BVLGARI

BULGARI S.P.A. AND BULGARI GROUP
CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2010

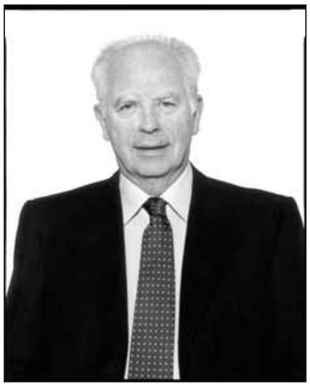
(Translation from the italian original version which remains the definitive version)

Index

Letter from the Chairman

2010 was a very intense and highly satisfactory year for Bulgari, because the Company confirmed the recovery of sales and profits begun in the fourth quarter of 2009 while promoting numerous product, communication, and social responsibility initiatives. Considerable creative energy was matched with stimulating collaborations with artists, designers and testimonials who reinforced our brand image. Our iconic *B.zero1* line with spiral motif, first launched in 2000 with extraordinary success, celebrated its tenth anniversary with new models in gold and ceramic and with the version created by Anish Kapoor, one of the greatest living artists, who redesigned the ring in his revolutionary style by enhancing shapes and metallic finishes and reflections. In the *Bulgari Cocktail* collection, our daring creative energy and our use of precious and semi-precious stones was best expressed by fanciful cuts that formed small cones, or by contrasts between opaque and transparent stones, for a result overflowing with exuberance, freshness and liveliness.
The unquestionable star in the watch sector was the *Serpenti* collection, which blends two of the most characteristic aspects of Bulgari design: the *Tubogas* spiral bracelet, whose patient craftsmanship exemplifies all of Bulgari's goldsmith expertise, and the symbol of the snake, representing youth and immortality, used in some of our most famous creations ever since the 1920s. In addition, the Bulgari/Roth and Bulgari/Genta models for men, thanks to the winning combination of the DNA of the three brands, presented avant-garde aesthetic codes and technical features that were highly appreciated by watch experts and aficionados.
The accessories segment was the focus of extremely interesting stylistic experiments thanks to the contribution of two world famous and highly individual artists who created very eclectic items with forceful personality – always a key feature of the Bulgari world. Isabella Rossellini, a fashion icon and symbol of natural and sophisticated beauty, a life-long fan of Bulgari (as was her mother, Ingrid Bergman), designed a handbag with a linear, essential look and a precious clasp that reinterprets the bags of great stars from a modern viewpoint. And Matthew Williamson, the eccentric and daring British fashion designer, was inspired by lively use of colour (something he has in common with Bulgari) to create a modern, futuristic capsule collection with kaleidoscopic prints made precious with maxi jewel details. Lastly, the *Chandra* couture bag, by now another Bulgari icon, was presented in ten new elegant models, each of which – by means of an imaginary voyage from the Far East to the United States – offers hints of the ten cities that inspired it, featuring chromatic details, impactful workmanship, or precious embroidering.
In the perfume sector, the values of Bulgari's men's world, expressing natural elegance and innate charm, were condensed in the new *BVLGARI MAN* fragrance, and embodied for the advertising campaign by the actor Clive Owen.
The many product launches in 2010 were supported by an effective communication campaign entitled Eccentric Charisma, whose exceptional testimonial was the fascinating actress Julianne Moore: in an opulent and exotically-coloured setting, the campaign successfully emphasised the innovative spirit of the brand, whose creativity exceeds all preconceived notions by anticipating trends.
In 2010, Bulgari continued the celebrations of its 125th anniversary by setting up in the Grand Palais of Paris the Retrospective that was hosted at the Palazzo delle Esposizioni in Rome in 2009. France's most important personalities in art, culture, and entertainment visited the exhibit and admired splendid vintage creations from 1884 until today. The choice of Paris was anything but random, because in the 1920s, when it was the international capital of decorative arts, that city was a source of inspiration for my grandfather Sotirio and for my father Giorgio. So I was very proud that the people in Paris were able to see and appreciate the evolution of Bulgari's creativity over all these years.
Along with our intense product development and communication activities, we continued to support the Save the Children campaign for the defence and promotion of children's rights, following the success of initiatives in support of the *Rewrite the Future* project launched in 2009. A silver and ceramic ring, a new unique piece created for Save the Children, was put on sale in all Bulgari stores, with a portion of the proceeds being donated to the campaign. In addition, we organised a series of special fund-raising events all over the world, such as a gala supper at the EUR Hall of the Fountain in Rome, decorated as a film set and with the atmosphere of a railway station from the 1950s.
Therefore, 2010 was a very full year in which we achieved important goals and opened new paths in a long and prestigious history which still has much to tell.

Paolo Bulgari



Paolo Bulgari, Chairman

Nicola Bulgari, Vice Chairman

Francesco Trapani, Chief Executive Officer

Letter from the Chief Executive Officer

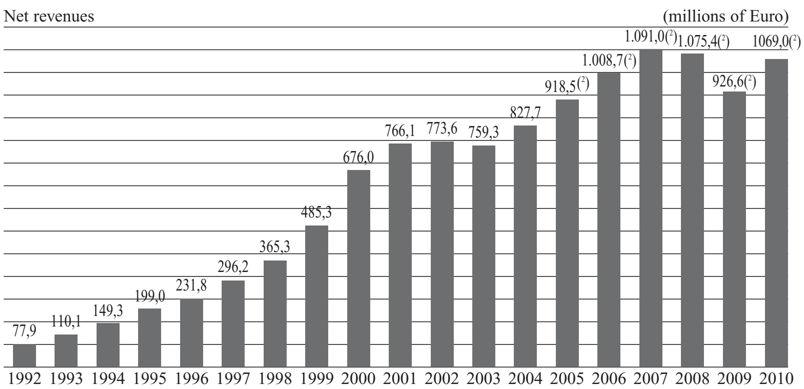
Dear Shareholders,

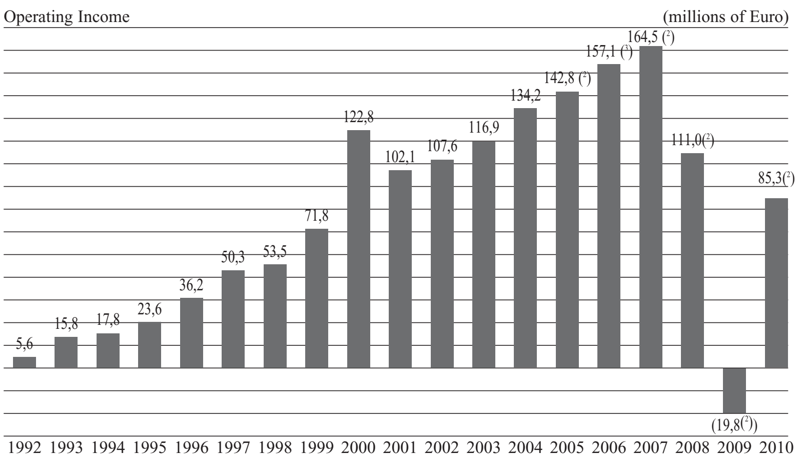
Financial results improved progressively from quarter to quarter in 2010, confirming the recovery begun in the fourth quarter of 2009 and declaring the end of the destocking in the wholesale channel that marked the previous year. All product categories sectors were positive, with turnover reaching 1,069 million euros (+15.4% at current exchange rates): jewellery increased by 21.4%, watches by 1.3%, perfumes by 12%, and accessories by 34.7%.
A very good picture comes out also from sales performance in terms of geographic areas, especially in the United States (+23.5%) and Asia (+24.1%), with Greater China once again the most interesting market (+38.4%). Europe presented a satisfactory trend (+5.9%), whereas performance in the Middle East was somewhat more irregular, with a recovery in the last quarter which led to an overall growth of 1%.
When analysing sales in the quarters, the success of new launches is especially evident, since for jewellery, watches, and perfumes they were all concentrated in the second half of the year. This had an extremely positive and immediate effect on the sales trend. The choice to have jewellery focus on the reinterpretation of brand icons (such as the *Serpenti* and *B.zero1* collections) was very successful, emphasising goldsmithing expertise and innovative design.
Likewise, in the watch segment, the decision to integrate the Roth and Genta collections in the Bulgari lines, maintaining the technical characteristics that made the two Swiss brands famous, generated excellent results in terms of sales and the appreciation of watch experts and enthusiasts. In fact, two *Bulgari Octo* models won two international prizes from important magazines: “Best Watch of the Year” and “Best Complicated Watch of the Year.” Therefore, in addition to giving great satisfaction, this integration produced other important results: the consolidation of the evolution into a manufacturing pole, a more efficient and rational organisation of our watch sector, and an even greater product assortment in the highly competitive arena of complicated watches. The watch segment was strengthened even further by an agreement that Bulgari stipulated on a strategic market with Hengdeli Holdings Limited, Mainland China’s largest seller of luxury watches in multi-brand stores. Thanks to this agreement, the visibility of Bulgari watches will increase significantly during the next 4-5 years thanks to their presence in over 50 new multi-brand stores in Mainland China, where the Company already has 20 owned stores.
This intense work to develop products and expand the distribution network was supported by collaborations with talents such as Anish Kapoor, Isabella Rossellini, and Matthew Williamson, who provided personal interpretations of the spirit and values of the brand by means of extremely original and highly wearable creations. In addition, the Company upgraded its web communications channels to reach final consumers even more effectively, and designed advertising campaigns with strong visual impact featuring charismatic testimonials such as Clive Owen and Julianne Moore. Even in a context of reduced costs and investments, the distribution network was improved by refurbishing existing stores and opening new ones, with the aim of controlling distribution as directly as possible, while constantly improving the shopping experience.
In addition to these positive results, the substantial reduction in net indebtedness (-37.6%), also in terms of gearing ratio, as well as the improved contribution margin despite the extraordinary and constant increase in gold prices, prove the solidity of a Company which has been able to reap the fruits of the efficiency and cost containment strategy implemented in late 2008 to face the economic crisis, simultaneously offering even more competitive products in all categories. These solid bases and the continuation of long-term strategies will certainly lead to a further growth and an increased prestige for the Bulgari brand on the worldwide luxury market.

