S. Bulgari

1884

Celebrating

125 Years

2009

BULGARI S.P.A.AND BULGARI GROUP
CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2009

(Translation from the italian original which remains the definitive version)

Index

Letter from the Chairman

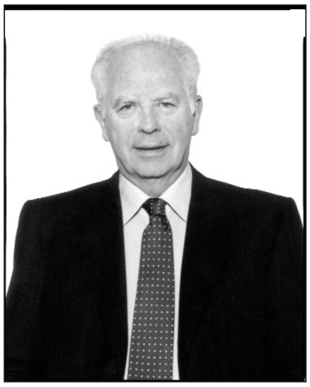
Celebrating its 125th anniversary while at the same time having to deal with what was an extremely difficult economic situation as the crisis continued on the global markets meant that 2009 for Bulgari was characterised by both light and shade. With these two events as a backdrop, Bulgari has succeeded once again in demonstrating the strength of a brand which in over a century of life has become one of the leading players in the history of jewellery and has known how to combat difficult times through its realism and determination. Celebrating the 125 years of Bulgari also gave us the possibility of rediscovering our roots and the pioneering spirit of my grandfather Sotirio, who leaving Greece to arrive in Naples, Corfu and then finally Rome and using his courage, foresight and an extraordinary cultural background was admirable in the way he combined an entrepreneurial spirit with aesthetic sensitivity to found the company which today bears our name. Since that time the search for perfection, an uncompromising commitment to quality and an unmistakable stylistic stamp have given birth to high jewellery creations that have confirmed the success of the brand throughout the world. These creations played the leading roles in the first retrospective organised by the brand in its history entitled “Eternity and History: 1884-2009”, which was held at Palazzo delle Esposizioni in Rome between May and September 2009: by means of a temporal itinerary starting in the early 1900s, passing through the period of La Dolce Vita and arriving at the present day, Bulgari’s “Vintage Collection”, the spectacular jewels worn by some of the most famous stars of the silver screen such as Anna Magnani, Gina Lollobrigida and Liz Taylor, together with a series of sketches and photographic images of the period took visitors on an exilerating journey through history and the evolution of taste. Consistent with the Group’s commitment to corporate social responsibility, which over the years has seen it supporting several charitable organisations and initiatives, it was Bulgari’s wish on celebrating its 125 years to support a key project arranged by Save the Children, the largest independent international organisation for the defence and promotion of children’s rights: through the “*Rewrite the Future*” campaign, Save the Children is committed to ensuring that 8 million children living in countries at war will receive a quality education. Bulgari made its contribution by creating a silver ring and pendant, a tribute to the silversmith origins of my grandfather Sotirio, which was put on sale in all of the Group’s owned stores with a portion of the proceeds being donated to the campaign. In order to give the project further visibility the shop windows and interiors of Bulgari shops hosted a gallery of the numerous Italian and international celebrities who spontaneously lent their faces to support the “Rewrite the Future” campaign: Willem Dafoe, Benicio Del Toro, Sally Field, Beppe and Rosario Fiorello, Andy Garcia, Valeria Golino, Hugh Jackman, Julianne Moore, Gabriele Muccino, Isabella Rossellini, Ben Stiller, Sting, Giuseppe Tornatore and many others have therefore been the subjects of the portraits taken by the well-known photographer Fabrizio Ferri who was one the many supporters of this campaign who provided their services free of charge.

In conclusion, an outstanding Bulgari collection consisting of 11 unique limited edition high jewellery creations was auctioned at Christie’s in New York in December, with all the proceeds being donated to Save the Children.

At a product launch level it was Bulgari’s desire to celebrate and emphasise certain of its iconic motifs in 2009: the *Serpenti* collection of jewels and watches, for example, recalls the snake-form watchstraps that have been a distinctive element of the Group’s logo since the end of the 1940s and are influenced by Greek and Roman mythology in which the snake symbolises knowledge, eternity and rebirth. In the *Parentesi cocktail* collection the main motif, inspired by the travertine joints typical of Roman roads and at the basis of the famous Bulgari modular jewellery first created in the 1980s, becomes the support that acts as a mounting for vivaciously coloured precious gemstones. In the watchmaking sector the *Sotirio Bulgari* model with its dial and manufacture movement is an expression of an elegance that goes beyond time and the realms of desire to close the stylistic and creative cipher of the Group’s founder in a watch. In the accessories collection the liberty style poster of the historic store in Via Condotti has become a successful decoration in the *Collezione 1910*, bearing testimony to how Sotirio applied his high sense of aesthetics and care for detail not only to the product but also to every single aspect of the way in which the business was managed. In 2009, Bulgari’s aim has been to achieve creativity and quality, doing this also at a distribution level, with a series of key openings characterised by a new concept in which highly innovative decorations provide a touch of personality, blending in perfectly with the warm elegance of the surroundings. In this way in San Francisco, for example, a spectacular copper and frosted glass stairway with back-lit steps that appear almost suspended in air dominates the sales point, flanked by a magnificent Murano chandelier. In Las Vegas on the other hand, the floor of the entrance consists of a stylised reproduction of Michelangelo’s decoration in the Piazza del Campidoglio in Rome, enriched by a spectacular fountain that reaches up to the ceiling.

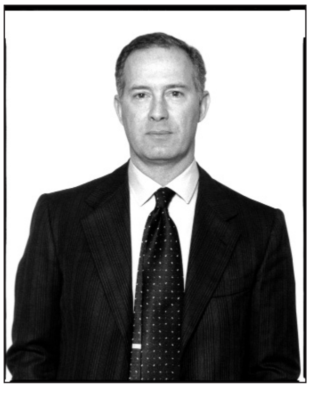
In a year characterised by uncertainty and market volatility, therefore, Bulgari has decided to focus on the search for the excellence and highly innovative creative solutions that have ordained its success over the past 125 years. To this must be added the fundamental contribution made by all of the Group’s employees in the pursuit of the efficiency objectives that have been identified as the best means of overcoming what is clearly a difficult economic situation. I believe therefore that I can look towards 2010 with serenity, certain as always that everyone’s commitment will lead the Group once more to emerge victorious.

Paolo Bulgari



Paolo Bulgari, Chairman

Nicola Bulgari, Vice-Chairman



Francesco Trapani, Chief Executive Officer

Letter from the Chief Executive Officer

Dear Shareholders,

There was no respite in 2009 in the dramatic effect the economic crisis has been having on world markets, with the inevitable repercussions also on Bulgari in terms of turnover and profits. It is worth emphasising however that after two difficult quarters, sales performance began showing signs of a considerable improvement in the third quarter and this continued into the final part of the year.

Taking account of the sharp drop in consumer spending in the first half of 2009, therefore, the Group’s turnover ended the year at 926.6 million Euros, a fall of 13.8% at current exchange rates. There was a decrease in sales in all product categories but, at the same time, the directly owned stored performed decisively better than the wholesale channel where the intensive destocking that had begun the previous year continued into 2009: jewellery fell by 14.4%, watches by 24.5%, perfumes by 14.9% and accessories by 27.2%. A perfect example of the disparity between the performance of sales in the directly owned stores and the wholesale channel may be found in the performance of watch sales in the fourth quarter, which rose by 20.2% in the Bulgari brand stores compared to an overall decrease of 1%.

The drop in sales affected almost all geographical areas, in particular Europe and America where there were falls of 16.7% and 31.6% respectively. There was also a drop of 18.8% in Asia, to which Japan made a significant contribution, decreasing by 33.9% compared to the rest of Asia which remained essentially stable (–0.1%) and the Middle East/Other area which rose by 12.2% at current exchange rates. Finally, the directly managed stores in the rest of Asia performed especially well with double digit rises being posted in China (+27.7%), South Korea (+32.2%) and Australia (+66.9%).

The operating result (a loss of 19.8 million euros) and the net result (a loss of 47.1 million euros) were both significantly affected by costs of 37 million euros arising from a restructuring which the Group has decided to confront as a means of becoming leaner and more efficient; these costs relate primarily to staff leaving incentives, the expenses incurred on closing down stores whose profitability was not in line with the Group’s objectives and accounting write-downs. It should moreover be emphasised that two thirds of these extraordinary costs regard a most important operation initiating in 2009: the combination of the Roth and Genta brands in the Bulgari watch collection sector. This strategic decision has inevitably led to costs being suffered at the present moment, but it will enable the Group to take significant strides in high watchmaking in the future while at the same time retaining the know-how and distinctive stylistic and technical features of these two historical Swiss names. It should also be pointed out that all of these restructuring costs have been recognised in 2009 so there will be an essentially negligible effect in 2010, thereby allowing the Group to benefit further from any favourable changes in turnover.

Continuing on the efficiency front, the Group achieved other notable results in 2009 such as a reduction of 29% in debt and 5% in total operating costs (before costs relating to the restructuring), what is more despite an increase in a series of expenses that are difficult to decrease such as rentals and depreciation and amortisation. In addition, in order to strengthen its debt structure, the Group successfully completed the issue of a convertible bond of 150 million euros in July 2009.

Adding to its strategy of increasing efficiency and profitability, Bulgari has continued to be effective in presiding over the markets in which it does business by opening new stores in highly strategic areas such as the United States and Asia and launching new products in all of its ranges. The celebrations of the 125th anniversary of the Group also met with great success in terms of image, together with the charity initiatives taken to support Save the Children.

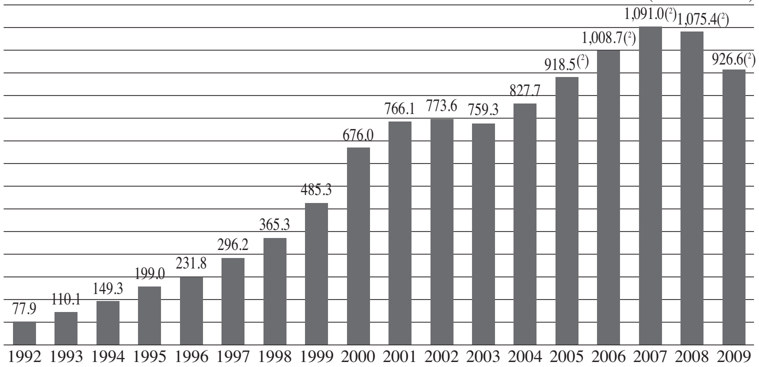
In conclusion, therefore, while hoping that the recovery relently registered to see on the world markets will consolidate further, and given the favourable signs emerging during the first part of 2010, I am certain that Bulgari will know how to seize opportunities for growth to the best of its ability, demonstrating once again the strength of its name and organisation, also thanks to the highly innovative initiatives in terms of brand image and product launches that have already begun and will continue as the year progresses.

Francesco Trapani

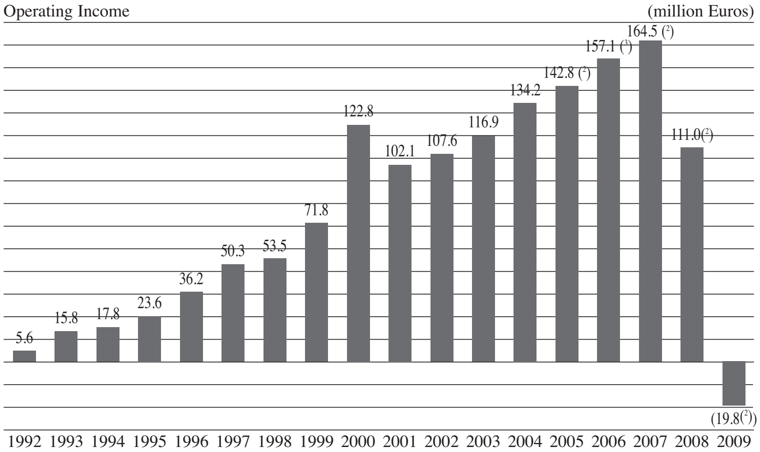
The Bulgari Group in 2009

Key figures and financial highlights

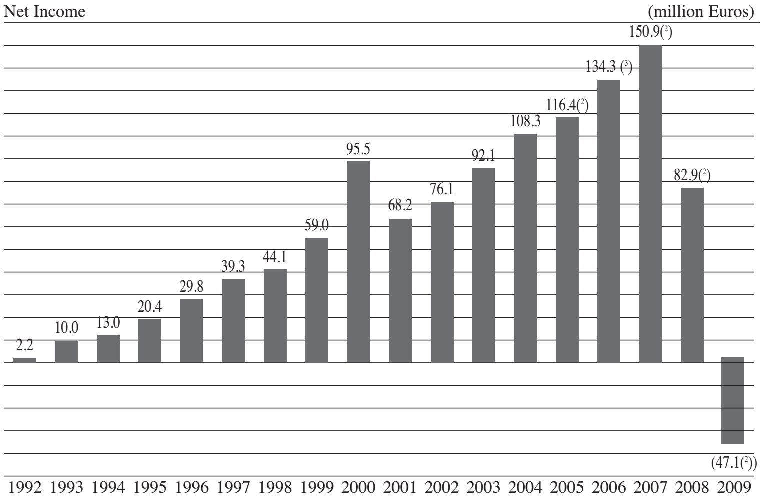
Net revenues (million Euros)



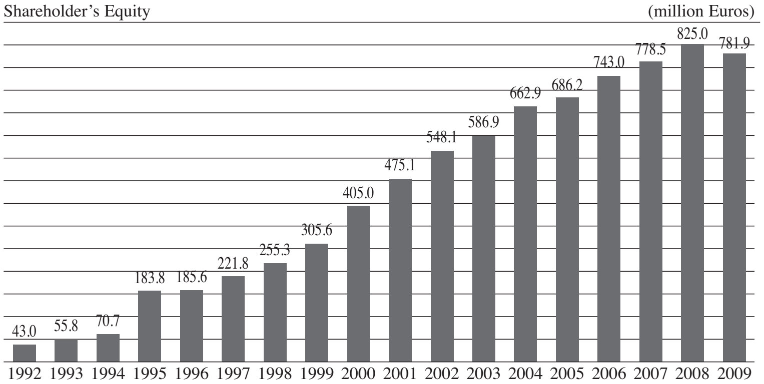
Operating Income (million Euros)

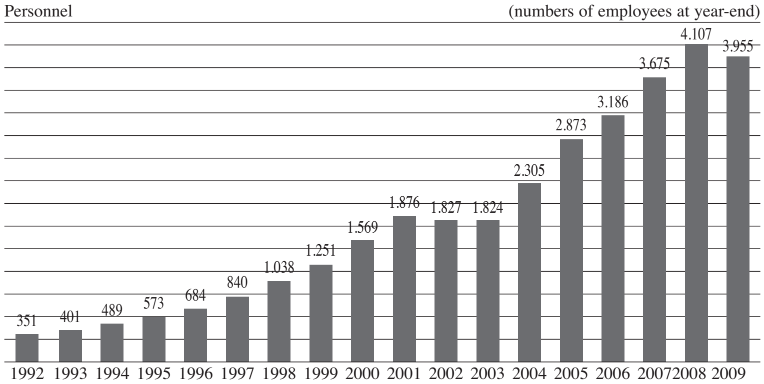


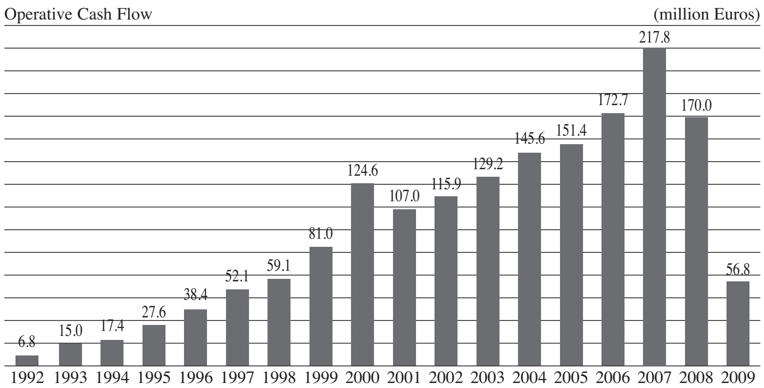
Net Income (million Euros)

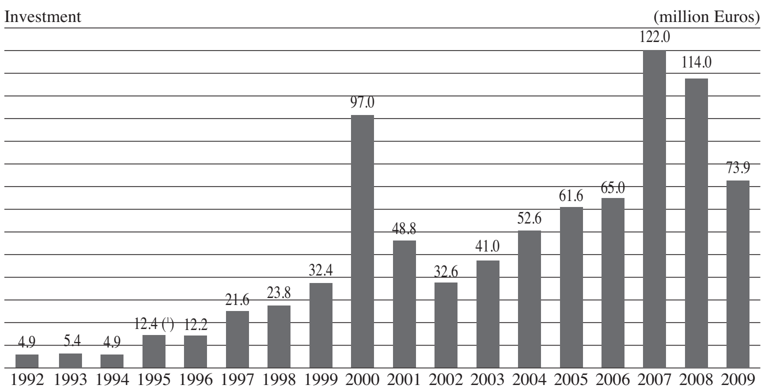


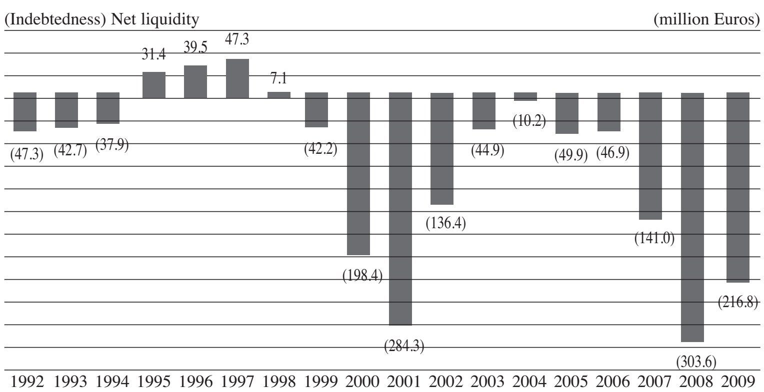
Shareholder's Equity (million Euros)











(1) Excludes IPO
(2) IAS/IFRS Compliant
(3) In accordance with our statutory auditors KPMG, please note that some items have been reclassified and restated for both fiscal years 2006 and 2007:
  a) commissions to distributors (Perfume USA) are now deducted from revenues. Previously revenues were presented gross of these commissions which were included in the variable expenses .
  b) withholding taxes are now included in current taxes. Previously the withholding taxes were included in the operating costs

The Bulgari Group in 2009

The Bulgari Group ended 2009 with consolidated net revenues of 926.6 million euros, a decrease of 18% at comparable exchange rates (–14% at current exchange rates). Today Bulgari is one of the most important Groups operating in the luxury market.

Revenues by product category

Jewellery	43%
Watches	23%
Perfumes and Cosmetics	24%
Accessories	7%
Hotel and catering activities	2%
Royalties and Other	1%

Revenues by geographical area

Europe	38%
of which:	
– *Italy:*	*12%*
Americas	12%
Asia	42%
of which:	
– *Japan*	*19%*
– *Rest of Asia*	*23%*
Middle East	5%
Other	3%

Employees	3,955

Ownership

Bulgari family	50.61%
Paolo Bulgari	
Nicola Bulgari	
Francesco Trapani	
Floating	49.39%

The Bulgari Group at 31 December 2009 51 companies in 24 countries

Bulgari S.p.A.

Is the parent company and owner of the BVLGARI brand name. It also performs coordination activities in the areas of product development, marketing, finance and the management of human resources. Bulgari S.p.A. is 50.61% owned by the Bulgari family and since 17 July 1995 has been listed on the electronic system of the Italian Stock Exchange.

Bulgari Accessori S.r.l.
Company that produces and sells leather accessories.

Bulgari Asia Pacific Ltd.
Company that manages the BVLGARI stores in Hong Kong.

Bulgari Australia Pty. Ltd.
Company that manages the BVLGARI stores in Australia.

Bulgari (Austria) GmbH
Company that manages the BVLGARI store in Vienna.

Bulgari Belgium S.A.
Company that manages the BVLGARI stores in Brussels.

Bulgari Collection Internationale S.A.
Company that produces high jewellery articles.

Bulgari Commercial Shanghai Co. Ltd.
Company that manages the BVLGARI stores in the People's Republic of China.

Bulgari Corporation of America Inc.
Company that distributes BVLGARI products in the United States.

Bulgari (Deutschland) GmbH
Company that manages the BVLGARI stores in Germany.

Bulgari España S.A. Unipersonal
Company that manages the BVLGARI stores in Spain.

Bulgari France S.a.S.
Company that manages the BVLGARI stores in France.

Bulgari Gioielli S.p.A.
Company that coordinates the production of jewels and silver in Italy.

Bulgari Global Operations S.A.
Company involved in the development, production, promotion and marketing of BVLGARI products on an international level.

Bulgari Holding (Thailand) Ltd.
The company that has a shareholding in Bulgari (Thailand) Ltd.

Bulgari Holding Europe BV
Sub-holding company which manages investments.

Bulgari Hotels & Resorts Milano S.r.l.
Company that manages hotels, resorts and exclusive residences with the BVLGARI brand in Italy.

Bulgari Hotels&Resorts B.V.
Company that buys companies active in the hotel industry.

Bulgari International Corporation (BIC) N.V.
Sub-holding company that manages international investments and performs financial transactions.

Bulgari Ireland Ltd.
The company works alongside the currently existing distribution structures with the aim of improving the planning of the production and sales cycles and optimising logistical processes

Bulgari Italia S.p.A.
Company that manages the BVLGARI stores in Italy.

Bulgari Japan Ltd.
Company that manges the BVLGARI stores and brand restaurant in Japan.

Bulgari Korea Ltd.
Company that manages the BVLGARI stores in Korea.

Bulgari Kuwait LLC.
Company that manages the BVLGARI store in Kuwait

Bulgari (Malaysia) Sdn Bhd
Company that manages the BVLGARI store in Kuala Lumpur.

Bulgari Montecarlo S.A.M.
Company that manages the BVLGARI store in Montecarlo.

Bulgari Panama Inc.
Company that manages the BVLGARI store in Panama City.

Bulgari Parfums Deutschland GmbH
Company that distributes and markets BVLGARI perfumes in Germany.

Bulgari Parfums Iberia SA
Company that distributes and markets BVLGARI perfumes in Spain.

Bulgari Parfums Italia S.p.A.
Company that distributes and markets BVLGARI perfumes and cosmetics in Italy.

Bulgari Parfums S.A.
Company that distributes and markets BVLGARI perfumes in France.

Bulgari Portugal Accessorios de Luxo Lda
Company involved in international operations.

Bulgari Qatar LLC.
Company that manages the BVLGARI store in Doha.

Bulgari Reinsurance Company Ltd.
Company that reinsures on the market Group risks which are already insured.

Bulgari Retail USA S.r.l.
Company involved in the retail sale of BVLGARI products in the United States.

Bulgari S.A.
Company that manages the BVLGARI stores in Switzerland.

Bulgari Saint Barth S.a.S.
Company that manages the BVLGARI store in Saint Barthelemy.

Bulgari South Asian Operations Pte Ltd.
Company that manages the BVLGARI stores in Singapore.

Bulgari (Taiwan) Ltd.
Company that manages the BVLGARI stores in Taiwan.

Bulgari (Thailand) Ltd.
Company that manages the BVLGARI store in Bangkok.

Bulgari Time (Switzerland) S.A.
Company that produces watches and accessories and that is involved in all activities relating to silk.

Bulgari (UK) Ltd.
Company that manages the BVLGARI stores in London.

Cadrans Design S.A.
Company that produces mechanisms and components for watchmaking.

Bulgari Manifattura
Company that produces and sells jewels.

Daniel Roth et Gérald Genta Haute Horlogerie S.A.
Company that produces and distributes Daniel Roth et Gérald Genta watches.

H. Finger AG
Company that produces components for watchmaking.

Opera Management S.A.
Company that manages the "Opera Partecipations S.c.a." fund

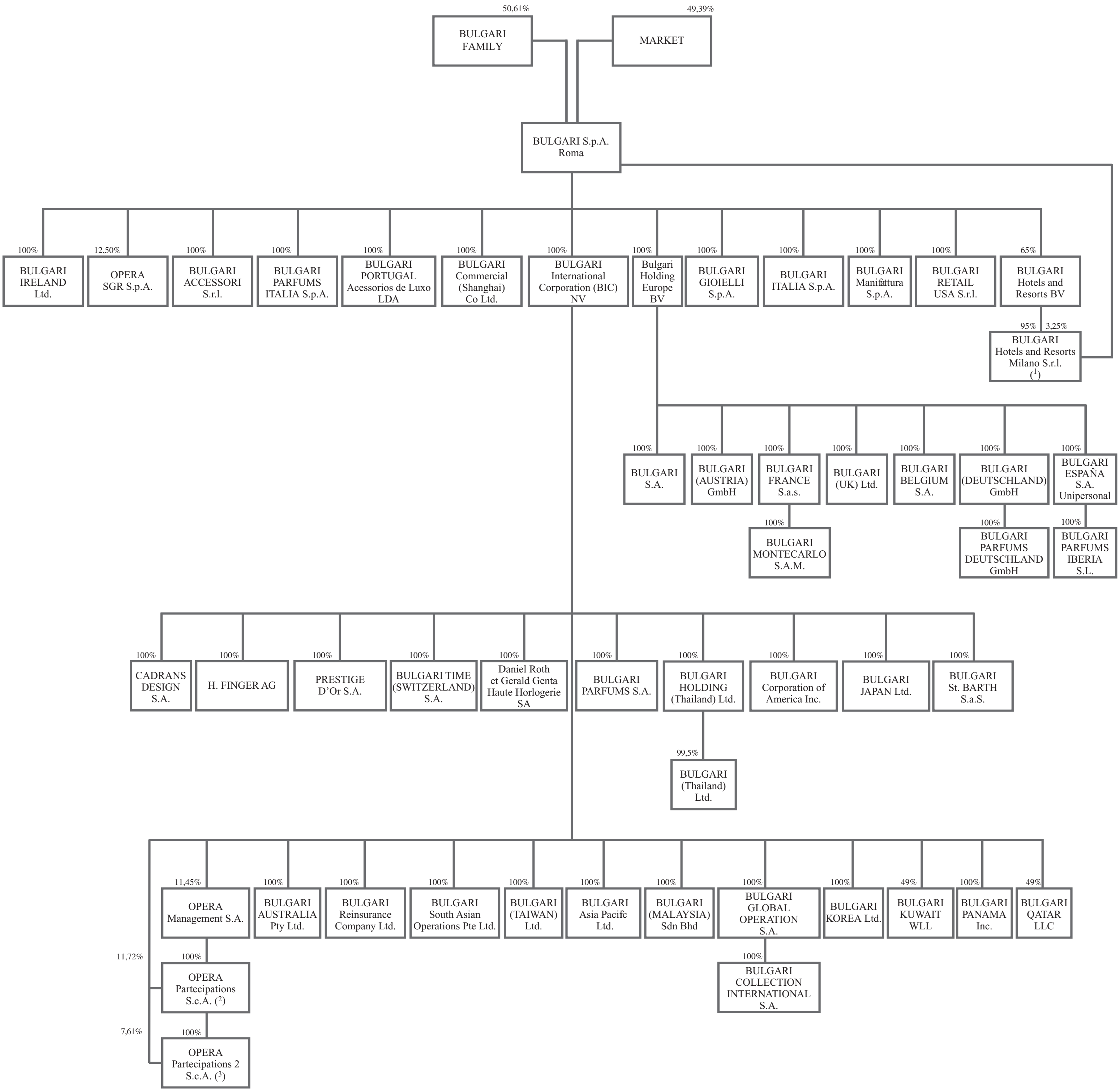
Opera Participations 2 S.c.A.
Company that invests in companies producing "Made in Italy" goods and services.

Opera Participations S.c.A.
Company that invests in companies producing "Made in Italy" goods and services.

Opera SGR S.p.A.
Company whose business is the provision of professional fund management services.

Prestige d'Or S.A.
Company that produces components for watchmaking.

Group structure
as of 31 December 2009



(1) Company owned indirectly trough Bulgari Hotels and Resorts B.V. at 61.75% (95% * 65%, investment of Bulgari Hotels and Resorts B.V. in Bulgari Hotels and Resorts Milano S.r.l.) and directly through Bulgari S.p.A. at 3.25%.

(2) Company owned directly by Bulgari International Corporation (BIC) N.V. at 11.72% of total of class A.1. In addition, Opera Management S.A., which is 11.45% owned by Bulgari International Corporation (BIC) N.V. owns 100% of the class B.1 shares (the class A.1 shares are preferred as to dividends distributions, whilst B.1 shares are not preferred in terms of dividends distribution, but give those who hold them the right to vote on resolutions of particular importance of Opera S.c.a.).

(3) Company owned directly by Bulgari International Corporation (BIC) N.V. at 7.42% of total of class A.1. In addition, Opera Management S.A., which is 11.45% owned by Bulgari International Corporation (BIC) N.V. owns 100% of the class B.1 shares (the class A.1 shares are preferred as to dividends distributions, whilst B.1 shares are not preferred in terms of dividends distribution, but give those who hold them the right to vote on resolutions of particular importance of Opera S.c.a.).

The Bulgaris descend from an ancient family of Greek silversmiths from Epirus whose progenitor, Sotirio, crafted precious objects in silver. In the middle of the 19th century Sotirio moved to Italy and opened the first store in Rome in Via Sistina, replaced in 1905 by a new store located in Via Condotti, which today is the point of reference for all the Bulgari stores. In the meantime Sotirio was supported by his sons Giorgio and Costantino, who in the nineteen forties took the decision to move away from the strict disciplines of the French goldsmith school to create a unique style inspired by Greco-Roman classicism, the Italian Renaissance and the 19th century goldsmith school in Rome. In the nineteen fifties and sixties, Bulgari's bold and innovative style gained success amongst the protagonists of the jet set and movie world. The brand thus achieved international fame which in the nineteen seventies drove the first phase of the Group's international expansion, with the opening of overseas stores in New York, Geneva, Montecarlo and Paris. In 1977 Bulgari took an important step in the world of watchmaking, launching the first *Bulgari Bulgari* watch, by now a classic model, and founding the company Bulgari Time in Switzerland in 1980 to manage the creation and production of watches. In 1984 Paolo Bulgari became Chairman of Bulgari and Nicola Bulgari and Francesco Trapani were appointed Vice-Chairman and Chief Executive Officer respectively. A phase of strong growth and important challenges started in that period and in 1993 Bulgari chose to diversify its product portfolio, entering the perfume business with the launch of its first fragrance *Eau Parfumée au Thé Vert* followed by another ten successful fragrances. The company Bulgari Parfums was founded in Switzerland to manage the creation and production of perfumes. In 1995 a further fundamental step for the Group occurred when Bulgari was listed on the Milan Stock Exchange. In 1996 the diversification process was boosted with the first silk collection, followed a year later by a wide range of accessories covering everything from leather to eyewear. A more aggressive strategy of verticalisation was inaugurated in 2000 with the acquisition of the top range watchmaking brands Daniel Roth and Gérald Genta. This process continued in 2002 with the acquisition of 50% - which was subsequently taken to 100% in 2004 - of Crova, a historical producer of high jewellery. The opening of the first Bulgari Hotel in Milan in 2004, the result of the joint venture between Bulgari and Luxury Group (a division of Marriott International) set up in 2001, further strengthened the brand, expressing the concept of contemporary luxury in prestigious locations with an exclusive design. In 2005 the continuation of the vertical integration strategy led to three further acquisitions: in the watchmaking sector the two Swiss companies Cadrans Design, producing dials for top range watches, and Prestige d'Or, specialising in the production of metal watchstraps and precious metals, became part of the Group. In the accessory sector Bulgari acquired 100% of the Tuscan company Pacini, subsequently renamed Bulgari Accessori S.r.l., which produces bags in leather and prestigious fabrics. In 2006 the Group further consolidated the results of its verticalisation and diversification strategies: in the accessory segment - in the light of increased production capacity and after the success of the first two fully dedicated stores opened in Japan in 2005 - the experience was repeated in Milan where the first Bulgari accessory store in Europe was inaugurated in September followed a few months later by the opening of another shop in Florence and in the following years by that of many other selling points throughout the world. Further, in the watchmaking sector a calibre was entirely developed, produced and assembled internally by the Group for the first time.

The Group continued its growth in 2007 by moving in two directions: firstly by pursuing its vertical integration process, in particular in the watch sector, and secondly by opening new stores in strategic markets or in markets with a high potential. As part of this approach agreements were signed for the acquisition of 100% of the Swiss company Finger - which specialises in the creation and production of sophisticated cases for top range complicated watches - and for the purchase of machinery and intellectual property from the Swiss company Leschot, with the objective of increasing the brand's expertise in the watch sector and supporting the internal development of a manufacture movement. The largest Bulgari store in the world, the 11-storey Ginza Tower, was opened in Tokyo in Japan during the year.

In 2008 the largest Bulgari store in Europe, having a floor space of 1,500 square metres, was opened on the Avenue George V in Paris.

The Group's celebrated its 125th anniversary in 2009: the first retrospective organised in the Group's history, "Between Eternity and History: 1884-2009", was presented at Palazzo delle Esposizioni in Rome, while at an international level Bulgari provided its support to the Save the Children "*Rewrite the Future*" campaign, whose aim is to ensure that children living in countries at war will receive a quality education. Bulgari is donating to this organisation a part of the proceeds arising from the sale of a silver ring and pendant created specifically for the project and the entire proceeds arising from a charity auction held by Christie's in New York. In order to combat the crisis that had such a severe effect on worldwide markets during the year the Group concentrated its efforts on pursuing the goals of increasing efficiency, containing costs and investments and reducing stocks and debt. In turn the Group's distribution strategy is being rationalised and new sales points have been opened in strategic locations in Asia and the United States, with the closure of certain other stores whose profitability was not in line with the Group's objectives.

Bulgari Creations

Bulgari creations are appreciated by the international clientele for their unmistakable, bold and refined style, where the extreme attention placed on quality and an ever innovative design make them a timeless example of elegance.
Their modernity, a fundamental characteristic of Bulgari creations, is based on their ability to reinterpret themes and motifs inspired by art and architecture in an evocative and, at the same time, extraordinarily original style, which enhances the personalities of the people who wear them.

Jewels

A sense of volume, a passion for linear and symmetrical forms and an attention to detail are the distinctive features of Bulgari jewels, which are the result of a continuous search to blend tradition and innovation in a skilful manner. Bulgari jewels exalt femininity to the utmost, with collections that fit differing styles and ways of living. The famous *Parentesi*, *Tubogas, Bulgari Bulgari, Astrale* and *Allegra* collections are therefore designed for the modern woman who lives the jewel as an expression of her personality and elegance, *Lucea* is a homage to a refined femininity, while *B.zero1* expresses a simple and linear style which is perfect for every occasion and easily accessible.
The 2009 proposals emphasise two iconic motifs of Bulgari creativity: in the *Serpenti* collection the winding spiral motif that determined the success of the Bulgari watchstraps from the nineteen forties has returned to centre stage with the purity of a modern, essential and refined design. On the other hand in the exuberant *Parentesi Cocktail* collection the famous symbol inspired by the travertine joints of Roman roads has been masterly transformed into a bearing element in order to express the distinctive traits of the Bulgari style, meaning size and coloured gemstones, in the best manner possible. The High Jewellery Collection, the supreme expression of Bulgari's creativity and design, was enriched in 2009 with new and extraordinary one-of-a-kind pieces. The High Jewellery Collection creations are displayed on rotation in Bulgari stores throughout the world as a testament to taste and the search for the top quality materials and workmanship used to produce jewellery conceived to become the symbol of a timeless beauty. The evolution of the Bulgari design is illustrated in the precious *Vintage Collection,* consisting of approximately 300 one-of-a-kind and not-for-sale creations dating from 1920 to the nineteen nineties.

Watches

Bulgari watches are conceived for both men and women, satisfying the strictest criteria of Swiss watchmaking while at the same time featuring a contemporary and innovative style. Thanks to the verticalisation process in watchmaking, started in 2000 and carried out with determination in the following years, Bulgari has gained a leading position in the sector, leading to the prospect for the Group of becoming one of the few manufacturers at a world level and hence one capable of producing all the watch movements internally. Bulgari offers various lines which over time have given birth to timeless models such as the classic *Bulgari Bulgari*, *Diagono*, *Rettangolo, Ergon* and *Assioma*, each year reinterpreted or accompanied by new launches that are always on a technical cutting edge, precious and exclusive. The celebrated curved form of the case, a feature of the *Assioma* collection in particular, has been revisited in an elegant and refined manner in the women's model *Assioma D*, reinterpreted in 2009 in the version in steel and diamonds. The *Bulgari Bulgari Moon Phase* model is also dedicated to women; the characteristic linear and contemporary design of this watch is enhanced by the dial in white mother of pearl with diamonds in a pavé setting and numbers inlaid by hand. On the other hand a tribute to the Group's 125 years and to its founder is the limited edition *Sotirio Bulgari* model, characterised by its manufacture movement and the highly distinctive element of the lugs, characterised by a converging inclination and integrated in the back case.

Perfumes and Cosmetics

Bulgari proposes a variety of different fragrances with a complimentary bath line providing a wide range of emotions and sensations and created to become new classics. The *Eaux Parfumées* range matches the delicate lightness of eau de cologne with the beneficial relaxing properties of green and white teas. *Bulgari pour Femme* is flowery and powdery with a hint of jasmine tea while the male fragrance *Bulgari* *pour Homme* is characterised by precious musks and a hint of Darjeeling tea. With *Omnia*, Bulgari proposes an oriental fragrance, a surprising combination of unexpected flavours skilfully blended in an aroma of absolute femininity. This is accompanied by *Jasmin Noir,* which brings out the precious and sought after hints of jasmine, expressing them in a sensuous and mysterious fashion.

The success of the perfume *BLV*, characterised by an original hint of ginger around which an extraordinary olfactory ambient evolves, stimulated the creation of *BLV pour Homme*, a fragrance of unexpected contrasts and surprising alchemies, and the launch of *BLV Notte*, which develops the most sensual and mysterious hints of the *BLV* universe. A new interpretation of blue as the infinite space-time of possibilities inspired the launch of *BLV Eau de Parfum II* in 2009, the feminine fragrance that is naturally profound but at the same time sophisticated and intense, closed in a bottle where classic style and rigour dwell with softness and sinuousness.

Petits et Mamans is the line designed for children and their mothers, distinguished by its hints of chamomile and talc, while *Black* is a cosmopolitan fragrance for men and women.

The range of fragrances is also enriched by the fresh scents of the two male perfumes *AQVA Pour Homme* and *AQVA Pour Homme* Marine.

The experience and tradition of excellence in the choice and workmanship of precious stones was also a source of inspiration for a women' skincare line which for the first time concentrated the beneficial properties of the trace elements to be found in the gems in an active ingredient patented and conceived by the Bulgari Research Department.

Accessories

The range of Bulgari creations features precious silk products such as the celebrated "seven folds" tie where tailoring elegance blends with exclusive fabrics and painstaking craftsmanship. The collection of ties, scarves and stoles offers a variety of colours and patterns that make them suitable for the most varied occasions. Leather and precious fabric bags express a sophisticated yet highly innovative elegance in the lines and techniques by which they have been realised with creations for night and day endowed with a grand personality. Iconic collections such as the *Twist*, whose folds recall the marble drapery of the Greek and Roman statues of the classical age, the *Leoni*, characterised by the seal with facing leonine protomes reproducing a famous jewel of the Bulgari tradition of the nineteen sixties, or the *Doppio Tondo*, with two superimposed rings engraved with the double BVLGARI BVLGARI logo, have been expressed in 2009 with new models featuring unexpected chromatic combinations and a work of skin craftsmanship far from the commonplace. In the new *Collezione 1910* the old liberty style advertising poster of the historic store on Via dei Condotti in Rome has been reproduced and printed in contrast as a reminder of the 125th anniversary that Bulgari celebrated in 2009.

Bulgari accessories also include a travel line offering bags and suitcases for work and leisure, capable of combining class with practicality. A vast range of pens, key-rings and silver and leather goods have also been studied for use as gifts or something that one can simply treat oneself to. These are tasteful and refined items that are always useful in our daily lives.

The range of accessories is completed by the collection of sunglasses and eyeglasses, produced in partnership with Luxottica. The modern and elegant Bulgari eyewear is enriched with precious details that make each model an expression of personality and refinement.

The accessory category has recently been enhanced by means of a network of fully dedicated stores located in the leading world markets in which the Group operates.

Bulgari Hotels & Resorts

The Bulgari Hotels & Resorts project originates from the desire to reinforce the prestige and visibility of the brand through unique hotels and resorts which are able to express the concept of contemporary luxury that distinguishes all Bulgari creations. The joint venture signed in 2001 with the Luxury Division of Marriott International, a partner with a great experience in the luxury hotellerie, guarantees the highest level of service and professionalism.
The first Bulgari Hotel, a five-star luxury hotel opened in Milan in 2004, is situated on Via Privata Fratelli Gabba, which from a cultural and commercial point of view is the most prestigious area of the city due to its proximity to Via Montenapoleone, Via della Spiga, La Scala and the Brera district.
In September 2006 the second step taken in the Bulgari Hotels & Resorts project was the opening of an extraordinary resort in Bali (Indonesia) in the Jimbaran peninsula, located on a secluded plateau with cliffs plunging down into the sea. It is a location of incomparable beauty for a resort where traditional Balinese style is reinterpreted in a contemporary and elegant way by offering guests the most exclusive services and sophisticated attention.
The commitment of Bulgari for hospitality and an impeccable service is expressed also through the Restaurant, the Bar, the Cafè and the workshop for the handmade production and sale of fine chocolates located inside the two new stores inaugurated in 2007 in Tokyo in the Ginza and Omotesando areas, where the excellence of the Italian culinary tradition and carefully selected ingredients offer yet another way to experience the Bulgari world in a warm atmosphere with a refined design.
The Bulgari Hotels & Resorts project will be carried on with the scouting of new and exclusive locations in other capital cities and tourist destinations worldwide.

Bulgari Quality

A spirit of excellence permeates every Bulgari creation. Attention to detail and the pursuit of absolute quality, typical of all the Bulgari products, coexist with an innate desire to surpass oneself and respond with passion to the ever-changing requirements of the market. Every Bulgari product, whether it be a jewel, watch, perfume or accessory, is an object that has been checked in the most minute detail to ensure that it upholds the Bulgari tradition of quality and is perfectly faithful to the sensitivity and intentions of its creator.

Bulgari jewels are initially conceived with a design in water-colour or tempera. At this point the craftsman takes over using his skilled hands and experience to create an object with a particular softness, roundness and perfection. From the first drawing the idea is analysed and developed creatively, so as to assess the materials and colours best suited to its development and wearability, as well as its compatibility with Bulgari tradition and style.

With watches too Bulgari has succeeded in combining refined design with sophisticated mechanisms, produced and checked in accordance with the stringent and rigorous criteria of Swiss certification, a guarantee of high quality. All Bulgari watches are manufactured in the Neuchâtel workshops of Bulgari Time in Switzerland.

In order to guarantee the same level of quality for all Bulgari creations, perfumes are produced with the same care and attention to detail. For this reason, Bulgari has chosen to control directly each stage of the creation, production and distribution of its perfumes through Bulgari Parfums.

The strong relationship developed with Luxottica's product development team has resulted in the creation of an innovative and refined eyewear collection.

Customer service also receives significant attention as part of Bulgari's pursuit of absolute quality.

Personnel are trained under the Excellence programme which has been employed since 1990 to bring to every Bulgari store the standards of excellence which are a feature of the century long experience of the Via Condotti store in Rome.

Production Strategies

Bulgari's commitment to achieving the highest level of quality in all of its creations is put into practical terms through a production strategy aimed at obtaining complete control of the whole process, from the research and development stage to the finished product.

With this as its objective, in 2002 the Group acquired a first 50%stake of Crova, one of the leading producers in the jewellery segment, Bulgari's core business, subsequently taking its holding to 100% in 2004, thereby adding to its historic workshop situated in Rome where its high jewellery creations are born.

In the watch segment, the worldwide success of the *Bulgari Bulgari* model at the end of the 1970's created the desire to manage the design and production stages on a more complete basis and led to the founding of Bulgari Time in Switzerland in 1982. In the following years, what had by then become a significant effect on turnover convinced the Group to make an important investment in a vertical integration strategy to make high-end watchmaking the reference market for the brand in order to become one of the few watch manufacturers in the world, confirming that drive for excellence which has always been its distinguishing feature. In 2000 the Bulgari Group went on to acquire the two leading brands in the production of high-end Swiss watches, Daniel Roth e Gérald Genta and Manufacture de Haute Horlogerie SA, the owner of the related production plant. Vertical integration continued in 2005 with the purchase of the Swiss companies Cadrans Design, which produces dials for high-end watches, and Prestige D'Or, a leader in the production of steel and precious metal straps. Vertical integration in the watch segment took further strides in 2007 with the acquisition of 100% of the Swiss company Finger — specialised in the production of sophisticated cases for high-end and complicated watches — and the purchase of machineries and intellectual properties from another Swiss company, Leschot, which produces watch components. This determination to become a first class player on the world watchmaking scene led Bulgari to reach the important goal in 2006 of creating the first calibre fully conceived, produced and assembled internally by the Group.

Finally, the success of the more recent accessories business convinced the Group to make investments to enhance its collections thanks to a dedicated creative team and, in 2005, to increase its production capacity through the purchase of 100% of the Tuscan company Pacini, then renamed Bulgari Accessori, which produces precious leather and fabric handbags . This operation was further consolidated with the setting up of a leatherware manufacturing plant on the outskirts of Florence.

Distribution Strategies

The distribution of Bulgari products is based on ensuring the presence of stores in selected locations in the world's major cities in order to guarantee an ideal positioning.

All Bulgari stores are designed in a modern and highly distinctive style. Italian marble, prized timber and exhibition spaces are carefully designed to enhance the entire range of Bulgari collections, from jewels to watches and accessories, thus contributing towards a welcoming atmosphere.

The distribution of watches has followed a well-defined strategy. Care is taken to select franchisees who are capable of offering impeccable customer service.

The distribution network for Bulgari perfumes is also operated with the same criteria of quality and selectivity.

Bulgari fragrances are only available in the finest perfumeries and department stores in the world.

The Executive Committee

The Executive Committee of the Bulgari Group consists of seasoned professionals of the highest calibre, all of whom with experience in major international companies. Their acquired knowledge and strong personal motivation has made them into a closely knit and winning team, which sharing a common philosophy is able to carry forward Bulgari's mission effectively and successfully.

Francesco Trapani
Chief Executive Officer

Alessandro Bogliolo
Chief Operating Officer
Executive Vice President

Flavia Spena
Chief Financial & Organization Officer
Executive Vice President

Silvio Ursini
Bulgari Hotels & Resorts
Executive Vice President

Management and Control Bodies

Board of Directors

Chairman
Paolo Bulgari

Vice-Chairman
Nicola Bulgari

Chief Executive Officer
Francesco Trapani

Directors
Claudio Costamagna
Claudio Sposito
Giulio Figarolo di Gropello
Paolo Cuccia

Board of Statutory Auditors

Chairman
Eugenio Pinto

Statutory Auditors
Maurizio De Magistris
Gerardo Longobardi

Substitute Auditors
Tiziano Onesti
Mario Civetta

Independent Auditors

KPMG S.p.A.

Bulgari S.p.A. and Subsidiaries

Consolidated Financial Statements as at and for the year ended 31 December 2009

Bulgari S.p.A. and Subsidiaries

Report of the Directors on the Group's operations as at and for the year ended 31 December 2009

Bulgari S.p.A. and Subsidiaries

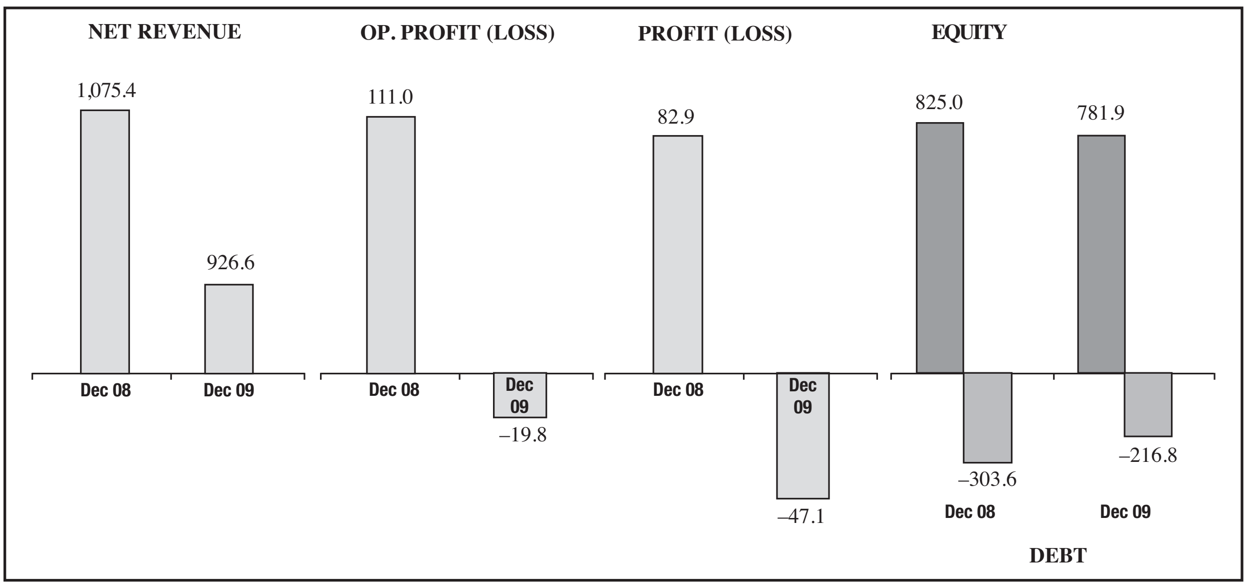
Report of the Directors on the Group's operations as at and for the year ended 31 December 2009

Shareholders,

After a significant slowdown in the second half of 2008, the world economy continued to be restrained in the first half of 2009 to a far greater extent than had been expected. In order to deal with the effects caused by what has been an exceptional macro-economic crisis, the Group began a major restructuring programme in 2009 which will bring the following structural benefits in the future: a lowering of the break-even between revenue and costs, a better balance in terms of selling and administrative expenses, an improvement in the supply chain and strict control over inventories.

Key statement of financial position and income statement indicators

(millions of Euros)



Major risks and uncertainties to which bulgari s.p.a. and the group are exposed

Risks relating to general economic conditions

The Group's financial position, results of operations and cash flows are all affected by the economic situation of the various countries in which it operates.

The year 2009 began with considerable uncertainties in the wake of the financial shock that had occurred in 2008, with the global recession turning out to be far more severe than had been anticipated and having a harsh effect on the leading exporting countries especially in the first quarter of the year. There is no comparison over the last fifty years for the contraction in trade that occurred and export volumes fell by double digit figures.

There was additionally a sharp fall in production levels, amplified by reductions in stocks of manufacturing inputs and finished goods. This initially caused an overestimation of demand and subsequently pessimism about the time that would be needed for the recovery, with the consequent downsizing of investment plans.
Despite still remaining at recessionary levels, business confidence and economic indices such as the PMI (Purchasing Managers Index) generally began to show a widesperad and considerable improvement from the second quarter of 2009. This pick-up occurred initially and more quickly in Asia and the United States, but then went on to affect the eurozone. In the meantime, however, trends in industrial production remained negative in both Europe and the United States.

In the third quarter of the year the severe recessionary phase that had hit the advanced economies finally came to a halt thanks to the tangible support of particularly expansionary monetary policies, implemented by increasing the basic monetary supply, reducing official interest rates (the U.S. Federal Reserve lowered its target on Fed Funds to a range between 0.00% and 0.25%, the European Central Bank (ECB) took its Refinancing Rate to 1.00%, the Bank of Japan to 0.10% and the Bank of England to 0.5%) and introducing fiscal stimulus packages.

