104,714	138,600	120,381

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 2019	December 31 2018	December 31 2019	December 31 2018
Subsidiaries and associates	(223,481)	(207,817)	8,320	6,364
Artisans Shoes S.r.l.	(2,868)	(2,451)	-	-
Church & Co Ltd	916	1,090	40	1
Church & Co. (USA) Ltd.	65	11	-	-
Church Austria Gmbh	21	15	-	-
Church English shoes SA	8	10	-	-
Church Footwear (Shanghai) Co., Ltd	29	46	-	-
Church Footwear Ab	39	13	-	-
Church France SA	90	86	-	-
Church Hong Kong Retail C	36	27	-	-
Church Ireland Retail Ltd	10	13	-	-
Church Italia S.r.l.	601	882	1	-
Church Japan Co., Ltd.	63	45	-	-
Church UK Retail Ltd	222	226	-	-
Church's Denmark	4	25	-	-
Church's Eng. Shoes Sw.SA	38	31	-	-
Church's Germany	7	19	-	-
Church's Korea	13	54	-	-
Church's Netherlands	44	19	-	-
Church's Singapore	8	9	-	-
Church's Spain	8	9	-	-
Fratelli Prada spa	(1,454)	-	1	-
Figline Srl	30	-	-	-
Hipic Prod Impex Srl	(244)	(55)	-	-
IPI Logistica S.r.l.	(49)	(72)	-	-
Kenon Limited	9	2	1,214	1,343
Marchesi 1824 srl	34,039	3,575	503	49
Marchesi UK	33	-	-	-
PRM Services S. De R.L. de CV	11	43	-	-
Pelletteria Ennepi S.r.l.	(74)	(69)	-	-
Post Development Corp.	12	-	-	-
Prada (Thailand) Co.,Ltd.	534	495	222	207
Prada Asia Pacific Ltd.	(51,468)	(52,359)	(1)	(2,288)
Prada Australia Pty. Ltd	806	816	181	16
Prada Austria GmbH	836	647	15	42
Prada Belgium sprl	275	307	-	-
Prada Bosphorus Deri Mamuller Limited Sirketi	(1,156)	(442)	-	-
Prada Brazil	178	159	1,012	619
Prada Canada Corp.	(11,188)	(5,800)	-	-
Prada Czech Republic s.r.o.	103	90	-	-
Prada Denmark	374	214	30	33
Prada Dongguan Trading co. LTD	56	46	-	-
Prada Fashion (Shanghai)	(23,566)	(20,120)	-	-
Prada Finnish Oy	(102)	(967)	8	58
Prada Germany GmbH	2,489	2,884	247	254
Prada Hellas Single Partner Limited Liability Company	206	288	59	58
Prada Japan Co., Ltd.	5,350	5,243	13	208
Prada Kazakhstan LLP	(94)	68	-	-
Prada Korea Ltd.	2,500	2,159	-	-
Prada Kuwait	220	324	-	-
Prada Macau Co., Ltd.	192	210	-	-
Prada Mexico	(2,157)	(1,530)	-	-
Prada Middle East FZCO	(613)	(290)	-	-
Prada Montecarlo Sam	1,054	(2,886)	1,961	1,257

