Annual Report 2017

Table of Contents

Patrizio Bertelli

Miuccia Prada

The PRADA Group

The first Prada store,
Galleria Vittorio Emanuele II
Milan

Presentation

Pioneer of a vision that transcends fashion, the Prada Group inquisitively observes the contemporary society and its interactions with the most diverse and apparently distant cultural spheres.

A fluid perspective that becomes the manifesto of the Group suggesting a unique approach to doing business by placing at the core of ethical and action principles essential values as freedom of creative expression, reinterpretation of the existent, preservation of know-how and valorisation of people's work.

The Prada Group serves as a contemporary interpreter of changing scenarios. In a three-dimensional temporal dialogue, that combines identity heritage of the past with demands and dynamics of the present and future perspectives, creativity moulds ideas that transcend the boundaries of the ordinary and create an innovative vision of tomorrow.

"Thorough observation and curiosity for the world around us have always been at the heart of the creativity and modernity of the Prada Group. In society, and thus in fashion, which is somehow a reflection of it, the only constant is change.

The transformation and innovation of references, at the core of any evolution, led us to interact with different cultural disciplines, at times apparently far from our own, allowing us to capture and anticipate the spirit of the times.

Today this is no longer enough: we must be the actors of change, with the flexibility required to translate the demands of the market and the society into tangible actions that inform our way to do business."

Miuccia Prada and Patrizio Bertelli

Prada Group history

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

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

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

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

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

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

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

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

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

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

In **1999**, the Prada Group acquired the classic brand Church's, founded in 1873 in Northampton, England. The brand, specialized in high-end handcrafted footwear, is a

universally recognized symbol of British tradition and sophisticated elegance.

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

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

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

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

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

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

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

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

In **2017**, the restyling plan for the Prada and Miu Miu stores continued and a broad program of pop-up events was launched to further support retail activities. In the same year, the new Prada e-commerce platform was unveiled in China. This was an important step forward for the Group's digital strategy, under which the new e-commerce experience will go live on a global level in 2018.

Also in **2017**, the Prada Group was admitted to the cooperative compliance regime introduced with Italian Law Decree 128 of 2015. Under the cooperative compliance regime, the Group has set up a systematic, open communication channel with the Italian tax authorities based on reciprocal transparency and trust, which will enable to minimize uncertainties about the tax aspects of its business operations.

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

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

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

Prada Store
Miami

Prada Store
Brussels

Miu Miu Store
Soho, New York

Miu Miu Store
Miami Design District, Miami

Spring/Summer 2018
Advertising campaign
for Prada

The Group's brands

The Prada Group is synonymous with innovation, transformation and independence. Under such principles it offers its brands a shared vision in which they may express their essence. The complexity of visions has broadened the horizons of luxury, without fear of facing contradictions, modifications and passions.

The Prada Group owns and manages some of the most prestigious luxury brands in the world and works constantly to enhance their value by increasing their visibility, recognition and appeal. The Group's brands are its most important asset.

Prada

The Prada label has become one of the most coveted and widely-recognized brands in the fashion and luxury goods industry. Prada is synonymous with best of Italy's design and manufacturing tradition, sophisticated style and outstanding quality. As one of the most innovative fashion brands, it is capable of redefining the norm by anticipating and setting new trends. This is because Prada constantly applies its creative approach not only to design development, but also to the most novel production techniques, to communications and to its distribution network.

Miuccia Prada has always been a sophisticated interpreter of her times who has stayed ahead of styles and trends. The Prada brand, with its collections of men's and women's leather goods, clothing, footwear, eyewear, and fragrances, targets an international clientele that is modern, sophisticated, fashion-conscious and appreciative of the highest quality craftsmanship.

Spring/Summer 2018
Advertising campaign
for Prada

Spring/Summer 2018
Advertising campaign
for Prada Eyewear

Spring/Summer 2018
Advertising campaign
for Miu Miu

Miu Miu

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

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

2017
Advertising campaign
for Miu Miu Fragrance

2017
Advertising campaign
for Prada Parfums

Church's

English shoes

Spring/Summer 2018
Advertising campaign
for Church's

Church's

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

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

Car Shoe

Small rubber studs set on a deconstructed sole have been characteristic of the iconic Car Shoe loafer since 1963. Originating from a passion for race cars and fine shoes, this timeless accessory has become part of the imagery involving travel and motors.

Car Shoe was founded in 1963 by Gianni Mostile, who designed the iconic driving moccasin, and has since then become an Italian classic, known for its original high-performance design, high-quality leathers and handcraftsmanship. The Car Shoe brand is a symbol of an exclusive, relaxed lifestyle, inspired by luxury. Particularly suited for leisure time and informal occasions, the Car Shoe collections are targeted to a casual, well-dressed male and female clientele.

Marchesi 1824

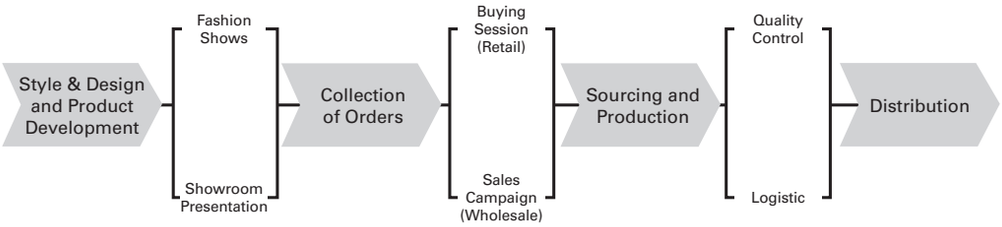
Since 1824 Pasticceria Marchesi has embodied Milanese style accompanying moments of conviviality imbued with artisanal taste and sophisticated creativity.

The care given to each detail characterizes Pasticceria Marchesi's good taste in all its features: excellent ingredients, impeccable service, cake decorations, dish presentation, window dressing and the iconic packaging in pastel colors finished with gold leaf.

Pasticceria Marchesi 1824
Galleria Vittorio Emanuele II, Milan

Business model

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



Creativity

Creativity is at the core of the manufacturing process.

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

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

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

Raw materials and the production process

Raw materials, an essential part of product quality, are of primary importance for the Prada Group. In many cases the fabrics and leather are made especially for Prada, according to stringent technical and style specifications that guarantee both the excellence of the materials and their exclusive nature, and highlight the independent spirit imbued in all Group products. Raw materials undergo extreme quality controls by internal inspectors and experts.

Prada products are made at 21 manufacturing facilities owned by the Group (18 in Italy, 1 in the United Kingdom, 1 in France and 1 in Romania), and through a network of contract manufacturers which receive the raw materials, patterns and prototypes and undergo strict controls. This system enables close oversight of each stage of the production process, emphasizing the individual capacity of each facility and ensuring the utmost flexibility and quality for each product.

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

Prada's approach to manufacturing is based on two key principles: the constant quest for innovation, ensuring the continuous evolution of skills and expertise; and a vocation for craftsmanship, which is an essential asset for production and a unique distinction for every brand.

Distribution

The retail network is regularly studied and improved in order to make the stores more attractive to customers and the product displays more impressive.

Over the years, the Group has expanded its distribution network to 625 directly operated stores ("DOS") in the most prestigious locations of the major international shopping destinations, consistent with the image, heritage and exclusivity of each brand. This extensive network is a true asset for the Group as it showcases the new collections and represents a contact point with the customer. The DOS serve as more than a primary sales function as they are also an important means of communication: they are the true ambassadors of the brand, conveying its image consistently and categorically, and providing services that protect the products' quality and durability over time. The DOS allow the Group to monitor in real time the sales performance of the various markets for each brand and product category.

The wholesale channel (department stores, multi-brand stores, franchisees and e-tailers) provides additional venues selected for their prestige of location and enables direct, immediate comparison with other brands. In recent years, the overhaul of this channel has gradually reduced the number of accounts, in keeping with the Group's retail strategies and brand positioning. At the same time, the Group's developments in the digital world have led to new partnerships with top electronic retailers ("e-tailers").

The retail channel generates 81% of the Prada Group's consolidated sales while the wholesale channel accounts for the remaining 19%.

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

Image and communications

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

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

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

Human Resources

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

Working in an ever-evolving global market, the company hires and manages personnel with a view to making the most of diversity in its broadest social and cultural aspects. At December 31, 2017 the Group had a workforce of 12,844 from 100 different countries, with women making up 62%.

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

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

Educational paths related to industrial production take place at the Craftsmanship School through courses dedicated to acquisition of footwear, leather goods and clothing manufacturing know-how. The main goal is the protection and conservation of the wealth of knowledge and expertise that characterize the industry, as well as their transmission to new generations of artisans.

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

Professional training for members of the corporate area is centered on courses geared towards the enhancement of relational and behavioral skills aimed to achieve more effective management of operational complexities

The extensive, merit-based compensation and benefits system ensures fair and equal treatment in terms of gender, title and seniority, and makes the Prada Group a true equal opportunity employer. The Group's remuneration policy aims to attract, reward

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

and retain skilled personnel and expert managers, while bringing the interests of management into line with the primary objective of creating value for the medium- and long-term future.

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

Personal protection is of key significance to the Group: internal policies safeguard the health and safety of employees at all Company locations according to the highest standards and in full compliance with local and international regulations.

In most locations (offices, warehouses and stores), risks associated with the Group's operations are limited. Manufacturing facilities present the greatest risk in terms of health and safety, but still to a small degree. The indicators highlight the almost total absence of injuries, also thanks to training activities and updated safety measures, especially in the industrial areas.

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

Thanks to the respect, dialogue and cooperation in place with Italian trade unions, no labor strikes occurred in the year, just as none occurred in 2016.

With regard to the working conditions of suppliers' employees, the Company has identified the main risks related to its industrial supply chain. To mitigate these risks, the Prada Group has adopted the "Group's qualified vendor list" procedure to redefine the responsibilities and operational behaviors required to evaluate ethical, technical and economical reliability. Specifically for ethical issues, the accreditation and maintenance of a supplier's qualification are based on the collection of documents, attestations and self-certifications that ensure compliance with the law on remuneration, social security, taxation, health and safety, the environment, privacy and the governance model. Finally, the signing of the Code of Ethics is a fundamental prerequisite for working with Prada.

Environment and territory

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

Respect for the places has been a guiding principle for the Prada Group from the start. Reducing land take, renovating existing structures and working toward building requalification have inspired the decisions made in more than thirty years of the industrial development. The Group completes its commitment to reducing the impact of its activities on the environment by defining long-term plan aimed at energy efficiency, the use of renewable sources, the reduction of waste and the responsible use of paper and packaging.

Prada's manufacturing and storage facilities are an excellent example of its responsible relationship with the environment. These buildings occupy more than 200,000 m^2, including more than 181,000 m^2 in Italy. Four of them are new constructions, three are the products of industrial archeology projects, and many more have been converted from sites long abandoned and in obvious disrepair. For four of its largest industrial projects, Prada hired architect Guido Canali, Italy's leading proponent of sustainable architecture. Prada Valvigna is the most important project carried out by the Group with Guido Canali; it was conceived as a workplace on a human scale in beautiful, natural surroundings. The rigorous construction standards combine ancient wisdom with modern technologies, from energy saving to the recovery of heat and rain water, from air circulation to internal noise abatement, from LED lighting to flood prevention in the surrounding area.

The energy-efficiency action plan has set in motion a number of measures, including the gradual replacement of all air conditioning and cooling systems with latest-generation technology; a campaign for the complete, definitive coverage of all lit spaces with low energy LED lamps and the installation of technologies to improve the recording and consequential optimization of energy consumtion.

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

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

Special projects

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

Prada's interest in architecture has always been evident in its cutting-edge manufacturing sites, conversion of abandoned buildings into showrooms and offices, and development of revolutionary retail concepts.

One of its most notable recent projects is Rong Zhai, a historic residence in downtown Shanghai, which underwent a scrupulous, six-year restoration and is now being used as a venue for the Group's cultural events in China. The rehabilitation of Rong Zhai is the result of a fruitful partnership with Western architects, historians, and Chinese artisans and represents the Group's interest in the restoration. Throughout its history, Prada has been involved in many other projects of international renown, including collaborations with some of the most prestigious architecture firms in the world. In 2015 Herzog & de Meuron, winners of the Pritzker Architecture Prize, worked with the Group on the Miu Miu flagship store in the Aoyama district in Tokyo, core of the brand's Japanese operations. A few years earlier, from 2000 to 2004, Herzog & de Meuron and another Pritzker Prize winner, Rem Koolhaas, had partnered with Prada on the Epicenter Concept Stores in New York, Los Angeles and Tokyo. These Epicenters, which continue to be a central part of Prada's retail strategy, are the result of innovative thinking about the shopping concept, revisited and reinvented in order to create unique stores, where luxury goods, technology, design and architecture combine seamlessly with a vast range of exclusive services and sensory and audiovisual experiences. On occasion, the Epicenters have hosted movie screenings, exhibitions, debates and other cultural events.

Since 1993, the interests and passions of Miuccia Prada and Patrizio Bertelli have led the Prada Group to sponsor Fondazione Prada's activities in the fields of art and culture. Fondazione Prada was set up in Milan as a space for contemporary art exhibitions as well as projects in architecture, cinema and philosophy.

By 2010 the Fondazione had staged 24 solo shows in Milan devoted to important Italian and international artists. Since 2011, the Fondazione has also been active at its eighteenth-century Venetian palace in Ca' Corner della Regina, where it has hosted 5 research fairs, an experimental project dedicated to cinema, and in 2017 a transmedia exhibition project entitled "The Boat is Leaking. The Captain Lied", resulting from a collaboration among several prestigious artists

During 2017 the Fondazione's permanent venue in Milan, designed by architecture firm OMA and inaugurated in 2015, hosted anthological and retrospective exhibitions, site-specific installations, film festivals and the experimental virtual reality experience "CARNE y ARENA (Virtually Present, Physically Invisible)" directed by Alejandro G. Iñárritu. Included in the Official Selection of the 70th Festival de Cannes, the innovative multimedia project, a virtual reality installation produced by Legendary Entertainment and Fondazione Prada, was awarded a special Oscar statuette by the Acadamy of Motion Picture Arts and Sciences in Los Angeles.

The Osservatorio is a photography exhibition center opened in December 2016 in Galleria Vittorio Emanuele II, Milan, whose program continued with solo exhibitions by photographers of international fame.

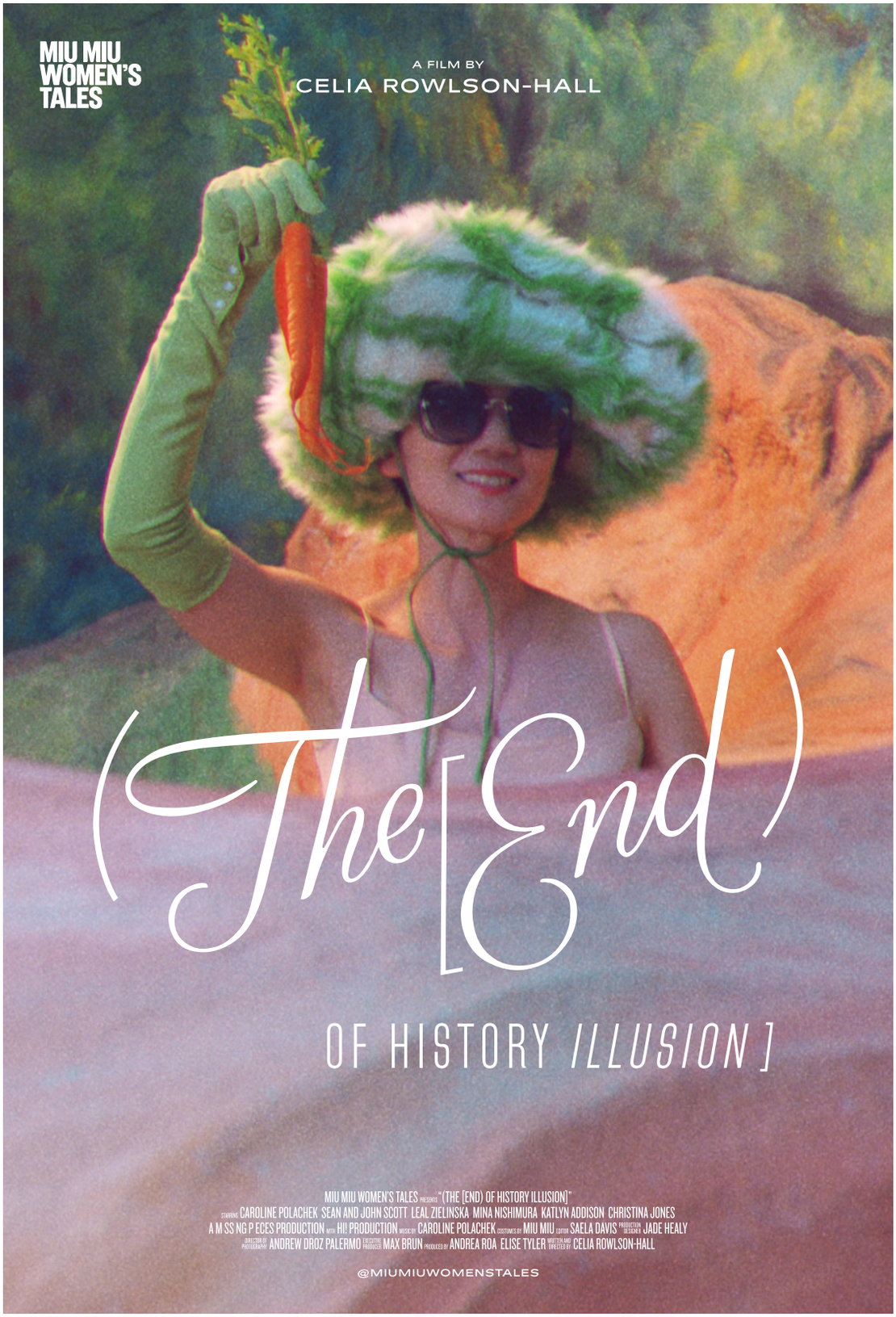
Miuccia Prada's personal interest in cinema, as a contemporary form of art, has led to invaluable collaborations from which fourteen short films were produced by December 2017 entitled The Miu Miu Women's Tales, in which directors of international fame and different intellectual backgrounds explored the world of women. Interaction with the world of cinema has created various other initiatives, including film productions on specific themes with internationally renowned film directors, such as Thunder Perfect Mind directed by Jordan and Ridley Scott in 2006, A Therapy directed by Roman Polanski in 2012, Castello Cavalcanti by Wes Anderson in 2013 and Past Forward by Academy Award winner David O. Russell in 2016.

Last, but not least, in the area of high-profile sports, the Luna Rossa team sponsored by the Group was a challenger in the America's Cup sailing yacht races of 2000, 2003, 2007 and 2013, winning the challenger selection regattas in 2000 and reaching the finals in 2007 and 2013. Having benefited from this experience, which made a huge contribution to the commercial success of the leisure clothing and footwear lines and raised visibility of the Prada brand around the world, the Group has again secured the role of main sponsor of the Luna Rossa, sailing team for the 36th America's Cup. The Prada brand will therefore be promoted jointly with the Luna Rossa brand, another of the Group's owned trademarks, for the entire duration of the competition and during all regattas and other events associated with the America's Cup, which will take place in New Zealand, the United States, Asia and Europe from 2018 to 2021.

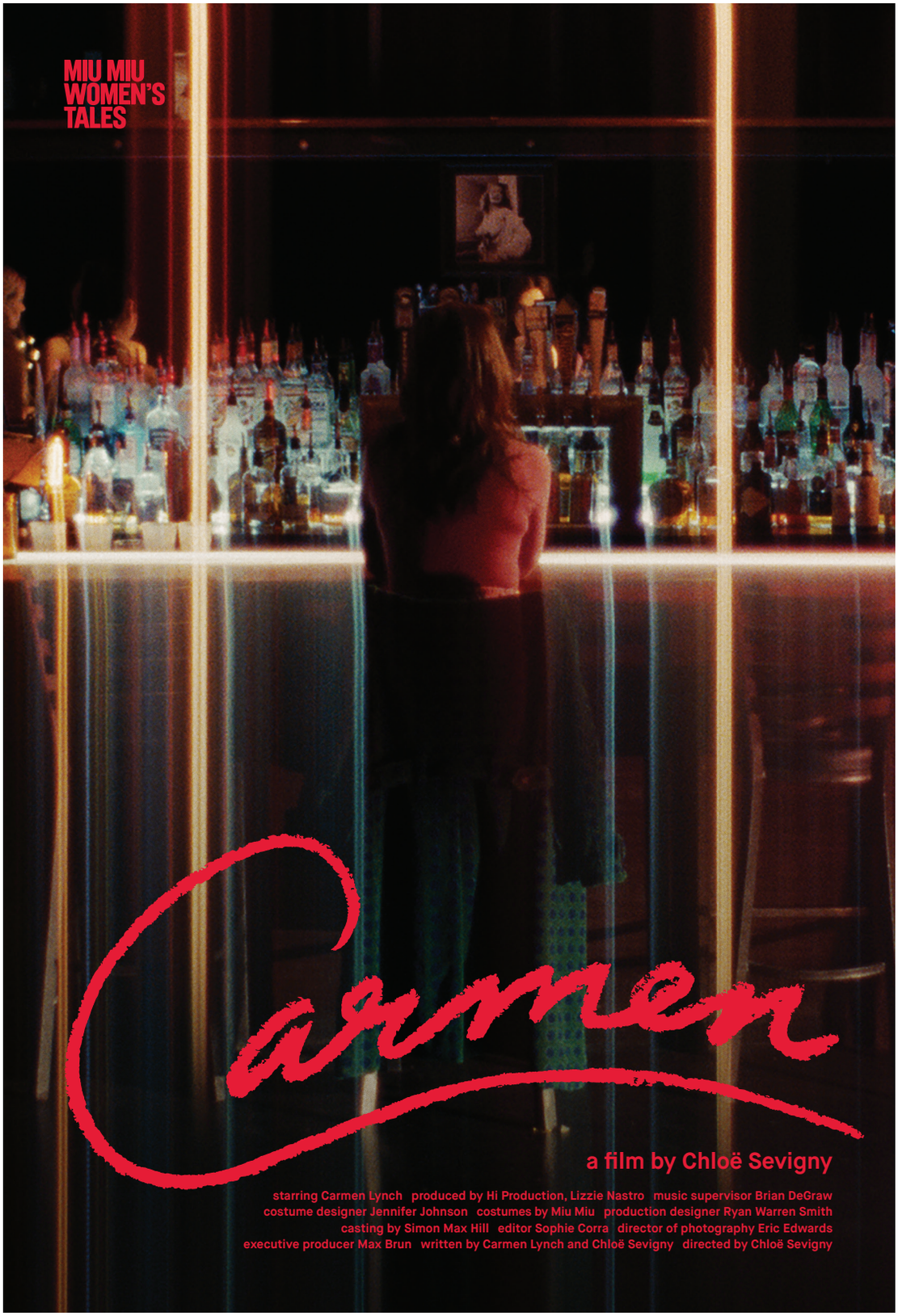
Prada Rong Zhai
Jing'an District, Shanghai

Prada Silver Line Pop-up Store
at Galaxy Macau, Macau

Miu Miu Lady Pop-up Store
at Pavilion KL, Kuala Lumpur



2017
Advertising campaign
for Miu Miu Women's Tales

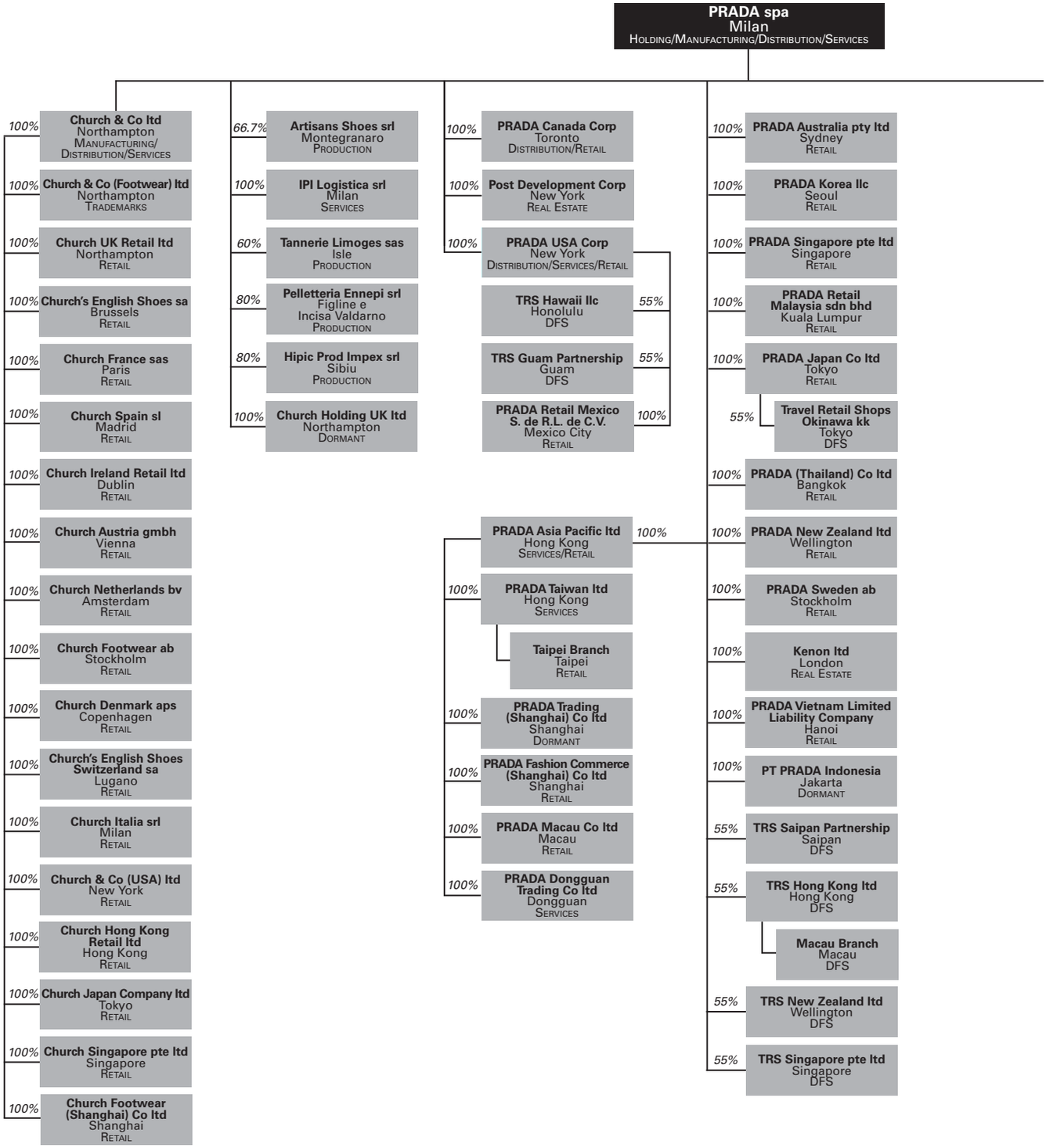


2017
Advertising campaign
for Miu Miu Women's Tales

Fondazione Prada
Largo Isarco 2, Milan
by architect Rem Koolhaas

Fondazione Prada Osservatorio
Galleria Vittorio Emanuele II, Milan

PRADA Group Structure



- 60% **PRADA Middle East fzco** Jebel Ali Free Zone-Dubai — Distribution/Services
  - 49% **PRADA Emirates llc** Dubai — Retail
  - 49% **PRADA Kuwait wll** Kuwait City — Retail
- 100% **PRADA Retail spc** Doha — Retail
- 75% **PRADA Saudi Arabia ltd** Jeddah — Retail
- 100% **PRADA Retail South Africa (pty) ltd** Sandton — Retail
- 100% **PRADA Rus llc** Moscow — Retail
- 100% **PRADA Ukraine llc** Kiev — Retail
- 100% **PRADA Kazakhstan llp** Almaty — Retail
- 100% **PRADA Brasil Importação e Comércio de Artigos de Luxo ltda** São Paulo — Retail
- 100% **PRM Services S. de R.L. de C.V.** Mexico City — Services
- 100% **PRADA Panama sa** Panama — Retail
- 100% **PRADA Retail Aruba nv** Aruba — Retail
- 100% **PRADA Saint Barthelemy sarl** Gustavia — Retail
- 100% **PRADA Maroc Sarlau** Casablanca — Dormant
  - **Maroc Branch** Marrakech — Dormant
- 100% **PRADA Retail France sas** Paris — Retail
- 100% **PRADA Monte-Carlo sam** Monaco — Retail
- 100% **PRADA Belgium sprl** Brussels — Retail
- 100% **PRADA Germany gmbh** Munich — Retail/Services
- 100% **PRADA Austria gmbh** Vienna — Retail
- 100% **PRADA Czech Republic sro** Prague — Retail
- 100% **PRADA Netherlands bv** Amsterdam — Retail
- 100% **PRADA Switzerland sa** Lugano — Retail
- 100% **PRADA Spain sl** Madrid — Retail
- 100% **PRADA Portugal Unipessoal lda** Lisbon — Retail
- 100% **PRADA Hellas Sole Partner llc** Athens — Retail
- 100% **PRADA Bosphorus Deri Mamüller ltd Sirketi** Istanbul — Retail
- 100% **PRADA Retail UK ltd** London — Retail
  - **Ireland Branch** Dublin — Retail
- 100% **PRADA Denmark aps** Copenhagen — Retail
- 100% **PRADA Finnish oy** Helsinki — Retail
- 80% **Marchesi Angelo srl** Milan — Confectionery
- 100% **Montenapoleone 9 srl** Milan — Confectionary
  - 100% **Isarcodue srl** Milan — Confectionary
- 100% **PRADA sa** Luxembourg — Trademark
  - **Swiss Branch** Lugano — Services
- 100% **PRADA Company sa** Luxembourg — Services

PRADA S.p.A. Corporate Information

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

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

Financial Review

Basis of Preparation of Financial review

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

On May 31, 2017 the Company's General Meeting approved By-Law Article 27, which changed the end of the annual reporting period from January 31 to December 31. For the past few years the proportion of consolidated revenues from the wholesale channel, whose seasonality is concentrated in the middle and at the end of the calendar year, has decreased considerably while that of the retail channel has grown. Therefore, the reasons for changing the end of the reporting period in 2004 to January are no longer applicable.