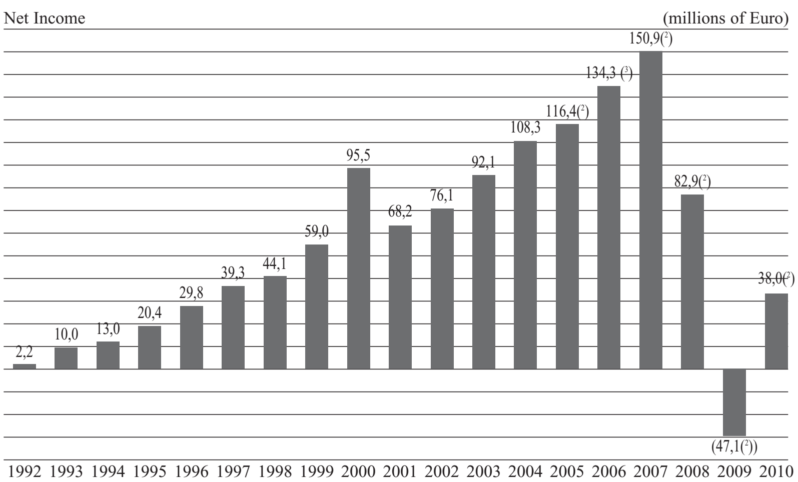
Francesco Trapani

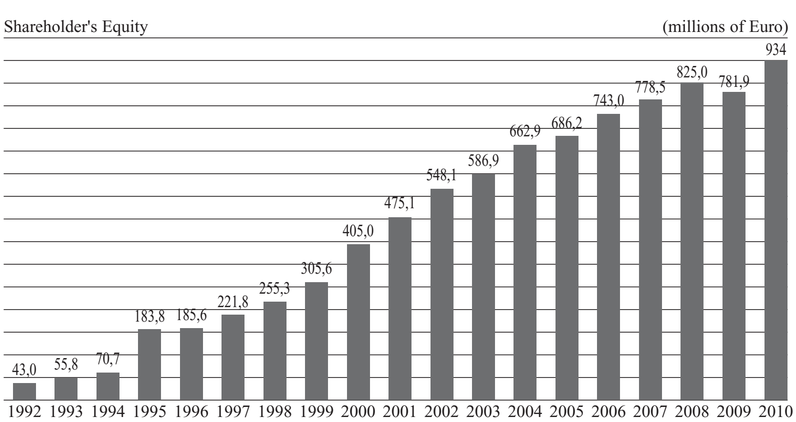
The Bulgari Group in 2010

Key figures and financial highlights

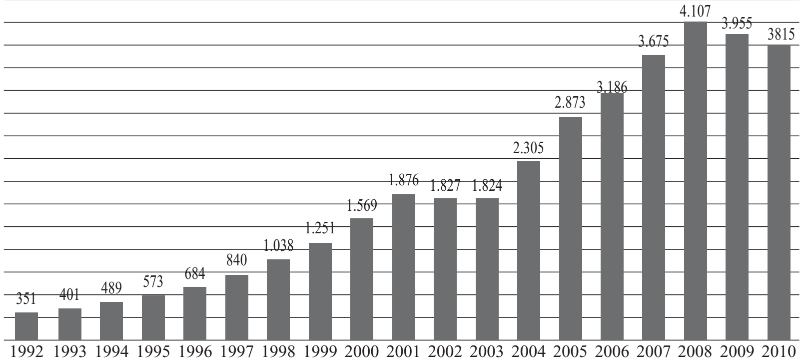




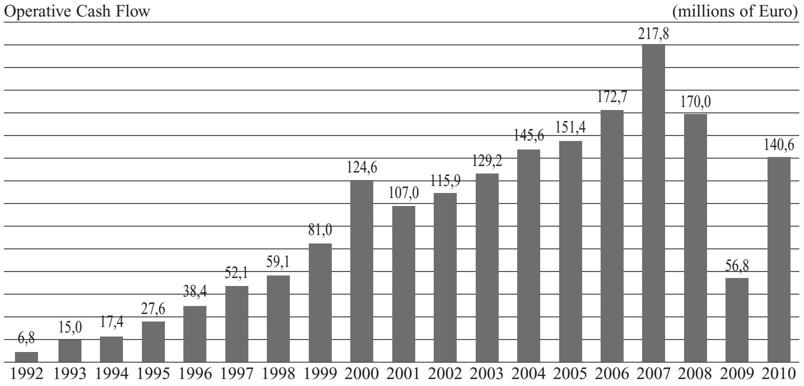




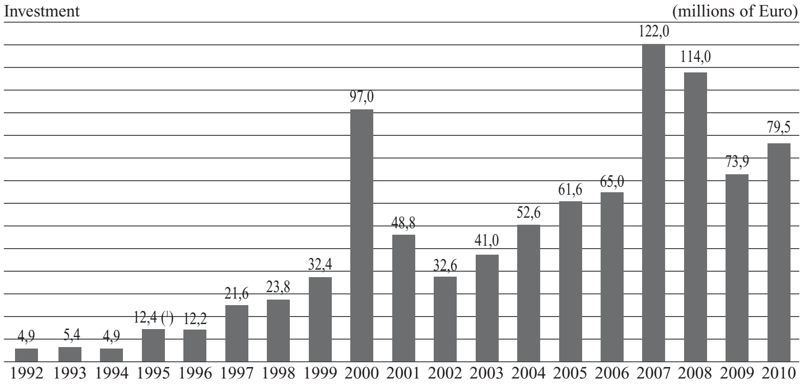
Personnel (numbers of employees at year-end)



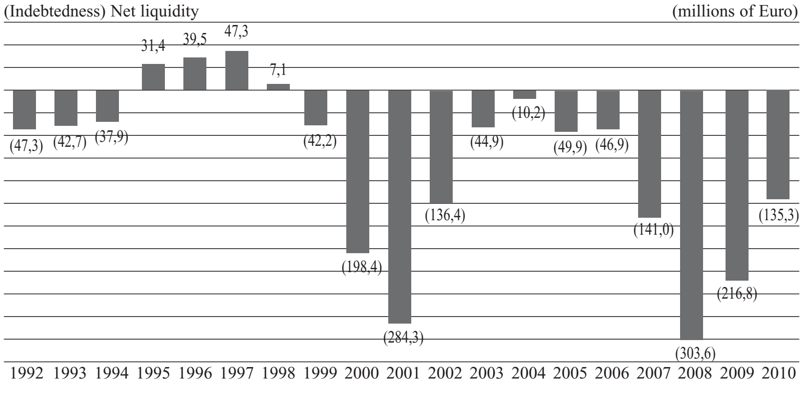
Operative Cash Flow (millions of Euro)



Investment (millions of Euro)



(Indebtedness) Net liquidity (millions of Euro)



(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 2010

The Bulgari Group ended 2010 with consolidated net revenue of 1069 million euros, an increase of 8.3% at comparable exchange rates (15.4% at current rates). Bulgari is one of the largest Groups on the luxury market.

Revenues by product category

Jewellery	46%
Watches	20%
Perfumes & Cosmetics	23%
Accessories	8%
Hotels and restaurants	2%
Royalties and Other	1%

Revenues by geographical area

Europe	35%
of which:	
– Italy	11%
America	13%
Asia	46%
of which:	
– Japan	19%
– Rest of Asia	27%
Middle East	5%
Other	2%

Employees	3.815

Ownership

Bulgari Family	50.43%
Paolo Bulgari	
Nicola Bulgari	
Francesco Trapani	
Floating	49.57%

The Bulgari Group at 31 December 2010 41 companies in 24 countries

Bulgari S.p.A.

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 50.43% 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 articles.

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

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

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

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

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

Bulgari Commercial Shanghai Co. Ltd Company that manages 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 BVLGARI stores in Germany.

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

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

Bulgari Gioielli S.p.A. Company that coordinates the production of jewels and silver articles 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 Company that has the shareholding in Bulgari (Thailand) Ltd.

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

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

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

Bulgari Ireland Ltd Company that provides logistical support and distribution to all group companies.

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

Bulgari Japan Ltd. Company that manages BVLGARI stores, restaurants and hotels in Japan.

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

Bulgari Kuwait LLC Company that had to manage the BVLGARI store in Kuwait and which is currently dormant.

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

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

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

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

Bulgari Parfums S.A. Company that produces and distributes BVLGARI perfumes worldwide.

Bulgari Qatar LLC: Company that manages BVLGARI stores 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 that retails BVLGARI products and brands in the United States.

Bulgari S.A. Company that manages 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 BVLGARI stores in Singapore.

Bulgari Time (Switzerland) S.A. Company that produces watches, accessories, and manages all activities regarding silk.

Cadrans Design S.A. produces watch movements and components.

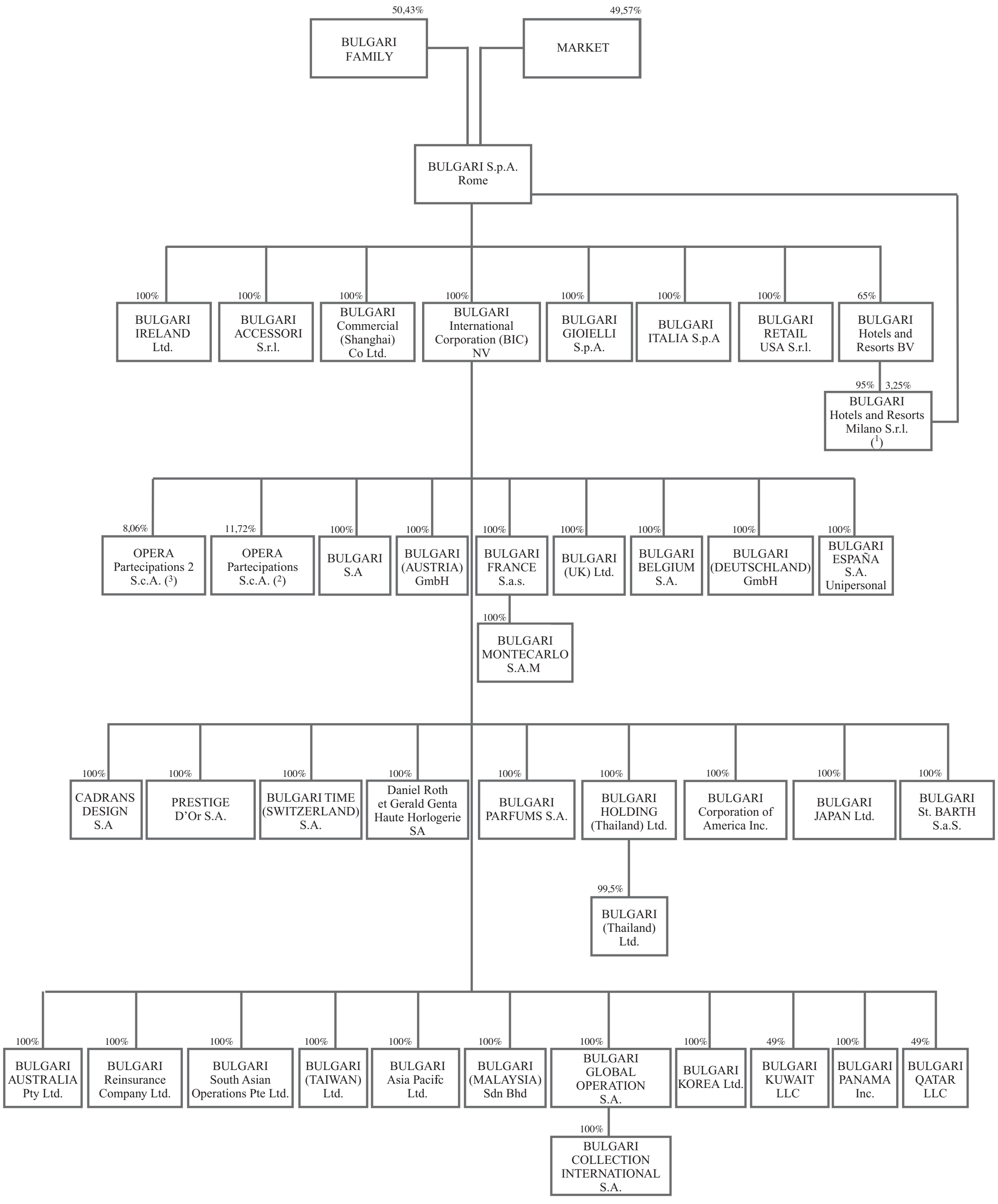
Daniel Roth et Gérald Genta Haute Horlogerie S.A. produces and distributes Daniel Roth et Gérald Genta watches.

Opera Participations 2 S.c.A. invests in companies that produce goods and services "made in Italy".

Opera Participations S.c.A. invests in companies that produce goods and services "made in Italy".

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

Group structure
as of 31 December 2010



(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.

(3) Company owned directly by Bulgari International Corporation (BIC) N.V. at 8.06% of total of class A.1.

The Bulgari Story

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 other 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 steel and precious metals watchstraps, 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 another one in Florence and in the subsequent years other shops 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 – specialised 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 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, aiming to ensure that children living in countries at war receive a quality education. In 2010, the Group concluded its transformation of the watch sector into a manufacturing pole by integrating the Daniel Roth and Gérald Genta brands into the Bulgari collections and by presenting the first mechanical movement built entirely in-house. The watch sector was also strengthened at the distribution level thanks to an agreement with Hengdeli Holdings Limited (China) that will expand distribution of Bulgari watches in Mainland China with a network of 50 new multi-brand stores. During the year, the Group made new launches in all product categories, also in cooperation with world-famous artists and designers. The commitment to Save the Children was confirmed as well, together with a series of fund-raising events and projects throughout the world, while the retrospective "Between Eternity and History: 1884-2009", was presented at the Grand Palais in Paris after its enormous success in Rome in 2009.

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.
In 2010, the tenth anniversary of the famous *B.zero1* ring was celebrated with a restyling of its shapes and the experimentation of innovative combinations of materials such as gold and ceramics. Likewise, the *Astrale* collection was enlarged with models featuring diamonds, while in the *Bulgari Cocktail* collection bold colour combinations and fancifully cut stones enliven fresh and vivacious creations.
The High Jewellery Collection, the supreme expression of Bulgari's creativity and design, was enriched in 2010 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, becoming one of the few manufacturers at a world level and hence one capable of producing its 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 2010 version of the famous and elegant Sotirio Bulgari model, created as a tribute to the Company's 125th anniversary and to its founder, has an innovative case in which the lugs are secured to the sapphire crystal case-back, revealing the new Caliber 168, the first mechanical self-winding movement built entirely in-house. For women's models, the *Serpenti* collection (with its typical Tubogas bracelet that becomes a second skin thanks to painstaking workmanship) offers lunettes with inset diamonds hat contrast with the argenté or black face.

