



**Social Responsibility Report  
2014**



## Contents

1- The PRADA Group at a glance	7
1.1 Our ethical values	8
1.2 2014 Key figures	9
2- The value of Human Resources	11
2.1 Profile of the PRADA Group	12
2.2 Compensation and benefits	16
2.3 Staff training and development	18
2.4 Workplace quality	19
3- Protection of the environment	21
3.1 Reduction in consumption	22
3.2 Waste reduction	23
3.3 Sustainable use of raw materials	23
3.4 Travel policy	24
3.5 Attention to the environment in our production	25
3.6 Sustainable use of land	25
4- The value chain	27
4.1 Suppliers	28
4.2 Customers	29
5- Relationship with the community	31
5.1 Industry initiatives	32
5.2 The Institute of Cultural Diplomacy	32
5.3 The Prada Academy	33
5.4 Investment in the community	33



## Message from the Chairman

Our quest for excellence and our passion for beauty provide the foundation for all the PRADA Group's endeavours, and from the outset these have been allied with our commitment to civil society's fundamental values: respect for the environment and observance of ethical principles. Our determination to pursue these objectives is expressed in our corporate culture, in our relations both with institutions and with our partners all along the chain of production, and in the cultural projects we undertake for the benefit of the community in every place where our Group has a presence.

Our distinctive approach to all our design, development and manufacturing combines attention to detail with a never-ending quest for solutions that transcend the everyday by marrying tradition with innovation to make products that are universally recognized as embodying a unique style and quality. This the way we set about our work - and it is only made possible through the irreplaceable contributions of all those who work with us day in, day out.

The communities and local areas where we work are a very rich source of inspiration, which is why we respect and protect them, always looking for ways to operate in harmony with the spirit of the place. We aim to stimulate the same sensitive approach throughout our sector - and with all our own partners in particular - so as to help develop a culture of sustainability in our industry.

We consider it one of our social responsibilities as a business to broaden our horizons and consider the consequences of what we do, so that our activities steer economic development in the direction of a more sustainable balance. This is an ambitious goal, one which we intend to pursue not only by constantly taking the greatest care in running the business but also by promoting culture in all its various forms: culture as a source of inspiration, the opportunity for free expression, and the harmonizing of interests among individuals and peoples.

Our objective is long-term growth, something we can only achieve by careful maintenance and continuous improvement knowledge and skill, by meeting the strictest international standards and by coming up to the expectations of all our stakeholders. In 2014 we have made further progress in giving the PRADA Group new ways of listening and responding to these various stakeholders. Our recently established Social Responsibility Committee is charged with defining and promoting our culture and strategy of attending to the environment, sustainability and compliance with ethical principles within our own organization, with our partners throughout the value chain and in the communities where we are at home. With this in mind we have begun various projects intended to foster a debate on sustainability and intercultural relations, especially as concerns our own field. We intend to develop a channel we can use to provide constant updates and further details on these matters, for they are ones we consider particularly important.

Carlo Mazzi,  
Chairman of the Board

**Note on method**

*This report concerns the activities and results for the financial year ended January 31, 2015; unless otherwise specified it covers all the companies under PRADA spa's direct control as defined in its 2014 Consolidated Financial Statements.*

*During the year the PRADA Group acquired 80% of Marchesi Angelo srl, owner of the historic Milanese patisserie founded in 1824. As this is a recent and not particularly large acquisition, Marchesi Angelo srl's data and activities feature in this report only in the net revenues figures and in paragraph 2.1 - Profile of the PRADA Group.*

*The PRADA Group opened 54 new Directly Operated Stores (DOS) in 2014; it also announced the acquisition of a production facility in Limoges (France) which will come on-stream in 2015.*

*There were no significant changes in the management of the Group's operations during 2014.*

*The subjects for this report were chosen on the basis of their relevance to our business, our particular situation and the expectations of our main stakeholders.*

*The methods used to gather, report and audit the information are based on the PRADA Group's own processes and instruments; development of these methods with a view to matching the GRI international standard has begun.*

*Comments and suggestions concerning this report and the activities it describes may be addressed to [csr@pradagroup.com](mailto:csr@pradagroup.com).*

# 1- The PRADA Group at a glance

The PRADA Group strives for continuous improvement to create value for its stakeholders by combining economic profitability with employee and client satisfaction, as well as respecting ethical and environmental values. The Group considers this approach to be essential if its long-term competitiveness is to be maintained.

### 1.1 Our ethical values

We consider respect for ethical principles to be a basic pillar of our Company and the foundation of the enterprise's success. This respect is fundamental to our Group image and values.

Our values are:

- compliance with legislative and regulatory provisions in all countries in which the PRADA Group operates;
- legitimacy, loyalty, correctness and transparency;
- confidentiality;
- respect for the value of the person and our human resources;
- respect for competition, as a crucial instrument in the development of the economic system;
- respect for the environment and raising awareness about its protection.

Since 2007 these principles have been given formal expression in the PRADA Group's Code of Ethics. The Code sets out the guiding principles of our organization, being one of the main pillars of the Group's governance model, and is also supported by a set of procedures in order to turn these values into daily actions.

The Code is shared by all employees and parties who support us in developing, manufacturing, promoting, distributing and selling our products. We promote its awareness through various means such as online publications, direct communications and as part of the supply contract with most of our partners. Finally, we verify its implementation through an extensive auditing program.

The adoption and application of the Code of Ethics to our activity is essential for the achievement of our primary objective, consisting in the creation of value for our shareholders, employees, customers and for the community as a whole.

## 1.2 2014 Key Figures

### Brand portfolio:

Prada, Miu Miu, Church's, Car Shoe, Pasticceria Marchesi

### Net revenues:

€3,552 million

### People:

12,173 employees

3,220 people hired

97 different nationalities

89% of the workforce are permanent employees

62% of the workforce are women

36 years is the average age of Group employees

8,957 staff trained

### International footprint:

Products distributed in 70 countries

Direct presence in 44 countries

594 own stores

13 production sites (11 in Italy, 1 in the UK and 1 in France)

### Environment:

CO<sub>2</sub> emissions 596 tons/year lower than 2013

(6%) industrial waste generated

90% of waste from manufacturing sites and headquarters recycled or reused

(9%) product packaging used

74% of product packaging is FSC certified or made from recycled materials

### Suppliers:

Over 1,000 subcontractor audits

### Community:

€16.7 million invested in community support



## 2- The Value of Human Resources

The Company is built on people. Our employees' enthusiasm, craft skills and intellectual curiosity are the indispensable elements which underpin the innovation and quality of our products. We look for people that can combine these exceptional qualities with the values of our Group.

Human relations are a key factor in the PRADA Group, whatever people's roles and responsibilities. Working with people means giving everyone the chance to enhance their abilities and fully express their potential: this is the company's first step towards excellence.

We consider a clear and demonstrable sensitivity to labour conditions a necessity in the workplace; that sensitivity must correctly interpret the working environment at all times, and use empathy to establish open and effective channels of communication with people.

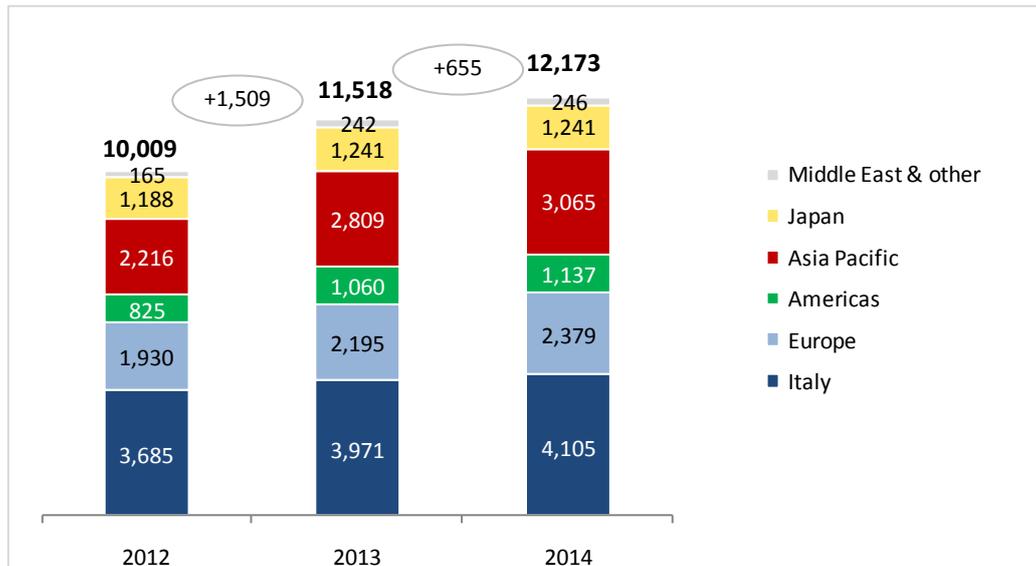
## 2.1 Profile of the PRADA Group

PRADA spa (operating holding company) and its subsidiaries maintain a direct Group presence in 44 countries around the world, with 13 production sites, (11 in Italy, 1 in the UK and 1 in France), and 594 Directly Operated Stores (DOS). PRADA spa's headquarters are in Milan.