As a result of the change in the reporting date, the Prada Group's 2017 Statement of Profit or Loss prepared in accordance with IFRS ("2017 IFRS Statement of Profit or Loss") refers to the eleven-month period ended December 31, 2017. Since comparison with the previous IFRS Statement of Profit or Loss for the twelve months ended January 31, 2017 ("2016 IFRS Statement of Profit or Loss") does not provide a proper understanding of the Group's business and financial performance, management has prepared a "Pro-Forma Statement of Profit or Loss" that refers to the twelve months ended December 31, both for 2017 and 2016.

The comments reported herein regarding revenues and operating results refer to the "Pro-Forma Statement of Profit or Loss", whereas those regarding assets, liabilities and equity refer to the IFRS-based Consolidated financial statements as of December 31, 2017 and January 31, 2017.

Consolidated Statement of Profit or Loss of eleven-month period IFRS and twelve-month period pro-forma

	IFRS		pro-forma		pro-forma	
(amounts in thousands of Euro)	eleven months period ended December 31, 2017	%	twelve months period ended December 31, 2017	%	twelve months period ended December 31, 2016	%
Net Sales	2,696,644	98.4%	3,008,280	98.4%	3,126,015	98.6%
Royalties	44,451	1.6%	48,195	1.6%	44,440	1.4%
Net revenues	2,741,095	100.0%	3,056,475	100.0%	3,170,455	100.0%
Cost of goods sold	(710,399)	-25.9%	(810,885)	-26.5%	(888,805)	-28.0%
Gross margin	2,030,696	74.1%	2,245,590	73.5%	2,281,650	72.0%
Operating expenses	(1,714,818)	-62.6%	(1,885,570)	-61.7%	(1,876,064)	-59.2%
EBIT	315,878	11.5%	360,020	11.8%	405,586	12.8%
Interest and other financial expenses, net	(6,731)	-0.2%	(6,168)	-0.2%	(19,250)	-0.6%
Dividends from investments	670	0.0%	670	0.0%	2,252	0.1%
Income before taxation	309,817	11.3%	354,522	11.6%	388,588	12.3%
Taxation	(91,800)	-3.3%	(105,284)	-3.4%	(122,405)	-3.9%
Net income for the period	218,017	8.0%	249,238	8.2%	266,183	8.4%
Net income - Non-controlling interests	296	0.0%	313	0.0%	5,953	0.2%
Net income - Group	217,721	7.9%	248,925	8.1%	260,231	8.2%
Basic and diluted earnings per share (in Euro per share)	0.085		0.097		0.104	
Depreciation, amortization and impairment	209,913	7.7%	227,960	7.5%	228,927	7.2%
EBITDA	525,791	19.2%	587,979	19.2%	634,513	20.0%

Key financial information

	IFRS	IFRS	IFRS	Change
(amounts in thousands of Euro)	December 31 2017	January 31 2017	January 31 2016	Dec. 2017 vs. Jan. 2017
Net operating working capital	546,205	556,351	665,156	(10,146)
Net invested capital	2,969,909	3,086,089	3,212,172	(116,180)
Net financial position surplus/(deficit)	(103,738)	18,441	(114,795)	(122,179)
Group shareholders' equity	2,844,652	3,080,502	3,080,340	(235,850)
Average number of employees	12,112	12,326	12,414	(214)
Net operating cash flows (*)	446,517	631,850	368,465	(185,333)

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

2017 Highlights

During the year, the Prada Group focused on a series of initiatives designed to bolster its commercial performance with strategic prospects of increasing volumes and profitability in the medium term.
With this goal in mind, the Group rebalanced the merchandise mix at stores to feature newer products developed thanks to the creative talents of the design team, inspired, as always, by experimentation with shapes, materials and production techniques. The new mix concerns all product categories and is supported by numerous efforts to further enhance the shopping experience and strengthen relationships with the customers. Further progress was made on the 2016 plan to update the concept of Prada and Miu Miu stores according to the brands' new aesthetic codes; Church's stores are next in line for restyling. Meanwhile, the Group's sales plan was supported by bold action on the digital front even as physical retail remained at the center of its omnichannel strategy. During the year the Group strengthened its partnerships with the major online sales operators. Moreover, the direct e-commerce channel is growing: it has been enlarged in scope and the new graphic and functional version of the prada.com website, unveiled in December in China, will be gradually expanded to all countries in 2018. The new platform is designed to provide a shopping experience reconceived down to the smallest details, while integrating with brick & mortar stores and social networks. The digital strategy has also involved sizable investments in advertising and communications, in the form of additional media content for social networks and the online world in general.
In various markets the Group has been busy promoting "pop-up" events: temporary displays in the world's most prestigious shopping malls that launch new products and emphasize brand identity. The pop-up concept, which will be expanded and evolve throughout 2018, brings in valuable information on consumption patterns that are immediately transferred to the management and stocking of retail stores.
The market's response to the range of marketing initiatives has been encouraging yet varied, both geographically and in terms of products. Overall, sales trends for the year indicate gradual volume growth over the months, and on the profitability front, a greater contribution of full-price items with respect to 2016. These signals reinforce management's confidence in the ability to achieve the medium/long-term goals.

With respect to manufacturing, additional investments were made with a view to strengthening and optimizing production and distribution. The new cutting facility and materials warehouse in Valvigna (Tuscany) is fully up and running and has been expanded to include all manufacturing support operations, for a current workforce of 700. Also in Tuscany, the Group has completed the second part of the new logistics hub, the central facility from which Prada and Miu Miu merchandise is shipped to all corners of the globe, and has opened a third cutting facility. This latter investment is part of a broader project aimed at keeping a crucial phase of the production process within company walls, for the sake of ensuring top quality. The new manufacturing facilities enable to obtain important benefits in terms of controls over processes and quality, and they stand out for their advanced technologies and the utmost consideration for the work environment.

2017 was a year of special strategic projects regarding image and customer relations. In October the Group reopened Rong Zhai Residence, an old Liberty-style mansion, following a long, elaborate restoration; it is now the Group's cultural venue in China. Late in the year, Prada officialized its run for the 36th America's Cup, where it will sponsor the Luna Rossa team and take on an additional, first-time role as naming and presenting sponsor of the entire sailing competition.

Considerable investments were made in various business areas in 2017. At the same time it was possible to achieve an operating profit in line with that of the previous period.

Analysis of Pro-forma net revenues

(amounts in thousands of Euro)	pro-forma twelve months ended December 31 2017		pro-forma twelve months ended December 31 2016		% change
Net Sales	3,008,280	98.4%	3,126,015	98.6%	-3.8%
Royalties	48,195	1.6%	44,440	1.4%	8.4%
Net revenues	3,056,475	100%	3,170,455	100%	-3.6%

Pro-forma net sales

(amounts in thousands of Euro)	pro forma twelve months ended December 31 2017		pro forma twelve months ended December 31 2016		% change
Net Sales by geographical area					
Europe	1,169,679	38.9%	1,182,373	37.8%	-1.1%
Americas	431,843	14.4%	455,802	14.6%	-5.3%
Asia Pacific	972,888	32.3%	984,352	31.5%	-1.2%
Japan	336,810	11.2%	394,191	12.6%	-14.6%
Middle East	92,924	3.1%	104,695	3.4%	-11.2%
Other countries	4,136	0.1%	4,602	0.1%	-10.1%
Total	3,008,280	100%	3,126,015	100%	-3.8%
Net Sales by brand					
Prada	2,461,246	81.8%	2,512,648	80.4%	-2.0%
Miu Miu	459,338	15.3%	515,312	16.5%	-10.9%
Church's	70,999	2.4%	80,535	2.6%	-11.8%
Other	16,697	0.5%	17,520	0.5%	-4.7%
Total	3,008,280	100%	3,126,015	100%	-3.8%
Net Sales by product line					
Leather goods	1,702,824	56.6%	1,793,492	57.4%	-5.1%
Footwear	624,598	20.8%	681,617	21.8%	-8.4%
Clothing	623,988	20.7%	592,560	19.0%	5.3%
Other	56,870	1.9%	58,346	1.8%	-2.5%
Total	3,008,280	100%	3,126,015	100%	-3.8%
Net sales by channel					
Net Sales of direct operated stores (DOS)	2,443,697	81.2%	2,648,843	84.7%	-7.7%
Sales to Independent customers and franchisees	564,583	18.8%	477,172	15.3%	18.3%
Total	3,008,280	100%	3,126,015	100%	-3.8%

Distribution channels

The pro-forma retail sales for the twelve months ended December 31, 2017 show a decrease of 7.7% at current exchange rates and 5.8% at constant exchange rates. The trend in the second half of the year shows less decline in all markets, especially in Asia-Pacific, where sales in the final months show an increase compared with the same period of 2016. The number of directly operated stores, with 25 openings and 23 closures, rose from 623 at December 31, 2016 to 625 at December 31, 2017.

Sales from the wholesale channel grew by 18.3% at current exchange rates and by 19% at constant rates. Growth in this channel benefited from partnerships forged in 2016 with leading online retailers ("e-tailers"), and from an important increase in purchasing carried out early in the year by the retail partner in the Asia-Pacific region.

Markets

Net sales in the Asia-Pacific market were substantially in line with 2016 (-1.2% at current exchange rates and +0.8% at constant exchange rates). Greater China produced net sales of Euro 645.9 million in the pro-forma twelve-month period, up by 4.6% at current exchange rates and 7.7% at constant exchange rates.

Net sales in Europe, down by 1.1% at current exchange rates and by 0.1% at constant exchange rates, were consistent with those of 2016. The decline in tourism due to the stronger Euro had an adverse effect on sales in the major countries in the region.

Net sales in the Americas fell by 5.3% at current exchange rates (-3.9% at constant rates). The performance in this region was affected by declines in both tourist flows and local demand.

Japan reported a 14.6% decrease in net sales compared with the same period of the prior year (-10.6% at constant exchange rates). The downturn in local demand impacted the results of the period.

Net sales in the Middle East, which suffered from an adverse geopolitical context, fell by 11.2% at current exchange rates (-9.4% at constant exchange rates).

Products

Clothing sales rose by 5.3% (+7.3% at constant exchange rates). This product segment experienced growth in all regions except Japan, where it had a modest contraction.

Sales of leather goods fell by 5.1% (-3.4% at constant exchange rates). The downward trend improved gradually over the year thanks to the increasingly important contribution of new handbag models. In addition, sales of travel bags and accessories performed well.

Footwear sales fell by 8.4% (-6.7% at constant exchange rates). The decline, which coincides with an important internal reorganization of the division, lessened steadily over the year.

Brands

The Prada brand generated net sales in line with those of the prior year at constant exchange rates (-2% at current exchange rates and -0.3% constant exchange rates). Over the twelve-month period, clothing sales improved steadily and the declines reported for footwear and leather goods in the first part of the year diminished. Overall the brand achived a growth trend in the last months of 2017 compared with the same months a year earlier.

Miu Miu sales fell by 10.9% at current exchange rates (-9.1% at constant exchange rates), as they were affected by store closings in the initial months of 2017 and numerous restyling projects. The decrease was particularly significant in Europe and in Japan, whereas it was modest in Asia-Pacific.

Sales of Church's brand products fell by 11.8% (-8.6% at constant exchange rates), mainly as a result of the reorganization of the wholesale distribution channel. Most of the contraction occurred in the European market.

"Other brands" refers to sales of Marchesi 1824 brand patisserie products, which rose from the prior period, and of the Car Shoe footwear, which decreased in both distribution channels.

Royalties

In the pro-forma twelve-month period ended December 31, 2017, licensing agreements generated royalties of Euro 48.2 million, an increase of 8.4% compared with the same period of 2016 due primarily to the success of the new fragrances.

Number of stores

	December 31, 2017		January 31, 2017		December 31, 2016	
	Owned	Franchises	Owned	Franchises	Owned	Franchises
Prada	394	25	387	25	390	23
Miu Miu	167	9	171	9	172	8
Church's	57	-	54	-	54	-
Car Shoe	4	-	5	-	5	-
Marchesi	3	-	3	-	2	-
Total	625	34	620	34	623	31

	December 31, 2017		January 31, 2017		December 31, 2016	
	Owned	Franchises	Owned	Franchises	Owned	Franchises
Europe	229	4	220	4	220	4
Americas	112	-	113	-	115	-
Asia Pacific	184	25	187	25	188	22
Japan	79	-	78	-	78	-
Middle East and Africa	21	5	22	5	22	5
Total	625	34	620	34	623	31

Operating results

The gross margin grew from 72% of net revenues for the 2016 pro-forma twelve-month period to 73.5% for the same period of 2017. The exchange rate trend and a more favorable sales mix in terms of full-price sales versus discounted sales were largely responsible for the improvement. The 2017 operating expenses rose slightly from those of 2016. The increase was attributable mainly to advertising and communication initiatives, such as more expenditure for acquiring digital and other media space, pop-up events and the initiative related to the Rong Zhai venue in Shanghai.

	pro-forma		pro-forma	
(amounts in thousands of Euro)	twelve months ended December 31 2017	% of net revenues	twelve months ended December 31 2016	% of net revenues
Product design and development costs	130,468	4.3%	123,456	3.9%
Advertising and communications costs	184,752	6.0%	172,995	5.5%
Selling costs	1,399,273	45.8%	1,388,985	43.8%
General and administrative costs	171,077	5.6%	190,628	6.0%
Total Operating expenses	1,885,570	61.7%	1,876,064	59.2%

EBITDA for the twelve months ended December 31, 2017 was Euro 588 million, or 19.2% of net sales, falling by 80 basis points compared with the same pro-forma period of 2016.

EBIT for the twelve months ended December 31, 2017 was Euro 360 million, or 11.8% of net sales, down from Euro 405.6 million or 12.8% of net sales for the previous period.

The net finance expenses were reduced by the strengthening of the Euro currency occurred during 2017 resulting in foreign exchange gains on financial items.

The effective tax rate was 29.6%, down slightly from the 2016 rate. The benefit ensuing from lower Italian and U.S. income tax rates was offset by a less favorable geographical sales mix and the negative effect of the United States tax reform on deferred taxation.

Analysis of the Statement of financial position

Net invested capital

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

(amounts in thousands of Euro)	December 31 2017	January 31 2017	January 31 2016
Non-current assets (excluding deferred tax assets)	2,565,359	2,599,620	2,586,841
Trade receivables, net	289,973	285,504	254,183
Inventories, net	569,929	526,941	692,672
Trade payables	(313,697)	(256,094)	(281,699)
Net operating working capital	546,205	556,351	665,156
Other current assets (excluding items of financial position)	212,102	275,384	260,983
Other current liabilities (excluding items of financial position)	(233,181)	(224,536)	(234,496)
Other current assets/(liabilities), net	(21,079)	50,848	26,487
Provision for risks	(61,815)	(82,323)	(69,233)
Post-employment benefits	(61,444)	(67,211)	(69,405)
Other long-term liabilities	(174,706)	(187,322)	(171,364)
Deferred taxation, net	177,389	216,126	243,690
Other non-current assets/(liabilities)	(120,576)	(120,730)	(66,312)
Net invested capital	2,969,909	3,086,089	3,212,172
Shareholder's equity – Group	(2,844,652)	(3,080,502)	(3,080,340)
Shareholder's equity – Non-controlling interests	(21,519)	(24,028)	(17,037)
Total Consolidated shareholders' equity	(2,866,171)	(3,104,530)	(3,097,377)
Long-term financial payables	(638,954)	(547,628)	(519,772)
Short-term financial, net surplus/(deficit)	535,216	566,069	404,977
Net financial position surplus/(deficit)	(103,738)	18,441	(114,795)
Shareholders' equity and net financial position	(2,969,909)	(3,086,089)	(3,212,172)
Net Debt to Consolidated equity ratio	3.5%	n.a	3.6%

As of December 31, 2017, the Group has net invested capital of Euro 2,969.9 million, net financial indebtedness of Euro 103.7 million and total Consolidated Shareholder's equity of Euro 2,866.2 million.

Non-current assets, consisting essentially of property plant, equipment and intangible assets, remained approximately the same because the reduction of Euro 209.9 million attributable to depreciation, amortization and impairment and the foreign exchange losses of Euro 58 million were practically offset by capital expenditure of Euro 250.7 million. The capital expenditure is detailed below:

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31, 2017
Area retail	110,026	151,218
Area manufacturing, logistics and corporate	140,638	100,289
Total	250,664	251,507

Capital expenditure was invested in the retail area primarily for store restyling and relocation projects, and also for the store openings of the period. Other capital expenditure was used to complete activities begun in 2015 under a three-year plan to tighten control over the production process by gradually insourcing the most sensitive manufacturing phases and streamlining the logistics operations. Capital expenditure was used in the corporate area to expand and remodel offices and for the IT infrastructure of the industrial, retail and digital areas.

The net working capital as of December 31, 2017 is Euro 546.2 million, slightly below that of January 31, 2017:

– trade receivables are fairly consistent;

– inventories rose by Euro 43 million due to the planned expansion of the product range at the stores;

– trade payables, essentially linked to the dynamics regarding inventory, rose by Euro 57.6 million.

Other current assets, net, decreased by Euro 71.9 million mainly as a result of lower tax credits due to the netting of current tax liabilities with advances paid in the previous year.

Other non-current liabilities, net, are approximately the same because the decrease in deferred tax assets was offset by a reduction of the risk provisions.

During the year the Group paid dividends to PRADA spa, shareholders for an amount of Euro 307.1 million.

Net financial position

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

(amounts in thousands of Euro)	December 31 2017	January 31 2017	January 31 2016
Bonds - non-current	-	(130,000)	(130,000)
Bank borrowing – non-current	(638,954)	(417,628)	(390,475)
Total financial payables – non-current	(638,954)	(547,628)	(520,475)
Bonds - current	(130,000)	-	-
Financial payables and bank overdrafts - current	(222,971)	(151,211)	(270,766)
Payables to parent company and related parties - current	(4,423)	(4,934)	(4,858)
Total financial payables – current	(357,394)	(156,145)	(275,624)
Total financial payables	(996,348)	(703,773)	(796,099)
Financial receivables from related parties – non-current	-	-	703
Cash and cash equivalents	892,610	722,214	680,601
Total financial receivables and cash and cash equivalents - current	892,610	722,214	680,601
Total financial receivables and cash and cash equivalents	892,610	722,214	681,304
Net financial surplus/(deficit), total	(103,738)	18,441	(114,795)
Net financial surplus/(deficit) excluding related party balances	(99,315)	23,375	(110,640)
Net financial surplus/(deficit)/EBITDA ratio (*)	-17.7%	n.a.	-14.3%

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

The net financial position as of December 31, 2017 is indebtedness of Euro 103.7 million, whereas it was a positive Euro 18.4 million as of January 31, 2017. In the eleven months ended December 31, 2017, the Group distributed dividends for an amount of Euro 307.1 million, paid investments for Euro 211.6 million, and generated net cash flow from operating activities of Euro 446.5 million. In the second half of

the year the major currencies depreciated against the Euro, reducing the net financial position by Euro 50 million due to the significance of the foreign subsidiaries' cash holdings against indebtedness that is essentially in Euro.

In consideration of its financial requirements and the favorable credit market conditions, the Group extended the time horizon of its bank borrowings by replacing short-term credit lines with long-term loans. Financing was obtained in the form of a Euro 200 million loan and a Euro 100 million loan, a new credit line in Japan of approximately Euro 81.5 million (JPY 11 billion), of which Euro 25.9 million (JPY 3.5 billion) was used, and a Euro 16.7 million loan in the Middle East.

The total amount of undrawn lines of credit as of December 31, 2017 is Euro 681 million.

Risk Factors

Risk factors regarding the international luxury goods market

Economic risks and international business risks

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

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

The Group believes that the full control of its value chain and a global retail presence enable to mitigate the risk that conditions such as these could influence significantly the consolidated sales.

Intellectual property risks

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

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

Risks regarding image and brand recognition

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

Preserving the image and prestige acquired by its brands in the fashion and luxury business is an objective that the Prada Group pursues by monitoring meticulously each internal and external phase of the value chain. This allows to constantly ensure undisputed quality and uphold Group's reputation, while constantly pursuing innovation in styles, products and communications in order to convey messages that are always consistent with the strong brand identities.

Risks regarding ability to anticipate trends and react to shifts in consumer tastes

The Group's success is reliant on its ability to create and define fashion and product trends, and to anticipate shifts in consumer tastes and luxury market trends in a timely manner.

The Group pursues those objectives dedicating great effort in the creative activities of its style office and throughout the whole product design and product development department.

This business area comprises approximately 1,000 individuals working in the design division, where a mix of nationalities, cultures and talents contribute to creativity, and in the development division, where craft skills combined with solid manufacturing processes enable the Group to continue to compete and keep abreast of emerging consumer trends and lifestyles.

Another fundamental way for understanding the evolution of costumes is represented by the close collaboration with the words of culture and art.

Risks specific to the PRADA Group

Strategic risks

The possibility for the Group to improve its business performance depends on the successful implementation of its strategy for each brand, translated primarily in the continuous support and development of retail sales.

The Group provides support to the retail network by offering leather goods, clothing and footwear that reflect the brand positioning, accompanied by store management geared toward making the buying experience unique. The restyling of the store layout and revamping of concepts aim to further expand the capacity to attract customers. The performance of the retail channel is also supported by localized marketing initiatives intended to enhance the identity of the brands and emphasize the unique features that distinguish the style and craftsmanship of the products.

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

Risks regarding the importance of key personnel

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

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

Risks regarding the outsourcing of manufacturing activities

While the Group designs, controls and produces in-house the majority of its prototypes, samples and most sophisticated products, it outsources the production of its other finished products to external manufacturers with appropriate expertise and capacity and centralizes, moreover, the management of all raw materials.

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

Credit risk

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

With respect to trade receivables, credit risk is managed by monitoring and checking the reliability and solvency of customers.

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

Liquidity risk

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

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

Tax risks

The Group's tax risks, which may derive from non-compliance or incorrect interpretation of the regulations, are constantly monitored within the internal control system and, in particular, within the tax control framework implemented by the Group. Thanks to such system of management of fiscal risks, the Group was admitted to the Collaborative Compliance Regime (as provided for by the Italian Legislative Decree n. 128/2015).

Legal and regulatory risks

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

- risks associated with non-compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong or with other laws or regulations in force in Hong Kong that the Company must observe since it is listed on the Stock Exchange of Hong Kong Limited;
- risks associated with non-compliance with laws and regulations applicable to the Company due to the listing on the Irish Stock Exchange of the bond notes issued in August 2013;
- risks associated with occupational health and safety under Italian Legislative Decree 81/08 and equivalent regulations in force in other countries;
- possible legal penalties for wrongful acts pursuant to Italian Law 231/2001 as

subsequently amended;

- possible events that could adversely affect the reliability of the annual financial statements and the protection of assets;
- changes in international tax rules applicable in the various countries where the Group operates;
- possible manufacturing compliance risks regarding Italian and international laws and regulations for finished goods distributed and raw materials and consumables used.

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

Foreign exchange risk

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

The management of foreign exchange risk is described in more detail in the Notes to the Consolidated financial statements.

Interest rate risk

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

The management of interest rate risk is described in more detail in the Notes to the Consolidated financial statements.

Data processing risk

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

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

With reference to the specific legislative and regulatory developments on this matter, the Group has set up organizational and operational safeguards for the adaptation of the processes and procedures aimed at adopting the appropriate security measures to minimize the risks of non-compliance.

Other information

Information on related-party transactions

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

Non-IFRS measures

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

The Prada Group used the following non-IFRS measures in this Annual Report:

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

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

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

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

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

	pro-forma	pro-forma
(amounts in thousands of Euro)	twelve months ended December 31 2017	twelve-month period ended December 31, 2016
Consolidated net income for the period	249,238	266,183
Taxes on income	105,284	122,405
Interest and other financial (income)/expense and dividends from investments	5,498	16,998
EBIT (Earnings Before Interest and Taxation)	360,020	405,586
Depreciation, amortization and impairment	227,960	228,927
EBITDA (Earnings Before Interest, Taxation, Depreciation and Amortization)	587,979	634,513

Research and development activities

Research and development activities are described within section "The Prada Group" of this Annual Report, especially in the paragraph on creativity. The design and product development costs for the 2017 twelve-month period pro-forma amounted to Euro 130.5 million, as above reported in this Financial Review.

Treasury shares

At December 31, 2017 the Group does not hold treasury shares, as reported in the section relating to the Report on Corporate Governance.

Events after the reporting date

No significant events.

Outlook

The Group will continue to nurture its creativity with its unique way to observe the contemporary society and to interpret market trends to meet customers' expectations, while respecting the iconic heritage of the Group's world renowned brands. Improving the productivity of its global retail network and further strengthening the integration between offline and online will remain one of the key priorities for the Group.

Management, supported by the encouraging results achieved in the first months of 2018, is confident that the year to come would mark the beginning of a new sustainable long-term growth period.