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.
2010 saw the launch of the new *Bulgari MAN* fragrance, fresh and vibrant, inspired by a new vision of natural elegance as a declaration of absolute virility and innate charm. The bottle is highly innovative as well, with its monolithic shape intensified by sinuous curves and sophisticated plays of light.
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, or the *Chandra* couture bag, with its sinuous round surfaces. In 2010, the *Chandra* bag was the star of an imaginary voyage to ten cities, from the Far East to the United States, that inspired ten new models featuring chromatic details, special work processes, or precious embroidering. Talents such as Isabella Rossellini and Matthew Williamson worked with Bulgari to create personal interpretations of the spirit and values of the trademark by means of extremely original and highly wearable creations.
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. In 2010, the Daniel Roth and Gérald Genta collections were integrated into the Bulgari collections, completing the transformation of the watch sector into a manufacturing pole and improving coverage of the segment of complicated watches. Another important result of the Company's watch verticalisation strategy was the creation of the first automatic winding movement designed, developed, and built entirely in-house.

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.

Top Management

The Top Management 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 and Organization Officer
Executive Vice President

Silvio Ursini
Bulgari Hotel and Resorts
Executive Vice President

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

Director's report on the Group’s performance as at and for the year ended 31 December 2010

Bulgari S.p.A. and Subsidiaries

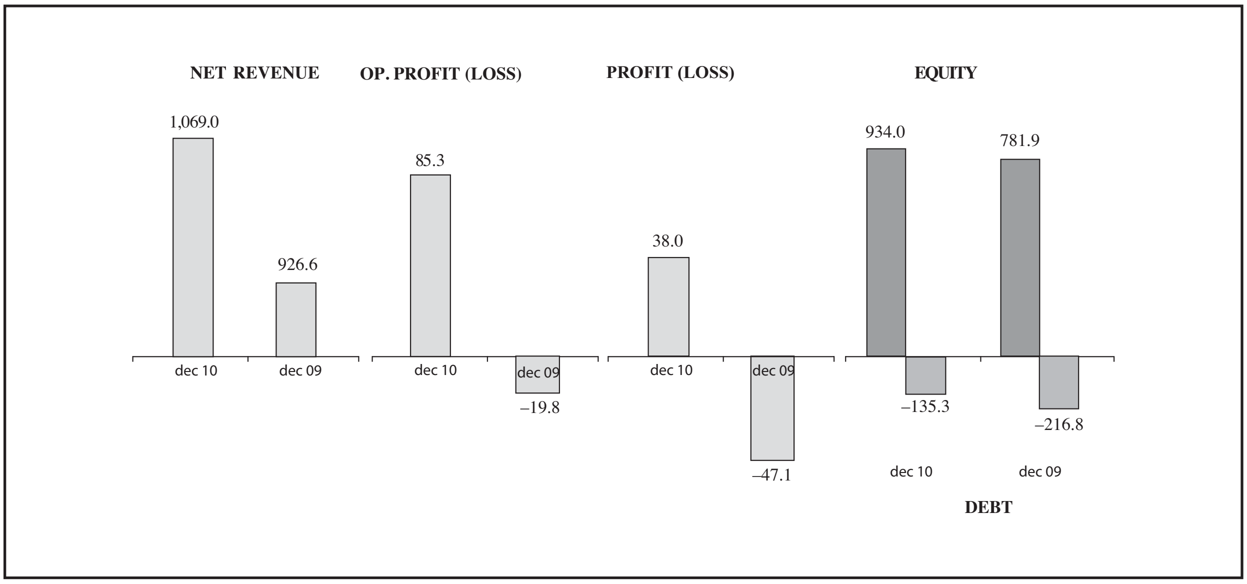
Director's report on the Group's performance as at and for the year ended 31 December 2010

Dear Shareholders,

The programmes that the Group began in 2009 and continued in 2010 achieved significant structural improvements. Better balance in terms of selling and administrative expenses, an improved supply chain, and strict control over inventories, along with innovative programmes in terms of brand image and product launching, helped achieve extremely satisfactory results, with a higher than proportional growth in profit with respect to turnover and reduced debt compared to the same period last year.

KEY FINANCIAL 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 global economic recovery in 2010 was inconstant and uneven in the various areas of the world. In economically developed nations, consumption was restrained by high unemployment rates, and inflationary pressures were limited by wide margins of unutilised production capacity; on the other hand, growth in developing nations was sustained by strong domestic demand. International trade recovered most of the ground lost in 2009, but,

despite strong monetary and tax stimuli, GDP in the euro zone remains below pre-crisis levels, and the rapid increase in government debt raises urgent questions regarding the sustainability of government finances.

Italian GDP grew 1.1% in 2010, and industrial production data showed some improvements (industrial orders and turnover grew 13.9% and 10.1%, respectively, the best result since 2001), but consumer confidence remains low, and weak domestic demand is matched with an export trend insufficient to return growth to high levels.

In 2010, the Japanese economy, heavily struck by the global recession of 2008 and 2009, recovered with 3.9% growth but did not maintain its position on the list of world economies; the Chinese economy, with 10.3% growth in GDP, became second only to the United States (a position that had been held by Japan since 1968). Nevertheless, the Japanese result was excellent if compared to GDP growth in the OECD area for all of 2010 (2.9%) or to that of the other two leaders – the United States and Germany – which last year grew 2.9% and 3.6%, respectively.

In the first half of 2010, worldwide growth depended on anti-crisis policies, limited by a weak labour market and by recurring financial strains. Investor worries focused on problems in Greece and in other euro-zone nations. Moreover, the increase in credit spreads reflected growing concerns about the weak financial system. Growth rates were high in emerging economies, steady in the United States and in Japan, and moderate in Europe, where the economy was driven by restocking and by a sharp rise in exports, with slack household consumption. In emerging economies, where growth prospects were stronger and inflationary pressures on the rise, restrictive monetary policies (especially in China, Brazil, and India) fed doubts that demand from these countries could continue to provide the thrust needed for global growth, but also attracted flows of capital from countries with lower interest rates, with consequent appreciation of their currencies. The Swiss franc, considered a shelter currency against uncertain markets and economies, appreciated significantly in 2010. Purchases of Swiss francs were helped by positive news about the Swiss economy, by Swiss stock indices reporting good mid-year results, and by an influx of capital for asset management banks.

In late May, market confidence was further weakened by the growing geopolitical crisis in North and South Korea and by the downgrading of Spain's credit rating, in addition to problems at a number of Spanish savings banks.

During the summer, macroeconomic indicators showed signs of weakness due to conclusion of the restocking process and the waning of tax stimuli. Increased concerns about growth caused investors to remain prudent. Nevertheless, improved conditions on euro sovereign debt markets, positive reports on profits in the United States and in Europe, and greater clarity regarding the regulatory reform programme pushed both stock and corporate bond prices higher in late August. Growth gaps widened among the largest economies in the euro zone, with average growth in Germany exceeding that in other countries. The recovery was fuelled by exports and investments, while family consumption remained weak. Macroeconomic data published in the United States, followed by a report by the Fed (Beige Book, 9 June 2010), showed that the economy was still depressed and lowered the growth forecast. In the following two months, the Fed's expected monetary loosening had a visible impact on market prices well beyond the United States. The dollar lost ground against all major currencies and, in August reached the rate of 83 Yen per dollar, the lowest in 15 years. An additional drop in US interest rates made the dollar a preferred currency for carry trade transactions. This generated a rise in stock and bond prices in the fastest growing emerging economies, which led to the introduction of measures to limit the pace of inflows in dollars. In order to counter the foreign exchange effect on an export-dependant economy, the Bank of Japan (BoJ) reached an agreement with the Fed to loosen monetary policy again by launching a 920 billion Yen (8 billion euro) plan.

In the fall, economic worries, a weak dollar, and demand from Asian countries pushed precious metal prices to record levels. In November, the price of gold exceeded US$ 1,440 (euro 1,000) per ounce, and there was a general rise in raw material prices that influenced consumer prices in developed nations. Inflation was limited by wide margins of unutilised production capacity, so that (net of energy components) price variations were modest and expansive monetary policies were maintained. In emerging nations, where inflationary pressure were greater, governments preferred less liberal monetary policies. In early November, attention was shifted to the euro zone as operators became increasingly worried about exposure to Ireland and other economies. Credit spreads increased considerably on government bonds of countries involved. This time, fears were provoked by two factors: deterioration of the Irish budget situation due to continued government support of troubled banks, and the possibility of changes to EU treaties that would force loss-sharing on holders of debt securities issued by governments in financial trouble. Even though the EU approved an Irish bailout package in late November, tensions continued and the focus shifted first to Portugal and Spain, and then to Belgium and Italy. The situation gradually stabilised in early December, based on possible support measures by the ECB.

In late 2010, the global economy was livelier than forecast due to higher than expected consumption in the United States (where requests for unemployment benefits continued to drop) and in Japan. In general, it is becoming more and more evident that consumer spending, which dropped sharply during the crisis, is starting to resume in major developed economies.

In 2010, according to OECD estimates, average world production increased by 4.6%, while in 2011 growth should fall to 4.2% (4.4% according to the January IMF estimate). Recovery should proceed at two speeds: developing nations will continue to make the largest contribution (more than two thirds), with inflationary risks and signs of overheating due to influxes of foreign capital; in developed economies, consumer spending will continue to suffer due to a weak labour market and due to the need to balance government budgets in some countries and family budgets in others, with real estate markets remaining extremely vulnerable.

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

Because it operates in various markets at a world level Bulgari 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 revenue and contribution margins in local currency, fluctuations in exchange rates can lead to effects on the translated amount into 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. At the end of 2010, the Group's debt was made up of approximately 31% floating rate and approximately 69% fixed rate.

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 2010 for the tenth consecutive year; in January 2010, gold was quoted at US$1,119.57 per ounce on the A.M. fixing in London, and closed the year at US$1,392 per ounce. This appreciation is first and foremost the consequence of macroeconomic uncertainty and fears of inflation.
The price of platinum also rose progressively, starting the year at approximately EUR 1,094 per ounce and reaching EUR 1,297 per ounce at the end of the year. For these reasons, and due to the fact that interest rates are expected to remain low, gold prices are expected to rise further in 2011.

To mitigate these risks, Bulgari has introduced a centralised hedge management procedure to minimise the volatility of margins and protect them with reference to business objectives.

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 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 213.1 million euros at 31 December 2010 and had a weighted average maturity of 3 years 6 months. 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 93 million euros and having a weighted average residual term of 1.8 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 part of its customers and, as a consequence, on the Group's results of operations, with specific reference to distribution. 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 to local laws and regulations

A considerable proportion of the Group's activities is carried out outside the European Union. This leaves Bulgari 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 terms 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 standards, 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 of diversity.

Bulgari promotes safe 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, supported by its adoption of the Kimberly Process in 2003 and by its membership in the Council for Responsible Jewellery Practices since 2004.

Bulgari's confirmed its commitment to the promotion of child education throughout the world, in collaboration with Save the Children, by donating more than 6 million euros in 2009 by means of various collection activities. The Group's renewed commitment for 2010-2011 calls for allocation of an additional 6 million euros by donating to Save the Children part of the revenues from the sale of a silver and ceramic B.Zero 1 ring, the second one-of-a-kind piece after the all-silver ring created in 2009. Additional funds will be collected at a series of gala evenings with the participation and support of many celebrities who share Bulgari's commitment to Save the Children.

Human Resources

The Group has 3,815 employees worldwide, located as follows: 28% in Italy, 25% in the rest of Europe, 14% in Japan, 18% in the rest of Asia, and 15% in the Americas.

Sixty-five per cent of employees are female; the average age is 37.
From a professional standpoint, 22% of the employees are managers and top professionals and of these 59% 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.

Recruiting

Becoming part of the Bulgari team means joining an international Group 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 expand 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.

This new e-recruiting system has two main objectives:

- to communicate *Bulgari Employer Branding* by promoting values and the philosophy underlying our approach to human resources;
- to support the recruiting *WW* process to save time and improve 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 out 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, expertise and entrepreneurial spirit on value creating activities.

Power of brands

We believe that the power of our brand is the foundation for future success. 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 organization.

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 communications, 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.

Bulgari-SDA Bocconi Partnership

In December 2010, Bulgari and SDA Bocconi entered into a partnership agreement to unite their competences and create a new specialisation in luxury business management as part of Bocconi's MBA course. The new specialisation will be reserved to a limited number of students and will teach them the management skills required for the luxury goods and services market.
The SDA Bocconi MBA with a specialisation in the luxury sector will be the only one available in major international schools.