On January 31, 2015, the PRADA Group employed 12,173 people, 5.7% more than the year before. 33.7% of them work in Italy, most of them (63%) in the industrial area. Conversely, 87% of our people abroad work in sales, mainly in the retail selling.

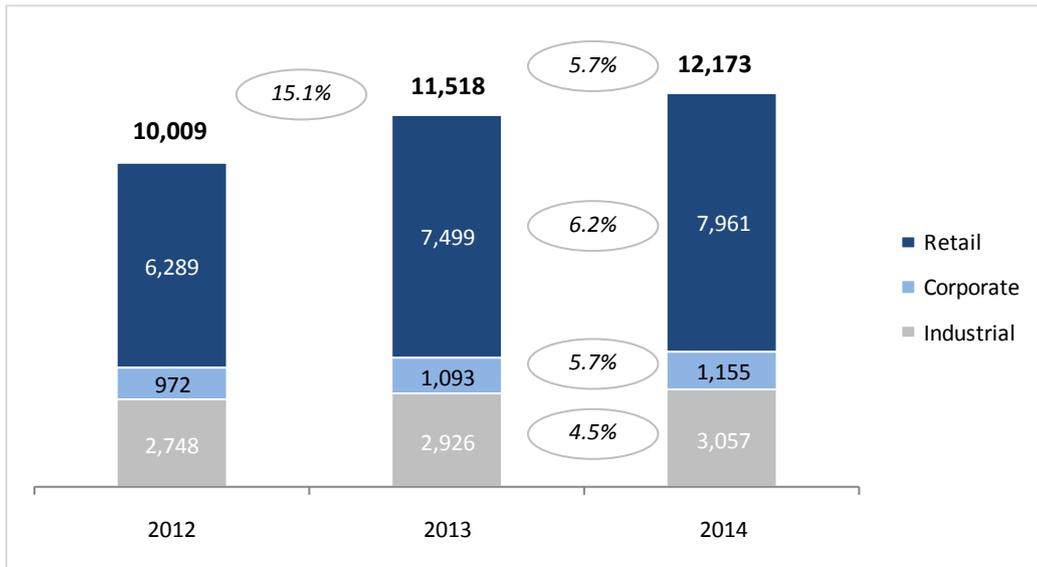
Geographically, the workforce outside Italy was mainly in the Asia Pacific region, followed by Europe.

### Employees by geographical area



In 2014 there was an increase of 462 employees in the retail division of the Group, mainly as a result of 54 store openings during the year. 63% of new recruits were under the age of 30.

### Employees by division



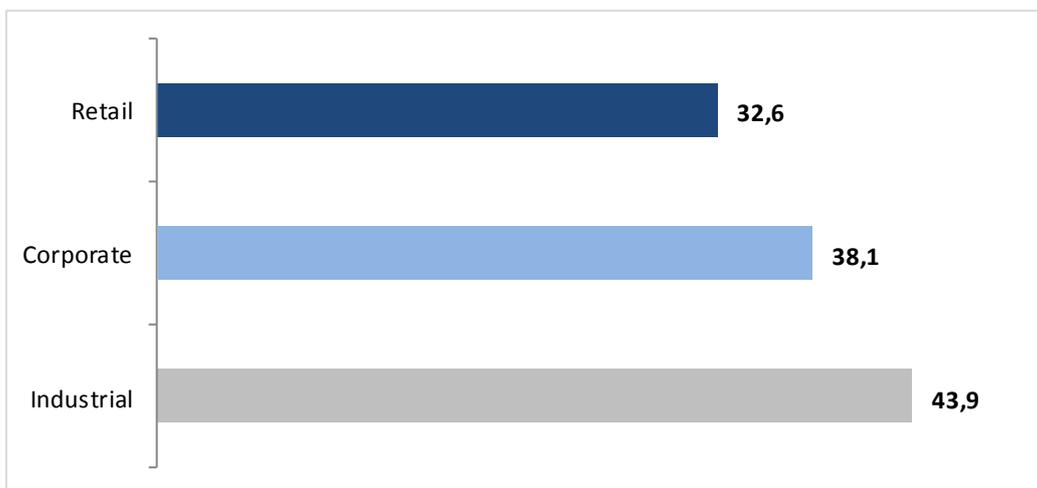
Wage costs for the PRADA Group in 2014 were approximately €639 million, or 18% of net revenues for the period.

### Age structure

We invest in young people through training and professional development, consistent with their attitudes and aspirations. Our Group appreciates and gives credit to committed individuals who take responsibility and are open to others' opinions, thereby contributing to the PRADA Group's success.

In 2014 the average age of our employees was 36. Retail is the segment with the youngest employees (32.6 years of age), while the Industrial division has a higher average age (43.9 years): here a decades-long experience in the craftsmanship and manufacturing is particularly important.

### Average age by division



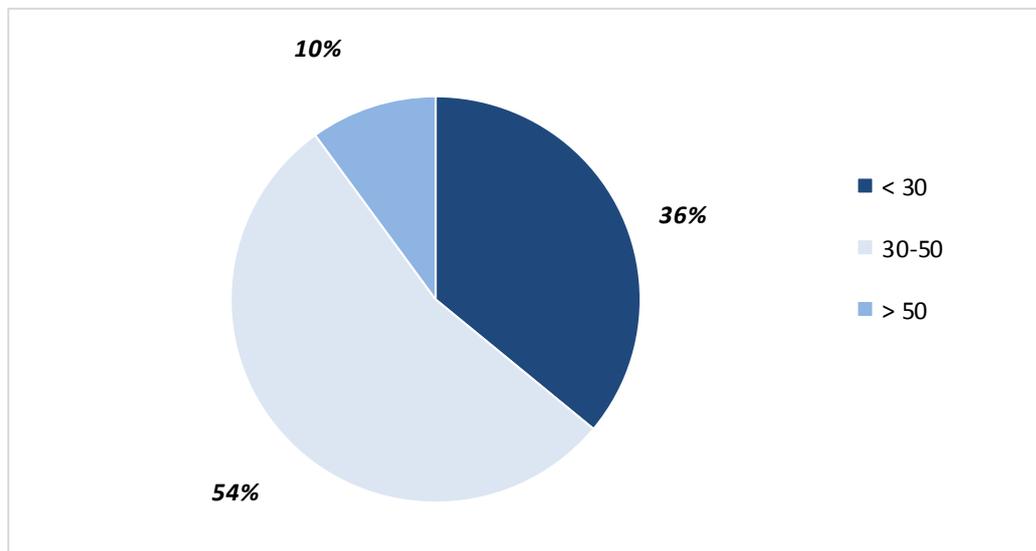
“Labor” are on average older (43.3 years), while “Staff” are younger (33.6 years).

*Average age by employment status*



In the breakdown by age, 36% of the company’s employees are under 30, while 54% are between 30 and 50 years old.

*The workforce by age group*



*The importance of diversity and equal opportunities*

Our strong presence worldwide reflects a multitude of different cultures, skills, nationalities and religions. The communities and territories where we operate provide us with an unfailing source of inspiration and growth.

We strongly believe in the value of diversity within our workforce as a source of cultural richness, well-being, creativity, lateral thinking, progress and affinity with our customer base, which is also extremely diverse.

People of 97 different nationalities work for our Group (86 in 2013); 92% of employees come from the local communities where we are present.

In order to meet and attract talented people we work with universities and institutions that offer post-graduate programmes, with a particular focus on marketing and retail; we offer internships for new graduates, enabling them to gain experience and be evaluated in view to upgrading the employment relationship.