(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 2019	December 31 2018	December 31 2019	December 31 2018
Prada Netherlands B.V.	536	450	(5)	-
Prada New Zealand Pty. Ltd	69	49	73	91
Prada Panama SA	(351)	(674)	-	-
Prada Portugal, Unipessoal LDA	461	405	6	8
Prada Retail Aruba	30	23	-	-
Prada Retail France SaS	707	(4,658)	1,621	1,810
Prada Retail Malaysia Sdn	307	152	-	-
Prada Retail SPC	630	1,403	-	-
Prada Retail UK Ltd	3,673	3,303	240	272
Prada Retail UK Ltd. - Irish Branch	156	83	5	12
Prada Rus LLC	(3,836)	(1,975)	-	-
Prada SA	7	18	-	-
Prada SA,Lux,Swiss Branch	(35,046)	(33,465)	(106)	(95)
Prada ST. Barthelemy	(408)	(1,367)	-	-
Prada Saudi Arabia	320	334	-	-
Prada Singapore Pte, Ltd.	534	203	297	20
Prada South Africa (Pty) Ltd	(618)	(629)	-	-
Prada Spain S.A.	1,543	1,408	92	218
Prada Sweden AB	268	140	-	-
Prada Switzerland sa	940	991	273	1,873
Prada Taiwan Ltd Branch Taipei	931	949	-	-
Prada USA Corp.	(150,051)	(108,166)	-	-
Prada Ukraine	(744)	(888)	-	-
Prada Emirates Ilc <sup>(1)</sup>	609	1,356	-	-
Prada Vietnam	(1,155)	(959)	159	176
TRS Guam	63	128	-	-
TRS Hawaii LLC	95	137	-	-
TRS MACAU	151	224	-	-
TRS Okinawa	65	62	-	-
TRS Saipan	81	55	-	-
TRS Singapore Pte Limited	19	16	-	-
Tannerie Limoges S.A.S.	37	(84)	159	122
Related parties	(20,464)	(21,344)	(42)	-
Chora Srl	(2,032)	(1,930)	-	-
Conceria Superior S.p.A.	(109)	(97)	-	-
COR 36 S.r.l.	11	12	4	-
Fratelli Prada spa	-	(1,558)	-	-
Les Femmes Srl	(3)	-	-	-
Ludo srl	-	(1,321)	-	-
Ludo Due srl	(1,459)	-	(46)	-
Ludo Tre srl	3	-	-	-
Luna Rossa Challenge 2013 Srl	(15,920)	(16,094)	-	-
Peschiera Immobiliare srl	(21)	(436)	-	-
Prada Holding spa	30	80	-	-
Others <sup>(1)</sup>	(964)	(827)	-	-
Total	(243,945)	(229,161)	8,278	6,364
Note:				
1) Relatives of a Director				

## COMMITMENTS

### GUARANTEES GIVEN

The guarantees concern:

- sureties of Euro 405 million given to third parties and related parties on behalf of Group companies;
- letters of comfort for Euro 251 million issued to banks on behalf of subsidiaries.

### OTHER COMMITMENTS

The Company had no significant binding purchase commitments as at December 31, 2019.

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 2019
Directors' fees	25,460
Remuneration and other benefits	293
Bonuses and other incentives	1,240
Benefits in kind	84
Pension, healthcare and TFR contributions	248
Total	27,334

## 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 0.5 million.

The total fees paid to Deloitte & Touche spa and its network for auditing the financial statements of the year ended December 31, 2019, and for other consulting services provided by Deloitte to PRADA spa amounting to Euro 714 million, are as follows:

Type of service	Audit firm	Fees in thousands of euro
Audit services	Deloitte & Touche spa	500
Other advisory services	Deloitte network	214
Total fees of audit firm for period ended December 31, 2019		714

The other advisory services provided by Deloitte to Prada spa were mainly related to the methodological analysis activity relating to the first application of the new IFRS 16 standard.

## NUMBER OF EMPLOYEES

The average number of employees by business division as at December 31, 2019 and December 31, 2018 is presented below:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Production	1,883	1,842
Product design and development	1,012	999
Communications	73	72
Selling	997	950
General and administrative services	552	536
Total	4,517	4,399



## COST OF LABOR

The remuneration of employees by business division as at December 31, 2019 and December 31, 2018 is presented below:

(amounts in thousands of Euro)	December 31 2019	December 31 2018
Production	89,485	91,928
Product design and development	66,569	66,288
Advertising and Communications	6,408	6,633
Selling	62,741	62,027
General and administrative services	41,715	49,174
Total	266,918	276,050



## INDEPENDENT AUDITORS' REPORTS

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## **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.

## 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, 2019, 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, 2019, 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 10 to the separate financial statements, the Company accounts for goodwill of Euro 108.4 million, which is unchanged compared to the previous year, and investments in subsidiaries and associates of Euro 898.9 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 associates), by comparing their recoverable amount and their carrying amount.

In order to measure recoverable amount, Management determined the "value in use" for all the assets tested using present value techniques. As a result of the impairment test an impairment loss of Euro 32.7 million has been recognized on investments in subsidiaries.

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The determination of the recoverable amount is based on estimates and assumptions made by Management using, among other, projected cash flows, the determination of appropriate discount rates (WACC) and long-term growth rates (g-rate).