Milan; March 9, 2018

Directors and Senior Management

Directors

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

Chairman

MAZZI, Carlo, aged 71, is the Chairman of the Board, first appointed on February 14, 2014 and most recently re-elected on May 26, 2015. He was first appointed to the Board in 2004 – who served mainly as Vice Chairman – until his appointment as Chairman of the Board. Mr. Mazzi holds directorships in subsidiaries of the Company. He holds directorships in Prada Holding S.p.A., Bellatrix S.p.A. and Ludo S.r.l., which are substantial shareholders of the Company. Mr. Mazzi obtained a degree "cum laude" (with praise) in Mechanical Engineering from the Bologna University of Italy in 1971 and obtained a master's degree in Business Administration from Bocconi University of Milan in 1976. Mr. Mazzi worked as a Manager of the Large Corporate department of IMI and San Paolo IMI Bank from 1994 to 2000. He was a board member of IBI International Business Advisors Investment N.V. - Amsterdam; Vice Chairman and Executive Committee Member of IBI Bank AG - Zurich; Board Member of IBI Corporate Finance B.V. - Amsterdam; Managing Director of IBI S.p.A. - Milan (financial intermediation ex art. 106 TUB) from 2000 to 2004. He is currently a board member of Chora S.r.l. - Milan (a service company). He was previously a board member of IMI-ABN AMRO S.p.A. - Milan (focused on merchant banking), SAGO S.p.A. - Florence (an IT research company responsible for the management of health facilities), IMILEASE S.p.A. - Rome (a leasing company), Banca di Intermediazione Mobiliare IMI S.p.A. - Milan (now Banca IMI S.p.A.) (focused on investment banking), Tecnofarmaci S.p.A. - Pomezia (a research company in the pharmaceuticals industry), SIM S.p.A. - Rome (focused on project management) and Paros International Insurance Brokers S.r.l. - Milan (in the insurance brokerage sector). He is a member of the Remuneration Committee and Nomination Committee. Mr. Mazzi is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Executive Directors

PRADA BIANCHI, Miuccia, aged 69, is a Chief Executive Officer of the Company. She was first appointed as the Chairperson of the Board on November 20, 2003 until February 14, 2014 and she was most recently re-elected as Executive Director on May 26, 2015. Ms. Prada holds directorships in Prada Holding S.p.A., Bellatrix S.p.A. and Ludo S.r.l., which are substantial shareholders of the Company. Ms. Prada received an Honorary Doctorate from the Royal College of Art (London) in 2000. Ms. Prada is a co-founder of our Group along with Mr. Patrizio Bertelli. Ms. Prada is the wife of Mr. Bertelli, one of our Chief Executive Officers. Ms. Prada is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

BERTELLI, Patrizio, aged 71, is a Chief Executive Officer of the Company. He was first appointed to the Board on November 20, 2003 and was most recently re-elected as Executive Director on May 26, 2015. Mr. Bertelli holds directorships in subsidiaries of the Company. He holds directorship in PA BE 1 S.r.l., which is a substantial shareholder of the Company. Mr. Bertelli received an honorary degree in Business Economics from the University of Florence in October, 2000. Mr. Bertelli is a co-founder of our Group along with Ms. Miuccia Prada Bianchi. Mr. Bertelli is the husband of Ms. Prada, one of our Chief Executive Officers. Mr. Bertelli is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

COZZANI, Alessandra, aged 55, is the Chief Financial Officer of the Company. She was first appointed to the Board as Executive Director on December 20, 2013 and she was re-elected on May 26, 2015. She has been our Investor Relations Director since

July 2010, responsible for managing financial communication and for relationships with investment community, and was further appointed as Chief Financial Officer on February 19, 2016. Ms. Cozzani holds directorships in subsidiaries of the Company. Ms. Cozzani joined our Group in 2000 and has covered different managerial roles within the Finance department. In 2003, she was appointed as Group Financial Reports Director. Ms. Cozzani obtained a degree "cum laude" (with praise) in Business Administration from the University of Genoa (Italy) in 1988. She started her career as an auditor at Coopers & Lybrand (1989 to 1995). Prior to joining our Group, she worked in Castelletti International Transports, the Italian subsidiary of an international logistic company (now Schenker Group) for five years, most of the time as Finance and Control Director. Ms. Cozzani is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Non-Executive Directors

SIMONTACCHI, Stefano, aged 47, has been appointed as Non-Executive Director of the Company on April 8, 2016 and re-elected on May 24, 2016. Mr. Simontacchi has been Managing Partner of BonelliErede Law Firm, a leading law firm in Italy, since 2013 and has been on the firm's board since 2010. His practice focuses on international taxation, transfer pricing, tax planning, private equity, and tax aspects related to real-estate transactions, real-estate and equity funds, M&A and reorganisations. In addition, Mr. Simontacchi is a member of the EU Joint Transfer Pricing Forum (which assists and advises the European Commission on transfer pricing tax matters) and has authored widely on tax law, including for Il Sole 24 Ore (a leading, daily business newspaper). Mr. Simontacchi obtained a degree with praise (cum laude) in business administration from L. Bocconi University of Milan in 1995. In 2000, he obtained an Adv. LLM with praise (cum laude) in International Taxation from Leiden University. In January 2007, Mr. Simontacchi obtained his PhD in International Taxation from the Faculty of Law of Leiden University. In April 2015, Mr. Simontacchi was appointed as board member of RCS MediaGroup S.p.A., an Italian listed company, leader in the newspaper sector. In addition, he has been serving as board member of Cabara Insurance Broker S.r.l. since 2010, as Chairman of the Fondazione Ospedale Buzzi since July 2015 and as board member of Assoedilizia Servizi S.r.l. since 2017. Save as disclosed herein, Mr. Simontacchi has not held any directorship in other listed companies in Hong Kong or overseas in the last three years.

CEREDA, Maurizio, aged 54, has been appointed as Non-Executive Director of the Company on May 24, 2016. Since 2015, Mr. Cereda's practice focuses on providing consultancy services to entrepreneurs, family offices, companies and financial institutions. Since 2015, he has also been founding partner and board member of FIEE (Fondo Italiano per l'Efficienza Energetica) Sgr S.p.A. Mr. Cereda obtained a degree in business economics from L. Bocconi University of Milan in 1989. Mr. Cereda has been serving as board member of various companies listed on the Italian Stock Exchange including Technogym S.p.A. (since 2016) and Enervit S.p.A. (since 2007). Mr. Cereda started his career as an analyst in the equity capital markets division in Rasfin S.p.A. and then he worked fifteen years at Mediobanca S.p.A., till his appointment as deputy general manager and head of corporate finance covering large corporate clients, a role that he covered from 2007 to 2015. From 2007 to 2014, he was a board member of Mediobanca S.p.A., and from 2006 to 2014, he was also a board member of Ansaldo STS S.p.A., both companies listed on the Italian Stock Exchange. Save as disclosed herein, Mr. Maurizio Cereda has not held any directorship in any other listed companies in Hong Kong or overseas in the last three years.

Independent Non-Executive Directors

MATTEI, Gian Franco Oliviero, aged 72, was first appointed as Independent Non-Executive Director on May 28, 2009 and was most recently re-elected on May 26, 2015. Mr. Mattei obtained a degree in Economics from The Sapienza University of Rome (Italy) in 1970 and became a Public Chartered Accountant (member of the Registro dei Revisori Legali) with the Italian Ministry of Justice in 1995. He has worked as Managing Director (Investment Banking) in Credit Suisse, Managing Director (Global Banking & Markets) in The Royal Bank of Scotland, Head of Investment Banking at Sanpaolo IMI and Chairman of Banca IMI and was previously Head of the Finance Department at the Istituto Mobiliare Italiano IMI. Mr. Mattei has also been a Board Member of Borsa Italiana. He is Chairman of Officine CST - Consulting Services & Technology - S.p.A.. Mr. Mattei is the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Mattei is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

FORESTIERI, Giancarlo, aged 71, was appointed to the Board first on May 31, 2007 and was most recently re-elected as Independent Non-Executive Director on May 26, 2015. Mr. Forestieri obtained a degree in Economics and Banking from the University of Siena (Italy) in 1970 and obtained a Specialization in Corporate Finance from the Scuola Mattei - ENI in 1971. From 1988 to 2016, Mr. Forestieri was Full Professor of Financial Markets and Institutions at the Bocconi University in Milan. Mr. Forestieri's professional experience includes serving as a member of the boards of directors of INA and Assitalia (from 1993 to 1994), Mediofactoring (from 1997 to 1999), Cassa di Risparmio di Parma e Piacenza (from 1996 to 1999 and then from 2003 to 2007 as the chairman of the board), Banca Intesa (from 1999 to 2006) and as a member of its executive committee (from 2000 to 2006), Alleanza Assicurazioni (from 2001 to 2007), Centrosim (from 1998 to 2003 where he was the chairman of the board) and Crédit Agricole Vita (from 2007 to 2013 as the chairman of the board). Mr. Forestieri is a member of the Italian Scientific Societies in the Fields of Finance and Management. Mr. Forestieri is a member of the Audit Committee and the Remuneration Committee. Mr. Forestieri is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

LIU, Sing Cheong, JP, aged 62, was first appointed as Independent Non-Executive Director on May 9, 2011 and was most recently re-elected on May 26, 2015. He has been the Chairman of My Top Home (China) Holdings Limited, Chairman of Evergreen Real Estate Consultants Limited since 2001, Director of HKS Education Fund Limited ("HKSEF") since 2005 (HKSEF is a charitable institution which holds certain percentage of shares in Hongkong Sales (International) Limited ("HKSI"), an investment holding, knitwear manufacturing company), and Non-executive Director of HKSI since 2005, all of which are private companies. He has been an independent non-executive director of Swire Properties Limited since 2010 (Swire Properties Limited was listed on the Stock Exchange of Hong Kong on January 18, 2012). Mr. Liu graduated from The Hong Kong Polytechnic in 1979 with an Advanced Higher Diploma in Surveying and from The Hong Kong University of Science and Technology in 1994 with a Master of Business Administration degree. He has been a fellow of the Royal Institution of Chartered Surveyors since 1994. Mr. Liu is a member of the Audit Committee and the Nomination Committee. Save as disclosed above, Mr. Liu is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Senior Management

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

ANTONACCI, Nicola, aged 54, has been Southern Europe Regional Director since 2017. Mr. Antonacci is primarily responsible for overseeing the Group's operations in Italy, Spain, Portugal and Southern East Mediterranean Region. Mr. Antonacci joined our Group in 1996 and covered, until 2010, different managerial roles within the commercial and the collections development areas. Mr. Antonacci, from 2012 to 2015 served as Senior Vice President Prada Retail/Wholesale of Prada USA and from 2015 as Regional Director North America. From 2010 to 2011 he worked in Paris, as Men's Ready to Wear Director for Givenchy. Prior to joining our Group, he worked for Giorgio Armani S.p.A. and Hermes as store manager and visual merchandiser.

BOZZI, Bruno, aged 56, has been Prada Women's Ready to Wear Industrial Director since 2010. Mr. Bozzi is primarily responsible for the manufacturing of the women's ready to wear collection of the Prada brand. He joined our Group in 1996 and undertook managerial roles in the planning and production of ready to wear for both Prada and Miu Miu brands. In 2009 he was appointed as Knitwear Division Director, a role which he is still covering. Prior to joining the Group he covered different roles in the production departments of a number of manufacturing companies.

BUSO, Daniele, aged 50, has been Prada Men's Ready to Wear Industrial Director since 2009. Mr. Buso is primarily responsible for the manufacturing of the men's ready to wear collection of the Prada brand. He obtained a high school diploma at Giulio Natta Technical High School in Padova in 1986. Mr. Buso joined our Group in 2004 as Operations Director for Jil Sander brand and in 2008 was appointed as Linea Rossa Ready to Wear Operations Director. He started his career in a Venetian fashion company before joining Gilmar in 1988. In 2001 he joined the Ferrè Group as Industrial Director.

CANTINO, Stefano, aged 51, has been Group Strategic Marketing Director since February 2016 and has been appointed as General Manager for France and the Principality of Monaco in 2017. He is primarily responsible for the Group's communication strategy and global marketing functions and for overseeing the Group's operations in France and the Principality of Monaco. Mr. Cantino obtained a degree in Political Science from the University of Turin (Italy) in 1993. Mr. Cantino joined our Group in 1996 and held several managerial roles in the commercial and marketing areas with Prada, Church's and Car Shoe, including Alaïa Operations Director, Car Shoe Commercial Director and Church's Brand and Retail Director. He was Prada's Marketing Director from 2005 to 2009, and Communication and External Relations Director from 2009 until 2016.

CAROLA, Pablo, aged 50, has been Middle East and South Africa Regional Director since 2017. Mr. Carola is primarily responsible for overseeing the Group's commercial operations in the Middle East area, where he covers several managerial roles at the Company's subsidiaries and in South Africa. Mr. Carola obtained a University degree in Business Administration at Universidad de Politecnica de Catalunya (Spain). He joined the Group in 2011 to manage human resources of both Miu Miu and Prada stores worldwide and from 2013 to 2017 he was Regional Director for Iberian Peninsula and North Africa. Prior to joining our Group he worked for almost twelve years as human resources director at Louis Vuitton.

CHAN, Li Sa, aged 46, has been South East Asia General Manager since 2017. She is primarily responsible for overseeing the Group's commercial operations in Singapore, Malaysia and Thailand. Ms. Chan obtained a Master's degree in Business Administration at the University of Stirling (UK). She joined Prada first in 2008 as Retail Merchandising Manager after spending a few years as Brand Manager in a number of brands in

Singapore. In 2013, she was appointed as Retail Director for Miu Miu responsible for the retail merchandising, retail operations and visual merchandising of the brand in the South East Asia. From 2016 to 2017, she worked for Valentino as General Manager in Singapore.

CHOI, Moonyoung, aged 55, has been Prada Korea General Manager since 2007. She is primarily responsible for overseeing the Group's commercial operations in Korea. She started her career at Louis Vuitton, as the first Louis Vuitton Store Manager in Korea (1991 – 1999). From 1999 to 2007 Ms. Choi worked at Celine Korea, LVMH Group, as Retail Manager, subsequently becoming Country Manager for Korea.

CLARK, Sophie, aged 45, has been Prada Australia General Manager since 2016. She is primarily responsible for overseeing the Group's commercial operations in Australia and New Zealand. Ms. Clark graduated from Sydney's exclusive Kincoppal-Rose Bay School. Ms. Clark had an extensive career at leading Department store David Jones in Sydney (1999 – 2016) where she most recently held the position of General Manager Womenswear. Ms. Clark was elected as a judge for the prestigious International Woolmark Fashion Awards in Milan 2014, Bejing 2015 and New York 2016.

COVIELLO, Letizia, aged 50, has been Group Tax Director since 2016. She is primarily responsible for overseeing all Group strategic tax matters. Ms. Coviello obtained a Degree in Economics from the University La Sapienza in Rome in 1991 followed by a Tax Specialization Master at Ipsoa in Milan. Before joining the Group in 1998 she worked for a Legal Firm, Studio Simonelli e Associati in Milan and afterwards as Tax Senior Assistant in the Fiscal Department at Eni Spa, in Milan.

DE PAOLI, Paolo, aged 41, has been Group Internal Auditing Director since 2016. He is primarily responsible for the appropriateness of the control systems and the risk management and the application of procedures, to ensure protection against risks at Group level. Mr. De Paoli obtained a degree in Economics at Bocconi University. After spending 5 years in KPMG Spa as Senior Supervisor, he joined Prada in 2008, first as Internal Audit Manager, then as Administration and Finance Manager for Emea and New Markets.

D'IPPOLITO, Andrea, aged 50, has been Purchasing Fabrics Ready to Wear Industrial Director since 2004. He joined our Group in 1989, and since 1996 he has been responsible for purchases for the Sample Collection within the Ready to Wear Division and then he was promoted as Ready to Wear Purchasing Director for all Group brands. Since 2010 he has also overseen the research fabrics, the raw material warehouses as well as the Finished Product Quality Control and Repairs Departments.

FAYARD, Pierre, aged 55, has been North America Regional Director since September 2017. He is primarily responsible for overseeing the Group's operations in USA and Canada, where he covers several managerial roles at the Company's subsidiaries. Mr. Fayard obtained a degree in Business Administration from Paris Business School in 1984. He joined our Group in 2011 as Regional Director for the Middle East area and South Africa. Prior to joining our Group he worked for almost twelve years for the LVMH Group, covering different managerial roles at Sephora International, Sephora Middle East, Sephora UK and Sephora Europe.

GRECO, Enzo, aged 52, has been Group Information Technology Director since December 2014. He is primarily responsible for the management of the Group's information technology system. Mr. Greco obtained a degree in Mathematics, from the University of Florence (Italy) and a master's degree in Business Administration "cum laude" (with praise) from SDA Bocconi University in Milan (Italy) in 1996. He started his career as IT Director for Federazione Toscana BCC in Florence (1997-2001). Later he was responsible for Outsourcing Application Management Contract in Infogroup Spa, Bank Group in Florence (2002-2005). He worked for eight years for Esselunga Spa in

Milan as IT Director managing the whole group's Information System.

LAM, Shun Yan Janice, aged 47, has been China General Manager since 2013. She is primarily responsible for overseeing the Group's commercial operations in China, where she covers several managerial roles at the Company's subsidiaries. Ms. Lam obtained a Bachelor degree in Sociology from the Chinese University of Hong Kong. She started her career at Jusco Store HK Ltd. (1993–1995); then she worked at Chickeeduck Distribution HK Ltd. in China (1999–2003). Before joining our Group she was Managing Director at Alfred Dunhill China (2006 -2012).

LOMANTO, Maria Cristina, aged 43, has been Miu Miu General Manager since 2015. She is primarily responsible for overseeing worldwide operations and strategy of the Miu Miu brand. Ms. Lomanto obtained a degree in Law from the University of Milan (Italy) in 1998. She joined our Group in 2006 and before being appointed to her current position she covered different managerial roles in wholesale, retail and collection merchandising areas. Prior to joining Prada, she worked in Yves Saint Laurent as Commercial Director for Italy and Switzerland.

LOUIS, Marie Celine Florence, aged 38, has been Prada Hong Kong General Manager since 2015. She is primarily responsible for overseeing the Group's commercial operations in Hong Kong. After obtaining her Master's Degree at the EDHEC Business School in France, she joined the Christian Dior Couture as management trainee and then became the Retail Manager in Australia and also in China (2002 – 2009). In 2009, Ms. Louis moved to Chanel Fashion China as Retail Manager and in 2011 she joined Prada China as Retail Operations Manager where she stayed untill 2014. From 2014 to 2016 she worked for Saint Laurent China as General Manager.

LUPAS, Domnica Alexandra, aged 45, has been Central Europe Regional Director since 2012. She is primarily responsible for overseeing the Group's operations in Germany, Austria, Switzerland and Czech Republic area, where she covers several managerial roles at the Company's subsidiaries. Ms. Lupas joined our Group in 1997 and has covered different managerial roles within the Group. In 2005, she was appointed as Administration, Finance and Control European Retail Subsidiaries Director. Ms. Lupas obtained a degree in International Business Administration from the European Business School in London in 1996.

MARSICOLA, Alessandra, aged 58, has been Retail Development Director for Japan and Asia since 2017. She is primarily responsible for the development of the retail business of both Prada and Miu Miu brands in Japan and Asia. Ms. Marsicola joined our Group in 1991 and before being appointed to her current position she covered different managerial roles in the commercial department, including Prada Worldwide Store Operation Director and Prada Retail Director for Prada Japan. In 2014 she was appointed as Chief Executive Officer of Prada Fashion Commerce (Shanghai), responsible for overseeing the Group's operations in China. From 2006 to 2009, she worked first as Sales Director for La Rinascente then as Asia Pacific Retail Director for Fendi.

NOSCHESE, Marcelo, aged 53, has been Latin America Regional Director since 2017. He is primarily responsible for overseeing the Group's operations in Central America, South America (since 2011) and Carribean area. Mr. Noschese obtained a master's degree in Business Administration from INSEAD, Fontainebleau, France, in 1992 and graduated in Business Administration in Getúlio Vargas Foundation São Paulo, Brazil. He started his career at L'Oréal, as International Development Manager for the Fine Fragrances Division, and then was appointed as General Manager for the Travel Retail Division in North and South America (1992 – 1998). Prior to joining our Group in 2011 as Regional Director for South America, he worked for LVMH – Moët Hennessy Louis Vuitton as Country Manager for Brazil (2001 – 2004) and for Salvatore Ferragamo S.p.A., as Regional Development Director for South America (2007 – 2011).

RASTRELLI, Stefano, aged 55, has been Group Human Resources Director since 2013. Mr. Rastrelli obtained a degree in Law, from the University of Naples. He first joined the PRADA Group in 2007 to manage the human resources of the Industrial Departments and subsequently extended also to the Commercial Departments. Prior to joining our Group he worked for almost twenty years for the Fiat Group, covering different managerial roles within the Fiat Group for different branches in Italy and abroad (Argentina, Brazil). From 2005 to 2007 Mr. Rastrelli was in Spain as Human Resources Director for GKN Driveline.

ROMANO, Anthony, aged 51, has been Church Group Chief Executive Officer since 2017. Mr. Romano is primarily responsible for overseeing worldwide operations and strategy of the Church Group and the Car Shoe brand. He joined the Group in 2013 as Regional Director for the South East Mediterranean area. After his bachelor's degree in Business in New Zealand, he was employed at Deloitte & Touche and then at Timberland Europe before working for almost ten years for Calvın Kleın Europe (1995 – 2004) where he became C.E.O. and Managing Director. From 2004 to 2007, he was General Manager and Company Director of Luna Rossa Challenge for the 2007 America's Cup. He was partner of ADR – fashion and sport strategic consultancy company, from 2008 to 2013.

SESIA, Davide, aged 50, has been Japan and Hawaii Regional Director since February 2004. He is primarily responsible for overseeing the Group's operations in Japan, Guam, Saipan and Hawaii area, where he covers several managerial roles at the Company's subsidiaries. Mr. Sesia obtained a degree in Business Administration from the University Cattolica del Sacro Cuore of Milan in 1991. He joined our Group in 2000 as Representative Director and Chief Financial Officer of Prada Japan. Prior to that, he was Chief Financial Officer and Director of Benetton Japan and Managing Director of Benetton Korea Ltd (1997 - 2000).

SUTTER, Stefano, aged 44, has been North Europe Regional Director since 2010, when he joined our Group. Mr. Sutter is primarily responsible for overseeing the Group's operations in United Kingdom, Ireland and Scandinavia, where he covers several managerial roles at the Company's subsidiaries. Mr. Sutter obtained a master's degree in Business Administration from Columbia Business School, New York, in 2005 and graduated "cum laude" (with praise) in Business Administration at University of Genoa in 1998. Prior to joining our Group, he worked for INDITEX Group covering different managerial roles including General Manager of Zara Canada (2006 to 2007), Managing Director of Inditex UK and Ireland (2007 to 2009) and, then, Managing Director of Inditex Austria, Hungary, Czech Republic and Slovakia. Prior to that, he spent five years working for Bain & Company Inc..

TAO, Yu Hua Irene, aged 51, has been Prada Taiwan General Manager since 2017. She is primarily responsible for overseeing the Group's commercial operations in Taiwan. Ms. Tao obtained the degree in Japanese Language at the Soochow University (Taiwan). Prior to joining the Group, she worked for almost 11 years at Louis Vuitton in Taiwan. Then she held the Retail Operations positions in Fendi and Cartier from 2007 to 2013 and became the General Manager at Chloe Taiwan from 2014 to 2017.

TOLOMELLI, Armando, aged 52, has been Asia Pacific Regional Director since 2012. Mr. Tolomelli is primarily responsible for overseeing the Group's operations in the Asia Pacific region, where he covers several managerial roles at the Company's subsidiaries. Prior to this appointment Mr. Tolomelli has been our Group Controlling Director since joining our Group in July 2005. Prior to joining our Group, he spent fourteen years working for the Barilla Group, covering various roles including Financing Office Manager, Divisional Business Controller, Business Controller for South Eastern Europe, Group Controller of Wasa in Stockholm, Sweden (1999 to 2001), Finance Manager International Business Development of the Bakery Division (2001) and Corporate Controlling Director of Kamps in Düsseldorf, Germany (2002 to 2005).

TOSATO, Chiara, aged 40, has been Prada General Manager since 2017. She is primarily responsible for overseeing worldwide operations and strategy of the Prada brand; Ms. Tosato is also in charge for overseeing the digital and e-commerce strategy of the Group. Ms. Tosato obtained a degree in Engineering at the University of Pavia (Italy) and a master's degree in Business Administration from INSEAD, Fontainebleau, France. Prior to joining Prada, she worked as Senior Associate in Booz Allen Hamilton (Strategy Innovation and Technology Division) and as Infinity Commercial Director in Mediaset.

ZAMBERNARDI, Fabio, aged 55, has been Group Design Director since November 2002. He is responsible for the collection concept development, overseeing all the strategic activities related to the coherence between image and product development of the collection, as well as supporting the strategic brands image communication of both Prada and Miu Miu brands. He has been collaborating with the Group since 1981. He was promoted Shoe Design Director in 1997 and Design Fashion Coordinator in 1999.

ZENKOVSKAYA, Vera, aged 41, has been Russian area Regional Director since 2013. Ms. Zenkovskaya is primarily responsible for overseeing the Group operations in Russia, Kazakhstan and Ukraine, where she covers several managerial roles at the Company's subsidiaries. Ms. Zenkovskaya obtained a Foreign Languages Degree at Language University of Kazakhstan. Prior to joining our Group in 2011 as Russia Country Manager, she worked within the beauty sector (L'Oreal, Temtrade) in marketing and retail areas. From 2006 to 2011, she covered several managerial roles in Russia and Ukraine for Louis Vuitton.

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

Company Secretary

ALBANO, Patrizia, aged 64, is the joint company secretary of the Company. Ms. Patrizia Albano has been the Head of Corporate Affairs since September 2008 and is responsible for monitoring general legal compliance. Ms. Albano obtained a degree in Law from the University La Sapienza of Rome in 1979 and was admitted to the Bar Association (Ordine degli Avvocati di Roma) in 2006. She started her career as an in-house legal advisor at the Istituto Mobiliare Italiano S.p.A. from 1981 to 1999 and then worked as Head of the Large Corporate Division central legal office of San Paolo IMI S.p.A. until 2000. She has also worked as General Counsel of IBI (now Alerion Clean Power S.p.A.), and as Company Secretary of Risanamento Napoli S.p.A. and Fincasa S.p.A., both of which are listed companies on the Italian Stock Exchange. In 2002, Ms. Albano became the General Counsel and Company Secretary of a private company active in services provision, property and facility management and renewable energy. She then worked at an Italian law firm, Studio Legale Carbonetti, from 2003 to 2007, and also founded her own private practice law firm, Albano Baldassari, in 2007 before joining our Company in 2008. Ms. Albano has been Chairman of the Board of Statutory Auditors of Artemide Italia S.r.l., a member of the Board of Statutory Auditors in Artemide Group S.p.A. and Artemide S.p.A. since May 2014. In 2017 she was appointed as Board member of FinecoBank S.p.A., a company listed on the Italian Stock Exchange. Ms. Albano also served as board member of Cassa di Risparmio di Rimini S.p.A. from April to November 2015, of Mediacontech S.p.A. from June to December 2016 and as Chairman of Gruppo Moda, Design e Arredo of Assolombarda (Association of Industrial provinces of Milan, Lodi, Monza and Brianza) from February 2015 to December 2017. Ms. Albano is the wife of Mr. Carlo Mazzi, the Chairman of the Board of our Company. Save as disclosed above, Ms. Albano is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

YUEN, Ying-kwai, aged 51, is the joint company secretary of the Company. She is responsible for corporate secretarial duties. Ms. Yuen joined our Group and was appointed joint company secretary in May 2011. Ms. Yuen has over 25 years of working experience in the corporate secretariat and compliance areas of sizeable organizations and professional firms. Prior to joining our Group, she worked with Li & Fung group for 15 years. She first joined in 1995 as company secretary of Li & Fung (1937) Limited until 1999 when she was transferred to Li & Fung Distribution (Management) Limited and appointed as group company secretary in 2000. Ms. Yuen was the company secretary of Integrated Distribution Services Group Limited (member of Li & Fung Group) between 2004 and 2011. Ms. Yuen received an Honours Diploma in Company Secretaryship and Administration from Lingnan College (now known as Lingnan University) in 1988. Ms. Yuen holds a master's degree in Business Administration (Executive) from City University of Hong Kong, awarded in 2003. Ms. Yuen has been a fellow of both the Hong Kong Institute of Chartered Secretaries ("HKICS") and the Institute of Chartered Secretaries and Administrators, UK since 2001. Ms. Yuen has been a member of the Membership Committee of HKICS since 2016 and was the past member of the Company Secretaries Panel of HKICS (2012 – 2015). Ms. Yuen is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Directors' Report

Principal activities and business review

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

The Company is a joint-stock company, incorporated and domiciled in Italy. Its registered office is in Via A. Fogazzaro 28, Milan 20135, Italy.

Further discussion and analysis of these activities as required by section 388(2) and Schedule 5 to the Hong Kong Companies Ordinance, including a review of the business of the Company, a discussion and analysis of the Group's performance during the eleven month period from February 1, 2017 to December 31, 2017 and the material factors underlying its results and financial position, a description of the risks and uncertainties facing the Group, and the future development of the business of the Company, is set out in the Financial Review section of this annual report. Particulars of important events affecting the Company that have occurred since the end of the reporting period is set out in note 44 to the Consolidated financial statements. These discussions form part of this directors' report.

Change of Financial Year End Date

As approved by the shareholders' general meeting on May 31, 2017, the Company's financial year end date has been changed from January 31 to December 31. Accordingly, the audited consolidated financial statements as set out in this Annual Report cover the eleven-month period from February 1, 2017 to December 31, 2017 (the "Reviewed Period").

Compliance with the Relevant Laws and Regulations

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

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

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

Environmental Policies and Performance

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

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

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

The main direct impact of the Group's business originates from the use of energy for offices, factories, logistics centers and stores in the various parts of the world. The objective is to reach ever higher levels of energy efficiency and continuously pursue new ways to reduce waste.

In the past few years a long-term plan has been launched and implemented aimed at making energy consumption in both the industrial and retail environment increasingly sustainable, through efficiency measures and greater use of renewable energy.

The Group has also always paid great attention to the territories where it operates and seeks to play a respectful part in local life by contributing to the enhancement of the community, either in the form of certain unique and avant-garde venues or by rehabilitating existing districts. This environmentally-sensitive approach has led the Group to develop a method in using the least possible amount of ground, restoring what already existed and working to rehabilitate buildings for new purposes. As of 2015 a three-year investment plan has been implemented to re-qualify and reorganize the Group's manufacturing structure in order to preserve artisanal know-how, support the technical development of production processes and improve the quality of work environments. In 2015 and 2016, numerous renovations were carried out, followed by the redevelopment of the Città di Castello plant, the Montone factory and the Arezzo plant in 2017.