In particular the GDP of a number of countries has begun rising again and in the United States increased during the third quarter of the year over the previous quarter by 2.2% on an annualised basis, compared to a fall of 0.7% in the previous quarter. This rise was primarily supported by private consumption, by a favourable change in stock levels and to a lesser extent by public spending. In general, the implementation of the fiscal stimulus measure known as the ARRA (American Recovery and Reinvestment Act), approved in February, helped this improvement. The macro-economic forecasts drawn up by "Consensus Economics" are predicting that American GDP will contract by around 2.5% in 2009 and rise by 2.7% in 2010. Inflation has gone back to rising again, with estimates indicating that the fall of 0.4% in 2009 will become an increase of 2.1% in 2010. At its latest meetings the U.S. Federal Reserve has continued to take an expansionary approach to monetary policy, although in February 2010 it made a technical adjustment by raising the discount rate by 25 basis points.

Also in the third quarter of the year the Eurozone's GDP rose by 0.4% over the previous period after five consecutive drops; this increase is principally due to an increase in exports and changes in stock levels, while internal demand has remained weak following a stagnation in household consumption. The rise in GDP continued into the fourth quarter of the year while business confidence picked up, although uncertainty remains over the weakness of internal demand caused by a deterioration in the labour market.
Forecasts estimate that GDP in the eurozone will end up falling by approximately 3.9% in 2009 and will rise by 1.3% in 2010. Inflation was 0.3% in 2009 and is expected to reach around 1.2% in 2010.
At its meeting in December 2009 the ECB left key interest rates unchanged at 1% and took a series of decisions aimed at gradually removing refinancing operations of an exceptional nature, assuring however that the liquidity required by the banking system would be provided: during the first part of 2010 the situation in the Greek public accounts was a reason for the eurozone and indeed the EU as a whole to become concerned, with the risk that other monetary union countries might be infected.

GDP increased in the third quarter of 2009 in Japan too, by 1.3% on an annual basis. Forecasts envisage Japan's GDP contracting by 5.3% in 2009 and increasing by 1.5% in 2010. The improvement in the third quarter arises mainly from private consumption and from an increase in exports to the emerging countries in Asia, while private investment continued to fall. Deflationary trends continued and, according to estimates, prices will continue falling in 2010.

As the months pass it has become clear that the centre of gravity of world growth is shifting towards the Asian area of the Pacific. International trade flows have picked up again due to the increase in demand coming from the emerging countries in Asia and a further expansion in their economic activities may provide an effective contribution to the recovery in the industrialised countries.

GDP in China will probably end up increasing by 8.5% in 2009, a level of growth expected to rise to 9.6% in 2010 thanks to private consumption and investments that continue rising at sustained rates. In a similar manner GDP in South Korea, Hong Kong and Taiwan is forecast to grow in 2010 by 5.1%, 4.6% and 4.2% respectively; the recovery already began in these countries in 2009.

In the financial markets the support given to the economy by the central banks by maintaining expansionary monetary policies has bolstered the stock market which reversed its trend in March 2009. After three months of drops stock prices began rising again, supported by low interest rates, company results that have often been above expectations, a high level of liquidity and a substantial lack of alternative investments.
Amongst the markets worthy of mention are Hong Kong and Shanghai, whose performances exceeded 50%. The major indicators in the United States rose by between 18% and roughly 40%. For their part, European markets recorded gains exceeding 15% while the Japanese Nikkei rose by approximately 19%.

In addition, the significant reduction in risk premiums on corporate bonds in all of the major countries should be highlighted.

The improvement in the capital situation of leading international banks continued and from the third quarter results that were better than expectations have been reported.

Risks relating to fluctuations in exchange rates, interest rates and raw materials prices

As it operates in various markets at a world level Bvlgari is naturally affected by fluctuations in the exchange rates of individual countries. In addition, a significant part of product cost is denominated in euros and Swiss francs; the trend in these currencies compared to the broader basket in which turnover is expressed can affect the Group's earnings. Certain of the Group's subsidiaries are situated in countries which are not members of the European monetary union, of which the United States, Switzerland, Japan, China, Hong Kong, Singapore and Korea are the most important. Since the consolidated financial statements are presented in euros, the income statements of the companies located in these countries are translated into euros at a weighted average rate and hence with unchanged revenues and contribution margins in local currency, fluctuations in exchange rates can lead to effects on the converted amount in euros of costs, revenue and results, as well as on assets and liabilities.

Fluctuations in interest rates can affect net earnings by leading to increased debt interest costs. Group procedures require the balance between fixed and floating interest rates to be structured in an efficient manner with respect to funding requirements, average funding terms and the applicable market (country and currency), in order to obtain both a lower current interest cost and a minimisation of potential adverse changes in that cost, proportional to the volatility of the interest rate market. In this respect Bulgari S.p.A. issued five-year fixed rate convertible bonds of 150 million euros in July 2009, of which 70 million euros has been converted to floating rate. As a consequence the Group's debt was made up of 58% floating rate and 42% fixed rate at the end of 2009.

The Group is exposed to the risk of changes in the price of gold and platinum as far as the production of jewels and watches is concerned.
The price of gold continued to rise in 2009 for the ninth consecutive year; on 2 January 2009 gold was quoted at a price of US$869.75 per ounce on the A.M. fixing in London, while on 3 December 2009 it reached a peak of US$1,218.25 per ounce, closing the year at US$1,104 per ounce. This appreciation in the gold price is first and foremost the consequence of the weakness of the dollar and the fear of inflation, after unanimous measures taken by central banks throughout the world to give breathing space to national economies by providing liquidity to the various banks. The price of platinum also rose gradually, starting the year at a price of US$930 per ounce (source: Bloomberg) to reach US$1,470 per ounce by the end of December.

For these reasons and due to the fact that interest rates are expected to remain low, the expectations are of a further rise in the price of gold in 2010.

To mitigate these risks Bvlgari has introduced a centralised hedge management procedure to minimise the volatility of margins and protect them as far as business objectives are concerned.

Liquidity risk

The factors affecting the Group's funding requirements are on the one hand the funds arising from or used in operating and investing activities and on the other the maturity and renewal characteristics of debt or the liquidity characteristics of financial investments, together with the conditions and availability on the credit market. Liquidity risk can arise when it is impossible or difficult for the Group to obtain the funds required to perform its activities in a normal manner of sustainable conditions.
Currently available funds, together with those that will be generated by operations, will permit the Group to satisfy the requirements arising from investing activities, working capital management and the repayment of debt at its natural due date. The Group's non-current financial liabilities amounted to 211.3 million euros at 31 December 2009 and had a weighted average maturity of over 4 years 5 months at that date; this is mainly due to the issue of the convertible bond. In order to deal with any unexpected and adverse conditions on the credit market, the Group additionally has credit facilities available amounting to a total of 105.4 million euros and having a weighted average residual term of 2.5 years, with defined and committed cost parameters until expiry.

Credit risk

A deterioration in market conditions, difficulties in obtaining access to credit and a shortage of liquidity in the various countries in which the Group operates can have an effect on the solvency of its customers and, as a consequence, on the Group's results. The Group's policy is to assess positions by assigning ratings and risk indicators using professional scoring tools.

Supplier risk

The concentration on just a few players in the watch component production market can lead to delayed deliveries, which may adversely affect production and lead to the risk of losing turnover.

Risks connected with local laws and regulations

A considerable proportion of the Group's activities is carried out outside the European Union. This lies Bvlgari open to the risk that foreign countries may introduce restrictions on imports and exports, foreign investments and capital repatriation, as well as the risk arising from the fact that the Group is exposed to a wide variety of different tax regimes, in particular in terns of transfer pricing and the application of withholding tax or other taxes on remittances to or from subsidiaries.

Social responsibility

Bulgari's activities are based on the highest ethical levels, meaning respect for human rights, universal civil liberties and the fundamental liberties of man, in addition to local customs and practices.
In addition, the Group offers equal job opportunities, with no distinction between race, colour, religion, gender, nationality, age, disability, sexual orientation or any other condition for diversity.

Bulgari promotes secure working conditions, training for its employees and a collaborative and informed working environment. In addition, the Group encourages responsible behaviour towards the protection of the environment by means of practical measures.

These principles are also reflected in Bulgari's code of conduct regarding the procurement of precious stones, which is supported by its membership of the Council for Responsible Jewellery Practices since 2004.

The Bulgari's strategy for the community is mainly reflected in the Group's commitment to promoting youth education throughout the world by means of its support of the World Scout Organization and other global and local associations having the same objective.

On the 125th anniversary of the founding of the Bulgari Group in 2009 a campaign entitled "Rewrite the future" was carried out in collaboration with Save the Children. As a symbol of the campaign and of Bulgari's involvement a silver ring bearing the Save the Children logo was created for the occasion as a tribute to Sotirio Bulgari, the silversmith founder of the business. A portion of the proceeds was given to charity together with certain pieces of high jewellery and top of the range watches that were auctioned on 8 December in New York. The retrospective "Between Eternity and History" held from May to September in the *Palazzo delle Esposizioni* in Rome which was also linked to the 125th anniversary celebrations similarly had a positive effect on the Group's image.

Human resources

The Group has 3,955 employees worldwide, located as follows: 28% in Italy, 26% in the rest of Europe, 14% in Japan, 16% in the rest of Asia and 16% in the Americas.

Sixty-five per cent of employees are female while 35% are male. Their average age is 38.
From a professional standpoint, 21% of the employees are managers and top professionals and of these 57% are women.

Employees represent 55 different nationalities throughout the world, with English being the official language in the Bulgari Group.

Development

The Group places considerable emphasis on personal and professional growth and on motivating its employees. Individual development is guided by a career management system: the Bulgari "Career Management Framework" (CMF). This system provides all employees with a clear reference map as to their position and possible career prospects. Bulgari rewards talent and individual motivation by offering career opportunities at a national and international level.
The Development and Management System for Bulgari personnel comprises procedures and tools that enable an employee:

- to get to know and support the improvement of individual skills and professionalism required by the Group to tackle future challenges;
- to create development plans and actions tailored to improve performance;
- to direct his or her individual growth and career path;
- to monitor individual motivation and the business climate.

Training

Training is one of the tools used by Bulgari to support its personnel in achieving excellence, and for this reason the Group supports the development of its employees throughout the world by means of training activities consistent with a person's position and individual needs.
The corporate training department designs and organises business training programmes that are provided throughout the world with the aim of:

- introducing new employees to the Group's culture, history and products within a framework based on corporate values and customer orientation, facilitating their professional induction by introducing them immediately to the key persons for the work they will be performing;
- constantly developing in the sales force the acquisition of the knowledge and techniques connected with the selling of products;
- assisting managers to develop the skills required to lead successful teams.

The Group's programme also includes taking part in refresher courses, language training, courses aimed at developing personal skills such as assertiveness, negotiation and interpersonal communication and seminars and conferences.
Specific emphasis is placed on the various training requirements that may arise at a local level.
In this respect, Bulgari works closely with the best training centres to be found in the various geographical areas.

Recruitment

Becoming part of the Bulgari team means joining an international entity geared towards excellence and quality and growing in a dynamic and merits-based system which rewards the individual's contribution to the Group's success.
In order to broaden our ability to attract people who share our values and our culture, the *Careers* site was created in 2008 as part of the Bulgari.com website.
This tool has been developed with a multi-cultural and multi-language perspective and is capable of being adapted to our recruiting process and our selection tools.
There are two main objectives to this new e-recruiting system:

- to communicate *Bulgari Employer Branding* by promoting values and the philosophy underlying our approach to human resources;
- to support the *recruiting WW* process by reducing the time required for this and improving its quality.

The recruitment process is then structured into individual or group assessments designed to assess candidates in terms of their abilities, skills, values and drive.
The recruitment tools used, therefore, aim at ensuring equal assessment and identifying the best candidates.
Further details may be found on the website **http://careers.bulgari.com**

BULGARI VALUES

Drive for success

We believe that by challenging our competition every day, on every product, in every store and on every activity, we will become the market leader.

Value creation

We believe that we will continue to achieve our sustainable growth by focusing our efforts, competencies and entrepreneurial spirit on value creating activities.

Power of brands

We believe that the power of our brands is the foundation for future successes. All of our activities should reflect and nurture the corresponding style.

Excellence

We believe in the importance of achieving excellence in the outstanding quality of our products and services to internal and external customers through the professionalism of our organisation.

People contribution

We believe that everyone can contribute to the achievement of the company's mission through personal involvement, personal responsibility and personal commitment.

Integrity and consistency

We believe that integrity, clarity and consistency in all of our decisions, actions and communication, regardless of internal and external pressures, build an environment where everyone is committed to the achievement of the company's mission.

Engaging environment

We believe that mutual respect, trust, professional growth, team spirit and a lively environment are the building blocks of our company culture.

Analysis of the group's results

Net revenue

The persistent economic crisis which since the end of 2008 has been affecting the various countries in which the Group operates led to a fall in sales in all product categories in 2009. Consolidated net revenue totalled 926.6 million euros compared to 1,075.4 million euros for the previous year. It is worthwhile noting that the sales made by owned stores performed decisively better than third party channels and rose as a whole by 3.3% at current exchange rates compared to the same period for the previous year. It is additionally important to highlight that a progressive improvement took place as the year proceeded, with revenue closing at 297.0 million euros in the fourth quarter, representing a decrease of 2.7% at comparable exchange rates over the same period in 2008 (–5.1% at current exchange rates) and a rise of 11% at current exchange rates for owned stores.

Revenue by product type

TABLE 1: The following table sets out revenue for 2009 and 2008, the percentage of total revenue by product type and the increase over the previous year at current and comparable exchange rates.

(millions of Euros)

	Total 2009				Totale 2008			
	Absolute amount	%	Change %		Absolute amount	%	Change %	
			Curr. exch. rates	Comp. exch. rates			Curr. exch. rates	Comp. exch. rates
Jewellery	402.4	43%	–10	–14	448.3	42%	–2	–1
Watches	212.2	23%	–20	–25	263.7	24%	–11	–11
Perfumes and cosmetics	219.1	24%	–12	–15	248.9	23%	+12	+14
Accessories	66.2	7%	–20	–27	82.9	8%	–1	–4
Hotel and catering activities	14.7	2%	–15	–	17.4	2%	+29	–
Royalties and other	12.0	1%	–16	–	14.2	1%	–17	–
Total net revenue	**926.6**	**100%**	**–14**	**–18**	**1,075.4**	**100%**	**–1**	**–1**

As a consequence of performance in the first three quarters of the year, revenue of the jewellery segment for the whole year fell by 14.4% at comparable exchange rates (–10.3% at current exchange rates) to close at 402.4 million euros. There was a reduction in the contraction in turnover as the year progressed leading to a turnaround in the trend in the last quarter (+1.6% at comparable exchange rates, +0.3% at current exchange rates).

The reduction of stocks in the third party channel during the year severely penalised the performance of all sales categories but had its most significant effect on watches. Despite the outstanding welcome given to the *Sotirio* and the excellent way in which the *Assioma* held up, the watches category suffered a fall in sales (–24.5% at comparable exchange rates, –19.5% at current exchange rates). There was a substantial quarter on quarter improvement as the year progressed in this category too, with a total reduction in the last quarter of 4.5% at current exchange rates (–1.0% at comparable exchange rates) and a rise of 20.2% at comparable exchange rates in owned stores.

Accessories fell by 27.2% at comparable exchange rates and 20.1% at current exchange rates. This result may be attributed to a negative performance in the third party channel, in particular in Japan. The good performance of sales made through the increasingly widespread network of dedicated stores (+1.9% at comparable exchange rates) and of bags in general continued however, as confirmation of the wisdom of the investment strategy being pursued by the Group in this product category. There was a fall of 15.4% at comparable exchange rates in the fourth quarter and of 18.3% at current exchange rates compared to the same period of the previous year.

The Perfumes and Cosmetics Division similarly suffered the effect of measures taken to reduce stocks in the third party channels (–14.9% at comparable exchange rates, –12.0% at current exchange rates); the division's performance was also affected by the particularly high starting level set last year (+14.1% at comparable exchange rates in 2008). There was a fall of 11.0% at current exchange rates in the fourth quarter and of 8.4% at comparable exchange rates.

The Hotel&Resorts Division contributed turnover of 14.7 million euros, a fall of 15.2% over 2008.

The operating profitability of the various sectors may be found in the notes to the financial statements.

Revenue by geographical segment

TABLE 2: The following table provides an analysis of revenue for 2009 and 2008 by geographical segment on the basis of outlet market, the respective percentages of total revenue and the change over the previous year at current and comparable exchange rates. (millions of Euros)

	Total 2009				Totale 2008			
	Absolute amount	%	Change %		Absolute amount	%	Change %	
			Curr. exch. rates	Comp. exch. rates			Curr. exch. rates	Comp. exch. rates
Europe	351.5	38%	–17	–	421.7	39%	–1	–
of which:								
– *Italy*	*108.9*	12%	–13	–	125.6	12%	–11	–
Americas	112.2	12%	–27	–32	154.4	14%	–12	–7
Asia	391.9	42%	–10	–19	436.0	41%	+2	–1
of which:								
– *Japan*	*176.3*	19%	–23	–34	229.2	22%	–1	–8
– *rest of Asia*	*215.6*	23%	+4	–0	206.8	19%	+5	+8
Middle East	47.6	5%	+3	–	46.1	4%	+14	–
Other	23.4	3%	+36	–	17.2	2%	–2	–
Total net revenues	**926.6**	**100%**	**–14**	**–18**	**1,075.4**	**100%**	**–1**	**–1**

Revenue in Europe fell by 16.7%, with Italy performing slightly better (–13.3%) and a reversal of the trend being seen in the last quarter (+0.7%).
There was a drop of 31.6% in the United States with a gradual improvement taking place as the year progressed.
Asia's figures fell over the year as a whole due to the negative performance of Japan (–33.9%) compared to a stable trend in the rest of Asia (–0.1%). It should be noted that the result for the year for the rest of Asia was influenced by the fall in the first two quarters, while a significant pick-up took place in the second half of the year with double digit growth and a decisively positive performance being achieved in the owned stores in certain strategic markets such as China (+27.7%) and South Korea (+32.2%). Growth of 12.2% at current exchange rates was achieved in the Middle East/Other area, with Australia making an important contribution.
Only America and Japan suffered falls in the fourth quarter of 2009, of 12.5% and 25.6% respectively, compared to the same period of 2008, while the other areas grew: Europe by 0.7%, the rest of Asia by 27.2% and the Middle East/Other by 1.7%.

Operating profit

TABLE 3: The income statement set out below differs from the official income statement included in the consolidated financial statements for the year ended 31 December 2009 for the following reasons: all items exclude restructuring costs and other income/expense relating to the restructuring process; cost components of operating profit are provided in detail; and "Other non-operating income (expense)" is presented in a summarised manner as the net balance of financial income and expense of various natures reported separately in the notes to the financial statements, to which reference should be made. (millions of Euros)

Consolidated income statement	YEAR ENDED 31 DECEMBER	
	2009	2008
Net revenue	**926.6**	**1.075.4**
Net contribution margin	**565.7** **61.1%**	**681.1** **63.3%**
Variable selling expenses	(41.9)	(47.8)
Personnel expense	(182.6)	(189.9)
Other income and expense	(163.2)	(167.5)
Advertising and promotion expenses	(95.6)	(111.0)
Depreciation, amortisation and impairment losses	(65.3)	(53.9)
Total operating expense (exc. restructuring costs and other related costs)	**(548.6)**	**(570.1)**
operating profit (exc. restructuring costs and other related costs)	**17.1**	**111.0**
Restructuring costs and other related costs	(36.9)	0.0
Operating profit (loss)	**(19.8)**	**111.0**
Other non-operating income (expense)	(27.5)	(21.3)
Profit (loss) before taxation and non controlling interests	**(47.3)**	**89.7**
Current and deferred taxation	0.3	(7.4)
Profit (loss) before non controlling interests	**(47.0)** **–5.1%**	**82.3** **7.7%**
Profit (loss) attributable to non controlling interests	(0.1)	0.6
Profit (loss) attributable to the owners of the Parent	**(47.1)** **–5.1%**	**82.9** **7.7%**

The Contribution margin fell from 681.1 million euros to 565.7 million euros, a decrease of approximately 2 percentage points (61.1% compared to 63.3% in 2008). For a better presentation certain product selling material costs amounting to approximately 9 million euros have been reclassified from advertising and promotion expenses, where they were reported last year, to cost of sales. For consistency this item, amounting to approximately 10 million euros in 2008, has also been reclassified in the comparative figures for that year. These expenses represent approximately 1% of turnover and there are no substantial differences in the two years reported.

The decrease in the margin is due to a variety of reasons. A first factor consists of the different effects caused by the effect of changes in the exchange rate on turnover and product cost; it should be emphasised that a significant part of product costs is denominated in euros and swiss francs compared to the broader basket of currencies in which turnover is denominated. A second factor that caused the contraction in the margin is represented by the rise in the price of gold, which continued into 2009 and was only partially offset by the Group's hedging transactions. In addition, the Group took strategic steps to dispose of products no longer forming part of its future production plans. Further, changes made to inventory obsolescence risk assessments were of a greater weight than those of 2008. Despite the fact that sales made by the owned stores performed decisively better than the third party channel, the adverse effects caused by the above elements were only offset to a small extent by the favourable channel effect. A fall also occurred in the fourth quarter in both absolute terms (172.4 million euros compared to 190.1 million euros) and in percentage terms (58.0% compared to 60.8%) with respect to the same period in 2008. This performance was mainly due to a different product mix in addition to the reasons already mentioned.

Total operating expenses before costs relating to the restructuring and excluding advertising and promotion expenses fell by 1.3% (–5.0% at comparable exchange rates) from 459.1 million euros in 2008 to 452.9 million euros in 2009. It should be emphasised that a reduction in costs compared to the previous year has been achieved despite the existence of a series of costs that are hard to reduce for a Group that continues to invest in its distribution network and the prestige of its brand, such as rentals (+10.8%) and depreciation and amortisation (+21%). In fact if these two items are excluded, the fall in costs was far greater, rising to 8.1% (11.4% at comparable exchange rates). This result is due to the attentive cost containment policy initiated by the Group last year which has seen its effects increase during 2009.
Total operating expenses in the fourth quarter of 2009 before costs relating to the restructuring and excluding advertising and promotion expenses fell from 128.3 million euros to 119.9 million euros (–6.6% at current exchange rates, –5.1% at comparable exchange rates), therefore representing a further significant slowdown after that already occurring in the third quarter of 2009. It should additionally be emphasised that if rentals and depreciation and amortisation are excluded, the decrease actually rises to 13.0% (11.9% at comparable exchange rates).
Advertising and promotion expenses to support the BVLGARI brand closed at 95.6 million euros in 2009, representing 10.3% of net sales, a figure which is constant if compared to 2008. These costs totalled 29.0 million euros in the fourth quarter, representing 9.8% of net sales, again constant compared to 2008.
Costs of approximately 37 million euros were incurred in 2009 in connection with the current restructuring process, of which approximately 7 million euros related to employee leaving incentives and 2 million euros to expenses connected with the closure of certain stores (in particular the write-down of the net carrying amounts of tangible and intangible fixed assets and penalties payable for early termination of rental contracts net of the key money received in the case of certain stores). The balance relates to the strategic restructuring of the watch business and consists mainly of write-downs of assets and inventories and provisions made against probable cancellations of purchase orders.
As a result of changes in a scenario which has seen a drastic contraction in sales, operating profit amounted to 17.1 million euros despite the cost containment measures, a significant decrease compared to the figure of 111.0 million euros for 2008.

Result for the year

There was a loss of 47.1 million euros in 2009 compared to a profit of 82.9 million euros in 2008. The result was significantly affected by the fall in operating profit and, with a doubled effect compared to 2008, by the costs incurred on the currency hedging transactions entered into by the Group, as well as by the financial expense arising on the restructuring of the Group's debt.

Consolidated cash flow statement

TABLE 4: The following table sets out the consolidated cash flow statement in a summarised format. The complete statement may be found in the financial statement schedules further below.

(Thousands of euros)

	2009	2008
Net indebtednes at the beginning of the year	**(303,558)**	**(140,931)**
Cash flows from operating activities	56,760	170,032
Cash flows from changes in net working capital	107,635	(176,638)
Cash flows used in investing activities and other assets and liabilities	(81,614)	(119,678)
Total changes in shareholders' equity	3,973	(36,343)
Net indebtednes at the end of the year	**(216,804)**	**(303,558)**

The Group's financial position benefited from an attentive policy of stock containment and a selective investment strategy, and, to a lesser extent, from the contribution made by operating activities. Cash used in

investing activities relates primarily to continuing investments in property, plant and equipment and intangible fixed assets which reached a total of 72.3 million euros during the year, a decrease of 12.1% over 2008.
Investments of 55.1 million euros were made in property, plant and equipment in 2009, relating amongst other things to work to a certain degree still in progress for the opening or refurbishment of stores and the purchase of window displays to be used in the third party distribution network for the presentation of BVLGARI products.
Regarding the owned stores channel, mention should be made of Busan, Ulsan and a store in Seoul in Korea, a country where excellent results are being achieved despite the crisis. In China, another country where growth is taking place, two stores have been opened, in Suzhou and Shenzen. Selected other openings regard Taipei Bellavita in Taiwan; an additional store in Macao; and four stores in America, in Dallas, Las Vegas, Scottsdale and San Francisco. Marina Bay in Singapore should be mentioned among the investments still in progress, together with the refurbishment of two stores in Shanghai in China. The Group had a total of 273 stores at 31 December 2009 (+10 compared to 31 December 2008), of which 166 were owned (+2 compared to the previous year end).
Investments in property, plant and equipment include investments in hardware made in particular by the parent and in buildings and plant for production made by the Group's manufacturing companies.
There has been an increase of 17.2 million euros in intangible assets, representing a decrease of 8.9% over the previous year. These relate mainly to the expenditure incurred principally by the parent Bulgari S.p.A. and certain manufacturing companies for the acquisition of application software licences to manage the Group's various activities. In addition, certain more minor investments were made to develop watch prototypes and new fragrances that are to be put onto the market and to carry out skin tests for perfumes and cosmetics.

Reference should be made to the section providing details of key events at a Group level in 2009 for information regarding investments made to set up new companies or purchase companies from third parties

The Group's financial position was also affected by the distribution of a dividend of 30.1 million euros in May 2009.

Financial position

TABLE 5: The table below presents the statement of financial position reclassified into a format highlighting the Group's invested capital and how this is funded by equity and debt. This enables the figures to be read from an operational point of view, facilitating an analysis of the efficiency of the investments and, together with figures in the income statement, the calculation of ratios such as R.O.I. and R.O.E that show the return on investment.
Compared to the official format used in the financial statements for the year ended 31 December 2009, which uses a more traditional presentation by separating net assets, liabilities and equity, all the non-financial liability items in the format below are classified as a reduction in invested capital, while cash and cash equivalents are classified in "coverage" as a reduction in debt.

(millions of Euros)

	31 Dec 2009	31 Dec 2008
Net trade receivables	148.4	181.9
Trade payables	(145.3)	(165.1)
Inventories	615.5	727.9
Other receivables (payables)	(1.2)	(1.1)
Total working capital, net	**617.4**	**743.6**
Property, plant and equipment and intangible assets	**331.8**	**331.3**
Investments and other financial assets	**48.6**	**50.4**
Other non-current assets (liabilities)	**0.9**	**3.3**
NET INVESTED CAPITAL	**998.7**	**1.128.6**
Equity	**781.9**	**825.0**
Net Indebtedness	**216.8**	**303.6**
Equity and Net Indebtedness	**998.7**	**1.128.6**
Gearing	27.7%	36.8%

Net debt amounted to 216.8 million euros at the end of 2009 compared to 303.6 million euros at 31 December 2008. Short-term debt includes both the utilisation of uncommitted credit facilities and the short-term utilisation of committed credit facilities. In order to strengthen the Group's debt structure further the issue of indexed bonds of 150 million euros was completed in July 2009. The bonds were fully placed with institutional investors and listed on the Luxembourg stock exchange. The excellent results achieved by the Group in debt levels in the second half of 2009 led to the termination of an agreement entered into May with a syndicate of six prime banks under which a credit line of 180 million euros had been granted for a three-year period, of which only 60 million euros had been utilised. The facility was not required and exceeded operational needs.

In addition to the containment of investments, the reduction in debt compared to the position at the end of 2008 is also due to the significant reduction in inventories of 112.4 million euros, of which 8 million euros results from exchange differences. There has been an improvement in stock rotation despite a considerable fall in sales, an increase in display space in stores and a general upwards enrichment and repositioning of the products on offer in all categories. Despite the difficulties suffered by the market, the Group has therefore succeeded in reducing its stock levels over 2008 by taking measures designed to control these levels but also to enrich the range on offer as a means of ensuring complete market penetration. The Group's financial position, affected also by the distribution of a dividend of 30.1 million euros in May 2009, has therefore benefited favourably from the policy to contain working capital and from its selective investment strategy.

The gearing ratio between net debt and equity including non-controlling interests accordingly fell considerably, from 36.8% at 31 December 2008 to 27.7% at 31 December 2009.
In comparison with the consolidated financial statements for the year ended 31 December 2008, a balance of approximately 2 million euros representing museum pieces consisting of unique watch pieces bearing the Daniel Roth & Gerald Genta name has been reclassified from "Inventories" to "Property, plant and equipment" due to a change in use, in order to achieve a better presentation.

Key events at a Group level in 2009

On 5 March 2009 Bulgari International Corporation (BIC) N.V. acquired the remaining 50% of the share capital of Cadrans Design S.A.. A price of CHF 6,000 thousand (4,100 thousand euros) was paid in cash for this investment compared to the equity acquired of CHF 1,185 thousand (797 thousand euros), corresponding to total assets of CHF 3,624 thousand (2,441 thousand euros) and total liabilities of CHF 2,439 thousand (1,644 thousand euros). This transaction generated goodwill of 3,359 thousand euros relating to future economic benefits that cannot be separately identified.
The acquired company is now consolidated on a line-by-line basis; previously it was recognised by means of proportionate consolidation.

On 10 June 2009, an agreement was signed for the issue of indexed bonds amounting to 150 million euros, maturing on 8 July 2014 and bearing six-monthly interest of 5.375%.
As a consequence, on 16 June 2009, the board of directors of Bulgari S.p.A. resolved to submit a proposal to shareholders for an increase in share capital by payment in cash, excluding pre-emption rights pursuant to paragraph 5 of article 2441 of the Italian civil code, for an amount of 150 million euros, to be used by the Parent as needed to satisfy any requests for the redemption of a portion of the indexed bond in shares.
On 21 July 2009, the extraordinary shareholders' meeting of Bulgari S.p.A. adopted a resolution allowing the board of directors to satisfy any requests for early redemption of a portion of the indexed bonds by means of newly issued ordinary shares and/or treasury shares of the Parent and approving an increase in share capital, excluding pre-emption rights pursuant to paragraph 5 of article 2441 of the Italian civil code, for a maximum equivalent of 150 million euros, to be used exclusively to service the bond issue.

On 1 July 2009, Bulgari Japan Ltd. was merged into Bulgari Hotels & Resorts Japan Ltd.. Following the merger, the latter company changed its name to Bulgari Japan Ltd.. This merger forms part of the reorganisation that began in 2009 (and which will continue in 2010 as discussed in the paragraph "Subsequent events" below) whose main aim is to achieve a general reduction and rationalisation of operating expenses.

Following resolutions adopted by the board and shareholders, on 3 March 2009 the board of directors of Bulgari Retail USA S.r.l. notified Bulgari Corporation of America Inc. of its decision to withdraw from the business unit lease agreement. As a consequence of this, the retailing of jewellery, watches and accessories with the BVLGARI brand in the United States has been managed by Bulgari Corporation of America Inc. since 1 May 2009.

In November 2009, the procedure began to wind up Bulgari Portugal Acessorios de Luxo Lda; this is expected to be completed by the end of 2010.

Again in November 2009, the shareholders of Bulgari Holding Europe B.V. approved the proposal of the board of directors to merge Bulgari Parfums Deutschland GmbH into Bulgari (Deutschland) GmbH and to merge Bulgari Parfums Iberia SL into Bulgari Espana S.A. Unipersonal by the end of the first half of 2010.
These mergers are designed to achieve cost reductions by increasing the efficiency of the various activities by reducing decision-making levels and rationalising business support structures.

In the case of Bulgari Parfums Deutschland GmbH and Bulgari (Deutschland) GmbH this merger, which will be effective for accounting and fiscal purposes from 1 January 2010, was approved by the respective internal bodies on 14 December 2009 and registered with the Berlin Chamber of Commerce on 26 February 2010.

On the 125th anniversary in 2009 of the Bulgari Group, a campaign entitled "Rewrite the future" was carried out in collaboration with the Save the Children. As a symbol of the campaign and Bulgari's involvement a silver ring was created for the occasion as a tribute to Sotirio Bulgari, the silversmith founder of the business, bearing the Save the Children logo. A portion of the proceeds was given to charity together with certain pieces of high jewellery and top of the range watches that were auctioned on 8 December in New York. The retrospective exhibition "Between Eternity and History" held from May to September in the *Palazzo delle Esposizioni* in Rome, which was also linked to the 125th anniversary celebrations, similarly had a positive effect on the Group's image.

Reconciliation between the equity of the parent and consolidated equity

As required by Consob Communication no. 6064293 of 28 July 2008, the following table provides a reconciliation between the profit (loss) for the year and equity of the Parent Bulgari S.p.A. and the corresponding consolidated figures.

(thousands of Euros)

	Equity 31 Dec. 2008	Change in equity	Profit (loss) for the year	Equity 31 Dec. 2009
Separate financial statements of Bulgari S.p.A.	**191.630**	**(11.677)**	**17.711**	**197.664**
Effect of consolidating investments:				
– difference between carrying amount and share of equity	824.781	(377.333)	291.214	738.662
Elimination of intragroup dividends	–	385.735	(385.735)	–
Elimination of intragroup profit in inventories	(207.955)	7.481	30.710	(169.764)
Tax effect	15.585	(352)	(995)	14.238
Group consolidated interest	**824.041**	**3.854**	**(47.095)**	**780.800**
Non-controlling interests	943	(25)	144	1.062
Consolidated financial statements	**824.984**	**3.829**	**(46.951)**	**781.862**

Report on corporate governance and ownership structure

Reference should be made to the annual report on corporate governance published on the Group's website http://ir.bulgari.com/ for the information relating to corporate governance and the ownership structure required pursuant to paragraph 3 of article 123-bis of the Consolidated Finance Law.

Related party transactions

As required by Consob communication DEM/6064293 of 28 July 2007, details of transactions of a commercial and financial nature carried out between Bulgari S.p.A. and the other group companies and their effects are provided in the notes to the consolidated financial statements.

Research and development

The Bulgari Group carries out research and development activities to design, create and develop new products for all of its product lines, namely jewellery, watches, accessories, perfumes and cosmetics.
Research and development expenditure in 2009 amounted to 2.1 million euros and was incurred by Bulgari Parfums S.A., Bulgari Global Operations S.A., Bulgari Manifattura S.p.A. and Bulgari Accessori S.r.l.; all of this amount was recognised as an expense.

Other information

The information required about the stock option plans reserved for specific employee categories and the chief executive officer in order to satisfy the requirements of Consob recommendation no. 11508 of 15 February 2000 is provided in a specific note to which reference should be made.

Detailed information regarding treasury shares, investments held in Bulgari S.p.A. by members of the managing and controlling bodies, financial instruments and policies for the hedging of risks may be found in the notes to the consolidated financial statements and to the separate financial statements of Bulgari S.p.A..

Subsequent events

The reorganisation and rationalisation programme set up by Bulgari S.p.A. and its sub-holding companies Bulgari Holding Europe S.A. and Bulgari International Corporation (BIC) N.V. continued into the first quarter of 2010. The aim of this programme, which is being carried out though a series of mergers, is to achieve cost reductions by increasing the efficiency of the various activities of the Group by means of a reduction in decisional levels and rationalising business support structures.
In this respect, the following information is provided relating to the companies where the management bodies have formally begun the merger process:

- On 19 February 2010, the extraordinary shareholders' meetings of Bulgari Parfums Italia S.p.A. and Bulgari Italia S.p.A. adopted resolutions on the proposals of the respective boards of directors, for the approval of the proposed the merger of the two companies which will take place on the first day of the month following the publication of the merger resolution by the Rome Chamber of Commerce, which is expected to occur at the end of April 2010. As a result, the merger will be effective for legal purposes from 1 May 2010 and for accounting and fiscal purposes from 1 January 2010. The aim of the merger is to combine perfume and cosmetics distribution activities with the wholesale and retail sales activities carried out by Bulgari Italia S.p.A..

- On 10 March 2010, the boards of directors of Bulgari Gioielli S.p.A. and Bulgari Manifattura S.p.A. approved the proposed merger of the two companies which will be submitted to the shareholders' meetings called to approve the companies' draft 2009 financial statements. The purpose of this merger is to combine the technical and managerial skills acquired by Bulgari Gioielli S.p.A. in the high and medium-high jewellery sector with the greater experience and skills acquired by Bulgari Manifattura S.p.A. in the standardised production sector, with the aim of increasing the operational efficiency of these activities.

No other significant events have occurred since 31 December 2009.

Business outlook

Signs of an improvement in turnover have been noted in the first few months of 2010 with no particular distinction between products or channels; a very favourable trend has however been seen in the United States and Asia compared to a continually weak market in Europe and an essentially stable market in Japan.
On the basis of these first signals arriving from the market and the highly innovative initiatives in terms of brand image and product launches that have already been started and will continue throughout the year, it is reasonable to expect that 2010 will be a year of growth, despite being affected by a continually difficult macroeconomic situation. In addition, the Group will pursue its firm commitment to achieve efficiency in cost containment, debt, stocks and investments, continuing nevertheless with its investments in the distribution network.

Bulgari S.p.A.
Chairman of the Board of Directors
Paolo Bulgari
(signed on the original)

Bulgari S.p.A. and Subsidiaries

Consolidated financial statements
as at and for the years ended
31 December 2009 and 31 December 2008

Bulgari Group

Consolidated Income Statement for the year ended 31 December 2009
(Thousands of Euros)

	Notes	2009	Of which related parties	2008	Of which related parties	Changes %
– Gross sales		*1,003,582*	*56*	*1,143,440*	*56*	
– Discounts and allowances		*(88,918)*		*(82,290)*		
Net sales		914,664		1,061,150		
Royalties		9,198	*67*	12,368	*81*	
Other revenue		2,706	*13*	1,840	16	
Total net revenue	2	**926,568**	**136**	**1,075,358**	**153**	**–13.8%**
Cost of sales	3	(379,391)		(394,304)		–3.8%
– of which costs relating to the restructuring process		*18,528*		–		
Total contribution margin		**547,177**		**681,054**		**–19.7%**
		59.1%		63.3%		
Net operating expenses	4	(567,000)	(42)	(570,081)	(164)	–0.5%
– of which restructuring costs		*16,786*		–		
– of which income (costs) relating to the restructuring process		*1,654*		–		
Operating profit (loss)		**(19,823)**		**110,973**		**–117.9%**
		–2.1%		10.3%		
– Interest income		*2,997*	(37)	*4,540*	(101)	
– Interest expense		*(17,905)*		*(19,244)*		
– of which bond interest expense		*(5,135)*		–		
– Other financial income (expense)		*(3,755)*		*(1,731)*		
– Foreign exchange rate gains (losses)		*(8,812)*		*(4,904)*		
Total financial income (expense)	5	(27,475)		(21,339)		28.8%
Profit (loss) before taxes		**(47,298)**		**89,634**		**–152.8%**
Current and deferred taxes	6	347		(7,377)		–104.7%
Profit (loss) for the year		**(46,951)**		**82,257**		**–157.1%**
of which:						
Profit (loss) for the year attributable to non-controlling interests		144		(608)		–123.6%
Profit (loss) for the year attributable to the owners of the Parent		**(47,095)**		**82,865**		**–156.8%**
		–5.1%		7.7%		
Basic earnings per share (in euros)	18	**–0.16**		**0.28**		
Average number of shares on which the calculation is based		300,969,435		300,061,685		
Diluted earnings per share (in euros)	18	**–0.16**		**0.27**		
Average number of shares on which the calculation is based		302,938,343		302,764,972		

Gruppo Bulgari

Consolidated Statement of Comprehensive Income for the year ended 31 December 2009
(Thousands of Euros)

	2009	2008
Profit (loss) for the year as per the income statement	**(46,951)**	**82,257**
Gains (losses) on the fair value measurement of derivatives	17,932	(21,995)
Gains (losses) on translation differences	(2,458)	80,987
Capital transactions	(341)	–
Purchases of additional interests in subsidiaries	–	(5,689)
Gains (losses) recognised directly in equity	**15,133**	**53,303**
Total comprehensive income for the year attributable to:	**(31,818)**	**135,560**
Owners of the parent	(31,937)	139,222
Non-controlling interests	119	(3,662)

Gruppo Bulgari

Statement of Financial Position as at 31 December 2009
(Thousands of Euros)

ASSETS	Note	31 December 2009	Of which related parties	31 December 2008	Of which related parties
Property, plant and equipment	7	198,326		203,278	
– *Goodwill*	8	*49,602*		*46,248*	
– *Other intangible assets*	9	*83,825*		*81,807*	
Intangible assets		133,427		128,055	
– *Investments in other companies*	10	*13,421*		*12,692*	
– *Other non-current financial assets*	11	*35,219*		*37,678*	
Investments and other non-current financial assets		48,640		50,370	
Deferred tax assets	12	35,803		25,962	
Other non-current assets	15	16,768		16,540	
Non-current financial receivables	11	418	*418*	1,301	*1,301*
NON-CURRENT ASSETS		**433,382**		**425,506**	
NON-CURRENT ASSETS HELD FOR SALE		**–**		**–**	
– *Raw materials*		*72,311*		*59,975*	
– *Work in progress and semi-finished goods*		*130,989*		*176,014*	
– *Finished goods and packaging*		*412,186*		*491,869*	
Total inventories	13	615,486		727,858	
Trade receivables	14	148,400	*76*	181,892	*68*
– *Other tax receivables*		*30,938*		*32,984*	
– *Other current assets*		*26,252*	*9*	*21,518*	*37*
Total other current assets	15	57,190		54,502	
Current financial assets	11	2,726		19,636	
Cash and cash equivalents	16	29,233		19,880	
CURRENT ASSETS		**853,035**		**1,003,768**	
TOTAL ASSETS		**1,286,417**		**1,429,274**	

LIABILITIES AND EQUITY	Note	31 December 2009		31 December 2008	
			Of which related parties		Of which related parties
– *Share capital*		*21,092*		*21,044*	
– *Reserves*		*157,581*		*123,728*	
– *Retained earnings*		*649,222*		*596,404*	
– *Profit (loss) for the year*		*(47,095)*		*82,865*	
Equity attributable to the owners of the Parent	17	**780,800**		**824,041**	
Equity attributable to non-controlling interests		1,062		943	
TOTAL EQUITY		**781,862**		**824,984**	
Employee benefits	21	15,894		16,146	
Provisions for risks and charges	22	24,939		8,819	
Deferred tax liabilities	12	9,307		12,569	
Other non-current liabilities	23	1,520		1,662	
Non-current bank loans and borrowings	19	75,081		82,438	
Other non-current financial liabilities	19	136,214		3,030	
NON-CURRENT LIABILITIES		**262,955**		**124,664**	
NON-CURRENT LIABILITIES HELD FOR SALE		**–**		**–**	
Trade payables		145,345	*16*	165,080	*94*
– *Advances*		*6,435*		*4,201*	
– *Current tax liabilities*		*5,341*		*2,787*	
– *Other current liabilities*	23	*46,593*	*1*	*48,651*	*32*
Total other current liabilities		58,369		55,639	
Current bank loans and borrowings	19	37,642		238,068	
Current financial liabilities	19	244		20,839	
CURRENT LIABILITIES		**241,600**		**479,626**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,286,417**		**1,429,274**	

Bulgari Group

Consolidated Statement of cash flow for the year ended 31 December 2009
(Thousands of Euros)

	31 December 2009	31 December 2008
Cash flows from operating activities		
Profit (loss) for the year	(47,095)	82,865
Depreciation, amortisation and impairment losses of fixed assets	74,634	54,587
Interest and income taxes	29,221	32,580
Cash flows from operating activities	*56,760*	*170,032*
(Increase) decrease in receivables	31,485	25,351
(Increase) decrease in inventories	109,444	(77,697)
Increase (decrease) in payables	(33,794)	(7,505)
Exchange rate differences on inventories	3,772	(57,310)
Income taxes paid	(2,555)	(38,712)
Interest paid	(13,303)	(14,237)
Other changes, net	12,586	(6,528)
Cash flows from changes in net working capital	*107,635*	*(176,638)*
Other non current assets	(10,069)	(9,751)
Other non current liabilities	(216)	(570)
(a) Cash flows from (used in) operating activities	**154,110**	**(16,927)**
Cash flows from investing activities		
Purchase of companies (excluding cash/debt acquired)	(5,434)	(7,298)
Purchase of property, plant and equipment	(55,079)	(61,005)
Purchase of intangible assets	(17,180)	(21,203)
Reimbursement of equity investments (excluding other non-current financial assets)	(729)	(1,602)
Other changes (including disposals)	(402)	227
Other non-current financial assets	789	(1,275)
Exchange rate differences	4,136	(21,828)
Interest received	2,570	4,627
(b) Cash flows (used in) investing activities	**(71,329)**	**(109,357)**
Cash flows from financing activities		
Change in equity for capital increases	48	79
Change in equity atributable to non-controlling interests	119	(3,662)
Dividends paid	(30,063)	(96,094)
Other changes	33,869	63,334
(c) Total changes in equity	*3,973*	*(36,343)*
Change in non-current financial liabilities	125,827	27,117
Change in non-current financial assets	883	67
(d) Total changes in non-current financial assets	*126,710*	*27,184*
(e) Cash flows from (used in) financing activities	**130,683**	**(9,159)**
(f) Difference in short-term net cash (indebtedness) (a)+(b)+(e)	**213,464**	**(135,443)**
Net cash (indebtedness) at the beginning of the year	***(303,558)***	***(140,931)***
Change in short-term debt (f)	213,464	(135,443)
Change in long-term debt (d)	(126,710)	(27,184)
Net cash (indebtedness) at the end of the year	***(216,804)***	***(303,558)***
di cui: – cash and cash equivalents	29,233	19,880
– current financial liabilities	(37,886)	(258,907)
– *of which financial instruments:*	*(244)*	*20,839*
– current financial assets	2,726	19,636
– *of which financial instruments:*	*2,726*	*19,579*
– non-current financial liabilities	(211,295)	(85,468)
– non-current financial assets	418	1,301

Statement of Changes in Equity for the year ended 31 December 2009
(Thousands of Euros)

	Note	Share capital	Share premium reserve	Legal reserve	Translation reserve
31 December 2008		**21,044**	**90,234**	**5,762**	**30,192**
Fluctuations in exchange rates		–	–	–	(2,433)
Fair value measurement of derivatives		–	–	–	–
Capital transactions		–	–	–	–
Total income and expense recognised directly in equity		**–**	**–**	**–**	**(2,433)**
Profit (loss) for the year		–	–	–	–
Total comprehensive income (expense)		**–**	**–**	**–**	**–**
Distribution of dividends		–	–	–	–
Allocation of 2008 profit		–	–	–	–
Capital transactions		–	–	–	–
Capital increase due to exercise of stock options		48	2,883	–	–
Stock options		–	–	–	–
Other changes		–	–	–	–
31 December 2009	17	**21,092**	**93,117**	**5,762**	**27,759**

	Other reserves	Stock option reserve	Cash flow hedging reserve	Retained earnings	Profit (loss) for the year	Owner of the parent equity	Non-controlling interest equity	Total shareholders' equity
	2,802	**11,520**	**(16,782)**	**596,404**	**82,865**	**824,041**	**943**	**824,984**
	–	–	–	–	–	**(2,433)**	(25)	**(2,458)**
	–	–	17,932	–	–	**17,932**	–	**17,932**
	(341)	–				**(341)**	–	**(341)**
	(341)	**–**	**17,932**	**–**	**–**	**15,158**	**(25)**	**15,133**
					(47,095)	**(47,095)**	144	**(46,951)**
	–	**–**	**–**	**–**	**(47,095)**	**(47,095)**	**144**	**(46,951)**
	–	–	–	(30,063)	–	**(30,063)**	–	**(30,063)**
	–	–	–	82,865	(82,865)	–	–	–
	13,182	–	–	–	–	**13,182**	–	**13,182**
	–	–	–	–	–	**2,931**	–	**2,931**
	–	2,630	–	–	–	**2,630**	–	**2,630**
	–	–	–	16	–	**16**	–	**16**
	15,643	**14,150**	**1,150**	**649,222**	**(47,095)**	**780,800**	**1,062**	**781,862**

Statement of Changes in Equity for the year ended 31 December 2008
(Thousands of Euros)

	Note	Share capital	Share premium reserve	Legal reserve	Translation reserve
31 December 2007		**20,965**	**120,614**	**5,762**	**(49,091)**
Change in accounting standards		–	–	–	–
1 January 2008 (restated)		**20,965**	**120,614**	**5,762**	**(49,091)**
Fluctuations in exchange rates		–	–	–	79,283
Fair value measurement of derivatives		–	–	–	–
Purchase of additional interests in subsidiaries		–	–	–	–
Total income and expense recognised directly in equity		**–**	**–**	**–**	**79,283**
Profit (loss) for the year		–	–	–	–
Total comprehensive income		**–**	**–**	**–**	**–**
Distribution of dividends		–	(39,776)	–	–
Allocation of 2007 profit		–	–	–	–
Re Purchase and sale of treasury shares		56	7,979	–	–
Capital increase due to exercise of stock options		23	1,417	–	–
Stock options		–	–	–	–
Other changes		–	–	–	–
31 December 2008	17	**21,044**	**90,234**	**5,762**	**30,192**

Other reserves	Stock option reserve	Cash flow hedging reserve	Retained earnings	Profit (loss) for the year	Owner of the parent equity	Non-controlling interest equity	Total shareholders' equity
4,490	**9,142**	**5,213**	**505,844**	**150,918**	**773,857**	**4,605**	**778,462**
–	–	–	(2,646)	–	(2,646)	–	(2,646)
4,490	**9,142**	**5,213**	**503,198**	**150,918**	**771,211**	**4,605**	**775,816**
–	–	–	–	–	79,283	1,704	80,987
–	–	(21,995)	–	–	(21,995)	–	(21,995)
–	–	–	(931)	–	(931)	(4,758)	(5,689)
–	**–**	**(21,995)**	**(931)**	**–**	**56,357**	**(3,054)**	**53,303**
–	–	–	–	82,865	82,865	(608)	82,257
–	**–**	**–**	**–**	**82,865**	**82,865**	**(608)**	**82,257**
–	–	–	(56,318)	–	(96,094)	–	(96,094)
–	–	–	150,918	(150,918)	–	–	–
(1,688)	–	–	–	–	6,347	–	6,347
–	–	–	–	–	1,440	–	1,440
–	2,378	–	–	–	2,378	–	2,378
–	–	–	(463)	–	(463)	–	(463)
2,802	**11,520**	**(16,782)**	**596,404**	**82,865**	**824,041**	**943**	**824,984**

Bulgari S.p.A. and Subsidiaries

Notes to the consolidated financial statements

Accounting policies

Bulgari S.p.A. (referred to in the following as the "Parent") is a company with its registered office in Italy and its domicile at Via Lungotevere Marzio 11, Rome. The consolidated financial statements as at and for the year ended 31 December 2009 include the financial statements of the Parent and its subsidiaries and joint ventures (together referred to as the "Group"). The financial statements used in preparing these consolidated financial statements were those prepared by the directors of the individual companies for the approval of the respective shareholders in general meeting where applicable.
These consolidated financial statements were authorised for publication by the Board of Directors on 15 March 2010.