Analysis of the group's results

Revenue

2010 improved steadily in each quarter, bringing consolidated revenue to 1,069 million euros, up 15.4% compared to 926.6 million euros in the previous year.
Fourth-quarter results corroborated the recovery in all geographical areas and product categories, confirming the strength of the Bulgari brand, the appeal of its product portfolio, and the effectiveness of its efforts to increase brand prestige and visibility. Fourth-quarter turnover was 357.9 million euros, the highest level ever achieved by the Group in a single quarter, an increase of 20.5% compared to the same period in 2009 (297.0 million euros).

Revenue by product type

TABLE 1: The following table sets out revenue for 2010 and 2009, the percentage of total revenue by product type, and the increase over the previous year at current and comparable exchange rates.
(Millions of Euros)

Revenue by product type	Total 2010				Total 2009			
	Absolute amount	%	Change %		Absolute amount	%	Change %	
			Curr. exch. rates	Comp. exch. rates			Curr. exch. rates	Comp. exch. rates
Jewellery	488.5	46%	+21	+14	402.4	43%	–10	–14
Watches	214.9	20%	+1	–6	212.2	23%	–20	–25
Perfumes and cosmetics	245.4	23%	+12	+7	219.1	24%	–12	–15
Accessories	89.2	8%	+35	+24	66.2	7%	–20	–27
Hotel and catering activities	16.2	2%	+10	–	14.7	2%	–15	–
Royalties and other	14.9	1%	+24	–	12.0	1%	–16	–
Total revenue	**1,069.0**	**100%**	**+15**	**+8**	**926.6**	**100%**	**–14**	**–18**

Jewellery revenue increased constantly compared to the previous year, reaching 488.5 million euros at 31 December 2010 (+21.4% at current exchange rates).
In the fourth quarter it had overall growth of 28.3% and, excluding the significant (but more volatile) contribution by high jewellery, the sector increased by 36.0%. This success is also due to excellent sales performance of the Serpenti collection and of the B.zero1 line, in which successful products such as the black and white ceramic ring and the B.zero1 version designed by Anish Kapoor were introduced.
At 31 December 2010, watch revenue was 214.9 million euros (+1.3% at current exchange rates). This result is due to weakness in this product sector in the first three quarters of 2010, offset in the fourth quarter by a sharp recovery that achieved 7.0% growth compared to the same quarter in 2009. It should be emphasised that

the women's Serpenti collection, whose steel version was the first to be available in stores (in September) had excellent results.

At 31 December 2010, perfumes and cosmetics revenue had growth of 12.0% (at current exchange rates) compared to the same period in the previous year. The 2010 fourth-quarter results (+14.1%) benefited from the highly successful launch of the *MAN* men's perfume, which was first distributed at the end of the third quarter.

Accessories continued to achieve excellent sales, growing (at current exchange rates) 34.7% for the year and 31.5% for the fourth quarter compared to the same periods in the previous year. Leather accessories in particular recorded significant gains thanks to the success of the *Leoni* bag, effectively promoted by the Fall/Winter ad campaign, and of the *Isabella Rossellini* bag, created in collaboration with the actress.

In 2010, the Hotel&Resorts division contributed turnover of 16.2 million euros, +9.9% compared to 2009.

Revenue by geographic segment

TABLE 2: The following table provides an analysis of revenue for 2010 and 2009 by geographic segment on the basis of outlet market, respective percentages of total revenue, and the change over the previous year at current and comparable exchange rates. (Millions of Euros)

Revenue by Geographical segment	**Total 2010**				**Total 2009**			
	Absolute amount	**%**	**Change %**		**Valore assoluto**	**%**	**Change %**	
			Curr. exch. rates	**Comp. exch. rates**			**Curr. exch. rates**	**Comp. exch. rates**
Europe	372.2	35%	+6	–	351.5	38%	–17	–
of which:								
– Italy	119.1	*11%*	*+9*	–	*108.9*	*12%*	*–13*	–
Americas	138.6	13%	+24	+17	112.2	12%	–27	–32
Asia	486.5	46%	+24	+13	391.9	42%	–10	–19
of which:								
– Japan	*198.1*	*19%*	*+12*	*+0*	*176.3*	*19%*	*–23*	*–34*
– of which rest of Asia	*288.4*	*27%*	*+34*	*+24*	*215.6*	*23%*	*+4*	*–0*
Middle East	49.2	5%	+3	–	47.6	5%	+3	–
Other	22.5	2%	–4	–	23.4	3%	+36	–
Total revenue	**1.069,0**	**100%**	**+15**	**+8**	**926.6**	**100%**	**–14**	**-18**

In 2010, all geographic segments contributed to the Group's growth except for those in "Other" (-3.9%), whose performance was influenced by a highly penalising basis of comparison.
Revenue in Europe rose 6% for the year, with the last quarter in line with the trend (+36.6%).
Americas grew 23.5% for the year, although the last quarter showed lower growth (+10.3%) because there was a very large sale in high jewellery in the corresponding quarter of the previous year.
Asia ended the year positively (+24.1% on an annual basis; +37.7% in the fourth quarter). Japan had especially good performance (+12.4%), and in the fourth quarter recovered partially with a marked improvement (+24.9 at current exchange rates; +7.1% at comparable exchange rates). In the rest of Asia (+33.7% on an annual basis; +47.5% in the fourth quarter) Greater China had extremely positive results (+38.4% at current exchange rates; +29.6% at comparable exchange rates).

Revenue by operating segment

TABLE 3: The following table shows revenue for 2010 and 2009 by operating segment, the respective percentages of total revenue, and the change over the previous year at current exchange rates. (Millions of Euros)

(in milioni di Euro)

	Total 2010			Total 2009	
	Absolute amount	%	Change % Curr. exch. rates	Absolute amount	%
Jewellery	488.5	46%	+21	402.4	43%
Watches	214.9	20%	+1	212.2	23%
Royalties and other	6.5	1%	+36	4.8	1%
Total Hard luxury	**709.9**	**67%**	**+15**	**619.4**	**67%**
Perfumes and cosmetics	245.4	23%	+12	219.1	24%
Accessories	89.2	8%	+35	66.2	7%
Royalties and other	1.0	0%	+70	0.6	0%
Total Soft luxury	**335.6**	**31%**	**+17**	**285.9**	**31%**
Hotel and catering activities	16.2	2%	+10	14.7	2%
Royalties and other	7.4	1%	+11	6.6	1%
Total Other	**23.6**	**2%**	**+10**	**21.3**	**2%**
Total revenue	**1,069.0**	**100%**	**+15**	**926.6**	**100%**

Operating segments and their profitability are described in the Notes to the consolidated financial statements.

Operating profit

TABLE 4: The income statement set out below differs from the official income statement included in the consolidated financial statements at 31 December 2010 for the following reasons: all items exclude restructuring costs and other income/expense relating to the restructuring process which are shown separately; cost components of operating profit are provided in detail; "Other non-operating income (expense)" is presented in a summarised manner as the net balance of financial income and expenses of various kinds reported separately in the notes to the consolidated financial statements, to which reference should be made. (Millions of Euros)

	Year ended 31 December	
	2010	**2009**
REVENUE	**1,069.0**	**926,6**
NET CONTRIBUTION MARGIN	**665.7**	**565,7**
	62.3%	**61.1%**
Variable selling expenses	(44.8)	(41.9)
Personnel expense	(185.6)	(182.6)
Other Income and Expense	(173.5)	(163.2)
Advertising and Promotion Expenses	(108.8)	(95.6)
Depreciation, Amortisation and Impairment losses	(69.0)	(65.3)
TOTAL OPERATING EXPENSE (Excluding Restructuring costs & other related costs)	**(581.6)**	**(548.6)**
Restructuring costs & other related costs	1.3	(36.9)
OPERATING PROFIT/(LOSS)	**85.3**	**(19.8)**
R.O.S.	**8.0%**	**–2.1%**
Other non-operating income (expense)	(37.9)	(27.5)
Profit/(Loss) before taxation and non-controlling interests	**47.4**	**(47.3)**
Current and Deferred Taxation	(9.4)	0.3
Profit/(Loss) before non-controlling interests	**38.0**	**(47.0)**
	3.6%	**–5.1%**
Profit (Loss) attributable to non-controlling interests	0.0	(0.1)
Profit (Loss) attributable to the owners of the Parent	**38.0**	**(47.1)**
	3.6%	**–5.1%**

The Group limited the impact of the sharp rise in prices of raw materials (especially gold) and recorded a higher percentage of contribution margin compared to the previous year. The margin increased from 565.7 million euros in 2009 to 665.7 million euros in 2010 (from 61.1% in 2009 to 62.3% in 2010):

Total operating expense before costs relating to restructuring and excluding advertising and promotion expenses rose by 4.4% (-1.1% at comparable exchange rates), from 452.9 million euros in 2009 to 472.8 million euros in 2010. The positive trend in operating expense compared to the increase in turnover should be emphasised, proof of an attentive control policy despite the presence of a number of costs that are hard to reduce, such as rents (+11.3%) and depreciation and amortisation (+5.7%), for a Group that continues to invest in its distribution network and the prestige of its brand. In fact, net of these items, the increase was only +2.0%.
Advertising and promotion expenses to support the BVLGARI brand closed at 108.8 million euros in 2010, representing 10.2% of revenue, stable compared to 2009 levels.

At 31 December 2010, the positive net effect of the restructuring process was 1.3 million euros, of which 0.2 million euros in the form of key money received after the closing of stores and 1.1 million euros from the strategic restructuring of the watch business begun last year. Details are presented in the Notes to the consolidated financial statements to operating expenses and to intangible assets.

Constant cost containment and a good revenue trend generated an operating profit of 85.3 million euros at 31 December 2010, achieved with the contribution of 46.2 million euros in a positive fourth quarter.

Results for the year

There was a profit of 38.0 million euros in 2010 compared to a loss of 47.1 million euros in the previous year. At 31 December 2010, the net effect of exchange rates impacted negatively on results for 19.7 million euros, compared to costs of 8.8 million euros recorded in December of the previous year. Financial expenses decreased to 15.2 million euros following a significant reduction in average indebtedness compared to the same period last year (18.7 million euros). The results were also negatively affected by a 3 million euro impairment loss in the investment in the Opera Partecipations S.c.a. closed investment fund, recognised to align the carrying amount with the estimated recoverable amount. In fact, in early 2011, the Opera fund transferred its capital share in B&B Italia to its founder's family.

Consolidated statement of cash flows

TABELE 5: The following table presents the consolidated statement of cash flows in a condensed format. The complete statement is presented in the consolidated financial statements.

(Thousands of Euros)

	31 December 2010	31 December 2009
Net indebtedness at the beginning of the year	**(216,804)**	**(303.558)**
Cash flows from operating activities	140,651	56,760
Cash flows from changes in net working capital	(74,678)	95,049
Cash flows used in investing activities and other assets and liabilities	(98,570)	(69,028)
Total changes in equity	114,123	3,973
Net indebtedness at the end of the year	**(135,278)**	**(216,804)**

The Group's financial position benefited from an attentive policy of inventory containment, a selective investment strategy, and a strong contribution made by operating activities.
Cash flows used in investing activities (net of a considerable exchange rate effect) relates primarily to continuing investments in property, plant and equipment and intangible assets, which reached a total of 50.3 million euros during the year, a decrease of 30% compared to 2009.
Investments were made primarily for the renovation and opening of owned stores and of current third-party points of sale. New stores were opened in Shanghai (China), Taipei (Taiwan), Singapore, and Hong Kong. The item also includes investments in hardware by the Parent, investments by Prestige D'Or S.A. to enlarge its production facility, and investments in watch movements by Bulgari Time (Switzerland) S.A..

The Group's financial position was also affected by the distribution of 15.1 million euros in dividends in May 2010.

Financial position

TABELE 6: 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 at 31 December 2010, which uses the presentation required by IFRS and separates 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 reclassified in "coverage" as a reduction in debt. (Millions of Euros)

	31 Dec 2010	31 Dec 2009
Net trade receivables	195.2	148.4
Trade payables	(193.0)	(145.3)
Inventories	655.5	615.5
Other receivables (payables)	0.1	(1.2)
Total working capital, net	**657.8**	**617.4**
Property, plant and equipment and intangible assets	**338.5**	**331.8**
Investments and other financial assets	**51.0**	**48.6**
Other non-current assets (liabilities)	**22.1**	**0.9**
Net invested capital	**1,069.3**	**998.7**
Equity	**934.0**	**781.9**
Net indebtedness	**135.3**	**216.8**
Equity and Net Indebtedness	**1,069.3**	**998.7**
Gearing	14.5%	27.7%

Net indebtness amounted to 135.3 million euros at 31 December 2010, compared to 216.8 million euros at 31 December 2009. Equity, including non-controlling interests, was 934.0 million euros at 31 December 2010, compared to 781.9 million euros at 31 December 2009.