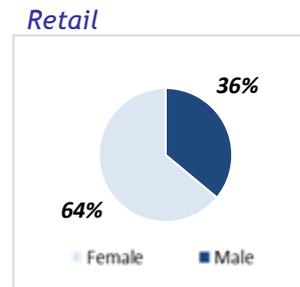
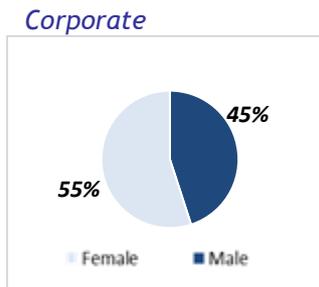
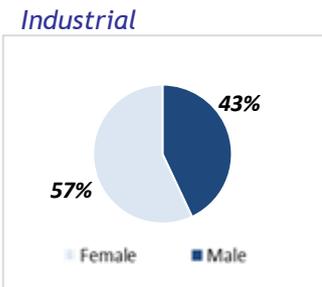
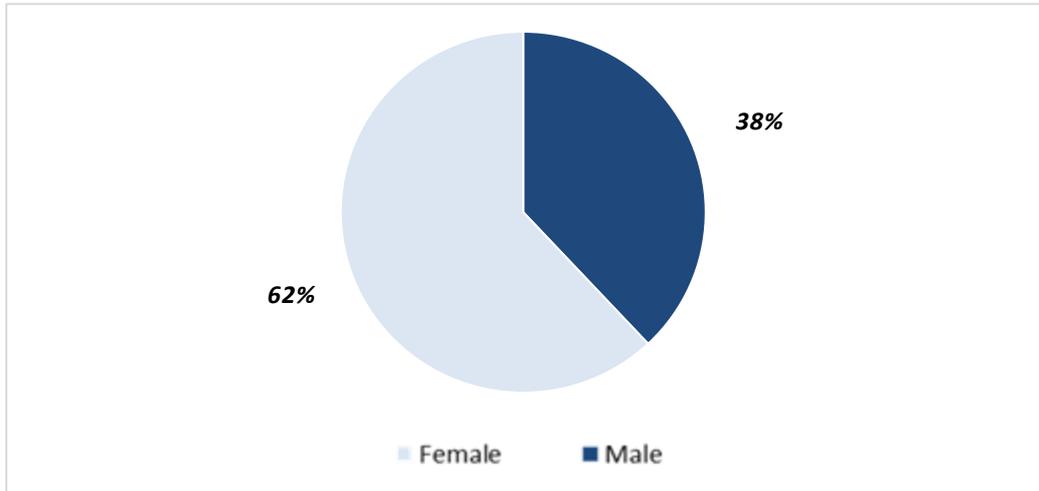
The candidate selection process is defined by clear internal procedures and guarantees equal opportunities. It involves different assessment procedures depending on the job to be filled and the candidates’ experience.

New graduates, newly qualified applicants and those with less than three years' working experience take part in selection assessments conducted via individual and collective tests, while senior candidates undergo an individual selection process.

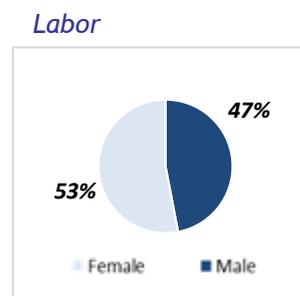
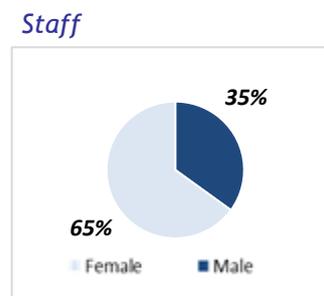
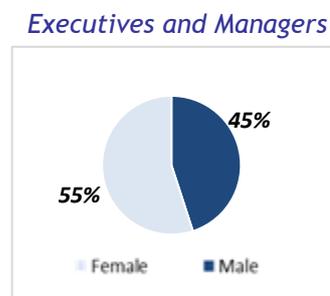
We employ distinctly more women than men in all professional areas. As a whole, 62% of the workforce is made up of women. This is even higher in the Retail (64%).

**Workforce by gender and function**

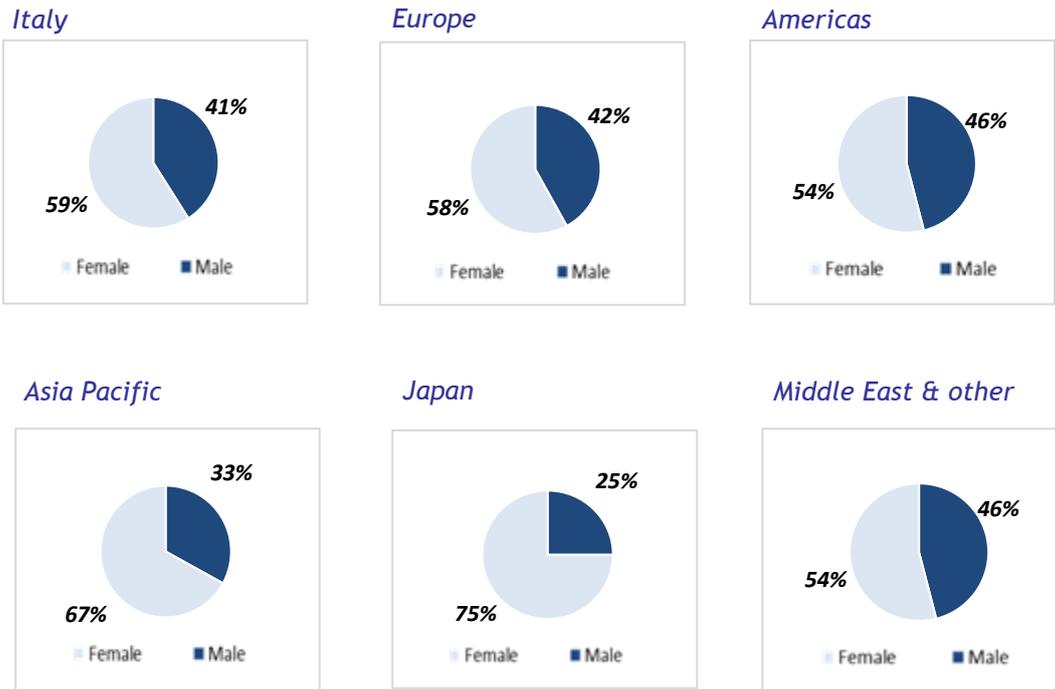
*PRADA Group*



This gender breakdown is also confirmed in an analysis of the gender ratio by status,



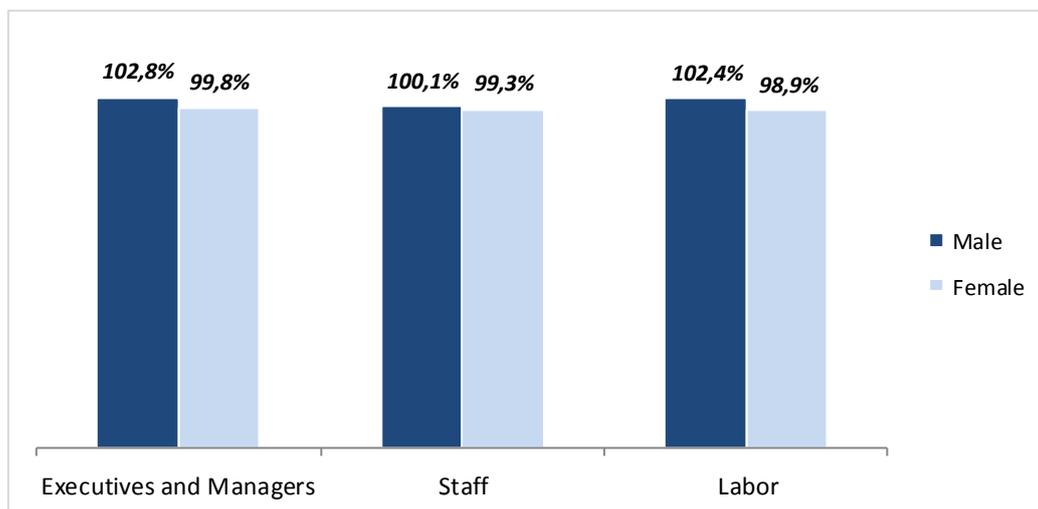
and in every geographical area in which we operate:



Respect for equal opportunities is reflected in the Compensation & Benefit system, based on the promotion of skills and merit, equal treatment of genders, seniority and role.

For example, in 2014 the average fixed salaries of PRADA Group male and female employees were substantially in line.