(a) Statement of compliance

The Bulgari Group has prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), as endorsed by the European Commission (also referred to in the following overall as "IFRS"), and with the provisions implementing article 9 of Legislative Decree no. 38/2005.

(b) Basis of presentation

The consolidated financial statements, available on the website www.bulgari.com, consist of the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and these notes. Current and non-current assets and liabilities are presented separately in the statement of the financial position. Unlike in the separate financial statements, costs are presented in the income statement on the basis of their function, as this classification is used for internal reporting and corresponds to the way in which the business is managed. Income and expense arising from non-recurring events and circumstances are presented in the income statement, where they exist and when material, by using specific sub-items. The statement of cash flows is presented using the indirect method.
The consolidated financial statements are presented in euros and all amounts are stated in thousands of euros unless otherwise stated.
The financial statements of companies included in the consolidation scope have all been prepared as at the balance sheet date of the consolidated financial statements and have been adjusted, where necessary, for the accounting policies used by the Parent.
The financial statements have been prepared on a cost basis, adjusted as required for the measurement of certain financial instruments.
Columns have been added to the statement of financial position and income statement to show related party transactions and balances as per Consob Resolution no. 15519 of 27 July 2006. This information is not provided in the statement of cash flows given its limited materiality.
The financial statements at 31 December 2009 of the Parent, Bulgari S.p.A. are also presented, prepared in accordance with IFRS as defined above.

(c) Consolidation principles

(i) Subsidiaries

Subsidiaries are those companies for which the Parent is in a position to determine, either directly or indirectly, the financial and operating policies for the purpose of obtaining the benefits resulting from its activities. In assessing whether control exists, potential voting rights that are currently exercisable or convertible are also taken into consideration. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained by the Group until the date on which that control ceases to exist. Non-controlling interests in equity and in the profit (loss) for the year are presented separately in both the consolidated statement of financial position and the consolidated income statement. In the absence of a standard or interpretation that is applicable to the specific type of transaction, transactions with non-controlling interests after the acquisition of control are accounted for on the basis of Group standards which require such effects to be accounted for on the basis of the entity model theory. Under this approach, shareholders are considered to be a single group and transactions between them are recognised as changes in equity. As a consequence, if the Group purchases additional investments from non-controlling interests, the difference between the price paid and the carrying amount of the portion of the net assets of the subsidiary acquired is recognised as a decrease or increase in reserves; in the same way any gains or losses arising on sales to non-controlling interests are recognised in equity for as long as control is maintained.

(ii) Joint Ventures

Joint ventures are those entities over which the Group exercises contractually agreed joint control with other entities. In determining whether control exists, potential voting rights that are effectively exercisable or convertible are also taken into consideration. The financial statements of joint ventures are consolidated using the proportionate method. As a result, the consolidated financial statements include the Group's share of the assets, liabilities, revenue and expense of these companies on a line-by-line basis from the date on which joint control is obtained by the Group until the date on which that joint control is lost.

(iii) Intragroup operations

All intragroup balances and transactions, including any profits not yet realised with third parties, resulting from relations between Group companies, are fully eliminated. The Group's share of any losses not yet realised with third parties is eliminated unless they represent impairment losses. Unrealised profits and losses generated by transactions with joint ventures are eliminated on the basis of Group's interest in these companies.

(d) Foreign currency

(i) Transactions in foreign currency

The financial statements of consolidated companies are prepared using the functional currency of the economic environment in which they operate.
In those financial statements, all transactions denominated in a currency different from the functional currency are recognised at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a currency different from the functional currency are subsequently translated at the exchange rate at the reporting date, with any exchange rate differences arising being recognised in the income statement.
Non-monetary assets and liabilities denominated in foreign currencies and recognised at historical cost are translated using the exchange rate at the date when the transaction was initially recognised.

(ii) Translation of foreign currency financial statements

Revenue, expenses, assets and liabilities included in the consolidated financial statements are expressed in euros, which is the functional currency of the Parent Bulgari S.p.A..
In preparing the consolidated financial statements the financial statements of companies included in the consolidation scope which have a functional currency different from the euro are translated by applying the closing exchange rate, to the assets and liabilities (including goodwill and consolidation adjustments), the historical exchange rate ruling at the date of the respective transaction to items of equity and the average

exchange rate for the period (which approximates the exchange rates at the date of the transactions) to items in the income statement. All resulting exchange rate differences are recognised directly in equity in a separate reserve.
Exchange rate differences are recognised in the income statement only on the disposal of the investment in the company to which they refer.

The rates of exchange between the euro and the currencies of those countries which have not joined the monetary union are as follows:

Currency	31/12/2009		31/12/2008	
	Average	Closing rate	Average	Closing rate
USD	1.3948	1.4406	1.4708	1.3917
YEN	130.3366	133.1600	152.4541	126.1400
CHF	1.5100	1.4836	1.5874	1.4850
GBP	0.8909	0.8881	0.7963	0.9525
SGD	2.0241	2.0194	2.0762	2.0040
HKD	10.8114	11.1709	11.4542	10.7858
AUD	1.7727	1.6008	1.7416	2.0274
MYR	4.9079	4.9326	4.8839	4.8048
DKK	7.4462	7.4418	7.4560	7.4506
TWD	46.0326	45.8649	46.2482	46.2084
KRW	1,772.9039	1,666.9700	1,606.0872	1;839.1300
CNY	9.5277	9.8350	10.2236	9.4956
THB	47.8044	47.9860	48.4754	48.2850
MOP	11.1379	11.4522	11.7660	11.0846
PAB	1.3948	1.4406	1.4708	1.3917
QAR	5.0783	5.2213	5.4028	5.0567
KWD	0.4018	0.4116	0.3948	0.3838

On first-time adoption of IFRS the cumulative translation differences arising from the consolidation of companies whose financial statements are prepared in currencies other than the euro area were deemed to be zero as permitted by IFRS 1. Any gain or loss on the subsequent disposal of these companies will only include the cumulative translation differences arising from 1 January 2004.

(e) Business combinations

Business combinations are accounted for by applying the purchase method. Under the purchase method, the cost of acquisition is the fair value at the date of exchange of the assets given and liabilities incurred or assumed plus any costs directly attributable to the acquisition. The cost of a business combination is then allocated to the acquiree's identifiable assets acquired and liabilities and contingent liabilities assumed at their fair values. The excess of the cost of the acquisition over the Group's interest in the net fair value of the net assets acquired is accounted for as goodwill. If the net fair value exceeds the cost of the acquisition, the excess ("negative goodwill") is recognised in the income statement on acquisition.

On first-time adoption of IFRS, the Group elected not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before 1 January 2004. As a result, any goodwill arising from acquisitions that occurred before the date of transition to IFRS has been left unchanged at its carrying amount in the last consolidated financial statements prepared in accordance with the previous accounting principles, being those at 31 December 2003.

(f) Property, plant and equipment

(i) Owned assets

Property, plant and equipment are stated at cost, including any directly attributable incidental expenses.
They are included as assets only if it is probable that future economic benefits will result from their use and if that cost may be reliably determined.
Cost consists of:

a) purchase price (including any import duties and non-refundable purchase taxes), after deducting trade discounts and rebates;

b) any costs incurred directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Costs incurred subsequent to purchase are recognised as an increase in the carrying amount of the item to which they relate, if it is probable that the future benefits resulting from the cost incurred for the replacement of a component of property, plant and machinery will flow to the Group and if the cost of the component can be reliably estimated. All other costs are recognised in the income statement in the period in which they are incurred.

If significant parts of property, plant or machinery have different useful lives, then these are accounted for separately by applying the cost method described above.

Museum pieces, which are unique pieces from the Bulgari collection, are recognised at purchase cost and, given their nature, are not depreciated but are regularly tested for impairment. In particular, an independent expert was engaged in 2008 to appraise the fair value of the Bulgari Museum. The value appraised by this expert was considerably higher than the carrying amount of the pieces involved.

(ii) Assets acquired under finance leases

Property, plant and equipment acquired under finance leases, under which all the risks and rewards incidental to ownership of an asset are substantially transferred to the Group, are recognised as assets at their fair value or, if lower, at the present value of the minimum lease payments due under the lease contract. The corresponding amount due to the lessor is included as part of financial liabilities. Lease arrangements under which the lessor substantially keeps all the risks and rewards incidental to ownership of an asset are accounted for as operating leases, with lease payments being recognised as an expense on a straight-line basis over the lease term.

(iii) Depreciation

Subsequent to their initial recognition, property, plant and equipment including assets acquired under finance leases, are stated net of depreciation and any impairment losses recognised as described below. Depreciation commences when an asset becomes available for use and ceases when it is sold or when it is no longer expected to generate future benefits, and is calculated systematically on a straight line basis over the estimated useful lives of assets. Assets acquired under finance leases are depreciated over their estimated useful lives; in the case that there is no reasonable certainty that the Group will acquire an asset at the end of the lease term it is depreciated over the shorter of the lease term and its estimated useful life.

The estimated useful lives of assets are reviewed at least on an annual basis.

The following table sets out the main useful lives of assets:

Asset category	Useful life (years)
Buildings	33
Plant and machinery	3 - 13
Industrial and commercial equipment	7 - 5
Furniture, office equipment and fittings	5 - 8
Motor vehicles	4

Leasehold improvements are stated at cost and depreciated over a period equal to the lower of the remaining lease term and their estimated useful lives.

(g) Intangible assets

(i) Goodwill

Goodwill is not amortised subsequent to initial recognition and is stated net of any impairment losses calculated as described below.

Goodwill resulting from the acquisition of a company and any adjustment to the fair values of the assets and liabilities deriving from the acquisition of that company, are accounted for as the assets and liabilities of the company itself. As a consequence, in the case of the acquisition of a foreign company these items are stated in the functional currency of the acquired company and translated using the closing rate.

Goodwill resulting from acquisitions made prior to 1 January 2004 is stated at its carrying amount in the last consolidated financial statements prepared in accordance with the previous accounting principles (those at 31 December 2003).

(ii) Other intangible assets

Other intangible assets are recognised in the statement of financial position only if it is probable that future economic benefits associated with the use of the asset will flow to the entity and if the cost of an asset can be measured reliably, and are stated at cost, including any directly attributable incidental expenses.

Research expenditure is recognised as an expense in the income statement when it is incurred. Development expenditure is capitalised as an asset only if it can be demonstrated that they are capable of producing future economic benefits.

Subsequent expenditure incurred for intangible assets are recognised as an increase in the carrying amount of the asset to which it relate is if it is probable that future benefits will flow to the Group and when the cost can be reliably estimated. All other subsequent expenditure is recognised in the income statement when incurred.

(iii) Amortisation

Subsequent to their initial recognition, assets with a finite useful life are recognised net of accumulated amortisation and any impairment losses are calculated as described below. Amortisation begins when an asset is available for use and ceases when it is sold or if it is not expected to produce future economic benefits, and is allocated systematically on a straight-line basis over the asset's estimated useful life which is reviewed on an annual basis.

Intangible assets with an indefinite useful life are not amortised but are stated net of any impairment losses calculated as described below.

The following table sets out the main useful lives of assets:

Asset category	**Useful life (years)**
Development expenditure	Max 5
Industrial patents and intellectual property rights	Max 5
Concessions, trademarks and licences	Max 5
Assets under development	–
Fees for taking over the lease of premises and other	Contract term

(h) Impairment

At the end of each period presented, property, plant and equipment and intangible assets are reviewed to assess whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is calculated.
The recoverable amount of goodwill and other intangible assets having an indefinite useful life, if present, is in any case estimated at least once a year.
The recoverable amount is the higher of the fair value of an asset less costs to sell and its value in use.
In the absence of a binding sales agreement, fair value is estimated on the basis of values obtained from an active market or from recent transactions or on the basis of the best information available that reflects the amount that the Group could obtain from the sale of the asset.

Value in use is defined as the present value of the future pre-tax cash flows expected to be derived from the use of an asset, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If an asset does not generate cash flows that are largely independent, its recoverable amount is determined in relation to the cash-generating unit to which it belongs.

An impairment loss for an asset is recognised in the income statement if its carrying amount, or that of the cash generating unit to which it allocated, is higher than its recoverable amount. The impairment losses of a cash generating unit are firstly allocated to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on the basis of their carrying amounts.

Impairment losses other than those relating to goodwill are reversed to the extent that that the increased carrying amount of the asset does not exceed the carrying amount that would have been determined had no impairment loss been recognised, if the reasons which led to the loss no longer exist or if there have been changes in the estimates made to determine the recoverable amount.

(i) Financial instruments

(i) Investments in other entities

Investments in other entities are classified as “available-for-sale” and are measured at fair value, with any gains or losses recognised directly in equity. These gains and losses are transferred to the income statement on the disposal of the investments. If fair value is not reliably determinable the investments are stated at cost, adjusted for any impairment loss whose effect is recognised in the income statement on the basis of the present value of expected future cash flows discounted at the current market return for a similar financial asset.

Losses exceeding the carrying amount of an investment are recognised as a liability under “provisions for risks and charges – other” to the extent that the investor has undertaken to fulfil any legal or constructive obligations towards the investee or to make good its losses.

(ii) Other financial assets

Other financial assets for which there is the intention and ability to hold to maturity are recognised at cost (represented by the fair value of the initial consideration given) to which are added transaction costs (such as commissions and advisors’ fees, etc). Measurement subsequent to initial recognition is at amortised cost using the effective interest method.

Trade receivables are recognised at amortised cost, net of any impairment losses. Impairment losses are determined on the basis of the present value of expected future cash flows, using a discount rate based on the original effective interest rate.
Trade receivables whose due date is based on normal commercial terms are not discounted.

Cash and cash equivalents consist of balances which are payable on demand or within a very short period, are performing and may be withdrawn without cost.

(iii) Other financial liabilities

Other financial liabilities, excluding derivative financial instruments, are recognised at amortised cost using the original effective interest method.

The debt component of compound financial instruments such as convertible bonds is initially recognised at the fair value of a similar liability without a conversion option. The equity component is initially recognised as the difference between the fair value of the compound financial instrument as a whole and the fair value of the debt component. The related transaction costs are allocated to the debt and equity components of the instrument in proportion to the amount of each component.
Subsequent to initial recognition the debt component of compound financial instruments is measured at amortised cost using the effective interest method. The equity component of these instruments is not recalculated after initial recognition.
Interest, dividends, losses and gains linked to the financial liabilities are recognised as income or expense in profit or loss. Distributions to owners of equity instruments are recognised directly in equity, net of any related tax benefit.

(iv) Treasury shares

Treasury shares are recognised at cost and presented as a reduction in equity. Any gains or losses resulting from their subsequent sale are recognised directly in equity.

(l) Inventories

Inventories are recognised at the lower of the cost of acquisition or production and estimated net realisable value, less the estimated costs of completion and the costs necessary to make the sale.

The cost configuration adopted is as follows:

a) all stock, grouped together in homogeneous categories, is valued on the basis of weighted average cost;
b) work in progress is valued on the basis of production cost, which includes the consumption of raw materials, direct labour and production overheads, based on the stage of production at the balance sheet date.

In order to estimate net realisable value, obsolete and slow-moving goods are written down on the basis of an estimation of their future use or realisation by creating a specific allowance to reduce the carrying amount of the inventories.

(m) Provisions for risks and charges

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, for which it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made from the available evidence.

Where the effect of the time value of money is material and the payment dates of the obligations can be reliably estimated, the amount of provisions is determined by discounting the estimated future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where applicable, the risks specific to the liability.
Changes in estimates are recognised in the income statement of the period in which they occur.

(n) Employee benefits

Short-term employee benefits, such as wages, salaries and social security contributions, compensated absences and annual leave, where the absences are expected to occur within twelve months from the balance sheet date, and all other benefits in kind are recognised in the period in which the service is rendered by the employee.
Benefits guaranteed to employees which are payable on or after the completion of employment through defined benefit or defined contribution plans are recognised over the vesting period.
Liabilities relating to defined benefit plans, net of any plan assets, are recognised on the basis of actuarial assumptions using the projected unit credit method and on an accrual basis consistent with the service provided to obtain such benefits; these liabilities are calculated by independent actuaries.
Any actuarial gains or losses resulting from changes in actuarial assumptions or changes in the conditions of a plan are recognised in the income statement if, and to the extent that, the unrecognised net amount at the end of the previous reporting period exceeds the greater of 10% of the obligation relating to the plan and 10% of the fair value of any plan assets at that date (the corridor method).
On first-time application of IFRS the Group elected to recognise all cumulative actuarial gains and losses at 1 January 2004, despite opting for the corridor method for subsequent actuarial gains and losses.
Costs for defined contribution plans are recognised in the income statement as incurred.

Following the changes to the way in which post-employment benefits (the TFR) are governed introduced by Law no. 296 of 27 December 2006 and subsequent decrees and implementing regulations issued in the first part of 2007 (the “Pension Reform”):

- the TFR vested up to 31 December 2006 continues to be treated as a defined benefit plan;
- the TFR accruing from 1 January 2007 is treated as a defined contribution plan for Italian companies with more than 50 employees.

(o) Revenue and expenses

Revenue from sales and services is recognised to the extent that it is probable that the respective economic benefits will flow to the Group and when it is possible to measure the fair value of the consideration reliably. Revenue is stated net of discounts, returns and commercial rebates.

In particular, revenue from sales and services is recognised when the significant risks and rewards of ownership have been transferred to the buyer and when the services have been rendered.

Financial income and expense are recognised on an accruals basis on the carrying amount of the respective assets and liabilities using the effective interest rate.

Borrowing costs incurred for investments in an asset that necessarily takes a determinate period of time to get ready for its intended use or sale (qualifying assets in the sense of IAS 23 – Borrowing Costs) are capitalised and depreciated over the useful life of the category of assets to which they relate.

Dividends are recognised when shareholders have the right to receive payment, when a shareholders' meeting resolves a distribution.

Cost of sales includes the cost of production or purchase of products and goods which have been sold. In particular, it includes the cost of materials and transformation, general expenses directly related to production, the depreciation and amortisation of plant and machinery and intangible assets used in production and write-downs of inventories.

(p) Taxation

Current income taxes are calculated on the basis of a realistic estimate of the tax charge for the period made by each company included in the consolidation scope, in compliance with tax rates and tax laws that are enacted or substantial enacted in each country at the reporting date.

The expected liability is recognised in the statement of financial position under the item "Current tax payables", net of any advance payments, or under the item "Current tax assets" if an asset results from the offsetting process.

Deferred tax assets and liabilities are calculated on the basis of the temporary differences between the carrying amount of assets and liabilities as stated in the consolidated statement of financial position and their corresponding tax bases, taking into account the tax rates that are expected to apply to the period when these differences reverse, based on those rates and laws that have been enacted or substantial enacted by the reporting date.
Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised; the recoverability of deferred tax assets in this manner is reviewed at each reporting date.
Deferred tax liabilities are always recognised. In particular, deferred tax liabilities are recognised on undistributed profits at the reporting date in the event that such profits will be taxed on distribution.
Taxation that could arise on the transfer of the undistributed profits of subsidiaries is only recognised if there is the real intention to transfer such profits in the foreseeable future.
Taxation not connected with income is included in operating expenses.

Current and deferred tax assets and liabilities are offset when tax is levied by the same taxation authority and when there is a legally enforceable right of set-off.

(q) Share-based payment transactions

The Group provides stock options to specific categories of employees and to the chief executive officer as a form of remuneration for services rendered.
The cost of these services is measured at the fair value of the options at the date on which they are granted.
This cost is calculated by taking into account the best estimate available of the number of options that will be exercised and is recognised in the income statement on a straight-line basis over the vesting period, that is the

period from the grant date to the date on which the option vests, with the balancing entry being made directly in equity.
Changes in fair value subsequent to the grant date have no effect on the initial measurement.
The cancellation of a stock option plan leads to the immediate recognition in the income statement of the unamortised residual fair value.
If new equity instruments are granted at the same time as a plan is cancelled and if this new grant is identified as a replacement for the previous, cancelled, plan then this is accounted for as a modification of the original grant. This leads to the fair value of the original plan, increased by the incremental fair value (being the difference between the fair value of the replacement stock options and the net fair value of the cancelled stock options, measured at the date the replacement equity instruments are granted), being recognised in the income statement on a straight-line basis over the residual vesting period of the original plan.

(r) Use of estimates

The preparation of the financial statements requires the directors and managers of the Group to make estimates and assumptions which affect the carrying amounts of the assets and liabilities in the consolidated statement of financial position and the disclosures relating to contingent assets and liabilities at the reporting date. These estimates and assumptions are based on accumulated experience and other factors considered reasonable in the circumstances and have been adopted to estimate the carrying amount of assets and liabilities when this is not easily obtainable from other sources. Estimates and assumptions are regularly reviewed and any changes are recognised in the income statement of the period of the change, if the change affects that period only, or in the income statements of the period of the change and future periods, if the change affects both. The actual results could differ from these estimates as a result of the uncertainty inherent in the assumptions and the conditions on which they are based.
In particular, estimates are used in the recognition of allowances for inventory write-downs and for impairment on credit risk, in the measurement of any impairment losses on property, plant and equipment and intangible assets, for depreciation and amortisation, in the measurement of employee benefits and stock option plans, in the recognition of taxation, in the measurement of provisions for risks and charges and other contingent liabilities and in the measurement of derivative financial instruments.

(s) Earnings per share

Earnings per share are calculated on the basis of the weighted average number of outstanding shares during the period, excluding treasury shares held by the Group.

Diluted earnings per share is calculated on the basis of the weighted average number of outstanding shares during the period, excluding treasury shares, to which is added the average weighted number of shares which would result if all stock options were exercised, compared to the difference between the average market price of the share during the period and the weighted average exercise price.

(t) Risk management

(i) Credit risk

The Group is not exposed to significant credit risk given the nature of its business whereby risk of this nature is limited to the sector of sales to distributors. Trade receivables are recognised in the financial statements net of impairment losses calculated on the basis of the risk that a customer will not fulfil its contractual obligations; this impairment loss is calculated by taking into consideration all the information that is available regarding the solvency of the customer and historical data. The Group has not had significant cases of counterparty default.

(ii) Liquidity risk

The Group is not exposed to significant liquidity risks. The cash flows, funding requirements and liquidity of Group companies are monitored and managed centrally under the supervision of the Group's treasury department with the aim of ensuring that funds are effectively and efficiently managed.

(iii) Currency risk, interest rate risk and commodity risk

The Group is exposed to various market risks in carrying out its activities and in particular to the risk of fluctuations in interest rates, exchange rates and the price of gold.

To minimise these risks the Group enters into derivative contracts using instruments available on the market to hedge the risk of both specific transactions and complex exposures.
In particular forward and option contracts are mostly used to reduce the risk of changes in the value of assets and liabilities and in the estimated foreign currency cash flows to be generated by expected future transactions. These instruments are also used to reduce the risk of changes in the price of gold.
Interest rate swaps and option contracts are used to minimise the risk which may arise from interest rate fluctuations.
The Group does not carry out speculative transactions in managing its finance and treasury and has adopted specific procedures which require prudent criteria to be followed.

Consistently with IAS 39, hedging derivative instruments qualify for hedge accounting as described in that standard only if:

at the inception of the hedge there is a formal designation and documentation of the hedging relationship;
the hedge is highly effective for the whole period;
the effectiveness can be reliably demonstrated.

If an instrument is designated to offset the exposure to changes in the fair value of the hedged item (for example, to hedge changes in the fair value of floating rate loans or in foreign currency receivables and payables), it is recognised at fair value, with subsequent changes in fair value being recognised in the income statement; in a consistent manner, hedged items are adjusted to reflect the changes in fair value associated with the risk being hedged.

If an instrument is designated as a hedge of the exposure to variability in the cash flows of a transaction (a cash flow hedge; for example the hedging of the changes in cash flows of forecast transactions due to foreign exchange rate fluctuations), the effective portion of the gain or loss arising from changes in the fair value of the hedging instrument is recognised directly in equity (the ineffective portion is recognised immediately in the income statement under exchange rate gains (losses)).
The amounts recognised in equity are subsequently reclassified to the income statement in the period in which the contracts and forecast transactions affect profit or loss.

Changes in the fair value of derivatives which do not meet the conditions for recognition as hedging instruments are recognised in the income statement.

Derivates are accounted for at the trade date.

u) Standards, amendments and interpretations effective from 1 January 2009

IAS 1 (Revised) – Presentation of Financial Statements

The revised version of IAS 1 requires an entity to present comprehensive income in addition to the traditional primary financial statements to include the profit or loss for the period (defined as the sum of changes arising from transactions with non-owners) and income and expenses recognised directly in equity (other comprehensive income). In principle an entity is free to present this result in either a single “statement of comprehensive income” or in two separate statements presented one after the other:

i. a statement displaying components of profit or loss for the period (separate income statement); and

ii. a second statement (a statement of comprehensive income) beginning with profit or loss for the period and displaying components of other comprehensive income.

The Bulgari Group has elected for a presentation by means of the two separate statements entitled the “income statement” and the “statement of comprehensive income” respectively.

IFRS 7 – Improving Disclosures about Financial Instruments

The amendments to IFRS 7 – Financial Instruments: Disclosures require disclosures to be provided about the fair value of financial instruments on the basis of a fair value hierarchy. The adoption of this standard only affected the type of information provided in the notes and had no effect on the measurement or recognition of items in the financial statements.

Standards, amendments and interpretations effective from 1 January 2009 that did not lead to any accounting effects for the Group on adoption

– IAS 23 (Revised) – Borrowing Costs
– Amendment to IFRS 2 – Vesting Conditions and Cancellations
– Improvement to IAS 19 – Employee benefits
– IFRIC 13 – Customer Loyalty Programmes
– Amendment to IAS 32 – Financial Instruments: Disclosures and IAS 1 – Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
– IAS 27 – Consolidated and Separate Financial Statements
– IFRS 8 – Operating Segments
– Amendment to IAS 39 – Reclassification of Financial Assets
– IFRIC 9 – Reassessment of Embedded Derivatives and IAS 39 – Financial Instruments: Recognition and Measurement

Standards, amendments and interpretations not yet effective or not adopted early by the Bulgari Group

On 10 January 2008 the IASB issued a revised version of IFRS 3 – Business Combinations and amended IAS 27 – Consolidated and Separate Financial Statements. The main changes to IFRS 3 regard the elimination of the requirement to measure individual assets and liabilities of the subsidiary at fair value for each subsequent acquisition of an interest in the subsidiary achieved in stages. In this case goodwill is the difference between the carrying amount of the investment immediately before the acquisition, the consideration paid and the

carrying amount of the net assets acquired. In addition in cases where an entity does not acquire a 100% interest, the non-controlling interest's share of equity may be measured at fair value or by using the method previously required by IFRS 3. The standard further requires all acquisition-related costs to be accounted for as expenses and liabilities for contingent consideration to be recognised.
The changes must be applied by the Group prospectively from 1 January 2010.

In May 2008 the IASB issued an amendment to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations. This amendment, which must be applied prospectively from 1 January 2010, specifies that an entity that is committed to a sale plan involving loss of control of a subsidiary must reclassify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

On 31 July 2008 the IASB issued an amendment to IAS 39 – Financial Instruments: Recognition and Measurement, which must be applied retrospectively from 1 January 2010. This amendment clarifies how the standards that define the hedged underlying should be applied in particular situations.

On 27 November 2008, the IFRIC issued IFRIC 17 – Distributions of Non-cash Assets to Owners with the aim of unifying the accounting treatment of distributions of non-cash assets to owners. In particular, the interpretation clarifies that a liability for a dividend should be recognised when the dividend is appropriately authorised and that this liability should be measured at the fair value of the net assets to be distributed. Further, an entity must recognise the difference, if any, between the carrying amount of the net assets distributed and the carrying amount of the dividend payable in profit or loss. This interpretation is applicable prospectively from 1 January 2010.

On 16 April 2009 the IASB issued a set of improvements to IFRSs; only those leading to a change in the presentation, recognition or measurement of financial statement items are included in the following:

- IFRS 2 – Share-based Payment; this amendment, applicable from 1 January 2010 (early application is permitted) clarifies that since IFRS 3 has changed the definition of a business combination, the contribution of a business to create a joint venture or business combination of businesses jointly-controlled is not within the scope of IFRS 2.
- IFRS 8 – Operating Segments: this amendment, applicable from 1 January 2010, requires entities to provide total carrying amount of assets for each reportable segment if such amounts are regularly provided to the chief operating decision maker. This information was previously required even in the absence of that condition. Early application of this amendment is permitted.
- IAS 1 – Presentation of Financial Statements: this amendment, applicable from 1 January 2010 (early application is permitted) changes the definition of current liabilities in IAS 1. The previous definition required a liability to be classified as current if it could be settled at any time by the issue of equity instruments. That led to liabilities for convertible bonds that could be converted at any time into the issuer's shares being recognised as current. Following this change, the existence of a currently exercisable option for conversion into equity instruments becomes irrelevant for the classification of a liability as current or non-current.
- IAS 7 – Statement of Cash Flows: this amendment, applicable from 1 January 2010, requires that only cash flows arising from expenditure that result in a recognised asset in the statement of financial position are eligible for classification as arising from investing activities in the statement of cash flows, while cash flows arising from expenditures that do not result in a recognised asset (such as in the case of promotional and advertising expenses or costs for staff training) must be classified as arising from operating activities.
- IAS 36 – Impairment of Assets: this amendment, applicable prospectively from 1 January 2010, requires that each operating unit or group of operating units to which goodwill is allocated for impairment testing

shall not be larger than an operating segment as defined in paragraph 5 of IFRS 8, before the aggregation on the basis of similar financial characteristics or other elements of similarity permitted by paragraph 12 of that IFRS.

- IAS 38 – Intangible Assets: the revision of IFRS 3 in 2008 established that sufficient information is available to measure an intangible asset acquired in a business combination at fair value if it is separable or arises from contractual or other legal rights. IAS 38 has consequently been amended to reflect this change to IFRS 3. This amendment additionally clarifies the valuation techniques commonly used to measure intangible assets at fair value when intangible assets are not traded in an active market; in particular, these techniques include estimating discounted future net cash flows from the asset and estimating the costs the entity avoids by owning the intangible asset and not needing to license it from another party or to recreate it or replace it. The amendment is applicable prospectively from 1 January 2010 unless an entity applies the amendment to IFRS 3 for an earlier period.

In June 2009, the IASB issued an amendment to IFRS 2 – Share-based Payment: Group Cash-settled Share-based Payment Transactions. The amendment clarifies the scope of IFRS 2 and the interactions between IFRS 2 and other standards. In particular, it clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction and no matter whether the transaction is settled in shares or cash; moreover, it clarifies that a 'group' has the same meaning as in IAS 27 – Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsidiaries. In addition, the amendment clarifies that an entity must measure the goods or services it received as either an equity-settled or a cash-settled share-based payment transaction assessed from its own perspective, which may not always be the same as the amount recognised by the consolidated group. The amendment also incorporates guidance previously included in IFRIC 8 – Scope of IFRS 2 and IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. The amendment is applicable from 1 January 2010; the European Union has not yet completed the endorsement process for the application of this amendment at the reporting date.

In October 2009, the IASB issued an amendment to IAS 32 – Financial Instruments: Presentation which specifies the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. The amendment however requires that, provided certain conditions are met, such rights issues should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is applicable from 1 February 2010.

On 4 November 2009, the IASB issued a revised version of IAS 24 – Related Party Disclosures that simplifies the disclosure requirements for transactions with related parties that are government controlled and clarifies the definition of a related party. The revised standard is applicable from 1 January 2011. The competent bodies of the European Union had not yet completed the endorsement process for the application of this revised standard at the date of these financial statements.

On 12 November 2009 the IASB issued IFRS 9 – Financial Instruments regarding the classification and measurement of financial assets; the standard is applicable from 1 January 2013. The new standard, which forms part of a project to replace IAS 39 in three main phases, uses a single approach based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets to determine how a financial asset is measured, replacing the many different rules in IAS 39. In addition, IFRS 9 also requires a single impairment method to be used for financial assets. The competent bodies of the European Union had not yet completed the endorsement process for the application of this new standard at the date of these financial statements.

On 26 November 2009, the IFRIC issued the interpretation IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the settlement terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares to settle the financial liability, then the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability and must be measured at their fair value; the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued must be included in the profit or loss for the period. The interpretation is applicable from 1 January 2011. The competent bodies of the European Union had not yet completed the endorsement process for the application of this new standard at the date of these financial statements.

1. Acquisition/formation and disposal of companies

On 5 March 2009, Bulgari International Corporation (BIC) N.V. acquired the remaining 50% of the share capital of Cadrans Design S.A.. A price of CHF 6,000 thousand (4,100 thousand euros) was paid in cash for this investment, under which equity of CHF 1,185 thousand (797 thousand euros) was acquired corresponding to total assets of CHF 3,624 thousand (2,441 thousand euros) and total liabilities of CHF 2,439 thousand (1,644 thousand euros). The transaction generated goodwill of 3,359 thousand euros relating to future economic benefits that cannot be separately identified.

The acquired company is now consolidated on a line-by-line basis; previously it was recognised on a proportionate basis.

Reference should be made to note 28 for details of changes on the consolidation scope.

2. Revenue

(Thousands of euros)

	2009	2008
Net sales	914,664	1,061,150
Royalties	9,198	12,368
Other revenue	2,706	1,840
	926,568	**1,075,358**

Reference should be made to note 24 "Segment information" and the report of the directors on the group's operations for an analysis of revenue by product type and geographical segment.

3. Cost of sales

Cost of sales of 379,391 thousand euros in 2009 (394,304 thousand euros in 2008) consists of the cost of production or purchase of products and goods which have been sold. In particular, it includes the cost of materials and transformation, general expenses directly related to production, the depreciation and amortisation of plant and machinery and intangible assets used in production and write-downs of inventories. Certain product selling material costs incurred on the sale of perfumes and amounting to 8,879 thousand euros have been reclassified to this caption from *Advertising and promotion expenses* for a more correct presentation; costs of the same nature incurred in the previous year and amounting to 10,208 thousand euros have been similarly reclassified for consistency of presentation and for the purposes of comparison.

4. Net operating expenses

(Thousands of euros)

	Note	2009	2008
Personnel expenses	21	182,579	189,903
Variable selling expenses		41,896	47,800
Other selling, general and administrative expenses		230,116	221,431
Advertising and promotion expenses		95,623	110,947
Restructuring costs		16,786	–
		567,000	**570,081**

Variable selling expenses

(Thousands of euros)

	Note	2009	2008
Credit card commissions		4,875	5,008
Intermediaries' fees		8,032	8,803
Transport expenses		11,997	15,295
Sales commissions	21	7,333	7,243
Other		9,659	11,451
		41,896	**47,800**

"Intermediaries' fees" relate almost exclusively to agents' commissions of 7,500 thousand euros for the sale of perfumes (8,549 thousand euros in 2008).

"Other" of 9,659 thousand euros relates to Bulgari Parfums S.A. for 4,042 thousand euros (4,429 thousand euros in 2008), Bulgari Parfums Italia S.p.A. for 1,221 thousand euros (1,534 thousand euros in 2008) and Bulgari Global Operations S.A. for 455 thousand euros (726 thousand euros in 2008), mostly in connection with product warehousing costs.
The item also includes costs incurred by Bulgari Italia S.p.A. for 1,873 thousand euros (1,993 thousand euros in 2008), of which the majority relates to premises costs for BVLGARI stores in duty free areas and costs of 804 thousand euros (1,046 thousand euros in 2008) incurred by Bulgari Corporation of America which mostly relate to fees for the logistical handling of Bulgari perfumes, which in North America is outsourced to an external partner.

Other selling, general and administrative expenses

(Thousands of euros)

	2009	2008
Rentals	84,548	76,748
Other operating expenses	24,068	27,847
Other general expenses, net	121,500	116,836
	230,116	**221,431**

"Other selling, general and administrative expenses" relate primarily to other operating expenses of 24,068 thousand euros (27,847 thousand euros in 2008), accruals to provisions for risks of 6,745 thousand euros (8,386 thousand euros in 2008), for the most part relating to bad debts and legal disputes, travelling expenses for a total of 8,818 thousand euros (13,553 thousand euros in 2008), information, technology and communication expenses of 10,134 thousand euros (9,936 thousand euros in 2008), consulting expenses of 10,637 thousand euros (11,588 thousand euros in 2008), non-income taxes and duties of 5,955 thousand euros (4,699 thousand

euros in 2008), fees for corporate bodies of 2,742 thousand euros (4,098 thousand euros in 2008) and insurance costs of 2,625 thousand euros (2,553 thousand euros in 2008). The item also includes depreciation and amortisation of 72,163 thousand euros (53,899 thousand euros in 2008) relating mainly to leasehold improvements, costs for taking over leases and computer hardware and software. Details of depreciation and amortisation may be found in changes to property, plant and equipment and intangible assets.
The increase in rentals over 2008 is mostly attributable to the new premises used by the Group for carrying out its activities and in particular to the newly opened stores in America, China and Korea, as well as to a significant exchange rate effect.

Restructuring costs

"Restructuring costs" consist mainly of an estimate of the costs relating to individual or collective agreements for the mutually agreed early termination of employment for organisational purposes (6,826 thousand euros) and an estimate of the cost of non-cancellable leases following the closure of certain stores (2,803 thousand euros); the balance of 7 million euros regards the reduction of the purchasing portfolio following the restructuring of the watch business.

5. Financial income (expense)

Interest income

(Thousands of euros)

	2009	2008
Bank interest income	71	465
Interest income from the public administration	432	275
Premium income on hedging activities	2,038	3,624
Other	456	176
	2,997	**4,540**

Interest expense

(Thousands of euros)

	2009	2008
Bank interest expense	(157)	(230)
Bond interest expense	(5,135)	–
Loan interest expense	(7,528)	(10,662)
Premium expense on hedging activities	(4,906)	(8,243)
Other	(179)	(109)
	(17,905)	**(19,244)**

Other financial income (expense)

(Thousands of euros)

			Nota
2009			**2008**
Financial discounts and allowance income		268	375
Financial discount and allowance expense		(399)	(551)
Bank charges and commissions		(2,854)	(841)
Actuarial losses on post-employment benefits	21	(541)	(493)
Other		(229)	(221)
		(3,755)	**(1,731)**

6. Taxes

(Thousands of euros)

	Nota	2009	2008
Current taxes		14,312	17,876
Deferred taxes	12	(13,971)	(10,091)
Prior year taxes		(688)	(408)
		(347)	**7,377**

A reconciliation between the tax charge in the consolidated financial statements and the theoretical tax charge, calculated on the basis of the theoretical tax rates, is as follows:

Reconciliation between ordinary and effective tax rates	**2009**	**2008**
Ordinary IRES (corporate income tax) rate applicable	**27.50%**	**27.50%**
Effect of add-backs and deductions:		
– Non-deductible costs	7.50%	5.73%
– Exempt income and other tax-deductible costs	(5.14%)	(4.23%)
– Utilisation of brought forward tax losses	–	–
– Foreign income taxes	3.70%	2.01%
– Income of CFC companies liable to taxation	–	–
– Adjustments to prior year income taxes	(3.53%)	0.36%
– Effect of tax franking (Finance Law 2008)	–	(4.00%)
– Adjustments to deferred tax liabilities calculated on accumulated temporary differences	0,01%	–
– Effect of different foreign tax rates	(34.74%)	(21.29%)
IRES effective rate	**(4.71%)**	**6.13%**
– IRAP effect *(current and deferred)*	3.97%	2.10%
Total effective tax rate	**(0.73%)**	**8.23%**

7. Property, plant and equipment – 198,326 thousand euros

Property, plant and equipment and changes for the year are as follows:

(Thousands of euros)

	Land and buildings	Plant and machinery	Indust. and comm. equipment	Furniture, office eq. and fittings	Motor vehicles	Leasehold improvs.	Bulgari Museum	Constr. in prog. and advance payments	Total
2007									
Historical Cost	23,668	28,751	19,650	116,583	249	141,700	9,299	10,760	350,660
Accumulated depreciation	(7,609)	(19,216)	(13,321)	(74,017)	(245)	(65,970)	–	–	(180,378)
Balance at 31 December 2007	**16,059**	**9,535**	**6,329**	**42,566**	**4**	**75,730**	**9,299**	**10,760**	**170,282**
Reclassifications	–	–	–	–	–	–	1,038	–	1,038
Balance at 1 January 2008	**16,059**	**9,535**	**6,329**	**42,566**	**4**	**75,730**	**10,337**	**10,760**	**171,320**
Changes in 2008									
Exchange rate fluctuations	884	878	748	3,540	–	6,267	172	7	12,496
Change in consolidation scope	–	–	–	–	–	–	–	–	–
Reclassifications	(37)	6,841	(58)	1,119	–	2,187	–	(10,522)	(470)
Purchases	2,346	5,396	1,981	22,861	–	19,554	3,129	5,738	61,005
Disposals	–	(6)	–	(5)	–	–	–	–	(11)
Depreciation	(1,866)	(3,927)	(1,972)	(16,061)	(2)	(16,928)	–	–	(40,756)
Impairment	(11)	(16)	–	(187)	–	(170)	–	–	(384)
Internal Capitalizations	–	78	–	–	–	–	–	–	78
Total changes in 2008	**1,316**	**9,244**	**699**	**11,267**	**(2)**	**10,910**	**3,301**	**4,777**	**31,958**
2008									
Historical cost	27,060	43,179	23,555	148,372	268	171,652	13,638	5,983	433,707
Accumulated depreciation	(9,685)	(24,400)	(16,527)	(94,539)	(266)	(85,012)	–	–	(230,429)
Balance at 31 December 2008	**17,375**	**18,779**	**7,028**	**53,833**	**2**	**86,640**	**13,638**	**5,983**	**203,278**
Changes in 2009									
Exchange rate fluctuations	(167)	19	(14)	(1,079)	–	(1,512)	–	(10)	(2,763)
Change in consolidation scope	1,020	364	17	42	–	10	–	–	1,453
Reclassifications	252	1,089	(1,443)	1,980	–	3,408	–	(5,879)	(593)
Purchases	3,783	4,571	2,973	20,664	–	18,232	577	4,279	55,079
Disposals	(165)	(261)	(5)	(206)	–	(840)	–	–	(1,477)
Depreciation	(2,303)	(5,029)	(2,115)	(20,078)	(2)	(21,854)	–	–	(51,381)
Impairment	(84)	(185)	(24)	(1,215)	–	(3,543)	(260)	(165)	(5,476)
Internal Capitalizations	–	206	–	–	–	–	–	–	206
Total changes in 2009	**2,336**	**774**	**(611)**	**108**	**(2)**	**(6,099)**	**317**	**(1,775)**	**(4,952)**
2009									
Historical cost	31,565	49,194	24,264	165,076	178	177,030	13,955	4,208	465,470
Accumulated depreciation	(11,854)	(29,641)	(17,847)	(111,135)	(178)	(96,489)	–	–	(267,144)
Balance at 31 December 2009	**19,711**	**19,553**	**6,417**	**53,941**	**–**	**80,541**	**13,955**	**4,208**	**198,326**

The main increases in the year relate to the refurbishment of stores or the opening of new stores, as summarised in the following table:

(Thousands of euros)

	Furniture, office equipment and fittings	Leasehold improvements	Total	Main stores refurbished or opened in 2009
Bulgari Corp. of America Inc.	5,749	11,554	17,303	San Francisco, Las Vegas, Scottsdale and Dallas (United States)
Bulgari Japan Ltd.	1,443	3,342	4,785	Nagoya, Osaka, Kashiwa (Japan)
Bulgari Commercial Shanghai Branch	1,597	–	1,597	Souzhou, Shenzhen (China)
Bulgari Deutschland GmbH	479	924	1,403	Colonia (Germany)
Macau branch (Bulgari Asia Pacific Ltd.)	1,323	–	1,323	Macao (Macao)
Bulgari Taiwan Ltd.	1,240	–	1,240	Taipei (Taiwan)
Bulgari Korea Ltd.	450	500	950	Seoul, Busan, Ulsan (Korea)
Bulgari France S.A.S	50	579	629	Printemps (France)
Others	8,333	1,333	9,666	
Total	**20,664**	**18,232**	**38,896**	

Investments in "Furniture, office equipment and fittings" include purchases of window displays costing 2,400 thousand euros and made by Bulgari Global Operations S.A for use by the third party distribution network for the presentation of BVLGARI products, investments of 1,563 thousand euros in computer hardware made by Bulgari S.p.A. and expenditure of 1,509 thousand incurred by Bulgari Parfums S.A. for perfume displays.

The increase in "Construction in progress and advance payments" relates principally to expenditure of 1,607 thousand euros incurred during the year for the refurbishment of an existing store and the opening of a new store in Shanghai, investments of 668 thousand euros made by Prestige D'Or S.A. for extensions to its factory and expenditure of 484 thousand euros incurred by Bulgari South Asian Operations Pte Ltd. for the new store in Singapore.
The decrease relates mainly to certain assets of Bulgari S.p.A entering use for the first time, including the company's new offices in Via del Tritone in Rome (3,536 thousand euros), reclassified mostly as leasehold improvements, and to the opening of stores by Bulgari Corporation of America Inc., including those in San Francisco and Scottsdale (United States).

The increase in "Plant and machinery" relates mainly to improvements made to the plant and machinery of Bulgari Time (Switzerland) S.A. (1,145 thousand euros), Bulgari S.p.A. (1,067 thousand euros), Daniel Roth et Gérald Genta Haute Horologerie S.A. (869 thousand euros), Bulgari Manifattura S.p.A. (523 thousand euros) and Bulgari Global Operations S.A. (405 thousand euros).

The increases in "Land and buildings" consists principally of the expenditure incurred by Bulgari Corporation of America Inc for planning and design relating to the opening of new stores or the refurbishment of existing stores, including those in San Francisco (1,634 thousand euros), Las Vegas (411 thousand euros), Dallas (286 thousand euros) and Scottsdale (252 thousand euros).

"Impairment" of 5,476 thousand euros includes 3.3 million euros of the cost of closing certain stores and 1.2 million euros for the costs connected with the restructuring of the watch business.

"Property, plant and equipment" at 31 December 2008 reflects a reclassification of museum pieces of 1,998 thousand euros to the category "Bulgari Museum" (of which 788 thousand euros regarding purchases made in 2008); these consist of unique watch pieces bearing the Daniel Roth & Gerald Genta name and the reclassification was made for a better presentation of the comparative figures.

On the basis of an appraisal carried out by an independent valuer the carrying amount of the store in Rome owned by Bulgari Italia S.p.A., which is accounted for at cost and classified in “Land and buildings”, is considerably lower than its fair value.

No information had been received from the group companies at 31 December 2009 as to the existence of any idle assets or of any fully depreciated property, plant and equipment still in use and having a significant value.

There were no charges on property, plant and equipment securing any of the Group’s liabilities at 31 December 2009.

8. Goodwill – 49,602 thousand euros

Changes in “Goodwill” during the year ended 31 December 2009 were as follows:

(Thousands of euros)

At 31 December 2008	**46,248**
Changes	
Arising from fluctuations in exchange rates	(5)
Increases	3,359
Decreases	–
Total changes	**3,354**
At 31 December 2009	**49,602**

The decrease arising from fluctuations in exchange rates regards the adjustment to exchange rates at the balance sheet date of the goodwill arising from the purchase of companies whose functional currency is different from the euro.
Increases relate to the purchase of the remaining 50% interest in Cadrans Design S.A (see note 1).

Goodwill is allocated to cash-generating units for the purposes of impairment testing. For production companies cash-generating units are considered to be the individual companies acquired, while for selling companies expected future cash flows have been considered on an overall basis, namely by also taking into account the margins that will be earned by the Division to which they belong from production or logistics.

Goodwill is allocated in the following manner:

(Thousands of euros)

Cash-generating unit	Goodwill
Bulgari Manifattura S.p.A.	13,540
Bulgari South Asian Operations Pte Ltd.	10,032
Daniel Roth et Gérald Genta Haute Horlogerie S.A.	5,531
Bulgari Corporation of America Inc.(*)	4,909
Bulgari Asia Pacific Ltd.	4,695
H. Finger A.G..	4,039
Cadrans Design S.A.	3,676
Bulgari (Taiwan) Ltd.	1,003
Other companies	543
JWA Division	**47,968**
Perfume and Cosmetics Division	**1,634**
At 31 December 2009	**49,602**

(*) Goodwill paid by Bulgari Corporation of America for the purchase of the store in Honolulu (Hawaii).

The recoverable amount of recognised goodwill is estimated by calculating its value in use, determined as the current value of forecast cash flows using a discount rate that reflects the specific risks of the individual cash-generating units at the measurement date.
The forecast cash flows used in the impairment test were based on the 2010 Budget approved by the steering committee of the Parent and business plans prepared by the management of the Group's Divisions having a time horizon of five years. In addition, a terminal value was estimated by calculating the suitably normalised operating cash flows required to maintain ordinary operating conditions and considering a nominal annual growth rate ranging between 0% and 2%.

The discount rate used was calculated by using the W.A.C.C. (Weighted Average Cost of Capital) method, namely by weighting the expected rate of return from invested capital and the cost of debt capital.

The main assumptions made for performing the impairment test were as follows:

	31/12/2009	**31/12/2008**
Growth rate of terminal values	from 0% to 2%	from 0% to 2%
Discount rate	from 9% to 12%	10%

The results of this testing confirmed that the recoverable amounts of the cash-generating units remain significantly higher than the respective carrying amount including goodwill and accordingly no impairment losses have been recognised at 31 December 2009.

The estimates and budget data to which the above parameters were applied were determined by Group management on the basis of past experience and growth expectations in the markets in which the Group operates. A sensitivity analysis with respect to the parameters used for impairment testing shows that the result of a combined effect of a decrease of 1% in the growth rate and an increase of 1% in the discount rate or the result of a combined effect of a decrease of 10% in cash flows and an increase of 1% in the discount rate would not have led to impairment losses.

Nevertheless calculating the recoverable amount of the cash-generating units is subjective and requires management to make estimates, and accordingly there can be no assurance that impairment losses will not need to be recognised for goodwill in future periods. The external and internal factors that might lead to the requirement for impairment testing to be performed more than once a year, will be constantly monitored by the Group.

9. Other intangible assets – 83,825 thousand euros

The composition of and changes in "Other intangible fixed assets" are as follows:

(Thousands of euros)

	Development expenditure	Industrial patents and intellectual property rights	Concessions, trademarks and licences	Assets under development and advances	Expenditure for taking over premises and other	Total
2007						
Historical cost	11,177	73,101	3,460	13,124	32,265	133,127
Accumulated amortisation	(8,263)	(43,379)	(2,468)	–	(5,800)	(59,910)
Balance at 31 December 2007	**2,914**	**29,722**	**992**	**13,124**	**26,465**	**73,217**
Changes in 2008						
Exchange rate fluctuations	199	165	2	799	(800)	365
Change in consolidation scope	–	–	–	–	–	–
Reclassifications	588	1,070	(905)	(5,946)	5,663	470
Purchases	2,246	14,571	52	4,319	15	21,203
Amortisation	(1,565)	(10,002)	(34)	–	(1,673)	(13,274)
Impairment	–	–	–	–	(174)	(174)
Total changes in 2008	**1,468**	**5,804**	**(885)**	**(828)**	**3,031**	**8,590**
2008						
Historical cost	15,169	89,377	183	12,296	36,606	153,631
Accumulated amortisation	(10,787)	(53,851)	(76)	–	(7,110)	(71,824)
Balance at 31 December 2008	**4,382**	**35,526**	**107**	**12,296**	**29,496**	**81,807**
Changes in 2009						
Exchange rate fluctuations	89	(11)	2	31	191	302
Change in consolidation scope	–	24	–	–	–	24
Reclassifications	(54)	2,637	–	(1,990)	–	593
Purchases	2,291	12,459	173	2,257	–	17,180
Amortisation	(1,974)	(11,533)	(83)	–	(1,754)	(15,344)
Impairment	(713)	(14)	–	–	–	(727)
Internal Capitalizations	88	–	–	1,274	–	1,362
Disposals	–	–	–	–	(1,372)	(1,372)
Total changes in 2009	**(273)**	**3,562**	**92**	**1,572**	**(2,935)**	**2,018**
Year 2009						
Cost	16,680	104,398	359	13,868	34,764	170,069
Accumulated amortisation	(12,571)	(65,310)	(160)	–	(8,203)	(86,244)
Balance at 31 December 2009	**4,109**	**39,088**	**199**	**13,868**	**26,561**	**83,825**

The increases in "Development expenditure" mainly regard the new fragrances to be released onto the market and skin tests for perfumes carried out by Bulgari Parfum S.A. (1,137 thousand euros), as well as the expenditure incurred by Daniel Roth ed Gérald Genta Haute Horlogerie S.A. for the development of prototypes (1,033 thousand euros).