One of the Group most notable recent projects is the restoration of Rong Zhai, a historic residence in downtown Shanghai, declared cultural heritage in 2004 and included in the list of Shanghai's most relevant historic buildings in 2005. Rong Zhai, which is now being used as a venue for cultural events, was revealed in October 2017 for the first time to the public after a six-year lasting restoration project, which required the utmost care for details, superb craftsmanship and respect for architectural essence.

The operation combines and summarizes the capabilities developed by Prada in the requalification of historic buildings around the world, including the restorations of parts of Milan's Galleria Vittorio Emanuele II and Ca' Corner della Regina - the magnificent baroque palace overlooking Venice Grand Canal - converted into a space dedicated to art.

Relationships with key stakeholders

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

Employees

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

As of December 31, 2017 the Group had 12,844 employees, of whom 37% work in Italy, showing a 2.1% growth compared to the previous financial year. The Group's remuneration policy aims to attract, reward and retain skilled personnel and expert managers, while bringing the interests of the management in line with the primary objective of creating value over the medium and long term. Further analysis on the value of human resources of the Group is set out in the "The PRADA Group" section

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

Customers

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

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

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

Suppliers

The Group regards its relationship with its suppliers - built up through years of day-to-day collaboration and directed towards continuous improvement - as fundamental to it. The Group has a diverse range of raw materials suppliers and external manufacturers. About 91% of them are located in the European Union and mainly in Italy.

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

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

In order to achieve the highest quality standards, the Group undergoes a strict process in selecting its suppliers. The Group's relationships with suppliers are all aimed at being of a long-term nature and are initiated following a selection process, whose strict parameters are intended to ensure the highest quality standards, with a special focus on working conditions.

Shareholders

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

An analysis of the Group's environmental policies and performance and of the relationships with key stakeholders (employees, customers, suppliers and shareholders) will be included in the Group's Social Responsibility Report 2017, which will be published in due course.

Results and dividends

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

The Board recommends, for the Reviewed Period, a final dividend of Euro 191,911,800 (or Euro/cents 7.5 per share). The payments shall be made:

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

(ii) in Hong Kong dollars to the shareholders recorded in the section of the Company's shareholders register kept in Hong Kong. The relevant exchange rate will be the opening buying T/T rate of Hong Kong dollars to Euros as announced by the Hong Kong Association of Banks (www.hkab.org.hk) on the day the final dividend is approved by the shareholders.

The final dividend will be subject to approval by the shareholders at the forthcoming shareholders' general meeting of the Company to be held on Friday, April 27, 2018. The shareholders recorded on the Company's shareholders register on Wednesday, April 25, 2018, will be allowed to attend and vote at the shareholders' general meeting of the Company.

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

(i) the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, if the transfer concerns shares registered in the section of the Company's shareholders register kept by the Company's Hong Kong share registrar itself, or

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

in any case, no later than 4:30 p.m. (Hong Kong time)/10:30 a.m. (CET time) on Tuesday, April 24, 2018. The Company's shareholders register (both sections) will be closed from Wednesday, April 25, 2018 to Friday, April 27, 2018, both days inclusive, during which period no share transfer can be registered.

Subject to the shareholders' approving the recommended final dividend, such dividend will be paid on Wednesday, May 23, 2018.

The final dividend will be paid to shareholders recorded on the Company's shareholders register on Monday, May 7, 2018.

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

(i) the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, if the transfer concerns shares registered in the section of the Company's shareholders register kept by the Company's Hong Kong share registrar, or

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

in any case, no later than 4:30 p.m. (Hong Kong time)/10:30 a.m. (CET time) on Friday, May 4, 2018. The Company's shareholders register (both sections) will be closed on Monday, May 7, 2018, during which no share transfer can be registered.

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

Five-year financial summary

The five-year financial summary of the Group is set out in Note 41 to the Consolidated financial statements.

Reserves

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

Distributable reserves

As at December 31, 2017, the Company's reserves available for distribution to shareholders in accordance with the Company's by-laws amounted to Euro 928.7 million.

Property, plant and equipment

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

Pre-emptive rights

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

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

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

Capital gains tax in Italy

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

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

Subsidiaries

Details of the Company's subsidiaries as at December 31, 2017, are set out in Note 42 to the Consolidated financial statements.

Directors

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

Executive Directors

Mr. Carlo MAZZI (Chairman of the Board)
Ms. Miuccia PRADA BIANCHI (Chief Executive Officer)
Mr. Patrizio BERTELLI (Chief Executive Officer)
Ms. Alessandra COZZANI (Chief Financial Officer)

Non-Executive Directors

Mr. Stefano SIMONTACCHI
Mr. Maurizio CEREDA

Independent Non-Executive Directors

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

In accordance with the by-laws of the Company, the Board of Directors was appointed by the shareholders' general meeting on May 26, 2015 for a period of three financial years. Therefore, the Board's mandate will lapse on the date of the forthcoming shareholders' general meeting to be called to approve the financial statements for the Reviewed Period. The Directors may be reappointed.

Biographical information of Directors

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

Directors' permitted indemnity

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

Management contract

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

Directors' service contracts

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

Directors' interests in competing business

During the Reviewed Period, none of the Directors of the Company, held any interest in a business which competes, or is likely to compete, either directly, or indirectly, with the business of the Company or the Group.

Directors' interests and short positions in securities

As at December 31, 2017, the Directors (including the Chief Executive Officers) of the Company held the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

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

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

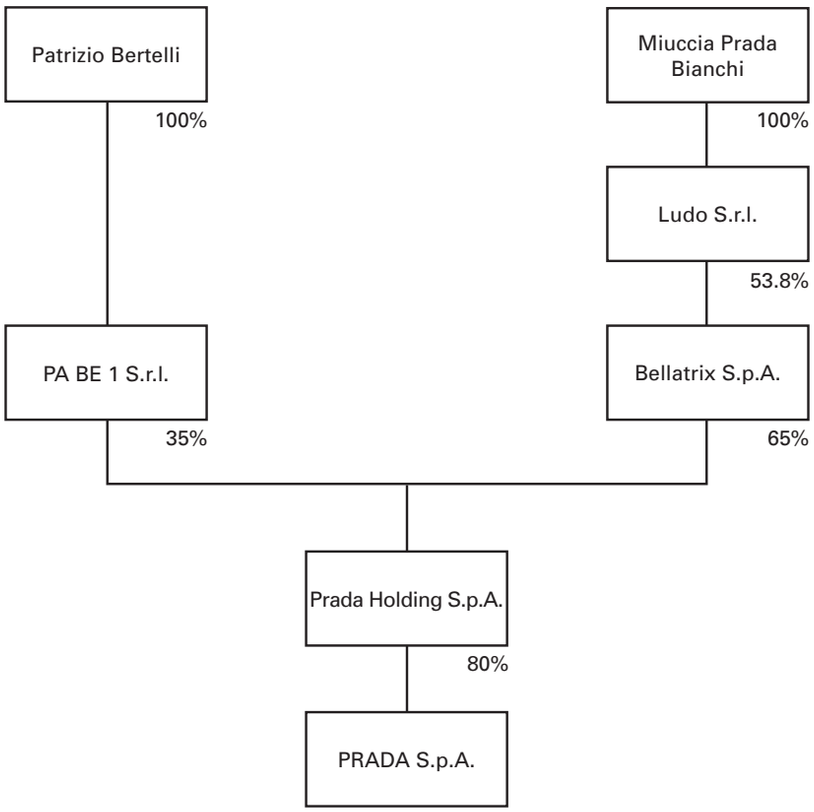
Notes:

1. Prada Holding S.p.A. owns approximately 80% of the issued capital in the Company and is therefore the holding company of the Company.

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

3. Mr. Patrizio Bertelli owns, indirectly through PA BE 1 S.r.l., 35% (comprised of 750 ordinary shares and 300 preference shares) of the capital in Prada Holding S.p.A.. Mr. Patrizio Bertelli is therefore deemed under the SFO to be interested in all the shares registered in the name of Prada Holding S.p.A.. Mr. Patrizio Bertelli is also a director of PA BE 1 S.r.l..

The interests of Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli in the shares of the Company as at December 31, 2017 are summarized in the following chart:



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

Name of Director	Name of associated corporations	Class of shares	Number of shares	Nature of Interests	Approximate percentage of Interests
Ms. Miuccia Prada Bianchi	Prada Holding S.p.A.	Ordinary Shares	1,650	Controlled Corporation	68.75%
	Prada Holding S.p.A.	Preference Shares	300	As above	50%
	Prapar Corporation	Common Shares	50	As above	100%
	MFH Munich Fashion Holding GmbH	Registered Share	1	As above	100%
	Bellatrix S.p.A.	Ordinary Shares	438,460	As above	49.83%
	Bellatrix S.p.A.	Preference Shares	100,000	As above	83.34%
	Ludo S.r.l.	Ordinary Shares	100,311	Beneficial Owner	100%
	C.I.D. – Cosmetics International Distribution Corp.	Common Shares	1	Controlled Corporation	100%
	Fratelli Prada S.p.A.	Ordinary Shares	734,754	As above	73.48%
	*PH-RE LLC	Capital Contribution (JPY)	1,000,000	As above	100%
Mr. Patrizio Bertelli	Prada Holding S.p.A.	Ordinary Shares	750	Controlled Corporation	31.25%
	Prada Holding S.p.A.	Preference Shares	300	As above	50%
	Prapar Corporation	Common Shares	50	As above	100%
	MFH Munich Fashion Holding GmbH	Registered Share	1	As above	100%
	C.I.D. – Cosmetics International Distribution Corp.	Common Shares	1	As above	100%
	*PH-RE LLC	Capital Contribution (JPY)	1,000,000	As above	100%

* Formerly known as PABE-RE LLC

Save as disclosed above, as at December 31, 2017, none of the Directors (including the Chief Executive Officers) of the Company held any interest or short position in the shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial shareholders' interests and short positions in securities

As at December 31, 2017, other than the interests of the Directors of the Company as disclosed above, the following persons held interests or short positions in the shares or underlying shares of the Company which where recoreded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of issued capital
Long Positions			
Prada Holding S.p.A.	Legal and beneficial owner	2,046,470,760	80%
Bellatrix S.p.A.	Interest of controlled corporation	2,046,470,760	80%
Ludo S.r.l.	Interest of controlled corporation	2,046,470,760	80%
PA BE 1 S.r.l.	Interest of controlled corporation	2,046,470,760	80%
OppenheimerFunds, Inc	Beneficial Owner	150,723,710	5.89%
JPMorgan Chase & Co.	Beneficial owner (1,704,720) Investment Manager (1,025,300) Trustee (other than a bare trustee) (7,178) Custodian corporation/approved lending agent (125,445,611)	128,182,809	5.00%
Short Positions			
JPMorgan Chase & Co.	Beneficial owner	481,024	0.01%
Lending Pool			
JPMorgan Chase & Co.	Custodian Corporation/approved lending agent	125,445,611	4.90%

Note:

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

Share capital

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

Material interests of Directors and entities connected with a Director in transactions, arrangements and contracts

Save for those contracts disclosed under the section on Continuing Connected Transactions below and in Consolidated financial statements Note 39, Transactions with Related Parties, and Note 38, Remuneration of the Board of Directors, in the opinion of the Directors, no transaction, agreement or contract of significance to the Company or the Group subsists as at December 31, 2017, or in fact subsisted during the Reviewed Period in relation to the Company or the Group's business in which the direct or indirect interest of a Director or an entity connected with a Director is or was material.

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

Issuance of debt securities

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

As announced on August 1, 2013, the Company issued Euro 130 million 2.75 per cent Notes which become due on August 1, 2018 (the "Notes"). The Notes were subscribed by professional and institutional investors and were settled on August 1, 2013. The Notes were admitted to the official list on the Irish Stock Exchange and were permitted to trade on its regulated market. The Company may, at its discretion, redeem the entirety of the Notes at once (but not some only), at any time after their issuance at an amount equal to their principal amount plus (if applicable) a premium, together with any accrued interest or at par plus accrued interest, in the event that certain tax changes occur. The Notes are not rated.

Continuing Connected transactions

During the Reviewed Period, the Group had the following non-exempt continuing connected transactions, details of which were disclosed in the Company's announcements dated February 27, 2014, July 15, 2015, January 25, 2017, March 13, 2017 and May 26, 2017, respectively:

(a) Franchise Agreement – Prada Milan Stores

The Company was established in 1913 as a family business operating in Milan and has continued as such since Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli began their cooperation in the late 1970s. Therefore, the Prada stores in Milan have historically been operated by companies that are connected to the Prada family.

Against this historical background, on January 28, 2009, the Company entered into a franchise agreement in relation to the Prada stores based in Milan (the "Franchise Agreement") with five companies that operated the stores and their controlling entity, all of which subsequently merged with Fratelli Prada S.p.A. (the "Franchisee"). The Franchisee is a company indirectly controlled by Ms. Miuccia Prada Bianchi, a Chief Executive Officer, an executive director and a substantial shareholder of the Company. The Franchise Agreement will expire on January 31, 2024 and will be automatically extended for a further 15-year term provided that (i) the Franchisee has met the minimum annual budget for the initial 15-year term; or (ii) the cumulative amount of the purchases made by the Franchisee for the entire initial 15-year term is at least equal to the sum of the minimum annual budget for each of the 15 years.

The estimated annual caps in respect of the Franchise Agreement, already disclosed in the Company's announcement dated January 25, 2017 and further details of which are disclosed in the Company's announcement dated March 13, 2017, for the period up to December 31, 2019 (to align with the Company's financial year end date) are as follows:

	Euro million cap re-determined for the eleven months ended December 31, 2017 (*)	Euro million for the year ending December 31, 2018	Euro million for the year ending December 31, 2019
Revenues from sales of goods	36.7	42	45
Revenues from services, net	2.8	3.5	4.0
Royalties income	1.1	1.3	1.4
Purchases by the Group	(2.8)	(3.5)	(4.0)
Net amount	37.8	43.3	46.4

(*) The cap for the eleven-month period ended December 31, 2017 has been re-proportioned based on the original cap for the year to be ended on January 31, 2018 as reported in the Company's announcement dated January 25, 2017.

(b) Luna Rossa sponsorship agreement

On February 27, 2014, the Company entered into a sponsorship agreement with Luna Rossa Challenge S.r.l. a company which is indirectly controlled by Mr. Patrizio Bertelli, a Chief Executive Officer, an executive director and a substantial shareholder of the Company, in relation to the participation of the Luna Rossa sailing team in the XXXV edition of the America's Cup (the "Luna Rossa Sponsorship Agreement").

In April 2015, Luna Rossa withdrew from the America's Cup due to the change of the rule to downsize the sailing yacht which was resolved without the unanimous consent of all participants. The Company continued sponsoring the related activities to be carried out by the Luna Rossa sailing team to further promote Prada's name through the sponsorship.

The annual cap of the sponsorship contribution to be paid by the Company to Luna Rossa Challenge S.r.l. under the Luna Rossa Sponsorship Agreement for the last year of its duration (being the nine months from February 2017 to October 2017) is Euro 4.5 million.

On December 1, 2017 the Company has entered into a new sponsorship agreement with Luna Rossa Challenge S.r.l. for the participation of the Luna Rossa sailing team in the XXXVI edition of the America's Cup, which will be held in New Zealand in 2021. The payment to be made by the Company to Luna Rossa Challenge S.r.l. according to the terms of the new sponsorship agreement will be due over the period from January 2018 to June 2021, as disclosed in the Company's announcement dated December 1, 2017.

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

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

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

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

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

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

The annual cap for the Reviewed Period for the rent paid to PH-RE LLC, or accrued by the Company in accordance with applicable accounting rules, under the Lease Agreement and the Guarantee is JPY 1,870,644,000, as disclosed in the Company's announcement dated May 26, 2017.

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

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

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

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

In this context, the MM Lease Agreement and the MM Guarantee, which were continuing transactions of the Group, have become subsequent continuing connected transactions of the Group under Chapter 14A of the Listing Rules. The annual cap for the Reviewed Period for the rent paid to PH-RE LLC, or accrued by the Company in accordance with applicable accounting rules, under the MM Lease Agreement and the MM Guarantee is JPY 377,661,000.

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

	Continuing Connected Transaction ("CCT")	Accounting adjustment to the CCT following the application of "IAS 1 Presentation of Financial Statements"	Total impact on the profit or loss for the eleven months ended December 31, 2017
(a) Franchise Agreement – Prada Milan Stores	**Euro million**	**Euro million**	**Euro million**
Revenues from sales of goods	25	-	25
Revenues from services, net	(0.1)	-	(0.1)
Royalties income	0.7	-	0.7
Purchases by the Group	(2.3)	-	(2.3)
Net transaction amount	23.3	-	23.3
(b) Luna Rossa Sponsorship Agreement			
Sponsorship contribution	2	8.7	10.7
(c) Lease Agreement and Guarantee for Prada Aoyama Building	**Japanese Yen million**	**Japanese Yen million**	**Japanese Yen million**
Rent	1,870.6	-	1,870.6
(d) Lease Agreement and Guarantee for Miu Miu Aoyama Building	**Japanese Yen million**	**Japanese Yen million**	**Japanese Yen million**
Rent	377.7	-	377.7

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

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

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

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

The Directors of the Company have engaged the auditors to review the above non-exempt continuing connected transactions. The auditors have, based on the work performed, provided a letter to the Directors of the Company (with a copy provided to the Stock Exchange) to confirm that nothing has come to their attention that causes them to believe that the continuing connected transactions:

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

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

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

(iv) have exceeded the relevant annual limits set out in the Company's announcements dated February 27, 2014, July 15, 2015, January 25, 2017 and May 26, 2017, as applicable.

Save as disclosed above, none of the transactions disclosed as related party transaction in note 39 to the consolidated financial statements is a connected transaction or continuing connected transaction which is subject to the reporting or disclosure requirements under the Listing Rules. The Company has complied with the disclosure requirements governing "connected transactions" or "continuing connected transactions" in accordance with Chapter 14A of the Listing Rules.

Bank loans and other borrowings

Details of the Group's bank loans and other borrowings as at December 31, 2017 are set out in Notes 19 and 24 to the Consolidated financial statements.

Major customers and suppliers

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

Retirement benefit schemes

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

Model Code for securities transactions

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

Events after the reporting period – if applicable

Details of significant events occurring after the reporting date – if any - are set out in Note 44 to the Consolidated financial statements.

Commitments and contingencies

Details of capital commitments and contingent liabilities of the Group as at December 31, 2017 are set out in Notes 40 and 26 respectively to the Consolidated financial statements.

Sufficiency of public float

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

Directors' responsibilities for the Consolidated financial statements

The Directors are responsible for the preparation of the consolidated financial statements for the eleven month period from February 1, 2017 to December 31, 2017, with a view to ensuring such Consolidated financial statements give a true and fair view of the state of affairs of the Group. In preparing these Consolidated financial statements, the Directors have selected suitable accounting policies, made judgments and estimates that are prudent and reasonable, and prepared the Consolidated financial statements on a going concern basis and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union. The Directors are responsible for keeping proper accounting records for safeguarding the assets of the Company and the Group.

Auditor

The Consolidated financial statements and the Separate financial statements of the Company were audited by Deloitte & Touche S.p.A.. Under Italian company law, the auditor is appointed and its remuneration is resolved every three years by the shareholders of the Company in a general meeting, on the basis of a proposal from the Board of statutory auditors.

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

On April 8, 2016, the Board had resolved, in accordance with the recommendations received from the Board of statutory auditors and the Audit Committee, to propose a resolution at the shareholders' general meeting of the Company on May 24, 2016 (the "2016 AGM") to appoint Deloitte & Touche S.p.A. as the auditor of the Company for the relevant three-year term and to fix its remuneration.

At the 2016 AGM, it was resolved to appoint Deloitte & Touche S.p.A. as the auditor ("revisore legale dei conti") of the Company for a term of three financial years, ending on the date of the shareholders' general meeting to be called to approve the consolidated financial statements for the year ending December 31, 2018, and to approve its remuneration of Euro 487,000, 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 1,868,794 for Deloitte & Touche S.p.A. and its network in respect of provision of audit services to the 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.

By order of the Board

Carlo Mazzi
Chairman

March 9, 2018

Corporate governance practices

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

Compliance with the Code

The Board has reviewed the Company's corporate governance practices and is satisfied that such practices have complied with the code provisions set out in the Code, for the entire Reviewed Period (i.e. the eleven month period from February 1, 2017 to December 31, 2017) following the change of financial year end to December 31. This Corporate Governance report summarizes the way in which the Company has applied the principles and implemented the code provisions contained in the Code for the duration of the Reviewed Period.

Directors' securities transactions

The Company has adopted written procedures governing Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific written acknowledgments have been obtained from each Director to confirm his/her compliance with the required standard set out in the Model Code and the Company's relevant procedures regarding directors' securities transactions for the duration of the Reviewed Period. There were no incidents of non-compliance during the Reviewed Period.

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

Directors' interests as at December 31, 2017, in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) are set out in the Directors' Report.

Board of Directors

a. Board Composition

The Board is currently composed of nine Directors, of which four are Executive Directors, two are Non-Executive Directors and three are Independent Non-Executive Directors. All Directors have distinguished themselves in their field of expertise and have advised the Board in the area of their respective specialty, where this is relevant to the Group's business activities and strategic development. Biographical details of the Directors and their relationships, where applicable, are set out in the Directors and Senior Management section of this annual report. The Company has maintained both on its own website and on the website of the Stock Exchange an updated list of its Directors, identifying their respective roles and functions and also specifying if they are an Independent Non-Executive Director.

With a view to achieving a sustainable and balanced development, the Company has viewed diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its development. The Board diversity policy has been considered and adopted by the Board. All Board appointments are based on meritocracy and candidates are proposed and selected based on objective criteria,

with due regard for the benefits of diversity within the Board. Diversity in this sense encompasses a wide range of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The final selection is based on merit and the contribution which the candidates can bring to the Board.

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

b. Board Meetings

During the Reviewed Period, the Board held four meetings to discuss the Group's overall corporate strategic direction and objectives, assess its operational and financial performance (including the annual budget, as well as the annual and interim results) and to approve connected transactions and the Group's main investments and corporate reorganization plans. The average attendance rate of the Directors for these four meetings either in person or through electronic means was 80.5%.

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

c. Board Attendance

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

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	Shareholders' Meeting
Executive Directors					
Mr. Carlo MAZZI (Chairman)	4/4		3/3	1/1	1/1
Ms. Miuccia PRADA BIANCHI (Chief Executive Officer)	3/4				0/1
Mr. Patrizio BERTELLI (Chief Executive Officer)	2/4				0/1
Ms. Alessandra COZZANI (Chief Financial Officer)	4/4				1/1
Non-Executive Directors					
Mr. Stefano SIMONTACCHI	4/4				0/1
Mr. Maurizio CEREDA	3/4				1/1
Independent Non-Executive Directors					
Mr. Gian Franco Oliviero MATTEI 1	4/4	8/8	3/3	1/1	1/1
Mr. Giancarlo FORESTIERI 2	3/4	8/8	3/3		1/1
Mr. Sing Cheong LIU 3	2/4	6/8		1/1	1/1
Statutory Auditors					
Mr. Antonino PARISI (Chairman)	4/4				1/1
Mr. Roberto SPADA	3/4				1/1
Mr. David TERRACINA	4/4				1/1
Date(s) of Meeting	Apr 12, 2017	Mar 1, 2017	Apr 11, 2017	Apr 11, 2017	May 31, 2017
	Jun 29, 2017	Apr 6, 2017	Jun 29, 2017		
	Sept 8, 2017	Apr 12, 2017	Nov 30, 2017		
	Nov 30, 2017	Jun 29, 2017			
		Sept 5, 2017			
		Sept 8, 2017			
		Nov 23, 2017			
		Nov 30, 2017			
Average Attendance Rate of Directors	80.5%	91.6%	100%	100%	66.7%

Notes:
1: Chairman of Audit Committee, Remuneration Committee and Nomination Committee
2: Member of Audit Committee and Remuneration Committee
3: Member of Audit Committee and 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. The Board reserves for its own consideration and decision all matters concerning the overall Group strategy, the Group's strategic objectives, major acquisitions and disposals, annual budgets, as well as annual and interim results, approval of major transactions, connected transactions and any other significant operational and financial matters. The Board is also responsible for evaluating the effectiveness of the risk management and internal control systems on an ongoing basis.

All Board members have been provided with monthly updates prepared by the

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

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

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

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

e. Non-Executive Directors

The Non-Executive Directors, including the Independent Non-Executive Directors, provide the Company with diversified skills, expertise, qualifications as well as varied backgrounds and perspectives. They participate in the Board and Board Committees (including Audit Committee, Remuneration Committee and Nomination Committee) 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 7, 2018. None of the Independent Non-Executive Directors of the Company has any business or financial interest in the Company or its subsidiaries and they continue to be considered independent by the Company.

g. Liability Insurance for the Directors

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

h. Directors' Training

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

The Directors have participated in continuous professional training to develop and refresh their knowledge and skills during the Reviewed Period, through for example receiving regular updates on changes to and developments of the Group's business and on the latest development of the laws, rules and/or regulations relating to Directors' duties and responsibilities and a summary of the latest developments of

the rules and regulations applicable to the companies listed in Hong Kong from the Group Corporate Affairs Director and Joint Company Secretary, Ms. Patrizia Albano. In addition Ms. Patrizia Albano has invited the Directors to view a series of webcasts training specifically designed for directors of listed companies that was made available on the Stock Exchange of Hong Kong website. 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 May 26, 2015, 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 forthcoming shareholders' general meeting to be called to approve the financial statements of the Company for the Reviewed Period.

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 investments and corporate reorganization plans.

Board Committees

The Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee. Each Committee is chaired by an Independent Non-Executive Director. Each of the Committees' terms of reference is available on both the website of the Company and the Stock Exchange. The terms of reference in respect of each Committee are of no less exacting than those terms set out in the Code.

In addition, the Board has established a supervisory body under the Italian Legislative Decree no. 231 of June 8, 2001.

a. Audit Committee

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

During the Reviewed Period, the Audit Committee held eight meetings (with an average attendance rate of 91.6%) 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 covers the audit plans as well as the findings of both the internal and the external auditors, internal controls, risk assessment, annual review of the continuing connected transactions of the Group, tax updates and financial reporting matters (including the annual results for the year ended January 31, 2017 and the interim financial results as at July 31, 2017) before recommending them to the Board for approval.

The Audit Committee has also held one meeting on March 7, 2018, to review the Group results for the Reviewed Period, before recommending it to the Board for approval.

Auditor's compensation

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

Type of service	Audit Firm	Provided to	eleven months ended December 31 2017 (amounts in thousands of Euro)	twelve months ended January 31 2017 (amounts in thousands of Euro)
Audit services	Deloitte & Touche spa	PRADA spa	516	514
Audit services	Deloitte & Touche spa	Subsidiaries	121	173
Audit services	Deloitte Network	Subsidiaries	1,186	1,194
Total audit fees accruing			1,823	1,881
Other advisory services	Deloitte Network	PRADA spa	1,408	1,045
Other advisory services	Deloitte Network	Subsidiaries	79	216
Total non-audit fees accruing			1,487	1,261
Total independent auditor's compensation accruing			3,310	3,142

The other advisory services rendered to PRADA spa refer to assistance with the restyling of Prada websites and services connected with the creation of a data warehouse and the development of customer cluster analysis.

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. Gian Franco Oliviero Mattei (Chairman) and Mr. Giancarlo Forestieri and one Executive Director, Mr. Carlo Mazzi.

During the Reviewed Period, the Remuneration Committee held three meetings (with an attendance rate of 100%) mainly to recommend certain updates regarding the long-term incentive plan connected to the Group's results and the management by objectives incentives for the 2017 financial year.

On March 7, 2018, the Remuneration Committee held one meeting which recommended, among others, the aggregate basic remuneration of the Board of Directors to be approved at the forthcoming shareholders' general meeting.

Remuneration Policy

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

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

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

manager under the incentive plan would vest subject to the achievement by the Group of one or more economic objectives and his/her presence within the Group at the end of a three-year period.

Other incentive schemes specific to sales staff are also in place, and technicians of the Group may receive a collection bonus that is provided to them following the development of a seasonal collection.

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

Under the current compensation arrangements, the Executive Directors receive compensation in the form of fees, salaries and other benefits, discretionary bonuses and/or other incentives, including non-monetary benefits and other allowances and contributions such as to retirement benefits schemes. The Non-Executive Directors (including Independent Non-Executive Directors) receive compensation in the form of fees and contributions to retirement benefits scheme, as the case may be. No Director is allowed to approve his/her own remuneration.

c. Nomination Committee

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

During the Reviewed Period, the Nomination Committee held one meeting (with an attendance rate of 100%), to assess and confirm the independence of the Independent Non-Executive Directors of the Company for 2016 financial year.