*Gender pay gap by employment status (with the median as 100%)*



## 2.2 Compensation and benefits

Our remuneration policy aims to attract, reward and retain high-level professionals and skilled managers, and to share with the management the interest in the primary objective of creating value over the medium and long term.

The structure of the remuneration policy is characterized by a balanced mix of fixed and variable components which matches the requirements of employee satisfaction, internal fairness and competitiveness with other external working realities. To that end, we commission comparative surveys on the external market carried out by specialist firms internationally recognized in the fashion and luxury industry.

The Board of Directors is actively involved, through its Remuneration Committee, in setting the pay of our top management, taking into account the position and responsibilities assigned and benchmarking similar positions in a panel of companies comparable with PRADA Group in terms of size and complexity.

The Group's pay policy is based on:

- regular salary reviews taking into account overall market competitiveness and the complexity of the particular role;
- a system of annual bonuses linking remuneration to the Company's profits and individual performance;
- long-term incentive plans for a wide group of key people (350) linked with the business profitability growth over three-year periods, aligning individual objectives with those of shareholders;
- other incentive schemes are also in place for sales staff, similarly technical specialists receive bonuses linked to the development of the seasonal collections.

We grant several benefits to our staff or particular categories, including medical benefits, life insurance, housing allowances, allowances for home leave and children's schooling, free or subsidized travel on public transport and the use of company cars.

As confirmation of our commitment to stability and long-term investment in human resources, permanent employment contracts are the reference contract type. 89% of the workforce worldwide is permanent.

#### Labour standards and industrial relations

The protection of workers' rights is of pre-eminent importance to us. We pay particular attention at all times to respect for human rights and labour laws regarding child labour, as well as health and safety in the workplace - and we make sure our suppliers do the same.

We work with trade unions to look at any opportunity of improving our employees' working conditions and enhancing staff welfare in the medium and longer term, so also benefiting the communities where we operate. In recent years the PRADA Group has signed a number of supplementary agreements with trade unions in Italy and the UK (where our group's production is historically rooted), giving employees better conditions of employment than under the corresponding standard national collective agreements. In Italy, for instance, some 82% of employees are covered by such company deals. They mainly concern the following:

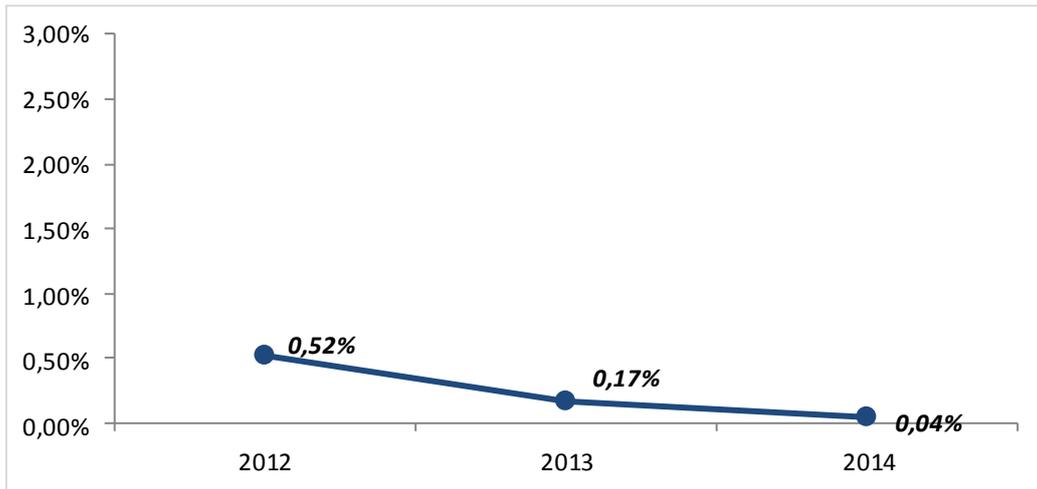
- performance bonuses: a variable bonus linked to production, commercial and economic objectives.
- holiday bonus: a fixed compensation, equal to one month's gross salary as set by the national collective agreement.
- improved access to advance payment of Severance Indemnity
- flexible working start time: in most offices, this allows a better work/life/family needs balance
- supplementary Health Fund: supplementary health insurance with the option to also extend it to family members at reduced cost.

Thanks to our policy which ensures respect for dialogue and cooperation with Italian Unions (of which 26% of our employees are members), the number of strike hours during the track record period<sup>1</sup> was extremely low, and still falling.

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<sup>1</sup> Financial years 2012, 2013 and 2014

*Hours of strike as % of total working hours in Italy*



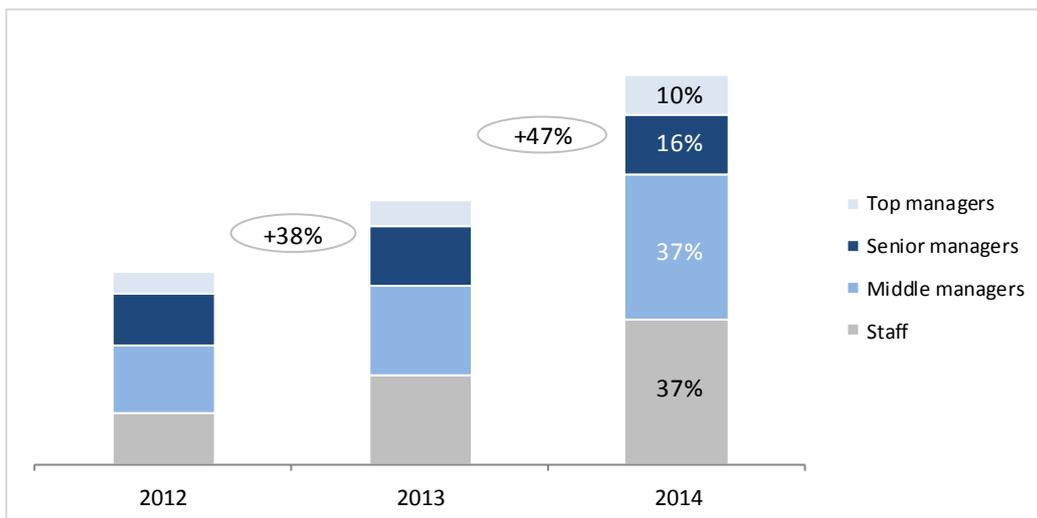
**2.3 Staff training and development**

The continuous development of in-house know-how and product knowledge is the best possible guarantee of our commitment to product innovation, production process improvement, excellence in customer service and global growth.

Thanks to our widespread presence in foreign markets and our commercial development strategy, we offer our employees international working opportunities and specialist training programs. This supports the development of our own staff in managerial roles; indeed it is Group policy to develop in-house talent in preference to recruiting from outside.

International job mobility among group subsidiaries is becoming more and more frequent, providing our people with training and career development opportunities and marrying personal aspirations and interests with the firm’s organizational needs and advantages. Such international job mobility is increasing rapidly (up 47% from 2013 to 2014) and involves all grades and areas of expertise. Middle management and office staff are the most involved, representing 74% overall.

*International job mobility by status*



This program optimizes Group synergies and work flow, but also represents an effective tool for the dissemination of the corporate culture and know-how at all levels.

**Transmission of know-how**

The preservation and development of know-how is fundamental for our Company, and demands special care to see that it is handed down from one generation to the next.

To that end, as early as the 1990s, when the Group was beginning its rapid development, each process was described and coded in manuals, so that both know-how and work procedures might be easily imparted and accessible to all people involved. These manuals are still kept up to date and are highly detailed. These documents ensure continuity and consistency of our know-how and represent a source of inspiration for our activities.

#### Corporate staff training

Investment in staff training has grown significantly in recent years so as to develop employees' skills, widen their knowledge and increase their professional value as a result.

With this in mind we developed a broad range of advanced training courses in 2014, designed to enhance the professional capabilities of our employees by making it easier for them to acquire new knowledge and useful tools for tackling their everyday challenges effectively as well as the changes arising from business demands in a complex and growing organization. Those courses have been collected to form a training catalogue classified by topic, and made available in four general subject areas: behaviour, specialist skills, languages and ICT. In this initial year, 690 employees from the Corporate area have benefited from these training courses in Italy alone.

Managers are kept up to date and informed on the practices and rules of Corporate Governance; the Board members of PRADA spa are constantly involved in sessions providing specific updates on this important topic, in particular concerning the rules for companies listed on the Hong Kong Stock Exchange.