The increases in "Industrial patents and intellectual property rights" is mostly due to the purchase of application software licences for the management of various business activities carried out by the parent Bulgari S.p.A. (11,739 thousand euros).

The increases in “Assets under development and advances” relate primarily to investments made by Bulgari S.p.A. to develop application software regarding procedures and programmes that were still at the implementation stage at 31 December 2009 (2,257 thousand euros).

“Disposals” refer to the sale of part of the premises in London (New Bond Street) in 2009. The net gain of 873 thousand euros arising from the difference between the sales proceeds of 2,252 thousand euros and the carrying amount of the property at the date of sale of 1,372 thousand euros has been recognised in “Other selling, general and administrative expenses”.

There are no restrictions on the ownership of intangible assets or charges securing any of the Group’s liabilities.

“Research and development expenditure” recognised directly as an expense in the income statement during the year amounted to 2,050 thousand euros.

10. Investments in other companies

This item consists available-for-sale investments in the closed investment funds Opera Partecipations S.c.a. and Opera Partecipations 2 S.c.a., in which Bulgari International Corporation N.V. holds respectively 11.72% and 7.61% of the total shares having dividend rights.
The expectations of recovery of the units held in these funds based on the sale of the investments held previously confirm that the carrying amounts are reasonable.
This item also includes the investments in Opera SGR (12.5%) and Opera Management (11.45%).

(Thousands of euros)

	Opera Partecipations S.c.a.	Opera Partecipations 2 S.c.a.	Opera Sgr	Opera Management	Total
At 31/12/2008	**10,736**	**1,804**	**138**	**14**	**12,692**
Increases	–	729	–	–	**729**
Decreases	–	–	–	–	–
At 31/12/2009	**10,736**	**2,533**	**138**	**14**	**13,421**

The increase of 729 million euros relates to capital payments made in 2009 for the purpose of funding the purchase of interests in companies identified from time to time by the fund manager Opera Management.

11. Other current and non-current financial assets

(Thousands of euros)

	31/12/2009	31/12/2008
Current financial assets		
Current financial receivables	2,726	19,636
	2,726	**19,636**
Non-current financial assets		
Guarantee deposits	35,213	37,672
Other	6	6
Total other non-current financial assets	**35,219**	**37,678**
Non-current financial receivables	418	1,301
	35,637	**38,979**

Current financial receivables include the effect of currency and gold price hedges which expire within one year of the reporting date.

The principal balance included in guarantee deposits is an amount of 23,064 thousand euros (24,343 thousand euros at 31 December 2008) paid as a deposit for the rental of the stores and premises in Tokyo by the subsidiary Bulgari Japan Ltd.. The decrease in this item is in part due to the depreciation of the yen with respect to the euro and in part to the refunding of certain guarantee deposits.

Non-current financial receivables are all due from related parties and include an amount of 337 thousand euros representing the portion not eliminated on consolidation (of 35%) of long-term subordinated loans granted to Bulgari Hotels and Resorts B.V. and an amount of 81 thousand euros relating to long-term subordinated loans made to Bulgari Hotels & Resorts Milano S.r.l.; both companies are consolidated using the proportionate method. These loans are repayable in April 2027 and interest is charged on a quarterly basis at a rate of EURIBOR +3%.
The decrease over 31 December 2008 is due to the fact that Cadrans Design S.A., consolidated on a proportionate basis up to that date, became fully owned in March 2009 and is now consolidated on a line-by-line line basis, with the consequent effect on the treatment on consolidation of a long-term loan of 872 thousand Swiss francs (587 thousand euros) granted by Bulgari Global Operations S.A to Cadrans Design S.A. that is repayable in March 2017 and bears interest of 3.5%; and to the conversion into share capital of a financial receivable of 1 million euros due from Bulgari Hotels & Resorts Milano S.r.l. that has been fully eliminated on the consolidation of equity investments.

12. Deferred Taxes

Details of deferred taxes are set out in the following table, with a description of the items which generate the main temporary differences:

(Thousands of euros)

	At 31/12/2008	Increases	Decreases	Other changes	At 31/12/2009
Elimination of intragroup profits	15,586	–	(995)	(352)	14,239
Property, plant and machinery	2,974	4,539	(12)	(216)	7,285
Other accruals	7,402	12,815	(5,675)	(263)	14,279
Deferred tax assets	**25,962**	**17,354**	**(6,682)**	**(831)**	**35,803**
Accelerated depreciation/amortization	(1,168)	–	50	–	(1,118)
Undistributed profits	(2,475)	–	883	–	(1,592)
Allowance for inventory write-down	(7,690)	(431)	2,456	27	(5,638)
Employee benefit obligations	(330)	(15)	–	–	(345)
Allowance for impairment	(663)	(1)	471	8	(185)
Other accruals	(243)	(335)	221	(72)	(429)
Deferred tax liabilities	**(12,569)**	**(782)**	**4,081**	**(37)**	**(9,307)**
Total deferred taxes	**13,393**	**16,572**	**(2,601)**	**(868)**	**26,496**

The increase in "Other accruals" arises from the recognition of deferred tax assets relating to the tax losses of Bulgari Japan and those of the Parent and its Italian subsidiaries which take part in the tax consolidation scheme.
More specifically, deferred tax assets of 31 million euros have been recognised on the tax losses of Bulgari S.p.A.and its Italian subsidiaries and 9 million euros for Bulgari Japan. These assets have been recognised on the basis of the earnings prospects included in business plans which show that it is probable that taxable profit will be available in future years to enable all the deferred tax assets recognised to be recovered.
The column "Other changes" consists primarily of the exchange rate effect of translating financial statements of companies whose functional currency is different from the euro.

13. Inventories

Inventories are made up as follows:

(Thousands of euros)

	31/12/2009			31/12/2008		
	Gross	**Allowance**	**Net**	**Gross**	**Allowance**	**Net**
Raw materials	73,542	1,232	72,311	60,351	376	59,975
Work in progress and semi-finished goods	157,771	26,781	130,989	192,782	16,768	176,014
Finished goods and packaging	439,373	27,187	412,186	515,638	23,769	491,869
	670,686	**55,200**	**615,486**	**768,771**	**40,913**	**727,858**

The net balance of 615,486 thousand euros at the end of the year represents a net decrease of 112,372 thousand euros, or 15.43%, over that at 31 December 2008.
This decrease is attributable to the improvement and optimisation of inventory rotation which has been achieved on the basis of a rationalisation and clearance strategy undertaken by management.
The allowance of 55,200 thousand euros at 31 December 2009 is management's best estimate of the losses expected to be incurred by the Group; this is based on past experience and the expected trend of sales by product type.
The gross amount of inventories at 31 December 2008 is stated after the reclassification to "Property, plant and equipment" of the unique watch pieces bearing the Daniel Roth & Gerald Genta name, which as discussed in note 7, was carried out to improve presentation.

14. Trade receivables

Trade receivables are made up as follows:

(Thousands of euros)

	31/12/2009				31/12/2008
	Receivable from customers	**Allowance for bad debts impairment**	**Provision for returns**	**Net balance at 31/12/2009**	**Net balance at 31/12/2008**
End customers and distributors	133,915	4,760	2,627	126,528	160,849
Franchisees	22,355	82	401	21,872	21,043
	156,270	**4,842**	**3,028**	**148,400**	**181,892**

Given their nature, the carrying amount of the Group's trade receivables approximates their fair value.

The following table provides an analysis by due date of gross trade receivables:

(Thousands of euros)

	Within 1 year	From 1 to 5 years	Over 5 years	Disputed Receivables	Balance at 31/12/2009
End customers and distributors	126,661	6,265	7	982	133,915
Franchisees	22,343	12	–	–	22,355
	149,004	**6,277**	**7**	**982**	**156,270**

Changes in the "Allowance for impairment" during the year were as follows.

(Thousands of euros)

	Balance at 31/12/2008	Accruals for the year	Utilisation	Other changes	Balance at 31/12/2009
End customers and distributors	4,558	3,759	(2,177)	(1,380)	4,760
Franchisees	83	–	–	(1)	82
	4,641	**3,759**	**(2,177)**	**(1,381)**	**4,842**

The accrual for the year of 3,759 thousand euros is classified as part of "Net operating expenses" in the income statement.
The column "Other changes" amounting to (1,381) thousand euros includes an amount of (1,378) thousand euros relating to the transfer to profit or loss of accruals to the allowance made in 2008.

The provision for returns of 3,028 thousand euros at 31 December 2009 consists of accruals relating to 2009 for estimated future returns forming part of the Group's ordinary operations that result from the sale to third parties, product distributors and franchisees.

Changes in the "provision for returns" during the year were as follows.

(Thousands of euros)

	Balance at 31/12/2008	Accrual for the year	Utilisation	Other changes	Balance at 31/12/2009
End customers and distributors	2,738	2,618	(2,618)	(111)	2,627
Franchisees	–	377	–	24	401
	2,738	**2,995**	**(2,618)**	**(87)**	**3,028**

The accrual for the year of 2,995 thousand euros is classified as "Gross sales" in the income statement.
The column "Other changes" amounting to (87) thousand euros represents the exchange rate effect arising from translating the financial statements of companies whose functional currency is different from the euro.

15. Other current and non-current assets

(Thousands of euros)

	31/12/2009	31/12/2008
Other current assets:		
Other current tax receivables	30,938	32,984
Prepayments and accrued income	12,554	14,592
Advances to suppliers	2,747	3,303
Due from social security organisations	876	651
Other	10,075	2,972
Total other current assets	57,190	54,502
Other non-current assets:		
Other non-current tax receivables	16,664	16,258
Other	104	282
Total other non-current assets	16,768	16,540

Other current assets

The decrease in “Other current tax receivables” is mainly due to VAT receivables which amounted to 13,608 thousand at 31 December 2009 (19,381 thousand at 31 December 2008).

“Prepayments and accrued income” are made up as follows:

(Thousands of euros)

	31/12/2009	31/12/2008
Total accruals	422	42
Insurance	721	915
Lease instalments	9,013	9,915
Other prepayments	2,398	3,720
Total prepayments	12,132	14,550
	12,554	**14,592**

More specifically “Other prepayments”, which amount to 2,398 thousand euros (3,720 thousand euros at 31 December 2008), consist mainly of the following: 770 thousand euros for promotional expenses and events (2,118 thousand euros at 31 December 2008), 563 thousand euros for consulting and various rentals (396 thousand euros at 31 December 2008), 216 thousand euros for maintenance (157 thousand euros at 31 December 2008) and 184 thousand euros for utilities (170 thousand euros at 31 December 2008).

“Advances to suppliers” of 2,747 thousand euros relate mainly to promotional expenses of 933 thousand euros, payments in advance of 742 thousand euros for purchases of raw materials and sundry supplies and VAT of 410 thousand euros due to the customs authorities on importing goods.

“Other” of 10,075 thousand euros (2,972 thousand euros at 31 December 2008) has increased considerably over the year, due mainly to receivables of respectively 4,000 thousand euros and 2,252 thousand euros arising from the sale to third parties of stores and premises in Paris (Vendome) and London (New Bond Street) respectively. This item also includes receivables from intermediaries of 1,575 thousand euros for the recovery of VAT, insurance receivables of 276 thousand euros and guarantee deposits refundable within 12 months of 255 thousand euros.

The carrying amount of “Other current assets” approximates their fair value.

Other non-current assets

“Other non-current assets” of 16,664 thousand euros consist mainly of other tax credits due after more than 12 months relating to VAT refunds applied for by Bulgari S.p.A. (for 13,129 thousand euros) and Bulgari Gioielli S.p.A. (for 3,119 thousand euros).

The decrease in “Other”, which amounts to 104 thousand euros (282 thousand euros at 31 December 2008), relates to a receivable of 172 thousand euros due from Bulgari International Corporation (BIC) N.V. and collectible in June 2010 regarding the sale of shares of Opera Partecipations 2 ScA.; this balance has been reclassified to “other current assets” at 31 December 2009.

The book value of “Other non-current assets” approximates their fair value as it also includes accrued interest income.

16. Cash and cash equivalents

This item consists of short-term highly liquid financial investments readily convertible into cash and subject to immaterial risk.

Cash and cash equivalents, for which there is no restriction on use, are made up as follows:

(Thousands of euros)

	31/12/2009	31/12/2008
Bank deposits	29,532	24,600
Cash and cheques	1,046	1,555
Overdrafts	(1,345)	(6,275)
	29,233	**19,880**

"Bank deposits" consist of balances on current accounts at prime national and international banks where available funds are held in different currencies.
The carrying amount of "cash and cash equivalents" equals their fair value at the balance sheet date.

17. Equity

Share capital

Share capital at 31 December 2009 amounted to 21,092 thousand euros, inclusive of owned treasury shares, and consisted of 301,309,060 shares each of par value of 0.07 euros, all fully subscribed and paid up.

A total of 679,250 new shares were issued during the year in connection with the stock option plans reserved for certain employees, with the resulting increase of 48 thousand euros in share capital.

A dividend of 0.10 euros per share was distributed in May 2009 for a total of 30,063 thousand euros, as resolved by shareholders in general meeting on 16 April 2009.

Legal reserve

There has been no change in the legal reserve of 5,762 thousand euros during the year as it has already reached the maximum of one fifth of share capital provided by article 2430 of the Italian civil code.

Share premium reserve

The net increase of 2,883 thousand euros in the share premium reserve, which at 31 December 2009 amounted to 93,117 thousand Euros, relates to the above-mentioned issue of 679,250 new shares.

Translation reserve

The translation reserve of 27,759 thousand euros at 31 December 2009 represents the cumulative effect of the exchange gains and losses resulting from the difference between the balances obtained from the translation into euros at historic rates of the equity items of subsidiaries whose financial statements are prepared in a currency other than the euro, being those at the date of their formation, and those obtained using closing rates.

Hedging reserve

The hedging reserve of 1,150 thousand euros at 31 December 2009 consists of the effective portion of the accumulated net change in the fair value of financial instruments hedging cash flows. The increase in the year represents changes in fair value compared to the previous year end that have arisen from currency transactions (approximately 15.2 million euros) and gold transactions (approximately 2.7 million euros).

Other reserves

This account consists of the treasury share premium reserve (696 thousand euros), the extraordinary reserve (28 thousand euros), the taxed reserve (145 thousand euros) and the contribution reserve (1,933 thousand euros). The net increase of 12,841 thousand consists of an increase of 13,182 thousand euros for the equity component arising from the issue of the bond, for which further details may be found in note 19, and a decrease of 341 thousand euros consisting of lawyers' and auditors' fees relating to the above share capital increase.

Stock option reserve

The stock option reserve of 14,150 thousand euros at 31 December 2009 represents the balancing entry of the fair value loss recognised in profit or loss on options granted to certain employee categories and the chief executive officer.

18. Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based on the loss attributable to ordinary shareholders of –47,095 thousand euros (profit of 82,865 thousand euros for the year ended 31 December 2008) and a weighted average number of 300,969 thousand shares outstanding during the year, calculated in the following manner:

(Thousands of euros)

	2009	2008
Ordinary shares at 1 January	300,630	300,294
Treasury shares at 1 January	–	(800)
Treasury shares sold during the year	–	800
Issue of new shares	679	336
Ordinary shares at 31 December excluding treasury shares	301,309	300,630
Weighted average of ordinary shares	**300,969**	**300,062**

Diluted earnings per share

The calculation of diluted earnings per share is based on the loss attributable to ordinary shareholders of –47,095 thousand euros (profit of 82,865 thousand euros for the year ended 31 December 2008) and a weighted average number of 302,938 thousand shares outstanding during the year.

(Thousands of euros)

	2009	2008
Weighted average of ordinary shares	300,630	300,062
Dilutive effect of options	2,308	2,703
Weighted average of ordinary shares (diluted)	**302,938**	**302,765**

19. Current and non-current financial liabilities

Information on the Group's financial liabilities is as follows:

(Thousands of euros)

	31/12/2009	31/12/2008
Current financial payables		
Current bank loans and borrowings	37,642	238,068
Other current financial payables	244	20,839
	37,886	**258,907**
Non-current financial payables		
Non-current bank loans and borrowings	75,081	82,438
Other non-current financial payables	136,214	3,030
	211,295	**85,468**

Details of "current bank loans and borrowings" by individual company are as follows:

(Thousands of euros)

	Balance at 31/12/2009	Interest rate	Balance at 31/12/2008	Interest rate
Bulgari S.p.A.	–	–	83,030	4.98%
Bulgari Japan Ltd.	22,319	1.23%	75,947	1.15%
Bulgari Global Operations S.A.	9,100	1.10%	45,926	3.10%
Bulgari Commercial (Shanghai) Co. Ltd.	2,542	6.31%	7,898	7.10%
Bulgari (Thailand) Ltd.	–	–	3,976	3.44%
Bulgari (Taiwan)Ltd.	1,614	1.90%	3,729	2.98%
Bulgari Asia Pacific Ltd.	–	–	3,570	2.27%
Bulgari Malaysia Sdn.	1,580	3.72%	3,455	4.91%
Prestige d'Or S.A.	337	2.75%	3,435	2.40%
Bulgari South Asian Operations Pte Ltd.	–	–	2,495	3.18%
Bulgari Korea Ltd.	150	4.29%	2,367	6.24%
Bulgari Australia Pty. Ltd.	–	–	1,558	6.80%
Cadrans Design S.A.	–	–	682	1.04%
	37,642		**238,068**	

The current loans and borrowings taken out by the Group consist of the utilisation of uncommitted credit facilities amounting to 28.5 million euros and the short-term utilisation of 9.1 million euros of a credit facility committed until 30 June 2012. The weighted average interest rate of current loans and borrowings is 1.70%.

In order to further improve its ability to obtain medium-term funding the Group also has committed and unused credit facilities of 105.4 million euros opened in 2009 and having a weighted average residual term of 2.5 years.

The Group has a total of 398 million euros in uncommitted credit facilities that it may use for its liquidity requirements.

The significant decrease in current financial payables is due to a reduction in consolidated net debt and to a diversification of funding sources that has been achieved by the issue by Bulgari S.p.A. of a long-term convertible bonds maturing in 2014. The proceeds of this issue have been allocated to Group companies. The decrease of 53,628 thousand euros in the loans granted to Bulgari Japan Ltd. is due to an improvement in the company's net financial position.

Credit facilities obtained in connection with currency and gold price derivatives amount to approximately 1,200 million euros, of which approximately 255 million euros had been used at year end. The nominal amount of credit facilities granted to Bulgari by banks in connection with derivative transactions equals approximately 15% of the nominal amount of the derivatives.

"Other current financial payables" of 244 thousand euros consist exclusively of liabilities regarding hedges of currency risk gold, interest rate risk and commodity price risk.

The following tables provide details of "non-current financial payments" with a separate indication of the repayment date, the interest rate and the original balance in foreign currency:

Non-current bank loans and borrowings

(Thousands of euros)

				Balance at 31/12/2009
Due date				**Interest rate**
Currency				
Bulgari Japan Ltd.	15,020	2019	2.30%	Yen 2,000,000,000
	11,265	2011	1.90%	Yen 1,500,000,000
	11,265	2011	1.85%	Yen 1,500,000,000
	11,265	2012	1.42%	Yen 1,500,000,000
	11,265	2013	1.48%	Yen 1,500,000,000
	7,510	2013	1.47%	Yen 1,000,000,000
	3,755	2012	1.56%	Yen 500,000,000
	2,688	2013	1.85%	Yen 358,000,000
	374	2011	1.44%	Yen 50,000,000
	74,407			**Yen 9,908,000,000**
Prestige d'Or S.A.	674	2012	3.45%	CHF 1,000,000
	674			**CHF 1,000,000**

Other non-current financial payables

(Thousands of euros)

	Balance at 31/12/2009	**Due date**	**Interest rate**	**Currency**
Bulgari S.p.A.	133,871	2014	8.03%	Euro 133,870,663
Bulgari Hotels & Resorts Milano S.r.l.	1,145	2027	Euribor + 3%	Euro 1,144,593
Bulgari Hotels & Resorts B.V.	1,070	2027	Euribor + 3%	Euro 1,070,419
H. Finger AG	128	2011	9.28%	CHF 190,414
	136,214			

The indexed bond issue was completed on 8 July 2009. The bonds were fully placed with institutional investors on 10 June 2009 and are listed on the Luxembourg stock exchange.

The purpose of this issue, taken together with the other transactions carried out during the year, was to strengthen the Group's debt structure by increasing the average term of its debt.

The main features of the bond may be summarised as follows:

– Amount: .... 150 million euros

– Redemption date: .... 8 July 2014

– Coupon: .... fixed rate, 5.375%, six-monthly

– Conversion price: .... 5 euros

The debt component of the bonds of 133,871 thousand euros is classified under “other non-current financial payables” and the principal portion of 13,182 thousand euros under “other reserves” in equity.
The bond offering circular and other information are available on the Group’s website: http://ir.bulgari.com/bulgarigroup/bond/...

20. Derivative financial instruments

In March 2009 the IASB issued an amendment to IFRS 7 that requires financial instruments measured at fair value to be classified on the basis of the quality of the inputs used in determining fair value.

IFRS 7 requires the following hierarchy to be used for the determination of fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: valuation models whose inputs are not based on observable market data (unobservable inputs).

The Group’s outstanding derivatives at 31 December 2009 are not listed on regulated markets (such as futures traded on the Borsa italiana exchange) but may be traded on over the counter markets having a sufficient level of liquidity; the measurement of the fair value of these instruments is “based on a valuation technique whose variables include only data from observable markets, other than quotations of the financial instrument” and therefore fall into the “level 2” category of the amendment to IFRS 7 issued by the IASB in March 2009.

The following table sets out the notional amount and fair value of outstanding derivatives at 31 December 2009, grouped by type.

(Thousands of euros)

	Fair value hierarchy	Notional amount		Fair value		Difference
		31/12/2009	31/12/2008	31/12/2009	31/12/2008	
Cash flow hedge derivatives						
– Foreign exchange	2	118,217	176,389	970	(16,387)	17,357
– Commodities	2	17,789	38,402	627	(2,046)	2,673
Fair value hedge derivatives						
– Foreign exchange	2	113,833	341,527	447	16,650	(16,203)
– Commodities	2	542	1,198	6	(16)	22
– Interest rate	2	70,000	–	27	–	27
Trading derivatives (*)						
– Foreign exchange	2	5,000	22,523	(66)	(1,113)	1,047
– Commodities	2	–	9,209	–	(459)	459
– Interest rate	2	20,000	–	(87)	–	(87)
TOTAL		**345,381**	**589,248**	**1,924**	**(3,371)**	**5,295**
of which:						
CURRENT FINANCIAL ASSETS		248,697	341,527	2,049	16,650	(14,601)
CURRENT FINANCIAL LIABILITIES		96,684	247,721	(125)	(20,021)	19,896

(*) Although these transactions have been entered into for hedging purposes they do not always qualify for hedge accounting under the IFRS, as discussed in the section "Accounting principles and policies", and accordingly are reclassified as "trading". In the specific case these relate to derivatives designated as cash flow hedges.

Currency and commodity hedges

The Group is exposed to fluctuations in foreign exchange rates with the functional currency. This exposure relates mainly to the Japanese yen and U.S. dollar.

In order to reduce this risk the net currency exposure arising from trade receivables and payables and from estimated net flows in foreign currency arising from the forecast sales and purchases of the next 15 months, as included in the annual budget and quarterly revisions, is kept at an acceptable level by entering into derivatives contracts (mainly forward contracts and to a residual extent options contracts). Outstanding derivatives contracts at 31 December 2009 had terms of less than 12 months and their effect on profit or loss will also occur by the end of December 2010.

Interest rate hedges

In order to reduce its financial expense the Group uses hedging instruments that enable interest rates on a certain proportion of its debt to be converted from floating rate to fixed rate and vice versa. This proportion is linked to the Group's borrowing requirements, the average term of these requirements and the market in question (country-currency): in the specific case the interest payable on a portion of the bond amounting to 70 million euros has been converted from fixed rate to floating rate with an interest rate swap, and a portion of short-term debt amounting to 20 million euros has been hedged with an interest rate collar.

Determination of fair value

Derivatives are measured at fair value by using quoted prices or by discounting future cash flows and then comparing them to current market prices. Market quotations refer to official fixings (by central banks and associations of banks) or quotations of financial intermediaries published by financial information providers. Fair value calculation models also make reference to those quotations.

Fair value – sensitivity analysis

The fair value of currency derivatives designated as cash flow hedges was 970 thousand euros at 31 December 2009. An adverse change of 10% in the spot rate alone, applied to all the currencies, compared to the official closing rate at that date would have led to a theoretical negative fair value of 2,171 thousand euros. On the other hand a favourable change of 10% in exchange rates would have led to a positive fair value of 3,146 thousand euros.

Derivatives relating to the price of gold, designated as cash flow hedges, had a positive fair value of 627 thousand euros at 31 December 2009. A hypothetical decrease of 10% in the spot price of gold would have led to a negative fair value of 1,159 thousand euros. A hypothetical favourable change of 10% in the spot price of gold compared to the official fixing at 31 December 2009 (and therefore a higher price) would have led to a positive fair value of 2,398 thousand euros.

The fair value of interest rate derivatives originally designated as cash flow hedges, used to convert fixed rates to variable rates on a notional amount of 20 million euros, is negative 87 thousand euros at 31 December 2009. A hypothetical decrease of 10% in interest rates on all maturities would have led to a negative fair value of 278 thousand euros. A hypothetical increase of 10% in interest rates on all maturities would have led to a positive fair value of 25 thousand euros.

Outstanding derivatives at 31 December 2009 for which there are trade receivables and payables recognised in the statement of financial position at that date have been excluded from the sensitivity analysis; any changes in the amount of these items due to fluctuations in exchange rates would be equal and opposite to the changes in the value of the derivatives designated as the respective hedges and would offset the effect on profit or loss.
For the same reason derivatives entered into for treasury purposes, meaning those hedging financial receivables and payables in foreign currency, are excluded from the fair value sensitivity analysis, as are interest rate hedges designated as fair value hedges, in the circumstances instruments converting fixed rate to variable rate on a notional of 70 million euros.

A fair value sensitivity analysis for currency derivatives may be found in note 27.

21. Employee benefits

Group companies provide their employees with post-employment benefits both directly and by contributing to outside funds. The means by which these benefits are provided vary, depending on the laws, regulations and employment agreements prevailing in the countries in which the Group operates. Benefits are usually based on remuneration and seniority.
More specifically there are two types of plan, depending on the way in which these benefits are given, those of a defined benefit nature and those of a defined contribution nature.
In the case of defined contribution plans the Group pays contributions to public or private insurance entities in accordance with a specific legal or contractual obligation or on a voluntary basis. By paying this contribution, the Group extinguishes its legal and constructive obligation to the employee.
Defined benefit plans may be unfunded (such as the Italian post-employment benefit (TFR) until 31 December 2006) or may be fully or partly funded by contributions paid by the entity, and occasionally its employees, to a legally separate company or fund which pays the benefits to the employees.
At the end of December 2007, the Group companies based in Switzerland set up a pension fund (the "Fund") for their employees. This Fund is legally separate from the Group and independently manages the plan assets. The Group's contribution strategy provides for payment to the Fund of the amount necessary to meet the minimum requirements imposed by the law and the Fund's regulations. Should the Fund be underfunded with respect to the legally required minimum, the Group companies involved are not obliged to cover the shortfall. However, the

Fund's bodies must propose a plan to the supervisory authority in accordance with prevailing laws and regulations which sets out the concrete measures aimed at ensuring the Fund's financial balance in the long term.
The Fund's investment strategy is based on the following asset allocation:

Allocation by asset category	**2009**	**2008**
Bonds	46.7%	50%
Shares	26.9%	20%
Other investments	–	15%
Real Estate securities	10.5%	10%
Liquidity	15.9%	5%

Post-employment benefits at 31 December 2009 may be analysed as follows:

Employee benefit plans

(Thousands of euros)

	31/12/2009	**31/12/2008**
Defined benefit plans	8,401	9,799
Defined contribution plans	7,493	6,347
	15,894	**16,146**

The Group's obligation for the defined benefit plans was determined using valuations performed by independent actuaries using the "projected unit credit method".
The assumptions used for the actuarial calculation for these plans are summarised below:

Assumptions	**Post-employment benefits (TFR) 31 December 2009**	**Swiss pension funds 31 December 2009**
Annual discount rate	5.10%	3.50%
Annual inflation rate	2.00%	N/A
Annual salary increase rate	3.00%	0.50%
Expected rate of return on plan assets	N/A	4%
Mortality rate	ISTAT tables 2004	EVK2000
Disability rate	*Social security rate*	EVK2000
Turnover	3.50%	BVG2000

Changes during the year in the statement of financial position for defined benefit plans relating to the employees' post-employment benefits are as follows:

(Thousands of euros)

	Note	**2009**	**2008**
Post-employment benefits (TFR) at 1 January		**9,779**	**10,241**
Service cost		115	52
Interest expense	**5**	541	493
Amortisation of actuarial gains and losses		–	(7)
Total cost recognised in profit or loss		**656**	**538**
Payments made		(2,034)	(1,000)
Post-employment benefits (TFR) at 31 December		**8,401**	**9,779**

Personnel expenses

Personnel expenses may be analysed as follows:

(Thousands of euros)

	Note	2009	2008
Wages and salaries		158,675	160,272
Social security charges		33,848	34,038
Sales commissions		7,333	7,243
Accrual for post – employment benefits (TFR)		–	45
Accrual for other employment benefits		4,412	4,479
Hiring and training		1,348	4,930
Other costs		9,761	12,615
		215,377	**223,622**
Salesmen's commissions		(7,333)	(7,243)
Transfer to cost of sales		(25,465)	(26,476)
	4	**182,579**	**189,903**

Personnel expenses relates to the selling and administrative functions.
The item "Defined contribution plans" includes the liabilities accrued by the foreign companies as well as the additional portion of the Italian employees' post-employments benefits for Italian Group companies with fewer than 50 employees. These liabilities are calculated considering past service cost and the employee's remuneration upon termination of service.

The average number of employees of companies included in the consolidation, analysed by category, is as follows:

Average number of employees	2009	2008
Executives and middle management	511	491
White-collar workers	2,986	2,929
Blue-collar workers	412	427
	3,909	**3,847**

This table does not include the average number of employees with companies consolidated on a proportionate basis (amounting to 111).
The average is calculated as the average of the exact number of employees for each month of the year.
"Executives and middle management" include employees holding managerial positions in foreign companies.

Share-based payments

The Group has stock option plans for the chief executive officer and certain categories of manager.
The options are granted at the average officially quoted price of the thirty days preceding the grant date. The vesting period is variable, ranging from nine months to four years. Options may be exercised for a period of up to five years and six months from the vesting date.

Considering that all the plans have similar features, the information below is presented in a combined manner.

"Other costs" include costs of 2,630 thousand euros relating to all outstanding stock options at 31 December 2009. This figure has been determined at a fair value ranging between 1.01 and 2.56 euros per share using the method described in "Accounting policies".

The parameters used in the determination of this cost, namely the determination of the fair value of the options at the grant date, are as follows:

Dividend yield:	from 2.7% to 9.1%
Stock price volatility:	from 22% to 41%
“Risk free” interest rate:	from 3.8% to 4.8%
Average expected option term:	from 2.4 to 4.8 years

Stock options relating to plans previously approved by shareholders were exercised in 2009 for a total of 679,250 shares, with a consequent increase in share capital of approximately 48 thousand euros.

In accordance with the resolution passed by shareholders in general meeting on 18 April 2008, on 12 May 2009 the board of directors of Bulgari S.p.A. resolved to grant 300,000 stock options to the chief executive officer exercisable from July 2010 and a further 300,000 options exercisable from July 2011, all at a price of 4 euros.

Again on 12 May 2009 certain members of management were granted 312,000 options exercisable from July 2010, 312,000 options exercisable from July 2011, 122,500 options exercisable from July 2012, 372,500 options exercisable from July 2013 and 250,000 options exercisable from July 2014, all at a price of 4 euros.

Settlement will be on the physical delivery of the shares as per the previous plans.

Information relating to changes in stock option plans during 2009 is set out in the following table:

Prices in euros	**2009**			**2008**		
	Number of options	**Average exercise price**	**Market price (*)**	**Number of options**	**Average exercise price**	**Market price (*)**
(1) Options at 1 January	8,457,000	7.29	4.42	7,629,100	8.23	9.56
(2) New options granted in the year	1,969,000	4.00	4.15	3,123,000	6.96	6.82
(3) (Options exercised in the year)	(679,250)	4.31	4.43	(336,250)	4.29	7.17
(4) (Options cancelled in the year)	–	–	–	(1,516,000)	11.66	7.17
(5) (Options expiring in the year)	(559,750)	7.65	4.43	(442,850)	8.49	7.17
(6) Options at 31 December	9,187,000	6.78	5.76	8,457,000	7.29	4.42
(7) Of which: exercisable at 31 December	5,406,000	7.64	–	4,841,000	7.36	–

NOTE: (6) = (1)+(2)+(3)+(4)+(5)

(*) Market price means the annual average for the options at (3), (4) and (5) and the exact number for (1), (2) and (6).

The following tables provide an analysis of the exercise price band and residual term of the agreement, analysed between the chief executive officer and other employees:

Price band	Residual contractual life						
	< 2 years			> 2 years			Total
	CEO	Others	Total	CEO	Others	Total	Total
<=2.0	–	–	–	–	–	–	–
> 2.0 <5.0	300,000	151,500	451,500	600,000	1,388,500	1,988,500	2,440,000
> 5.0	900,000	409,250	1,309,250	2,100,000	3,337,750	5,437,750	6,747,000
Total	**1,200,000**	**560,750**	**1,760,750**	**2,700,000**	**4,726,250**	**7,426,250**	**9,187,000**

	Of which exercisable at 31/12/09		
Price band	CEO	Others	Total
<=2.0	–	–	–
> 2.0 < 5.0	300,000	259,000	559,000
> 5.0	2,400,000	2,447,000	4,847,000
Total	2,700,000	2,706,000	**5,406,000**

22. Provisions for risks and charges

Changes in this item for the year ended 31 December 2009 were as follows:

(Thousands of euros)

	Net balance at 31/12/2008	Accrual for the year	Utilisation	Other changes	Net balance at 31/12/2009
Tax provisions	2,096	285	(498)	(29)	1,854
Product warranty provision	1,590	198	–	(224)	1,564
Restructuring provision	1,665	16,786	(5,388)	(45)	13,018
Provisions for litigation and other provisions	3,468	2,055	(1,141)	4,121	8,503
Total	**8,819**	**19,324**	**(7,027)**	**3,823**	**24,939**

"Tax provisions" consist mainly of the following items:

– 1,249 thousand euros relating mainly to a provision made by Bulgari Corporation of America Inc. and Bulgari France S.A.S.for customs duties;

– 426 thousand euros regarding the Parent, accrued in connection with tax assessments based on adjustments made by the authorities to the company's 1988 and 1989 tax returns, for which separate appeals have been lodged; the disputes are currently pending before the Supreme Court (*Corte Suprema di Cassazione*).

The overall decrease in this item is mostly due to the utilisation of 368 thousand Euros of the provision by the American branch of Bulgari Retail USA S.r.l. for the payment of Florida and New York state sales taxes.

The "restructuring provision" consists of estimates of the costs relating to individual or collective agreements for the mutually agreed early termination of employment for organisational purposes and of the cost of non-cancellable leases following the closure of certain stores.

"Provisions for litigation and other provisions" consist mainly of amounts provided for legal disputes.

Accruals to provisions are classified in the income statement as "net operating expenses".

23. Other current and non-current liabilities

(Thousands of euros)

	31/12/2009	31/12/2008
Current liabilities:		
Due to personnel	13,566	17,643
Due to the public administration	9,995	11,729
Due to social security and institutions	7,495	7,514
Due to shareholders	241	240
Other payables	2,362	1,541
Total other payables	**33,659**	**38,667**
Deferred income	402	356
Accrued loan interest expense	5,627	2,408
Other accrued expenses	6,905	7,220
Total accrued expenses and deferred income	**12,934**	**9,984**
Total other current liabilities	**46,593**	**48,651**
Non-current liabilities:		
Other non-current liabilities	1,498	1,646
Deposits	22	16
Total other non-current liabilities	**1,520**	**1,662**

Other current liabilities

The decrease in “Due to personnel” over 31 December 2008, is mainly the consequence of a reduction in accrued employees’ untaken holiday leave (1,936 thousand euros) and liabilities for bonuses and leaving incentives (1,350 thousand euros).

“Other payables” of 2,362 thousand euros include the current portion of a liability of 674 thousand euros of Bulgari Time (Switzerland) S.A. arising in 2007 and payable by that company for the purchase of plant, machinery and know-how acquired to manufacture watch components. In addition, this item also includes a balance of 514 thousand euros payable to intermediaries for the payment of VAT and an amount of approximately 411 thousand euros due to factoring companies. The caption additionally includes emoluments of approximately 312 thousand euros payable to the members of the board of directors of Bulgari S.p.A..

“Other accrued expenses” mostly relate to lease instalments of 6,827 thousand euros.

Other non-current liabilities

“Other non-current liabilities” of 1,498 thousand euros mainly regard the balance of the non-current portion of the above-mentioned liability of Bulgari Time (Switzerland) S.A. amounting to 1,347 thousand euros.

24. Segment reporting

The Bulgari Group principally carries out its business through two separate divisions, the JWA (Jewellery – Watches – Accessories) Division and the Perfumes and Cosmetics Division. This distinction is driven by product, markets and differing distribution strategies.
The strategic direction of the Group and its administration and control are managed by a central corporate structure which is mostly concentrated in the parent Bulgari S.p.A..

The results of the Divisions also include royalty charges from the parent for the use of the BVLGARI trademark of which it is the owner. These charges are then eliminated in the line "Other activities and eliminations", as are all other transactions between the Divisions within the Group.

The line "Other activities and eliminations" additionally includes all the unallocated revenue and costs managed by the central corporate structure, the activities relating to the hotels which are of little significance overall and all the advertising activities carried out with the media, including production, from which in general the BVLGARI brand is the overall beneficiary and from which consequently the whole of the Group's business has an advantage. This item also includes costs of 36.7 million euros relating to restructuring.

Segment revenue and result (Millions of euros)

Net revenue by segment	**2009**	**2008**	**Change %**	**Operating profit (loss) by segment**	**2009**	**2008**
Jewellery	*402.5*	*448.4*	*–10.2%*			
Watches	*212.0*	*263.7*	*–19.6%*			
Accessories	*66.3*	*83.1*	*–20.2%*			
Other	*7.7*	*7.4*	*+4.9%*			
JWA Division	688.5	802.6	–14.2%	JWA Division	22.9	104.2
Perfumes and Cosmetics Division	218.4	248.4	–12.1%	Perfumes and Cosmetics Division	25.6	40.0
Other activities and eliminations	19.7	24.4	–19.4%	Other activities and eliminations	(68.3)	(33.2)
Total net revenue	**926.6**	**1,075.4**	**–13.8%**	**Total operating loss**	**(19.8)**	**111.0**

The JWA (Jewellery – Watches – Accessories) Division had an operating profit of 22.9 million euros in 2009, excluding costs relating to restructuring (34.7 million euros), compared to a profit of 104.2 million euros in 2008. This result arises from a contraction in turnover and a decrease in the profit margin asa percentage, due mainly to fluctuations in foreign exchange rates and the price of gold, as well as from the effect of the depreciation charge on investments made in prior years. These factors were only partially offset by the cost containing measures taken by the Group.
The Perfume and Cosmetics Division also saw a fall in its operating profit (25.6 million euros in 2009 compared to 40.0 million euros in 2008) before charging costs of 2 million euros relating to restructuring, mainly as the result of a decrease in turnover. The flexibility of this division's structure, however, enabled the loss arising from the drop in turnover to be almost completely offset.

Revenues by geographical segment are presented in the Director's report on the Group's operations to which reference should be made.

Statement of financial position reclassified by segment (Millions of euros)

	JWA Division		Perfumes and cosmetics division		Unallocated and eliminations		Total Group	
	31/12/2009	**31/12/2008**	**31/12/2009**	**31/12/2008**	**31/12/2009**	**31/12/2008**	**31/12/2009**	**31/12/2008**
Net trade receivables	150.7	141.1	49.0	70.7	(51.3)	(29.9)	148.4	181.9
Other receivables	65.1	48.9	2.8	2.3	(10.7)	3.3	57.2	54.5
Inventories	540.1	633.3	74.8	93.3	0.6	1.3	615.5	727.9
Trade payables	(166.1)	(151.3)	(46.9)	(59.1)	67.7	45.3	(145.3)	(165.1)
Other payables	(54.6)	(44.7)	(7.2)	(6.9)	3.4	(4.0)	(58.4)	(55.6)
Total net working capital	**535.2**	**627.3**	**72.5**	**100.3**	**9.7**	**16.0**	**617.4**	**743.6**
Property, plant and equipment and intangible assets	**202.0**	**209.0**	**14.1**	**14.3**	**115.7**	**108.0**	**331.8**	**331.3**
Investments and other financial assets					**48.6**	**50.4**	**48.6**	**50.4**
Other non-current assets (liabilities)	**(15.2)**	**(0.7)**	**(1.1)**	**(0.3)**	**17.2**	**4.3**	**0.9**	**3.3**
NET INVESTED CAPITAL	**722.0**	**835.6**	**85.5**	**114.3**	**191.2**	**178.7**	**998.7**	**1,128.6**
Equity							**781.9**	**825.0**
Short-term Indebtedness							5.9	219.4
Long-term Indebtedness							210.9	84.2
Total debt							**216.8**	**303.6**
Equity and Net Indebtedness							**998.7**	**1.128.6**

Segment reporting is in compliance with *IFRS 8 – Operating Segment* requirements and is consistent with the managerial reporting used by the Management to make strategic decisions.

25. Related party transactions

Disclosures of related party transactions, as defined by the IFRS and by the Consob Communication of 28 July 2007, and their percentage impact on the total consolidated figures are provided below.

Financial and commercial transactions

Transactions and balances of a financial and commercial nature between Bulgari S.p.A. and other Group companies have been eliminated in the preparation of the consolidated financial statements.

(Thousands of euros)

	Payables			
	Bulgari S.p.A.	**Subsidiaries**	**Joint ventures**	**Total**
Receivables				
Bulgari S.p.A.	–	117,949	1,337	**119,286**
Subsidiaries	68,003	815,452	91	**883,546**
Joint ventures	7	30	–	**37**
Total	**68,010**	**933,431**	**1,428**	**1,002,869**

(Thousands of euros)

	Expenses			
	Bulgari S.p.A.	Subsidiaries	Joint ventures	Total
Revenue				
Bulgari S.p.A.	–	68,386	332	**68,718**
Subsidiaries	20,293	1,040,174	–	**1,060,467**
Joint ventures	45	–	–	**45**
Total	**20,338**	**1,108,560**	**332**	**1,129,230**

The portion of transactions and balances of a financial and commercial nature not eliminated in the consolidation process may be analysed as follows:

(Thousands of euros)

	31/12/2009			31/12/2008		
	Total consolidated	Related parties	%	Total consolidated	Related parties	%
Non-current financial receivables	418	418	100	1,301	1.301	100
Trade receivables	148,400	76	–	181,892	68	0.04
Other current assets	26,252	9	–	21,518	37	0.17
Trade payables	145,345	16	–	165,080	94	0.06
Other current liabilities	46,593	1	–	48,651	32	0.06

(Thousands of euros)

	31/12/2009			31/12/2008		
	Total consolidated	Related parties	%	Total consolidated	Related parties	%
Gross sales	1,003,582	56	–	1,143,440	56	–
Royalties	9,198	67	0.70	12,368	81	0.65
Other revenue	2,706	13	0.40	1,840	16	0.87
Net operating expenses	567,000	42	0.00	570,081	164	–
Interest income	2,997	37	1.20	4,540	101	2.22

Directors' and statutory auditors' fees

(Thousands of euros)

	Directors		Statutory auditors	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Bulgari S.p.A.	1,841	2,948	172	165
Other Group companies	135	412	136	124
	1,976	**3,360**	**308**	**289**

The above mentioned transactions were concluded at market conditions that would anyway be applied between independent parties and they were also concluded in the economic interests of subsidiaries.

26. Guarantees, commitments and risks

(Thousands of euros)

	31/12/2009	31/12/2008
Commitments	382,930	429,057
Guarantees pledged	10,267	12,002
Sureties from third parties	36,554	39,503
	429,751	**480,562**

"Commitments" refer to lease instalments for BVLGARI brand stores which are not yet due and which are payable to the lessors over the residual term of the lease agreement. An analysis of the total is as follows:

(Thousands of euros)

	31/12/2009
Under one year	61,301
Between one and five years	262,769
Over five years	58,860
	382,930

"Guarantees pledged" refer to sureties given on behalf of and in the interest of Group companies in favour of lessors securing leases.

"Sureties from third parties" mainly refer to sureties of 12,275 thousand euros that have been pledged by banks on behalf of Bulgari S.p.A. in favour of the tax authorities in respect of VAT tax receivables for which reimbursement has been requested by Bulgari S.p.A., and sureties of 2,600 thousand Euros pledged in favour of the customs authorities for the temporary importation of products. In addition, the item includes a guarantee of 2,356 thousand euros pledged in favour of Bulgari Hotels and Resorts Milano S.r.l. to cover 65% of the costs incurred for the purchase of furniture and fittings, mostly for use in the Milan hotel.

The Group is party to civil and administrative proceedings and to legal actions in connection with its normal activities. In this respect, Unit 1 of the Rome tax office notified an assessment on Bulgari International Corporation (BIC) N.V. and Bulgari S.p.A. in the second half of 2009 in regard to the alleged tax domicile of the subsidiary Bulgari International Corporation (BIC) N.V.. On the basis of the information currently available and the opinions received from the leading lawyers engaged to advise on this matter, the Group believes it remote that such proceedings or actions will lead to adverse effects on these consolidated financial statements.

Further, in April 2009 the regional department for Lazio of the Rome tax office notified a tax audit report (Processo Verbale di Costatazione – PVC) to Bulgari Retail USA S.r.l. whose aim was to show that the corporate structure had allegedly been set up for avoidance purposes. Following this report the tax office issued an assessment notice in December to Bulgari Retail USA S.r.l. and the parent Bulgari S.p.A., relating to fiscal year 2004. The Company fully disagrees with the reconstruction proposed by the tax auditors and with the assessment and in its opinion is convinced that it has properly interpreted prevailing laws and regulations. As a consequence, therefore, including on the basis of the assessments made by its external advisors, the Company believes that its arguments will be fully recognised in the competent courts which will accordingly find in its favour.

27. Information concerning financial risks

The Group is exposed to the following financial risks in respect of its operations:

– liquidity risk, meaning access to the credit market to obtain funds to satisfy its working capital and investment needs for the success and continuation of operations;
– market risk,
  i. as the result of changes in exchange rates with respect to the marketing of products in countries having currencies different from the Group's functional and presentation currencies;
  ii. as the result of changes in the quotation of gold, in respect of the production of jewels and watches;
  iii. as the result of changes in interest rates limited to the Group's financial debt;
– credit risk, in respect of ordinary trading relationships with customers and distributors.

These financial risks are constantly monitored in order to assess in advance any potential adverse effects and to take suitable steps to mitigate such risks on an informed and timely basis.

The Group has introduced specific business procedures to deal with these risks, in particular a market risk management procedure and a credit risk management procedure. These procedures also include the setting of operating limits, responsibilities, process determination, key performance indicators (KPIs), reporting and the existence of steering committees.

Qualitative and quantitative information relating to the incidence of these risks for the Group is provided below.

Liquidity risk

This risk arises when it is impossible or difficult for the Group to obtain the funds required to perform its business in a normal manner under sustainable conditions.
The factors affecting the Group's funding requirements are on the one hand the funds arising from or used in operating and investing activities and on the other the maturity and renewal characteristics of debt or liquidity characteristics of financial investments, together with the conditions and availability on the credit market.
The steps taken by the Group to reduce this risk may be summarised as follows:

– centralising management of the treasury processes for handling credit facilities and financial planning. The use of centralised systems to monitor financial position by individual entity, by homogeneous groups (country, geographical area, segment) and at a Group level. In addition, bank products and specific internal instruments are used to concentrate the balances of various accounts or entities (cash concentration agreements) and to centralise payments;
– obtaining credit facilities that are sufficient for creating a sustainable liabilities structure through the use of facilities that are committed until expiry date and medium-term or long-term loans;
– monitoring future liquidity conditions with respect to the business planning process.

Currently available funds, together with those that will be generated by operations, will allow the Group to satisfy the requirements arising from investing activities, working capital management and the repayment of debt at its natural due date. For this purpose in 2009 the Bulgari Group issued bonds of 150 million euros convertible into shares that is redeemable on 8 July 2014. Thanks also to this issue, which is redeemable in shares at the choice of the investor should the price of the Bulgari S.p.A. share exceed 5 Euros, the Group's non-current financial payables of 211.3 million euros at 31 December 2009 had a weighted average maturity of over 4 years 5 months at that date. Unlike the situation at 30 September 2009, the Group had no outstanding loans with financial covenants at 31 December 2009. To deal with any unplanned and adverse conditions on the credit market the Group had outstanding and available credit facilities of 105.4 million euros at 31 December 2009, having a weighted average residual term of 2.5 years and defined and committed cost parameters until expiry.

Currency risk

Changes in foreign exchange rates and in the quotation of gold can affect the Group's results and equity.

Economic risk: fluctuations in exchange rates may affect earnings if the currency in which costs are denominated and that in which revenue is generated do not correspond. In addition, changes in the price of gold can cause changes in production costs. As mentioned above the Group has established a centralised management policy to decrease the volatility of earnings and protect them with respect to business objectives. Accordingly it hedges the above exposures, usually by taking out derivative contracts as discussed in note 20. This management procedure provides for the hedging of a certain percentage of forecast net flows for a specific period of time depending on the risk and expected certainty of the underlying caption; exposures are generally hedged over a period of 12 months and cover a proportion of the risk ranging from 30% to 80%. The main currencies exposed to exchange risk are the Swiss franc, the Yen, the US Dollar, the Singapore dollar, the Hong Kong dollar, the Australian dollar and the Pound Sterling. When the risk is included in an item of the financial statements (trade receivables or payables in currencies other than the entity's reporting currency), the Group's policy is to hedge the entire exposure.

Conversion and translation risk: Certain of the Group's subsidiaries are based in countries not belonging to the European monetary union, mainly the United States, Switzerland, Japan, China, Hong Kong, Singapore and Korea. As the presentation currency for the consolidated financial statements is the euro, the income statements of companies based in these countries are translated into euros at weighted average exchange rates and, with unchanged revenue and contribution margins in local currency, fluctuations in exchange rates can lead to effects on the value in euros of costs, revenues and profits or losses. In a similar manner the assets and liabilities of consolidated companies in reporting currencies other than the euro may have different carrying amounts in euros depending on movements in exchange rates. These effects are recognised in the translation reserve in equity (note 17). The Group continuously monitors and manages these exchange rate fluctuation risks. There were no hedges against these exposures at 31 December 2009.