On March 7, 2018, the Nomination Committee held one meeting to assess and confirm the independence of the Independent Non-Executive Directors of the Company for the Reviewed Period and to recommend to the shareholders the structure of the Board and the election of nine directors at the forthcoming shareholders' general meeting.

d. Supervisory Body

In compliance with Italian Legislative Decree no. 231 of June 8, 2001, the Company has established a supervisory body whose primary duty is to ensure the functioning, effectiveness and enforcement of the Company's Model of Organization, adopted by the Company pursuant to the Decree. The supervisory body consists of three members appointed by the Board selected among qualified and experienced individuals, including Independent Non-Executive Directors, qualified auditors, executives or external individuals. The supervisory body consists of Mr. David Terracina (Chairman), Mr. Gian Franco Oliviero Mattei and Mr. Paolo De Paoli.

Board of statutory auditors

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

At the shareholders' general meeting of the Company held on May 26, 2015, 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 forthcoming shareholders' general meeting to be called to approve the financial statements of the Company for the Reviewed Period.

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

Directors' responsibility and auditors' responsibility for Consolidated financial statements

The Directors are responsible for preparing the Consolidated financial statements of the Company for the eleven month period from February 1, 2017 to December 31, 2017 with a view to ensuring such Consolidated financial statements give a true and fair view of the state of affairs of the Group. In preparing these Consolidated financial statements, the Directors have selected suitable accounting policies and made judgments and estimates that are prudent and reasonable. The Consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union.

In addition the Board is generally satisfied of the adequacy of resources, staff qualifications and experience, training program and budget of the Company's accounting and financial reporting function during the Reviewed Period.

As regards the auditor of the Company, its responsibilities are stated in the auditor's reports on the Consolidated financial statements.

Internal control and risk management

The Group's internal control system has mainly been designed to safeguard the assets of the Group itself, to maintain proper accounting standards, to ensure that appropriate authority has been given for the performance of acts by the Company, and to comply with the relevant laws and regulations.

To better control its activities in moving toward the achievement of the established objectives, the Group has adopted the "Enterprise Risk Management – Integrated Framework" as reference method 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. Their biographies are set out in the Directors and Senior Management section.

Shareholders' Rights

a. Convening of the shareholders' general meeting at the shareholders' request

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

b. Putting forward proposals at shareholders' general meeting

Pursuant to Articles 14.4 and 14.5 of the Company's By-Laws, shareholders who, individually or jointly, own or control at least one-fortieth of the Company's share capital may request in writing for additions to be made to the list of items on the agenda, within ten days from the notice of call for a shareholders' general meeting, by setting out the proposed additions (five days in advance in the circumstances indicated under the second paragraph of Article 14.4). The proposals should be directed to the Group Corporate Affairs Director and Joint Company Secretary by email at corporateaffairs@pradagroup.com or at the Company's address: Via A. Fogazzaro n. 28, Milan 20135, Italy.

c. Making an enquiry to the Board

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

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

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

Constitutional Documents

During the Reviewed Period the Company has amended its By-laws so as to change the financial year end date from January 31 to December 31. The amended By-laws have been made available for viewing on the Company's website and the Hong Kong Stock Exchange's website.

Communication with Shareholders

a. Investor relations and communications

The Company endeavors to maintain a high level of transparency when communicating with the shareholders and the financial community in general. The Company has maintained regular dialogue and fair disclosure with institutional shareholders, fund managers, research analysts and the finance media. Investor/analysts briefings and one-on-one meetings, roadshows, investor conferences, site visits and results

briefings are conducted on a regular basis in order to facilitate communication between the Company, shareholders and the investment community. The Company strives to ensure effective and timely dissemination of information to shareholders and the investment community at all times and will regularly review the arrangements to ensure its effectiveness.

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

b. Shareholders' Meetings

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

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

The 2017 AGM of the Company was held on May 31, 2017 at the Company's registered office at Via A. Fogazzaro n. 28, Milan, Italy with a video-conference system located at the registered office of Prada Asia Pacific Limited at 36/F, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong. The Directors, including the Chairman of the Board, the Chairman of the Board Committees and the auditor of the Company, Deloitte & Touche S.p.A., attended the 2017 AGM.

Separate resolutions were proposed at the 2017 AGM relating to each issue and the voting results of such resolutions were disclosed in the announcement of the Company dated May 31, 2017. The number of votes cast in favour of each resolution (and the corresponding percentage level) are set out below:

Brief summary of the Extraordinary and Ordinary Resolutions passed at the 2017 AGM	Number of Votes cast in favour (%)
Part 1 – Extraordinary Resolution	
1. To approve the amendment of By-laws so as to change the financial year end to 31 December.	2,411,713,975 (94.25%)
Part 2 – Ordinary Resolutions	
1. To approve the Audited Separate Financial Statements and the Audited Consolidated Financial Statements of the Company for the year ended January 31, 2017 together with the Reports of the Board of Directors, the Board of Statutory Auditors and the Independent Auditors.	2,411,733,875 (99.99%)
2. To approve the distribution of the net income for the year ended January 31, 2017 to Shareholders and the utilization of retained earnings, in the form of a final dividend of Euro 12 cents per share.	2,411,944,875 (100%)

All resolutions put to the shareholders at the 2017 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 2017 AGM.

c. Corporate Communications

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

Consolidated Financial Statements

Consolidated Statement of financial position

(amounts in thousands of Euro)	Note	December 31 2017	January 31 2017
Assets			
Current assets			
Cash and cash equivalents	9	892,610	722,214
Trade receivables, net	10	289,973	285,504
Inventories, net	11	569,929	526,941
Derivative financial instruments – current	12	13,923	7,045
Receivables from, and advance payments to, related parties - current	13	6,107	14,964
Other current assets	14	192,072	253,375
Total current assets		1,964,614	1,810,043
Non-current assets			
Property, plant and equipment	15	1,522,782	1,542,684
Intangible assets	16	921,458	921,800
Associated undertakings	17	8,416	11,775
Deferred tax assets	35	209,402	247,266
Other non-current assets	18	110,698	123,361
Derivative financial instruments - non-current	12	2,005	-
Total non-current assets		2,774,761	2,846,886
Total Assets		4,739,375	4,656,929
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term financial payables and bank overdraft	19	352,971	151,211
Payables to related parties – current	20	4,488	5,542
Trade payables	21	313,697	256,094
Tax payables	22	68,116	65,467
Derivative financial instruments - current	12	7,654	13,634
Other current liabilities	23	157,346	144,827
Total current liabilities		904,272	636,775
Non-current liabilities			
Long-term financial payables	24	638,954	547,628
Long-term employee benefits	25	61,444	67,211
Provision for risks and charges	26	61,815	82,323
Deferred tax liabilities	35	32,012	31,140
Other non-current liabilities	27	167,595	179,072
Derivative financial instruments non-current	12	7,112	8,250
Total non-current liabilities		968,932	915,624
Total Liabilities		1,873,204	1,552,399
Share capital		255,882	255,882
Total other reserves		2,375,084	2,401,500
Translation reserve		(4,035)	144,791
Net income for the year		217,721	278,329
Equity attributable to owners of the Group	28	2,844,652	3,080,502
Equity attributable to Non-controlling interests	29	21,519	24,028
Total Equity		2,866,171	3,104,530
Total Liabilities and Total Equity		4,739,375	4,656,929
Net current assets		1,060,342	1,173,268
Total Assets less current Liabilities		3,835,103	4,020,154

Consolidated Statement of profit or loss

(amounts in thousands of Euro)	Note	eleven months ended December 31 2017	%	twelve months ended January 31 2017	%
Net revenues	30	2,741,095	100.0%	3,184,069	100.0%
Cost of goods sold	31	(710,399)	-25.9%	(894,957)	-28.1%
Gross margin		2,030,696	74.1%	2,289,112	71.9%
Operating expenses	32	(1,714,818)	-62.6%	(1,857,931)	-58.4%
EBIT		315,878	11.5%	431,181	13.5%
Interest and other financial income/(expenses), net	33	(6,731)	-0.2%	(18,003)	-0.6%
Dividends from investments	34	670	0.0%	2,252	0.1%
Income before taxation		309,817	11.3%	415,430	13.0%
Taxation	35	(91,800)	-3.3%	(131,240)	-4.1%
Net income for the period		218,017	8.0%	284,190	8.9%
Net income – Non-controlling interests	29	296	0.0%	5,861	0.2%
Net income – Group	28	217,721	7.9%	278,329	8.7%
Basic and diluted earnings per share (in Euro per share)	36	0.085		0.109	

Consolidated Statement of cash flows

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Income before taxation	309,817	415,430
Profit or loss adjustments		
Depreciation and amortization from continuing operations	199,000	212,052
Impairment of property, plant and equipment and intangible assets	10,912	10,215
Non-monetary financial (income) expenses	(23,753)	15,307
Other non-monetary charges	12,222	17,040
Balance Sheet changes		
Other non-current assets and liabilities	(16,597)	(16,640)
Trade receivables, net	(8,444)	(27,655)
Inventories, net	(66,125)	170,549
Trade payables	64,281	(25,630)
Other current assets and liabilities	986	3,499
Cash flows from operating activities	482,299	774,167
Interest paid, net – third parties	(8,796)	(12,693)
Taxes paid	(26,986)	(129,624)
Net cash flows from operating activities	446,517	631,850
Purchases of property, plant and equipment and intangible assets	(212,653)	(227,623)
Disposals of property, plant and equipment and intangible assets	1,649	2,608
Dividends from investments	670	2,252
Acquisition of additional shares from Non-Controlling Interests	(1,275)	-
Business combination	-	(3,564)
Net cash flow utilized by investing activities	(211,609)	(226,327)
Dividends paid to shareholders of PRADA spa	(307,059)	(281,471)
Dividends paid to non-controlling shareholders	(1,014)	(706)
Repayment of short-term portion of long-term borrowings - third parties	(46,830)	(79,129)
Arrangement of long-term borrowings – third parties	343,268	122,500
Change in short-term borrowings – third parties	11,870	(138,426)
Share capital increases by non-controlling shareholders of subsidiaries	89	1,014
Cash flows generated/(utilized) by financing activities	324	(376,218)
Change in cash and cash equivalents, net of bank overdrafts	235,232	29,305
Foreign exchange differences	(64,836)	12,314
Opening cash and cash equivalents, net of bank overdraft	722,214	680,595
Closing cash and cash equivalents, net of bank overdraft	892,610	722,214
Cash and cash equivalents	892,610	722,214
Bank overdraft	-	-
Closing cash and cash equivalents, net of bank overdraft	892,610	722,214

Consolidated Statement of changes in equity (amounts in thousands of Euro, except number of shares)

(amounts in thousands of Euro)	Number of shares	Share Capital	Translation reserve	Share premium reserve	Cash flow hedge reserve	Actuarial reserve	Fair Value Available for sale Reserve	Other reserves	Total other reserves	Net income for period	Equity		
											Equity attributable to owners of the Group	Equity attributable Non-controlling interests	Total Equity
Balance at January 31, 2016	2,558,824,000	255,882	138,547	410,047	(7,100)	(8,161)	933	1,959,304	2,355,023	330,888	3,080,340	17,037	3,097,377
Allocation of 2015 net income	-	-	-	-	-	-	-	330,888	330,888	(330,888)	-	-	-
Dividends	-	-	-	-	-	-	-	(281,471)	(281,471)	-	(281,471)	(706)	(282,177)
Share capital increase	-	-	-	-	-	-	-	-	-	-	-	1,014	1,014
Transactions with Non-controlling shareholders	-	-	-	-	-	-	-	(2,008)	(2,008)	-	(2,008)	280	(1,728)
Comprehensive income for the period (recycled to P&L)	-	-	6,244	-	(797)	-	(2,589)	-	(3,386)	278,329	281,187	6,401	287,588
Comprehensive income for the period (not recycled to P&L)	-	-	-	-	-	2,454	-	-	2,454	-	2,454	2	2,456
Balance at January 31, 2017	2,558,824,000	255,882	144,791	410,047	(7,897)	(5,707)	(1,656)	2,006,713	2,401,500	278,329	3,080,502	24,028	3,104,530
Allocation of 2016 net income	-	-	-	-	-	-	-	278,329	278,329	(278,329)	-	-	-
Dividends	-	-	-	-	-	-	-	(307,059)	(307,059)	-	(307,059)	(1,014)	(308,073)
Share capital increase	-	-	-	-	-	-	-	-	-	-	-	89	89
Transactions with Non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	323	323
Comprehensive income for the period (recycled to P&L)	-	-	(148,826)	-	4,624	-	(3,914)	-	710	217,721	69,605	(1,894)	67,711
Comprehensive income for the period (not recycled to P&L)	-	-	-	-	-	1,604	-	-	1,604	-	1,604	(13)	1,591
Balance at December 31, 2017	2,558,824,000	255,882	(4,035)	410,047	(3,273)	(4,103)	(5,570)	1,977,983	2,375,084	217,721	2,844,652	21,519	2,866,171

Consolidated Statement of comprehensive income

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Net income for the period – Consolidated	218,017	284,190
A) Items recycled to P&L:		
Change in Translation reserve	(151,016)	6,784
Tax impact	-	-
Change in Translation reserve less tax impact	(151,016)	6,784
Change in Cash Flow Hedge reserve	5,729	(914)
Tax impact	(1,105)	117
Change in Cash Flow Hedge reserve less tax impact	4,624	(797)
Change in Fair Value reserve	(3,362)	(3,452)
Tax impact	(552)	863
Change in Fair Value reserve less tax impact	(3,914)	(2,589)
B) Item not recycled to P&L:		
Change in Actuarial reserve	1,921	3,276
Tax impact	(330)	(821)
Change in Actuarial reserve less tax impact	1,591	2,455
Consolidated comprehensive income for the period	69,302	290,043
Comprehensive income for the period – Non-controlling Interests	(1,907)	6,403
Comprehensive income for the period – Group	71,209	283,640

The accounting policies and the notes are an integral part of the consolidated financial statements.

PRADA spa Separate Financial Statements

PRADA spa Statement of financial position

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Assets		
Current assets		
Cash and cash equivalents	180,434	112,783
Trade receivables, net	577,317	626,308
Inventories, net	248,933	222,026
Derivative financial instruments	15,498	8,408
Financial receivables and other receivables from parent company, subsidiaries, associates and related parties	145,871	119,937
Other current assets	117,235	158,662
Total current assets	1,285,288	1,248,124
Non-current assets		
Property, plant and equipment	712,896	640,960
Intangible assets	192,330	171,932
Associated undertakings	860,178	1,047,465
Deferred tax assets	29,617	31,662
Other non-current assets	23,816	19,245
Derivative financial instruments - non-current	8,018	6,031
Financial receivables and other receivables from parent company, subsidiaries, associates and related parties	162,734	112,161
Total non-current assets	1,989,589	2,029,456
Total assets	3,274,877	3,277,580
Liabilities and Shareholders' equity		
Current liabilities		
Short-term financial payables and bank overdraft	264,499	62,871
Financial payables and other payables to parent company, subsidiaries, associates and related parties	86,032	309,854
Trade payables	706,732	744,134
Current tax liabilities	18,469	10,599
Derivative financial instruments	7,557	11,806
Other current liabilities	99,002	81,826
Total current liabilities	1,182,291	1,221,090
Non-current liabilities		
Long-term debt, net of current portion	523,909	456,497
Long-term employee benefits	30,549	35,845
Provisions for risks and charges	10,153	31,011
Deferred tax liabilities	5,456	3,980
Other non-current liabilities	26,893	20,110
Derivative financial instruments - non-current	7,086	7,608
Financial payables and other payables to parent company, subsidiaries, associates and related parties	68,874	13,879
Total non-current liabilities	672,920	568,930
Total liabilities	1,855,211	1,790,020
Share capital	255,882	255,882
Other reserves	1,002,230	1,048,323
Net income of the period	161,554	183,355
Shareholders' equity	1,419,666	1,487,560
Total Liabilities & Shareholders' Equity	3,274,877	3,277,580

PRADA spa Statement of profit or loss

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Net revenues	1,498,554	1,583,750
Cost of goods sold	(668,697)	(732,300)
Gross Margin	829,857	851,450
Operating expenses	(600,210)	(651,743)
EBIT	229,647	199,707
Interest and other financial income / (expenses), net	(46,810)	(32,707)
Dividends from investments	24,779	80,739
Income before taxation	207,616	247,739
Taxation	(46,062)	(64,384)
Net income for the period	161,554	183,355

PRADA spa Statement of comprehensive income

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Net income for the period – Consolidated	161,554	183,355
A) Items recycled to P&L:		
Change in Cash Flow Hedge reserve	4,581	(2,236)
Tax impact	(1,099)	541
Change in Cash Flow Hedge reserve less tax impact	3,482	(1,695)
Change in Fair Value reserve	(5,569)	-
Tax impact	-	-
Change in Fair Value reserve less tax impact	(5,569)	-
B) Item not recycled to P&L:		
Change in Actuarial reserve	(681)	(755)
Tax impact	90	46
Change in Actuarial reserve less tax impact	(591)	(709)
Total comprehensive income for the period	158,876	180,951

PRADA spa Statement of cash flows

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Cash flows from operating activities:		
Income before taxation	207,616	247,739
Adjustments for:		
Depreciation and amortization	45,559	47,437
Impairment of fixed assets	2,247	1,404
Losses/(gains) on disposal of non-current assets	(101)	112
Impairment of investments	33,433	24,328
Non-monetary financial (income) expenses	(21,438)	(76,698)
Provisions and other non-monetary expenses	(16,287)	11,512
Balance sheet adjustments for:		
Trade receivables, net	6,167	(126,128)
Inventories, net	(28,728)	114,861
Trade payables	(37,402)	157,028
Other current assets and liabilities	46,708	(6,705)
Other non-current assets and liabilities	(18,168)	(8,528)
Cash flows generated by operations	219,606	386,362
Interest paid	(8,963)	(9,488)
Income taxes paid	-	(54,769)
Net cash flows generated by operations	210,643	322,105
Cash flows generated (utilized) by investing activities:		
Purchase of property, plant and equipment	(112,177)	(93,590)
Disposal of property, plant and equipment	256	2,456
Investments in subsidiaries	(10,168)	(49,243)
Dividends received	24,779	80,739
Cash flows generated (used) by investing activities	(97,310)	(59,638)
Cash flows generated (utilized) by financing activities:		
Dividends paid	(307,059)	(281,469)
Change in bank borrowing - current	(218)	(148,841)
Change in intercompany loans - current	-	14,034
Loans repaid by subsidiaries	27,415	30,213
Loans made to subsidiaries	(34,964)	(15,394)
Repayment of current portion of long-term borrowings	(30,356)	(436)
New long-term borrowings	299,500	95,102
Cash flows generated (used) by financing activities	(45,682)	(306,791)
Change in cash and cash equivalents net of bank overdraft	67,651	(44,324)
Exchange differences	-	-
Opening cash and cash equivalents, net of bank overdraft	112,783	157,107
Closing cash and cash equivalents, net of bank overdraft	180,434	112,783
Cash and bank balances	180,434	112,783
Bank overdraft	-	-
Closing cash and cash equivalents, net of bank overdraft	180,434	112,783

PRADA S.p.A. Statement of changes in equity (amounts in thousands of Euro, except number of shares)

(amounts in thousands of Euro)	Number of shares	Share capital	Share premium reserve	Legal reserve	Other reserves	Retained earnings	Cash flow hedge reserve	Fair Value Available for sale Reserve	Total other reserves	Net income for the period	Total equity
Balance at January 31 2016	2,558,824,000	255,882	410,047	51,176	182,899	454,651	93	-	1,098,866	248,421	1,603,169
Allocation of 2015 net income	-	-	-	-	-	248,421	-	-	248,421	(248,421)	-
Dividends paid	-	-	-	-	-	(281,471)	-	-	(281,471)	-	(281,471)
Other movements	-	-	-	-	-	(15,089)	-	-	(15,089)	-	(15,089)
Comprehensive income for the period (recycled to P&L)	-	-	-	-	-	-	(1,695)	-	(1,695)	183,355	181,660
Comprehensive income for the period (not recycled to P&L)	-	-	-	-	-	(709)	-	-	(709)	-	(709)
Balance at January 31 2017	2,558,824,000	255,882	410,047	51,176	182,899	405,803	(1,602)	-	1,048,323	183,355	1,487,560
Allocation of 2016 net income	-	-	-	-	-	183,355	-	-	183,355	(183,355)	-
Dividends paid	-	-	-	-	-	80,290	-	-	80,290	-	80,290
Other Movements	-	-	-	-	-	(307,059)	-	-	(307,059)	-	(307,059)
Comprehensive income for the period (recycled to P&L)	-	-	-	-	-	-	3,481	(5,569)	(2,088)	161,554	159,466
Comprehensive income for the period (not recycled to P&L)	-	-	-	-	-	(591)	-	-	(591)	-	(591)
Balance at December 31 2017	2,558,824,000	255,882	410,047	51,176	182,899	361,798	1,879	(5,569)	1,002,230	161,554	1,419,666

1. General information

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

The Group's products are sold in 70 countries worldwide through a network that included 625 Directly Operated Stores (DOS) at December 31, 2017, and a selected network of luxury department stores, independent retailers, franchise stores and on-line distributors (e-tailer).

The Company is a joint-stock company, registered and domiciled in Italy. Its registered office is in via Fogazzaro 28, Milan, Italy. At the date of these Consolidated financial statements, 79.98% of the share capital was owned by PRADA Holding spa, a company domiciled in Italy, while the remaining shares were floating on the Main Board of the Hong Kong Stock Exchange.

The Consolidated financial statements were approved and authorized for issue by the Board of Directors of PRADA spa on March 9, 2018.

2. Basis of preparation of IFRS Consolidated financial statement

On May 31, 2017 the Company's General Meeting approved By-Law Article 27, which changed the end of the annual reporting period from January 31 to December 31. For the past few years the proportion of consolidated revenues from the wholesale channel, whose seasonality is concentrated in the middle and at the end of the calendar year, has decreased considerably while that of the retail channel has grown. Therefore, the reasons for changing the end of the reporting period in 2004 to January are no longer applicable.

The Consolidated financial statements of the Prada Group as at December 31, 2017, including the "Consolidated statement of financial position", the "Consolidated Statement of Profit or Loss for the eleven month period ended December 31, 2017", the "Statement of consolidated comprehensive income for the eleven month period ended December 31, 2017", the "Consolidated statement of cash flows for the eleven month period ended December 31, 2017", the "Statement of changes in consolidated shareholders' equity" and the "Notes to the consolidated financial statements" have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and as endorsed by the European Union.

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

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

The Group has prepared the Consolidated statement of financial position presenting separately current and non-current assets and liabilities. All the details needed for an accurate and complete information are provided in the Notes to the consolidated financial statements. The Consolidated Statement of Profit or Loss is classified by

destination. The cash flow information is provided in the Consolidated statement of cash flows which has been prepared under the indirect method.

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

3. New IFRS and amendments to IFRS

New accounting standards and amendments issued by the IASB, endorsed by the European Union and applicable to the Prada Group from February 1, 2017.

Amendments to existing standards	Effective Date for PRADA Group	EU endorsement status
IAS 7 Statement of Cash Flows	February 1, 2017	Endorsed in November 2017
IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses	February 1, 2017	Endorsed in November 2017

Such standards do not have a material impact on these Consolidated Financial Statements

New accounting standards and amendments issued by the IASB, endorsed by the European Union, but not yet applicable to the Prada Group because they are effective for annual periods beginning on or after January 1, 2018.

New standards IFRS and amendments to existing standards	Effective Date for PRADA Group	EU endorsement date
IFRS 9 Financial Instruments	January 1, 2018	Endorsed in November 2016
IFRS 15 Revenue from Contracts with Customers	January 1, 2018	Endorsed in September 2016
IFRS 16 Leases	January 1, 2019	Endorsed in October 2017
Amendments to IFRS 4	January 1, 2018	Endorsed in November 2017
Clarifications to IFRS 15 Revenue from Contracts with Customers	January 1, 2018	Endorsed in October 2017
2014-2016 Cycle affecting IFRS 1, IAS 28, IFRS 12	January 1, 2018	Endorsed in February 2018

IFRS 9 Financial Instruments

IFRS 9 "Financial instruments" will replace the current IAS 39 and will become effective in three phases: Classification and measurement, hedge accounting and impairment. According to an initial analysis of the financial items recognized as of December 31, 2017, management does not envision a different classification from the one currently used under IAS 39. On the other hand, a new hedge accounting model will be adopted; the fair value of financial instruments will be recognized in the statement of profit or loss solely at the end of the operation, thereby generating less volatility on the Group's consolidated economics results. The new IFRS 9 also sets out a new "expected loss" impairment model for trade and financial receivables that replaces the "incurred loss" model. Assuming that the new standard will be adopted without restating the data for the period ended December 31, 2017, the Group estimates an adjustment to the retained earnings at January 1, 2018, gross of tax effects, in between Euro 3 and 5 million.

IFRS 15 Revenue from Contracts with Customers

This standard will replace IAS 18 "Revenue", IAS 11 "Construction Contracts" as well as interpretations IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers"

and SIC 31 “Revenues-Barter Transactions Involving Advertising Services”.

The standard establishes a new model for recognizing revenue based on the allocation of the transaction selling price to each performance obligation identified within a contract with the customer. The recognition of revenue depends on how a performance obligation is satisfied, whether at a point in time or over time. The new standard does not allow revenue to be recognized before the control of the promised goods or services is transferred to the customer. Moreover, the costs of fulfilling customer contracts may be capitalized when such costs are directly related to the contract and recovered over the life of the contract.

Assuming that the new standard will be adopted without retroactive effects on previous reporting periods, no material adjustments to the retained earnings at January 1, 2018 were identified. No material adjustment to the classification of revenue and expense in the statement of profit or loss was identified given that the Prada Group acts on its own behalf ("principal") in each activity concerning finished product sales. Moreover, the new standard is considered to have a practically neutral effect on the licensing agreements for the manufacture and marketing of eyewear and fragrances.

IFRS 16 Leases

IFRS 16 shall supersede IAS 17 "Leases", interpretations IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases—Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. Under the new standard, the lessee recognizes a right-of-use asset and a lease liability. The leased asset, recognized as an asset in the lessee's statement of financial position, entails accounting for interest expense and depreciation over its useful life. The lease liability is initially measured at the present value of the lease payments due over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate. The new standard is not applicable to leases with a lease term of less than 12 months and leases where the underlying asset has a low value (such as personal computers).

Consistently with the current application of IAS 17, under the new standard lessors shall classify each lease according to its type: a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset; otherwise it is an operating lease. The lessor recognizes financial income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment.

It is reasonable to expect that this new standard will have a material impact for the Group with respect to its leases for retail space. An initial measurement of the non-indexed liability discounted for future payments and hence of the right-of-use value may be given by the total obligations under the leases, as reported in Note 40. According to this information, prepared in accordance with IAS 17, the future lease payments for leases in effect as of December 31, 2017 amount to Euro 2.7 billion.

New standards, amendments and guidance issued by the IASB, but not yet endorsed by the European Union at the reporting date of the Consolidated financial statements.

New IFRS standards and interpretations	Effective Date for PRADA Group	Date of EU endorsement
IFRS 17 Insurance Contracts	January 1, 2021	Not endorsed yet
IFRIC Interpretation 22: "Foreign Currency Transactions and Advance Consideration"	January 1, 2018	Not endorsed yet
IFRIC Interpretation 23: "Uncertainty over Income Tax Treatments"	January 1, 2019	Not endorsed yet

Amendments to existing standards	Effective date for PRADA Group	EU endorsement date
IFRS 2 Classification and Measurement of Share-based Payment Transactions	January 1, 2018	Not endorsed yet
IAS 40: Transfers of Investment Property	January 1, 2018	Not endorsed yet
IFRS 9: Prepayment Features with Negative Compensation	January 1, 2019	Not endorsed yet
IAS 28: Long-term Interests in Associates and Joint Ventures	January 1, 2019	Not endorsed yet
2015-2017 Cycle affecting IFRS 3, IFRS 11, IAS 12, IAS 23	January 1, 2019	Not endorsed yet

As at the date of these Consolidated financial statement the Directors have not yet completed the analysis necessary to assess the impacts of the new standards, amendments and operational guides not yet applicable to the PRADA Group.

4. Scope of consolidation

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

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

Associated undertakings are consolidated using the equity method. Associated undertakings are those in which the Group has a significant influence but does not exercise effective control. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A list of the companies included in the Consolidated financial statements is provided in Note 42.