#### Retail staff training

The PRADA Group invests in training its retail teams with the aim of enhancing key skills such as product knowledge, sales techniques, a customer service techniques and communication proficiency. A team of in-house trainers ensures full international alignment of training content so that the same excellent service is provided to all our customers. Special emphasis is also laid on the development of management skills and leadership in positions responsible for managing sales teams.

In the same spirit we have been involving all our boutique staff in institutional training programmes of some 3-6 days a year on average for store managers and 2-4 days a year for other sales staff. Every new recruit likewise participates in a Company induction and mentoring programme, and special attention is paid to the staff of newly-opened stores, who are given a training programme of about 5-7 days.

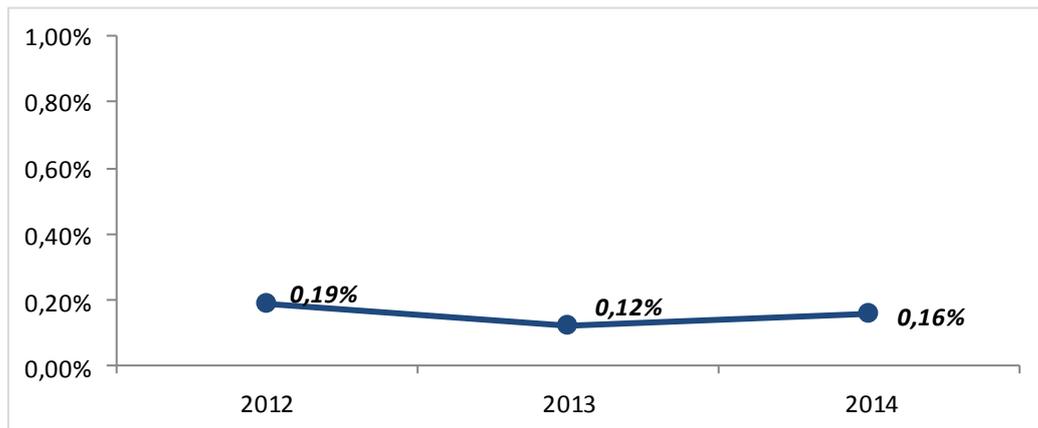
In 2014, 8,267 retail employees took part in these courses.

## 2.4 Workplace quality

We provide working conditions which respect individual dignity, safety and health in accordance with the various workplace regulations. We have policies guaranteeing a superior standard of health and safety at all of our premises, in full compliance with local and international regulations. These are key elements in our Company.

For the vast majority of our premises such as offices, warehouses and boutiques, the threat of serious hazards in connection with our activities is regarded as minimal. The manufacturing sites represent the area with a wider range of health and safety issues, albeit still slight.

### *Injuries as % of total working hours in Italy*



Following the tragic earthquake in the Emilia Romagna region of Italy in 2012, we commissioned a pool of experts to conduct professional surveys of the technical vulnerability to earthquake damage of all the Group's production facilities throughout the Country. We then drew up a programme of voluntary improvements in safety standards (beyond the Technical Design and Building Regulations) for all buildings constructed before the Earthquake Safety Regulations came into force. The capital spending schedule is more than €8 million in total over a number of years; in 2014 works were carried out at the first five establishments, and those works have now been completed or are on the point of completion.

Lastly, starting in 2013, we have undertaken a project to promote safe working practices among our employees and contractors involved in building maintenance. In 2014 we organized 9 days of safety training to give maintenance staff an opportunity to learn more about the safety standards demanded by the PRADA Group and to compare notes with technical staff, trainers and employees. The aim is to foster the creation of a shared platform of safety awareness and agreed safety values as a common feature of essential importance for our Group's growth and that of firms doing business with us.

### 3- Protection of the environment

Even though the industry in which we operate is not regulated by industry-specific environmental regulations, we make it our priority to care about environmental issues. We are strongly committed to raising awareness of respect for the environment; this is a key part of our Code of Ethics that applies equally to our Group and to any party that works with us.

### 3.1 Reduction in consumption

The main direct impact of our activities is the use of energy for our offices, plants, logistics hubs and stores around the world. Our goal is to increase efficiency in the use of energy so as to mitigate the impact of our Group's growing number of premises. In 2014 we consumed 132.9 gigawatt-hours of energy in total (7% more than last year), with a CO<sub>2</sub> equivalent of around 62,450 tons. In Italy alone, where we consume 24% of our total, energy from renewable sources accounted for some 37% of the total energy we used.

Though our premises are not located in zones of acute water stress, we pay a lot of attention to the sensible and efficient use of water, both for our heating and cooling systems and in our employees' daily use.

We continue working to improve our infrastructure, energy and materials management in order to improve energy efficiency and minimize our impact on the environment. A long-term plan for improving energy efficiency has been implemented in the last few years, involving all of our factories and offices. This plan provides for the progressive replacement of all cooling and heating machinery with the latest systems, and the replacement of fluorescent lamps with low-consumption LED lights in our factories, offices and stores.

#### Use of LED lighting

After replacing the lights in three of our premises in 2013, we continued in 2014 with another five. This will yield a 65% reduction (about 783 MWh a year) and lead to lowering our annual CO<sub>2</sub> emissions by 415 tons.

We have also replaced over 1,200 lights inside our Levanella retail outlet with new LEDs, cutting power consumption by more than 70% and CO<sub>2</sub> by about 94 tons a year.

Lastly, we have begun a major project to replace the lighting in our retail stores generally with LEDs. In the final quarter of 2014 alone we have done this at 45 boutiques in Europe and the Middle East, improving energy efficiency by between 10% and 40%.

As well as reducing emissions, LED lights last longer, generate no UV and less heat, so providing additional benefits in terms of waste production and air conditioning requirements.

#### Cooling and heating equipment

We have replaced the cooling and heating systems in three of our Italian premises (Ancona, Montegranaro and Buresta) with new machinery which will reduce energy consumption by 60% and CO<sub>2</sub> emissions by 67 tons.

#### LEED certification

In 2014 our Prada boutique in Geneva achieved Gold-level LEED certification for Retail (Commercial Interiors). This is an international certification scheme to reward buildings constructed in accordance with the needs of human health and environmental protection: it puts a value, for instance, on minimizing energy consumption and maintenance costs, and also on user comfort and health; and it assesses raw material consumption in the construction process. Specifically, the LEED certification for the construction of this store included a finding that it achieves a 37% saving in drinking water use and that 100% of its electrical power is supplied from certified eco-friendly sources according to strict European protocols.

#### The Valvigna factory

During 2014 we completed work on the new establishment at Valvigna (Arezzo, Italy) on the site of an old abandoned factory which had been run-down and had suffered urban

blight for years.

The new premises designed by the architect Guido Canali, who has already created two other workshops for the Group, are conceived with due respect for the people who work there and for the landscape around.

To make sure that this development's impact on its surroundings is as harmonious as possible, we bought a number of adjacent plots, not so as to get a bigger building, but to be able to enhance the way it fits into the rural landscape of Tuscany. This project comprises:

- 14,000 m<sup>2</sup> of meadow
- 74,000 ground-cover and herbaceous plants
- 29,000 bushes
- 297 trees
- 8,700 climbing plants
- 980 vines

The plantings and other vegetation included in the project help to absorb some 19.5 tons of CO<sub>2</sub> a year.

The natural lighting of work areas is another basic element in this project, with broad open light-filled spaces surrounded by hanging gardens to optimize the use of natural light as the seasons change. Outdoors there is plenty of green space for the staff's recreation.

This project also features the same attention to detail and care for the work environment in its technical solutions and internal plant, with low energy use and solar panels, heat recovery (including a CHP plant), rainwater harvesting, indoor noise attenuation and LED lighting in 4,500 m<sup>2</sup> inside the factory.

The establishment will be fully operational in spring 2015.

### 3.2 Waste reduction

We are aware of the importance of natural resource use and waste management, especially in a Group such as Prada which has been growing so fast in recent years.

We aim to achieve continuous improvement in environmental management thanks to a daily process within our organization that raises awareness among our employees. We have various procedures to increase the recycling of paper, plastic, glass, ink cartridges, etc. All our employees are made aware of reducing and recycling waste on a daily basis.

In 2014 waste production at Italian manufacturing sites and the Milan headquarters amounted to 1,345 tons (5.9% less than last year), of which 89.9% was recycled or reused. Only 0.7% of our waste consisted of hazardous materials or substances.