The Group's policy has not undergone any significant changes in 2009 with respect to previous years.

Sensitivity Analysis

The fair value of currency derivatives designated as cash flow hedges was 970 thousand euros at 31 December 2009. An adverse change of 10% in the spot rate alone, applied to all the currencies, compared to the official closing rate at that date would have led to a theoretical negative fair value of 2,171 thousand euros. On the other hand a favourable change of 10% in exchange rates would have led to a positive fair value of 3,146 thousand euros.

This fair value sensitivity analysis excludes transactions in foreign exchange derivatives entered into for treasury purposes, meaning those hedging outstanding financial receivables and payables in foreign currency at 31 December 2009 in respect of which trade receivables and payables are recognised in the statement of financial position; any changes in the value of these latter items due to changes in foreign exchange rates would be equal and opposite to the changes in the value of the derivatives designated as the respective hedges and would offset the effect on profit or loss.

Derivatives relating to the price of gold designated as cash flow hedges had a positive fair value of 627 thousand euros at 31 December 2009. A hypothetical decrease of 10% in the spot price of gold would have led to a negative fair value of 1,159 thousand euros. A favourable change of 10% in the spot price of gold compared to the official fixing at 31 December 2009 (and therefore a higher price) would have led to a positive fair value of 2,398 thousand euros.

Interest rate risk

Changes in interest rates can affect the Group's net earnings, thereby leading to increased debt servicing costs. The above procedure envisages structuring interest rates between fixed and floating rates in an efficient manner with respect to financial requirements, average terms and the markets involved (country-currency), to achieve at the same time a lower current cost for financial expense and a minimisation of the potential adverse change in such cost – proportional to the volatility of the interest rate market.
As part of this procedure and for the purpose of optimising the ratio between fixed and floating rates a series of derivative contracts were entered into in 2009 which consisted mainly of the conversion of 47% of the floating rate of the convertible bond issue (IRSs) and to a lesser extent the neutralisation of large changes in short-term rates for 20 million euros (collars).
At 31 December 2009, 58% of the Group's debt bore fixed rate interest and the remainder bore floating rate interest.

Sensitivity Analysis

The sensitivity analysis differentiates between fixed rate financial instruments (the effect of which is assessed in terms of fair value) and floating rate financial instruments (the effect of which is assessed in terms of cash flows).
The fixed rate instruments used by the Group consist of loans falling due after 12 months on which interest is payable at fixed rates and derivative instruments with these features. Taking into consideration non-current debt and the nominal amount of the convertible and including the effect of derivative instruments a hypothetical decrease of 0.5% in the interest rate curve for all due dates at 31 December 2009 would have led to a potential loss in fair value of these financial instruments of 3,063 thousand euros, while a favourable shift of 0.5% in market interest rates would have led to a potential gain in fair value of 2,913 thousand euros.

Floating rate financial instruments consist of current debt and derivative instruments for which interest is payable at floating rates. The additional cost arising from the increased cash flow for interest on an annual basis that would have been caused by a hypothetical increase of 0.5% in the interest rate curve for these floating rate financial instruments for all due dates (including hypothetical roll-overs) at 31 December 2009 would have been 467 thousand euros, while a decrease of 0.5% in these interest rates would have led to financial expense of 237 thousand euros.

Credit risk

The estimated potential credit risk loss on open items at 31 December 2009 existing at the date of the preparation of these financial statements is discussed in note 14. The Group's policy is to assess positions by assigning ratings and risk indicators using professional scoring tools. Credit is only granted after these analyses and control procedures have been carried out to minimise any impairment losses. The Group carries out these procedures at a local and centralised level in order to define combined shared objectives and processes, controls, developments and differing actions, a better management dashboard and improved reporting.

28. Net financial position

Pursuant to Consob Communication no. 6064293 of 28 July 2006 and in accordance with the CESR Recommendation of February 10, 2005 "*Recommendations for the Consistent Application of the European Commission's Regulation on Prospectuses*", the net financial position of the Group at 31 December 2009 is as follows.

(Thousands of euros)

	31/12/2009	31/12/2008
Cash	1,046	1,555
Cash equivalents	28,187	18,325
Cash and cash equivalents	**29,233**	**19,880**
Current financial receivables	**2,726**	**19,636**
Current bank loans and borrowings	(35,487)	(236,348)
Current portion of non-current debt	(2,155)	(1,720)
Other current financial payables	(244)	(20,839)
Current financial debt	**(37,886)**	**(258,907)**
Current financial debt, net	**(5,927)**	**(219,391)**
Non-current financial receivables	**418**	**1,301**
Non-current bank loans and borrowings	(75,081)	(82,438)
Bonds issued	(133,871)	–
Other non-current payables	(2,343)	(3,030)
Non-current financial debt	**(211,295)**	**(85,468)**
Non-current financial debt, net	**(210,877)**	**(84,167)**
NET FINANCIAL DEBT	**(216,804)**	**(303,558)**

29. List of consolidated companies

List of companies consolidated on a line-by-line basis

Company	% holding 31-12-2009	% holding 31-12-2008	Currency	Quota capital	Head office	Business
Bulgari Gioielli S.p.A.	100	100.00	Euro	2,580,000	Rome	Jewellery production
Bulgari Italia S.p.A.	100.00	100.00	Euro	12,000,000	Rome	Retail sales
Bulgari International Corporation (BIC) N.V.	100.00	100.00	Euro	18,301,200	Amsterdam	Sub-holding
Bulgari Corporation of America Inc.	100.00	100.00	US$	24,350,000	New York	Sales to retailers and perfume distribution
Bulgari S.A.	100.00	100.00	Swfr	600,000	Geneva	Retail sales
Bulgari Time (Switzerland) S.A.	100.00	100.00	Swfr	1,000,000	Neuchatel	Production of watches and accessories
Bulgari France S.A.S.	100.00	100.00	Euro	225,000	Paris	Retail sales
Bulgari Montecarlo S.A.M.	100.00	100.00	Euro	800,000	Montecarlo	Retail sales
Bulgari (Deutschland) GmbH	100.00	100.00	Euro	2,556,459	Munich	Retail sales
Bulgari Japan Ltd. (1)	–	100.00	–	–	Tokyo	Retail sales
Bulgari Espana S.A. Unipersonal	100.00	100.00	Euro	5,418,344	Madrid	Retail sales
Bulgari Parfums S.A.	100.00	100.00	Swfr	1,000,000	Neuchatel	Perfume production
Bulgari Parfums Italia S.p.A.	100.00	100.00	Euro	1,020,000	Rome	Perfume distribution
Bulgari Portugal Acessorios de Luxo Lda.	100.00	100.00	Euro	92,873	Madeira	Sub-holding
Bulgari South Asian Operations Pte Ltd.	100.00	100.00	Sg$	6,000,000	Singapore	Retail sales
Bulgari (UK) Ltd.	100.00	100.00	Lgs	28,100,000	London	Retail sales
Bulgari Belgium S.A.	100.00	100.00	Euro	1,000,000	Brussels	Retail sales
Bulgari Australia Pty. Ltd.	100.00	100.00	Aud	14,200,000	Sydney	Retail sales
Bulgari (Malaysia) Sdn Bhd	100.00	100.00	Rm	13,334,000	Kuala Lumpur	Retail sales
Bulgari Global Operations S.A.	100.00	100.00	SwFr	6,000,000	Neuchatel	Logistical support
Daniel Roth et Gérald Genta Haute Horlogerie S.A.	100.00	100.00	SwFr	7,100,000	Geneva	Production of watches
Bulgari Asia Pacific Ltd.	100.00	100.00	HK$	1,000,000	Hong Kong	Retail sales
Bulgari (Taiwan) Ltd.	100.00	100.00	Twd	310,000,000	Taipei	Retail sales
Bulgari Korea Ltd.	100.00	100.00	Kwon	4,500,000,000	Seoul	Retail sales
Bulgari Collection Internationale S.A.	100.00	100.00	Swfr	3,000,000	Neuchatel	Production of high jewellery
Bulgari Saint Barth S.a.S.	100.00	100.00	Euro	700,000	Saint Barthelemy	Retail sales
Bulgari Retail USA S.r.l.	100.00	100.00	Euro	50,000	Rome	Retail sales and wholesale
Bulgari Manifattura S.p.A.	100.00	100.00	Euro	2,700,000	Valenza (Alessandria)	Jewellery production
Bulgari Parfums Deutschland GmbH	100.00	100.00	Euro	25,000	Wiesbaden	Perfume distribution
Prestige d'Or S.A.	100.00	100.00	Swfr	100,000	Saignelégier	Production of watch components
Bulgari Accessori S.r.l.	100.00	100.00	Euro	50,000	Bagno a Ripoli (Florence)	Production of leather accessories
Bulgari Reinsurance Company Ltd.	100.00	100.00	Euro	635,000	Dublin	Insurance company
Bulgari Austria GmbH	100.00	100.00	Euro	17,500	Vienna	Retail sales
Bulgari Holdings (Thailand) Ltd. (2)	100.00	100.00	Bat	100,000	Bangkok	Sub-holding
Bulgari (Thailand) Ltd.	99.50	99.50	Bat	64,000,000	Bangkok	Retail sales
Bulgari Commercial (Shanghai) Co. Ltd.	100.00	100.00	US$	19,000,000	Shanghai	Retail sales
Bulgari Holding Europe B.V.	100.00	100.00	Euro	18,000	Amsterdam	Sub-holding
Bulgari Japan Ltd. (ex Bulgari Hotels and Resorts Japan Ltd.)	100.00	100.00	Yen	100,000,000	Tokyo	Retail sales and company involved in the Bvlgari Hotels and Resorts project
Bulgari Parfums Iberia S.L.	100.00	100.00	Euro	10,000	Barcelona	Perfume distribution
Bulgari Panama Inc.	100.00	100.00	US$	10,000	Panama City	Retail sales
H. Finger AG	100.00	100.00	SwFr	400,000	Lengnau dei Biel (Canton of Bern)	Production of watch components
Bulgari Ireland Ltd.	100.00	100.00	Euro	1	Dublin	Logistical support and distribution
Bulgari Qatar LLC	49.00	49.00	Qar	200,000	Doha	Retail sales
Bulgari Kuwait WLL	49.00	49.00	Kwd	100,000	Kuwait City	Retail sales
Cadrans Design S.A.	100.00	–	Swfr	100,000	La Chaux de Fonds	Production of watches

Companies consolidated on a proportionate basis

Company	% holding 31-12-2009	% holding 31-12-2008	Currency	Quota capital	Head office	Business
Bulgari Hotels & Resorts B.V. (3)	65,00	65,00	Euro	18.000	Amsterdam	Company in joint venture with the Gruppo Marriot Group
Bulgari Hotels and Resorts Milano S.r.l. (4)	65,00	65,00	Euro	100.000	Rome	Company involved in the Bvlgari Hotels and Resorts project
Cadrans Design S.A.	–	50,00	Swfr	100.000	La Chaux de Fonds	Production of watches

(1) Company merged into the former Bulgari Hotel Japan Ltd.

(2) Company consolidated on a line-by-line basis as it owns 100% of class A shares equal to 49,000 Bat

(3) Company held through Bulgari S.p.A.

(4) Company held indirectly through Bulgari Hotels & Resorts B.V. at 61.75% (95% * 65%, the interest of Bulgari Hotels & Resorts B.V. in Bulgari Hotels and Resorts Milano S.r.l.) and directly through Bulgari SpA at 3.25%

30. Disclosures about companies consolidated using the proportionate method

Total current assets and liabilities, non-current assets and liabilities, and revenue and expenses relating to companies consolidated using the proportionate method are set out in the following table.

(Millions of euros)*

	% holding local currency	Bulgari Hotels & Resorts B.V. 65% euros	Bulgari Hotels & Resorts Milano S.r.l. 65% euros
Current assets		–	3,5
Non-current assets		7,1	1,8
Current liabilities		0,2	2,7
Non-current liabilities		2,8	1,9
Income		–	15,3
Expense		0,2	17,1

* Amounts are stated at 100%.

31. Significant non-recurring transactions

As concerns significant non-recurring transactions as these are defined by Consob in its Communication of 28 July 2006, the Parent has issued convertible bonds of 150,000 euros. This financial transaction led to interest expenses of 5,135 thousand euros in 2009.

In addition, in 2009 the Group implemented a restructuring programme aimed at achieving a reduction in costs through an enhancement of the efficiency of its various activities by means of reducing decisional levels and rationalising business support structures. This programme, which is expected to be completed in 2010, has led to restructuring costs of approximately 16.8 million euros (as per IAS 37 – Provisions) which have been recognised under "net operating expenses" in the 2009 income statement, and other net income and expense of approximately 20 million euros relating to the restructuring process of which roughly 18.5 million euros has been recognised as "cost of sales" and roughly 1.7 million euros as "net operating expenses".

32. Atypical and unusual transactions

The Group did not carry out any atypical and/or unusual transactions in the year ended 31 December 2009 as the term is defined by Consob in its Communication of 28 July 2006.

33. Information pursuant to article 149-duodecies of the Consob Issuer Regulation

The following table, which has been prepared pursuant to article 149-duodecies of the Consob Issuer Regulation, sets out the fees relating to 2009 for audit services and non-audit services other than audit provided by the independent auditors and by members of its network.

(Thousands of euros)

Type of service	Provided by	Provided to	2009 Fees
Audit	KPMG S.p.A.	Bulgari S.p.A.	179.9
	KPMG S.p.A.	Subsidiaries	220.7
	KPMG network	Bulgari S.p.A.	90.1
	KPMG network	Subsidiaries	1.020.7
Attestation services	KPMG S.p.A.	Bulgari S.p.A. (1)	227.5
	KPMG S.p.A.	Subsidiaries (2)	9.8
	KPMG network	Subsidiaries	–
Tax advisory services	KPMG S.p.A.	Bulgari S.p.A.	–
	KPMG S.p.A.	Subsidiaries	–
	KPMG network	Subsidiaries	48.4
Other services	KPMG S.p.A.	Bulgari S.p.A. (3)	4.2
	KPMG S.p.A.	Subsidiaries	–
	KPMG network	Subsidiaries	–

(1) Comfort letter, fairness opinions as per article 158, paragraph 1 of the Consolidated Finance Law and annual tax returns and 770 forms.
(2) Annual tax returns and 770 forms.
(3) Kimberley Process compliance.

Bulgari S.p.A.
Chairman of the Board of Directors
Paolo Bulgari
(Signed on the original)

Bulgari S.p.A. and Subsidiaries

Disclosures pursuant to article 36 of the Market Regulations
Local currency/000

Bulgari Corporation of America Inc.
Share capital: US$ 24,350,000

	2009		31/12/2009
Net revenue	*136.553*	Non-current assets	68.258
Cost of sales	(85.841)	Current assets	128.994
Contribution margin	*50.712*	*Total assets*	**197.251**
Net operating expenses	(76.984)		
Operating profit	*(26.272)*	Equity	(86.414)
Financial income (expense)	(2.941)		
Loss before taxation	*(29.214)*	Non-current liabilities	(2.005)
Current and deferred taxation	(47)	Current liabilities	(108.832)
Loss for the year	***(29.261)***	*Total Equity and liabilities*	**(197.251)**

Bulgari Japan Ltd.
Share capital: Yen 100,000,000

	2009		31/12/2009
Net revenue	*19.223.940*	Non-current assets	9.287.612
Cost of sales	(10.642.861)	Current assets	16.064.550
Contribution margin	*8.581.080*	*Total assets*	**25.352.162**
Net operating expenses	(9.410.704)		
Operating profit	*(829.625)*	Equity	(7.712.651)
Financial income (expense)	(248.504)		
Loss before taxation	*(1.078.128)*	Non-current liabilities	(11.318.180)
Current and deferred taxation	501.461	Current liabilities	(6.321.330)
Loss for the year	***(576.667)***	*Total Equity and liabilities*	**(25.352.162)**

Bulgari Global Operations S.A.
Share capital: CHF 6,000,000

	2009		31/12/2009
Net revenue	*433.055*	Non-current assets	148.636
Cost of sales	(347.191)	Current assets	654.103
Contribution margin	*85.863*	*Total assets*	**802.739**
Net operating expenses	(116.578)		
Operating profit	*(30.715)*	Equity	(426.370)
Financial income (expense)	21.143		
Loss before taxation	*(9.572)*	Non-current liabilities	(448)
Current and deferred taxation	0	Current liabilities	(375.921)
Loss for the year	***(9.572)***	*Total Equity and liabilities*	**(802.739)**

Daniel Roth et Gérald Genta Haute Horlogerie S.A.
Share capital: CHF 7,100,000

	2009		31/12/2009
Net revenue	*26.098*	Non-current assets	17.286
Cost of sales	(41.500)	Current assets	37.929
Contribution margin	*–15.402*	*Total assets*	**55.215**
Net operating expenses	(36.004)		
Operating profit	*(51.405)*	Equity	(1.851)
Financial income (expense)	(1.918)		
Loss before taxation	*(53.324)*	Non-current liabilities	(13.738)
Current and deferred taxation	0	Current liabilities	(39.626)
Loss for the year	***(53.324)***	*Total Equity and liabilities*	**(55.215)**

Bulgari Commercial (Shanghai) Co. Ltd.
Share capital: US$ 19,000,000

	2009		31/12/2009
Net revenue	*274.828*	Non-current assets	29.500
Cost of sales	(222.096)	Current assets	410.478
Contribution margin	*52.731*	*Total assets*	**439.978**
Net operating expenses	(79.310)		
Operating profit	*(26.579)*	Equity	(84.476)
Financial income (expense)	(7.034)		
Loss before taxation	*(33.613)*	Non-current liabilities	0
Current and deferred taxation	0	Current liabilities	(355.502)
Loss for the year	***(33.613)***	*Total Equity and liabilities*	**(439.978)**

Bulgari Asia Pacific Ltd.
Share capital: HK$ 1,000,000

	2009		31/12/2009
Net revenue	*407.495*	Non-current assets	45.233
Cost of sales	(219.036)	Current assets	163.775
Contribution margin	*188.459*	*Total assets*	**209.008**
Net operating expenses	(159.110)		
Operating profit	*29.349*	Equity	(47.754)
Financial income (expense)	(1.267)		
Profit before taxation	*28.082*	Non-current liabilities	(374)
Current and deferred taxation	(4.941)	Current liabilities	(160.880)
Profit (loss) for the year	***23.141***	*Total Equity and liabilities*	**(209.008)**

Bulgari Time (Switzerland) S.A.
Share capital: CHF 1,000,000

	2009		31/12/2009
Net revenue	*117.895*	Non-current assets	25.563
Cost of sales	(98.835)	Current assets	206.511
Contribution margin	*19.059*	*Total assets*	**232.074**
Net operating expenses	(27.842)		
Operating profit	*(8.782)*	Equity	(199.247)
Financial income (expense)	1.923		
Loss before taxation	*(6.859)*	Non-current liabilities	(15.105)
Current and deferred taxation	639	Current liabilities	(17.722)
Loss for the year	***(6.221)***	*Total Equity and liabilities*	**(232.074)**

Bulgari Parfums S.A.
Share capital: CHF 1,000,000

	2009		31/12/2009
Net revenue	*246.779*	Non-current assets	17.005
Cost of sales	(134.857)	Current assets	152.227
Contribution margin	*111.922*	*Total assets*	**169.232**
Net operating expenses	(111.828)		
Operating profit	*94*	Equity	(133.244)
Financial income (expense)	(4.736)		
Loss before taxation	*(4.642)*	Non-current liabilities	–543,59
Current and deferred taxation	0	Current liabilities	(35.444)
Loss for the year	***(4.642)***	*Total Equity and liabilities*	**(169.232)**

Bulgari Collection Internationale S.A.
Share capital: CHF 3,000,000

	2009
Net revenue	*102.483*
Cost of sales	(79.845)
Contribution margin	*22.638*
Net operating expenses	(15.398)
Operating profit	*7.240*
Financial income (expense)	(118)
Profit before taxation	*7.122*
Current and deferred taxation	0
Profit for the year	***7.122***

	31/12/2009
Non-current assets	0
Current assets	172.978
Total assets	**172.978**
Equity	(155.856)
Non-current liabilities	–
Current liabilities	(17.122)
Total Equity and liabilities	**(172.978)**

Bulgari Commercial (Shanghai) Co. Ltd. Branch

	2009
Net revenue	*228.627*
Cost of sales	(147.369)
Contribution margin	*81.257*
Net operating expenses	(74.833)
Operating profit	*6.424*
Financial income (expense)	(51)
Profit before taxation	*6.373*
Current and deferred taxation	0
Profit for the year	***6.373***

	31/12/2009
Non-current assets	39.896
Current assets	250.434
Total assets	**290.330**
Equity	21.276
Non-current liabilities	–
Current liabilities	(311.606)
Total Equity and liabilities	**(290.330)**

Bulgari Macao Branch

	2009
Net revenue	*198.778*
Cost of sales	(97.173)
Contribution margin	*101.605*
Net operating expenses	(55.269)
Operating profit	*46.336*
Financial income (expense)	(719)
Profit before taxation	*45.617*
Current and deferred taxation	(4.729)
Profit for the year	***40.888***

	31/12/2009
Non-current assets	27.879
Current assets	153.061
Total assets	**180.940**
Equity	(121.135)
Non-current liabilities	–
Current liabilities	(59.805)
Total Equity and liabilities	**(180.940)**

Bulgari S.p.A. and Subsidiaries

Representation on the consolidated financial statements pursuant to article 81-ter of Consob Regulation no. 11971 of 14 May 1999 as amended and supplemented.

1. The undersigned Francesco Trapani, in his capacity as chief executive officer, and Flavia Spena, in her capacity as manager responsible for the preparation of the corporate financial reports of Bulgari S.p.A, hereby certify, taking account of the provisions of article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
   - the adequacy with respect to the Group's characteristics and
   - the effective application in 2009 of the administrative and accounting procedures for the preparation of the consolidated financial statements.

2. Moreover, the undersigned certify that:
   - the consolidated financial statements:
     a. correspond to the accounting books and records;
     b. have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union and the provisions issued to implement Legislative Decree no. 38/2005 and, to the best of their knowledge and belief, provide a true and fair view of the financial position, results of operations and cash flows of the issuer and the companies included in the consolidation scope;
   - the report on operations contains a reliable analysis of the performance and operations and the situation of Bulgari S.p.A. and the companies included in the consolidation scope, together with a description of the main risks and uncertainties to which they are exposed.

15 March 2010

Signed: Chief Executive Officer

(Francesco Trapani)

(Signed on the original)

Signed: The manager responsible for the preparation of corporate financial reports

(Flavia Spena)

(Signed on the original)

Report of the auditors
in accordance with article 156 of Legislative decree no. 58 of 24 February 1998

KPMG S.p.A.
Revisione e organizzazione contabile
Via Ettore Petrolini, 2
00197 ROMA RM

Telefono +39 06 809611
Telefax +39 06 8077475
e-mail it-fmauditaly@kpmg.it

(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with article 156 of Legislative decree no. 58 of 24 February 1998

To the shareholders of
Bulgari S.p.A.

1 We have audited the consolidated financial statements of Bulgari Group as at and for the year ended 31 December 2009, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 1 April 2009 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes that have been restated to reflect the changes in the presentation of financial statements introduced by IAS 1.

3 In our opinion, the consolidated financial statements of Bulgari Group as at and for the year ended 31 December 2009 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of Bulgari Group as at 31 December 2009, the results of its operations and its cash flows for the year then ended.

4 The directors of Bulgari S.p.A. are responsible for the preparation of a report of the directors on the financial statements and a report on the corporate governance and ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report of the directors and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the report of the directors and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structure are consistent with the consolidated financial statements of Bulgari Group as at and for the year ended 31 December 2009.

Rome, 6 April 2010

KPMG S.p.A.

(signed on the original)

Marco Maffei
Director of Audit

Bulgari S.p.A.

Separate financial statements as at and for the year ended 31 December 2009

Bulgari S.p.A.

Report of the Directors
on the Operations of the Parent Bulgari S.p.A.
for the year ended 31 December 2009

Management and Control Bodies

Board of Directors

Chairman
Paolo Bulgari

Vice - Chairman
Nicola Bulgari

Chief Executive Officer
Francesco Trapani

Directors
Claudio Costamagna ([3])
Paolo Cuccia ([1]) ([4])
Giulio Figarolo di Gropello ([3]) ([4])
Claudio Sposito ([2])

Board of Statutory Auditors

Chairman
Eugenio Pinto

Statutory Auditors
Maurizio De Magistris
Gerardo Longobardi

Substitute Auditors
Mario Civetta
Tiziano Onesti

Independent Auditors

KPMG S.p.A.

(1) Chairman of the Internal Control Committee
(2) Chairman of the Compensation Committee
(3) Member of the Internal Control Committee
(4) Member of the Compensation Committee

Bulgari S.p.A.

Report of the Directors on the Operations of the parent Bulgari S.p.A. for the year ended 31 December 2009

Introduction

The Board of Directors of Bulgari S.p.A. has prepared this report on operations for 2009 pursuant to the requirements of article 2428 of the Italian civil code.

The separate financial statements for the year ended 31 December 2009 have been audited by KPMG S.p.A. and include figures for the year ended 31 December 2008 for comparative purposes.

The financial statements have been prepared in accordance with the International Financial Reporting Standards IFRS endorsed by the European Commission (also referred to overall in the following as IFRS).

Analysis of the income statement

The year ended 31 December 2009 closed with a profit of 17.7 million euros compared with 57.8 million euros in 2008. This result includes dividends from subsidiaries of 40 million euros (112.5 million euros in 2008) net of impairment losses on equity investments totalling 5.2 million euros.

The Company incurred an operating loss of 13.4 million euros representing a decrease of 14.6 million euros over the 2008 result.

Table 1 – BULGARI S.p.A. – Income statement (Millions of euros)

	2009	%	2008	%	Difference	%
NET REVENUE	**76.5**	**100%**	**95.6**	**100%**	**(19.1)**	**(20.0%)**
Personnel expenses	28.4	37%	31.5	41%	(3.1)	(9.8%)
Other income and expense	24.6	32%	27.2	36%	(2.6)	(9.6%)
Advertising and promotion expenses	23.5	31%	23.8	31%	(0.3)	(1.3%)
Depreciation, amortisation and impairment losses	13.4	18%	11.9	16%	1.5	12.6%
TOTAL OPERATING EXPENSES	**89.9**	**118%**	**94.4**	**123%**	**(4.5)**	**(4.8%)**
OPERATING PROFIT (LOSS)	**(13.4)**	**(18%)**	**1.2**	**2%**	**(14.6)**	**(1.216.7%)**
Other non-operating income (expense)	26.7	35%	62.2	81%	(35.5)	(57.1%)
PROFIT BEFORE TAXATION	**13.3**	**17%**	**63.4**	**83%**	**(50.1)**	**(79.0%)**
Current and deferred taxation	(4.4)	(6%)	5.6	7%	(10.0)	(178.6%)
PROFIT	**17.7**	**23%**	**57.8**	**76%**	**(40.1)**	**(69.4%)**

The above income statement is presented in a condensed manner compared to the official format included in the financial statements as at and for the year ended 31 December 2009. Specifically, “Other non-operating income (expense)” is the net of dividends and other financial income, impairment losses on investments, other financial expense and foreign exchange rate gains and losses.

Operating revenue

Operating revenue, which consists mainly of royalties for the use of the BVLGARI trademark, fell by approximately 20% over 2008, mainly as the result of reduced royalties received from Group companies.

Revenue for royalties and the provision of services amounted in total to 64.9 million euros. More specifically royalties, which are received both from Group companies and from third parties, represent approximately 80.4% of total revenue.

An analysis of revenue for royalties and the provision of services is set out by geographical segment in table 2 below.

Table 2 – BULGARI S.p.A. – Analysis of revenues by geographical segment (Millions of euros)

Geographical Segment	**2009**		**2008**	
	Absolute amount	**%**	**Absolute amount**	**%**
Italy	9.9	15%	12.2	14%
EU (excluding Italy)	3.1	5%	4.1	5%
Europe (excluding EU)	36.6	56%	52.2	61%
Americas	1.8	3%	3	3%
Japan	5.5	8%	7.5	9%
Far East	5.5	9%	4.4	5%
Middle East and Other	1.8	3%	2.5	3%
Other	0.7	1%		
TOTAL NET REVENUES	**64.9**	**100%**	**85.9**	**100%**

Operating expenses

Operating expenses totalled 89.9 million euros compared with 94.4 million euros in 2008, a decrease of approximately 4%. This is primarily due to a reduction in personnel expenses and service costs. Personnel expenses fell by approximately 10% over 2008 and amounted to 28.4 million euros in the year ended 31 December 2009. This is partially due to the introduction of a plan to utilise vacation leave and partially to the decrease in the number of employees. Although the average number of staff rose by 5 over 2008 (356 in 2008 compared to 361 in 2009), there were 40 fewer employees in the workforce at 31 December 2009 compared to 31 December 2008, with a decrease from 381 to 341 employees.
There was an overall drop in service costs, due mainly to a reduction in the fees paid to the Board of Directors which amounted in total to 22.6 million euros for the year (–9% over 2008). Service costs consist mainly of ICT, technical, organisational, fiscal and legal consultancy, costs for personnel services, travelling expenses for staff and members of the Board of Directors and the fees paid to other corporate bodies.
Advertising and promotion costs of 23.5 million euros (23.8 million euros in 2008) were in line with those of the previous year, falling slightly by 300 thousand euros.
Depreciation and amortisation charges for the year amounted to 13.4 million euros, an increase of roughly 13% over 2008. These relate principally to a charge of 10.2 million euros for application software, with the difference arising from the depreciation of property, plant and equipment, mainly electronic equipment and office refurbishment costs.
Provisions of 442 thousand euros were made for the business reorganisation plans currently under implementation.

Dividends and financial income

Dividends for the year amounted to 40 million euros (112.5 million euros in 2008), all paid by Bulgari Ireland Ltd..

Current and deferred taxation

Current taxes mainly refer to foreign income taxes of 1.7 million euros (1.8 million euros in 2008) and the charge for IRAP (regional tax on production) of 584 thousand euros (1.3 million euros in 2008).
The item also comprises deferred tax income of 5 million euros (4.5 million euros in 2008) recognised on the

2009 tax losses included in the "national tax consolidation" scheme and positive adjustments of 1.7 million euros arising from taxes and tax credits of prior years.
Further details of this item may be found in the applicable note to the income statement to which reference should be made. It is recalled in this respect that the Company elected to take part in the "national tax consolidation" scheme for the period from 2007 to 2009, together with its subsidiaries Bulgari Gioielli S.p.A., Bulgari Italia S.p.A., Bulgari Parfums Italia S.p.A., Bulgari Retail USA S.r.l., Bulgari Manifattura S.p.A. and Bulgari Accessori S.r.l..

Financial position

The Parent had net debt of 110.8 million euros at 31 December 2009 (59.3 million euros at 31 December 2008), representing an increase of 51.8 million euros. Dividends of 40 million euros were received from Bulgari Ireland Ltd. during the year while dividends of 30 million euros were paid to shareholders.
Capital payments totalling 42.4 million euros were made to subsidiaries, including 20 million euros to Bulgari Italia S.p.A. and 10.4 million euros to Bulgari Retail USA S.r.l..
A total of 679,250 new shares were issued as the result of decisions to exercise options under the stock option plans reserved for the chief executive officer and certain employee categories, which led to an overall increase of approximately 2.9 million euros in equity. The Company had a positive net financial position of 16.4 million euros with subsidiaries at 31 December 2009; more specifically, Bulgari Italia S.p.A., Bulgari Gioielli S.p.A. and Bulgari Commercial (Shanghai) Co. Ltd had loans of 25, 10 and 8.7 million euros respectively outstanding at the end of the year, while the corporate treasury had a net debt exposure of 24.3 million euros.
Bonds having a nominal value of 150 million euros were issued on 8 July 2009; they are redeemable on 8 July 2014 and bears interest at a rate of 5.375%.
The debt portion of the bond is recognised as a liability of 133.8 million euros as discussed in further detail in the notes. The cash obtained from this issue has been used to fund equity interest management, reducing the short-term debt arising mainly from the Company's investment activities.

Table 3 – BULGARI S.p.A. – Net financial position (Thousands of euros)

	31 December 2009	31 December 2008
Cash	**5,185**	**3,763**
Current financial receivables - third parties	576	489
Current financial receivables - related parties	56,387	93,308
Current financial receivables	**56,963**	**93,797**
Current financial payables - third parties	–	(83,000)
Current bank loans and borrowings	(299)	(2,428)
Current financial payables - related parties	(39,973)	(73,503)
Current debt	**(40,272)**	**(158,931)**
Net current financial debt	**21,876**	**(61,371)**
Non-current financial receivables	**1,194**	**2,041**
Non-current financial payables - third parties	(133,871)	–
Other non-current payables	–	–
Non-current financial debt	**(132,677)**	**2,041**
NET FINANCIAL DEBT	**(110,801)**	**(59,330)**
Gearing	56%	31%

Capital expenditure

Capital expenditure of 20.3 million euros was made in 2009 and may be analysed as follows:

– investments of 14.0 million euros in intangible assets, regarding mainly application software and the related development and implementation costs;

– investments totalling 6.3 million euros in property, plant and equipment, consisting mostly of electronic machines and office furniture and equipment.

Equity investments

Investments of 42.4 million euros were made in non-current financial assets (equity interests) during 2009, which principally regard share capital injections of 20 million euros made to Bulgari Italia S.p.A., 10.4 million euros to Bulgari Retail USA S.r.l., 5 million euros to Bulgari Manifattura S.p.A. and 3 million euros to Bulgari Accessori S.r.l..

Research and development

The Company incurred research and prototype development expenditure during the year of 2.4 million euros, both directly and through Bulgari Manifattura S.p.A., Bulgari Accessori S.r.l. and Bulgari Gioielli S.p.A., all of which was recognised directly in profit or loss. All of this expenditure related to research and development into new jewellery products and new BVLGARI branded leather goods.

Management and co-ordination and related party transactions

Bulgari S.p.A., the Parent, has its head office in Rome and has a share capital of 21 million euros. The Company is the owner of the BVLGARI trademark and its main activities are as follows:

- acquisition of equity interests and granting of financing to Group companies;
- commercial exploitation of the BVLGARI name and trademark;
- technical, financial and administrative coordination of investees;
- invention, design and creation of articles of jewellery, gold jewellery, watches, perfumes, cosmetics, silk and leather accessories and porcelain, silver and crystal items.

In 2009 Bulgari S.p.A. had commercial relations with its various subsidiaries that manufacture and distribute BVLGARI brand products; these are governed by specific agreements and relate to the licensing of the BVLGARI trademark.
In addition, the Parent also had commercial relations with its various manufacturing and distribution subsidiaries, also governed by specific agreements, regarding the provision of technical, administrative, commercial, financial and ICT services.
It also performed financial activities on behalf of Group companies, consisting of corporate treasury management, remunerated at market interest rates.

The above transactions were carried out under market conditions, equivalent to those that would have been applied between independent parties, and were carried out in the interests of the subsidiaries.

Bulgari S.p.A. contributes to the advertising and promotion expenses of the Group's retail companies up to a contractually agreed ceiling, as provided in amendments to the licensing agreements for the BVLGARI trademark arranged with these companies.

The Company has cost subsidising agreements with Bulgari Italia S.p.A, Bulgari Corporation of America Inc., Bulgari Japan Ltd., Bulgari (Deutschland) GmbH, Bulgari France S.A., Bulgari (UK) Ltd. and Bulgari Retail USA S.r.l. (up to 30 April 2009, the date on which operations were sold to the affiliate Bulgari Corporation of America Inc.) relating to the “Flagship Stores”, which are stores of a certain size that are located in areas considered to be of specific interest. Under these agreements if certain conditions are met the Company subsidises up to a specific limit and for a certain time period the portion of the rental costs and depreciation and amortisation charges of the related investments that exceeds the average figure for costs as a percentage of revenue for the country in question.

As stated, Bulgari S.p.A. carries out research and development activities through its subsidiaries Bulgari Manifattura S.p.A., Bulgari Accessori S.r.l. and Bulgari Gioielli S.p.A., which recharge their costs to the Parent on the basis of specific agreements.

Transactions which took place with directly and indirectly held subsidiaries in 2009 and the amounts involved are set out in the following tables:

Receivables and payables at 31 December 2009 arising from commercial, financial and other transactions (Thousands of euros)

Description	Receivables	Payables
Royalties from the licensing of the trademark	31,731	–
Services	13,574	17,201
Goods and products not intended for sale	–	121
Financial	57,892	40,006
Group VAT settlement	12,559	1,230
Tax consolidation	930	8,369
Other	1,446	1,083
Total	**118,132**	**68,010**

Revenue and expenses arising from commercial, financial and other transactions in 2009 (Thousands of euros)

Decsription	Income	Expense
Royalties from the licensing of the trademark	52,737	–
ICT services	9,448	–
Technical and administrative services	1,690	–
Legal, fiscal and design services	138	–
Interest, commissions and financial income and expense	2,585	202
Research and developments / Prototypes and models	–	2,127
Subletting of premises	486	–
Other income and expense	1,492	1,137
Income and expense from the tax consolidation	133	3,471
Dividends	40,000	–
Advertising contributions	–	11,568
Total	**108,709**	**18,505**

There were no transactions with related parties as the term is defined in Consob Communication no. 2064231 of 30 September 2002 in addition to those described above.

At 31 December 2009 the company had 14 direct subsidiaries (of which 6 having their registered offices outside Italy) and 36 indirect subsidiaries, all having their registered office outside Italy.

Direct subsidiaries

Bulgari Gioielli S.p.A.
has its registered office in Rome, is wholly owned and has a share capital of 2.6 million euros. The company produces and sells jewellery.

Bulgari Italia S.p.A.
has its registered office in Rome, is wholly owned and has a share capital of 12.0 million euros. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in Rome, Milan, Florence, Venice, Naples, Bologna, Padua, Verona, Cortina, Serravalle Scrivia, Capri and Porto Cervo.

Bulgari Parfums Italia S.p.A.
has its registered office in Rome, is wholly owned and has a share capital of 1.0 million euros. The company distributes and sells BVLGARI brand perfumes and cosmetic products in Italy.

Bulgari Retail USA S.r.l.
has its registered office in Rome, is wholly owned and has a quota capital of 50 thousand euros. The company's activities, performed until 30 April 2009 by renting a business from Bulgari Corporation of America Inc., involved managing Bulgari's exclusive retail stores in the United States through its New York branch. This business was transferred to Bulgari Corporation of America Inc. on 1 May 2009.

Bulgari Commercial (Shanghai) Co. Ltd.
has its registered office in Beijing, is wholly owned and has subscribed, fully paid-up share capital of US$ 19,000,000. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in the People's Republic of China.

Bulgari Manifattura S.p.A.
has its registered office in Valenza (Alessandria), is wholly owned and has a share capital of 2.7 million euros. The company produces and sells jewellery products.

Bulgari Accessori S.r.l.
has its registered office in Florence, is wholly owned and has a quota capital of 50 thousand euros. The company produces and sells leather articles.

Bulgari Portugal Acessorios de Luxo Lda
has its registered office in Funchal (Madeira), is wholly owned and has a share capital of 92.9 thousand euros. The company will be responsible for promoting the brand name in the accessories sector.

Bulgari International Corporation (BIC) N.V.
has its registered office in Amsterdam, is a wholly owned sub-holding and has a share capital of 18.3 million euros.
The company holds investments in Bulgari Global Operations S.A, Bulgari Time (Switzerland) S.A., Bulgari Parfums S.A., Daniel Roth et Gérard Genta Haute Horlogerie S.A., Prestige d'Or S.A., Cadrans Design S.A., H. Finger AG, Bulgari Japan Ltd., Bulgari Australia Pty Ltd., Bulgari (Malaysia) Sdn., Bulgari Korea Ltd., Bulgari South Asian Operations Pte Ltd., Bulgari (Hong Kong) Ltd., Bulgari (Taiwan) Ltd., Bulgari Holding (Thailand) Ltd., Bulgari Thailand Ltd., Bulgari Corporation of America Inc., Bulgari Saint Barth S.a.S., Bulgari Panama Inc., Opera Management S.A., Opera Participations S.c.A., Opera Participations 2 S.c.A., Bulgari Reinsurance Company Ltd., Bulgari Qatar LLC and Bulgari Kawait WLL.

Bulgari Ireland Ltd.
has its registered office in Dublin, is wholly owned and has authorised share capital of 1 million euros. The company provides logistical and distribution support to all of the companies in the Group.

Bulgari Holding Europe B.V.
has its registered office in Amsterdam, is a wholly owned sub-holding company and has a share capital of 18 thousand euros. The company holds investments in Bulgari S.A., Bulgari France SAS, Bulgari (Deutschland) GmbH, Bulgari (Austria) GmbH, Bulgari Belgium S.A., Bulgari UK Ltd and Bulgari Espana S.A..

Bulgari Hotels & Resorts B.V.
has its registered office in Amsterdam, is a 65% held sub-holding company, has a share capital of 18 thousand euros and holds 95% of the quota capital of Bulgari Hotels & Resorts Milano S.r.l. This subsidiary's business is the acquisition of companies operating in the hotel sector. The remaining 35% of its share capital is held by the Marriott Group.

Bulgari Hotels & Resorts Milano S.r.l.
has its registered office in Rome, is 3.25% owned and has a quota capital of 100 thousand euros. The company is also indirectly owned by Bulgari Hotels & Resorts B.V., which holds a 95% interest; the remaining 1.75% is held by Luxury Hotels International B.V., a Marriott Group company. The company manages exclusive BVLGARI brand hotels, resorts and residences in Italy.

Opera SGR S.p.A.
has its registered office in Milan, is 12.5% owned and has a share capital of 1.1 million euros. The company promotes and manages mutual funds providing collective savings management services.

INDIRECT SUBSIDIARIES

Bulgari Global Operations S.A.
has its registered office in Neuchatel, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 6 million Swiss francs. The company's business is the development, production, promotion and marketing of BVLGARI products throughout the world. The company wholly owns Bulgari Collection Internationale S.A..

Bulgari Collection Internationale S.A.
has its registered office in Neuchatel, is wholly owned by Bulgari Global Operations S.A. and has a share capital of 3 million Swiss francs. The company produces exclusive articles of high jewellery.

Bulgari Time (Switzerland) S.A.
has its registered office in Neuchatel, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 1 million Swiss francs. The company produces watches and accessories.

Bulgari Parfums S.A.
has its registered office in Neuchatel, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 1 million Swiss francs. The company produces, distributes and markets BVLGARI brand perfumes throughout the world.

Daniel Roth et Gérald Genta Haute Horlogerie S.A.
has its registered office in Geneva, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 7.1 million Swiss francs. The company produces and distributes Daniel Roth and Gérald Genta watches.

Prestige d’Or S.A.
has its registered office in Saignelègier in Switzerland, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 100 thousand Swiss francs. The company produces precious metal and steel straps for top range watches.

Cadrans Design S.A.
has its registered office in La-Chaux-de-Fonds in Switzerland, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 100 thousand Swiss francs. The company produces watch mechanisms and components.

H. Finger AG
has its registered office in Lengnau bei Biel in Switzerland, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 400 thousand Swiss francs. The company produces watch components.

Bulgari S.A.
has its registered office in Geneva, is wholly owned by Bulgari Holding Europe B.V. and has a share capital of 600 thousand Swiss francs. It carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in Geneva, Zurich and St. Moritz.

Bulgari France S.A.
has its registered office in Paris, is wholly owned by Bulgari Holding Europe B.V. and has a share capital of 225 thousand euros. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in Paris and Cannes. The company has a 100% investment in Bulgari Montecarlo S.A.M..

Bulgari Montecarlo S.A.M.
has its registered office in Monaco (Montecarlo), is wholly owned by Bulgari France S.A. and has a share capital of 800 thousand euros. It carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive store in Montecarlo.

Bulgari Belgium S.A.
has its registered office in Brussels, is wholly owned by Bulgari Holding Europe B.V. and has a share capital of 1 million euros. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive store in Brussels.

Bulgari (Deutschland) GmbH
has its registered office in Munich, is wholly owned by Bulgari Holding Europe B.V. and has a share capital of 2.6 million euros. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in Munich, Berlin, Düsseldorf, Frankfurt, Cologne, Hamburg and Sylt. The company has a 100% investment in Bulgari Parfums Deutschland GmbH.

Bulgari Parfums Deutschland GmbH
has its registered office in Wiesbaden, is wholly owned by Bulgari (Deutschland) GmbH and has a share capital of 25 thousand euros. The company distributes and sells BVLGARI brand perfumes in Germany and Europe.

Bulgari (Austria) GmbH
has its registered office in Vienna, is wholly owned by Bulgari Holding Europe B.V. and has a share capital of 17.5 thousand euros. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive store in Vienna.

Bulgari Espana S.A. Unipersonal
has its registered office in Madrid, is wholly owned by Bulgari Holding Europe B.V. and has a share capital of 5.4 million euros. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in Madrid, Barcelona, Seville, Marbella and Valencia.

Bulgari (UK) Ltd.
has its registered office in London, is wholly owned by Bulgari Holding Europe B.V. and has a share capital of 28.1 million pounds. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in London.

Bulgari Japan Ltd.
has its registered office in Tokyo, is wholly owned by Bulgari International Corporation (BIC) N.V and has a share capital of 100 million yen. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in Tokyo, Osaka, Yokohama, Chiba, Fokuoka, Gotemba, Hiroshima, Kyioto, Kobe, Matsuyama, Nagoya, Sapporo, Sendai and Okayama and manages exclusive BVLGARI brand restaurants and hotels in Japan.

Bulgari Australia Pty Ltd.
has its registered office in Sydney, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 14.2 million Australian dollars. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in Sydney and Melbourne.

Bulgari (Malaysia) Sdn Bhd
has its registered office in Kuala Lumpur, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 13.3 million Malaysian ringitt. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive store in Kuala Lumpur.

Bulgari Korea Ltd.
has its registered office in Seoul, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 4,500 million Korean won. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in Seoul and Daegu.

Bulgari South Asian Operations Pte Ltd.
has its registered office in Singapore, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 6 million Singapore dollars. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in Singapore and distributes to local licensees.

Bulgari Asia Pacific Ltd.
has its registered office in Hong Kong, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 1 million Hong Kong dollars. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in Hong Kong and its branch in Macao.

Bulgari (Taiwan) Ltd.
has its registered office in Taipei, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 310 million Taiwan dollars. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive stores in Taipei, Kaohsiung, Taichung and Newport Beach.

Bulgari Holding (Thailand) Ltd.
has its registered office in Bangkok, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 100,000 Bath. The company has an investment in Bulgari (Thailand) Ltd..

Bulgari Thailand Ltd.
has its registered office in Bangkok, is 99.5% owned by Bulgari Holding (Thailand) Ltd. and has a share capital of Bath 64,000,000. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive store in Bangkok.

Bulgari Corporation of America Inc.
has its registered office in New York, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 24.3 million US dollars. The company's business is the retail sale through its exclusive American stores and the distribution in the United States and Latin America through third parties who are BVLGARI trademark licensees of jewellery, watches, perfumes and accessories. Since May 2009 the company also manages the retail sales business previously run by the United States branch of Bulgari Retail USA S.r.l..

Bulgari Saint Barth S.a.S.
has its registered office in Saint Bathelemy, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 700 thousand euros. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive store in Saint Barth.

Bulgari Panama Inc.
has its registered office in Panama City, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 10 thousand US dollars. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive store in Panama City.

Opera Management S.A.
has its registered office in Luxembourg, is 11.45% owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 120 thousand euros. The company holds 100% of the class B1 shares of Opera Participations S.c.A and Opera Participations 2 S.c.A..

Opera Participations S.c.A.
has its registered office in Luxembourg, is 11.75% owned by Bulgari International Corporation (BIC) N.V. as to class A.1 shares only and has a share capital of 1.9 million euros. The company's main activity is investing in companies producing "Made in Italy" goods and services that are representative of the Italian way of life.

Opera Participations 2 S.c.A.
has its registered office in Luxembourg, is 7.61% owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 31 thousand euros. The company's main activity will be to invest in companies producing "Made in Italy" goods and services that are representative of the Italian way of life.

Bulgari Reinsurance Company Ltd.
has its registered office in Dublin, is wholly owned by Bulgari International Corporation (BIC) N.V. and has a share capital of 635 thousand euros. The company is active in the insurance sector and its main business is to reinsure the Group on the market against the risk of the theft of goods.

Bulgari Qatar LLC
has its registered office in Doha, is 49% owned by Bulgari International Corporation (BIC) N.V. and has a share capital of Qar 200,000. The company carries out retail sales of jewellery, watches, perfumes and accessories through its exclusive store in Doha.

Bulgari Kuwait WLL
has its registered office in Dubai, is 49% owned by Bulgari International Corporation (BIC) N.V. and has a share capital of Kwd 100,000. The company will carry out retail sales of jewellery, watches, perfumes and accessories through stores to be opened shortly.

Bulgari Parfums Iberia SL
has its registered office in Barcelona, is wholly owned by Bulgari Espana S.A. Unipersonal and has a share capital of 10 million euros. The company distributes and sells Bulgari brand perfumes in Spain.

Investments held by directors in Bulgari S.p.A. and subsidiaries

As required by article 79 of Consob resolution no. 11971/99 as subsequently amended the following table sets out the investments held by directors in Bulgari S.p.A. and its subsidiaries, as stated in the shareholders' register and on the basis of communications and other information received. None of the members of the Board of Statutory Auditors holds investments in Bulgari S.p.A. or its subsidiaries.

Investments held by directors in Bulgari S.p.A. and subsidiaries

First and last name	Company	Number of shares held at the end of the previous year	Number of shares purchased	Number of shares sold	Number of shares held at the end of the current year
Paolo Bulgari	Bulgari S.p.A.	70,540,000 (1)	–	–	70,540,000 (1)
Nicola Bulgari	Bulgari S.p.A.	72,660,000 (1)	137,000	4,000,000 (3)	68,797,000 (2)
Francesco Trapani	Bulgari S.p.A.	13,206,348 (4)	–	–	13,206,348 (4)
Giulio Figarolo di Gropello	Bulgari S.p.A.	15,000	5,000	15,000	5,000

(1) Including 70,490,000 shares forming part of the voting block agreement held through Unione Fiduciaria S.p.A..
(2) Including 68,790,000 shares forming part of the voting block agreement held through Unione Fiduciaria S.p.A..
(3) Including 1,700,000 shares forming part of the voting block agreement.
(4) Forming part of the voting block agreement and held through Unione Fiduciaria S.p.A..

Information relating to stock option plans

The information required by Consob recommendation no. 11508 of 15 February 2000 concerning the stock option plans reserved for certain employee categories and the chief executive officer is provided in the applicable section of the notes, to which reference should be made.

Powers granted to the chairman and the chief executive officer

On 24 April 2007, the board of directors resolved to give the chairman and the chief executive officer ordinary and extraordinary administrative powers to be exercised for all of the Company's business segments with sole signature having free and separate authority.
The board of directors retains the following exclusive powers:

- when the commitment exceeds 30 million euros for each individual transaction, to buy and sell equity investments, incorporate new companies or associations in Italy and abroad and carry out share capital transactions for new or existing companies;
- when the commitment exceeds 30 million euros for each individual transaction, to enter into financing agreements and pledge sureties;
- when the commitment exceeds 2 million euros for each individual transaction, to purchase goods and services;
- to purchase and sell property, excluding transactions with directly or indirectly held subsidiaries;
- to sell and transfer licences for trademarks, names and intellectual property rights and inventions belonging to the Company, except in the case of temporary concession.

Neither the chairman nor the chief executive officer exercised any of their extraordinary management powers in 2009, nor were they given any special proxies by the board of directors for operations affecting the share capital of subsidiaries for amounts exceeding their powers.