Careful inventory management achieved a further reduction compared to 31 December 2009 (-7.6% at comparable exchange rates) and therefore, in combination with growing turnover, to improved stock turnover.

The gearing ratio between net debt and equity, including non-controlling interests, improved considerably compared to the same period last year, and confirms the Group's solidity.

Key events at a Group level in 2010

In 2010, the Group continued its programme to reorganise and rationalise investments made last year to achieve cost reductions and increase the efficiency of operations by reducing decision-making levels and rationalising business support structures.
This programme was achieved through mergers. The following information regards companies for which the merger process was completed or formally commenced by their boards of directors:

- On 26 February 2010, the merger of Bulgari Parfums Deutschland GmbH into Bulgari (Deutschland) GmbH was completed, with accounting and tax effects retroactive to 1 January 2010.
- With legal effect as of 1 May 2010, Bulgari Parfums Italia S.p.A. was merged into Bulgari Italia S.p.A., with accounting and tax effects retroactive to 1 January 2010.
- On 15 June 2010, Bulgari Portugal Acessorios de Luxo Lda was liquidated.
- On 22 June 2010, H. Finger A.G. was merged into Prestige d'Or SA., with accounting and tax effects retroactive to 1 January 2010.

- On 22 June 2010, Bulgari Gioielli S.p.A. was merged into Bulgari Manifattura S.p.A., whose name was changed to Bulgari Gioielli S.p.A. The accounting and tax effects of the merger were made retroactive to 1 January 2010.
- On 27 August 2010, the merger of Bulgari Parfums Iberia S.L. into Bulgari Espana S.A. was completed, with accounting and tax effects retroactive to 1 January 2010.
- On 31 August 2010, the merger of Bulgari Holding Europe B.V. into Bulgari International Corporation (BIC) N.V. was completed, with accounting and tax effects retroactive to 1 January 2010.
- In their extraordinary meeting of 15 September 2010, the Shareholders of Bulgari Retail USA S.r.l. resolved the company's early dissolution and consequent liquidation following the company's failure to achieve its corporate purpose. The Meeting also appointed a liquidator.

In their extraordinary meeting of 22 April 2010, the Shareholders' of Bulgari S.p.A. called to approve the separate financial statement at 31 December 2009, passed a resolution approving distribution of a unitary dividend of 0.05 euros per share, for a total of 15,065 thousand euros payable as of 27 May 2010. The Shareholders' also passed a resolution to renew the appointment of the current members of the Board of Directors for the three-year period 2010-2012 and authorised the Company's purchase and sale of 30 million treasury shares, including through the use of put and call options. In the extraordinary session, the Shareholders approved a resolution to change Art. 11 of its bylaws, regarding the majorities required for constitution of the Meeting itself and the validity of its resolutions, as well as Articles 9, 10, 12 and 17 of the bylaws following the effective date of the so-called "Transparency Directive."

Reconciliation between equity of the parent and consolidated equity

As required by Consob Communication no. 6064293 of 28 July 2006, the following table provides a reconciliation between the profit (loss) for the year and equity of parent Bulgari S.p.A. with the corresponding consolidated figures of the Group.

(Thousands of Euros)

	Equity 31 Dec. 2009	Change in equity	Profit (Loss) for the year	Equity 31 Dec. 2010
Separate financial statements of Bulgari S.p.A.	**197,664**	**(6.727)**	**22.637**	**213,575**
Effect of consolidating investments:				
– difference between carrying amount and share of equity	738,662	87,062	29,218	854,942
Elimination of intragroup dividends	–	41,000	(41,000)	–
Elimination of intragroup profit from inventories	(169,764)	(8,251)	26,990	(151,024)
Tax effect	14,238	1,027	159	15,423
Group consolidated balance	**780,800**	**114,112**	**38,004**	**932,916**
Non-controlling interests	1,062	11	(0)	1,073
Consolidated financial statements	**781,862**	**114,123**	**38,004**	**933,989**

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 2006, the details and effects of commercial and financial transactions between Bulgari S.p.A. and other group companies are provided in note 25 to the consolidated financial statements. In compliance with the Regulations adopted in Consob resolution no.17221 of 12 March 2010 and as amended by Consob resolution no. 17389 of 23 June 2010, the Company adopted a Procedure for conducting related party transactions, published on the Group's website http://ir.bulgari.com

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: jewellery, watches, accessories, perfumes and cosmetics. Research and development expenditure in 2010 amounted to 2.9 million euros and was incurred by Bulgari S.p.A., Bulgari Parfums S.A., Bulgari Global Operations S.A., Bulgari Gioielli S.p.A. e la Bulgari Accessori S.r.l..

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 section of the notes to the consolidated financial statements to which reference should be made.

Detailed information about 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

In early March 2011, the shareholders Paolo Bulgari, Nicola Bulgari and Francesco Trapani signed an agreement that transferred the Bulgari Family's controlling interest in the share capital of Bulgari S.p.A. to LVMH. At the end of the share transfer process, LVMH will issue 16.5 million shares to swap the 152.5 million Bulgari shares currently held by the Bulgari Family, which will then become the second largest family shareholder of LVMH Group. In compliance with the legal obligations imposed by Borsa Italiana, LVMH will launch a tender offer at euros 12.25 per share on the shares held by minority shareholders.

No other significant events have occurred since 31 December 2010.

Business outlook

The alliance with LVMH Group is an important measure that will strengthen the long-term growth of the Bulgari Group in line with its history, values, craftsmanship, and identity and will allow greater worldwide development and important new synergies, especially in the areas of purchasing and distribution. The Bulgari brand is synonymous with creativity and excellence throughout the world. Universally acknowledged as one of the top names in its sector, it holds a primary position in jewellery and watches and plays a major role in perfumes, cosmetics, and accessories.

Bulgari S.p.A.
Chairman of the Board of Directors
Paolo Bulgari

Bulgari S.p.A. and Subsidiaries

Consolidated financial statements as at and for the years ended 31 December 2010 and 31 December 2009

Bulgari Group

2010 Consolidated Income Statement
(Thousands of Euros)

	Note	2010	Of which related parties	2009	Of which related parties	Change %
– Gross sales		*1,155,870*	*52*	*1,003,582*	*56*	
– Discounts and allowances		*(101,690)*	*(1)*	*(88,918)*		
Net sales		1,054,180		914,664		
Royalties		10,776	**73**	9,198	*67*	
Other revenue		4,076	**15**	2,706	*13*	
Total revenue	2	**1,069,032**	**138**	**926,568**	**136**	**15.4%**
Cost of sales	3	(404,247)		(379,391)		6.6%
– of which income relating to the restructuring process		*898*		*18,528*	*–*	
Total contribution margin		**664,785**		**547,177**		**21.5%**
		62.2%		59.1%		
Net operating expenses	4	(579,480)	(109)	(567,000)	(42)	2.2%
– of which restructuring costs		*(4,183)*		*16,786*		
– of which income relating to the restructuring process		*2,016*		*1,654*		
Operating profit (loss)		**85,305**		**(19,823)**		**–560.3%**
		8.0%		–2.1%		
– Interest income	5	*3,162*	(25)	*2,997*	(37)	
– Interest expense	5	*(15,967)*		*(17,905)*		
– Other financial expense	5	*(2,347)*		*(3,755)*		
– Foreign exchange losses		*(19,708)*		*(8,812)*		
– Reversal of impairment losses on financial investments	5	*(3,000)*				
Total financial expense		(37,860)		(27,475)		37.8%
Profit (loss) before taxes		**47,445**		**(47,298)**		**–200.3%**
Current and deferred taxes	6	(9,411)		347		–2821.8%
Profit (loss) for the year		**38,004**		**(46,951)**		**–180.9%**
of which:						
Profit (loss) for the year attributable to non-controlling interests		(0)		144		–100.0%
Profit (loss) for the year attributable to owners of the Parent		**38,004**		**(47,095)**		**–180.7%**
		3.6%		–5.1%		
Basic earnings per share (in Euros)	18	0.13		**–0.16**		
Average number of shares on which the calculation is based		301,827,361		300,969,435		
Diluted earnings per share (in Euros)	18	**0.12**		**–0.16**		
Average number of shares on which the calculation in based		306,357,356		302,938,343		

Bulgari Group

Consolidated Statement of Comprehensive Income
(Thousands of Euros)

	2010	2009
Profit (loss) for the year as per the income statement	**38,004**	**(46,951)**
Gains on the fair value measurement of derivatives	3,107	17,932
Gains on translation differences	118,684	(2,458)
Capital transactions	–	(341)
Income recognised directly in equity	**121,791**	**15,133**
Total comprehensive income (loss) for the year attributable to:	**159,795**	**(31,818)**
Owners of the parent	159,783	(31,937)
Non-controlling interests	12	119

Bulgari Group

Consolidated Statement of Financial Position as at 31 December 2010
(Thousands of Euros)

ASSETS	Note	31 December 2010		31 December 2009	
			Of which related parties		Of which related parties
Property, plant and equipment	7	197,451		198,326	
– *Goodwill*	8	*54,216*		*49,602*	
– *Other intangible assets*	9	*86,815*		*83,825*	
Intangible assets		141,031		133,427	
– *Investments in other companies*	10	*11,982*		*13,421*	
– *Other non-current financial assets*	11	*38,991*		*35,219*	
Investments and other non-current financial assets		50,972		48,640	
Deferred tax assets	12	48,340		35,803	
Other non-current assets	15	17,091		16,768	
Non-current financial assets	11	434	*434*	418	*418*
NON-CURRENT ASSETS		**455,319**		**433,382**	
NON-CURRENT ASSETS HELD FOR SALE		–		–	
– *Raw materials*		*88,688*		*72,311*	
– *Work in progress and semi-finished goods*		*144,988*		*130,989*	
– *Finished goods and packaging*		*421,821*		*412,186*	
Total inventories	13	655,497		615,486	
Trade receivables	14	195,172	*40*	148,400	*76*
– *Other tax receivables*		*40,560*		*30,938*	
– *Other current assets*		*23,198*	*9*	*26,252*	*9*
Total other current assets	15	63,758		57,190	
Current financial assets	11	8,853		2,726	
Cash and cash equivalents	16	111,700		29,233	
CURRENT ASSETS		**1,034,981**		**853,035**	
TOTAL ASSETS		**1,490,300**		**1,286,417**	

LIABILITIES AND EQUITY	Note	31 December 2010		31 December 2009	
			Of which related parties		Of which related parties
– *Share capital*		*21,164*		*21,092*	
– *Reserves*		*283,404*		*157,581*	
– *Retained earnings*		*590,343*		*649,222*	
– *Profit (loss) for the year*		*38,004*		*(47,095)*	
Equity attributable to the owners of the Parent	17	**932,916**		**780,800**	
Equity attributable to non-controlling interests		1,073		1,062	
TOTAL EQUITY		**933,989**		**781,862**	
Employee benefits	21	18,133		15,894	
Provisions for risks and charges	22	12,992		24,939	
Deferred tax liabilities		10,427		9,307	
Other non-current liabilities	23	1,823		1,520	
Non-current bank loans and borrowings	19	72,572		75,081	
Other non-current financial liabilities		140,575		136,214	
NON-CURRENT LIABILITIES		**256,522**		**262,955**	
NON-CURRENT LIABILITIES HELD FOR SALE		–		–	
Trade payables		193,003	*7*	145,345	*16*
– *Advances*		*11,771*		*6,435*	
– *Current tax liabilities*		*8,220*		*5,341*	
– *Other current liabilities*	23	*43,677*	*1*	*46,593*	*1*
Total other current liabilities		63,667		58,369	
Current bank loans and borrowings	19	42,979		37,642	
Current financial liabilities	19	139		244	
CURRENT LIABILITIES		**299,788**		**241,600**	
TOTAL LIABILITIES AND EQUITY		**1,490,300**		**1,286,417**	

Consolidated statement of cash flows
(Thousands of Euros)