With regard to our manufacturing site in the UK, Church's has made a significant effort, in keeping with the Group's approach, to minimize the impact of its waste production. All waste is sorted into recyclable and non-recyclable items, and most recyclable items such as natural leather, rubber and crepe, metals, cardboard and machine oils are 100% recycled.

### 3.3 Sustainable use of raw materials

The raw materials we mainly use are leather, textiles and yarn of various kinds. We purchase tanned leather skins made from calf, sheep, goat and deer. 100% of our raw materials are from certified origins guaranteeing their quality and lawful provenance. We also buy in crocodile, lizard, ostrich and python skin in compliance with the strictest international standards on the importing and use of hides from endangered species. We scrupulously obey local and international rules on the sourcing, importing, use and exporting of natural materials, such as CITES (the Convention on International Trade in Endangered Species).

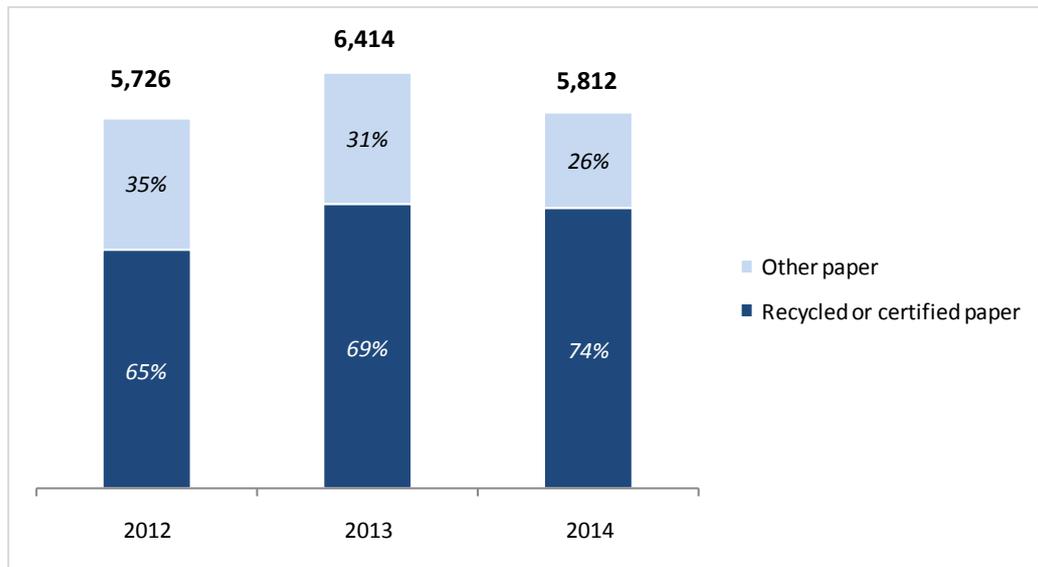
The high quality of hides used has traditionally enabled us - and still does - to bring out their natural look, limiting the use of chemicals and so leaving the natural sheen and softness of the leather untouched. Such leather reveals the passage of time in a natural aging process which adds style and elegance to the finished article.

We have introduced an innovative system which optimizes the use and cutting of raw materials during the product development stage. Preliminary studies are sent to our industrial producers and enable them to use the smallest pieces of hide or fabric to produce smaller articles and so reduce raw material waste.

#### Use of recycled paper and paper from certified sources

In 2014 we used 5,812 tons<sup>2</sup> of material for our product packaging worldwide, 9% less than last year thanks to rationalization of the packaging used for certain product categories. Our use of paper certified by the Forest Stewardship Council (FSC) and of recycled paper in packaging material rose by five percentage points in 2014, from 69% of the total to 74%.

#### Product packaging consumption (tons)



Also due to our support, nowadays eleven of our thirteen packaging suppliers have achieved FSC certification, ensuring that our packaging is sourced from sustainably-managed forests.

In 2013 we launched an eco-friendly shopping bag in the USA made of 40% recycled paper; in 2014 we continued to roll out this project worldwide, and we aim to extend it across our entire network of stores by 2015.

We have also begun a move to 100% FSC-certified boxes and tissues so that by 2015 none of the product packaging material we use will contribute to deforestation.

### 3.4 Travel policy

We have adopted a travel policy aimed at encouraging employees to use public transport for business trips.

At a global level, we have several agreements in place to encourage employees to commute by public transport. For example, employees in our Milan offices can purchase a city-wide public transport season ticket at a reduced price, to be used not only for going to work, but also for private trips. Similarly a free shuttle service from Florence to our plants in the region has been made available to Group employees.

We are also committed to minimizing the impact of staff business trips. We have reduced non-essential business travel through alternative forms of communication such as videoconferencing. When business needs require employees to travel, we have a

<sup>2</sup> Paper purchases from Italian suppliers - around 90% of total paper use

specific procedure encouraging the use of trains instead of cars, while cars are allowed in the case of areas not effectively reachable by public transport.

### 3.5 Attention to the environment in our production

We take great care over the environmental impact of our activities. The way we develop our production always prioritizes highly innovative style, long-lasting quality and customer health and safety.

Our products are distributed and sold across 70 countries, and have to comply with the various laws, standards and regulations in all of them. In order to ensure that compliance and allow each of our stores to stock the same items, with the same high quality, at the same time, we design, develop and manufacture our products in accordance with the strictest global quality standards.

In order to oversee this very important matter properly, the PRADA Group established an Industrial Compliance Committee in 2010. Its task is to constantly review our products' manufacturing and distribution worldwide in terms of compliance with international legislative requirements.

Throughout every stage of production we carefully comply with the strictest international regulations on hazardous chemicals such as, for example, the REACH regulation, California Proposition 65, the South Korean Safety Quality Act and the Chinese GB Standards. In order to meet these standards, we compiled a new Restricted Substances List ("RSL") in 2014, specifying the strictest parameters for each substance for all the entities involved in the production chain in accordance with the latest laws, regulations and international standards. Every party involved must ensure - and prove - that all its products comply with the RSL and consequently with current international laws and regulations. At one year of its first publication, 64% of our 1,247 raw materials, semi-finished and packaging suppliers, that have received our RSL, formally accepted and signed the document.

In order to supervise the implementation of the RSL guidelines, in addition to the certifications and test reports required from every supplier, we commission various tests from certified laboratories to check compliance of purchased items with our guidelines and suppliers' certifications.

In 2014 we have not received any notification by any authorities of the non-compliance with laws and regulations regarding the presence of substances over the limits in our products.

### 3.6 Sustainable use of land

We have always paid great attention to the territories where we do business, and we try to play a respectful part in local life by contributing to the enhancement of the community whenever we can, either in the form of some unique and avant-garde venue (such as the Prada Epicentres in New York, Tokyo and Los Angeles, or the facilities designed by the architect Guido Canali for the Group), or by rehabilitating existing districts.

With this in mind, our respect for places and their history has led us to bring industrial establishments back to life, for example as in the case of an old bus station in Northampton (Great Britain), an ancient pasta factory at Montevarchi (Arezzo, Italy), or an abandoned tannery in Limoges (France) which we have restored. It is our view that new-build has a significantly more serious impact on the surrounding area than the restoration of existing structures, and should be a last resort.

This sensitive approach has led us, over the three decades of the Group's business growth, to develop using the least possible amount of ground, restoring what already exists and working to rehabilitate buildings for new purposes. Out of the 27 sites and 240,000 m<sup>2</sup> used by our manufacturing, prototyping and logistical activities, just five (or only 23,000 m<sup>2</sup>) are new-build: three are restored historic industrial sites (veritable examples of industrial archaeology), and the remainder are cases of recovery of abandoned and in bad condition sites.



## 4- The Value Chain

## 4.1 Suppliers

We regard our relationship with our suppliers, built up through years of day-to-day collaboration and directed towards continuous improvement, as fundamental for our Company. During the financial year ended January 31, 2015, we purchased supplies from approximately 500 significant raw material vendors and 400 external manufacturers<sup>3</sup>.

<i>Suppliers</i>	<i>Italy</i>	<i>Europe</i>	<i>Other</i>
<i>Raw material vendors</i>	75%	18%	7%
<i>External manufacturers</i>	83%	10%	7%

We are very strict in selecting our suppliers. We procure raw materials mainly from vendors with whom we have a well-established relationship and who have a track record of reliable quality and compliance with our Code of Ethics.

More than half of our raw material suppliers (62%) have been dealing with us for over ten years, and another 29% for more than five.