Report on shareholding structure and corporate governance (as per article 123-bis of Consolidated Finance Law no. 58/98)

At 31 December 2009 the subscribed and paid-in share capital of Bulgari S.pA. amounted to 21,091,634.20 euros consisting of 301,309,060 ordinary shares each of par value of 0.07 euros.
Stock options relating to plans previously approved by shareholders were exercised in 2009 for a total of 679,250 shares, with a consequent increase in share capital of approximately 48 thousand euros.
At the date of preparation of this report, shareholders with an investment exceeding 2% were as follows, on the basis of the notifications received pursuant to article 120 of the Consolidated Finance Law:

UNIONE FIDUCIARIA SPA	50.61%
of which:	
– Paolo Bulgari	23.39%
– Nicola Bulgari	22.83%
– Francesco Trapani	4.38%
BLACKROCK INC	5.131%
HARRIS ASSOCIATES LP	4.998%
OPPENHEIMERFUNDS INC.	2.103%
AMUNDI SA	2.026%
CRÉDIT AGRICOLE SA	2.008%

The shareholders Paolo Bulgari, Nicola Bulgari and Francesco Trapani have a voting block agreement duly notified in detail in the original text and subsequent amendments and within the necessary term to Consob (the Italian Commission for Listed Companies and the Stock Exchange) and in the current text, lodged with and recorded by the Rome Companies' Registrar on 27 July 1998 pursuant to the combined requirements of articles nos. 122 and 207 of Legislative Decree no. 58 of 24 February 1998 and subsequent provisions on the matter. Under this voting block shareholder agreement 152,486,348 ordinary shares (of which 70,490,000 held by Paolo Bulgari, 68,790,000 by Nicola Bulgari and 13,206,348 by Francesco Trapani), equal to approximately 50.61% of the Company's share capital, were restricted at 31 December 2009. These shares are registered in the name of Unione Fiduciaria S.p.A., in accordance with instructions given by the parties to the agreement, including those for the purpose of exercising the rights pertaining to the shares.
On 16 April 2009, the shareholders in the general meeting authorised the chairman of the board of directors and the chief executive officer, severally, to repurchase up to a maximum of 30,000,000 treasury shares within 18 months of the date of the shareholders' resolution at a price of between 1.5 and 10 euros each, and in any case within the limits of the distributable profits and available reserves as stated in the most recent approved financial statements; the shares must be purchased on the stock exchange pursuant to article 132 of Consolidated Finance Law no. 58/1998 and by the means and during the hours envisaged by article 4.1.2 of the Regulations for the markets organised and managed by Borsa Italiana S.p.A..
On 5 June 2009 the board of directors approved the issue of registered bonds of 150,000,000 euros having the scope of expanding and increasing the Company's activities and the related funding requirements, as well as of strengthening the Company's financial structure.
On 21 July 2009, the board was authorised (for a period of five years from the date of the shareholders' resolution granting such powers): (i) pursuant to article 2443 of the Italian civil code, to increase the Company's share capital in more than one instalment by payment in cash, not exceeding 10% and excluding option rights pursuant to the second sentence of paragraph 4 of article 2441 of the Italian civil code, through a rights issue of up to 50,000,000 (fifty million) ordinary shares; (ii) pursuant to article 2420-ter of the Italian

civil code to issue on one or more occasions registered or bearer convertible bonds up to an amount, calculated together with the amount of the Company's outstanding bonds at the date of issue, equal to twice the Company's share capital, legal reserves and available reserves as stated in the most recent approved financial statements or any different maximum provided by applicable laws and regulations; and (iii) to increase the Company's share capital in more than one instalment for consideration, excluding option rights pursuant to paragraph 5 of article 2441 of the Italian civil code, in the amount of 150 million euros.
For all the other information concerning the corporate governance and shareholding structure of Bulgari S.p.A. that is required by paragraphs 1 and 2 of article 123-bis of the Consolidated Finance Law, reference should be made, pursuant to the provisions included in the third paragraph of article 123-bis, to the separate report approved by the Company's board of directors published in the "Corporate Governance" section of the Company's website [http://ir.bulgari.com/bulgarigroup/cg/cgit/].

Information concerning the environment and personnel

As required by paragraph 2 of article 2428 of the Italian civil code the Company states its full compliance with regulations concerning environmental matters and health and safety in the workplace.

Human resources

The Company has 341 employees, most of whom work in its operational department in Rome.
The Company offers equal job opportunities, with no distinction between race, colour, religion, gender, nationality, age, disability, sexual orientation or any other condition for diversity.

Development

People are fundamental to Bulgari's growth and hence also for Bulgari S.p.A., and accordingly the Company places considerable emphasis on personal and professional growth and on motivating its employees.
Individual development is guided by a career management system: the Bulgari "Career Management Framework" (CMF). This system provides all employees with a clear reference map as to their position and possible career prospects.
The Development and Management System in Bulgari comprises procedures and tools that enable an employee:

- to get to know and support improvements in the individual skills and professionalism required by the Group to tackle future challenges;
- to create development plans and actions tailored to improve performance (training, personal coaching, job rotation, advice);
- to direct his or her individual growth and career path;
- to monitor individual motivation and the business climate.

The main tools used for development are:

- a performance assessment system;
- a 360° feedback process;
- assessment of potential;
- personal coaching;
- surveys into the business environment.

Training

Personnel training is a key factor in individual excellence. For this reason specific training programmes are provided having objectives and contents that depend on each person's position in the Company and their needs.

The corporate training department designs and organises internal programmes that are provided throughout the world with the aim of:

- introducing new employees to the business's culture, history and products within a framework based on corporate values and customer orientation;
- facilitating their professional induction by introducing them immediately to the key persons for the work they will be performing;
- constantly developing the acquisition of the technical knowledge connected with the duties assigned;
- assisting managers to develop the skills required to lead successful teams.

In addition, personnel development is combined with training provided outside the Company including refresher courses, language training, courses aimed at developing personal skills such as assertiveness, negotiation and interpersonal communication and seminars and conferences.

Recruitment

Becoming part of the Bulgari team means joining an international entity that is geared towards excellence and quality and growing in a dynamic and merits-based system which rewards an individual's contribution to the Company's success. The recruitment process is structured into individual or group assessments designed to assess candidates in terms of their abilities, skills, values and drive.
The recruitment tools used, therefore, aim at ensuring equal assessment and identifying the best candidates.

Information relating to the data protection document

In accordance with prevailing laws and regulations the Parent updated its data protection document before 31 March 2009 as required by the New Consolidated Privacy Law. This document contains a list of the various ways in which personal data is processed by Bulgari S.p.A. and the other Italian group companies, the manner in which the duties and responsibilities within the structure for processing data are distributed, an analysis of the risks inherent in the data, a description of the criteria and methods that would be used to recover the data in the event of destruction or damage and the measures to be taken to ensure the integrity and availability of the data, as well as to protect the areas and locations used for its storage and accessibility.

Disclosure pursuant to paragraph 3.6-bis of article 2428 of the Italian civil code

As required by paragraph 3.6-bis of article 2428 of the Italian civil code it is noted that Bulgari S.p.A. is exposed to interest rate and currency risks when carrying out its activities. In order to minimise these risks it enters into derivative contracts to hedge specific transactions using instruments available on the market.
In particular the Company mostly uses forward contracts to reduce the risk of changes in foreign currency receivables, payables and foreign currency cash flows from forecast transactions.
Interest rate swaps are generally used to minimise interest rate fluctuation risks.
The Company does not enter into speculative transactions in managing its finances and treasury and has adopted specific procedures which require prudent criteria to be followed.
In particular, in 2009 it entered into forward agreements to hedge exchange rate fluctuations in the currencies in which it invoices royalties.
These currencies were mainly the Swiss franc and the Japanese Yen. Receivables in US dollars were used to hedge its own requirements and those of other Group companies through foreign exchange swaps hedging timing differences in cash flows.

Key events during the year

In the ordinary session of their ordinary and extraordinary general meeting on 16 April 2009 shareholders approved the financial statements as at and for the year ended 31 December 2009, which closed with a profit of 57.8 million euros, and resolved the distribution of a dividend of 0.10 euros per share for a total of 30 million euros.

In addition, shareholders in ordinary session also adopted a resolution authorising the repurchase and sale of treasury shares, including by means of put and call options, up to a total number not to exceed 30,000,000 pursuant to article 132 of the Consolidated Finance Law no. 58 of 20 February 1998 and by the means and during the hours provided by the regulations of the markets organised and managed by Borsa Italiana S.p.A..

Consequently, on 16 June 2009 the Board of Directors of Bulgari S.p.A. adopted a resolution to submit a proposal to shareholders for a increase in the Company's share capital of 150 million euros by payment in cash, excluding option rights pursuant to paragraph 5 of article 2441 of the Italian civil code, to be used by the Company to satisfy any requests for the redemption in shares of a portion of the indexed bonds.

On 8 July 2009 the issue of the indexed bonds was completed after they had been fully placed with institutional investors on 10 June 2009; the bonds are listed on the Luxembourg stock exchange. The purpose of this issue, which is part of other transactions carried out during the year, was to strengthen the Group's debt structure by increasing the average term.
In their extraordinary general meeting on 21 July 2009 the shareholders of Bulgari S.p.A. adopted a resolution allowing the board of directors to satisfy any requests for early redemption of the indexed bonds by means of newly issued ordinary shares and/or ordinary treasury shares of the Company and approving an increase in share capital for a maximum equivalent of 150 million euros to be used exclusively to service the bonds.
Again on 21 July 2009, on the basis of a report of the board of directors prepared specifically at a board meeting on 16 June 2009, the shareholders of Bulgari S.p.A. in extraordinary general meeting approved the proposal for a increase in the Company's share capital by payment in cash through the issue of up to 5,000,000 shares each of nominal value of 0.07 euros, reserved for the chief executive officer as permitted by paragraph 5 of article 2441 of the Italian civil code by granting him stock options in one or more instalments; the options are to be granted by the board of directors or by its chairman under path. This capital increase may be subscribed on the basis of the granted options up to but no later than 31 December 2024.

In their extraordinary general meeting on 21 July 2009 shareholders adopted a resolution granting powers to the board of directors for a period of five years from the grant date to increase the Company's share capital pursuant to paragraphs 4, 5 and 8 of article 2441 and article 2443 of the Italian civil code and to issue bonds pursuant to article 2420-ter of the Italian civil code.

Following resolutions adopted by the board and holders, on 3 March 2009 the board of directors of Bulgari Retail USA S.r.l. notified Bulgari Corporation of America Inc. of its decision to withdraw from the business lease agreement. As a consequence of this, the retailing of jewellery, watches and accessories under the Bulgari brand in the United States, which is the business object of Bulgari Retail USA S.r.l. and the activity on which its results mainly depend, was discontinued on 30 April 2009. This business has been managed by Bulgari Corporation of America Inc. since 1 May 2009.

On the 125th anniversary of the founding of the Bulgari Group in 2009 a campaign entitled "Rewrite the future" was carried out in collaboration with Save the Children. As a symbol of the campaign and of Bulgari's involvement a silver ring bearing the Save the Children logo was created for the occasion as a tribute to Sotirio Bulgari, the silversmith founder of the business. A portion of the proceeds was given to charity together with certain pieces of high jewellery and top of the range watches that were auctioned on 8 December in New York. The retrospective "Between Eternity and History" held from May to September in the *Palazzo delle Esposizioni* in Rome which was also linked to the 125th anniversary celebrations similarly had a positive effect on the Group's image.

Capital transactions involving subsidiaries and associates

Capital injections of 42.4 million euros were made to certain subsidiaries as discussed above. Equity investments total 204.2 million euros, almost all of which relating to subsidiaries. Investments were impaired by 5.2 million euros during the year of which 4.3 million euros regarding the investment in Bulgari Retail USA S.r.l. and 917 thousand euros for the investment in Bulgari Hotels and Resorts B.V..

Subsequent events

On 19 February 2010 the extraordinary shareholders' meetings of Bulgari Parfums Italia S.p.A. and Bulgari Italia S.p.A. approved the proposals of the respective boards of directors for the merger of the two companies, which will take place on the first day of the month following the publication of the respective resolution by the Rome Chamber of Commerce, expected to occur at the end of April 2010. As a result, the merger will be effective for legal purposes from 1 May 2010 and for accounting and fiscal purposes from 1 January 2010.
On 10 March 2010 the boards of directors of Bulgari Gioielli S.p.A. and Bulgari Manifattura S.p.A. approved the proposed merger of the two companies which will be submitted to the shareholders' meetings called to approve the draft 2009 financial statements.
Both of these mergers are part of a general programme to reorganise and rationalise the investments of Bulgari S.p.A. in Italy and abroad.
Again on 10 March 2010, since the assumptions underlying the company's business object no longer exist, the board of directors of Bulgari Retail USA S.r.l. resolved to submit a proposal to shareholders to put the company into voluntary liquidation and pursuant to article 2487 of the Italian civil code to appoint one or more liquidators who, once the winding up process is completed, will arrange for the company's name to be cancelled from the register of companies. The shareholders will be called to general meeting once certain pending formalities regarding employees have been finalised.

Outlook

The predominant features to be found in forecasts for 2010 appear to be uncertainty and a low level of consumer spending, although the signs of a pick-up we have seen during the last part of 2009 and the first part of 2010 allow us to make estimates that are more positive than those of the previous year. Many analysts believe that the economy is gradually emerging from the crisis although in their view the recovery may turn out to be slow.
A series of surveys carried out by the Altagamma Observatory indicate that we should already begin to see generally positive signals in the luxury goods sector in the second quarter of 2010, although we are going to have to wait until the second half of the year before we can begin to talk of a real recovery.
An economic pick-up in the international markets could lead to a favourable sales performance by the brand licensees with a consequent increase in the royalties earned by Bulgari S.p.A.. Despite this, and consistent with the comments in the report on operations on the consolidated financial statements, the Company will continue placing considerable emphasis in 2010 on containing its operating and management costs with the objective of improving operating profit and net earnings.
In conclusion, given the high level of dividends likely to be received from Group companies in 2010 the Company is expecting to see positive results in the upcoming year too.

Information on risks and uncertainties pursuant to article 2428 of the Italian civil code

Reference should be made to the directors' report on the consolidated financial statements in respect of article 2428 of the Italian civil code regarding the main risks and uncertainties to which the Company is exposed.

Approval of the financial statements at 31 December 2009 and allocation of profit

Dear Shareholders,

on 22 April 2010 the Shareholders Meeting approved the proposed financial statements for 2009 of Bulgari S.p.A., audited by KPMG S.p.A., together with the consolidated financial statements of the Group 2009, also audited by KPMG S.p.A., and the related proposal for the allocation of the profit for the year of 17,710,653 Euros.

The Shareholders Meeting, furthermore, decided to distribute a dividend of 0.05 Euros per share by distributing part of net income 2009.

Payment of this dividend will take place from 24 May 2010 in accordance with the provision of the Regulations for the market organised and managed by Borsa Italiana S.p.A. by detaching coupon no. 16 on 27 May 2010.

Bulgari S.p.A.
Chairman of the Board of Directors
Paolo Bulgari
(signed on the original)

Bulgari S.p.A.

Financial statements as at and for the years ended 31 December 2009 and 2008

Bulgari S.p.A.

Income statement
for the years ended 31 December 2009 and 2008
(Euros)

	Note	31/12/2009	of which related parties	31/12/2008	of which related parties
Net sales		13,496			
Royalties	(1)	61,725,576	52,736,642	81,844,508	69,685,565
Revenue from services	(2	3,197,443	3,197,443	4,032,564	2,181,570
Total revenue from royalties and services		**64,936,515**		**85,877,072**	
Other income	(3)	11,538,836	10,057,415	9,795,233	8,651,427
Total revenue from royalties, services and other income		**76,475,351**		**95,672,305**	
Personnel expense	(4)	28,443,159	1,487,887	31,553,610	378,734
Services costs	(5)	22,650,260	2,782,693	24,866,738	2,594,532
Advertising and promotion expenses	(6)	23,523,718	12,049,707	23,847,509	12,917,780
Depreciation, amortisation, impairment losses and other provision	(7)	13,435,894		11,852,246	
Other operating costs	(8)	1,876,858		2,305,648	
Total costs of production		**89,929,889**		**94,425,751**	
Operating profit (loss)		**(13,454,538)**		**1,246,554**	
Dividends		40,000,000	40,000,000	112,478,847	112,478,847
Other financial income		3,417,268	2,584,591	5,920,535	5,599,993
Interest and financial expense		(11,846,099)	201,948	(11,047,261)	3,086,846
– of which *Interest and financial rate expense relating to the bonds*		*(5,134,960)*		–	
Foreign Exchange gains (losses)		432,924		1,736,450	
Total financial income (expense)	(9)	**32,004,093**		**109,088,571**	
Reversal of impairment losses (impairment losses) on financial assets	(10)	(5,195,602)		(46,896,693)	
Other non-operating income (expense)	(11)	(1,797)		24	
Profit before taxation		**13,352,156**		**63,438,456**	
Current and deferred taxation	(12)	(4,358,497)		5,634,124	
Profit for the year		**17,710,653**		**57,804,332**	

Bulgari S.p.A.

Statement of comprehensive Income
for the years ended 31 December 2009 and 2008
(Euros)

	31/12/2009	31/12/2008
Profit for the year as per the income statemet	**17,710,653**	**57,804,332**
Gains (losses) on capital transactions	(340,633)	–
Income (expense) recognised directly in equity	**(340,633)**	–
Total comprehensive income for the year	**17,370,020**	**57,804,332**

Bulgari S.p.A.

Statements of financial position as at 31 December 2009 and 2008
(Euros)

ASSETS	Note	31/12/2009	of which related parties	31/12/2008	of which related parties
Property, plant and equipment	(13)	23,503,810		19,751,527	
Intangible assets	(14)	40,695,418		37,194,962	
– Equity investments		*204,179,931*	204,179,931	*166,274,281*	166,274,281
– Other non-current financial assets		*25,680*		*18,890*	
Total non-current financial assets	(15)	204,205,611		166,293,171	
Deferred tax assets	(16)	8,803,276		493,763	
Other non-current assets	(17)	13,129,405		12,822,085	
Non-current financial receivables	(18)	1,194,066		2,040,552	
NON-CURRENT ASSETS		**291,531,586**		**238,596,060**	
Non-current assets held for sale		–		–	
Inventories	(19)	113,676		158,197	
Trade receivables	(20)	48,948,555	44,712,522	55,747,694	50,882,190
– Financial receivables		*56,963,194*	56,386,906	*93,797,155*	93,307,730
– Other financial assets		–		–	
Total financial assets	(21)	56,963,194		93,797,155	
– Tax receivables		*12,901,244*		*10,629,190*	
– Other current assets		*19,260,356*	17,032,896	*9,837,228*	7,779,021
Total other current assets	(22)	32,161,600		20,466,418	
Cash and cash equivalents	(23)	5,185,347		3,763,457	
CURRENT ASSETS		**143,372,372**		**173,932,921**	
TOTAL ASSETS		**434,903,958**		**412,528,981**	

Bulgari S.p.A.

Statement of financial position as at 31 December 2009 and 2008
(Euros)

LIABILITIES AND EQUITY	**Note**	**31/12/2009**	**of which related parties**	**31/12/2008**	**of which related parties**
Equity	(24)				
– *Share capital*		21,091,634		21,044,087	
– *Reserves*		126,015,790		107,676,348	
– *Retained earnings*		32,846,372		5,105,021	
– *Profit for the year*		17,710,653		57,804,332	
TOTAL EQUITY		**197,664,449**		**191,629,788**	
Employee benefits	(4)	4,172,270		4,406,257	
Provisions for risks charges	(25)	933,605		1,881,418	
Deferred tax liabilities	(16)	–		–	
Other non-current liabilities		–		–	
Non-current bank loans and borrowings		–		–	
Other non-current financial payables	(26)	133,870,663		–	
NON-CURRENT LIABILITIES		**138,976,538**		**6,287,675**	
Non-current liabilities held for sale		–		–	
Trade payables	(27)	36,640,198	18,148,287	37,679,511	17,642,040
Current financial payables	(28)	40,272,821	39,973,467	158,931,410	73,503,306
– *Advances*		*2,372*		*2,454*	
– *Current tax payables*		*664,353*		*1,639,880*	
– *Other current liabilities*		*20,683,227*	9,888,600	*16,358,263*	6,376,040
Other current liabilities	(29)	21,349,952		18,000,597	
CURRENT LIABILITIES		**98,262,971**		**214,611,518**	
TOTAL LIABILITIES AND EQUITY		**434,903,958**		**412,528,981**	

Bulgari S.p.A.

Statement of Cash flows
(Euros)

	31/12/2009	of which related parties	31/12/2008	of which related parties
Cash flows from operating activities				
Profit for the year	17,710,653		57,804,332	
Depreciation, amortisation, and impairment losses	18,189,496		57,428,939	
Cash flows from operating activities	**35,900,149**		**115,233,271**	
(Increase) decrease in current trade receivables	6,799,139	6,169,668	(1,867,761)	(2,195,905)
(Increase) decrease in other current receivables	(11,695,182)	(9,253,875)	13,272,197	8,467,257
(Increase) decrease in inventories	44,521		51,267	
Increase (decrease) in trade payables	(1,039,313)	506,247	7,243,559	2,774,636
Increase (decrease) in other payables	3,349,355	3,512,560	(5,037,211)	(6,490,391)
Cash flows from changes in net working capital	**(2,541,480)**		**13,662,051**	
Other non-current assets (including other non-current financial assets)	(8,623,623)		(5,373,429)	
Other non-current liabilities	(1,181,800)		(5,461,930)	
(a) Cash flows from operating activities	**23,553,246**		**118,059,963**	
Cash flows from investing activities				
Purchases of property, plant and equipment (net of disposals)	(6,253,941)		(7,658,836)	
Purchases of intangible assets	(13,992,692)		(16,518,801)	
Increase in non-current financial assets (exclusing other non-current financial assets)	(43,101,252)	(43,101,252)	(1,389,114)	(1,389,114)
(b) Cash flows (used in) investing activities	**(63,347,885)**		**(25,566,751)**	
Cash flows from financing activities				
Change in equity for capital increases	47,547		79,538	
Dividends paid	(30,062,981)		(96,093,266)	
Other changes	18,339,442		10,299,578	
(c) Total changes in equity	**(11,675,992)**		**(85,714,150)**	
Change in non-current financial liabilities	133,870,663		–	
Change in non-current financial assets	846,486		314,000	
(d) Total changes in non-current financial assets	**134,717,149**		**314,000**	
(e) Cash flows from (used in) investing activities	**123,041,157**		**(85,400,150)**	
(f) Change in short-term net financial position (a)+(b)+(e)	**83,246,518**		**7,093,062**	
Net cash (debt) at the beginning of the year (*)	**(59,330,246)**		**(66,109,308)**	
Change in short-term debt (f)	83,246,518		7,093,062	
Change in long-term debt (e)	(134,717,149)		(314,000)	
Net (debt) at the end of the year (*)	**(110,800,877)**		**(59,330,246)**	
of which:				
– cash and cash equivalents	5,185,347		3,763,457	
– current financial liabilities	(40,272,821)		(158,931,410)	
– current financial assets	56,963,194		93,797,155	
– non-current financial liabilities	(133,870,663)		–	
– non-current financial assets	1,194,066		2,040,552	

(*) Including non-current cash (debt)

Bulgari S.p.A.

Statement of changes in equity
for the years ended 31 December 2008 and 2009
(Euros)

	Note	Share capital	Share premium reserve	Legal reserve	Treasury share premium reserve
31 December 2007		**20,964,549**	**120,614,283**	**5,762,389**	**2,384,105**
Total income and expense recognised directly in equity					
Profit (loss) for the year					
Total income and expense					
Allocation of 2007 profit to:					
Dividends			(39,775,825)		
Retained earnings					
Sale of treasury shares		56,000	7,978,536		(1,688,335)
Capital increase for exercise of stock options		23,537	1,417,362		
Stock option reserve					
31 December 2008		**21,044,086**	**90,234,356**	**5,762,389**	**695,770**
Treasury share transactions					
Total income and expense recognised directly in equity					
Profit (loss) for the year					
Total income and expense					
Allocation of 2008 profit to:					
Dividends					
Retained earnings					
Capital increase for exercise of stock options		47,548	2,882,083		
Stock option reserve					
Reserve created for bond issue					
31 December 2009	**24**	**21,091,634**	**93,116,439**	**5,762,389**	**695,770**

Stock option reserve	Extra-ordinary reserve	Taxed reserve	Contribution reserve	Bond issue reserve	Capital transactions reserve	Retained eamings	Profit (loss) for the year	Total
6,285,326	**27,886**	**144,693**	**1,933,240**	**–**	**–**	**9,997,780**	**51,425,355**	**219,539,606**
					–			**–**
							57,804,332	57,804,332
							57,804,332	**57,804,332**
						(4,892,759)	(51,425,355)	(96,093,939)
								–
								6,346,201
								1,440,899
2,592,686								2,592,686
8,878,012	**27,886**	**144,693**	**1,933,240**	**–**	**–**	**5,105,021**	**57,804,332**	**191,629,785**
					(340,633)			(340,633)
					(340,633)			**(340,633)**
							17,710,653	17,710,653
							17,710,653	**17,710,653**
							(30,062,981)	(30,062,981)
						27,741,351	(27,741,351)	–
								2,929,631
2,615,808								2,615,808
				13,182,186				13,182,186
11,493,820	**27,886**	**144,693**	**1,933,240**	**13,182,186**	**(340,633)**	**32,846,372**	**17,710,653**	**197,664,449**

Bulgari S.p.A.

Notes to the financial statements as at and for the year ended 31 December 2009

Bulgari S.p.A.

Separate Financial statements as at and for the year ended 31 December 2009

Accounting policies

Corporate information

Bulgari S.p.A. (the "Company") is an entity organised under the legislative code of the Republic of Italy and is the parent that holds investments in share of companies heading the sectors in which the Bulgari Group operates, either directly or indirectly through subholding companies.

The company has its registered office in Italy and is domiciled at Via Lungotevere Marzio 11, Rome.
As the parent Bulgari S.p.A. has additionally prepared the consolidated financial statements of the Bulgari Group as at and for the year ended 31 December 2009.
These financial statements were authorised for publication by the directors on 15 March 2010.

Statement of compliance

Bulgari S.p.A. has prepared its separate financial statements as at and for the year ended 31 December 2009 in accordance with the international financial reporting standards (International Accounting Standards – IAS or International Financial Reporting Standards – IFRS) and the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), as endorsed by the European Commission (also referred to overall in the following as "IFRS"), and the provisions implementing article 9 of Legislative Decree no. 38/2005.

Basis of presentation

The separate financial statements for the year ended 31 December 2009 consist of the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and these notes. Current and non-current assets and liabilities are presented separately in the statement of financial position as this classification is used for internal reporting and corresponds to the way in which the business is managed. Costs are presented in the income statement on the basis of their nature, which differs from the classification used in the consolidated income statement where they are presented on the basis of their function. Profit and losses arising from non-recurring events or transactions or from circumstances that do not occur frequently as part of normal operations are presented in the income statement, where they exist and when material, by using specific sub-items. The statement of cash flows is presented using the indirect method.
The separate financial statements have been prepared on a cost basis, adjusted as required for the measurement of certain financial instruments, and are presented in euros. The amounts stated in the financial statements are expressed in euros, while those stated in the notes are expressed in thousands of euros unless otherwise stated.
Additional columns have been included in the statement of financial position, income statement, statement of comprehensive income and statement of cash flows, to show related party transactions and balances in accordance with Consob Resolution no. 15519 of 27 July 2006.
No atypical or unusual transactions, as defined by the Consob communication of 28 July 2006, took place during the year.
As discussed in these notes, to improve presentation changes have been made to the classification of certain items in the financial statements for the year ended 31 December 2008 with respect to the version approved by shareholders in their general meeting of 16 April 2009.

Foreign currency

Revenue, expenses, assets and liabilities included in the financial statements are expressed in euros, which is the functional currency of Bulgari S.p.A.. All transactions denominated in a currency different from the

functional currency are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a currency different from the functional currency are subsequently translated using the closing rate, with any exchange differences arising being recognised in the income statement. Any net gains are accrued in a non-distributable reserve established for the purpose until such gains are realised.
Assets and liabilities denominated in foreign currency and stated at historical cost are translated at the exchange rate at the date of the initial recognition of the transaction.
Receivables and payables in foreign currency that are specifically hedged against currency risk are measured by using the exchange rate set in the hedging arrangement.

Business combinations

All business combinations are accounted for by applying the purchase method. Under the purchase method, the cost of acquisition is the fair value at the date of exchange of the assets given and the liabilities incurred or assumed plus any costs directly attributable to the acquisition. The cost of a business combination is then allocated to the acquiree's identifiable assets acquired and liabilities and contingent liabilities assumed at their fair values. Any excess of the cost of the acquisition over the company's interest in the net fair value of the net assets acquired is accounted for as goodwill. If the net fair value exceeds the cost of the acquisition, the excess ("negative goodwill") is recognised in the income statement on acquisition.

Property, plant and equipment

(i) Owned assets

Property, plant and equipment are stated at purchase cost, including any directly attributable incidental expenses.
They are included as assets only if it is probable that future economic benefits will result from their use and if that cost may be reliably determined.
Cost consists of:

a) purchase price (including any import duties and non-refundable purchase taxes), after deducting trade discounts and rebates;

b) any costs incurred directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Costs incurred subsequent to purchase are recognised as an increase in the carrying amount of the item to which they relate, if it is probable that the future benefits resulting from the cost incurred for the replacement of a component of property, plant and machinery will flow to the Company and if the cost of the component can be reliably estimated. All other costs are recognised in the income statement in the period in which they are incurred.
If significant parts of property, plant or machinery have different useful lives, then these are accounted for separately by applying the cost method described above.
Museum pieces, which are unique pieces from the Bulgari collection, are recognised at purchase cost and, given their nature, are not depreciated but are regularly tested for impairment. In particular, an independent expert was engaged in 2008 to appraise the fair value of the Bulgari Museum. The value appraised by this expert was considerably higher than the carrying amount of the pieces involved.

(ii) Depreciation

Subsequent to their initial recognition, property, plant and equipment are stated net of depreciation and any impairment losses recognised as described below. Depreciation commences when an asset becomes available for use and ceases when it is sold or when it is no longer expected to generate future benefits, and is calculated systematically on a straight-line basis over the estimated useful lives of assets.

The estimated useful lives of assets are reviewed at least on an annual basis.

The following table sets out the main useful lives of property, plant and equipment:

Asset category	Useful life (years)
Plant and machinery	3 - 4
Industrial and commercial equipment	6 - 7
Office furniture and fixtures	8
Fittings	6 - 7
Electronic office machines	5
Motor vehicles	4

Leasehold improvements are stated at cost and depreciated over the lower of the remaining lease term and their estimated useful lives.

Intangible assets

(i) Other intangible assets

Intangible assets are recognised in the statement of financial position only if it is probable that future economic benefits associated with the use of the asset will flow to the entity and if the cost of an asset can be measured reliably, and are stated at cost, including any directly attributable incidental expenses.

Research expenditure is recognised as an expense in the income statement when it is incurred. Development expenditure is capitalised as an asset only if it can be demonstrated that it is capable of producing future economic benefits.

Subsequent expenditure incurred for intangible assets is recognised as an increase in the carrying amount of the asset to which it relates if it is probable that future benefits will flow to the Company and when the expenditure can be reliably estimated. All other subsequent expenditure is recognised in the income statement when incurred.

(ii) Amortisation

Subsequent to their initial recognition, intangible assets with a finite useful life are recognised net of accumulated amortisation and any impairment losses calculated as described below. Amortisation begins when an asset is available for use and ceases when it is sold or if it is not expected to produce future economic benefits, and is allocated systematically on a straight-line basis over the asset's estimated useful life which is reviewed on an annual basis.

Intangible assets with an indefinite useful life are not amortised but are stated net of any impairment losses calculated as described below.

The following table sets out the main useful lives of assets:

Asset category	**Useful life (years)**
Development expenditure	Max 5
Industrial patents and intellectual property rights	3 – 7
Concessions, trademarks and licences	Max 5
Assets under development	–
Fees for taking over the lease of premises and other	Contract term

Impairment

At the end of each period presented, property, plant and equipment, intangible assets and investments in subsidiaries are reviewed to assess whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is calculated.
The recoverable amount of intangible assets having an indefinite useful life, if present, is in any case estimated at least once a year.
The recoverable amount is the higher of the fair value of an asset less costs to sell and its value in use.
In the absence of a binding sales agreement, fair value is estimated on the basis of values obtained from an active market or from recent transactions or on the basis of the best information available that reflects the amount that the Company could obtain from the sale of the asset.

Value in use is defined as the present value of the future pre-tax cash flows expected to be derived from the use of an asset, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If an asset does not generate cash flows that are largely independent, its recoverable amount is determined in relation to the cash generating unit to which it belongs.

An impairment loss for an asset is recognised in the income statement if its carrying amount, or that of the cash generating unit to which it allocated, is higher than its recoverable amount. The impairment losses of a cash generating unit are firstly allocated to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on the basis of their carrying amounts.

Impairment losses are reversed to the extent that that the increased carrying amount of the asset does not exceed the carrying amount that would have been determined had no impairment loss been recognised or if there have been changes in the estimates made to determine the recoverable amount.

Financial instruments

(i) Investments in subsidiaries

Investments in subsidiaries are recognised at cost less any impairment losses.
The excess of the cost of the acquisition over the Company's interest in the fair value of the investee's net assets is therefore included in the carrying amount of the investment.
Investments in subsidiaries are subject to an annual impairment test; this is carried out more frequently if necessary. When there is evidence that these investments are impaired the investment is written down by the impairment loss which is recognised in profit or loss. If the Company's share of the investee's losses exceeds the carrying amount of the investment, the investment is reduced to zero and the Company's share of any additional losses is recognised as a provision. If, subsequently, the impairment no longer exists or is reduced, the investment is reinstated up to cost, with the reinstatement being recognised in income.

(ii) Other financial assets

Other financial assets for which there is the intention and ability to hold to maturity are recognised at cost (represented by the fair value of the initial consideration given) to which transaction costs (such as commissions and advisors' fees, etc.) are added. Measurement subsequent to initial recognition is at amortised cost using the effective interest method.

Trade receivables are recognised at amortised cost, net of any impairment losses. Impairment losses are determined on the basis of the present value of expected future cash flows, using a discount rate based on the original effective interest rate.
Trade receivables whose due date is based on normal commercial terms are not discounted.

Cash and cash equivalents consist of balances which are payable on demand or within a very short period, are performing and may be withdrawn without cost.

(iii) Other financial liabilities

Other financial liabilities, including trade payables, are recognised at amortised cost using the original effective interest method.

The debt component of compound financial instruments such as convertible bonds is initially recognised at the fair value of a similar liability without a conversion option. The equity component is initially recognised as the difference between the fair value of the compound financial instrument as a whole and the fair value of the debt component. The related transaction costs are allocated to the debt and equity components of the instrument in proportion to the amount of each component.
Subsequent to initial recognition the debt component of compound financial instruments is measured at amortised cost using the effective interest method. The equity component of these instruments is not recalculated after initial recognition.
Interest, dividends, gains and losses linked to the financial liabilities are recognised as income or expense in profit or loss. Distributions to owners of equity instruments are recognised directly in equity, net of any related tax benefit.

(iv) Treasury shares

Treasury shares are recognised at cost and presented as a reduction in equity. Any gains or losses resulting from their subsequent sale are recognised directly in equity.

Inventories

Inventories are recognised at the lower of the cost of acquisition or production and estimated net realisable value, less the estimated costs of completion and the costs necessary to make the sale.

In order to estimate net realisable value, obsolete goods are written down on the basis of an estimation of their future use or realisation by creating a specific allowance to reduce the carrying amount of the inventories.

Provisions for risks charges

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, for which it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made from the available evidence.

Where the effect of the time value of money is material and the payment dates of the obligations can be reliably estimated, the amount of provisions is determined by discounting the estimated future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where applicable, the risks specific to the liability.
Changes in estimates are recognised in the income statement of the period in which they occur.

Employee benefits

Short-term employee benefits, such as wages, salaries and social security contributions, compensated absences and annual leave, where the absences are expected to occur within twelve months from the balance sheet date, and all other benefits in kind are recognised in the period in which the service is rendered by the employee.

Benefits guaranteed to employees which are payable on or after the completion of employment through defined benefit or defined contribution plans are recognised over the vesting period.
Liabilities relating to defined benefit plans, net of any plan assets, are recognised on the basis of actuarial assumptions using the projected unit credit method and on an accruals basis consistent with the service provided to obtain such benefits; these liabilities are calculated by independent actuaries.
Any actuarial gains or losses resulting from changes in actuarial assumptions or changes in the conditions of a plan are recognised in the income statement if, and to the extent that, the unrecognised net amount at the end of the previous reporting period exceeds the greater of 10% of the obligation relating to the plan and 10% of the fair value of any plan assets at that date (the corridor method).
On first-time adoption of IFRS, the Company elected to recognise all cumulative actuarial gains and losses at 1 January 2006, despite opting for the corridor method for subsequent actuarial gains and losses.

Following the changes to the way in which post-employment benefits (the TFR) are governed introduced by Law no. 296 of 27 December 2006 and subsequent decrees and implementing regulations issued in the first part of 2007 (the "Pension Reform"):

- the TFR vested up to 31 December 2006 continues to be treated as a defined benefit plan;
- the TFR accruing from 1 January 2007 is treated as a defined contribution plan and accordingly the contributions accruing during the year are recognised in full as a cost in the income statement and presented as a payable under "Other current liabilities", after deducting the contributions already paid over to the INPS Treasury Fund and various supplementary funds.

Revenue and expenses

Revenue from sales and services is recognised to the extent that it is probable that the respective economic benefits will flow to the Company and when it is possible to measure the fair value of the consideration reliably.

In particular, revenue from sales and services is recognised when the significant risks and rewards of ownership have been transferred to the buyer and when the services have been rendered.

Financial income and expense are recognised on an accruals basis recognising the interest accrued on the carrying amount of the respective financial assets and liabilities using the effective interest rate.

Dividends are recognised when shareholders have the right to receive payment and namely when a general meeting resolves a distribution.

Taxation

Current income taxes are calculated on the basis of a realistic estimate of the tax charge for the period made by each company included within the consolidation scope, in compliance with tax rates and tax laws that are enacted or substantaly enacted in each country at the balance sheet date.
The expected liability is recognised in the statement of financial position under the item "current tax liabilities", net of any advance payments, or under the item "Tax assets" if an asset results from the offsetting process.
Deferred tax assets and liabilities are calculated on the basis of the temporary differences between the carrying amount of assets and liabilities as stated in the statement of financial position and their corresponding tax bases, taking into account the tax rates that are expected to apply to the period when these differences reverse, based on those rates and laws that have been enacted or substantaly enacted by the balance sheet date.
Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised; the recoverability of deferred tax assets in this manner is reviewed at each balance sheet date.

In addition deferred tax liabilities are recognised on undistributed profits at the balance sheet date in the event that such profits will be taxed on distribution.
Taxation that could arise on the transfer of the undistributed profits of subsidiaries is only recognised if there is the real intention to transfer such profits in the foreseeable future.
Taxation not connected with income is included in operating expenses.
Current and deferred tax assets and liabilities are offset when tax is levied by the same taxation authority and when there is a legally enforceable right of set-off.

Tax consolidation

Pursuant to the provisions of Legislative Decree no. 344 of 12 December 2003 which introduced the group taxation regime known as the "national tax consolidation" scheme, Bulgari S.p.A. entered into agreements with its subsidiaries Bulgari Italia S.p.A., Bulgari Gioielli S.p.A., Bulgari Parfums Italia S.p.A., Bulgari Retail USA S.r.l., Bulgari Manifattura S.p.A. and Bulgari Accessori S.r.l. regarding the joint exercise of the option to use "national consolidation" regime for the period 2007-2009, in which all the mutual obligations and responsibilities are defined (the "Regulations").
As a consequence the Company has included amounts arising from subsidiaries in respect of current and deferred corporate income tax (IRES) under "Other current assets" or "Other current liabilities", while the results of the tax consolidation are presented as "Tax assets" or "Current tax liabilities" which therefore represent the tax position vis-à-vis the tax authorities of all the companies that participate in this consolidation. There is no change in the presentation of current or deferred IRAP, the regional tax on production.

Share-based payment transactions

The Company provides stock options to specific categories of employees and to the chief executive officer as a form of remuneration for services rendered.
The cost of these services is measured at the fair value of the options at the date on which they are granted.
This cost is calculated by taking into account the best estimate available of the number of options that will be exercised and is recognised in the income statement on a straight-line basis over the vesting period, namely the period from the grant date to the date on which the option vests, with the balancing entry being made directly in equity.
Changes in fair value subsequent to the grant date have no effect on the initial measurement.
The cancellation of a stock option plan leads to the immediate recognition in the income statement of the unamortised residual fair value. If new equity instruments are granted at the same time as a plan is cancelled and if this new grant is identified as a replacement for the previous, cancelled, plan then this is accounted for as a modification of the original grant. This leads to the recognition in the income statement of the fair value of the original plan, increased by the incremental fair value (being the difference between the fair value of the replacement stock options and the net fair value of the cancelled stock options, measured at the date the replacement equity instruments are granted), on a straight-line basis over the residual vesting period of the original plan.

Use of estimates

The preparation of the financial statements requires the directors and managers of the Company to make estimates and assumptions which affect the carrying amounts of the assets and liabilities in the statement of financial position and the disclosures relating to contingent assets and liabilities at the balance sheet date. These estimates and assumptions are based on accumulated experience and other factors considered reasonable in the circumstances and have been adopted to estimate the carrying amount of assets and liabilities when this is not easily obtainable from other sources. Estimates and assumptions are regularly reviewed and any changes are

recognised in the income statement of the period of the change, if the change affects that period only, or in the income statements of the period of the change and future periods, if the change affects both. The actual results could differ from these estimates as a result of the uncertainty inherent in the assumptions and the conditions on which they are based.
In particular, estimates are used in the recognition of allowances for impairment, in the measurement of any impairment losses on property, plants and equipment and intangible assets, for depreciation and amortisation, in the measurement of employee benefits and stock option plans, in the recognition of taxation, in the measurement of provisions and for risks and charges other contingent liabilities and in the measurement of derivative financial instruments.

Risk management

Bulgari S.p.A. is exposed to the following financial risks in respect of its operations:

– liquidity risk, meaning access to the credit market to obtain funds to satisfy its working capital and investment needs for the success and continuation of operations;

– market risk,
  - as the result of changes in exchange rates with respect to revenue arising from the use of the trademark in countries having currencies different from the Company's functional and presentation currencies;
  - as the result of changes in interest rates, limited to the Company's financial debt;

– credit risk, in respect of ordinary trading relationships with licensees.

These financial risks are constantly monitored in order to assess in advance any potential adverse effects and take suitable steps to mitigate such risks on an informed basis.

In order to deal with these risks adequately, the Company has introduced specific business procedures agreed at a Bulgari Group level, in particular a market risk management procedure and a credit risk management procedure. These procedures also include the setting of operating limits, responsibilities, process determination, key performance indicators (KPIs), reporting and the existence of steering committees.
Qualitative and quantitative information relating to the incidence of these risks for the Company is provided below.

Liquidity risk

This risk arises when it is impossible or difficult for the Company to obtain the funds required to perform its business in a normal manner under sustainable conditions.
The factors affecting the Company's funding requirements are on the one hand the funds arising from or used in operating and investing activities and on the other the maturity and renewal characteristics of debt or liquidity characteristics of financial investments, together with the conditions and availability on the credit market.
The steps taken by the Group to reduce this risk may be summarised as follows:

– centralising management of the treasury processes and hence credit facilities;

– obtaining credit facilities that are sufficient for creating a sustainable liability structure through the use of facilities that are committed until expiry date and medium-term or long-term loans;

– monitoring future liquidity conditions.

During 2009 the Company negotiated and concluded a series of transactions designed to guarantee the availability of the necessary and prudential funds, including those required by its subsidiaries.

Currency risk

Fluctuations in exchange rates can affect the Company's results and equity.
Economic risk: fluctuations in exchange rates may affect earnings if the currency in which costs are denominated and that in which revenue is generated do not correspond.
The main currencies exposed to exchange risk are the Swiss franc, the Yen, the US Dollar, the Singapore Dollar, the Hong Kong Dollar, the Australian Dollar and the Pound Sterling.
When the risk is included in an item of the financial statements (trade receivables or payables in currencies other than the entity's reporting currency), the policy followed is to hedge the entire exposure.

Sensitivity analysis

At 31 December 2009 the Company did not hold any currency derivatives designated as cash flow hedges; financial instruments designated as fair value hedges arranged to hedge treasury operations had a positive value of 520 thousand euros at 31 December 2009. These transactions were excluded from the sensitivity analysis because any changes in the value of these instruments would be offset by changes in the value of the underlying (receivables and payables in currency).

Interest rate risk

Changes in interest rates can prejudice the Company's net earnings, thereby leading to increased debt servicing costs. The above procedure, agreed at a Group level, envisages structuring interest rates between fixed and floating rates in an efficient manner with respect to financial requirements and average terms, in order to achieve at the same time a lower current cost for financial expense and a minimisation of the potential adverse change in such cost - proportional to the volatility of the interest rate market.
As part of this procedure, and for the purpose of optimising the ratio between fixed and floating rates, a series of derivative contracts were entered into in 2009 which consisted mainly of the conversion of 47% of the convertible bond issue to a floating rate (IRSs) and to a lesser extent the neutralisation of large changes in short-term rates for 20 million euros (collars).

Sensitivity Analysis

The sensitivity analysis carried out by Bulgari S.p.A. includes fixed rate financial instruments (the effect of which is assessed in terms of fair value) and floating rate financial instruments (the effect of which is assessed in terms of cash flows). The fixed rate instruments used consist of loans falling due after 12 months on which interest is payable at fixed rates together with derivative instruments with these features; a hypothetical decrease of 0.5% in the interest rate curve for all due dates at 31 December 2009 would have led to a potential loss in fair value of these financial instruments of approximately 1,602 thousand euros, while a favourable shift of 0.5% in market interest rates would have led to a potential gain in fair value of approximately 1,642 thousand euros.
Floating rate financial instruments consist of current debt and derivative instruments leading to the payment of interest at floating rates. The additional cost arising from the increased cash flow for interest on an annual basis that would have been caused by a hypothetical increase of 0.5% in the interest rate curve for these floating rate financial instruments for all due dates (including hypothetical roll-overs) at 31 December 2009 would have been approximately 365 thousand euros, while a decrease of 0.5% in these interest rates would have led to financial expense of approximately 135 thousand euros.

Credit risk

The Company is not exposed to significant credit risk given the nature of its business whereby risks of this nature are limited to receivables from third parties for royalties. Trade receivables are recognised in the financial statements net of a impairment determined on the basis of the risk that a customer will not fulfil its contractual obligations; this impairment is calculated by taking into consideration all the information that is available regarding the solvency of the customer and also by taking into consideration historical data. The Company has not had significant cases of counterparty default.

Standards, amendments and interpretations effective from 1 January 2009

IAS 1 (Revised) – Presentation of Financial Statements

The revised version of IAS 1 requires an entity to present comprehensive income in addition to the traditional primary financial statements to include the profit or loss for the period (defined as the sum of changes arising from transactions with non-owners) and income and expenses recognised directly in equity (other comprehensive income). In principle an entity is free to present this result in either a single "statement of comprehensive income" or in two separate statements presented one after the other:

i. a statement displaying components of profit or loss for the period (separate income statement); and

ii. a second statement (a statement of comprehensive income) beginning with profit or loss for the period and displaying components of other comprehensive income.

The Bulgari Group has elected for a presentation by means of the two separate statements entitled the "income statement" and the "statement of comprehensive income" respectively.

IFRS 7 – Improving Disclosures about Financial Instruments

The amendments to IFRS 7 – Financial Instruments: Disclosures require disclosures to be provided about the fair value of financial instruments on the basis of a fair value hierarchy. The adoption of this standard only affected the type of information provided in the notes and had no effect on the measurement or recognition of items in the financial statements.

Standards, amendments and interpretations effective from 1 January 2009 that did not lead to any accounting effects for the Company on adoption

- IAS 23 (Revised) – Borrowing Costs
- Amendment to IFRS 2 – Vesting Conditions and Cancellations
- Improvement to IAS 19 – Employee benefits
- IFRIC 13 – Customer Loyalty Programmes
- Amendment to IAS 32 – Financial Instruments: Disclosures and IAS 1 – Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
- IAS 27 – Consolidated and Separate Financial Statements
- IFRS 8 – Operating Segments
- Amendment to IAS 39 – Reclassification of Financial Assets
- IFRIC 9 – Reassessment of Embedded Derivatives and IAS 39 – Financial Instruments: Recognition and Measurement

Standards, amendments and interpretations not yet effective or not adopted early by the Company

On 10 January 2008, the IASB issued a revised version of IFRS 3 – Business Combinations and amended IAS 27 – Consolidated and Separate Financial Statements. The main changes to IFRS 3 regard the elimination of the requirement to measure individual assets and liabilities of the subsidiary at fair value for each subsequent acquisition of an interest in the subsidiary achieved in stages. In this case goodwill is the difference between the carrying amount of the investment immediately before the acquisition, the consideration paid and the carrying amount of the net assets acquired. In addition in cases where an entity does not acquire a 100% interest, the non-controlling interest's share of equity may be measured at fair value or by using the method previously required by IFRS 3. The standard further requires all acquisition-related costs to be accounted for as expenses and liabilities for contingent consideration to be recognised.
The changes must be applied by the Company prospectively from 1 January 2010.

In May 2008, the IASB issued an amendment to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations. This amendment, which must be applied prospectively from 1 January 2010, specifies that an entity that is committed to a sale plan involving loss of control of a subsidiary must reclassify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

On 31 July 2008, the IASB issued an amendment to IAS 39 – Financial Instruments: Recognition and Measurement, which must be applied retrospectively from 1 January 2010. This amendment clarifies how the standard that defines the hedged underlying should be applied in particular situations.

On 27 November 2008, the IFRIC issued IFRIC 17 – Distributions of Non-cash Assets to Owners with the aim of unifying the accounting treatment of distributions of non-cash assets to owners. In particular, the interpretation clarifies that a liability for a dividend should be recognised when the dividend is appropriately authorised and that this liability should be measured at the fair value of the net assets to be distributed. Further, an entity must recognise the difference, if any, between the carrying amount of the net assets distributed and the carrying amount of the dividend payable in profit or loss. This interpretation is applicable prospectively from 1 January 2010.

On 16 April 2009, the IASB issued a set of improvements to IFRSs; only those leading to a change in the presentation, recognition or measurement of financial statement items are included in the following:

- IFRS 2 – Share-based Payment: this amendment, applicable from 1 January 2010 (early application is permitted) clarifies that since IFRS 3 has changed the definition of a business combination, the contribution of a business to create a joint venture or business combination or business to joint-ventures is not within the scope of IFRS 2.
- IFRS 8 – Operating Segments: this amendment, applicable from 1 January 2010, requires entities to provide total carrying amount of assets for each reportable segment if such amounts are regularly provided to the chief operating decision maker. This information was previously required even in the absence of that condition. Early application of this amendment is permitted.
- IAS 1 – Presentation of Financial Statements: this amendment, applicable from 1 January 2010 (early application is permitted), changes the definition of current liabilities in IAS 1. The previous definition required a liability to be classified as current if it could be settled at any time by the issue of equity instruments. That led to liabilities for convertible bonds that could be converted at any time into the issuer's shares being recognised as current. Following this change, the existence of a currently exercisable option for conversion into equity instruments becomes irrelevant for the classification of a liability as current or non-current.