	2010	2009
Cash flows from operating activities		
Profit (loss) for the year	38,004	(47,095)
Depreciation, amortisation and impairment losses	70,449	74,634
Interest and income taxes	32,198	29,221
Cash flows from operating activities	*140,651*	*56,760*
(Increase) decrease in receivables	(52,264)	31,485
(Increase) decrease in inventories	54,504	109,444
Increase (decrease) in payables	43,870	(33,794)
Exchange rate differences on inventories	(94,515)	3,772
Income taxes paid	(14,008)	(2,555)
Interest paid	(12,264)	(13,303)
Other changes, net	–	–
Cash flows from changes in net working capital	*(74,678)*	*95,049*
Other non-current assets	(18,320)	3,306
Other non-current liabilities	290	(216)
(a) Cash flows from operating activities	**47,943**	**154,899**
Cash flows from investing activities		
Purchase of companies (excluding cash/debt acquired)	–	(5,434)
Purchase of property, plant and equipment	(32,902)	(55,079)
Purchase of intangible assets	(17,448)	(17,180)
Change in financial assets	1,439	–
Reimbursement of equity investments (excluding other non-current financial assets)	–	(729)
Other non-current financial assets	–	–
Exchange rate differences and other changes	(33,727)	3,734
Interest received	2,098	2,570
(b) Cash flows used in investing activities	**(80,540)**	**(72,118)**
Cash flows from financing activities		
Change in equity for share capital increases	72	48
Change in equity attributable to non-controlling interests	11	119
Dividends paid	(15,065)	(30,063)
Other changes	129,105	33,869
(c) Total changes in equity	*114,123*	*3,973*
Change in non-current financial liabilities	1,853	125,827
Change in non-current financial assets	(28)	883
(d) Total changes in non-current financial assets	*1,825*	*126,710*
(e) Cash flows from financing activities	**115,948**	**130,683**
(f) Difference in short-term net cash (indebtedness)	**83,351**	**213,464**
Net cash (indebtedness) at the beginning of the year	***(216,804)***	***(303,558)***
Change in short-term debt (f)	83,351	213,464
Change in long-term debt (d)	(1,825)	(126,710)
Net cash (indebtedness) at the end of the year	***(135,278)***	***(216,804)***
Of which: – cash and cash equivalents	111,700	29,233
– current financial liabilities	(43,118)	(37,886)
– *of which financial instruments:*	*(93)*	*(244)*
– current financial assets	8,853	2,726
– *of which financial instruments:*	*8,853*	*2,726*
– non-current financial liabilities	(213,147)	(211,295)
– non-current financial assets	434	418

Bulgari Group

Consolidated Statement of Changes in Equity for the year ended 31 December 2010
(Thousands of Euros)

	Note	Share capital	Share premium reserve	Legal reserve	Translation reserve
31 December 2009		**21,092**	**93,117**	**5,762**	**27,759**
Fluctuations in exchange rates		–	–	–	118,672
Fair value measurement of derivatives		–	–	–	–
Total income and expense recognised directly in equity		**–**	**–**	**–**	**118,672**
Profit (loss) for the year		–	–	–	–
Total income		**–**	**–**	**–**	**–**
Distribution of dividends		–	–	–	–
Allocation of 2009 profit		–	–	–	–
Share capital increase due to exercise of stock options and loan early repayment		72	6,041	–	–
Stock options		–	–	–	–
Other changes		–	–	–	–
31 December 2010	17	**21,164**	**99,157**	**5,762**	**146,431**

Other reserves	Stock option reserve	Hedging reserve	Retained earnings	Profit (loss) for the year	Owner of the Parent equity	Non-controlling interest equity	Total equity
15,643	**14,150**	**1,150**	**649,222**	**(47,095)**	**780,800**	**1,062**	**781,862**
–	–	–	–	–	**118,672**	12	**118,684**
–	–	3,107	–	–	**3,107**	–	**3,107**
–	**–**	**3,107**	**–**	**–**	**121,779**	**12**	**121,791**
				38,004	**38,004**	(0)	**38,004**
–	**–**	**–**	**–**	**38,004**	**38,004**	**(0)**	**38,004**
–	–	–	(15,065)	–	**(15,065)**	–	**(15,065)**
–	–	–	(47,095)	47,095	–	–	–
(4)	–	–	–	–	**6,109**	–	**6,109**
–	2,265	–	–	–	**2,265**	–	**2,265**
–	–	–	(976)	–	**(976)**	–	**(976)**
15,639	**16,415**	**4,257**	**586,086**	**38,004**	**932,916**	**1,073**	**933,989**

Consolidated 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		–	–	–	–
Share capital transactions					
Total income and expense recognised directly in equity		**–**	**–**	**–**	**(2,433)**
Profit (loss) for the year		–	–	–	–
Total expenses		**–**	**–**	**–**	**–**
Allocation of 2009 loss		–	–	–	–
Distribution of dividends		–	–	–	–
Share capital transactions		–	–	–	–
Share 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	Hedging reserve	Retained earnings	Profit (loss) for the year	Owner of the Parent equity	Non-controlling interest equity	Total 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)**
–	–	–	82,865	(82,865)	–	–	–
–	–	–	(30,063)	–	**(30,063)**	–	**(30,063)**
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**

Bulgari S.p.A. and Subsidiaries

Notes to the consolidated financial statements

Accounting policies and measurement criteria

Bulgari S.p.A. (hereinafter, the “Parent”) is a company with registered office in Italy and domicile at Via Lungotevere Marzio 11, Rome. The consolidated financial statements as at and for the year ended 31 December 2010 include the financial statements of the Parent and its subsidiaries and joint ventures (hereinafter, the “Group”). The financial statements used in preparing these consolidated financial statements were those prepared by the directors of the individual companies for approval by the respective shareholders in their general meeting where applicable.

These consolidated financial statements were authorised for publication by the Board of Directors on 11 March 2011.

(a) Statement of compliance

The Bulgari Group has prepared its consolidated financial statements in conformity to 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 (hereinafter, “IFRS”), and with the provisions implementing Article 9 of Italian 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 at the reporting date of the consolidated financial statements and have been adjusted, where necessary, to reflect 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 of the Parent, Bulgari S.p.A. at 31 December 2010 are also presented, prepared in accordance with IFRS as defined above.

(c) Basis of Consolidation

(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 transactions

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 year (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:

	31/12/2010		31/12/2009	
Currency	**Average rate**	**Closing rate**	**Average rate**	**Closing rate**
USD	1.3257	1.3362	1.3948	1.4406
YEN	116.2386	108.6500	130.3366	133.1600
CHF	1.3803	1.2504	1.5100	1.4836
GBP	0.8578	0.8608	0.8909	0.8881
SGD	1.8055	1.7136	2.0241	2.0194
HKD	10.2994	10.3856	10.8114	11.1709
AUD	1.4423	1.3136	1.7727	1.6008
MYR	4.2668	4.0950	4.9079	4.9326
DKK	7.4473	7.4535	7.4462	7.4418
TWD	41.7309	38.9779	46.0326	45.8649
KRW	1,531.8212	1,499.0600	1,772.9039	1,666.9700
CNY	8.9712	8.8220	9.5277	9.8350
THB	42.0145	40.1700	47.8044	47.9860
MOP	10.6096	10.7034	11.1379	11.4522
PAB	1.3257	1.3362	1.3948	1.4406
QAR	4.8268	4.8677	5.0783	5.2213
KWD	0.3802	0.3758	0.4018	0.4116

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 fair value of the net assets acquired is accounted for as goodwill. If the 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 an item of property, plant and equipment 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 equipment 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 under finance leases

Property, plant and equipment 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. The corresponding amount due to the lessor is included as part of financial liabilities.
Lease 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 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 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
Forniture, office equipment and fittings	5-8
Motor vehicles	4

Leasehold improvements are stated at cost and depreciated over a period equal to the shorter 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 the 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 are 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 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 is 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 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). Subsequent measurement 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 reporting date.

In order to estimate the realisable value, obsolete or 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 reporting 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 Italian 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 specific 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) Taxes

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

(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 year, 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 year, 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 year and the weighted average exercise price.

(t) Risk management

(i) Credit risk

The Group is not exposed to significant credit risks given the nature of its business whereby risks of this nature are 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 counter-party 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, 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 fair 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:

a) at the inception of the hedge there is a formal designation and documentation of the hedging relationship;
b) the hedge is highly effective for the whole period;
c) 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 2010 that did not lead to any accounting effects for the Group on adoption

- IAS 27 (2008) - *Bilancio consolidato e separato*.
- IAS 27 (2008) - Consolidated and Separate Financial Statements.
- IFRS 3 (Revised in 2008) - Business combinations.
- Improvement to IFRS 5 - Non-current assets held for sale and discontinued operations.
- Amendments to IAS 28 – Investments in associates, and to IAS 31 – Investments in joint ventures, subsequent to changes made to IAS 27.
- Improvement to IAS/IFRS (2009).
- Amendment to IFRS 2 - Share-based payments: payment based on Group shares settled in cash.
- IFRIC 17 - Distribution of non-cash assets to owners.
- IFRIC 18 - Transfer of assets from customers.
- Amendment to IAS 39 – Financial instruments: recognition and measurement – reclassification.

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

On 20 December 2010, the IASB issued a minor amendment to IAS 12 "Income Taxes" that requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. As a result of this amendment, SIC-21 – Income Taxes – Recovery of Revalued Non-Depreciable Assets will no longer be applicable. The amendment will take effect on 1 January 2012. 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 7 October 2010, the IASB published a few amendments to IFRS 7 "Financial Instruments: Disclosures," applicable for reporting periods beginning on or after 1 July 2011. The amendments were issued to improve understanding of transfer transactions of financial assets, including understanding of the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions is undertaken around the end of a reporting period. 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 6 May 2010, the IASB issued a set of amendments to IFRS ("improvements"), approved by the competent EU bodies in February 2011 and applicable beginning on 1 January 2011; the amendments that will cause a change in the presentation, recognition, and measurement of financial statements items are described below:

- IFRS 3 (2008) "Business Combinations": the amendment clarifies that components of a Non – Controlling Interest that do not entitle their holders to a proportionate share of the entity's net assets must be measured at fair value or as required by applicable accounting standards. Therefore, in case of a business combination, an employee stock option plan must be measured in accordance with the rules of IFRS 2 and the equity portion of a convertible debt instrument must be measured in accordance with IAS 32. In addition, the Board clarified the subject of share-based payment plans that are replaced in a business combination, adding a specific guide to clarify their accounting treatment.

- IFRS 7 "Financial Instruments": disclosures: the amendment emphasises the interaction between qualitative disclosures and quantitative disclosures required by the standard regarding the nature and extent of exposure to risks arising from financial instruments. This should help users of the financial statements to understand the information presented and to form an overall picture regarding the nature and extent of risks arising from financial instruments. In addition, the amendment eliminated the disclosure requirement for financial assets that have expired but whose terms have been renegotiated or derecognised, as well as the disclosure regarding fair value of collateral.
- IAS 1 "Presentation of financial statements": the amendment requires that the reconciliation of changes in each equity component be presented in the notes or in the statement of changes in equity.
- IAS 34 "Interim financial reporting": a number of examples were used to clarify the disclosures that must be presented in Interim Financial Reports.

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 year. The interpretation was endorsed by the competent bodies of the European Union in July 2010 and has been applicable since 1 July 2010.

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 the first part of a project to entirely replace IAS 39, 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 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 standard was endorsed by the competent bodies of the European Union in July 2010 and will be applicable from 1 January 2011.

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 in equity regardless of the currency in which the exercise price is denominated. The amendment was endorsed by the competent bodies of the European Union in December 2009 and will be applicable to financial statements dated after 31 January 2010.

With regard to newly-issued amendments, standards and interpretations that have not yet been endorsed by the European Union but that treat situations that currently or potentially involve the Group, the Company is assessing possible impacts on its financial statements deriving from their application, with consideration of each effective date.

1. Acquisition/formation and disposal of companies

The liquidation of Bulgari Portugal Acessorios de Luxo Lda was concluded on 15 June 2010.

2. Revenue

(Thousands of Euros)

	2010	**2009**
Net sales	1,054,180	914,664
Royalties	10,776	9,198
Other revenue	4,076	2,706
	1,069,032	**926,568**

Reference should be made to note 24 “Segment reporting” and to the directors’ report on the group’s performance for an analysis of revenue by product type and geographical area.

3. Cost of sales

Cost of sales, 404,247 thousand euros in 2010 (379,391 thousand euros in 2009), 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.