As for our manufacturing contractors, more than one third of them (34%) have been partners for over ten years, and another 29% for more than five.

We have not been notified by the authorities of any significant failure to comply with statutory or regulatory provisions concerning the application of international ethical standards.

### Code of Business Conduct

We are dedicated to ensuring that our products are manufactured under conditions which reflect our commitment to human rights in the workplace. We support respect for internationally-recognized standards for the safety and well-being of everyone involved in the making of our products.

We have a Code of Business Conduct which applies to all the Group's factories and external manufacturers. It sets standards which are fair and appropriate to the variety of cultures and people involved. Specifically the Code of Business Conduct specifies standards for the following:

- employee rights and working conditions (including weekly hours of work/overtime/holidays, wages, and zero tolerance for forced labour or child labour);
- employee safety, health and welfare;
- health insurance and life insurance for employees;
- equal opportunities for employees;
- freedom of association;
- protection of the environment, in the sourcing of materials and in manufacturing;
- protection of intellectual property, and the fight against counterfeiting.

We encourage our partners to exceed the minimum requirements laid down in the Code of Business Conduct. We also encourage communication among all the parties involved, so as to facilitate the implementation of standards and compliance with the law, with the aim of creating a good working environment.

Our factories and external suppliers must ensure that anyone supplying them with materials and/or labour for the manufacture of our products has been authorized by us and also abides by the provisions of the PRADA Group's Code of Business Conduct. We audit our factories' and external manufacturers' compliance with the Code of Business Conduct, insisting on free and full access to all facilities, all business records and all employee paperwork.

In our vendor relationships we encourage suppliers' awareness of social responsibility, promoting their knowledge of laws and regulations and their pursuit of the main environmental, social and quality certifications.

<sup>3</sup> Suppliers with total recorded sales of over €30,000 during the financial year ended January 31, 2015.

## Attention to working conditions throughout the value chain

We encourage responsible behaviour among our suppliers by promoting and distributing the PRADA Group's Code of Ethics and Code of Business Conduct and getting vendors to sign up to those Codes or even incorporate them in their own terms of business.

We also check that our suppliers abide by these codes. Our external manufacturers are audited as part of their on-going relationship with us, and these audits cover the entire production process, respect of our codes, workplace health and safety conditions and compliance with all relevant laws.

Our team of inspectors carried out over 1,000 audits in 2014 to monitor our supply chain (suppliers and subcontractors).

During the period reported on here we received no notification from any authority concerning occupational health and safety in our supply chain.

## 4.2 Customers

We believe we have a reputation as leaders in style, makers of outstanding products, and a firm which provides excellent customer service. Valuing that reputation, we pay close attention both to the manufacturing process which enables our Group to offer exclusive high-quality products, and to all the activities essential for guaranteeing the originality of our products to our clients.

Our industrial management team coordinates and supervises the entire production process, from the raw material procurement to in-house or outsourced manufacturing, in order to deliver the high quality of craftsmanship which is the hallmark of our production.

We have approximately 1,700 employees in our in-house production divisions and some 990 people in the Product Development department, allowing us to produce the vast majority of our prototypes and samples in our own workshops, as well as some of our finished products. The rest of our production is outsourced to external manufacturers under our strict quality control.

We employ 200 technicians, each with at least ten years' experience, exclusively on quality control of both the raw materials bought in from vendors and our finished products. Technicians regularly visit our raw material suppliers and their production sites, as well as those of our external manufacturers and our own facilities, to assess their production processes, the quality of the materials used for our products and the quality of the finished products themselves.

Raw materials are an essential part of product quality, making them a primary concern to the PRADA Group. They are procured by an in-house division which selects suppliers directly, applying stringent quality criteria. We buy mainly from long-standing partners; in many cases the materials are produced especially for our Group in line with strict technical and stylistic specifications which ensure that they are both exclusive and of excellent quality.

This approach gives us full control over quality and service at a crucial stage of the value chain, guaranteeing that standards are maintained even when suppliers change and ensuring that technical production know-how and core values are handed on smoothly to the next generation of makers.

A proof of this close cooperation and strict quality control is the total absence of any health or safety problems arising from our products and of any product recall during the period.

In order to guarantee the excellence of our products to our clients, we work hard at activities to combat counterfeiting around the world, as well as on the web. We are a member of the World Customs Organization and the major anti-counterfeiting associations, and deal on a daily basis with the various local law enforcement authorities engaged in the struggle against passing off (in Italy the Carabinieri, the Tax Police, National Police, Customs, and the Public Prosecutor's office), who intercept and confiscate large quantities of illegal merchandise. Our highly organized and effective strategy against online counterfeiting involves monitoring and taking action in a number of directions (web domains, e-commerce platforms, websites and social networks).

Enforcement activities enabled us to close down approximately 350,000 online cases of passing off in 2014, and also to counter criminal activities such as child labour and forced labour, which are often associated with these cases.

We give our customers clear information about our products, from advice in our stores on product care to correct labelling in compliance with the strictest international and local laws; indeed we provide the most thorough after-sales facilities for all our products, with product care and repair services in our stores and workshops. This guarantees the customer a long-lasting high-quality product, and encourages their more responsible use. Lastly, we apply strict procedures to the gathering and use of personal information about our clients, to safeguard their identity and protect their privacy.

## 5 - Relationship with the community

## 5.1 Industry initiatives

We are firm believers in the value of institutional initiatives to develop our industry and make it the world's acknowledged standard of excellence. We are conscious of our leading position as a source of inspiration for many people - consumers, employees and suppliers alike - and aware that this gives us a duty to promote an awareness and sensitivity that contributes to the sustainable development of the world in which we live.

In this spirit we actively contribute to various initiatives promoted by the *Camera Nazionale della Moda Italiana* (the National Chamber for Italian Fashion) which bring together many others involved in our industry on a common platform promoting ethical and quality standards to be applied throughout the fashion industry's value system.

We support the "Manifesto of Sustainability for Italian Fashion" in partnership with the National Chamber of Italian Fashion. It is based on the following injunctions:

- 1- DESIGN. Design quality products that can last for a long time and can minimize their impact on ecosystems;
- 2- THE CHOICE OF RAW MATERIALS. Use raw materials, materials and fabrics with a high environmental and social value;
- 3- PROCESSING OF RAW MATERIALS AND PRODUCTION: reduce the environmental and social impact of activities and acknowledge everyone's contribution to the product value;
- 4- DISTRIBUTION, MARKETING AND SALES: Include criteria of sustainability throughout the journey of your product to the customer;
- 5- MANAGEMENT SYSTEMS: Committed to continuous improvement in company performance;
- 6- FASHION AND THE NATIONAL ECONOMIC SYSTEM: Support your territory and "Made in Italy" products;
- 7- BUSINESS ETHICS: Integrate universal values into your brand;
- 8- TRANSPARENCY: Communicate to stakeholders your commitment to sustainability in a transparent way;
- 9- EDUCATION: Promote ethics and sustainability with consumers and all other stakeholders;
- 10- Make the Manifesto come alive.

Since 2014 we have been members of Assolombarda (an association of over 5,000 national and international firms located in the region of Lombardia, Italy) and chair its "Group Fashion, Design and Furnishing" section. The Association promotes the sharing of knowledge, skills and experience with a view to working out the most appropriate ways to tackle businesses' needs.

Assolombarda has been a recognized resource for businesses since 1945, defending their interests in dealings with various outside bodies concerned with government, research, training, the environment and local planning, the arts, the economy, employment and civil society. Assolombarda also provides its members with a broad range of specialist services, and sets up technical working groups which contribute to business development. Its activities include promoting policies for development with a proper balance of economic, social and environmental factors, so as to foster productive activity and promote the region and its attractions.

## 5.2 The Institute of Cultural Diplomacy

Prada takes a broad view of the concept of sustainability; we consider that, of all the highly complex problems of coming years, one of the biggest challenges for international relations in the 21<sup>st</sup> century will be that of balanced economic development in the world's various regions, especially as regards demographic developments and in particular the delicate issues involved in relations between peoples.

With this in mind the PRADA Group began in 2014 to work with the Berlin-based Institute of Cultural Diplomacy (ICD), a prestigious no-profit international NGO whose guiding principle is global stability, to which the institute aims to make a contribution by providing a platform promoting and supporting cross-cultural relations between peoples, involving individuals from the arts, politics, religion, the academic world and - last but not least - business.