- IAS 7 – Statement of Cash Flows: this amendment, applicable from 1 January 2010, requires that only cash flows arising from expenditure that results in a recognised asset in the statement of financial position are eligible for classification as arising from investing activities in the statement of cash flows, while cash flows arising from expenditures that do not result in a recognised asset (such as in the case of advertising and promotion expenses or costs for staff training) must be classified as arising from operating activities.
- IAS 36 – Impairment of Assets: this amendment, applicable prospectively from 1 January 2010, requires that each operating unit or group of operating units to which goodwill is allocated for impairment testing shall not be larger than an operating segment as defined in paragraph 5 of IFRS 8, before the aggregation on the basis of similar financial characteristics or other elements of similarity permitted by paragraph 12 of that IFRS.
- IAS 38 – Intangible Assets: the revision of IFRS 3 in 2008 established that sufficient information is available to measure an intangible asset acquired in a business combination at fair value if it is separable or arises from contractual or other legal rights. IAS 38 has consequently been amended to reflect this change to IFRS 3. This amendment additionally clarifies the valuation techniques commonly used to measure intangible assets at fair value when intangible assets are not traded in an active market; in particular, these techniques include estimating the discounted net cash flows from the asset and estimating the costs the entity avoids by owning the intangible asset and not needing to license it from another party or to recreate it or replace it. The amendment is applicable prospectively from 1 January 2010 unless an entity applies the amendment to IFRS 3 for an earlier period.

In June 2009, the IASB issued amendments to IFRS 2 – Share-based Payment: Group Cash-settled Share-based Payment Transactions. The amendments clarify the scope of IFRS 2 and the interactions between IFRS 2 and other standards. In particular, they clarify that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction and no matter whether the transaction is settled in shares or cash; moreover, they clarify that a 'group' has the same meaning as in IAS 27 – Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsidiaries. In addition, the amendments clarify that an entity must measure the goods or services it received as either an equity-settled or a cash-settled share-based payment transaction assessed from its own perspective, which may not always be the same as the amount recognised by the group. The amendments also incorporate guidance previously included in IFRIC 8 – Scope of IFRS 2 and IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. The amendment is applicable from 1 January 2010; the European Union has not yet completed the endorsement process for the application of these amendments at the reporting date.

In October 2009, the IASB issued an amendment to IAS 32 – Financial Instruments: Presentation which specifies the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. The amendment however requires that, provided certain conditions are met, such rights issues should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is applicable from 1 February 2010.

On 4 November 2009, the IASB issued a revised version of IAS 24 – Related Party Disclosures that simplifies the disclosure requirements for transactions with related parties that of government-controlled and clarifies the definition of a related party. The revised standard is applicable from 1 January 2011. The competent bodies of the European Union had not yet completed the endorsement process for the application of this revised standard at the date of these financial statements.

On 12 November 2009, the IASB issued IFRS 9 – Financial Instruments regarding the classification and measurement of financial assets; the standard is applicable from 1 January 2013. The new standard, which forms part of a project to replace IAS 39 in three main phases, uses a single approach based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets to determine how a financial asset is measured, replacing the many different rules in IAS 39. In addition, IFRS 9 also requires a single impairment method to be used for financial assets. The competent bodies of the European Union had not yet completed the endorsement process for the application of this new standard at the date of these financial statements.

On 26 November 2009, the IFRIC issued the interpretation IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the settlement terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares to settle the financial liability, then the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability and must be measured at their fair value; the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued must be included in profit or loss for the period. The interpretation is applicable from 1 January 2011. The competent bodies of the European Union had not yet completed the endorsement process for the application of this new standard at the date of these financial statements.

Contents and main changes

Income statement

1. Royalties

Royalties may be analysed as follows:

(Thousands of euros)

	2009	2008
– Royalties from related parties	52,737	69,685
– Royalties from third party companies	8,989	12,159
Total royalties	**61,726**	**81,844**

Revenue from the licensing of the Bvlgari trademark decreased by 20,118 thousand euros, a fall of 24.6% over the previous year reflecting the drop in licensee sales volumes.
Royalties from third party companies include revenue from the exclusive Bulgari franchisee stores and from Luxottica S.p.A. for the sale of eyewear.

2. Revenue from services

Revenue from services regards services provided to Group companies, all governed by specific agreements. This revenue amounted to 3,197 thousand euros, representing a decrease of 836 thousand euros over the previous year.

The following table provides an analysis of this revenue by company:

(Thousands of euros)

	2009	2008
Bulgari Italia S.p.A.	738	766
Bulgari Gioielli S.p.A.	531	624
Bulgari Corporation of America Inc.	46	–
Bulgari Japan Ltd.	–	19
Bulgari S.A.	–	34
Bulgari Deutschland GmbH	3	15
Bulgari France S.A.	3	9
Bulgari Espana S.A.	–	8
Bulgari Parfums S.A.	58	56
Bulgari Parfums Italia S.p.A.	297	309
Bulgari South Asian Operations Pte. Ltd.	–	19
Bulgari U.K. Ltd.	–	32
Bulgari Australia Pty Ltd.	–	3
Bulgari Global Operation S.A.	–	2
Bulgari Collection International S.A.	1,315	1,878
Bulgari Asia Pacific Ltd.	–	13
Bulgari Taiwan Ltd.	–	47
Bulgari Korea Ltd.	–	2
Bulgari Retail USA S.r.l.	55	119
Bulgari Commercial Shanghai Company Ltd.	–	14
Bulgari Accessori S.r.l.	99	–
Bulgari Thailand Ltd.	–	3
Bulgari Hotels and Resorts Milano S.r.l.	38	46
Bulgari Hotels and Resorts Japan Ltd.	14	15
Total revenue from services to related parties	**3,197**	**4,033**

Segment reporting

As required by applicable laws and regulations segment information for revenue is reported geographically since the Company's business is managing the Group's investments.

Revenue for the sale of goods and provision of services by geographical segment is as follows:

(Thousands of euros)

	Italy	EU	Europe (other)	America	Middle East	Far East	Japan	Other	Total
Royalties from the licensing of the trademark:									
– from related parties	2,402	3,005	35,023	1,534	227	4,393	5,479	674	52,737
– from third parties	5,722	133	251	182	1,581	1,120			8,989
Total royalties from the licensing of the trademark	8,124	3,138	35,274	1,716	1,808	5,513	5,479	674	61,726
Revenue from services:									
– from related parties	1,817		1,320	46			14		3,197
– from third parties		13							13
Total revenue from services	1,817	13	1,320	46	–	–	14	–	3,210
Total revenue from royalties and services	**9,941**	**3,151**	**36,594**	**1,762**	**1,808**	**5,513**	**5,493**	**674**	**64,936**

3. Other income

(Thousands of euros)

	2009	2008
– Other income from related parties	10,057	8,651
– Other income from third parties	1,482	1,144
Total other income	**11,539**	**9,795**

Other income amounted to 11,539 thousand euros for the year ended 31 December 2009. For a better understanding of the comparative figures an amount of 19 million euros for the year ended 31 December 2008 relating to "third party prior year income" has been reclassified to this item from "other non-operating income".
This item has increased by 1,744 thousand euros over the previous year. Operating income from related parties of 10,057 thousand euros relates mainly to the recharge of costs for the development and implementation of application software of 9,218 thousand euros and office subletting agreements with Bulgari Gioielli S.p.A., Bulgari Parfums Italia S.p.A., Bulgari Retail USA S.r.l. and Bulgari Italia S.p.A. for 486 thousand euros. All arrangements with related parties are governed by specific contracts.

Other income from third parties of 1,482 thousand euros increased by 338 thousand euros over the previous year. This item relates primarily to prior period income arising from the release to income of costs of 661 thousand euros accrued in previous years, the recharge of costs of 400 thousand euros incurred for the restructuring of certain franchised stores, insurance reimbursements of 247 thousand euros and other, more minor, income.

The following table provides an analysis by company of “Other income from related parties”:

(Thousands of euros)

	2009	2008
Bulgari Italia S.p.A.	616	681
Bulgari Gioielli S.p.A.	264	383
Bulgari International Corporation (BIC) N.V.	34	10
Bulgari Corporation of America Inc.	636	186
Bulgari Time (Switzerland) S.A.	578	542
Bulgari Japan Ltd.	796	830
Bulgari S.A.	135	107
Bulgari (Deutschland) GmbH	225	233
Bulgari France S.A.	207	203
Bulgari Montecarlo S.A.M.	15	19
Bulgari Espana S.A. Unipersonal	186	197
Bulgari Parfums S.A.	563	446
Bulgari Parfums Italia S.p.A.	452	252
Bulgari South Asian Operations Pte Ltd.	132	134
Bulgari (UK) Ltd.	129	176
Bulgari Belgium S.A.	24	15
Bulgari Australia Pty. Ltd.	76	67
Bulgari (Malaysia) Sdn Bhd	26	27
Bulgari Global Operations S.A.	1,395	1,503
Bulgari Collection Internationale S.A.	90	87
Bulgari Asia Pacific Ltd.	176	160
Bulgari (Taiwan) Ltd.	116	122
Bulgari Korea Ltd.	168	151
Bulgari Saint Barth S.a.S.	9	9
Bulgari Parfums Deutschland GmbH	30	25
Bulgari Retail USA S.r.l.	249	664
Bulgari Manifattura S.p.A.	1,216	1,089
Bulgari Commercial (Shanghai) Company Ltd.	723	–
Bulgari Accessori S.r.l.	211	158
Bulgari Austria GmbH	1	–
Bulgari Panama Inc.	10	–
Bulgari Parfums Iberia	61	56
Bulgari Qatar LLC	–	11
Bulgari Ireland Ltd.	508	108
Total other income from related parties	**10,057**	**8,651**

4. Employee benefits

The following changes took place in the number of employees during the year, analysed by category:

	At 31/12/2008	Joiners	Leavers	Change in category	At 31/12/2009	Average 2009	Average 2008
Executives	36	1	(5)	–	32	34	36
Middle mgt.	64	–	(6)	3	61	63	60
White collars	273	3	(33)	(3)	240	256	252
Blue collars	8	–	–	–	8	8	8
Total	381	4	(44)	–	341	361	356

Personnel expenses

Personnel expenses relate to the following:

(Thousands of euros)

	2009	2008
– Wages and salaries	17,537	20,588
– Social security charges	5,739	6,488
– Accruals for post-employment benefits (TFR)	1,341	1,420
– Remuneration component of stock option plans	1,927	1,840
– Other personnel costs	1,899	1,218
Total personnel expenses	**28,443**	**31,554**

Personnel expenses amounted to 28,443 thousand euros, representing a decrease of approximately 10% over the prior year. This is mainly due to the decrease in the number of employees which fell from 381 in 2008 to 341 in 2009.
The compensation component of the stock option plans refers to those plans involving Bulgari S.p.A. shares.

Employee benefit plans

The Company provides post-employment benefits for its employees both directly and by making contributions to non-Company funds as required by prevailing tax and statutory laws and regulations.

At 31 December 2009 the balance for employee benefit plans amounted to 4,172 thousand euros, excluding payments for defined contribution plans of 1,216 thousand euros and related advances of Euros 843 thousand, compared to 4,406 thousand euros at 31 December 2008.

Following the changes in the way in which post-employment benefits are treated that were introduced by Law no. 296 of 27 December 2006 and subsequent decrees and implementing regulations issued in the first part of 2007 (the "Pension Reform"):

– the Italian "TFR" post-employment benefits continue to be treated as a defined benefit plan for amounts vested up to 31 December 2006;
– from 1 January 2007 Italian "TFR" post-employment benefits are considered to be a defined contribution plan and accordingly the amounts accruing from that date are recognised fully as a cost, provided under "Other current liabilities" and paid to the INPS (the Italian social security organisation) treasury fund or to supplementary pension funds.

The obligation of 4,172 thousand euros for the Italian "TFR" post-employment benefits, net of advances and payments, has the nature of a defined benefit obligation and has been determined on the basis of prevailing laws, regulations and labour contracts and a valuation made by an independent actuary using the projected unit credit method.

Changes during the year recognised in the statement of financial position were as follows:

(Thousands of euros)

	2009	2008
Accruals for post - employment benefits (TFR) at 1 January	4,406	4,489
Costs recognised in profit or loss (see below)	1,575	1,636
Transfers to pension funds	(304)	(386)
Transfers to the INPS Treasury Fund	(912)	(1,042)
Utilisation	(593)	(291)
Accruals for post - employment benefits (TFR) at 31 December	**4,172**	**4,406**

Changes during the year recognised in the income statement were as follows:

(Thousands of euros)

	2009	**2008**
Service costs	1,341	1,420
Interest on discounting the Accruals for post - employment benefits (TFR) obligation	234	216
Total changes in profit or loss	**1,575**	**1,636**

The main assumptions used in making the actuarial estimate were as follows:

Annual discount rate	5.10%
Annual inflation rate	2.00%
Annual rate of increase in the cost of labour	3.00%

Share-based payments

The Company has arranged stock option plans for the chief executive officer and certain managerial categories. Options are granted at the average officially quoted price for the thirty days preceding the grant date. The vesting period for options ranges from 9 months to 4 years. Options may be exercised for a period of up to five years and six months from the vesting date.

Considering that all the plans have similar features, the information below is provided on a combined basis.

Personnel expenses include costs of 1,927 thousand euros relating to stock option plans in place at 31 December 2009. This cost has been determined at a fair value ranging between 1.01 and 2.56 euros per share using the method described in "Accounting policies".
The parameters used in the determination of this cost, namely the determination of the fair value of the options at the grant date, are as follows:

- Dividend yield: .... from 2.7% to 9.1%
- Stock price volatility: .... from 22% to 41%
- "Risk free" interest rate: .... from 3.8% to 4.8%
- Average expected option term: .... from 2.4 to 4.8 years

Stock options relating to plans previously approved by shareholders were exercised in 2009 for a total of 675,250 shares, with a consequent increase in share capital of 48 thousand euros.

In accordance with the resolution passed by shareholders in an ordinary and extraordinary general meeting on 18 April 2008 and on the basis of a resolution adopted by the board of directors on 12 May 2009, 300,000 stock options were granted at the latter date to the chief executive officer which may be exercised from July 2010 and a further 300,000 options which may be exercised from July 2011, all at a price of 4 euros.

At the same date certain members of management were granted 144,750 options exercisable from July 2010, 144,750 options exercisable from July 2011, 81,250 options exercisable from July 2012, 331,250 options exercisable from July 2013 and 250,000 options exercisable from July 2014, all at a price of 4 euros.

Settlement will be on the physical delivery of the shares as per the previous plans.

Information relating to changes in stock option plans during 2009 is set out in the following table:

	2009	
	Number of options	**Average exercise price**
Options at 01/01/09	6,640,250	€ 7.18
Changes from intragroup transfers	188,500	€ 7.54
Granted 2009	1,552,000	€ 4.00
(Options exercised in the year)	675,250	€ 4.31
(Options expiring in the year)	211,000	€ 8.55
Options at 31/12/2009	7,494,500	€ 6.75
Of which exercisable at 31/12/2009	4,541,750	€ 7.59

The following tables provide an analysis of the exercise price band and residual term of the agreement, separated between the chief executive officer and other employees:

Price band	**Residual contractual life**						
	< 2 years			**> 2 years**			**Total**
	Others	**CEO**	**Total**	**Others**	**CEO**	**Total**	
<=2,0	–	–	–	–	–	–	–
> 2,0 < 5,0	137,500	300,000	437,500	1,059,500	600,000	1,659,500	2,097,000
> 5,0	285,250	900,000	1,185,250	2,112,250	2,100,000	4,212,250	5,397,500
Total	422,750	1,200,000	**1,622,750**	3,171,750	2,700,000	**5,871,750**	**7,494,500**

Price band	**Of which exercisable at 31/12/2009**		
	Others	**CEO**	**Total**
<=2,0	–	–	–
> 2,0 < 5,0	245,000	300,000	545,000
> 5,0	1,596,750	2,400,000	3,996,750
Total	1,841,750	2,700,000	**4,541,750**

5. Service costs

(Thousands of euros)

	2009	**2008**
– Cost of related party services	2,782	2,595
– Cost of third party services	19,868	22,272
Total service costs	**22,650**	**24,867**

Service costs totalled 22,650 thousand euros for the year ended 31 December 2009, representing a decrease of 2,217 thousand euros over the previous year.

Cost of related party services

The cost of related party services refers principally to recharges of operating costs incurred by subsidiaries. The increase of 187 thousand euros over the previous year relates mainly to a rise in the cost of product development prototypes recharged by Bulgari Manifattura S.p.A..

The following table provides an analysis of this item:

(Thousands of euros)

	2009	2008
Bulgari Italia S.p.A.	11	14
Bulgari Gioielli S.p.A.	272	299
Bulgari Corporation of America Inc.	21	36
Bulgari Time S.A.	15	45
Bulgari Japan Ltd.	128	142
Bulgari (Deutschland) GmbH	1	–
Bulgari Parfums S.A.	–	2
Bulgari Parfums Italia S.p.A.	–	1
Bulgari (UK) Ltd.	6	46
Bulgari Australia Pty Ltd.	–	1
Bulgari Global Operations S.A.	46	12
Bulgari (Taiwan) Ltd.	4	2
Bulgari Manifattura S.p.A.	1.330	1.217
Bulgari Retail USA S.r.l.	–	8
Bulgari Commercial Shanghai Company Ltd.	70	–
Bulgari Accessori S.r.l.	873	725
Bulgari Hotels and Resorts Milano S.r.l.	2	10
Bulgari Hotels and Resorts Japan Ltd.	3	35
Total Cost of related party services	**2.782**	**2.595**

Cost of third party services

The following table provides an analysis of the cost of services provided by third parties:

(Thousands of euros)

	2009	2008
External costs for technical, organisational, legal, tax and administrative consultancy services	3,540	5,043
Fees to members of corporate bodies	2,013	3,228
Services for employees and management bodies	1,348	2,765
Protection and filing of trademarks and designs	1,160	1,413
Hiring costs	1,612	1,711
Maintenance instalments and maintenance and repair costs	2,825	2,215
Lease costs	4,704	3,240
Energy, telephone and communications costs	1,355	1,189
Security services	665	718
Insurance	142	162
Technical monitoring department expenses	13	113
Premises cleaning costs	239	185
Other services	252	290
Total Costs of related party service	**19,868**	**22,272**

There was a decrease of approximately 11% in the cost of third party services, which mainly relate to the following:

– costs for external services of 3,540 thousand euros, which decreased by 1,503 thousand euros over the previous year and consist of costs for tax, legal, commercial and administrative consultancy services, organisational and development assistance and personnel training, selection and recruitment;

– fees to members of corporate bodies of 2,013 thousand euros (3,228 thousand euros in 2008), which consist of fees to directors of 1,741 thousand euros, including social security contributions, fees for the members of the board of statutory auditors of 172 thousand euros, fees for the remuneration committee of 30 thousand euros and fees for the internal control committee of 70 thousand euros. The table below sets out a list of the directors and statutory auditors and their respective remuneration of fees;

– costs for services to employees and management bodies of 1,348 thousand euros (2,765 thousand euros in 2008), which decreased by 1,417 thousand euros. These consist of the costs and reimbursement of business travel expenses for employees and members of the board of directors;
– costs of 1,160 thousand euros for the protection and filing of trademarks and designs, compared with 1,413 thousand euros in the previous year, representing a decrease of 253 thousand euros;
– hiring costs amounting to 1,612 thousand euros (1,711 thousand euros in 2008), representing a decrease of 99 thousand euros, relating mainly to the rental of electronic machines such as servers and computers and the rental of company cars and office machines;
– maintenance instalments and maintenance and repair costs of 2,825 thousand euros, which have risen by 610 thousand euros over the previous year. In particular, instalments for the maintenance of application software amounted to 1,991 thousand euros, while maintenance instalments relating to computer hardware totalled 324 thousand euros. This item additionally includes costs of 286 thousand euros for the maintenance and repair of office equipment and machines;
– lease costs of 4,704 thousand euros for premises housing the Company's registered office, headquarters and administrative offices and the related accessory costs, which rose by 1,464 thousand euros over the previous year.

Fees for directors and statutory auditors in office at 31 December 2009 (*)

(Thousands of euros)

Person	Description of the position		Fees		
First and last names	Office held	Term of office	Fees for the position	Bonuses and other incentives	Other fees (note (1))
Paolo Bulgari	Chairman Bulgari S.p.A.	2007-2009	253		
Nicola Bulgari	Vice Chairman Bulgari S.p.A.	2007-2009	176		
Francesco Trapani	Chief executive officer Bulgari S.p.A.	2007-2009	1.085	See stock option plan table	
Paolo Cuccia	Director Bulgari S.p.A.	2007-2009	45		10 [c] 30 [d]
Giulio Figarolo Di Gropello	Director Bulgari S.p.A.	2007-2009	45		10 [c] 20 [d]
Claudio Costamagna	Director Bulgari S.p.A.	2007-2009	45		20 [d]
Claudio Sposito	Director Bulgari S.p.A.	2007-2009	45		10 [c]
Eugenio Pinto	Chairman, board of statutory auditors Bulgari S.p.A.	2008-2010	65		
Maurizio De Magistris	Standing auditor Bulgari S.p.A.	2008-2010	50		31 [b]
Gerardo Longobardi	Standing auditor Bulgari S.p.A.	2008-2010	50		

(*) The amounts shown in the table relate to fees recognised or provided during the year on an accruals basis.
(1) Other fees for the following positions:
[a]: Director of another Bulgari Group company.
[b]: Chairman of the board of statutory auditors or standing auditor of other Bulgari Group company.
[c]: Chairman or member of the remuneration committee.
[d]: Chairman or member of the internal control committee.

6. Advertising and promotion expenses

(Thousands of euros)

	2009	2008
– Related party advertising and promotion expenses	12,050	12,918
– Third party advertising and promotion expenses	11,474	10,930
Total advertising and promotion expenses	**23,524**	**23,848**

Advertising and promotion expenses of 23,524 thousand euros, compared to 23,848 thousand euros in the previous year, decreased by 324 thousand euros. This net decrease is principally due to lower advertising and promotion contributions paid to subsidiaries, which fell by 868 thousand euros, and an increase in advertising costs incurred with third parties of 544 thousand euros.
As the owner of the Bvlgari trademark Bulgari S.p.A. contributes to the advertising and promotion costs and certain other costs incurred by related parties for managing the Group's flagship stores, which are situated in some of the world's most prestigious commercial areas and are of particular strategic and marketing interest for the Bvlgari brand. This is carried out on the basis of specific agreements or, in certain cases, additions to licence agreements.
These contributions are calculated using criteria and parameters based on the promotional investments made and the turnover achieved by these related parties and in 2009 led to the recognition of a lower contribution of 694 thousand euros.

The following tables provides an analysis of this item by company:

Related party advertising and promotion expenses for the year ended 31 December 2009 (Thousands of euros)

	Advertising contribution	Other budget support
Bulgari Italia S.p.A.	1,000	26
Bulgari Gioielli S.p.A.	–	3
Bulgari Corporation of America Inc.	2,715	139
Bulgari Japan Ltd.	3,000	35
Bulgari S.A.	–	10
Bulgari (Deutschland) GmbH	298	5
Bulgari France S.A.S.	594	7
Bulgari Espana S.A. Unipersonal	–	10
Bulgari Parfums S.A.	–	1
Bulgari South Asian Operation Ltd.	–	9
Bulgari (UK) Ltd.	1,097	4
Bulgari Australia Pty. Ltd.	91	19
Bulgari Global Operations S.A.	–	13
Bulgari Asia Pacific Ltd.	–	53
Bulgari (Taiwan) Ltd.	–	52
Bulgari Retail USA S.r.l.	1,674	13
Bulgari Commercial (Shanghai) Ltd.	1,077	39
Bulgari Austria GmbH	22	–
Bulgari Hotels and Resorts Milano S.r.l.	–	43
Bulgari Hotels and Resorts Japan Ltd.	–	1
Total Group advertising and promotion expenses	**11,568**	**482**

Advertising and promotion expenses with third parties, which increased by 544 thousand euros over the previous year, relate to the costs incurred for sponsorships and international events, the purchase of advertising space in national and international magazines and promotional activities developed through national and international film productions aimed at promoting and publicising the Bvlgari brand throughout the world.

7. Depreciation, amortisation, impairment losses and other provisions

(Thousands of euros)

	2009	2008
– Amortisation of intangible assets	10,478	9,071
– Depreciation of property, plant and equipment	2,516	1,461
– Other provisions	442	1,320
Total depreciation, amortisation, impairment losses and other provisions	**13,436**	**11,852**

Amortisation, depreciation, impairment losses and other provisions increased by 1,584 thousand euros in 2009. This is mainly due to an increase in the amortisation charged on application software licenses and the related development expenses and the depreciation charged on leasehold improvements which rose by 1,407 thousand euros over 2008; an increase of 1,055 thousand euros in the depreciation charged on property, plant and equipment compared to the previous year; and a decrease of 878 thousand euros in other provisions, which mainly refer to the costs to be incurred under individual or collective agreements for the mutually agreed early termination of employment for organisational purposes.

8. Other operating costs

(Thousands of euros)

	2009	2008
– Related party other operating costs	–	–
– Third party other operating costs	1,877	2,305
Total other operating costs	**1,877**	**2,305**

Other operating costs decreased by 428 thousand euros over 2008 and relate entirely to costs incurred with third parties.

These costs, amounting to 1,877 thousand euros, consist of operating costs of a general nature, such as costs for the insurance and transportation of products for events (311 thousand euros), postal and shipping costs (99 thousand euros), costs for stationery and consumables (152 thousand euros), the cost of running company cars (99 thousand euros) and association expenses (50 thousand euros). Also included in this item are prior period expense (604 thousand euros), the commissions and fees payable to Monte Titoli and its depositaries (66 thousand euros), listing fees (60 thousand euros), costs for managing company shares (41 thousand euros and other taxes and duties (153 thousand euros).

9. Financial income (expense)

(Thousands of euros)

	2009	2008
– Dividends received	40,000	112,479
– Other financial income	3,417	5,921
– Financial expense and interest	(11,846)	(11,047)
– Exchange rate gains (losses)	433	1,736
Total financial income (expense)	**32,004**	**109,089**

Financial income

(Thousands of euros)

	2009	2008
Dividends received	40,000	112,479
Other related party financial income:		
– Interest income	*2,357*	*5,447*
– Income from commissions on securities	*228*	*153*
Total other related party financial income	**2,585**	**5,600**
Other third party financial income:		
– Interest income on bank current accounts	*11*	*120*
– Other interest income from the public administration	*307*	*154*
– Loan interest income	*410*	*–*
– Premium income on financial forward transactions	*104*	*47*
Total other third party financial income	**832**	**321**
Total	**43,417**	**118,400**

The Company received dividends during the year of 40,000 thousand euros, representing a decrease of 72,479 thousand euros over the previous year, all of which relating to the distribution made by the subsidiary Bulgari Ireland Ltd..

Related party interest income represents income accruing on balances with the Group's corporate treasury management and loans granted by Bulgari S.p.A. to its subsidiaries.

The following table provides an analysis of related party financial income by company:

(Thousands of euros)

	2009	2008
Bulgari Italia S.p.A.	1,168	3,267
Bulgari Gioielli S.p.A.	428	950
Bulgari Corporation of America Inc.	2	–
Bulgari Japan Ltd.	98	50
Bulgari France S.A.	16	13
Bulgari Parfums Italia S.p.A.	61	303
Bulgari Global Operations S.A.	12	96
Bulgari Montecarlo S.A.M.	1	1
Bulgari Manifattura S.p.A.	107	8
Bulgari Retail USA S.r.l.	9	32
Bulgari Commercial (Shanghai) Ltd.	337	239
Bulgari Accessori S.r.l.	244	415
Bulgari Hotels & Resorts B.V.	44	71
Bulgari Hotels and Resorts Milano S.r.l.	58	155
Total financial income from related parties	**2,585**	**5,600**

Other third party financial income amounts to 832 thousand euros, an increase of 511 thousand euros over 2008; of this 431 thousand euros relates to interest income earned on earned medium- and long-term interest rate swaps used to hedge the interest rate risk on the bonds issued during the year and the balance to premium income on financial transactions and interest on bank current accounts.

Financial expense

(Thousands of euros)

	2009	2008
Other related party financial expense:		
– Interest expense	*202*	*3,087*
– Other financial expense	*–*	*–*
Total other related party financial expense	**202**	**3,087**
Other third party financial expense:		
– Interest expense on bank current accounts	*40*	*140*
– Interest expense to sundry third parties	*–*	*7*
– Bond interest expense	*5,135*	*–*
– Loan interest expense	*3,854*	*6,809*
– Other interest expense from the public administration	*28*	*–*
– Commissions on sureties from third parties	*87*	*90*
– Club deal commissions	*2,108*	*–*
– Bank charges and fees	*86*	*138*
– Premium expense on financial transactions	*72*	*560*
– Interest on discounting the post - employment benefits obligation	*234*	*216*
Total other third party financial expense	**11,644**	**7,960**
Total	**11,846**	**11,047**

Financial expense rose by 799 thousand euros compared to the previous year due to an increase in the borrowing requirements needed to fund the investments made during the year and the payment of dividends to shareholders.

Financial expense – related parties consists of interest payable in respect of the Group corporate treasury management and loans taken out by the Company.

The following table provides an analysis of this item by company:

(Thousands of euros)

	2009	2008
Bulgari International Corporation (BIC) N.V.	83	1,576
Bulgari Global Operations S.A.	114	1,503
Bulgari Retail U.S.A. S.r.l.	5	–
Bulgari Manifattura S.p.A.	–	8
Total	**202**	**3,087**

Financial expense – third parties rose by a net amount of 3,684 thousand euros and relates mainly to the following:

- interest charged on the short-term loan of 60,000 thousand euros, referred to as “Tranche A” in the Club Deal agreement entered into by the Company on 27 May 2009 and terminated early on 27 November 2009, interest charged due to the failure to use the remaining credit facilities included in the agreement of 120,000 thousand euros and referred to as “Tranche B” amounting to 1,672 thousand euros and interest charged on short-term loans granted to the Company by various banks during the year amounting to 2,182 thousand euros;
- interest charged on the bonds of 150,000 thousand euros issued by Bulgari S.p.A. on 8 July 2009.

Exchange rate gains (losses)

(Thousands of euros)

	2009	2008
– Exchange rate gains	3,725	13,224
– Exchange rate losses	(3,292)	(11,488)
Total exchange e rate gains (losses)	**433**	**1,736**

There were net exchange rate gains of 433 thousand euros in the year ended 31 December 2009 compared to net exchange rate gains of 1,736 thousand euros in the previous year.
Exchange rate differences arise mainly from commercial and financial transactions. The Company has a strict policy for hedging the currency risk on foreign currency receivables and payables through the use of derivative instruments.
The exchange rate gains and losses stated in the above table also arise from financial transactions designed to hedge the currency risk of receivables for royalties and financial receivables and payables, again through the use of derivative instruments. Further details of this matter may be found in note 31 “Information concerning financial risks”.

10. Reversals of impairment losses (impairment losses) on financial assets

(Thousands of euros)

	2009	2008
Impairment losses on equity investments	5,196	46,897
Total impairment loss on financial assets	**5,196**	**46,897**

There was a net impairment loss on investments during the year ended 31 December 2009 of 5,196 thousand euros compared with 46,897 thousand euros in the prior year.
This item consists of a impairment loss of the investment in Bulgari Retail USA S.r.l. by 4,279 thousand euros and on of the investment in Bulgari Hotels & Resorts B.V. by 917 thousand euros.

11. Other non-operating income (expense)

(Thousands of euros)

	2009	2008
Othet non-operating income	2	–
Total other non-operating income (expense)	**2**	**–**

Other non-operating income of 2 thousand euros for the year ended 31 December 2009 relates to discounts and rebates received and losses on the sale of fixed assets.
An amount of 19 thousand euros for the year ended 31 December 2008 relating to “third party prior year income” has been reclassified to “other income” for a better comparison with the previous year.

12. Current and deferred taxation

(Thousands of euros)

	2009	2008
Current IRES	–	1,309
Current IRAP	584	1,350
Foreign income taxes	1,748	1,795
Substitute tax	–	2,343
Deferred taxation	(8,309)	(4,936)
Taxes from national consolidated tax scheme	3,338	4,466
Prior year taxes	(1,734)	(691)
Prior year administrative penalties and fiscal interest	15	–
Totale current and deferred taxation	**(4,358)**	**5,636**

There was a net balance of 4,358 thousand euros for this item as shown in the above table.
The net balance of assets and liabilities transferred by subsidiaries that participate in the national tax consolidation scheme amounted to 3,338 thousand euros.
Deferred tax income of 8,309 thousand euros was recognised in 2009 (4,936 thousand euros in the year ended 31 December 2008); this mainly represents the recognition of deferred tax assets on the losses included in the 2009 tax consolidation
The IRAP tax charge amounted to 584 thousand euros compared to 1,350 thousand euros in the year ended 31 December 2008.
Taxes on foreign earnings amounting to 1,748 thousand euros (1,795 thousand euros in the year ended 31 December 2008) relate to withholding tax that was incurred and paid on a final basis outside Italy.
Prior year tax income regarding accruals relating to 2008 amounts to 1,734 thousand euros (691 thousand euros in 2008).

A reconciliation between the tax charge recognised in the income statement and the theoretical tax charge calculated on the basis of current tax rates is as follows:

Reconciliation between ordinary and effective tax rates:	**2009**	**2008**
Ordinary IRES (corporate income tax) rate applicable	**27.50%**	**27.50%**
– Tax effect of permanent differences:		
· Impairment losses on equity investments	10.70%	20.33%
· Other non-deductible costs	16.89%	3.76%
· Dividends	(78.26%)	(37.79%)
· Other exempt income and tax-deductible costs	(14.84%)	(5.31%)
– Foreign income taxes	13.09%	2.83%
– Prior year income taxes	(12.88%)	(0.16%)
– Adjustment to deferred tax liabilities arising from accumulated temporary differences	0.76%	–
– Effect of tax franking (Finance Law 2008)	–	(4.4%)
IRES effective rate	**(37.04%)**	**6.75%**
– IRAP effect *(current and deferred)*	4.40%	2.13%
Total effective tax rate	**(32.64%)**	**8.88%**

Statement of financial position

13. Property, plant and equipment

(in migliaia di Euro)

	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Electronic machines	Asset in progress and advance payments	Bulgari Museum	Other assets	Total
2006								
Historical Cost	1,746	523	4,942	7,140			2,047	16,398
Accumulated depreciation	(1,459)	(465)	(3,262)	(5,090)			(1,688)	(11,964)
Balance at 31/12/2006	**287**	**58**	**1,680**	**2,050**			**359**	**4,434**
Reclassifications						8,245		8,245
Balance at 01/01/2007	**287**	**58**	**1,680**	**2,050**	**–**	**8,245**	**359**	**12,679**
Changes in 2007								
Purchases	89		41	1,076	84	1,054	81	2,425
Disposals				(56)			(4)	(60)
Depreciation	(167)	(18)	(462)	(791)			(111)	(1,549)
Impairment losses								
Util. of accum. depreciation				56			4	60
Total changes in 2007	**(78)**	**(18)**	**(421)**	**173**	**84**	**1,054**	**(38)**	756
2007								
Historical Cost	1,835	523	4,983	8,160	84	9,299	2,124	27,008
Accumulated depreciation	(1,626)	(483)	(3,724)	(5,825)			(1,795)	(13,453)
Balance at 31/12/2007	**209**	**40**	**1,259**	**2,335**	**84**	**9,299**	**329**	**13,555**
Changes in 2008								
Purchases	66	2	262	1,446	3,505	2,341	35	7,657
Reclassifications	2		4		(4)		(2)	0
Disposals				(1)				(1)
Depreciation	(132)	(17)	(251)	(962)			(98)	(1,460)
Impairment losses								
Util. of accum. depreciation								
Total changes in 2008	**(64)**	**(15)**	**11**	**483**	**3,501**	**2,341**	**(65)**	**6,196**
2008								
Historical Cost	1,903	525	5,250	9,605	3,584	11,640	2,160	34,667
Accumulated depreciation	(1,758)	(500)	(3,976)	(6,787)			(1,895)	(14,916)
Balance at 31/12/2008	**145**	**25**	**1,274**	**2,818**	**3,584**	**11,640**	**265**	**19,751**
Changes in 2009								
Purchases	50	124	564	275	4,533	451	272	6,269
Reclassifications	107	962	4,515	1,310	(8,004)		1,110	0
Disposals				(18)			(3)	(21)
Depreciation	(85)	(160)	(601)	(1,147)			(249)	(2,242)
Impairment losses						(260)		(260)
Util. of accum. depreciation				4			3	7
Total changes in 2009	**72**	**926**	**4,478**	**424**	**(3,471)**	**191**	**1,133**	**3,753**
2009								
Historical Cost	2,060	1,611	10,329	11,172	113	11,831	3,539	40,655
Accumulated depreciation	(1,843)	(660)	(4,577)	(7,930)			(2,141)	(17,151)
Balance at 31/12/2009	**217**	**951**	**5,752**	**3,242**	**113**	**11,831**	**1,398**	**23,504**

Property, plant and equipment amounted to 23,504 thousand euros at 31 December 2009, representing a net decrease of 3,753 thousand euros over 31 December 2008.

This item is made up as follows:

- *Plant and machinery* of 217 thousand euros, which increased by 72 thousand euros and relate to alarm and communication systems.
- *Industrial and commercial equipment* of 951 thousand euros, which increased by a net amount of 926 thousand euros and relate to equipment and accessories for setting up stands at shows and fairs and store window displays.
- *Leasehold improvements* of 5,752 thousand euros, which increased by 4,478 thousand euros and mainly relate to costs incurred to restructure and adapt the Company's offices in Via del Tritone 142 in Rome.
- *Electronic machines* of 3,242 thousand euros, which have increased by a net amount of 424 thousand euros and consist of costs incurred for electronic equipment, servers and printers.
- *Assets under construction and advance payments* of 113 thousand euros, which have decreased by 3,471 thousand euros compared to 31 December 2008.
- The *Bulgari Museum* of 11,831 thousand euros. This item consists of the costs relating to the Museum opened in 2003 and comprises the cost of purchasing articles which represent the Company's past and current production of jewellery and watches and the collections of accessories which represent a historical archive of Bvlgari products.
- *Other assets* of 1,398 thousand euros increased by a net 1,133 thousand euros and mainly comprise furniture, fittings, mopeds and assets having an original carrying amount of less than 516.46 euros.

Investments of 6,269 thousand euros were made in property, plant and equipment during the year, while depreciation of 2,242 thousand euros was charged.

Annual depreciation rates are as follows:

Plant and machinery	25% - 30%
Industrial and commercial equipment	15%
Other tangible assets:	
– Electronic office machines	20%
– Office furniture and fixtures	12%
– Motor vehicles	25%
– Fittings	15%

Leasehold improvements are recognised at cost and are depreciated over the lower of the residual term of the rental contract and their estimated future useful lives.

The different depreciation rates used for plant and equipment refer respectively to special communications systems and alarm systems.

There are no charges or mortgages on the Company's property, plant and equipment.

In addition, there are no restrictions on the Company's ownership of, or title to, property, plant and equipment securing its liabilities.

There was no fully depreciated property, plant or equipment still in use at 31 December 2009.

14. Intangible assets

(Thousands of euros)

	Concessions, licences, trademarks and similar rights	Industrial patents and intellectual property rights	Assets under Development	Development expenditure	Deferred charges being amortised	Total
2006						
Historical Cost	85	44,007	2,699	–	516	47,307
Accumulated amortisation	(22)	(25,149)	–	–	(186)	(25,357)
Balance at 31/12/2006	**63**	**18,858**	**2,699**	**–**	**330**	**21,950**
Changes in 2007						
Purchases		13,733	673			14,406
Decreases		(117)				(117)
Reclassifications		2,086	(2,086)			–
Amortisation	(10)	(6,441)			(43)	(6,494)
Util. of accum. amortisation		1				1
Total changes in 2007	**(10)**	**9,262**	**(1,413)**	**–**	**(43)**	**7,796**
2007						
Historical Cost	85	59,709	1,286	–	516	61,596
Accumulated amortisation	(32)	(31,589)	–	–	(229)	(31,850)
Balance at 31/12/07	**53**	**28,120**	**1,286**	**–**	**287**	**29,746**
Changes in 2008						
Purchases		10,786	5,787	–		16,573
Decreases		(3,249)				(3,249)
Reclassifications		2,721	(3,625)	904		–
Amortisation	(10)	(8,836)		(181)	(43)	(9,070)
Util. of accum. amortisation		3,195				3,195
Total changes in 2008	**(10)**	**4,617**	**2,162**	**723**	**(43)**	**7,449**
2008						
Historical Cost	85	69,967	3,448	904	516	74,920
Accumulated amortisation	(42)	(37,230)	–	(181)	(272)	(37,725)
Balance at 31/12/08	**43**	**32,737**	**3,448**	**723**	**244**	**37,195**
Changes in 2009						
Purchases		7,797	6,229			14,026
Decreases	(5)	(22)	(29)			(56)
Reclassifications	904	6,580	(6,580)	(904)		–
Amortisation	(96)	(10,248)		(90)	(44)	(10,478)
Reclass. of acc. amortisation	(271)			271		–
Util. of accum. amortisation	1	7				8
Total changes in 2009	**533**	**4,114**	**(380)**	**(723)**	**(44)**	**3,500**
2009						
Historical Cost	984	84,322	3,068	–	516	88,890
Accumulated amortisation	(408)	(47,471)	–	–	(316)	(48,195)
Balance at 31/12/09	**576**	**36,851**	**3,068**	**–**	**200**	**40,695**

Intangible assets have all been acquired from third parties and there are no intangible assets with indefinite lives.
The following table provides an analysis of intangible assets by major category and details of the composition of the item and changes for the year:

Intangible assets amount to 40,695 thousand euros at 31 December 2009 and increased by a net 3,500 thousand euros.

Amortisation of 10,478 thousand euros was charged during the year while increases amount to 14,026 thousand euros. Increases relate primarily to “Industrial patents and intellectual property rights” which rose by 7,797 thousand euros net of decreases of 22 thousand euros for the disposal of fully amortised software of 7 thousand euros.
“Concessions, licences, trademarks and similar rights” of 576 thousand euros increased as the result of a reclassification from “Development expenditure”. This item refers to costs incurred for studying the design of new jewellery stores and for purchasing the rights to the creation and design of a watch model.
“Industrial patents and intellectual property rights” of 36,851 thousand euros consist of the rights to integrated application software, whose use also benefits related parties and is recharged on a proportional basis under specific agreements.
“Assets under formation” of 3,068 thousand euros refer to costs incurred to develop integrated application software regarding procedures that were still being implemented at the balance sheet date.
“Development expenditure” had a nil balance at 31 December 2009 due to the reclassification to “Concessions, licences, trademarks and similar rights” referred to above.
“Deferred charges being amortised” of 200 thousand euros refer principally to the costs incurred to take over the lease of new premises for the administrative offices and headquarters in Lungotevere Marzio 11, Rome in 2002.

There are no restrictions on the Company’s ownership of intangible assets securing its liabilities.

15. Financial fixed assets

(Thousands of euros)

	31/12/2009	31/12/2008
– Investments in subsidiaries	204,043	166,137
– Investments in other companies	137	137
– Other non-current financial assets	26	19
Total financial fixed assets	**204,206**	**166,293**

Investments in subsidiaries

Details of this item are set out in the following table:

(Thousands of euros)

	Percentage holding at 31/12/2009	Balance at 31/12/2008	Increases	Increases (Stock Options)	Decreases (Stock Options)	Decreases	Balance at 31/12/2009
Bulgari Italia S.p.A.	100%	22,545	20,000	37			42,582
Bulgari Gioielli S.p.A.	100%	2,593					2,593
Bulgari Parfums Italia S.p.A.	100%	2,038			3		2,035
Bulgari Retail USA S.r.l.	100%	32	10,394		32	4,279	6,115
Bulgari International Corporation (BIC) N.V.	100%	51,196		521			51,717
Bulgari Hotels and Resorts Milano S.r.l. (1)	3.25%	744	1,000				1,744
Bulgari Hotels and Resorts B.V.	65%	917				917	0
Bulgari Portugal Accessorios de Luxo Lda.	100%	143					143
Bulgari Manifattura S.p.A.	100%	18,986	5,000	27			24,013
Bulgari Accessori S.r.l.	100%	3,685	3,000				6,685
Bulgari Comm. Shangai Co. Ltd	100%	13,152	1,518	61			14,731
Bulgari Holding Europe B.V.	100%	50,103	1,500	68			51,671
Bulgari Ireland Ltd.	100%	3		11			14
Total subsidiaries		**166,137**	**42,412**	**725**	**35**	**5,196**	**204,043**
Opera Sgr S.p.A.	12,50%	137					137
Total other companies		**137**	**–**	**–**	**–**	**–**	**137**
Total equity investments		**166,274**	**42,412**	**725**	**35**	**5,196**	**204,180**

(1) Company held indirectly through Bulgari Hotels & Resorts B.V. at 61.75% (95% * 65%, the investment of Bulgari Hotels & Resorts B.V. in Bulgari Hotels & Resorts Milano S.r.l.) and directly by Bulgari S.p.A. at 3.25%.

Investments in subsidiaries of 204,043 thousand euros increased by a net amount of 37,906 thousand euros over 31 December 2008. As may be seen in the table, increases for the year amounted to 43,137 thousand euros and decreases to 5,231 thousand euros. Of the total decrease, 4,279 thousand euros relates to the investment in Bulgari Retail USA S.r.l. and 917 thousand euros to the write-off of the investment in Bulgari Hotels and Resorts B.V. made during the year.
An increase of 725 thousand euros has been recognised in the carrying amount of investments in subsidiaries benefiting from stock option plans. In accordance with IFRS 11 the fair value of the equity instruments granted to the employees of subsidiaries has been recognised as an increase in the cost of the investment in the subsidiary involved in the plan as this is a contribution in kind from the parent, with the balancing entry being an increase in a specific equity reserve.

The following table sets out a list of direct investments in subsidiaries, the amount of equity held and the difference with the carrying amount in each case. Investments where the Company's share of equity is less than the carrying amount of the investment have not been written down as there was no evidence of impairment in analyses carried out at the end of the year.
A list of investments in indirectly held subsidiaries may be found in the directors' report on operations.

List of direct holdings in subsidiaries at 31 december 2009

(Thousands of euros)

	Share capital	Carrying amount at 31.12.08	Increases	Increases (stock options)	Decreases (stock options)	Decreases	Carrying amount at 31.12.09	Percentage holding	Equity at 31.12.09	Profit (loss) for the year	Corresp-onding equity (A)	Carrying amount (B)	Difference (B) - (A) if positive (B - A) (*)
Subsidiaries:													
Bulgari Italia S.p.A. Via dei Condotti, 10 Rome	12,000	22,545	20,000	37			42,582	100%	27,165	(1,623)	27,165	42,582	15,417
Bulgari Gioielli S.p.A. Lungotevere Marzio, 11 Rome	2,580	2,593					2,593	100%	1,706	(2,958)	1,706	2,593	887
Bulgari Parfums Italia S.p.A. Lungotevere Marzio, 11 Rome	1,020	2,038			3		2,035	100%	2,424	(572)	2,424	2,035	
Bulgari Retails U.S.A. S.r.l. Lungotevere Marzio, 11 Rome	50	32	10,394		32	4,279	6,115	100%	6,147	(4,742)	6,147	6,115	
Bulgari Intern. Corp. N. V. WTC Strawinskylaan 1131 Amsterdam (Holland)	18,301	51,196		521			51,717	100%		486,563	340,603	486,563	51,717
Bulgari Hotels and Resorts Milano S.r.l. Via Privata Fratelli Gabba Milan	100	744	1,000				1,744	3,25%	533	(1,883)	17	1,744	1,727
Bulgari Portugal Acess de luxo Lda Funchal - Rua Arriaga 30 Madeira (Portugal)	93	143					143	100%	23	(12)	23	143	120
Bulgari Manifattura S.p.A. Valenza Po (Alessandria)	2,700	18,986	5,000	27			24,013	100%	6,784	(1,454)	6,784	24,013	17,229
Bulgari Accessori S.r.l. Via Le Plessis Robinson, 6/12 Bagno a Ripoli (FI)	50	3,685	3,000				6,685	100%	3,403	(816)	3,403	6,685	3,282
Bulgari Comm. (Shanghai) Co. Ltd Beijing (China)	13,073	13,152	1,518	61			14,731	100%	6,670	2,859	6,670	14,731	8,061
Bulgari Holding Europe B.V. Amsterdam (Holland)	18	50,103	1,500	68			51,671	100%	4,750	(39,477)	4,750	51,671	46,921
Bulgari Hotels and Resorts B.V.	18	917				917	0	65%	(2,539)	(205)	(1,650)	0	1,650
Bulgari Ireland Ltd. (**) Dublin	1	3		11			14	100%	3,069	41,826	3,069	14	
Total subsidiaries		**166,137**	**42,412**	**725**	**35**	**5,196**	**204,043**						

(*) On the basis of impairment testing the positive differences included in this column are not considered to be of a permanent nature and accordingly impairment losses on the investments in these companies have not been recognised.

(**) Share capital of 1 euro; authorised capital of 1 million euros.

Other non-current financial assets

Other non-current financial assets amounted to 26 thousand euros at 31 December 2009 (19 thousand euros at 31 December 2008) and relate principally to guarantee deposits for lease agreements and utilities.

16. Deferred taxation

(Thousands of euros)

	31/12/2009	31/12/2008
– Deferred tax assets	8,803	494
Total deferred tax assets	**8,803**	**494**

This item consists of a net balance of 8,803 thousand euros, representing an increase of 8,309 thousand euros over 31 December 2008 and consisting mainly of the tax benefits arising from the national tax consolidation.

The following table provides details of the calculation of deferred tax assets and liabilities and the resulting effects:

Recognition of deferred tax assets and liabilities and resulting effects

	31 December 2009			31 December 2008		
	Amount of temporary differences	Tax effect	Tax rate	Amount of temporary differences	Tax effect	Tax rate
Deferred tax liabilities:						
Total deferred tax liabilities	**–**	**–**		**–**	**–**	
Deferred tax assets:						
– Deferred tax assets arising from tax losses of the year	(31,193)	(8,578)	27.50%	–	–	–
– Deferred tax assets arising from tax losses of prior years	–	–	–	–	–	–
– Provisions for risks charges and other minor temporary differences (*)	(819)	(225)	27.50%	(1,782)	(494)	27.71%
Total deferred tax assets	**(32,012)**	**(8,803)**		**(1,782)**	**(494)**	
Net total	**(32,012)**	**(8,803)**		**(1,782)**	**(494)**	

(*) in 2008 an amount of 76 thousand euros was also recognised for IRAP purposes

Deferred tax assets of 8,578 thousand arising from the 2009 tax loss and of 225 thousand euros arising from temporary differences have been recognised since on the basis of forecasts and budgets approved by management they are considered fully recoverable.

17. Other non-current assets

(Thousands of euros)

	31/12/2009	31/12/2008
– VAT for which a refund has been requested	12,466	12,466
– Interest on VAT for which a refund has been requested	663	356
Total other non-current assets	**13,129**	**12,822**

Other non-current assets of 13,129 thousand euros relate to VAT for which a refund has been requested; the balance has increased by 307 thousand euros over 31 December 2008.
This increase arises from the increase in the interest accrued on the VAT receivable for which a refund has been requested.

18. Non-current financial receivables

This balance, amounting to 1,194 thousand euros at 31 December 2009 (2,041 thousand euros at 31 December 2008), refers to subordinated loans to Bulgari Hotels & Resorts B.V. of 963 thousand euros, inclusive of accrued interest charged at a rate of 3.75% (903 thousand euros at 31 December 2008), and to Bulgari Hotels & Resorts Milano S.r.l. of 231 thousand euros, inclusive of accrued interest charged at a floating rate of three-month Euribor plus 3% (1,138 thousand euros at 31 December 2008), granted on the basis of written agreements with the Marriott Group.
The carrying amount of tax assets reflects their fair value as they include the accrued interest.