Furthermore, considering the extraordinary circumstance related to the coronavirus disease, Management conducted a sensitivity analysis on the discount rates (WACC) as described in Notes 8 and 10.

Given the materiality of the value of these assets, the complexity of the estimates of the cash flows projections and of 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 analyzed 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 Company operates) as well as obtaining supporting information from Management;
- Evaluation of the reasonableness of the discount rates (WACC) and long-term growth rates (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;
- Evaluation of the appropriateness of the methodologies used by Management and of the information disclosed in the notes to the separate financial statements.

**Initial application of IFRS 16 Leases**

**Description of the key audit matter**

As described in Note 3 to the separate financial statements, the Company applied the international accounting standard IFRS 16 Leases (hereinafter also the "Standard") in 2019. The initial application has been carried out using the modified retrospective approach without restating comparative information and as of January 1, 2019 has led to the recognition of:

- Right of use assets with a carrying amount of Euro 307 million within "Non-current assets";
- Lease liabilities totaling Euro 337 million.

The application of the Standard required Management to make judgments to develop significant estimates involving assumptions. In particular, for determining the lease terms, Management considered the relevant contractual terms and conditions, the applicable legislation as well as the past experience.

With reference to the rates used for discounting future lease payments, since in most of the leases there is no implicit interest rate available, Management has estimated the incremental borrowing rates considering the risk-free rate at the various maturities and the credit spread adjustment applicable to Prada S.p.A.

The initial application of the Standard also required the Company to adopt specific procedures for the mapping and analysis of all contracts that could contain a lease.

Given the material effects deriving from the adoption of the Standard on the Company's financial statements and considering the aforementioned significant assessments made by the Management and the complexity of the implementation project carried out by the Company, we considered the initial application of the Standard as a key audit matter.

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**Audit procedures performed**

In carrying out our audit procedures, we first examined the IFRS 16 implementation project carried out by the Company. Part of our procedures were performed also with the support of our internal IT specialists.

As part of our audit, we performed, among others, the following procedures:

- Analysis of the methodology adopted by the Management to determine the effects of the initial application of IFRS 16, also with the support of our internal IFRS specialists;
- Understanding of the relevant procedures, IT systems and controls put in place by the Company as part of the process of initial application of the Standard;
- Carrying out of specific procedures in order to test the accuracy and completeness of the database used by the Company for the mapping of lease contracts, also through a critical analysis, on a sample basis, of the underlying lease contracts;
- Assessment of the reasonableness of the main assumptions used and estimates made by the Management to determine lease terms and discount rates;
- Verification, on a sample basis, of the mathematical accuracy of the calculation of the right of use assets and lease liabilities;
- Verification of the disclosure included 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 2019 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.

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.  
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**  
Partner

Milan, Italy  
March 18, 2020

## 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 FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of Prada S.p.A. (the "Company"), which comprise the statement of financial position as at December 31, 2019, the statement of profit or loss, the statement of comprehensive income, the statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, 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 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 Financial Statements

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

In preparing the 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 for the termination of the operations or have no realistic alternative 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 Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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, 2019, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the financial review with the financial statements of Prada S.p.A. as at December 31, 2019 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned financial review is consistent with the financial statements of Prada S.p.A. as at December 31, 2019 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 18, 2020

*This report has been translated into the English language solely for the convenience of international readers.*

## BOARD OF STATUTORY AUDITORS' REPORT

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**PRADA S.p.A.**

Registered Office 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, 2019 pursuant to art. 2429, second paragraph of the Italian Civil Code**

Dear Shareholders,

during the financial year closed as at December 31st, 2019, the Board of Statutory Auditors carried out the supervisory activity set forth by the law, also 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, 2019 the Board of Statutory Auditors met seven 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 31<sup>st</sup>, 2019.

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 31<sup>st</sup>, 2019 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, 2019 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 31<sup>st</sup>, 2019, 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, 2019 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, 2019.

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, 2019, showing a net profit for the year of Euro 249,027,388.03, and to the appropriation of the net profit for the year as proposed by the Directors.

Milan, 18 March 2020

The Board of Statutory Auditors

The Chairman  
Mr. Antonino Parisi