5. Basis of consolidation

The main consolidation criteria applied to prepare these Consolidated financial statements are as follows:

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

– assets and liabilities, costs and revenues of controlled companies are fully included on a line-by-line basis in the Consolidated financial statements irrespective of the percentage held. The book value of equity investments, directly or indirectly

owned by the holding company, is eliminated against the corresponding portion of shareholders' equity of the companies in which the interest is held;

- for companies consolidated on a line-by-line basis that are not 100% owned by the holding company, the share of the net equity and net results for the year of non-controlling interests are disclosed as "Shareholders' equity - Non-controlling interests" in the Consolidated statement of financial position and "Net income - Non-controlling interests" in the Consolidated statement of Profit or Loss;

- on business combinations, the difference between the acquisition cost of investments acquired and the corresponding share of shareholders' equity at the date of acquisition is allocated, if positive, to the identifiable assets acquired and liabilities assumed based on their fair value at the date of acquisition. Any residual positive amount is accounted for as goodwill while any negative amount is charged to the profit or loss immediately. The positive difference between the acquisition cost of an additional stake in a controlled company and the value of the interest acquired is directly recognized in equity reserves; in business combinations achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognizes the resulting gain or loss, if any, in profit or loss;

- the acquisition cost of an investment or an activity which does not constitute a business, and which therefore does not constitute a business combination, is allocated to the individual assets acquired and liabilities assumed based on their fair value at the acquisition date;

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

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

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

- the financial statements of subsidiary companies are prepared in their respective local currency. The statement of financial position is translated into Euro using the year end exchange rate, whereas the profit or loss is translated using the average exchange rate for the year. Translation differences arising on conversion of the statement of financial position, using the exchange rate at the start of the period and the exchange rate at the end of the period, and translation differences

arising on conversion of the profit or loss using the average rate for the period and the rate at the end of the period are recorded as a translation reserve in the consolidated shareholder's equity until disposal of the investment. The translation reserve in consolidated shareholder's equity represents translation differences recorded as from first time application on January 1, 2004. When preparing the Consolidated statement of cash flows, the cash flows of subsidiary companies are translated using the average rate for the period. Exchange differences arising on a monetary item qualified as a net investment in a foreign operation are initially recognized in the currency translation reserve and released to profit or loss upon disposal of the investment;

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

6. Main accounting policies

Cash and cash equivalents

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

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

Trade receivables and payables

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

Trade accounts payable are recorded at nominal amount.

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

Inventories

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

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 the profit or loss for the year they are incurred. Extraordinary maintenance expenses are capitalized if they increase the value or useful life of the related asset.

The costs included under leasehold improvements relate to refurbishment work carried

out on premises, mainly commercial, not owned by the Group.

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

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

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

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

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

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

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

Impairment losses are recorded immediately in the profit or loss.

Intangible assets

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

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

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

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

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

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

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

Category of intangible assets	Amortization rate or period
Trademarks and other intellectual property rights	2.5% - 25%
Store lease acquisition costs	Shorter of lease term (*) and useful life
Software	10% - 33%
Development costs and other intangible assets	10% - 33%

(*) the lease term includes the renewal period when the exercise of the option is deemed reasonably certain

If the term of a rental agreement changes, the residual useful life of store lease acquisition allocated on it is adjusted consistently.

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

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

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

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

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

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

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

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

Assets held for sale

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

Deferred tax assets

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

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

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

Deferred tax assets are not discounted.

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

Derivative financial instruments

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

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

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

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

Non-current financial liabilities

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

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

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

Post-employment benefits

Post-employment benefits mainly consist of Italian Trattamento Fine Rapporto, a staff leaving indemnity recognized in Italy qualified as defined benefit plan according to "IAS

19 Employee benefits".

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

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

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

Other long-term employee benefits are 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. Unlike defined benefits plans the actuarial gains and losses are recognized though profit or loss rather then through net equity.

Provisions for risks and charges and contingent assets

Provisions for risks and charges cover costs of a known nature, that were certain or probable but whose amount or due date was uncertain at year end. Provisions are recorded following a legal or constructive obligation as a result of past events and when it is probable that an outflow of resources will be required.

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

Deferred tax liabilities

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

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

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

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

Deferred tax liabilities are not discounted.

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

Revenue recognition and cost recognition

Revenues from the sale of goods are recognized in the profit or loss when:

- the significant risks and rewards of ownership are transferred to the buyer;
- the value of the revenues can be reliably measured;
- all control over the goods sold has ceased;

– the economic benefits generated by the transaction will probably be enjoyed by the Group;
– the costs pertaining to the transaction can be reliably measured.

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

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

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

Operating leases

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

Obligations under finance leases

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

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

Pre-opening rents

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

Interest expenses

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

Income taxes

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

Earnings per share

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

Changes of accounting policies, errors and changes of estimates

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

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

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

Material errors are treated on the same basis as changes of accounting policy as described above. Non-material errors are corrected through the profit or loss for the period in which the error was identified.

Changes of accounting estimates are accounted for prospectively in the profit or loss for the year in which the change is made if it only affects the profit or loss for that year, or in the profit or loss for the year in which the change is made and in subsequent periods if they are also affected by the change.

Use of estimates

In accordance with IFRS, preparation of these Consolidated financial statements requires the use of estimates and assumptions when determining certain types of assets, liabilities, revenues and costs and when assessing contingent assets and liabilities.

These assumptions refer, first of all, to operations and events not settled at the end of the period. Therefore, upon payment, the actual outcome may differ from the estimated amounts. Estimates and assumptions are reviewed periodically and the effects of each change are immediately recorded in the profit or loss.

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

7. Mergers and acquisitions

On March 16, 2017 PRADA India Fashion Private Limited, an inactive company, was liquidated after the decision not to open stores in the country.

On April 7, 2017 PRADA Far East II bv, wholly owned by PRADA spa, completed the transferal of its registered office to Italy and changed its name to PRADA Far East II srl; on November 1 it was merged into PRADA spa.

On April 18, 2017 PRADA spa acquired an additional 30% stake in subsidiary Hipic Prod Impex srl, bringing its ownership to 80%.

On May 1, 2017 PRADA Hong Kong P.D. Limited was merged into PRADA Asia Pacific Limited.

On November 21, 2017 the strike-off procedures of PAC srl was completed.

On November 28, 2017 Montenapoleone 9 srl acquired a 100% stake in Isarcodue srl, the company that handles the restaurant service at the Fondazione Prada Milan location, in order to integrate the operation with the Marchesi business activities.

8. Operating segments

IFRS 8, "Operating Segments", requires that detailed information be provided for each operating segment that makes up the business. An operating segment is defined as a business division whose operating results are regularly reviewed by top management in order to allocate appropriate resources to the segment and assess its performance.

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

Detailed information on the net revenues by distribution channel, brand, geographical area and product for the twelve months ended December 31, 2017 and 2016 is provided in the Financial Review together with the comments thereon.

Geographical information

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

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Europe	2,005,887	1,940,111
Americas	193,757	210,183
Asia Pacific	235,010	307,035
Japan	81,709	99,559
Middle East and Africa	34,015	32,499
Total	2,550,378	2,589,387

The total amount of Euro 2,550 million (Euro 2,589 million at January 31, 2017) covers the Group's non-current assets with the exception of derivative financial instruments, deferred tax assets and the pension fund surplus, as required by IFRS 8.

9. Cash and cash equivalents

The composition of Cash and cash equivalents is shown below:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Cash on hand	66,162	42,449
Bank deposit accounts	477,950	459,965
Bank current accounts	348,498	219,800
Total	892,610	722,214

As of December 31, 2017, interest income of between 0% and 6.8% per year was accrued on bank accounts and deposits (between 0% and 9.4% at January 31, 2017).

10. Trade receivables, net

Trade receivables are detailed below:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Trade receivables – third parties	284,602	268,223
Allowance for bad and doubtful debts	(7,892)	(6,654)
Trade receivables – related parties	13,263	23,935
Total	289,973	285,504

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

The allowance for doubtful debts was estimated on an detailed basis, using all information available at the time the financial statements were prepared, in order to align the receivables as closely as possible to their estimated realizable value.

The changes during the period were as follows:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Opening balance	6,654	6,546
Exchange differences	(171)	(78)
Increases	1,926	578
Reversals	-	(202)
Utilization	(517)	(190)
Closing balance	7,892	6,654

11. Inventories, net

Inventories can be broken down as follows:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Raw materials	102,246	103,679
Work in progress	30,556	26,368
Finished products	484,709	444,049
Allowance for obsolete and slow-moving inventories	(47,582)	(47,155)
Total	569,929	526,941

Net inventories rose by Euro 43 million from January 31, 2017 due to the planned expansion of the product range at the stores.

Materials being processed by third parties are included in raw materials. Work in progress refers to goods being manufactured by PRADA spa, other manufacturing companies included in the consolidation perimeter and contract manufacturers.

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

(amounts in thousands of Euro)	Raw materials	Finished Products	Total
Balance at January 31, 2017	25,676	21,479	47,155
Exchange differences	-	(116)	(116)
Increases	98	2,693	2,791
Reversal	(2,000)	-	(2,000)
Utilization	-	(248)	(248)
Balance at December 31, 2017	23,774	23,808	47,582

12. Derivative financial instruments: assets and liabilities

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

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Financial assets regarding derivative instruments - current	13,923	7,045
Financial assets regarding derivative instruments – non-current	2,005	-
Total Financial Assets - Derivative financial instruments	15,928	7,045
Financial liabilities regarding derivative instruments – current	(7,654)	(13,634)
Financial liabilities regarding derivative instruments – non-current	(7,112)	(8,250)
Total Financial Liabilities - Derivative financial instruments	(14,766)	(21,884)
Net carrying amount – current and non-current portion	1,162	(14,839)

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

(amounts in thousands of Euro)	December 31 2017	January 31 2017	IFRS7 Category
Forward contracts	15,721	6,168	Level II
Options	207	877	Level II
Positive fair value	15,928	7,045	
Forward contracts	(3,573)	(10,865)	Level II
Options	(501)	(134)	Level II
Interest rate swaps	(10,692)	(10,885)	Level II
Negative fair value	(14,766)	(21,884)	
Net carrying amount – current and non-current	1,162	(14,839)	

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

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

exchange rates at the reporting date.

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

Foreign exchange transactions

The cash flows resulting from the Group's international activities are exposed to exchange rate volatility. In order to hedge this risk, the Group enters into options and forward sale and purchase agreements, so as to guarantee the value of identified cash flows in Euro (or in other currencies used locally). The projected future cash flows mainly regard the collection of trade receivables, the settlement of trade payables and financial cash flows.

The notional amounts of the derivative contracts designated as foreign exchange risk hedges (translated at the European Central Bank exchange rate of December 31, 2017) are listed below.

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

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

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

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

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

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

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

(amounts in thousands of Euro)	Options	Forward sale contracts (*)	Forward purchase contracts (*)	January 31 2017
Currency				
Swiss Franc	-	12,936	(12,370)	566
GB Pound	-	73,050	(22,537)	50,513
Hong Kong Dollar	17,978	47,581	(66,586)	(1,027)
Japanese Yen	-	95,949	(26,174)	69,775
Korean Won	-	53,906	-	53,906
Chinese Renmibi	-	96,255	(43,149)	53,106
US Dollar	63,226	111,576	(112,136)	62,666
Other currencies	-	99,366	(38,200)	61,166
Total	81,204	590,619	(321,152)	350,671

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

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

(amounts in thousands of Euro)	Options	Forward sale contracts (*)	Forward purchase contracts (*)	January 31 2017
Currency				
Swiss Franc	-	53,431	-	53,431
GP Pound	-	22,229	-	22,229
Japanese Yen	-	34,771	-	34,771
US Dollar	-	10,112	(59,042)	(48,930)
Other currencies	-	10,814	(895)	9,919
Total	-	131,357	(59,937)	71,420

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

All contracts in place at December 31, 2017 will mature within 12 months, except for some forward contracts to hedge future financial cash flows which mature after December 31, 2018 and whose net notional amount is Euro 21.4 million (referring entirely to forward sale contracts).

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

Interest rate transactions

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

Interest Rate Swap (IRS) Agreement						Hedged loan			
Contract	Currency	Notional amount	Interest rate	Maturity date	December 31, 2017	Currency	Type of debt	Amount	Expiry
IRS	Euro/000	45,833	1.457%	May-2030	(2,204)	Euro/000	Term loan	45,833	May-2030
IRS	Euro/000	60,000	0.105%	Mar-2019	(304)	Euro/000	Term loan	60,000	Mar-2019
IRS	Euro/000	90,000	0.013%	Feb-2021	(177)	Euro/000	Term loan	90,000	Feb-2021
IRS	Euro/000	100,000	0.250%	Jun-2021	(523)	Euro/000	Term loan	100,000	Jun-2021
IRS	GBP/000	55,950	2.778%	Jan-2029	(7,361)	GBP/000	Term loan	55,950	Jan-2029
IRS	Yen/000	1,800,000	1.360%	Mar-2020	(123)	Yen/000	Term loan	2,100,000	Mar-2020
Total fair value (amounts in thousands of Euro)					(10,692)				

Interest Rate Swap (IRS) Agreement						Hedged loan			
Contract	Currency	Notional amount	Interest rate	Maturity date	January 31, 2017	Currency	Type of debt	Amount	Expiry
IRS	Euro/000	49,500	1.457%	May-2030	(2,563)	Euro/000	Term loan	49,500	May-2030
IRS	Euro/000	60,000	0.105%	Mar-2019	(470)	Euro/000	Term loan	60,000	Mar-2019
IRS	Euro/000	90,000	0.013%	Feb-2021	(300)	Euro/000	Term loan	90,000	Feb-2021
IRS	GBP/000	57,300	2.828%	Jan-2029	(7,294)	GBP/000	Term loan	57,300	Jan-2029
IRS	Yen/000	250,000	1.875%	Mar-2017	(11)	Yen/000	Term loan	250,000	Mar-2017
IRS	Yen/000	2,100,000	1.360%	Mar-2020	(247)	Yen/000	Term loan	2,100,000	Mar-2020
Total fair value (amounts in thousands of Euro)					(10,885)				

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

Information on financial risks

Capital management

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

Categories of financial assets and liabilities according to IFRS 7

Financial assets

(amounts in thousands of Euro)	Loans, receivables and financial investments	Derivative financial instruments	Total	Note
Cash and cash equivalents	892,610	-	892,610	9
Trade receivables, net	289,973	-	289,973	10
Derivative financial instruments	-	15,928	15,928	12
Investment available for sale	8,387	-	8,387	17
Total at December 31, 2017	1,190,970	15,928	1,206,898	

(amounts in thousands of Euro)	Loans, receivables and financial investments	Derivative financial instruments	Total	Note
Cash and cash equivalents	722,214	-	722,214	9
Trade receivables, net	285,504	-	285,504	10
Derivative financial instruments	-	7,045	7,045	12
Investment available for sale	11,749	-	11,749	17
Total at January 31, 2017	1,019,467	7,045	1,026,512	

Financial liabilities

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

(amounts in thousands of Euro)	Loans and payables	Derivative financial instruments	Total	Note
Financial payables	701,057	-	701,057	19, 20, 24
Trade payables	256,094	-	256,094	21
Derivative financial instruments	-	21,884	21,884	12
Financial lease	2,715	-	2,715	19, 24
Total at January 31, 2017	959,866	21,884	981,750	

Fair Value

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

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

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

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

Credit risk

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

Trade receivables

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

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

(amounts in thousands of Euro)	January 31, 2017	Not overdue	Overdue (in days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade receivables	292,158	226,210	22,631	16,259	5,766	3,193	18,099
Total	292,158	226,210	22,631	16,259	5,766	3,193	18,099

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

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

(amounts in thousands of Euro)	January 31, 2017	Not overdue	Overdue (in days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade receivables less allowance for doubtful accounts	285,504	225,905	22,613	16,259	5,766	3,193	11,768
Total	285,504	225,905	22,613	16,259	5,766	3,193	11,768

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

Bank current accounts and deposits

Bank deposits are broken down by currency as follows:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Hong Kong Dollar	387,212	293,644
Chinese Renmimbi	66,611	67,960
Korean Won	12,269	54,629
US Dollar	1,868	34,626
Other Currencies	9,990	9,106
Total bank deposit accounts	477,950	459,965

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

Bank current accounts

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Euro	188,438	109,606
US Dollar	74,525	50,224
GB Pound	8,408	5,947
Hong Kong Dollar	7,058	6,056
Korean Won	1,473	1,374
Other Currencies	68,596	46,593
Total bank current accounts	348,498	219,800

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

Liquidity risk

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

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

As of December 31, 2017, the Group has undrawn cash credit lines of Euro 681 million (Euro 662 million as of January 31, 2017) available at banks.

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

(amounts in thousands of Euro)	December 31, 2017	Not overdue	Overdue (days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade payables	313,697	284,005	13,227	7,097	1,411	748	7,159
Total	313,697	284,005	13,227	7,097	1,411	748	7,159

(amounts in thousands of Euro)	January 31, 2017	Not overdue	Overdue (days)				
			1 ≤ 30	31 ≤ 60	61 ≤ 90	91 ≤ 120	> 120
Trade payables	256,094	221,125	15,884	4,670	2,955	582	10,878
Total	256,094	221,125	15,884	4,670	2,955	582	10,878

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

Financial liabilities under derivative financial instruments (forward contracts and options)

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

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

(amounts in thousands of Euro)	Future contractual cash flows at Jan. 31, 2017	6 mths or less	6 to 12 mths	1 to 2 years	2 to 3 years	3 to 4 years	more than 4 years
Forward contracts designated as cash flow hedges							
Net cash flows (outflows/inflows)	(10,864)	(6,270)	(4,022)	(572)	-	-	-
Net amount	(10,864)	(6,270)	(4,022)	(572)	-	-	-

Financial liabilities under derivative financial instruments (interest rate swaps)

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

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

(amounts in thousands of Euro)	Future contractual cash flows at Jan. 31, 2017	6 mths or less	6 to 12 mths	1 to 2 years	2 to 3 years	3 to 4 years	more than 4 years
Interest rate swap cash flow hedge	(12,044)	(1,554)	(1,486)	(2,522)	(1,801)	(1,207)	(3,474)
Net amount	(12,044)	(1,554)	(1,486)	(2,522)	(1,801)	(1,207)	(3,474)

Financial liabilities

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

(amounts in thousands of Euro)	Carrying amount at Jan. 31, 2017	Future contractual cash flows at Jan. 31, 2017	on demand	6 mths or less	6 to 12 mths	1 to 2 years	2 to 3 years	3 to 4 years	more than 4 years
Obligations under finance leases	2,715	3,220	-	380	161	304	323	323	1,729
Financial liabilities – third parties (without deferred costs on loans)	696,079	735,887	-	110,503	46,096	241,720	123,007	14,650	199,911
Financial liabilities – related parties	4,934	4,934	-	-	4,934	-	-	-	-
Total	703,728	744,041	-	110,883	51,191	242,024	123,330	14,973	201,640

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

Exchange rate risk

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

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

The following table shows the sensitivity of the consolidated net income and equity to a range of hypothetical fluctuations in the main foreign currencies against the Euro, based on the statement of financial position of the Group's companies as of December 31, 2017.

(amounts in thousands of Euro)	Euro strengthens by 5%		Euro weakens by 5%	
	Effect on net income	Effect on shareholders' equity	Effect on net income	Effect on shareholders' equity
GB Pound	(239)	2,947	269	(3,252)
Hong Kong Dollar	4,138	7,510	(4,671)	(8,176)
Japanese Yen	1,474	5,230	(1,629)	(5,781)
US Dollar	(1,132)	5,955	1,251	(6,583)
Chinese Renminbi	(3,221)	2,017	3,561	(2,229)
Other currencies	(3,196)	3,746	3,920	(3,753)
Total	(2,176)	27,405	2,701	(29,774)

The total impact on equity (positive for Euro 27.4 million and negative for Euro 29.8 million) is the sum of the theoretical effect on the statement of profit or loss and on

the cash flow hedge reserve of a hypothetical appreciation/depreciation of the Euro against the other currencies.

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

Interest rate risk

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

The following table shows the sensitivity of the consolidated net income and equity to a hypothetical shift in the interest rate curve based on the financial position of the Group's companies at December 31, 2017.

(amounts in thousands of Euro)	Interest rate curve shift			
	+0.50%		-0.50%	
	Impact on net result	Impact on net equity	Impact on net result	Impact on net equity
Euro	(3,083)	2,359	3,080	(1,953)
GB Pound	(360)	1,964	143	(2,181)
Hong Kong Dollar	1,971	1,971	(1,971)	(1,971)
Japanese Yen	(529)	(474)	529	474
US Dollar	276	276	(276)	(276)
Other currencies	728	728	(728)	(728)
Total	(997)	6,824	777	(6,635)

The total impact on equity (positive for Euro 6.8 million and negative for Euro 6.6 million) is the sum of the theoretical effect on the statement of profit or loss and on the cash flow hedge reserve of a hypothetical shift in the interest rate curve. The effects on the financial statement items are presented above before taxes.

The sensitivity analysis is based on the net financial position at the end of the period, which might not reflect the actual exposure to interest rate risk during the period. For this reason it is purely indicative.

Other risks

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

13. Receivables from, and advance payments to, related parties – current

The current portions are as follows:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Prepaid sponsorship	-	8,741
Other receivables and advances	6,107	6,223
Receivables from and advances to related parties - current	6,107	14,964

The sponsorship prepayments at January 31, 2017, related to Luna Rossa Challenge srl, was released through profit or loss during the period consistently with contract maturities.

Additional information on related party transactions is provided in Note 39.

14. Other current assets

The other current assets are set forth below:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
VAT	42,444	48,582
Income tax and other tax receivables	69,652	117,244
Other assets	18,755	27,218
Prepayments	52,779	55,676
Deposits	8,442	4,655
Total	192,072	253,375

Other assets

The other assets are detailed below:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Advances to suppliers	1,760	2,160
Incentives for retail investments	5,247	12,171
Other receivables	11,748	12,887
Total	18,755	27,218

Prepayments

Prepayments are detailed as follows:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Rental costs	16,889	21,038
Insurance	1,809	2,447
Design costs	11,743	13,182
Fashion shows and advances on advertising campaigns	8,363	3,888
Amortized costs on loans	820	1,077
Other	13,155	14,044
Total	52,779	55,676

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

Deposits

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

15. Property, plant and equipment

The changes in the historical cost and accumulated depreciation of the last periods are set forth below:

(amounts in thousands of Euro)	Land and buildings	Production plant and machinery	Leasehold improve-ments	Furniture & fittings	Other tangibles	Assets under construction	Total
Historical cost	752,702	167,863	1,380,474	433,346	172,926	75,790	2,983,101
Accumulated depreciation	(96,178)	(130,876)	(872,603)	(250,502)	(90,258)	-	(1,440,417)
Net carrying amount at January 31, 2017	656,524	36,987	507,871	182,844	82,668	75,790	1,542,684
Historical cost	767,797	183,162	1,319,813	434,511	191,240	91,006	2,987,529
Accumulated depreciation	(108,447)	(137,425)	(862,814)	(259,040)	(97,021)	-	(1,464,747)
Net carrying amount at December 31, 2017	659,350	45,737	456,999	175,471	94,219	91,006	1,522,782

The changes in the carrying amount for the reporting period are as follows:

(amounts in thousands of Euro)	Land and buildings	Production plant and machinery	Leasehold improve-ments	Furniture & fittings	Other tangibles	Assets under construction	Total net carrying amount
Balance at January 31, 2017	656,524	36,987	507,871	182,844	82,668	75,790	1,542,684
Additions	22,799	15,799	61,059	29,533	22,390	68,161	219,741
Depreciation	(15,211)	(7,492)	(106,643)	(29,696)	(10,275)	-	(169,317)
Disposals	(2)	(73)	(4,082)	(558)	(68)	-	(4,783)
Exchange differences	(8,319)	(55)	(31,792)	(10,065)	(715)	(2,377)	(53,323)
Other movements	3,559	571	35,214	9,557	274	(50,483)	(1,308)
Impairment	-	-	(4,628)	(6,144)	(55)	(85)	(10,912)
Balance at December 31, 2017	659,350	45,737	456,999	175,471	94,219	91,006	1,522,782

The increases for "land and buildings" and "plant and machinery" are mainly attributable

to the capital expenditure invested to bolster and improve the manufacturing and logistics activities, within a broader plan to expand the inner production capacity.

The increases for "leasehold improvements", "furniture and fittings", and "assets under construction" are attributable primarily to the layout restyling strategy for Prada and Miu Miu stores intended to adapt them to the new aesthetic concepts of the brands.

The impairment of Euro 10.9 million for the period referred principally to the store restyling projects

16. Intangible assets

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

(amounts in thousands of Euro)	Trade-marks	Goodwill	Store Lease Acquisitions	Software	Other intangibles	Assets in progress	Total
Historical cost	392,205	547,460	216,951	100,099	63,320	27,767	1,347,802
Accumulated amortization	(143,761)	(28,863)	(127,965)	(75,000)	(50,413)	-	(426,002)
Net carrying amount at January 31, 2017	248,444	518,597	88,986	25,099	12,907	27,767	921,800
Historical cost	402,693	547,808	209,702	116,828	63,143	31,062	1,371,236
Accumulated amortization	(153,703)	(29,472)	(132,973)	(81,743)	(51,887)	-	(449,778)
Net carrying amount at December 31, 2017	248,990	518,336	76,729	35,085	11,256	31,062	921,458

The changes in the carrying amount for the reporting period are as follows:

(amounts in thousands of Euro)	Trade-marks	Goodwill	Store Lease Acquisitions	Software	Other intangibles	Assets in progress	Total net carrying amount
Balance at January 31, 2017	248,444	518,597	88,986	25,099	12,907	27,767	921,800
Additions	9,722	-	-	11,875	644	8,674	30,915
Amortization	(10,851)	-	(9,205)	(7,231)	(2,397)	-	(29,684)
Disposals	-	-	-	(3)	-	(1)	(4)
Exchange differences	(1,325)	(261)	(3,052)	(18)	-	(35)	(4,691)
Other movements	3,000	-	-	5,363	102	(5,343)	3,122
Balance at December 31, 2017	248,990	518,336	76,729	35,085	11,256	31,062	921,458

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

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Miu Miu	144,005	149,045
Church's	82,609	87,429
Prada	5,292	4,431
Other trademark and other intellectual property right	17,084	7,539
Total	248,990	248,444

No impairment was recognized for the Group's trademarks during the period.

"Key money" includes intangible assets recognized in respect of costs incurred by the Group to stipulate or take over leases for retail premises in prestigious locations.

The total capital expenditure for tangibles and intangibles in the eleven months ended December 31, 2017 was Euro 250.7 million, as broken down below.

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve monhs ended January 31 2017
Retail	110,026	151,218
Production, Logistics and Corporate	140,638	100,289
Total	250,664	251,507

Impairment test

As required by IAS 36, "Impairment of Assets," intangible assets with indefinite useful lives are not amortized, but tested for impairment at least once per year. The Group reports no intangible assets with indefinite useful lives other than goodwill. As of December 31, 2017, goodwill amounted to Euro 518.3 million, detailed by cash generating unit ("CGU") as follows:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Italy Wholesale	78,355	78,355
Asia Pacific and Japan Retail	311,936	311,936
Italy Retail	25,850	25,850
Germany and Austria Retail	5,064	5,064
United Kingdom Retail	9,300	9,300
Spain Retail	1,400	1,400
France and Montecarlo Retail	11,700	11,700
North America Retail and wholesale	48,000	48,000
Production Division	10,169	10,169
Church's	8,587	8,848
Pasticceria Marchesi 1824	7,975	7,975
Total	518,336	518,597

IAS 36 requires an entity to assess at each reporting date whether there are indications that any assets may be impaired. In light of the performance of certain retail businesses during the period, CGUs other than those shown above were also tested for impairment.

The method used to identify the recoverable amount (value in use) involves discounting the projected cash flows produced by the CGU to which goodwill has been allocated (the discounted cash flow or "DCF" method). Value in use is the sum of the present value of future cash flows expected from the business plan projections prepared for each CGU and the present value of the related operating activities at the end of the business plan period (terminal value).

The business plans cover a period of five years and have been constructed on the basis of the 2018 budget prepared by management. Prudently, no business growth was forecast after 2018, meaning that no significant improvement in the performance of the assets existing at December 31, 2017 was projected for the years of the plan. Moreover, prudent growth assumptions were adopted for the wholesale channel.

The rate used to discount cash flows was calculated using the weighted average cost of capital (WACC). For the period ended December 31, 2017, the WACC used for

discounting purposes ranged between 4.2% and 13.3% (between 4.5% and 14.4% at January 31, 2017). The WACC was calculated ad hoc for each CGU subject to impairment, considering the parameters specific to the geographical area: market risk premium and sovereign bond yield. The "g" rate of growth used to calculate the WACC was between 0% and 9.7%, in light of 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.

Where deemed appropriate, sensitivity analysis was carried out to ensure that changes in the main assumptions did not significantly affect the impairment test results. The outcome of these simulations confirmed that the result obtained through the DCF method was reasonable. Solely for the Church's Group, whose distribution channels were recently reviewed, management adopted projections for sales growth in 2019 as well, consistently with the initiatives already taken by December 31, 2017 to improve the structure. For this reason, in order to adopt a valuation method compliant with IAS 36, the cash flows generated by such sales growth were offset by prudent measures in the calculation of the terminal and WACC.