The ICD considers that these relationships can be strengthened and preserved by dialogue which leads to better comprehension and more trust between cultures, prevents misunderstandings, improves communication and cooperation and helps to reduce the likelihood of social and cultural conflict.

As part of that work we attended the 2014 Berlin Economic Forum on “Sustainable Economies, Sustainable Technologies, Sustainable Industries”. The Berlin Economic Forum is an extensive ten-year programme of international gatherings, projects and initiatives to develop dialogue among the various peoples of the West, Asia and the developing countries on the subject of the sustainable economy. Prada has also offered to host and help organize an international conference as part of the Forum’s 2015 programme.

### 5.3 The Prada Academy

We consider Italian craft manufacturing a unique asset of strategic importance, one to be preserved and promoted, so that it can be transmitted from generation to generation and contribute to the development of the Country and the community.

That is why the group’s next project to be launched - the Prada Academy - is designed to be a training hub founded on the experience and skills acquired over many years of industrial and commercial activity in Italy and abroad. Its various teaching programmes will involve specialists from inside and outside the Group, and will include master craftspeople who, having retired from working for the firm, are an irreplaceable resource for conserving and handing on their accumulated wealth of technical knowledge.

Our aim is to preserve the specialized skills that characterize luxury manufacturing, create a pool of enthusiastic young technicians who can carry on these advanced craft skills and make the Prada Academy a beacon for the development of know-how in luxury leather goods, footwear and clothing.

The project includes setting up a school in Tuscany, halfway between the PRADA Group’s industrial headquarters and Italy’s foremost area for specialist production.

This project is mainly intended for high-school graduates: the first part of the course will consist of a general preparation to lay sound foundations and lead to a publicly-recognized diploma, followed by a more specialized section of the course in which students will have an opportunity to learn the secrets of the makers by accompanying expert craftspeople in close contact with the Group’s technological and manufacturing core.

### 5.4 Investment in the Community

Interest in the world, in society and in culture is at the core of PRADA Group’s creativity and modernity. This is expressed, not only in the luxury fashion industry, but also through the role we want to play in social progress.

We aim to contribute to human development, well-being and cultural and social interests in the territories where we operate, in recognition of the essential part played by the community in making our company what it is today. To that end we sponsor a number of local and international initiatives across the world to the tune of €16.7 million. The most significant projects supported in 2014 were the following:

#### Prada and the Arts

##### *Fondazione Prada*

We have been supporting the Fondazione Prada’s activities in art and culture since 1993. Fondazione Prada was created in Milan as a space in which to organize

exhibitions of contemporary art, as well as architecture, film and philosophy projects. Up to 2010, 24 personal shows by major Italian and international artists were organized.

Since 2011 the Fondazione has been actively involved in Ca' Corner della Regina, a XVII century Venetian palazzo which has so far hosted 4 groups shows. From June to November 2014 it put on the "Art or Sound" exhibition curated by Germano Celant, bringing together more than 180 paintings and objects from the Renaissance to the present day, including automatons and musical boxes, paintings and music scores, sculptures and installations, and rare or remarkable musical instruments. The show explored symmetries and ambivalences between musical instruments and sculptures which make or evoke sounds.

The first stage of Curate Award, the prize for exhibition curators organized by the Fondazione Prada and the Museums Authority of Qatar, ended in January 2014. There were over 500 entries, from which an international jury picked three proposals. The winners - Michael Wang, Misal Adnan Yıldız and Evelyn Simons - will be bringing their exhibition projects to fruition over the next two years.

The Fondazione Prada's new headquarters designed by the OMA architecture studio under the guidance of Rem Koolhaas was inaugurated in May 2015. Situated in Largo Isarco in the southern district of Milan, this involves the conversion of a former industrial complex going back to the second decade of the XX century. The premise has 18,900 m<sup>2</sup> of accommodation in total, and will house an organized programme of exhibitions and cultural events in pursuit of the Fondazione's multidisciplinary purpose.

### *Prada Journal*

We have continued our quest for new writing talent, and organized another edition of Prada Journal, the literary contest in cooperation with Giangiacomo Feltrinelli Editore, a publishing house with sixty years' experience. The creative challenge this year was to send in a response to the query posed by Prada Journal: "What are the signs of a changing world? And what situations can we envision? Taking a good look at the details might give us the answer."

Essays came in from all over the world, in more than twenty different languages. In January 2015 three winners, selected by a jury of publishing notables (Tishani Doshi, Carlo Feltrinelli, Paolo Giordano and Colum McCann) were named at a gala evening at our Milan headquarters. Their essays will be published in three languages in a digital book available on our website [www.prada.com](http://www.prada.com).

### *Prada and the Cultural and Artistic Heritage*

#### *Fondo Ambiente Italiano*

We also actively support our cultural heritage, especially in Italy.

We have collaborated with F.A.I. (Fondo Ambiente Italiano - the Italian National Trust) since 2010. Together we promote a culture of respect for Italy's natural heritage, art, history and traditions through various activities, among them the preservation and enhancement of some fine examples of Italy's artistic heritage.

In 2014 we supported restoration work by the Laboratorio dell'Opificio delle Pietre Dure of Florence. PRADA Group underwrote the restoration of Giorgio Vasari's painting of the Last Supper, one of the works most damaged by the 1966 floods, and the last still awaiting restoration and conservation. The work, a very large canvas portraying the Last Supper (about 262cm x 660cm, in five panels), was under water for more than 48 hours when the Arno broke its banks; it was thought beyond recovery, and had lain in store for forty years until the Opificio tackled this new challenge calling for the invention of some entirely novel solutions.

Also in 2014 we made the City of Turin the gift of a new curtain for its Teatro Regio, an important and technologically very sophisticated piece of stage equipment. The gesture showed once more our connection with the arts, and enabled us to add a further splendour to one of Italy's oldest surviving theatrical traditions. The new curtain is 48m wide and 10m high, weighs 1,450kg in all, and gives an opening of 16 metres. The electromechanical fittings use variable-speed motors to enable the curtain to open and close horizontally or vertically. It is also in keeping with the cherry-red colour scheme chosen by Carlo Mollino, the architect who designed the present theatre, inaugurated

in 1973 after a fire in 1936 had destroyed the XVIII century building.

#### *Restoration of the Galleria Vittorio Emanuele II, Milan*

Working with Gianni Versace spa and Giangiacomo Feltrinelli Editore, the PRADA Group undertook a project to restore the Galleria Vittorio Emanuele II in Milan, with the aim of protecting and promoting the value of Italian culture and the Country's artistic heritage by giving Milan back one of its iconic symbols.

Restoration work, carried out between March 2014 and April 2015, involved twelve experts and some 35,000 hours of work in all before the public could once again behold the 14,000 m<sup>2</sup> of the arcade in its original colours and plasterwork, stucco and decorative cement, the pink granite of Baveno, Viggiù stone and the characteristic amber-coloured stone of Vicenza.

To mark the restoration work a website, [www.ingalleria.com](http://www.ingalleria.com), was set up with the collaboration of the City of Milan, using the results of an accurate research and documentation work done by Prada and Versace with a contribution from Feltrinelli to publicize the Galleria restoration project. The website was donated to the municipal government and City of Milan.

#### *Palais d'Iena*

We are supporting the project devised by the *Conseil Economique Social et Environnemental (CESE)* to restore the facade of the Palais d'Iena in Paris and maintain it in a proper state of preservation. The building, constructed in 1939 to designs by the architect Auguste Perret (who also designed the *Theâtre des Champs Elysées*, the church of *Notre-Dame du Raincy*, the Town Hall of *Le Havre* and other works) now houses the *CESE*, the third chamber of the French Republic's constitution, and listed as one of the city's buildings of historic, cultural and artistic interest.

This activity is part of the fruitful on-going collaboration between our Group and the *CESE* to promote cultural and artistic or fashion-related projects. Those projects have included the Miu Miu brand's fashion shows, held in the building since 2011.

Restoration work is scheduled for completion in June 2016.

#### *Support to other organizations*

In 2014 we also supported the activities of many other organizations, including: AIRC, AmFar, Born Free, Children's Healthcare of Atlanta, Convivio, DiscesaLiberi, Fashion for Relief, Venice Biennale Foundation, Fondazione IEO-CCM (European Oncology Institute and Monzino Cardiology Centre), Fondazione MAXXI, Fondazione Umberto Veronesi, LILT, Making The Leap, Metropolitan, Progetto Sorriso nel Mondo, Oxfam Italia, The Heart Ball and the Lunch Box Fund.