19. Inventories

This balance amounts to 114 thousand euros (158 thousand euros at 31 December 2008) representing a decrease of 44 thousand euros.

20. Trade receivables

(Thousands of euros)

	31/12/2009	31/12/2008
Trade receivables from third parties	4,303	4,933
Allowance for impairment	(67)	(67)
Total	**4,236**	**4,866**
Trade receivables from related parties	44,713	50,882
Total trade receivables	**48,949**	**55,748**

The allowance for impairment is calculated on the basis of an assessment of the risk of certain minor receivables from third parties.
Trade receivables are all due within twelve months and overdue balances are not significant.

Trade receivables - third parties

This item amounts to 4,236 thousand euros (4,866 thousand euros at 31 December 2008) and consists entirely of receivables falling due within one year and relating mostly to royalties earned with the licensees of the BVLGARI trademark. There was a decrease of 630 thousand euros in this item, which is presented in the above table net of allowance for impairment of 67 thousand euros.
Trade receivables are all due within twelve months and are recognised at fair value.

Trade receivables - related parties

Trade receivables from related parties (Group companies) of 44,713 thousand euros relate mainly to receivables for royalties earned from licensing the trademark and have decreased by 6,169 thousand euros over 31 December 2008.

The following table provides details of trade receivables due from Group companies:

(Thousands of euros)

	2009	2008
Bulgari Italia S.p.A.	2,352	2,611
Bulgari Gioielli S.p.A.	595	732
Bulgari International Corporation (BIC) N.V.	33	10
Bulgari Corporation of America Inc.	1,804	260
Bulgari Time S.A.	567	543
Bulgari Japan Ltd.	3,280	4,455
Bulgari S.A.	1,027	683
Bulgari Deutschland GmbH	547	585
Bulgari France S.A.	694	687
Bulgari Montecarlo S.A.M.	85	94
Bulgari Espana S.A.	789	558
Bulgari Parfums S.A.	5,977	6,893
Bulgari Parfums Italia S.p.A.	431	383
Bulgari South Asian Operations Pte. Ltd.	317	394
Bulgari U.K. Ltd.	606	861
Bulgari Belgium S.A.	60	61
Bulgari Australia Pty Ltd.	388	255
Bulgari Malaysia Sdn Bhd	85	129
Bulgari Global Operations S.A.	12,522	18,586
Bulgari Collection International S.A.	3,354	3,959
Bulgari Asia Pacific Ltd.	1,239	1,164
Bulgari Taiwan Ltd.	544	528
Bulgari Korea Ltd.	506	362
Bulgari Saint Barth S.a.S.	135	46
Bulgari Parfums Germany GmbH	30	25
Bulgari Manifattura S.p.A.	1,210	1,088
Bulgari Retail USA S.r.l.	508	2,269
Bulgari Commercial (Shanghai) Co. Ltd.	3,517	1,793
Bulgari Accessori S.r.l.	347	279
Bulgari Austria GmbH	40	42
Bulgari Thailand Ltd.	29	42
Bulgari Parfums Iberia	61	56
Bulgari Panama INC.	59	46
Bulgari Qatar LLC	277	50
Bulgari Ireland Ltd.	508	102
Bulgari Hotels and Resorts Milano S.r.l.	121	154
Bulgari Hotels and Resorts Japan Ltd.	69	97
Total trade receivables from Group companies	**44,713**	**50,882**

The following table sets out gross trade receivables by geographical area:

(Thousands of euros)

	Italy	EU	Europe (other)	Americas	Middle East	Far East	Other	Total
Trade receivables:								
– from third party customers	1,529	175	140	170	1,534	652	103	4,303
– from related parties	5,564	3,368	23,532	1,998	277	6,237	3737	44,713
Total trade receivables	**7,093**	**3,543**	**23,672**	**2,168**	**1,811**	**6,889**	**3,840**	**49,016**

21. Financial assets

Financial assets consist of receivables from related parties of 56,387 thousand euros, a decrease of 36,921 thousand euros over 31 December 2008. These receivables are all due within one year and consist mainly of receivables balances on intragroup current accounts resulting from the corporate treasury system for Italian subsidiaries and short-term loans to subsidiaries. In 2004 Bulgari S.p.A. entered into an agreement with a leading bank and Bulgari Global Operations S.A. for the centralised management of its European treasury operations. Under this agreement part of the Group's liquidity is managed by Bulgari Global Operations S.A. through intragroup current accounts held amongst European Group companies. An average interest income rate of 0.35% was applicable on these accounts in 2009.

The following table provides details by company of financial receivables due from related parties at 31 December 2009:

(Thousands of euros)

	31/12/2009	31/12/2008
Bulgari Italia S.p.A.	25,000	58,516
Bulgari Gioielli S.p.A.	10,000	11,749
Bulgari Parfums Italia S.p.A.	1,325	1,147
Bulgari Manifattura S.p.A.	949	2,619
Bulgari Accessori S.r.l.	10,436	10,295
Bulgari Commercial (Shanghai) Co. Ltd.	8,677	8,982
Total financial receivables from Group companies	**56,387**	**93,308**

22. Other current assets

(Thousands of euros)

	31/12/2009	31/12/2008
Tax assets	12,901	10,629
Other current assets - third parties	2,227	2,058
Other current assets - related parties	17,033	7,779
Total other current assets	**32,161**	**20,466**

Tax assets

(Thousands of euros)

	31/12/2009	31/12/2008
– IRES receivables	7,356	6,537
– IRAP receivables	198	223
– Tax credit	1,099	505
– VAT credit	3,198	2,335
– Withholding tax on foreign earnings	537	462
– Various tax receivables	513	534
– Tax receivables as per Law no. 662/96	–	33
Total tax assets	**12,901**	**10,629**

Tax receivables at 31 December 2009 increased by 2,806 thousand euros over the previous year.

The balance is mainly made up of the following items:

– IRES receivables of 7,356 thousand euros, consisting of prior year balances;
– VAT credit of 3,198 thousand euros, which represent the current receivable under the Group VAT settlement scheme;
– withholding tax on foreign earnings of 537 thousand euros, consisting of receivables from the tax authorities for the withholding tax paid abroad on royalty income;
– IRAP receivables for the excess of payments on account of 763 thousand euros over the estimated tax liability at year end of 565 thousand euros;
– tax credits of 1,099 thousand euros, relating to research and development expenditure pursuant to article 1, paragraph 280 of Law no. 296/2006.

Other current assets - third parties

The balance of 2,227 thousand euros at 31 December 2009 has increased by 169 thousand euros and consists of prepayments to third parties of 1,094 thousand euros (841 thousand euros at 31 December 2008) relating to lease instalments, insurance premiums and maintenance and hire instalments, advances to suppliers of 385 thousand euros (881 thousand euros at 31 December 2008), accrued income from third parties of 410 thousand euros (2 thousand euros at 31 December 2008) and minor balances.

Other current assets - related parties

(Thousands of euros)

	31/12/2009	31/12/2008
– Other intragroup receivables	3,378	27
– VAT receivable as fiscal representative	–	392
– Receivables for transfers of Group VAT	12,559	6,197
– National tax consolidation receivables	930	850
– Intragroup accrued income	166	279
– Intragroup prepayments	–	34
Total other current assets - related parties	**17,033**	**7,779**

This balance, which increased by 9,254 thousand euros over 31 December 2008, consists mainly of VAT receivables of 10,855 thousand euros due from Bulgari Italia S.p.A. and of 1,704 thousand euros due from Bulgari Parfums Italia S.p.A. for the payables transferred as part of the Group VAT settlement scheme.

The receivable due under the tax consolidation scheme refers to transfers for IRES tax purposes made by subsidiaries taking part in the national tax consolidation scheme as permitted by current tax regulations and the tax consolidation agreement with other Group companies. The following table provides a detail by company of these receivables:

(Thousands of euros)

	31/12/2009	31/12/2008
Bulgari Italia S.p.A.	128	128
Bulgari Gioielli S.p.A.	165	203
Bulgari Parfums Italia S.p.A.	405	287
Bulgari Retail USA S.r.l.	232	232
Total national tax consolidation receivables	**930**	**850**

23. Cash and cash equivalents

(Thousands of euros)

	31/12/2009	31/12/2008
Bank deposits	5,168	3,742
Cash and valuables in hand	17	21
Total cash and cash equivalents	**5,185**	**3,763**

Cash and cash equivalents of 5,185 thousand euros at 31 December 2009 increased by 1,422 thousand euros over 31 December 2008.

24. Equity

(Thousands of euros)

	31/12/2009	31/12/2008
– Share capital	21,092	21,044
– Reserves	126,015	107,677
– Retained earnings	32,846	5,105
– Profit for the year	17,711	57,804
Total equity	**197,664**	**191,630**

Share capital

The Company's share capital of 21,092 thousand euros at 31 December 2009 consisted of 301,309,060 fully subscribed and paid shares each of par value of 0.07 euros.
A total of 679,250 new shares were issued during the year in connection with the stock option plans reserved for the chief executive officer and certain employees with a resulting increase of 48 thousand euros in share capital.

Reserves

(Thousands of euros)

	31/12/2009	31/12/2008
Legal reserve	5,762	5,762
Taxed extraordinary reserve	28	28
Gain on 1981 contribution	1,933	1,933
Taxed 1983 reserve	145	145
Treasury share gain reserve	696	696
Bond issue reserve	13,182	–
Capital transactions reserve	(341)	–
Share premium reserve	93,116	90,234
Stock option reserve	11,494	8,879
Total reserves	**126,015**	**107,677**

The increase for the year of 18,338 thousand euros arises from the following:

– treasury share gain reserve: the balance of 696 thousand euros represents the gain realised on the sale of treasury shares and has remained unchanged;

– share premium reserve: the increase of 2,882 thousand euros arises from the exercising of stock options on 679,250 shares;

– stock option reserve: the increase of 2,615 thousand euros represents the cost recognised in the income statement in 2009 (8,897 thousand euros at 31 December 2008) for the stock options on Bulgari S.p.A. shares granted to employees and the chief executive officer which are measured at their fair value at the grant date;
– the bond issue reserve of 13,182 thousand euros represents the increase arising following the recognition in equity of the portion of the bonds of 150,000 thousand euros classified as equity instrument, due to its substantive nature. Further information on this matter may be found in note 26;
– the capital transactions reserve of a negative 341 thousand euros represents the costs incurred by Bulgari S.p.A. for issuing the bonds.

Retained earnings

Retained earnings amounted to 32,846 thousand euros at 31 December 2009, an increase of 27,741 thousand euros arising from the carry forward of 2008 profit less dividends of 30,063 thousand euros distributed by the Company.

Classification of reserves by availability at 31 December 2009

Nature/description	Amount	Possible use	Portion available	Summary of utilisations for the past three years:	
				To cover losses	For dividends
Share Capital	21,092				
Equity related reserves:					
– Treasury share premium reserve	696	A, B, C	696		
– Stock option reserve	11,494	A, B, C	3,752		
– Share premium reserve	93,116	A, B, C	93,116		39,776
– Bond issue reserve	13,182	–	–		
– Capital transactions reserve	(341)	–	–		
Income related reserves:					
– Legal reserve	5,762	B	5,762		
– Extraordinary reserve	28	A, B, C	28		
– Taxed reserve	145	A, B, C	145		
– Contribution reserve	1,933	A, B, C	1,933		
– Retained earnings	32,846	A, B, C	32,846		(1) 11,916
Total			**138,278**		**51,692**
Non-distributable amount			5,762		
Remaining amount distributable			132,516		

Key:
A: to increase share capital
B: to cover losses
C: for distribution to shareholders

(1) Of which 4,893 thousand euros in 2008 and 7,023 thousand euros in 2007 .

Profit for the year

The profit for 2009 amounts to 17,711 thousand euros. Dividends received from subsidiaries contributing to this result totalled 40,000 thousand euros and relate exclusively to Bulgari Ireland Ltd..

25. Provisions for risks and charges

(Thousands of euros)

	31/12/2009	31/12/2008
Provision for fiscal risks	426	426
Provision for disputes	5	155
Provision for restructuring	502	1,300
Total	**933**	**1,881**

The provision for fiscal risks consists of an accrual made for assessments regarding fiscal years 1988 and 1989, which are currently under dispute with the tax authorities. These disputes are still pending resolution following appeals made by the authorities to the Supreme Court.

The provision for disputes of 5 thousand euros (155 thousand euros at 31 December 2008) consists of accruals made for outstanding disputes and litigation with former personnel for which the risk of loss is probable. The decrease over 31 December 2008 is due to the utilisation of the provision for 150 thousand euros.

The provision for restructuring of 502 thousand euros (1,300 thousand euros at 31 December 2008) consists of accruals for costs to be incurred under individual or collective agreements for the mutually agreed early termination of employment for organisational restructuring purposes. An amount of 1,240 thousand euros was utilised during the year and accruals of 442 thousand euros were made.

26. Other non-current financial Liabilities

This issue, which amounted to 133,871 thousand at 31 December 2009, consists of the net liability for the bond whose aim, taken together with the other financial transactions carried out during the year, is to increase the average term of the Company's debt.

The issue of the indexed bonds was completed on 8 July 2009. The bonds were fully placed with institutional investors on 10 June 2009 and are listed on the Luxembourg stock exchange.

The main features of the indexed bonds may be summarised as follows:

Amount:	150 million euros
Redeption date:	8 July 2014
Coupon:	fixed rate 5.375% six-monthly
Conversion price:	5 euro

The debt component of the instrument amounting to 133,871 thousand euros is classified as a financial liability under "Other non-current financial liabilities" while the principal portion, that amounts to 13,182 thousand euros, is classified among the Reserves in Equity. The bond is redeemable at par if not converted by bondholders before the maturity date.

27. Trade payables

(Thousands of euros)

	31/12/2009	31/12/2008
Third party trade payables	18,492	20,037
Related party trade payables	18,148	17,642
Total trade payables	**36,640**	**37,679**

Trade payables - third parties

This item amounted to 18,492 thousand euros at 31 December 2009, a decrease of 1,545 thousand euros over 31 December 2008, and consists of trade payables and invoices to be received relating to 2009.

Trade payables - related parties

Trade payables from related parties (Group companies) amounted to 18,148 thousand euros at 31 December 2009, an increase of 506 thousand euros over 31 December 2008.
The item also includes amounts due to subsidiaries for invoices to be received relating to 2009.

The following table provides an analysis by company of this item:

(Thousands of euros)

	31/12/2009	**31/12/2008**
Bulgari Italia S.p.A.	1,169	1,117
Bulgari Gioielli S.p.A.	272	299
Bulgari International Corporation (BIC) N.V.	–	834
Bulgari Corporation of America Inc.	2,787	184
Bulgari Time S.A.	–	45
Bulgari Japan Ltd.	6,379	3,444
Bulgari S.A.	17	8
Bulgari Deutschland GmbH	303	469
Bulgari France S.A.	611	799
Bulgari Montecarlo S.A.M.	–	7
Bulgari Espana S.A.	10	203
Bulgari Parfums S.A.	3	4
Bulgari South Asian Operations Pte. Ltd.	9	158
Bulgari U.K. Ltd.	1,103	1,242
Bulgari Belgium S.A.	–	11
Bulgari Australia Pty Ltd.	110	87
Bulgari Malaysia Sdn Bhd	–	82
Bulgari Global Operations S.A.	55	1,289
Bulgari Asia Pacific Ltd.	54	226
Bulgari Taiwan Ltd.	58	175
Bulgari Korea Ltd.	–	48
Bulgari Manifattura S.p.A.	1,330	1,212
Bulgari Retail USA S.r.l.	156	3,883
Bulgari Commercial (Shanghai) Co. Ltd.	2,316	1,173
Bulgari Accessori S.r.l	1,369	392
Bulgari Austria Gmbh	22	79
Bulgari Thailand Ltd.	–	49
Bulgari Hotels and Resorts B.V.	1	1
Bulgari Hotels and Resorts Milano S.r.l.	10	82
Bulgari Hotels and Resorts Japan Ltd.	4	40
Total trade payables to related parties	**18,148**	**17,642**

The following table provides an analysis of payables by geographical segment:

(Thousands of euros)

	Italy	EU	Europe Other	Americas	Middle/ Far East	Other	Total
Payables:							
to suppliers	16,969	518	454	310	*226*	15	***18,492***
to related parties:							
– trade	*4,306*	*2,050*	*75*	*2,787*	*8,820*	*110*	***18,148***
– financial	*11,695*		*28,278*				***39,973***
Total related parties	**16,001**	**2,050**	**28,353**	**2,787**	**8,820**	**110**	**58,121**
Other payables	9,613	3	259	14			**9,889**
Total	**42,583**	**2,571**	**29,066**	**3,111**	**9,046**	**125**	**86,502**

28. Current financial liabilities

(Thousands of euros)

	31/12/2009	31/12/2008
Third party financial payables	–	83,000
Bank overdrafts	299	2,428
Related party financial payables	39,973	73,503
Total current financial payables	**40,272**	**158,931**

Current financial payables amounted to 40,272 thousand euros at 31 December 2009, decreasing significantly by 118,659 thousand euros over 31 December 2008.
Third party financial payables have a nil balance following the full repayment of short-term bank loans.
Bank overdrafts relate to current accounts held by the company at 31 December 2009 and amounted to 299 thousand euros (2,428 thousand euros at 31 December 2008).
Related party financial payables, which have decreased by 33,530 thousand euros over the end of the previous year, consist of payable balances of 36,973 thousand euros on intragroup current accounts arising from corporate treasury management and relating in particular to Bulgari Global Operations S.A. (28,278 thousand euros), Bulgari Italia S.p.A. (6,157 thousand euros), Bulgari Retail USA S.r.l. (2,052 thousand euros) and Bulgari Gioielli S.p.A. (486 thousand euros).
Related party financial payables consist of the balance of 3,000 thousand euros due to Bulgari Accessori S.r.l. for principal capital injections made after the balance sheet date.

The credit facilities obtained by Bulgari S.p.A. to satisfy its cash needs (money market facilities) amounted to approximately 252 million euros at 31 December 2009 of which 97 million euros committed facilities having an average remaining term of 3 years.

Derivative financial instruments

In March 2009 the IASB issued an amendment to IFRS 7 that requires financial instruments measured at fair value to be classified on the basis of the quality of the inputs used in determining fair value.

IFRS 7 requires the following hierarchy to be used for the determination of fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: valuation models whose inputs are not based on observable market data (unobservable inputs).

The Company's outstanding derivatives at 31 December 2009 are not listed on regulated markets (such as futures traded on the Borsa Italiana exchange) but may be traded on over the counter markets having a sufficient level of liquidity; the measurement of the fair value of these instruments is "based on a valuation technique whose variables include only data from observable markets, other than quotations of the financial instrument" and therefore fall into the "level 2" category of the amendment to IFRS 7 issued by the IASB in March 2009.

The following table sets out the notional amount and fair value of outstanding derivatives at 31 December 2009, grouped by type.

(Thousands of euros)

	Fair value hierarchy	Nominal amount		Fair value		Fair value
		31/12/2009	31/12/2008	31/12/2009	31/12/2008	difference
Cash flow hedge derivatives						
– Foreign exchange	2	–	740	–	(23)	23
– Interest rate	2	–	–	–	–	–
Fair value hedge derivatives						
– Foreign exchange	2	9,213	21,091	520	(172)	692
– Interest rate	2	70,000	–	27	–	27
Trading derivatives (*)						
– Interest rate	2	20,000	–	(87)	–	(87)
TOTAL		**99,213**	**21,831**	**460**	**(195)**	**655**
of which:						
CURRENT FINANCIAL ASSETS		**7,529**	–	**575**	–	**575**
CURRENT FINANCIAL LIABILITIES		**91,684**	**21,831**	**(115)**	**(195)**	**80**

(*) Although these transactions have been entered into for hedging purposes they do not always qualify for hedge accounting under the IFRS, as discussed in the section "Accounting principles and policies", and accordingly are reclassified as "trading". In the specific case these relate to derivatives designated as cash flow hedges.

Currency hedges

The Company is exposed to fluctuations in foreign exchange rates with the functional currency. This exposure relates mainly to the Swiss franc and U.S. dollar.

In order to reduce this risk the net currency exposure arising from trade receivables and payables is kept at an acceptable level by entering into derivatives contracts (mainly forward contracts and to a residual extent option contracts) which have terms of less than 12 months.

Interest rate hedges

In order to reduce its financial expense Bulgari S.p.A. uses hedging instruments that enable interest rates on a certain proportion of its debt to be converted from floating rate to fixed rate and vice versa. This proportion is linked to the Company's borrowing requirements and the average term of the borrowing. In the specific case the interest payable on a portion of the bonds amounting to 70 million euros has been converted from fixed rate to floating rate with an interest rate swap, and a portion of short-term debt amounting to 20 million euros has been hedged with an interest rate collar.

Determination of fair value

Derivatives are marked to market by using quoted prices or by discounting future cash flows and then comparing them to current market prices. Market quotations refer to official fixings (by central banks and associations of banks) or quotations of financial intermediaries published by financial information providers. Fair value calculation models also make reference to those quotations.

Fair value of exchange rate derivatives – sensitivity analysis

There were no exchange rate derivatives designated as cash flow hedges at 31 December 2009; the financial instruments designated as fair value hedges acquired to hedge treasury transactions had a positive value of 520 thousand euros at that date. These transactions were excluded from the sensitivity analysis because any changes in value of these instruments would be offset by changes in the value of the underlying (currency receivables and payables).

Fair value of interest rate derivatives – sensitivity analysis

The fair value of interest rate derivatives originally designated as cash flow hedges was a negative 87 thousand euros at 31 December 2009. A hypothetical decrease of 10% in interest rates on all maturities would have led to a negative fair value of 278 thousand euros. A hypothetical increase of 10% in interest rates on all maturities would have led to a positive fair value of 25 thousand euros.

Outstanding derivatives at 31 December 2009 for which there are trade receivables and payables recognised in the statement of financial position at that date have been excluded from the sensitivity analysis; any changes in the amount of these items due to fluctuations in exchange rates would be equal and opposite to the changes in the value of the derivatives designated as the respective hedges and would offset the effect on profit or loss.
For the same reason derivatives entered into for treasury purposes, meaning those hedging financial receivables and payables in foreign currency, are excluded from the fair value sensitivity analysis, as are interest rate hedges designated as fair value hedges.

29. Other current liabilities

(Thousands of euros)

	31/12/2009	31/12/2008
– Advances	2	2
– Current tax liabilities	664	1,640
– Other current third party liabilities	10,795	9,982
– Other current related party liabilities	9,889	6,376
Total other current liabilities	**21,350**	**18,000**

Advances

Advances amount to 2 thousand euros at 31 December 2009. There has been no change in this item over the year.

Current tax liabilities

The balance on this item of 664 thousand euros at 31 December 2009 relates to the accrual for the final instalment of the substitute tax payable to align the carrying amount and the tax basis made in 2008. The decrease over the previous year end is due to the payment of the second instalment of this liability.

Other current third party liabilities

(Thousands of euros)

	31/12/2009	31/12/2008
– Due to personnel for wages and salaries	1,464	2,870
– Payable to directors and statutory auditors	312	386
– Due to social security and pensions organisations	1,339	1,533
– Social security charges on wages and salaries	403	778
– Personal income tax (IRPEF) payables	949	950
– VAT payable as a fiscal representative of Bulgari Parfums S.A.	–	392
– Payable to shareholders for dividends	239	239
– Other payables	476	448
– Accrued expenses and deferred income	5,613	2,386
Total other current third party liabilities	**10,795**	**9,982**

Balances due to personnel at 31 December 2009 amount to 1,464 thousand euros, representing a decrease of 1,406 thousand euros. The balance at that date relates to deferred remuneration consisting of the accruals made for leave not yet taken, fourteenth month's wages and salaries and the related accrual for the post-employment benefits on these amounts.
Amounts payable to directors and statutory auditors of 312 thousand euros decreased by 74 thousand euros over 31 December 2008 and regard the fees vested and due to the members of the company's management and control bodies for 2009.
Amounts payable to social security and pensions organisations amount to 1,339 thousand euros, all due within one year, and relate to the social security contributions payable by the company, its employees and its self-employed consultants on remuneration and fees for December 2009 and settled in January 2010.
Social security charges payable on wages and salaries amount to 403 thousand euros, a decrease of 375 thousand euros, and relate to the Company's portion of the charge payable on deferred remuneration.
Personal income tax (IRPEF) payables amount to 949 thousand euros, a decrease of 1 thousand euros over 31 December 2008. This balance relates to withholdings of personal income tax in December 2009 on the remuneration and fees of consultants. This liability was regularly settled in January 2010.
There was a nil balance for VAT payable by the Company as a fiscal representative of Bulgari Parfums S.A. since an advance payment was made in December 2009. At 31 December 2008 there was a VAT payable of 392 thousand euros.
Dividends of 239 thousand euros payable to shareholders regard approved dividends not yet collected by shareholders.
Other payables of 476 thousand euros mainly consist of payables for employee travel expenses, commissions and fees to be settled with the securities depositary Monte Titoli and other more minor balances.
The balance of 5,613 thousand euros for accrued expenses and deferred income at 31 December 2009 consists mainly of interest accrued on the bonds at 31 December 2009. This item amounted to 2,386 thousand euros at 31 December 2008.

Other current liabilities - related parties

(Thousands of euros)

	31/12/2009	31/12/2008
– Payables for transfers of Group VAT	1,231	1,379
– National tax consolidation payables	8,369	4,957
– Related party deferred income	32	40
– Other payables to related parties	257	–
Total other current related party liabilities	**9,889**	**6,376**

Payables for transfers of Group VAT by related parties amounted to 1,231 thousand euros, a decrease of 148 thousand euros. This item consists of VAT receivables not yet refunded by the tax authorities which have been transferred by Italian subsidiaries as part of the Group settlement.
The tax consolidation payables of 8,369 thousand euros increased by 3,412 thousand euros over 31 December 2008. These relate to the transfer of tax losses, net of advances, by the Italian companies taking part in the national tax consolidation scheme.

The following table provides an analysis by company of other current - related parties liabilities:

(Thousands of euros)

	31/12/2009	31/12/2008
Bulgari Italia S.p.A.	2,617	2,257
Bulgari Gioielli S.p.A.	646	212
Bulgari Corporation of America Inc.	14	–
Bulgari Time S.A.	2	–
Bulgari France S.A.	3	5
Bulgari Parfums S.A.	257	–
Bulgari Global Operations S.A.	–	8
Bulgari Manifattura S.p.A.	1,082	313
Bulgari Retail USA S.r.l.	4,863	3,281
Bulgari Accessori S.r.l.	401	296
Bulgari Hotels and Resorts Milano S.r.l.	4	4
Total other current payables to Group companies	**9,889**	**6,376**

30. Guarantees, commitments and other contingent liabilities

(Thousands of euros)

	31/12/2009	31/12/2008
Guarantees pledged		
– Sureties pledged for subsidiaries	181,214	118,344
– Hire and lease instalments not yet due	16,846	11,075
Total guarantees pledged	198,060	129,419
Guarantees received		
– Sureties pledged by subsidiaries	2,742	3,005
– Sureties pledged by third parties	21,997	24,666
Total guarantees received	24,739	27,671
Other:		
– Other commitments	98,677	22,585
Total other	98,677	22,585
Total memorandum and contingency accounts	**321,476**	**179,675**

This item relates to guarantees pledged against bank loans and borrowings and other obligations and against other commitments undertaken by the Company with third parties. There has been an increase of 141,801 thousand euros in this balance.

“Guarantees pledged” refer to sureties given to banks in favour of related parties for credit facilities granted to them.

The following table sets out an analysis of this item by related party:

(Thousands of euros)

	31/12/2009	31/12/2008
Bulgari Italia S.p.A.	6,728	6,128
Bulgari Gioielli S.p.A.	2,769	6,269
Bulgari Corporation of America Inc.	5,712	5,030
Bulgari Japan Ltd.	54,070	31,711
Bulgari France S.A.	9,447	9,447
Bulgari Montecarlo S.A.M	196	198
Bulgari Espana S.A.	2,000	2,000
Bulgari Parfums Italia S.p.A.	8	–
Bulgari South Asian Operations Pte. Ltd.	2,971	2,994
Bulgari U.K. Ltd.	2,027	1,890
Bulgari Australia Pty Ltd.	1,905	2,479
Bulgari Global Operations S.A.	43,812	4,000
Bulgari Asia Pacific Ltd.	6,981	7,123
Bulgari Taiwan Ltd.	19,121	16,382
Bulgari Retail USA S.r.l.	1,704	1,763
Prestige D'or S.A.	687	687
Bulgari Commercial (Shanghai) Co. Ltd.	11,000	10,000
Bulgari Thailand Ltd.	6,252	6,213
Bulgari Panama Inc.	1,388	1,437
Bulgari Ireland Ltd.	80	80
Bulgari Hotels and Resorts Milano S.r.l.	2,356	2,513
Total guarantees pledged to Group companies	**181,214**	**118,344**

Hire and lease instalments not yet due of 16,846 thousand euros relate to the instalments payable by the Company for renting its headquarters and administrative offices and those payable for the long-term hire of company cars.

The following table sets out the due dates of these instalments:

(Thousands of euros)

Unexpired lease instalments (years):	Less then 1	1 to 5	over 5	Total
	141	6,785	9,920	**16,846**

Guarantees received totalling 24,739 thousand euros consist of the following:

– related party lease instalments not yet due of 2,742 thousand euros, which more specifically regard Bulgari Italia S.p.A., Bulgari Gioielli S.p.A., Bulgari Parfums Italia S.p.A. and Bulgari Retail USA S.r.l.;

– sureties of 21,997 thousand euros pledged by third parties regarding guarantees given by banks in favour of third parties. These relate mainly to sureties pledged in favour of the tax authorities for VAT refunds, sureties pledged in favour of the customs authorities for the temporary importation of goods and sureties pledged in favour of lessors as guarantees for lease agreements.

"Other commitments" of 98,677 thousand euros regard financial agreements for hedging the exchange risk deriving from receivables and payables in currency which were outstanding at 31 December 2009.
In the second half of 2009, the subsidiary Bulgari International Corporation (BIC) N.V. received from Tax Authorities of Rome a notice of investigation concerning the alleged tax residence of the latter. On the basis of

the information currently available and the opinions received from the leading lawyers engaged to advise on this matter, the Company believes it remote that such proceedings or actions will lead to adverse effects on these financial statements.
Further, in April 2009 the regional department for Lazio of the Rome tax office issued a tax audit report (Processo Verbale di Constatazione - PVC) to Bulgari Retail USA S.r.l. whose aim was to show that the corporate structure had allegedly been set up for avoidance purposes. Following this report the tax office issued an assessment notice in December to Bulgari Retail USA S.r.l. and the parent Bulgari S.p.A., relating to fiscal year 2004. The Company fully disagrees with the reconstruction proposed by the tax auditors and with the assessment and in its opinion is convinced that it has properly interpreted prevailing laws and regulations. As a consequence, therefore, including on the basis of the assessments made by its external advisors, the Company believes that its arguments will be fully recognised in the competent courts which will accordingly find in its favour.

31. Information concerning financial risks

Bulgari S.p.A. is exposed to the following financial risks in respect of its operations:

– liquidity risk, meaning access to the credit market to obtain funds to satisfy its working capital and investment needs for the success and continuation of operations;
– market risk,
  · as the result of changes in exchange rates with respect to revenue arising from the use of the trademark in countries having currencies different from the company's functional and presentation currencies;
  · as the result of changes in interest rates, limited to the Company's financial debt;
– credit risk, in respect of ordinary trading relationships with licensees

These financial risks are constantly monitored in order to assess in advance any potential adverse effects and take suitable steps to mitigate such risks on an informed and timely basis.

In order to deal with these risks adequately, the Company has introduced specific business procedures agreed at a Bulgari Group level, in particular a market risk management procedure and a credit risk management procedure. These procedures also include the setting of operating limits, responsibilities, process determination, key performance indicators (KPIs), reporting and the existence of steering committees.
Qualitative and quantitative information relating to the incidence of these risks for the Company is provided below.

Liquidity risk

This risk arises when it is impossible or difficult for the Company to obtain the funds required for it to perform its business in a normal manner under sustainable conditions.
The factors affecting the Company's funding requirements are on the one hand the funds arising from or used in operating and investing activities and on the other the maturity and renewal characteristics of debt or liquidity characteristics of financial investments, together with the conditions and availability on the credit market.
The steps taken by the Company to reduce this risk may be summarised as follows:

– centralising management of the treasury processes and hence credit facilities;
– obtaining credit facilities that are sufficient for creating a sustainable liabilities structure through the use of facilities that are committed until expiry date and medium-term or long-term loans;
– monitoring future liquidity conditions.

During 2009 the Company negotiated and concluded a series of transactions designed to guarantee the availability of the necessary and prudential funds, including those required by its subsidiaries.

Currency risk

Fluctuations in exchange rates can affect the Company's results and equity.
Fluctuations in exchange rates may also affect earnings if the currency in which costs are denominated and that in which revenue is generated do not correspond.
The main currencies exposed to exchange risk are the Swiss Franc, the Yen, the US Dollar, the Singapore Dollar, the Hong Kong Dollar, the Australian Dollar and the Pound Sterling.
When the risk is included in an item of the financial statements (trade receivables or payables in currencies other than the entity's reporting currency), the policy followed is to hedge the entire exposure.

Sensitivity analysis

At 31 December 2009 the Company did not hold any currency derivatives designated as cash flow hedges; financial instruments designated as fair value hedges arranged to hedge treasury operations had a positive value of 520 thousand euros at 31 December 2009. These transactions were excluded from the sensitivity analysis because any changes in the value of these instruments would be offset by changes in the value of the underlying (receivables and payables in currency).

Interest rate risk

Changes in interest rates can prejudice the Company's net earnings, thereby leading to increased debt servicing costs. The above procedure, agreed at a Group level, envisages structuring interest rates between fixed and floating rates in an efficient manner with respect to financial requirements and average terms, in order to achieve at the same time a lower current cost for financial expense and a minimisation of the potential adverse change in such cost - proportional to the volatility of the interest rate market.
Within this procedure, and for the purpose of optimising the ratio between fixed and floating rates, a series of derivative contracts were entered into in 2009 which consisted mainly of the conversion of 47% of the floating rate of the convertible bond issue to a floating rate (IRSs) and to a lesser extent the neutralisation of large changes in short-term rates for 20 million euros (collars).

Sensitivity Analysis

The sensitivity analysis carried out by Bulgari S.p.A. includes fixed rate financial instruments (the effect of which is assessed in terms of fair value) and floating rate financial instruments (the effect of which is assessed in terms of cash flows). The fixed rate instruments used consist of loans falling due after 12 months on which interest is payable at fixed rates and derivative instruments with these features; a hypothetical decrease of 0.5% in the interest rate curve for all due dates at 31 December 2009 would have led to a potential loss in fair value of these financial instruments of approximately 1,602 thousand euros, while a favourable shift of 0.5% in market interest rates would have led to a potential gain in fair value of approximately 1,642 thousand euros.
Floating rate financial instruments consist of current debt and derivative instruments leading to the payment of interest at floating rates. The additional cost arising from the increased cash flow for interest on an annual basis that would have been caused by a hypothetical increase of 0.5% in the interest rate curve for these floating rate financial instruments for all due dates (including hypothetical roll-overs) at 31 December 2009 would have been 365 thousand euros, while a decrease of 0.5% in these interest rates would have led to financial expense of approximately 135 thousand euros.

Credit risk

The potential loss from credit risk on open items at 31 December 2009 is discussed in note 20. Credit is always granted on the basis of that analysis and control procedure in order to minimise any possibility of losses emerging against which no provision has been made.

32. Significant non-recurring transactions

In terms of significant non-recurring transactions as these are defined by Consob in its Communication of 28 July 2006, the Company has issued convertible bonds of 150,000 thousand euros. This financial transaction led to an interest charge of 5,135 thousand euros in 2009.

33. Atypical and unusual transactions

The Company did not carry out any atypical or unusual transactions during the year ended 31 December 2009 as the term is defined by Consob in its Communication of 28 July 2006.

34. Transactions during the year with directly and indirectly held subsidiaries

(Thousands of euros)

Description	Receivables	%	Payables	%
Royalties from the licensing of the trademark	31,731	26.86%	–	–
Services	13,574	11.49%	17,201	25.29%
Goods and products not intended for sale	–	–	121	0.18%
Financial	57,892	49.01%	40,006	58.82%
Group VAT settlement	12,559	10.63%	1,230	1.81%
Tax consolidation	930	0.79%	8,369	12.31%
Other	1,446	1.22%	1,083	1.59%
Total	**118,132**	**100%**	**68,010**	**100%**

(Thousands of euros)

Description	Revenue	%	Expense	%
Royalties from the licensing of the trademark	52,737	48.51%	–	–
ICT services	9,448	8.69%	–	–
Technical and administrative services	1,690	1.55%	–	–
Legal, fiscal and design services	138	0.13%	–	–
Interest, commissions and financial income and expense	2,585	2.38%	202	1.09%
Research and development / Prototypes and models	–	–	2,127	11.49%
Subletting of premises	486	0.45%	–	–
Other income/expense	1,492	1.37%	1,137	6.14%
Income and expense from the tax consolidation	133	0.12%	3,471	18.76%
Dividends	40,000	36.80%	–	–
Advertising contribution	–	–	11,568	62.51%
Total	**108,709**	**100%**	**18,505**	**100%**

35. Information pursuant to article 149-duodecies of the Consob Issuer Regulation

The following table, which has been prepared pursuant to article 149-duodecies of the Consob Issuer Regulation, sets out the fees relating to 2009 for audit and non audit services and services other than audit provided by the indipendent auditors and by members of its network.

(Thousands of euros)

Type of service	Provided by	Provided to	2009 Fees
Audit	KPMG S.p.A.	Bulgari S.p.A.	179.9
	KPMG network	Bulgari S.p.A.	90.1
Attestation services	KPMG S.p.A.	Bulgari S.p.A..(1)	227.5
Other services	KPMG S.p.A.	Bulgari S.p.A..(2)	4.2

(1) Comfort letter, opinions as per article 158, paragraph 1 of the Consolidated Finance Law and annual tax returns and 770 forms.

(2) Kimberley Process compliance.

Bulgari S.p.A.

Summary of key data for directly held subsidiaries

Bulgari Italia S.p.A.
Registered office: Rome
Share capital Euro 12,000,000

Key data in thousands of euros:	31/12/09	31/12/08
Revenue from sales and services	71.392	78.384
Personnel expenses	9.465	10.177
Depreciation and amortisation	3.225	3.299
Net financial expense	(1.338)	(3.409)
Loss for the year	(1.623)	(6.381)
Investments in non-current assets	177	1.078
Intangible assets	3.904	4.595
Property, plant and equipment	12.715	15.098
Net debt	(24.854)	(58.048)
Equity	27.165	8.750

Bulgari Parfums Italia S.p.A.
Registered office: Rome
Share capital Euro 1,020,000

Key data in thousands of euros:	31/12/09	31/12/08
Revenue from sales and services	24.057	30.927
Personnel expenses	1.400	1.711
Depreciation and amortisation	93	78
Net financial income expense	(167)	(412)
Profit (Loss) for the year	(572)	236
Investments in non-current assets	46	197
Intangible assets	16	20
Property, plant and equipment	401	443
Net debt	(1.318)	(1.140)
Equity	2.424	2.996

Bulgari Portugal Acessorios de Luxo Lda
Registered office: Funchal (Madeira)
Share capital Euro 92,873

Key data in thousands of euros:	31/12/09	31/12/08
Revenue from sales and services	–	–
Personnel expenses	12	14
Depreciation and amortisation	–	–
Net financial income (expense)	–	–
Loss for the year	(12)	(14)
Investments in non-current assets	–	–
Intangible assets	–	–
Property, plant and equipment	–	–
Net financial position	23	34
Equity	23	35

Bulgari Hotels and Resorts Milano S.r.l.
Registered office: Rome
Quota capital Euro 100,000

Key data in thousands of euros:	31/12/09	31/12/08
Revenue from sales and services	15.304	18.279
Personnel expenses	4.234	4.603
Depreciation and amortisation	556	744
Net financial expense	(159)	(306)
Loss for the year	(1.883)	(968)
Investments in non-current assets	83	527
Intangible assets	1.301	1.685
Property, plant and equipment	379	469
Net financial position (debt)	–	–
Equity	533	417

Bulgari Hotels and Resorts B.V.
Registered office: Amsterdam
Share capital Euro 18,000

Key data in thousands of euros:	31/12/09	31/12/08
Revenue from sales and services	–	–
Personnel expenses	–	–
Depreciation and amortisation	74	38
Net Financial expense	(132)	(211)
Loss for the year	(205)	(249)
Investments in non-current assets	–	–
Intangible assets	–	–
Property, plant and equipment	–	–
Net debt	–	–
Equity	(2.539)	(2.333)

Bulgari Commercial (Shanghai) Co. Ltd.
Registered office: Beijing
Share capital US$ 17,000,000

Key data in thousands of euros:	31/12/09	31/12/08
Revenue from sales and services	52.457	35.399
Personnel expenses	3.538	3.321
Depreciation and amortisation	7.635	4.830
Net financial income (expense)	744	(105)
Profit for the year	2.859	783
Investments in non-current assets	3.171	94
Intangible assets	71	23
Property, plant and equipment	6.166	5.015
Net debt	(8.438)	(11.779)
Equity	6.670	8.528

Bulgari Ireland Ltd.
Registered office: Dublin
Share capital Euro 1

Key data in thousands of euros:	31/12/09	31/12/08
Revenue from sales and services	437.303	184.454
Personnel expenses	3.260	1.248
Depreciation and amortisation	3.458	1.085
Net financial expense	(650)	(1.775)
Profit for the year	41.826	19.743
Investments in non-current assets	77	1.801
Intangible assets	49	73
Property, plant and equipment	1.527	1.680
Net debt	–	–
Equity	3.069	1.243

Bulgari Gioielli S.p.A.
Registered office: Rome
Share capital Euro 2,580,000

Key data in thousands of euros:	31/12/09	31/12/08
Revenue from sales and services	20.901	51.475
Personnel expenses	2.022	2.498
Depreciation and amortisation	130	134
Net financial expense	(537)	(405)
Loss for the year	(2.958)	(151)
Investments in non-current assets	25	146
Intangible assets	75	109
Property, plant and equipment	350	496
Net debt	(9.993)	(11.508)
Equity	1.706	4.664

Bulgari International Corp. (BIC) N.V.
Registered office: Amsterdam
Share capital Euro 18,301,200

Key data in thousands of euros:	31/12/09	31/12/08
Dividends	385.735	33.231
Other general and administrative costs	601	1.046
Net financial income (expense)	(44.531)	2.603
Profit for the year	340.603	37.066
Investments in non-current assets	1	3
Financial non-current assets	269.806	188.087
Other non-current assets investments	–	1.055
Reservals of impairment losses (impairment losses on equity investment)	–	–
Net financial position	214.241	(44.429)
Equity	486.563	145.960

Bulgari Retail USA S.r.l.
Registered office: Rome
Quota capital Euro 50,000

Key data in thousands of euros:	31/12/09	31/12/08
Revenue from sales and services	10.640	60.685
Personnel expenses	5.188	15.438
Depreciation and amortisation	–	–
Net financial income (expense)	336	(1.382)
Loss for the year	(4.742)	(11.506)
Investments in non current assets	–	–
Intangible assets	–	–
Property, plant and equipment	–	–
Net financial position (debt)	2.053	(30.783)
Equity	6.147	1.030

Bulgari Manifattura S.p.A.
Registered office: Valenza (Alessandria)
Share capital Euro 2,700,000

Key data in thousands of euros:	31/12/09	31/12/08
Revenue from sales and services	24.307	28.437
Personnel expenses	12.016	13.898
Depreciation and amortisation	1.077	2.342
Net financial expense	(116)	(5)
Loss for the year	(1.454)	(2.051)
Investments in non current assets	845	819
Intangible assets	176	257
Property, plant and equipment	5.414	5.564
Net debt	–	–
Equity	6.784	3.237

Bulgari Accessori S.r.l.
Registered office: Bagno a Ripoli (Florence)
Share capital Euro 50,000

Key data in thousands of euros:	31/12/09	31/12/08
Revenue from sales and services	15.800	14.845
Personnel expenses	3.603	2.124
Depreciation and amortisation	617	506
Net financial expense	(261)	(427)
Loss for the year	(816)	(1.825)
Investments in non-current assets	321	2.188
Intangible assets	2.264	2.446
Property, plant and equipment	975	1.089
Net debt	–	–
Equity	3.403	1.219

Bulgari Holding Europe B.V.
Registered office: Amsterdam
Share capital Euro 18,000

Key data in thousands of euros:	31/12/09	31/12/08
Dividends		–
Other general and administrative costs	47	23
Net financial (expense)	(39.430)	(3.917)
Loss for the year	(39.477)	(3.941)
Investments in non-current assets	–	–
Financial assets	104.966	126.426
Other non current investments	–	–
Reservals of impairment losses (impairment losses on equity investment)	–	–
Net debt	(100.317)	(81.982)
Equity	4.750	42.727

Bulgari S.p.A.
Chairman of the Board of Directors
Paolo Bulgari
(Signed on the original)

Bulgari S.p.A.

Report of the board of statutory auditors to the general meeting of shareholders of Bulgari S.p.A. pursuant to Article 153 of Legislative Decree no. 58/1998

Shareholders,

We are pleased to report to you on the procedures we have performed during the year ended 31 December 2009 pursuant to article 153 of Legislative Decree no. 58 of 24 February 1998.

Our report also takes into consideration article 2429 of the Italian civil code, the Consob provision of 6 April 2001 and subsequent amendments and additions and the Corporate Governance Code for listed companies with which your company complies.

We remind you that pursuant to Legislative Decree no. 58/98 the control of the company's accounting and of its separate and consolidated financial statements is performed by the audit firm KPMG S.p.A.. We were informed in meetings held with KPMG S.p.A. that they are currently preparing their reports and that at the present date do not expect to have to qualify their opinions or add any emphases of matter.

During the year ended 31 December 2009 we have performed the supervisory activities for which we have responsibility using Consob guidance and taking into consideration the code of conduct recommended by the *Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri* (the Italian accounting profession).

During the year we have:

– attended 10 meetings of the board of directors;
– attended 5 meetings of the internal control committee;
– attended the two general meetings of shareholders, namely the ordinary meeting of 16 April 2009 and the ordinary and extraordinary meeting of 21 July 2009;
– held regular meetings with the internal control officer, the manager responsible for the preparation of the company's financial reports, the audit firm and the supervisory body;
– held specific meetings with the company's heads of function and employees involved in the departments concerned with the supervisory activities being performed;
– received information from the directors relating to the operations carried out by the company and its subsidiaries and transactions having the most importance from an economic and financial point of view.

We are able to state the following again this year:

1. In connection with the supervisory activities performed in connection with the work of the directors and management of the company, the board of statutory auditors believes that the resolutions adopted by the board of directors and the operations carried out comply with the law and the company's bylaws.

   The board of directors was regularly informed and updated as to all operations which were initiated or concluded by the directors holding delegated powers.

   In the light of the information we have obtained and our supervisory activities we are able to state that no operations or initiatives of a manifestly imprudent nature have been performed, nor any of a risky nature or of such a type as to compromise the integrity of the company's equity, and that we have found no evidence of abnormal or unusual transactions.

   To the best of our knowledge and belief intragroup transactions are carried out as part of ordinary commercial or financial relations and at arm's length rates. Details of these transactions may be found in the financial statements.

2. The board of statutory auditors considers the organisational structure, the internal control system and the administrative and accounting systems taken as a whole to be adequate.

   In a similar manner, the instructions issued by the company to its subsidiaries pursuant to the second paragraph of article 114 of Legislative Decree no. 58/199 are also considered adequate.

   The internal control function carried out procedures in accordance with its work programme, as notified in advance to the board of statutory auditors, and also informed the board of the results of its work.

   During the course of 2009 the company continued its process of updating the *Organisational, Management and Control Model* pursuant to Legislative Decree no. 231/2001 under the supervision of the supervisory body.

3. During 2009 and the first part of the current year we have met regularly with the persons in charge of the audit in KPMG S.p.A, the firm engaged pursuant to the third paragraph of article 150 of Legislative Decree no. 58/1998, and from these mutual exchanges of information no matters emerged which need to be reported here.

   Where required, the board of statutory auditors has given its approval to engagements other than the audit for which KPMG S.p.A. or entities or parties with which it is associated were instructed by group companies. These engagements are disclosed in the notes to the financial statements.

4. The company has prepared its "*Annual report on the corporate governance model adopted by Bulgari S.p.A.*", in which it describes amongst other things the assessments it has made in connection with the independence of the directors and statutory auditors, with specific reference to the deviation from the requirement of 3.C.1 e) of the Code relating to the period in office.

   We note further that the *Internal Control Committee* and the *Compensation Committee* were active during the year.

5. In respect of all the matters above we are able to state conclusively that we have not identified any omissions, censurable acts or irregularities nor, in particular, have any significant matters arisen that require notification to the control bodies or mention in this report.

   We have not received any denouncements during the year pursuant to article 2408 of the Italian civil code nor have we received any petitions from third parties.

   We express a favourable opinion on the proposals for the allocation of net profit and the distribution of dividends made by the Board of Directors.

Rome, 6 April 2010

The Board of Statutory Auditors
Eugenio Pinto (Chairman)
Maurizio de Magistris (Standing Auditor)
Gerardo Longobardi (Standing Auditor)

Bulgari S.p.A.

Representation on the separate financial statements pursuant to article 81-ter of Consob Regulation no. 11971 of 14 May 1999 as amended and supplemented.

1. The undersigned Francesco Trapani, in his capacity as chief executive officer, and Flavia Spena, in her capacity as manager responsible for the preparation of corporate financial reports of Bulgari S.p.A, hereby certify, taking account of the provisions of article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 598 of 24 February 1998:
    - the adequacy with respect to the Company's characteristics and the effective application
    - in 2009 of the administrative and accounting procedures for the preparation of the separate financial statements.

2. Moreover, the undersigned certify that:
    - the separate financial statements:
        a. correspond to the accounting books and records;
        b. have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union and the provisions issued to implement Legislative Decree no. 38/2005 and, to the best of their knowledge and belief, provide a true and fair view of the financial position, results of operations and cash flows of Bulgari S.p.A.;
    - the report on operations contains a reliable analysis of the performance and operations and the situation of Bulgari S.p.A. together with a description of the main risks and uncertainties to which it is exposed.

15 March 2010

Signed: Chief Executive Officer
(Signed on the original)

Signed: The manager responsible for the preparation of corporate financial reports
(Signed on the original)

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with article 156 of Legislative decree no. 58 of 24 February 1998

To the shareholders of
Bulgari S.p.A.

1 We have audited the separate financial statements of Bulgari S.p.A. as at and for the year ended 31 December 2009, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The company's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 1 April 2009 for our opinion on the prior year separate financial statements, which included the corresponding figures presented for comparative purposes that have been restated to reflect the changes in the presentation of financial statements introduced by IAS 1.

3 In our opinion, the separate financial statements of Bulgari S.p.A. as at and for the year ended 31 December 2009 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of Bulgari S.p.A. as at 31 December 2009, the results of its operations and its cash flows for the year then ended.

4 The directors of Bulgari S.p.A. are responsible for the preparation of a report of the directors on the financial statements and a report on the corporate governance and ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report of the directors and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the report of the directors and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structure are consistent with the separate financial statements of Bulgari S.p.A. as at and for the year ended 31 December 2009.

Rome, 6 April 2010

KPMG S.p.A.

(signed on the original)

Marco Maffei
Director of Audit

Bulgari S.p.A.

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Development and printing:

Redpoint Communication - Milan

Bulgari confirms its support of earth conservation by using environmentally friendly paper

Printed in Italy, May 2010

BULGARI S.P.A.AND BULGARI GROUP CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2009

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