4. Net operating expenses

(Thousands of Euros)

	Note	2010	2009
Personnel expenses	21	185,561	182,579
Variable selling expenses		44,751	41,896
Other selling, general and administrative expenses		244,540	230,116
Advertising and promotion expenses		108,811	95,623
Restructuring costs		(4,183)	16,786
		579,480	**567,000**

Variable selling expenses

(Thousands of Euros)

	Note	2010	2009
Credit card commissions		5,654	4,875
Intermediaries' fees		4,858	8,032
Transport expenses		14,713	11,997
Sales commissions	21	8,955	7,333
Other		10,571	9,659
		44,751	**41,896**

"Intermediaries' fees" relate primarily to agents' commissions of 3,848 thousand euros for the sale of perfumes (7,500 thousand euros in 2009). The decrease from the previous year is due mainly to efficiencies deriving from direct management of perfume sales on the Spanish market, previously managed by an outside partner.

"Other", 10,571 thousand euros, relates to Bulgari Parfums S.A. for 5,301 thousand euros (4,042 thousand euros in 2009), Bulgari Corporation of America Inc. for 948 thousand euros (804 thousand euros in 2009), and Bulgari Global Operations S.A. for 482 thousand euros (455 thousand euros in 2009), mostly in connection with product logistics and warehousing costs.
The item also includes costs incurred by Bulgari Italia S.p.A. for 1,615 thousand euros (1,873 thousand euros in 2009), mostly relating to BVLGARI stores in duty free areas.

Other selling, general and administrative expenses

(Thousands of Euros)

	2010	2009
Rentals	94,907	84,548
Other operating expenses	24,596	24,068
Other general expenses, net	125,037	121,500
	244,540	**230,116**

"Other general expenses, net" relate primarily to provisions for risks of 5,614 thousand euros (6,745 thousand euros in 2009), for the most part relating to bad debts and legal disputes, travel and transfer expenses for a total of 9,944 thousand euros (8,818 thousand euros in 2009), information, technology and communication expenses of 9,622 thousand euros (10,134 thousand euros in 2009), non-income taxes and duties of 6,272 thousand euros (5,955 thousand euros in 2009), fees for corporate bodies of 3,495 thousand euros (2,742 thousand euros in 2009), and insurance costs of 2,447 thousand euros (2,625 thousand euros in 2009).

The item also includes depreciation and amortisation of 69,553 thousand euros (72,163 thousand euros in 2009) relating mainly to leasehold improvements, costs for taking over leases, and computer hardware and software. Details of depreciation and amortisation may be found in notes 7 and 9 to the consolidated financial statements.

The increase in rentals over 2009 is mostly attributable to the new premises used by the Group for carrying out its retail activities and, in particular, to the newly-opened stores in Korea, Hong Kong, and Taiwan, as well as to the contract adjustment for Bulgari Corp. of America Inc.

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 (465 thousand euros) and the release of funds allocated in previous years with regard to leases, to reduction of the purchasing portfolio following the restructuring of the watch business, and to operating expenses (4,648 thousand euros).

5. Financial income (expense)

Interest income

(Thousands of Euros)

	2010	**2009**
Bank interest income	160	71
Interest income from the public administration	337	432
Premium income on hedging activities	514	2,038
Other	2,150	456
	3,162	**2,997**

"Other" includes income from interest rate hedges of Bulgari S.p.A. for 1,992 thousand euros. For details, see note 20 "Derivative financial instruments."

Interest expense

(Thousands of Euros)

	2010	2009
Bank interest expense	(162)	(157)
Bond interest expense	(10,903)	(5,135)
Loan interest expense	(3,739)	(7,528)
Premium expense on hedging activities	(1,104)	(4,906)
Other	(59)	(179)
	(15,967)	**(17,905)**

Other financial income (expense)

(Thousands of Euros)

	Note	2010	2009
Financial discounts and allowance income		38	268
Financial discount and allowance expense		(948)	(399)
Bank charges and commissions		(831)	(2,854)
Actuarial losses on post-employment benefits	21	(451)	(541)
Other		(155)	(229)
		(2,347)	**(3,755)**

Reversal of (Impairment losses on) financial investments

(Thousands of Euros)

	Note	2010	2009
Impairment losses on financial investments		(3,000)	–
		(3,000)	–

The 2010 impairment loss refers to adjustment of the interest in the closed – end investment fund Opera Partecipation S.c.a to its recoverable amount.

6. Taxes

(Thousands of Euros)

	Note	2010	2009
Current taxes		19,394	14,312
Deferred taxes	12	(8,575)	(13,971)
Prior year taxes		(1,378)	(688)
		9,441	**(347)**

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	**2010**	**2009**
Ordinary IRES (corporate income tax) rate applicable	27.50%	27.50%
Effect of increases/decreases:		
– Non-deductible costs	6.99%	7.50%
– Exempt income and other tax-deductible costs	(4.74%)	(5.14%)
– Foreign income taxes	3.20%	3.70%
– Adjustments to prior year income taxes	(3.11%)	(3.53%)
– Adjustments to deferred tax liabilities calculated on prior temporary differences	(0.13%)	0.01%
– Effect of different foreign tax rates	(5.72%)	(34.74%)
IRES effective rate	23.99%	(4.71%)
– IRAP effect (*current and deferred*)	(4.10%)	3.97%
Total effective tax rate	**19.90%**	**(0.73%)**

7. Property, plant and equipment - 197,451 thousand euros

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

(Thousands of Euros)

	Land and building	Plant and machinery	Indust. and comm. equipmentand	Forniture office eq. and fittings	Motor vehicles	Leasehold improvs.	Bulgari Museum	Constr. in prog. and advance payments	Total
Balance at 31/12/2008									
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 31/12/2008	**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)
Purchase	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 capitalisations	–	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 31/12/2009	**19,711**	**19,553**	**6,417**	**53,941**	**–**	**80,541**	**13,955**	**4,208**	**198,326**
Changes in 2010									
Exchange rate fluctuations	1,827	1,916	903	6,005	2	8,298	397	108	19,456
Change in consolidation scope	–	–	–	–	–	–	–	–	–
Reclassifications	717	232	349	1,816	–	717	–	(3,831)	–
Purchases	1,763	3,448	2,285	14,822	39	7,071	1,961	1,440	32,829
Disposals	–	–	–	(8)	–	(2)	(15)	–	(25)
Depreciation	(2,674)	(5,551)	(2,372)	(22,378)	(8)	(18,988)	–	–	(51,971)
Impairment	(174)	(15)	–	(903)	–	(145)	–	–	(1,237)
Internal capitalisations	–	73	–	–	–	–	–	–	73
Total changes in 2010	**1,459**	**103**	**1,165**	**(646)**	**33**	**(3,049)**	**2,343**	**(2,283)**	**(875)**
2010									
Historical cost	36,126	57,831	30,623	167,280	121	190,309	16,298	1,925	500,513
Accumulated depreciation	(14,956)	(38,175)	(23,041)	(113,985)	(88)	(112,817)	–	–	(303,062)
Balance at 31/12/2010	**21,170**	**19,656**	**7,582**	**53,295**	**33**	**77,492**	**16,298**	**1,925**	**197,451**

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)

	Forniture, office equipment and fittings	**Leasehold improvements**	**Total**	**Main stores refurbished or opened in 2010**
Bulgari Corp. Of America Inc.	1,657	1,266	2,923	San Francisco, Las Vegas, Dallas, New York 5th Avenue
Bulgari Japan Ltd.	870	1,304	2,174	Ginza Tower, Kyoto Daimaru
Bulgari China	2,255	–	2,255	Shangai Plaza 66, Shangai IFC
Bulgari Shangai Branch	888	–	888	Guangzhou La Perle
Bulgari Italia S.p.A.	797	621	1,418	Renovation of Naples store and via Montenapoleone Milano store
Bulgari Int. Corp. (BIC)	320	956	1,276	Amsterdam (new opening)
Bulgari Taiwan Ltd.	951	–	951	Taipei Breeze, Taipei Sogo
Bulgari Hong Kong Ltd.	924	–	924	Hong Kong Lee Garden
Bulgari Korea Ltd.	226	596	822	Shinsegae Gyeonggi (Jukjeon), Seoul Lotte AvenueL, Lotte Centumcity Pusan, Lotte AvenueL
Other	5,934	2,328	8,262	
Total	**14,822**	**7,071**	**21,893**	

“Other” in investments in “Furniture, office equipment and fittings” includes purchases of window displays (1,587 thousand euros) by Bulgari Global Operations S.A. for use by the third party distribution network for the display of BVLGARI products, new investments in computer hardware (1,623 thousand euros) by Bulgari S.p.A., and costs incurred by Bulgari Parfums S.A. for perfume displays (860 thousand euros).

The increase in “Construction in progress and advance payments” relates principally to investments in 2010 by Bulgari S.p.A. to develop a new store display concept (398 thousand euros), by Bulgari Taiwan Ltd. to refurbish the Taipei and Taichung stores (456 thousand euros), and by Bulgari Espana S.A. Unipersonal to refurbish the store at *El Corte Ingles* in Madrid (220 thousand euros).

The increase in “Plant and machinery” relates mainly to improvements made to the plant and machinery of Bulgari Time (Switzerland) S.A. (537 thousand euros), of Bulgari Gioielli S.p.A. (662 thousand euros), of Prestige d’Or (483 thousand euros), and to the purchase of plant by Bulgari South Asia Operations (465 thousand euros) for the Marina Bay Sands store.

The increase in “Industrial and commercial equipment” relates mainly to industrial companies, and specifically to Bulgari Parfum S.A. (1,593 thousand euros) for industrial equipment.

The increases in “Land and buildings” refer mainly to costs incurred by Bulgari China to plan and design new stores or to refurbish existing stores (288 thousand euros), by industrial companies in the Hard Luxury sector for renovating production sites (384 thousand euros), by Bulgari Italia S.p.A. for improvements at the Naples, Milan Montenapoleone, and Roma Accessori stores (159 thousand euros), by Bulgari International Corporation for the new store in Amsterdam (119 thousand euros), by Bulgari Japan Ltd. for the Ginza Tower, Mitsukoshi, and Kyoto Daimaru stores (162 thousand euros), and by Bulgari Corporation of America Inc. for the 5th Avenue, San Francisco, Dallas, and Las Vegas stores (102 thousand euros).

“Impairment” of 1,237 thousand euros includes assets impaired by Bulgari S.A. (466 thousand euros) and Bulgari Japan (465 thousand euros) for refurbishments.

On the basis of an appraisal carried out by an independent appraiser, the carrying amount of the Via Condotti store in Rome owned by Bulgari Italia S.p.A., accounted for at cost and classified in "Land and buildings", is considerably lower than its fair value at 31 December 2010.

At 31 December 2010, information had been received from the group companies regarding the existence of fully depreciated property, plant and equipment still in use whose historical cost is 15,825 thousand euros. In addition, property, plant and equipment no longer in use and completely depreciated have been disposed of for approximately 27 million euros.

At 31 December 2010, no information had been received from the group companies as to the existence of any idle assets.

At 31 December 2010, there were no charges on property, plant and equipment securing any liabilities.

8. Goodwill - 54,216 thousand euros

Changes in "Goodwill" during the year ended 31 December 2010 were as follows:

(Thousands of Euros)

Balance at 31/12/2009	**49,602**
Changes	
Arising from fluctuations in exchange rates	4,614
Total changes	**4,614**
Balance at 31/12/2010	**54,216**

The increase arising from fluctuations in exchange rates regards the adjustment to closing exchange rates of goodwill arising from the purchase of companies whose functional currency is different from the euro.

Goodwill is allocated to cash-generating units ("CGU") identified on the basis of the Group's operating segments. Goodwill is allocated as follows:

Cash – Generating Unit	31/12/2010	31/12/2009
Hard Luxury	52,136	47,521
Soft Luxury	2,081	2,081
Total	**54,216**	**49,602**

The recoverable amount of recognised goodwill of the CGUs is estimated by calculating value in use, determined as the present 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 2011 Budget analysed by The Top Management of the Parent and business plans 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.

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:

	31/12/2010	31/12/2009
Growth rate of terminal values	2%	tra 0% e 2%
Discount rate	10.7%	tra 9% e 12%

The results of tests confirm 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 2010.