None of the impairment tests performed at December 31, 2017 identified any impairment losses. However, since value in use is measured on the basis of estimates and assuptions, the management cannot guarantee that the value of goodwill or other tangible and intangible will not be impaired in the future.

17. Associated undertakings

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Investment available for sale	8,387	11,749
Other investments	29	26
Total	8,416	11,775

The investments available for sale regard a 4.88% stake in Sitoy Group Holdings ltd, a company listed on the Hong Kong Stock Exchange at December 31, 2017. The value of the investment was restated at fair value in line with the official quoted share price (Level I of the fair value hierarchy according to IFRS 7 "Financial Instruments: Disclosures"). The fair value decrease of Euro 3.4 million compared with January 31, 2017 was recognized in a specific equity reserve. In 2017, the Group accounted for net dividends from Sitoy Group Holdings totaling HKD 5.9 million (Euro 0.7 million).

18. Other non-current assets

Other non-current assets are detailed as follows:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Guarantee Deposits	66,511	77,007
Deferred rental income	13,004	16,807
Pension fund surplus	13,021	10,233
Other long-term assets	18,162	19,314
Total	110,698	123,361

Other non-current assets as of December 31, 2017 includes Euro 13 million representing the actuarial valuation of the Group's pension plans in the United Kingdom (Note 25).

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

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Nature:		
Stores	61,398	71,680
Offices	3,889	3,943
Warehouses	100	116
Other	1,124	1,268
Total	66,511	77,007

(amounts in thousands of Euro)	December 31 2017
Maturity:	
Within two years	23,034
After between two years and five years	22,127
After more than five years	21,350
Total	66,511

19. Short-term financial payables and bank overdrafts

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Short-term bank loans	87,901	80,626
Current portion of long-term loans	265,447	70,506
Deferred costs on loans	(611)	(364)
Financial lease	234	443
Total	352,971	151,211

The short-term financial payables as of December 31, 2017 consist primarily of a Euro 30 million loan granted to PRADA spa and credit lines granted to PRADA Japan co ltd for a total equivalent value of Euro 54.8 million. Some of the credit lines contain covenants referring to the results of PRADA Japan co ltd's financial statements, all of which were met as of December 31, 2017.

The Euro 130 million bond, recognized at January 31, 2017 among the long-term bank borrowings, was reclassified to the current portion of long-term loans because it matures in 2018. Other financing of Euro 60 million was reclassified for the same reason. The

composition of the remaining current portion of long-term loans is presented in Note 24.

Short-term loans are broken down by currency below:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Euro	31,994	30,106
Japanese Yen	54,979	50,430
Other currencies	928	90
Total	87,901	80,626

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

20. Payables to related parties – current

The current portions due to related parties are presented below:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Financial payables	4,423	4,934
Other payables	65	608
Payables to related parties - current	4,488	5,542

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

21. Trade payables

Trade payables are detailed as follows:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Trade payables – third parties	302,847	241,901
Trade payables – related parties	10,850	14,193
Total	313,697	256,094

Trade payables increased by Euro 57.1 million, consistently with the dynamics regarding the restocking finished product strategy.

22. Tax payables

The tax payables are detailed hereunder:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Current income taxes	25,015	31,990
VAT and other taxes	43,101	33,477
Total	68,116	65,467

The Group recognized current tax liabilities of Euro 25 million as of December 31, 2017

(Euro 32 million as of January 31, 2017) against tax credits of Euro 69.7 million (Euro 117.2 million as of January 31, 2017), as reported in Note 14.

23. Other current liabilities

The other current liabilities are as follows:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Payables for capital expenditure	62,357	56,639
Accrued expenses and deferred income	20,943	18,636
Other payables	74,046	69,552
Total	157,346	144,827

The other payables are detailed as follows:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Short-term benefits for employees and other personnel	61,252	57,608
Customer advances	6,164	5,782
Returns from customers	4,724	4,087
Other	1,906	2,075
Total	74,046	69,552

24. Long-term financial payables

The long-term financial payables are as follows:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Long-term bank borrowings	638,034	416,491
Bonds	-	130,000
Deferred costs on loans	(1,137)	(1,135)
Financial lease – non-current	2,057	2,272
Total	638,954	547,628

In 2017, taking advantage of persistently favorable credit market conditions, PRADA spa secured two new loans of Euro 200 million and Euro 100 million, respectively. The first loan, consisting of an amortizing portion and a bullet portion, contains covenants referring to PRADA spa's consolidated financial statements. All such covenants were met as of December 31, 2017.

In addition to the parent company, some associates took out loans in 2017:

– Tannerie Limoges sas took out a Euro 2.5 million mortgage loan secured by the building in the city of Isle, near Limoges, used by the Group for manufacturing special types of leather;

– PRADA Middle East fzco took out a U.S. dollar ("USD") 20 million (Euro 16.7 million) loan, repayable in 16 quarterly, equal installments beginning in May 2018;

– PRADA Japan co ltd stipulated a Japanese yen ("JPY") 11 billion multi-tranche syndicated loan from a group of Japanese banks, of which it had used JPY 3.5 billion (Euro 25.9 million) as of December 31, 2017. The loan contains covenants referring to the financial results of the associate, all of which were met as of

December 31, 2017.

– Hipic Prod Impex srl stipulated a Romanian leu ("ROL") 13.8 million loan, of which it had used ROL 0.5 million (Euro 0.1 million) as of December 31, 2017; the loan will be extinguished with a bullet repayment at maturity.

Concurrently, the Group paid loan balances due totaling Euro 46.8 million during the period.

The long-term bank borrowings as of December 31, 2017, excluding finance lease obligations and amortized costs, are set forth below:

Borrower	Amount in thousands of Euro	Type of loan	Currency	Expiry date	Interest rate (1)	Current Portion (Euro thousands)	Non-current Portion (Euro thousands)	Pledge
PRADA spa	130,000	Bond Private placement	EUR	08/2018	2.750%	130,000	-	-
PRADA spa	60,000	Term-loan	EUR	03/2019	0.755%	-	60,000	-
PRADA spa	42,167	Term-loan	EUR	05/2030	2.737%	3,667	42,167	Mortgage loan
PRADA spa	40,000	Term-loan	EUR	02/2019	0.608%	-	40,000	-
PRADA spa	100,000	Term-loan	EUR	06/2021	0.752%	-	100,000	-
PRADA spa	100,000	Term-loan	EUR	06/2022	0.480%	12,500	87,500	-
PRADA spa	90,000	Term-loan	EUR	02/2021	0.963%	-	90,000	-
PRADA spa	15,000	Term-loan	EUR	03/2019	0.710%	10,000	5,000	-
PRADA spa	100,000	Term-loan	EUR	06/2019	0.000%	-	100,000	-
PRADA spa	16,667	Term-loan	EUR	12/2018	0.600%	16,667	-	-
PRADA spa	60,000	Term-loan	EUR	12/2018	0.323%	60,000	-	-
PRADA Japan Co. Ltd	22,221	Syndicate loan	JPY	09/2022	0.467%	-	22,221	-
PRADA Japan Co. Ltd	11,110	Term-loan	JPY	03/2020	1.360%	4,444	6,666	-
PRADA Japan Co. Ltd	3,703	Term-loan	JPY	03/2020	0.810%	1,481	2,222	-
PRADA Japan Co. Ltd	1,852	Term-loan	JPY	03/2020	1.180%	741	1,111	-
PRADA Japan Co. Ltd	3,703	Syndicate loan	JPY	09/2022	0.467%	-	3,703	-
PRADA Japan Co. Ltd	19.110	Syndicate loan	JPY	07/2018	0.906%	19,110	-	-
PRADA Japan Co. Ltd	740	Term-loan	JPY	03/2018	0.455%	740	-	-
Kenon Ltd	63,061	Term-loan	GBP	01/2029	4.477%	2,282	60,779	Mortgage loan
Prada Middle East	16,676	Term-loan	USD	02/2022	3.337%	3,126	13,550	-
Tannerie Limoges sas	2,500	Term-loan	EUR	01/2024	1.200%	-	2,500	Mortgage loan
Pelletteria Ennepi srl	188	Term-loan	EUR	06/2019	2.500%	125	63	-
Hipic Prod Impex srl	552	Term-loan	RON	11/2021	2.830%	-	552	-
Church and Co. ltd	564	Term-loan	GBP	05/2018	1.815%	564	-	-
Total	903,481					265,447	638,034	

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

PRADA spa's mortgage loan is secured by the building in Milan used for the Group's headquarters, whereas Kenon ltd's loan is secured by the building on Old Bond Street used for one of the most prestigious Prada stores in Europe. The loan to Tannerie Limoges sas is secured by the building used for production.

All loans are set forth by maturity in the liquidity risk section in Note 12. Apart from PRADA spa, no Group company issued debt securities.

The Group generally borrows at variable interest rates and manages the risk of interest rate fluctuations through hedging agreements, as described in Note 12.

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

(amounts in thousands of Euro)	December 31, 2017		January 31, 2017	
	variable interest rates	fixed interest rates	variable interest rates	fixed interest rates
Short-term financial payables	56%	44%	61%	39%
Long-term financial payables	27%	73%	22%	78%

25. Long-term employee benefits

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Post-employment benefits	46,338	46,779
Other long-term employee benefits	15,106	20,432
Total liabilities for long-term benefits	61,444	67,211
Pension plan surplus (note 18)	13,021	10,233
Net liabilities for long-term benefits	48,423	56,978

Post-employment benefits

The net balance of long-term employee benefits as of December 31, 2017 is Euro 48.4 million (Euro 57 million as of January 31, 2017), and all the benefits are classified as defined benefit plans.

The post-employment benefits consist of Euro 23.8 million (Euro 24.3 million at January 31, 2017) in liabilities accounted for by Italian companies and Euro 22.5 million by the foreign subsidiaries (Euro 22.5 million in at January 31, 2017). The Italian liabilities regard the *"Trattamento di Fine Rapporto"* ("TFR", or staff leaving indemnities), a deferred benefit for employees that is mandatory for Italian businesses and is based on the employees' length of service and pay. The present value of the liability recognized was determined by projecting the amount accrued as of December 31, 2017 under Italian law to the estimated future date of employment termination, discounting it to the present value at the same reporting date using the projected unit credit method ("PUCM").

The following table presents the changes in long-term employee benefits as at December 31, 2017

(amounts in thousands of Euro)	Defined Benefit Plans in Italy (TFR)	Defined Benefit Plans in other countries (including Japan)	Pension Funds in UK	Other long-term employee benefits	Total
Balance at January 31, 2017	**24,251**	**22,528**	**(10,233)**	**20,432**	**56,978**
Acquisitions	77	-	-	-	77
Current service cost	397	3,579	284	4,390	8,650
Interest expenses (income)	-	-	(255)	61	(194)
Actuarial (gains)/losses	773	107	(2,802)	(439)	(2,361)
Benefits paid	(1,701)	(1,425)	-	(8,897)	(12,023)
Contributions	-	-	(351)	-	(351)
Exchange differences	-	(2,248)	336	(441)	(2,353)
Other movements	-	-	-	-	-
Balance at December 31, 2017	**23,797**	**22,541**	**(13,021)**	**15,106**	**48,423**

The actuarial gains and losses are as follows:

(amounts in thousands of Euro)	Defined Benefit Plans in Italy (TFR)	Defined Benefit Plans in Other Countries (including Japan)	Pension Funds in UK
Actuarial adjustments due to			
(a) Changes in financial assumptions	877	126	(4,721)
(b) Changes in other assumptions (e.g. demographic assumptions, remuneration increases)	(104)	(17)	1,919
(c) Other	-	-	-
Actuarial (gains)/losses	**773**	**107**	**(2,802)**

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

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

The post-employment benefits are stated net of the pension plan surplus attributable to Group companies operating in the United Kingdom that supply pension services to their employees. As of December 31, 2017, the fair value of such pension plans is a surplus of Euro 13 million (Euro 10.2 million as of January 31, 2017). The fair value of the plan assets was determined by the independent actuaries of Scottish Widows. It is detailed below:

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Fair value of plan assets	65,852	65,846
Fair value of plan liabilities	(52,831)	(55,613)
Pension plan surplus	13,021	10,233

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

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Equities	32,190	23,565
Alternatives	10,967	9,753
Bonds	19,550	25,629
Cash	3,145	6,899
Total	65,852	65,846

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

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

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

January 31, 2017	Defined Benefit Plans in Italy (TFR)	Pension Funds in UK	Defined Benefit Plans in Japan
Average duration of plan (years)	10.6	15.4	14.8
Average increase in remuneration	1.80%	2.32%	3.37%
Rate of inflation	1.20%	2.32%	n/a

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

With respect to the December 31, 2017 liability, sensitivity analysis was performed on the main actuarial variables such as discount rate, salary changes and inflation rate. The analysis did not lead to significant changes in the liability, except for the sensitivity analysis conducted on the interest rate curve, according to which a 50 basis point increase or decrease would cause an increase or decrease in the Group's total defined benefit obligation ("DBO") up to Euro 5.5 million.

Other long-term employee benefits

The other long-term employee benefits meet the IAS 19 definition of long-term employee benefits and refer to retention and performance-based programs for employees. Their actuarial valuation as of December 31, 2017 under the PUCM methodology resulted in Euro 15.1 million (Euro 20.4 million as at January 31, 2017), according to an independent actuarial appraisal.

26. Provisions for risks and charges

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

(amounts in thousands of Euro)	Provision for litigation	Provision for tax disputes	Other provisions	Total
Balance at January 31, 2017	1,788	24,905	55,630	82,323
Exchange differences	(110)	(167)	(3,837)	(4,114)
Reversals	(552)	(17,644)	(1,184)	(19,380)
Utilized	-	(747)	(4,653)	(5,400)
Increases	1,968	3,581	2,837	8,386
Balance at December 31, 2017	3,094	9,928	48,793	61,815

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

Tax disputes

The Group's main tax disputes are described hereunder.

On December 30, 2005, PRADA spa received two VAT assessment notices for tax year 2002, regarding the sale of two business divisions reclassified as sales of trademarks. After receiving an assessment of approximately Euro 21 million, the Company filed a dispute. After obtaining successful outcomes in the first and second-instance courts, the case is currently pending at the Supreme Court of Cassation following an appeal lodged by the Italian tax authorities. In 2017 PRADA spa decided to resolve the dispute through the facilitated settlement procedure for pending tax disputes pursuant to Italian Law Decree 50/2017, Article 11. This entailed sending a specific application to the Italian tax authorities and paying Euro 8.4 million in VAT plus interest. Due to this procedure and reasonable certainty of the outcome, management has reduced its estimate of the Company's contingent liabilities in connection with the dispute resolution.

On August 4, 2006, PRADA spa received a claim for VAT penalties of Euro 5.7 million regarding its alleged failure to issue a self-invoice for the value of a trademark acquired in 2002 with the related business division. The Company, which filed the dispute and obtained unsuccessful rulings in the first and second-instance courts, has lodged an appeal at the Court of Cassation and the case is currently waiting to be heard at the Supreme Court. In this case PRADA spa decided not to use the facilitated settlement procedure for pending tax disputes under Law Decree 50/2017, Article 11, because the Company had already paid the full amount due while the case was pending, and previously paid amounts are not refunded under said facilitated settlement procedure.

In its previous financial statements, PRADA spa provided exhaustive disclosure of the accounting and tax effects of the Italian tax authorities' dismissal of PRADA spa's petition to not apply the Controlled Foreign Company ("CFC") rules to its Dutch sub-holding company, PRADA Far East bv (spun into Prada Far East II srl and then absorbed by PRADA spa), and of the inadmissibility of the petitions filed with the same authorities regarding other subsidiaries of the Group operating in countries with privileged tax systems ("black list" countries) for years 2010 to 2013. There were no significant developments in 2017. However, following its adherence to the Cooperative Compliance tax regime (under Italian Legislative Decree 128/2015) in November 2017, PRADA spa, in mutual agreement with the Italian Cooperative Compliance Office, proposed the Italian Revenue Agency to file joint petitions to waive the disputes initiated in past years due to the dismissal/inadmissibility of the aforementioned CFC appeal petitions, regardless of the stage at which the proceedings are pending.

In 2012 the Italian Customs Agency initiated an audit of PRADA spa for the tax years from 2007 to 2011, which in later years resulted in notices of assessment for the 2010 tax year against which PRADA spa filed an appeal. In 2017 the first appeal pending with the Livorno Provincial Tax Commission was discussed and ruled in favor of the Company. The Customs Agency has lodged an appeal against such ruling.

In January 2015 an audit of PRADA Germany gmbh regarding direct and indirect taxes for the tax years from 2008 to 2011 was begun, and continued until the end of 2017. The audit concluded with the issuance of a notice of assessment regarding direct taxes, for which Prada Germany promptly filed a request for suspension of payment, which was denied by the German tax authorities.

According to management, supported by the opinion of tax advisers, the Euro 9.9 million provision recognized for the tax disputes reported above as of December 31, 2017 represents the best estimate of the obligations that the Group could be required to settle.

Legal disputes

The Euro 3.1 million provision for litigation as of December 31, 2017 refers to disputes with suppliers, former employees and government authorities regarding social security contributions.

Other risk provisions

The other risk provisions amount to Euro 48.8 million as of December 31, 2017 and refer primarily to contractual obligations to restore leased commercial property to original condition.

27. Other non-current liabilities

The other non-current liabilities amount to Euro 167.6 million (Euro 179.1 million as of January 31, 2017) and consist primarily of liabilities recognized to account for commercial lease costs on a straight-line basis.

28. Equity attributable to owners of the Group

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

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Share Capital	255,882	255,882
Share premium reserve	410,047	410,047
Other reserves	1,977,983	2,006,713
Actuarial reserve	(4,103)	(5,707)
Fair value Available for sale reserve	(5,570)	(1,656)
Cash flow hedge reserve	(3,273)	(7,897)
Translation reserve	(4,035)	144,791
Net income for the period	217,721	278,329
Total	2,844,652	3,080,502

Share capital

As of December 31, 2017, approximately 80% of PRADA spa's share capital is owned by PRADA Holding spa and the remainder is listed on the Main Board of the Hong Kong Stock Exchange.

Share premium reserve

The share premium reserve of Euro 410 million did not change from that of January 31, 2017.

Translation reserve

Changes in this reserve derive from the translation into Euro of the foreign currency financial statements of the consolidated companies. The reserve decreased from Euro 144.8 million at January 31, 2017 to Euro -4 million at the reporting date as a result of the appreciation of the Euro against the main currencies in which the Group operates. Among these, from January 31 to December 31, 2017 the Hong Kong Dollar and the U.S. Dollar depreciated against the Euro by 12.3% and 11.5%, respectively.

Other reserves

The other reserves amount to Euro 1,978 million as of December 31, 2017. The reserve is reduced by Euro 28.7 million compared with January 31, 2017 (Euro 2,006.7 million) primarily as a result of the distribution of dividends to PRADA spa shareholders for Euro 307.1 million, after the allocation of the Euro 278.3 million profit of the previous period.

Net income for the period

The Group's net income for the eleven months ended December 31, 2017 is Euro 217.7 million (Euro 278.3 million for the twelve months ended January 31, 2017).

Capital gains tax in Italy

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

29. Equity attributable to non-controlling interests

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

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Opening balance	24,028	17,037
Translation differences	(2,190)	540
Dividends	(1,014)	(706)
Net income for the period	296	5,861
Actuarial reserve	(13)	2
Capital injection in subsidiaries	89	1,014
Transactions with non-controlling shareholders	323	280
Closing balance	21,519	24,028

Dividends of Euro 1.014 thousand were distributed to non-controlling shareholders as of December 31, 2017, as detailed in Note 43.

30. Net revenues

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

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Net sales	2,696,644	3,139,290
Royalties	44,451	44,779
Total	2,741,095	3,184,069

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

31. Cost of goods sold

The cost of goods sold has the following composition:

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Purchases of raw materials and production costs	642,609	595,256
Logistics costs, duties and insurance	129,627	130,383
Change in inventories	(61,837)	169,318
Total	710,399	894,957

The cost of goods sold fell from 28.1% of net revenues to 25.9% due essentially to a more favorable sales mix in terms of full-price sales versus discounted sales and to the foreign currency effects.

32. Operating expenses

The operating costs are detailed below:

(amounts in thousands of Euro)	eleven months ended December 31 2017	% of net revenues	twelve months ended January 31 2017 (*)	% of net revenues
Product design and development costs	116,536	4.3%	123,464	3.9%
Advertising and communications costs	167,733	6.1%	171,741	5.4%
Selling costs	1,274,947	46.5%	1,378,726	43.3%
General and administrative costs	155,602	5.7%	184,000	5.8%
Total	1,714,818	62.6%	1,857,931	58.4%

(*) the detail of the operating expenses was restated compared to the 2016 in order to provide a better representation of the results of the revision of short-term incentives to employee

The operating expenses for the eleven months ended December 31, 2017 rose as a percentage of net revenues by 420 basis points compared with the twelve months ended January 31, 2017. The increase is attributable mainly to advertising and communication initiatives.

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

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017 (*)
Depreciation, amortization and impairment	196,852	209,018
Labor cost	520,569	554,430
Variable rent	294,962	343,393
Fixed rent	278,794	302,200
Total	1,291,177	1,409,041

(*) the detail of twelve month period ended January 31, 2017 was restated in order to provide a better representation of the results of the revision of short-term incentives to employee

33. Interest and other financial income/(expense), net

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

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Interest expenses on borrowings	(13,786)	(14,282)
Interest income / (expenses) IAS 19	143	48
Interest income	5,070	4,575
Exchange gains / (losses) – realized	(5,911)	9,783
Exchange gains / (losses) – unrealized	9,360	(15,068)
Other financial income / (expenses)	(1,607)	(3,059)
Total	(6,731)	(18,003)

The net financial expenses fell from Euro 18 million in 2016 to Euro 6.7 million. Apart from the shorter reporting period of 2017, the decrease was influenced primarily by higher exchange gains on financial items due to the devaluation of the Hong Kong dollar against the Chinese renminbi and the Singapore dollar.

34. Dividends from investments

At December 31, 2017, the Group owned a 4.88% stake (unchanged from the prior reporting date) in Sitoy Group Holdings ltd, a company listed on the Hong Kong Stock Exchange (HK: 1023). In the eleven months ended December 31, 2017, the Group accounted for dividends of Euro 0.7 millon from that company (Euro 2.3 million in the twelve months of 2016).

35. Taxation

Income taxes have the following composition:

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Current taxation	69,896	95,647
Deferred taxation	21,904	35,593
Total	91,800	131,240

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

(amounts in thousands of Euro)	eleven months ended December 31, 2017
Weighted average tax rate of the Group	**27.8%**
Costs and revenues not taxable/deductible	2.5%
Effect of utilization of tax loss carryforwards	0.9%
Prior year taxes	-2.9%
Withholdings	1.3%
Effective tax rate of the Group	**29.6%**

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

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Opening balance	**216,126**	**243,690**
Exchange differences	(15,310)	5,746
Deferred tax on acquisitions	-	463
Deferred taxes on derivative instruments recorded in equity (cash flow hedges)	(1,657)	117
Deferred taxes on post-employment benefits recorded in equity (reserve for actuarial differences)	(334)	(821)
Other movements	470	2,524
Deferred taxes for the period in profit or loss	(21,904)	(35,593)
Closing balance	**177,390**	**216,126**

Deferred tax assets and liabilities are classified by type hereunder:

(amounts in thousands of Euro)	December 31, 2017		January 31, 2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Inventories	100,620	-	108,560	-
Receivables and other assets	94	1,412	462	1,417
Useful life of non-current assets	46,405	9,048	55,124	8,712
Deferred taxes due to acquisitions	-	15,071	-	16,957
Provision for risks / accrued expenses	38,078	437	54,945	816
Non-deductible / taxable charges/income	9,416	2,024	11,096	448
Tax loss carryforwards	3,627	-	3,561	-
Derivative financial instruments	1,306	593	1,885	-
Long term employee benefits	8,986	2,214	9,395	1,740
Other	870	1,213	2,238	1,050
Total	**209,402**	**32,012**	**247,266**	**31,140**

The US corporate tax reform had a negative impact on deferred taxation resulting in a charge for the period amounting to Euro 20 million.

Tax loss carryforwards as of December 31, 2017, including those already recognized in the Group's financial statements, are detailed below:

(amounts in thousands of Euro)	December 31, 2017
Expiring within 5 years	18,509
Expiring after 5 years	18,321
Available for carryforward with no time limit	89,182
Total tax loss carryforwards	126,012

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

36. Earnings and Dividends per share

Earnings per share basic and diluted

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

	eleven months ended December 31 2017	twelve months ended January 31 2017
Group net income in Euro	217,721,032	278,328,814
Weighted average number of ordinary shares in issue	2,558,824,000	2,558,824,000
Basic and Diluted earnings per share in Euro, calculated on weighted average number of shares	0.085	0.109

Dividends per share

The Board of Directors of PRADA spa has proposed a final dividend of Euro 191,911,800 (Euro 0.075 per share) for the eleven months ended December 31, 2017.

During the period ended December 31, 2017, the Company distributed dividends of Euro 307,058,880, (Euro 0.12 per share), as approved by Shareholders at the General Meeting held on May 31, 2017 to approve the financial statements for the fiscal year ended January 31, 2017.

The dividends and the related Italian withholding tax (Euro 16 million), determined by applying the ordinary Italian tax rate to the entire amount of the dividends distributed to the beneficial owners of the Company's shares held through the Hong Kong Central Clearing and Settlement System, were paid by December 31, 2017.

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

	Financial statements ended January 31, 2017	Financial statements ended January 31, 2016	Financial statements ended January 31, 2015
Total dividends paid (Euro)	307,058,880	281,470,640	281,470,640
Dividends per Share (Euro)	0.12	0.11	0.11
Date of approval by Shareholders' Meeting	31/05/2017	24/05/2016	26/05/2015
Date of payment	June 2017	June 2016	June 2015

37. Additional information

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

(number of employees)	eleven months ended December 31 2017	twelve months ended January 31 2017
Production	2,570	2,544
Product design and development	998	989
Advertising and Communications	129	117
Selling	7,486	7,690
General and administrative services	929	986
Total	12,112	12,326

Employee remuneration

The employee remuneration by business division is presented below:

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017 (*)
Production	106,375	107,393
Product design and development	60,383	64,484
Advertising and Communications	13,733	13,660
Selling	367,888	391,568
General and administrative services	78,565	86,597
Total	626,944	663,702

(*) the detail of the twelve months ended January 31, 2017 was restated in order to provide a better representation of the results of the revision of short-term incentives to employee

The types of employee remuneration are presented below:

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017 (*)
Wages and salaries	475,135	496,875
Post-employment benefits and other long-term benefits	28,727	29,574
Social contributions	98,564	107,031
Other	24,518	30,222
Total	626,944	663,702

(*) the detail of the twelve months ended January 31, 2017 was restated in order to provide a better representation of the results of the revision of short-term incentives to employee

Distributable reserves of the Parent company, PRADA spa

(amounts in thousands of Euro)	December 31 2017	Possible utilization	Distributable amount	Summary of utilization in the last three years	
				Coverage of losses	Distribution of dividends
Share Capital	255,882				
Share premium reserve	410,047	A, B, C	410,047	-	-
Legal reserve	51,176	B	-	-	-
Other reserves	182,899	A, B, C	182,899	-	-
Retained earnings	361,799	A, B, C	335,714	-	844,412
Fair Value reserve	(5,569)		-	-	-
Cash flow hedge reserve	1,879		-	-	-
Distributable amount			928,660	-	844,412

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

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

Exchange rates

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

Currency	Average rate December 31 2017	Average rate January 31 2017	Closing rate December 31 2017	Closing rate January 31 2017
US Dollar	1.135	1.105	1.199	1.076
Canadian Dollar	1.469	1.455	1.504	1.406
GB Pound	0.878	0.827	0.887	0.861
Swiss Franc	1.115	1.088	1.170	1.067
Australian Dollar	1.477	1.478	1.535	1.420
Korean Won	1,277.502	1,280.125	1,279.610	1,244.760
Japanese Yen	127.044	119.817	135.010	121.940
Hong Kong Dollar	8.850	8.574	9.372	8.344
Singapore Dollar	1.562	1.525	1.602	1.520
Thai Baht	38.335	38.915	39.121	37.793
Taiwan Dollar	34.412	35.491	35.570	33.666
Russian Ruble	66.090	72.627	69.392	64.430
Czech Koruna	26.267	27.034	25.535	27.021
Macau Pataca	9.116	8.831	9.653	8.594
Chinese Renminbi	7.654	7.365	7.804	7.397
New Zealand Dollar	1.597	1.575	1.685	1.471
Malaysian Ringgit	4.861	4.587	4.854	4.761
Turkish Lira	4.133	3.403	4.546	4.063
Brazilian Real	3.622	3.782	3.973	3.354
Mexican Peso	21.210	20.924	23.661	22.286
UAE Dirham	4.169	4.058	4.405	3.950
Ukrainian Hryvna	30.104	28.488	33.495	28.828
Moroccan Dirham	10.978	10.850	11.206	10.761
Kuwait Dinar	0.334	0.334	0.362	0.328
Danish Kronor	7.439	7.443	7.445	7.437
Swedish Kronor	9.648	9.489	9.844	9.451
Kazakhstani Tenge	369.889	375.115	398.230	347.200
Qatari Riyal	4.183	4.024	4.398	3.931
Indian Rupee	73.602	74.307	76.606	72.801
Saudi Riyal	4.257	4.144	4.498	4.034
South African Rand	15.096	16.019	14.805	14.444
Vietnamese Dong	25,410.458	24,251.317	26,697.000	23,807.500
Indonesian Rupiah	15,193.701	14,650.814	16,239.120	14,363.560
Panamanian Balboa	1.135	1.105	1.199	1.076
Romanian Leu	4.575	4.488	4.659	4.503

Independent auditor fees

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

Type of service	Audit Firm	Provided to	eleven months ended December 31, 2017	twelve months ended January 31, 2017
Audit services	Deloitte & Touche spa	PRADA spa	516	514
Audit services	Deloitte & Touche spa	Subsidiaries	121	173
Audit services	Deloitte Network	Subsidiaries	1,186	1,194
Total audit fees			1,823	1,881
Other advisory services	Deloitte Network	PRADA spa	1,408	1,045
Other advisory services	Deloitte Network	Subsidiaries	79	216
Total non-audit fees			1,487	1,261
Total			3,310	3,142

The other advisory services rendered to PRADA spa refer to assistance with the restyling of Prada websites and services connected with the creation of a data warehouse and the development of customer cluster analysis.

38. Remuneration of Board of Directors, five highest paid individuals and Senior Managers

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

(amounts in thousands of Euro)	Directors' fees	Remuneration and other benefits	Bonuses and other incentives	Benefits in kind	Pension, healthcare and TFR contributions	December 31, 2017
Carlo Mazzi	1,020	-	1,000	74	6	2,101
Miuccia Prada Bianchi	12,000	-	655	-	-	12,655
Patrizio Bertelli	12,000	-	655	-	-	12,655
Alessandra Cozzani	50	252	127	12	96	536
Stefano Simontacchi	50	-	-	-	2	52
Maurizio Cereda	50	-	-	-	2	52
Gian Franco Oliviero Mattei	150	-	-	-	-	150
Giancarlo Forestieri	70	-	-	-	11	81
Sing Cheong Liu	70	-	-	-	16	86
Total	25,460	252	2,437	86	134	28,368

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

(amounts in thousands of Euro)	Directors' fees	Remuneration and other benefits	Bonuses and other incentives	Benefits in kind	Pension, healthcare and TFR contributions	January 31, 2017
Carlo Mazzi	1,020	-	-	74	22	1,116
Miuccia Prada Bianchi	12,368	-	-	-	22	12,390
Patrizio Bertelli	12,368	-	-	-	22	12,390
Alessandra Cozzani	50	215	110	13	90	478
Stefano Simontacchi	42	-	-	-	-	42
Maurizio Cereda	33	-	-	-	-	33
Gian Franco Oliviero Mattei	150	-	-	-	13	163
Giancarlo Forestieri	70	-	-	-	11	81
Sing Cheong Liu	70	-	-	-	15	85
Total	26,171	215	110	87	195	26,778

Remuneration of five highest paid individuals

The Group's five highest paid individuals included three Board of Director members for 2017 and two Board Members for 2016. The total remuneration of the remaining two highest paid individuals in the eleven months ended December 31, 2017 and the remaining three highest paid individuals in the twelve months ended January 31, 2017 is set forth below:

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Remuneration and other benefits	8,972	9,972
Bonuses and other incentives	1,367	2,093
Non-monetary benefits	256	230
Pension/social security, healthcare and TFR contributions	23	23
Total	10,617	12,318

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

(amounts in Hong Kong Dollars)	eleven months ended December 31 2017	twelve months ended January 31 2017
Less than HKD 8,000,000	-	-
Between HKD 8,000,000 and HKD 20,000,000	1	2
More than HKD 50,000,000	1	1
Total individuals	2	3

Senior Managers remuneration

The remuneration of the Senior Managers is as follows:

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Remuneration and other benefits	16,458	16,878
Bonuses and other incentives	3,773	4,812
Non-monetary benefits	2,262	2,067
Pension/social security, healthcare and TFR contributions	2,106	1,935
Total	24,599	25,692

There were 28 Senior Managers as of December 31, 2017, and 25 Senior Managers as of January 31, 2017.

The remuneration range of the Senior Mangers is as follows:

(amounts in Hong Kong Dollars)	eleven months ended December 31 2017	twelve months ended January 31 2017
Less than HKD 4,000,000	11	6
fra HKD 4,000,000 e HKD 8,000,000	12	16
fra HKD 8,000,000 e HKD 16,000,000	4	1
fra HKD 16,000,000 e HKD 50,000,000	-	1
maggiore di HKD 50,000,000	1	1
Total individuals	28	25

39. Related party transactions

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

The following tables present the effect of related-party transactions on the consolidated financial statements in terms of statement of financial position balances at the reporting date and total transactions affecting the statement of profit or loss.

Statement of financial position balances as of December 31, 2017

(amounts in thousands of Euro)	Trade receivables	Receivables from, and advances to, related parties – current	Receivables from, and advances to, related parties – non current	Trade payables	Payables to related parties - current	Payables to related parties – non current	Other Liabilities
STICHTING Prada (ex Stiching Fondazione Prada)	1	-	-	-	-	-	-
Progetto Prada Arte srl	3	-	-	-	-	-	-
Al Tayer Group LLC	-	-	-	10	-	-	-
Al Tayer Insignia LLC	354	-	-	35	2,235	-	-
Danzas LLC - UAE	-	-	-	-	-	-	-
DFS Hawaii	-	-	-	670	-	-	-
DFS Venture Singapore (Pte) Limited	-	-	-	51	-	-	-
Luna Rossa Challenge 2013 srl	512	-	-	18	65	-	-
Chora srl	-	5,847	-	578	-	-	-
DFS DFS Cotai limitada	96	-	-	848	-	-	-
Al Tayer Trends	12	-	-	-	-	-	-
Al Tayer Motors	-	-	-	1	-	-	-
Al Sanam Rent a Car LLC	-	-	-	2	-	-	-
Peschiera Immobiliare srl	8	-	-	-	-	-	-
Premiata srl	7	-	-	657	-	-	-
Le Mazza srl	48	-	-	128	-	-	-
Conceria Superior spa	4	-	-	5,506	-	-	-
PRADA HOLDING spa	54	-	-	-	-	-	-
Fratelli Prada spa	12,158	118	-	923	-	-	-
PRA 1 srl	-	-	-	-	-	-	-
Perseo srl	8	-	-	1,421	-	-	-
LUDO srl	-	142	-	-	-	-	-
Rubaiyat Modern Lux.Pr.Co.Ltd	-	-	-	-	2,188	-	-
Members of the Board of Directors of PRADA spa	-	-	-	-	-	-	7,094
Relatives of members of the Board of Directors	-	-	-	-	-	-	494
Total at December 31, 2017	13,265	6,107	-	10,848	4,488	-	7,588

Statement of financial position balances as of January 31, 2017

(amounts in thousands of Euro)	Trade receivables	Receivables from, and advances to, related parties – current	Receivables from, and advances to, related parties – non current	Trade payables	Payables to related parties - current	Payables to related parties – non current	Other Liabilities
STICHTING Prada (ex Stiching Fondazione Prada)	(1)	-	-	-	-	-	-
Progetto Prada Arte srl	-	-	-	(3)	-	-	-
Al Tayer Group LLC	-	-	-	1	-	-	-
Al Tayer Insignia LLC	-	-	-	20	2,492	-	-
Danzas LLC - UAE	-	-	-	11	20	-	-
DFS Hawaii	-	-	-	618	-	-	-
DFS New Zealand Limited	-	-	-	25	-	-	-
DFS Venture Singapore (Pte) Limited	-	-	-	53	-	-	-
Luna Rossa Challenge 2013 srl	129	8,741	-	11	55	-	-
Chora srl	-	5,848	-	2,203	-	-	-
DFS Cotai limitada	11	-	-	313	526	-	-
Al Tayer Trends	14	-	-	-	-	-	-
Al Sanam Rent a Car LLC	-	-	-	2	-	-	-
Peschiera Immobiliare srl	-	88	-	-	-	-	-
Premiata srl	10	-	-	423	-	-	-
Le Mazza srl	134	-	-	412	-	-	-
Friuli 64 srl	-	-	-	152	-	-	-
SPELM sa	-	78	-	-	-	-	-
Conceria Superior spa	32	-	-	8,290	-	-	-
PRADA HOLDING spa	788	-	-	-	-	-	-
Fratelli Prada spa	22,770	118	-	1,184	8	-	-
PRA 1 srl	-	91	-	95	-	-	-
Perseo srl	48	-	-	384	-	-	-
Rubaiyat Modern Lux.Pr.Co.Ltd	-	-	-	(1)	2,441	-	-
Members of the Board of Directors of PRADA spa	-	-	-	-	-	-	3,433
Relatives of members of the Board of Directors	-	-	-	-	-	-	340
Total at January 31, 2017	23,935	14,964	-	14,193	5,542	-	3,773

Statement of profit or loss transactions for the eleven months ended December 31, 2017

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

Statement of profit or loss transactions for the twelve months ended January 31, 2017

(amounts in thousands of Euro)	Net revenues	Cost of goods sold	General, admin. & selling costs (income)	Royalties income	Interest income	Interest expense
Progetto Prada Arte srl	-	-	(193)	-	-	-
Progetto Prada Arte srl (*)	-	-	1,632	-	-	-
HMP srl	-	-	(1)	-	-	-
Al Tayer Group LLC	-	-	33	-	-	-
Al Tayer Insignia LLC	-	-	256	-	-	-
Danzas LLC - UAE	-	510	63	-	-	-
DFS Hawaii	-	-	4,461	-	-	-
DFS New Zealand Limited	-	-	214	-	-	-
DFS Venture Singapore (Pte) Limited	-	-	286	-	-	-
Luna Rossa Challenge 2013 srl	2	-	11,683	-	-	-
Al Tayer Motors	-	-	9	-	-	-
Chora Srl	-	-	2,508	-	-	32
DFS Cotai limitada	-	-	4,504	-	-	-
Al Sanam Rent a Car LLC	-	-	11	-	-	-
Peschiera Immobiliare srl	-	-	540	-	-	-
Premiata srl	-	1,137	-	-	-	-
Le Mazza srl	-	925	-	-	-	-
Friuli 64 srl	-	-	677	-	-	-
SPELM sa	-	-	459	-	-	-
Conceria Superior spa	313	13,409	70	-	-	-
PRADA HOLDING spa	-	-	(232)	-	-	-
Fratelli Prada spa	21,015	477	529	635	-	-
PRA 1 srl	-	-	1,139	-	-	-
Petranera srl	-	-	(2)	-	-	-
PABE-RE LLC.	-	-	17,032	-	-	-
Perseo srl	-	2,596	-	-	-	-
Pelletteria Ennepì srl	-	-	-	-	-	-
Relatives of members of the Board of Directors	-	-	776	-	-	-
Total at January 31, 2017	21,330	19,054	46,454	635	-	32

(*) Pursuant to the application of IAS 17, "Leases", the amount contains a non-monetary cost for the derecognition of deferred rent of Euro 1,632 thousand with Progetto Prada Arte srl recognized pursuant to the termination dated April 8, 2016 of the temporary business partnership agreement between PRADA spa and Progetto Prada Arte.

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

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

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

The transactions with related party Luna Rossa Challenge srl for the eleven months ended December 31, 2017 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 February 27, 2014.

On December 1, 2017 a new sponsorship agreement was stipulated with Luna Rossa Challenge srl for participation of the Luna Rossa sailing team in the 36th America's Cup in 2021. Under the terms of the new sponsorship agreement, the sponsorship will produce its effects from January 2018 to June 2021. The transactions are regulated by Chapter 14A of the Listing Rules because they are considered continuing connected transactions subject to disclosure, but they are exempt from the independent shareholders' approval requirement. As required by the Listing Rules, comprehensive disclosure of those continuing connected transactions is contained in PRADA spa's Announcement dated December 1, 2017.

Apart from the non-exempt continuing connected transactions and non-exempt connected transactions reported in Note 38, no transaction reported in the 2017 consolidated financial statements meets the definition of "connected transaction" or "continuing connected transaction" contained in Chapter 14A of the Hong Kong Stock Exchange Listing Rules or, if it does meet the definition of "connected transaction" or "continuing connected transaction" according to Chapter 14A, it is exempt from the announcement, disclosure and independent shareholders' approval requirements laid down in Chapter 14A.

40. Commitments

Operating leases

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

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Within a year	411,323	459,520
After between one year and five years	1,166,798	1,268,394
After more than five years	1,038,987	1,274,402
Total	2,617,108	3,002,316

The operating lease commitments for the 2017 reporting period include Euro 2,552 million regarding leases for retail premises (Euro 2,736 million for the 2016 reporting period).

The decrease for commitments is split up evenly between the effects of lease expiration and the appreciation of the Euro against the main foreign currencies in which the Group conducts business.

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

(amounts in thousands of Euro)	eleven months ended December 31 2017	twelve months ended January 31 2017
Fixed minimum lease expenses	281,107	304,490
Variable lease expenses	294,962	343,393
Total	576,069	647,883

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

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

(amounts in thousands of Euro)	December 31 2017	January 31 2017
Within a year	6,105	4,739
After between one year and five years	14,167	16,479
After more than five years	759	2,071
Total	21,031	23,289

Other commitments

The Group had no significant binding purchases commitments as of December 31, 2017.

41. Financial trend

(amounts in thousands of Euro)	December 31 2017 (*)	January 31 2017	January 31 2016	January 31 2015	January 31 2014
Net revenues	2,741,095	3,184,069	3,547,771	3,551,696	3,587,347
Gross margin	2,030,696	2,289,112	2,567,565	2,550,579	2,648,649
Operating income (EBIT)	315,878	431,181	502,893	701,551	939,237
Group net income	217,721	278,329	330,888	450,730	627,785
Total assets	4,739,375	4,656,929	4,756,555	4,738,877	3,888,292
Total liabilities	1,873,204	1,552,399	1,659,178	1,720,730	1,186,752
Total Group shareholders' equity	2,844,652	3,080,502	3,080,340	3,000,737	2,687,554

(*) eleven-month statement of profit or loss

42. Consolidated companies

Company	Local currency	Share capital (000s of local currency)	% interest	Registered office and principal country of operations	Date of incorporation/ establishment (MM/DD/ YYYY)	Main business
Italy						
PRADA Spa	EUR	255,882		Milan, IT		Holding Gruppo/Produzione/Distribuzione
Artisans Shoes srl (*)	EUR	1,000	66.70	Montegranaro, IT	02/09/1977	Produzione
IPI Logistica srl (*)	EUR	600	100.00	Milan, IT	01/26/1999	Servizi
Pelletteria Ennepì srl (*)	EUR	93	80.00	Figline e Incisa Valdarno, IT	12/01/2016	Produzione
Church Italia srl	EUR	51	100.00	Milan, IT	01/31/1992	Servizi/Retail
Marchesi Angelo srl (*)	EUR	23	80.00	Milan, IT	07/10/2013	Pasticceria
Montenapoleone 9 srl (*)	EUR	1,000	100.00	Milan, IT	04/22/2015	Pasticceria
Isarco Due Srl	EUR	10	100.00	Milan, IT	11/28/2017	Pasticceria
Europe						
PRADA Retail UK Ltd (*)	GBP	5,000	100	London, UK	01/07/1997	Retail
PRADA Germany Gmbh (*)	EUR	215	100	Munich, GE	03/20/1995	Retail/Services
PRADA Austria Gmbh (*)	EUR	40	100	Vienna, AT	03/14/1996	Retail
PRADA Spain Sl (*)	EUR	240	100	Madrid, ES	05/14/1986	Retail
PRADA Retail France Sas (*)	EUR	4,000	100	Paris, FR	10/10/1984	Retail
PRADA Hellas Sole Partner Llc (*)	EUR	2,850	100	Athens, GR	12/19/2007	Retail
PRADA Monte-Carlo Sam (*)	EUR	2,000	100	Monte-Carlo, FR	05/25/1999	Retail
PRADA Sa (*)	EUR	31	100	Luxembourg, LU	07/29/1994	Trademarks/Services
PRADA Company Sa	EUR	3,204	100	Luxembourg, LU	04/12/1999	Services
PRADA Neatherlands (*)	EUR	20	100	Amsterdam, NL	03/27/2000	Retail
Church Denmark Aps	DKK	50	100	Copenhagen, DK	03/13/2014	Retail
Church Holding UK Ltd (*)	GBP	0	100	Northampton, UK	07/22/1999	Dormant
Church France Sas	EUR	2,856	100	Paris, FR	06/1/1955	Retail
Church UK Retail Ltd	GBP	1,021	100	Northampton, UK	07/16/1987	Retail
Church's English Shoes Switzerland Sa	CHF	100	100	Lugano, CH	12/29/2000	Retail
Church & Co. Ltd (*)	GBP	2,811	100	Northampton, UK	01/16/1926	Sub-Holding/Manufacturing/ Distribution
Church & Co. (Footwear) Ltd	GBP	44	100	Northampton, UK	03/06/1954	Trademarks
Church English Shoes Sa	EUR	75	100	Brussels, BE	02/25/1963	Retail
PRADA Czech Republic Sro (*)	CZK	2,500	100	Prague, CZ	06/25/2008	Retail
PRADA Portugal Unipessoal Lda (*)	EUR	5	100	Lisbon, PT	08/07/2008	Retail
PRADA Rus Llc (*)	RUB	250	100	Moscow, RU	11/07/2008	Retail
Church Spain Sl	EUR	3	100	Madrid, ES	05/06/2009	Retail
PRADA Bosphorus Deri Mamuller Ltd Sirketi (*)	TRY	73,000	100	Istanbul, TR	02/26/2009	Retail
PRADA Ukraine Llc (*)	UAH	240,000	100	Kiev, UA	10/14/2011	Retail
Church Netherlands Bv	EUR	18	100	Amsterdam, NL	07/07/2011	Retail
Church Ireland Retail Ltd	EUR	50	100	Dublin, IE	11/20/2011	Retail
Church Austria Gmbh	EUR	35	100	Vienna, AT	10/17/2012	Retail

Company	Local currency	Share capital (000s of local currency)	% interest	Registered office and principal country of operations	Date of incorporation/ establishment	Main business
Europe						
Prada Sweden Ab (*)	SEK	500	100	Stockholm, SE	12/18/2012	Retail
Church Footwear Ab	SEK	100	100	Stockholm, SE	12/18/2012	Retail
Prada Switzerland Sa (*)	CHF	24,000	100	Lugano, CH	09/28/2012	Retail
Prada Kazakhstan Llp (*)	KZT	500,000	100	Almaty, KZ	06/24/2013	Retail
Kenon Ltd	GBP	84,000	100	London, UK	02/7/2013	Real Estate
Tannerie Limoges Sas (*)	EUR	955	60	Isle, FR	08/19/2014	Manufacturing
Prada Denmark Aps (*)	DKK	26,000	100	Copenhagen, DK	05/19/2015	Retail
Prada Finnish Oy (*)	EUR	2	100	Helsinki, FI	11/09/2015	Retail
Prada Belgium Sprl (*)	EUR	1,800	100	Brussels, BE	12/04/2015	Retail
Hipic Prod Impex Srl	RON	200	80	Sibiu, RO	04/15/2016	Manufacturing
Americas						
PRADA USA Corp. (*)	USD	152,211	100	New York, US	10/25/1993	Distribution/Services/ Retail
TRS Hawaii Llc	USD	400	55	Honolulu, US	11/17/1999	Duty-Free Stores
PRADA Canada Corp. (*)	CAD	300	100	Toronto, CA	05/01/1998	Distribution/Retail
Church & Co. (USA) Ltd	USD	85	100	New York, US	09/08/1930	Retail
Post Development Corp (*)	USD	45,138	100	New York, US	02/18/1997	Real Estate
PRADA Retail Mexico, S. de R.L. de C.V.	MXN	269,058	100	Mexico City, MX	07/12/2011	Retail
PRADA Brasil Importação e Comércio de Artigos de Luxo Ltda (*)	BRL	210,000	100	Sao Paulo, BR	04/12/2011	Retail
PRM Services S. de R.L. de C.V. (*)	MXN	7,203	100	Mexico City, MX	02/27/2014	Services
PRADA Panama Sa (*)	PAB	30	100	Panama, PA	09/15/2014	Retail
PRADA Retail Aruba Nv (*)	USD	2,012	100	Oranjestad, AW	09/25/2014	Retail
PRADA St. Barthelemy Sarl (*)	EUR	1,220	100	Gustavia, BL	04/01/2016	Retail
Asia-Pacific and Japan						
PRADA Asia Pacific Ltd (*)	HKD	3,000	100	Hong Kong, HK	09/12/1997	Retail/Services
PRADA Taiwan Ltd	TWD	3,800	100	Hong Kong, HK	09/16/1993	Retail
PRADA Retail Malaysia Sdn. Bnd. (*)	MYR	1,000	100	Kuala Lumpur, MY	01/23/2002	Retail
TRS Hong Kong Ltd	HKD	500	55	Hong Kong, HK	02/23/2001	Duty-Free Stores
PRADA Singapore Pte Ltd (*)	SGD	1,000	100	Singapore, SG	10/31/1992	Retail
TRS Singapore Pte Ltd (*)	SGD	500	55	Singapore, SG	08/08/2002	Duty-Free Stores
PRADA Korea Llc (*)	KRW	8,125,000	100	Seoul, KR	11/27/1995	Retail
PRADA (Thailand) co Ltd (*)	THB	372,000	100	Bangkok, TH	06/19/1997	Retail
PRADA Japan co Ltd (*)	JPY	1,200,000	100	Tokyo, JP	03/01/1991	Retail
TRS Guam Partnership	USD	1,095	55	Guam, GU	07/01/1999	Duty-Free Stores
TRS Saipan Partnership	USD	1,405	55	Saipan, MP	07/01/1999	Duty-Free Stores
TRS New Zealand ltd (*)	NZD	100	55	Wellington, NZ	11/04/1999	Duty-Free Stores
PRADA Australia Pty Ltd (*)	AUD	13,500	100	Sydney, AU	04/21/1997	Retail
PRADA Trading (Shanghai) co Ltd	RMB	1,653	100	Shanghai, CN Limited Liability Company	02/09/2004	Retail/Dormant
TRS Okinawa KK	JPY	10,000	55	Tokyo, JP	01/21/2005	Duty-Free Stores
PRADA Fashion Commerce (Shanghai) co Ltd	RMB	474,950	100	Shanghai, CN Limited Liability Company	10/31/2005	Retail
Church Japan Company Ltd	JPY	100,000	100	Tokyo, JP	04/17/1992	Retail
Church Hong Kong Retail Ltd	HKD	29,000	100	Hong Kong, HK	06/04/2004	Retail
Church Singapore Pte. Ltd	SGD	7,752	100	Singapore, SG	08/18/2009	Retail

Company	Local currency	Share capital (000s of local currency)	% interest	Registered office and principal country of operations	Date of incorporation/ establishment	Main business
Asia-Pacific and Japan						
Prada Dongguan Trading Co., Ltd	RMB	8,500	100	Dongguan, CN Limited Liability Company	11/28/2012	Services
Church Footwear (Shanghai) Co., Ltd	RMB	31,900	100	Shanghai, CN Limited Liability Company	12/05/2012	Retail
Prada New Zealand Ltd (*)	NZD	3,500	100	Wellington, NZ	07/05/2013	Retail
PRADA Vietnam Limited Liability Company (*)	VND	66,606,570	100	Hanoi City, VN	09/09/2014	Retail
PT PRADA Indonesia (*)	IDR	3,023,844	100	Jakarta, ID	10/15/2014	Distribution/ Dormant
PRADA Macau Co Ltd	MOP	25	100	Macau, MO	01/22/2015	Retail
Middle East						
PRADA Middle East Fzco (*)	AED	18,000	60	Jebel Ali Free Zone, AE	05/25/2011	Distribution/Services
PRADA Emirates Llc (**)	AED	300	29.4	Dubai, AE	08/04/2011	Retail
PRADA Kuwait WII (**)	KWD	50	29.4	Kuwait city, KW	09/18/2012	Retail
PRADA Retail Spc (*)	QAR	15,000	100	Doha, QA	02/03/2013	Retail
PRADA Saudi Arabia Ltd (*)	SAR	26,666	75	Jeddah, SA	07/02/2014	Retail
Other countries						
PRADA Maroc Sarlau (*)	MAD	95,000	100.00	Casablanca, MA	11/11/2011	Retail
PRADA Retail South Africa pty ltd (*)	ZAR	50,000	100.00	Sandton, ZA	06/09/2014	Retail

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

43. Disclosures regarding non-controlling interests

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

December 31, 2017 financial statements:

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

Financial statements for fiscal year ended January 31, 2017:

Company	Group's percentage interest	Local currency	Total assets	Total equity	Net revenues	Net income/ (loss) for year	Dividends paid to non-controlling shareholders (amounts in Euro thousands)
Artisans Shoes srl	66.7	EUR	25,728	8,318	51,034	1,368	369
TRS Hawaii llc	55	USD	6,288	4,109	16,898	(303)	-
TRS Hong Kong	55	HKD	674	598	-	(127)	-
TRS Singapore	55	SGD	3,347	2,824	3,320	508	-
TRS Guam Partnership	55	USD	7,848	6,775	12,906	2,078	-
TRS Saipan Partnership	55	USD	3,421	3,021	3,985	697	-
TRS New Zealand ltd	55	NZD	3,292	2,359	2,301	234	-
TRS Okinawa KK	55	JPY	814,110	653,268	1,222,107	137,782	337
TRS Hong Kong branch in Macau	55	MOP	163,842	91,979	215,538	34,067	-
PRADA Emirates llc	29.4	AED	158,897	(41,388)	190,807	(25,943)	-
PRADA Middle East fzco	60	AED	276,994	192,653	202,910	27,675	-
Prada Kuwait WII	29.4	KWD	6,052	175	7,946	92	-
PRADA Saudi Arabia ltd	75	SAR	75,102	22,858	57,574	(8,713)	-
Marchesi Angelo srl	80	EUR	2,445	636	3,091	(284)	-
Tannerie Limoges sas	60	EUR	8,305	290	2,914	(581)	-
Hipic Prod Impex srl	50	RON	6,753	(4,997)	-	(2,762)	-
Pelletteria Ennepì srl	80	EUR	6,406	1,931	-	29	-

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

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

44. Subsequent events

No significant events.

Independent Auditors' Reports

Independent Auditors' Reports

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

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Prada S.p.A.

Opinion

We have audited the consolidated financial statements of Prada S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

Impairment test

Description of the key audit matter

As described in Note 16 to the consolidated financial statements, the Group has recognised goodwill of € 518.3 million allocated to the various "cash generating units" (CGUs) identified by Management. In accordance with IAS 36, *Impairment of assets*, goodwill is not amortised, but tested for impairment at least annually by comparing the recoverable amount of the CGUs, determined using the "value-in-use" method, and their carrying amount, which includes goodwill and other tangible and intangible assets allocated to the CGUs.

Deloitte.

The determination of the recoverable amount of each CGU is based on estimates and assumptions made by Management using, among other things, projected cash flows of the CGUs, the determination of an appropriate discount rate (WACC) and long-term growth rate (g-rate).
Given the materiality of the value of goodwill and the complexity of the assessment process for the determination of the cash flows of the CGUs and the other estimates and assumptions used in the impairment model, we considered the impairment test as a key audit matter.

Audit procedures performed

For our audit, we evaluated the methods used by Management to determine the value-in-use of the CGUs and analysed the methods and assumptions used by Management in the impairment test.
Our audit procedures included, amongst others, the following, which were performed along with the support of our internal valuation specialists:

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report 2017 but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

Deloitte.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

Deloitte.

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

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

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

DELOITTE & TOUCHE S.p.A.

Patrizia Arienti
Partner

Milan, Italy
March 9, 2018

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

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

To the Shareholders of
Prada S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Prada S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

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

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

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

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

Deloitte.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

We communicate with Those Charged with Governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of Prada S.p.A. are responsible for the preparation of the report on operations of Prada Group as at December 31, 2017, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of Prada Group as at December 31, 2017 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the report on operations is consistent with the consolidated financial statements of Prada Group as at December 31, 2017 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Patrizia Arienti
Partner

Milan, Italy
March 9, 2018

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