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, including an estimate of future increases in sales, gross margin, operating costs, growth rate of terminal values, investments, changes in working capital, and weighted average cost of capital (discount rate).
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 lead to impairment losses.
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 - 86,815 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 licenses	Assets under development and advances payments	Premises take-over costs and other	Total
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 31/12/2008	**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 capitalisations	88	–	–	1,274	–	1,362
Disposals	–	–	–	–	(1,372)	(1,372)
Total changes in 2009	**(273)**	**3,562**	**92**	**1,572**	**(2,935)**	**2,018**
2009						
Historical 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 31/12/2009	**4,109**	**39,088**	**199**	**13,868**	**26,561**	**83,825**
Changes in 2010						
Exchange rate fluctuations	463	284	35	2,185	475	3,442
Change in consolidation scope	–	–	–	–	–	–
Reclassifications	(701)	2,495	–	(1,794)	–	–
Purchases	1,680	10,792	144	3,186	1,262	17,064
Amortisation	(2,218)	(13,073)	(114)	–	(1,576)	(16,981)
Impairment	(28)	(2)	–	(223)	–	(253)
Internal capitalisations	25	–	–	359	–	384
Disposals	–	–	–	–	(666)	(666)
Total changes in 2010	**(779)**	**496**	**65**	**3,713**	**(505)**	**2,990**
2010						
Historical cost	19,773	120,852	570	17,581	35,759	194,535
Accumulated amortisation	(16,443)	(81,268)	(306)	–	(9,703)	(107,720)
Balance at 31/12/2010	**3,330**	**39,584**	**264**	**17,581**	**26,056**	**86,815**

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. (1,108 thousand euros), as well as the expenditure incurred by Bulgari S.p.A. to develop new lines of jewellery products (500 thousand euros).

The increases in “Industrial patents and intellectual property rights” are 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. (10,063 thousand euros).
The increases in “Assets under development and advances payments” relate primarily to investments made by Bulgari S.p.A. to develop application software for procedures and programmes that were still at the implementation stage at 31 December 2010 (2,949 thousand euros), in particular with regard to the introduction of the new software to be used in 2011 for store invoicing.

“Disposals” refer to the sale of the premises in Paris (Gérald Genta) in 2010. The selling price of 1,150 thousand euros, compared with the carrying amount at the time of sale (666 thousand euros), generated net capital gains of 484 thousand euros, recorded in “Other selling, general and administrative expenses.”

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

10. Investments in other companies

This item includes available-for-sale investments in the closed – end investment funds Opera Partecipations S.c.a. and Opera Partecipations 2 S.c.a., in which Bulgari International Corporation N.V. holds 11.72% and 8.05%, respectively, of the total shares having dividend rights.
The increase of 2,156 thousand euros refers to payments made during 2010 to finance purchases of shares in companies identified by the fund manager.
The decreases refer to reimbursements of 191 thousand euros and 252 thousand euros as the final tranche from the sale of Unopiù, received from Opera Partecipations S.c.a. and from Opera Partecipations 2 S.c.a., respectively.
Following the sale of B&B Italia in early 2011, the carrying amount of the investment in Opera Partecipations S.c.a. was adjusted to assumed reimbursement value, with an impairment of 3,000 thousand euros.

(Thousands of Euros)

	Opera Partecipations S.c.a.	Opera Partecipations 2 S.c.a.	Opera Sgr	Opera Management	Total
Balance at 31/12/2009	**10,736**	**2,533**	**138**	**14**	**13,421**
Increases	–	**2,156**	**–**	**–**	**2,156**
Decreases	**3,191**	**252**	**138**	**14**	**3,595**
Balance at 31/12/2010	**7,545**	**4,437**	**–**	**–**	**11,982**

11. Other current and non-current financial assets

(Thousands of Euros)

	31/12/2010	31/12/2009
Current financial assets		
Current financial receivables	8,853	2,726
	8,853	**2,726**
Non-current financial assets		
Guarantee deposits	38,985	35,213
Other	6	6
Total other non-current financial assets	**38,991**	**35,219**
Non-current financial receivables	434	418
	39,425	**35,637**

Current financial receivables represent the fair value of currency and gold price hedges which expire within one year of the reporting date. For details, see note 20 on "Derivative financial instruments."

The principal balance included in guarantee deposits is an amount of 31,737 thousand euros (23,064 thousand euros at 31 December 2009) paid as a deposit for the lease of the stores and premises in Tokyo by the subsidiary Bulgari Japan Ltd. The change in this item is mainly attributable to the appreciation of the yen with respect to the euro.

Non-current financial receivables are all due from related parties and include 350 thousand euros representing the portion (35%) not eliminated on consolidation of long-term subordinated loans granted to Bulgari Hotels and Resorts B.V. and 84 thousand euros relating 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%.

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 31/12/2009	Increases	Decreases	Other changes	At 31/12/2010
Elimination of intragroup profits	14,239	360	(201)	1,027	15,425
Property, plant and machinery	7,285	1,634	(12)	(2,504)	6,404
Other provisions	14,279	11,572	(5,113)	5,773	26,511
Deferred tax assets	**35,803**	**13,566**	**(5,325)**	**4,297**	**48,340**
Accelerated depreciation/amortisation	(1,118)	–	73	(73)	(1,118)
Undistributed profits	(1,592)	–	921	–	(671)
Allowance for inventory write-down	(5,638)	(856)	198	(1,422)	(7,718)
Employee benefit obligations	(345)	–	–	–	(345)
Allowance for impairment	(185)	–	–	76	(109)
Other provisions	(429)	(5)	4	(36)	(467)
Deferred tax liabilities	**(9,307)**	**(861)**	**1,196**	**(1455)**	**(10,427)**
Total deferred taxes	**26,496**	**12,705**	**(4,130)**	**2,842**	**37,913**

The increase in "Other provisions" arises from the recognition of deferred tax assets relating to the tax losses of the production company Daniel e Roth e Gerald Genta S.A., and those of the Parent and its Italian subsidiaries which take part in the tax consolidation scheme.
More specifically, deferred tax assets have been recognised on approximately 10 million euros tax losses of Bulgari S.p.A. and its Italian subsidiaries and 37 million euros tax losses for Daniel e Roth e Gerald Genta S.A. 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)

	31/12/2010			31/12/2009		
	Gross	**Allowance**	**Net**	**Gross**	**Allowance**	**Net**
Raw materials	89,579	891	88,688	73,542	1,232	72,311
Work in progress and semi-finished goods	171,850	26,862	144,988	157,771	26,781	130,989
Finished goods and packaging	452,017	30,196	421,821	439,373	27,187	412,186
	713,446	**57,949**	**655,497**	**670,686**	**55,200**	**615,486**

The net balance of 655,497 thousand euros at the end of the year represents a net increase of 40,012 thousand euros (approx. 6.50%) over that at 31 December 2009, due mainly to the appreciation of the euro compared to other currencies in 2010.
The allowance of 57,949 thousand euros at 31 December 2010 is management's best estimate of the losses expected to be incurred by the Group, based on past experience and the expected trend of sales by product type.

14. Trade receivables

Trade receivables are made up as follows:

(Thousands of Euros)

	31/12/2010				31/12/2009
	Receivables from customers	**Allowance for impairment**	**Provision for returns**	**Net balance at 31/12/2010**	**Net balance at 31/12/2009**
End customers and distributors	184,234	8,218	1,495	174,521	126,528
Franchisees	21,264	85	528	20,651	21,872
	205,498	**8,303**	**2,023**	**195,172**	**148,400**

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 31/12/2010
End customers and distributors	180,426	1,830	–	1,978	184,234
Franchisees	21,248	16	–	–	21,264
	201,674	**1,846**	**–**	**1,978**	**205,498**

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

(Thousands of Euros)

	Balance at 31/12/2009	Accrual for the year	Utilisation	Other changes	Balanced at 31/12/2010
End customers and distributors	4,760	3,578	(314)	194	8,218
Franchisees	82	–	–	3	85
	4,842	**3,578**	**(314)**	**197**	**8,303**

The accrual for the year of 3,578 thousand euros is classified as part of "Net operating expenses" in the income statement. The column "Other changes" amounting to 197 thousand euros includes 126 thousand euros relating to releases to income statement of excess accruals to the allowance made in 2009.

The provision for returns of 2,023 thousand euros at 31 December 2010 consists of accruals relating to 2010 for estimated future returns forming part of the Group's core business 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 31/12/2009	Accrual for the year	Utilisation	Other changes	Balance at 31/12/2010
End customers and distributors	2,627	1,533	(2,975)	310	1,495
Franchisees	401	186	(105)	47	528
	3,028	**1,719**	**(3,081)**	**357**	**2,023**

The accrual for the year of 1,719 thousand euros is classified as "Gross sales" in the income statement.

The column "Other changes" amounting to 357 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)

	31/12/2010	31/12/2009
Other current assets:		
Other current tax assets	40,560	30,938
Prepayments and accrued income	13,381	12,554
Advances to suppliers	5,385	2,747
Due from social security institutions	1,325	876
Other	3,107	10,075
Total other current assets	**63,758**	**57,190**
Other non-current assets:		
Other non-current tax assets	16,963	16,664
Other	128	104
Total other non-current assets	**17,091**	**16,768**

Other current assets

The net increase in "Other current tax assets" is mainly due to larger receivables for disputed taxes paid for Bulgari S.p.A. (3,836 thousand euros), to cantonal income tax assets for Bulgari Time S.A. (1,431 thousand euros), and to VAT credits for Bulgari Global Operation S.A. (3,856 thousand euros), for Bulgari Gioielli S.p.A. (1,282 thousand euros) and for Bulgari Accessori S.r.l. (1,124 thousand euros).

"Prepayments and accrued income" are made up as follows:

(Thousands of Euros)

	31/12/2010	31/12/2009
Total accruals	515	422
Insurance	1,332	721
Lease payments	8,227	9,013
Other prepayments	3,307	2,398
Total prepayments	12,866	12,132
	13,381	**12,554**

More specifically "Other prepayments", which amount to 3,307 thousand euros (2,398 thousand euros at 31 December 2009), consist mainly of the following: 3,286 thousand euros for promotional expenses, events, and maintenance (770 thousand euros at 31 December 2009), 11 thousand euros for consulting and various rentals (563 thousand euros at 31 December 2009), and 10 thousand euros for utilities (184 thousand euros at 31 December 2009).

"Other" of 3,107 thousand euros (10,075 thousand euros at 31 December 2009) includes receivables from intermediaries of 1,155 thousand euros for the recovery of VAT (1,575 thousand euros at 31 December 2009) and insurance receivables of 161 thousand euros.

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

Other non-current tax assets

"Other non-current tax assets" of 16,963 thousand euros consist mainly of other tax credits due after more than 12 months relating to VAT refunds claimed for by Bulgari S.p.A. (for 13,353 thousand euros) and Bulgari Gioielli S.p.A. (for 3,183 thousand euros).

The carrying amount 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)

	31/12/2010	31/12/2009
Bank deposits	99,042	29,532
Cash and cheques	13,408	1,046
Overdrafts	(750)	(1,345)
	111,700	**29,233**

"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 reporting date.

The significant increase in cash and cash equivalents may be attributed to the excellent cash flow achieved in the final months of the year.

17. Equity

Share capital

Share capital at 31 December 2010 amounted to 21,164 thousand euros, and consisted of 302,345,661 shares each of par value of 0.07 euros, all fully subscribed and paid up.
There were no treasury shares at 31 December 2010.

The increase of 72 thousand euros in the year was due to the issue of 1,026,500 new shares (equal to 71 thousand euros) in relation to stock option plans reserved to the chief executive officer and a number of employees, and to the issue of 10,101 new shares (equal to one thousand euros) following early conversion of bond issued by the Parent in 2009, by one bond-holder.

A dividend of 0.05 euros per share was distributed in May 2010 for a total of 15,065 thousand euros, as resolved by the of shareholders in their meeting of 22 April 2010.

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 6,041 thousand euros in the share premium reserve, which at 31 December 2010 amounted to 99,157 thousand euros, relates to the above-mentioned issue of new shares.

Translation reserve

The translation reserve of 146,431 thousand euros at 31 December 2010, 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.
The substantial change compared to the previous year is mainly attributable to the strong appreciation of the Swiss franc and, to a lesser extent, to appreciation of the US dollar and the Japanese yen.

Hedging reserve

The hedging reserve of 4,257 thousand euros at 31 December 2010 consists of the effective portion of the accumulated net change in the fair value of hedging instruments. The increase in the year represents changes in fair value compared to the previous year end that have arisen from currency transactions (approximately 21 thousand euros) and gold transactions (approximately 3.1 million euros).

Other reserves

This includes 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).

Stock Option reserve

The stock option reserve of 16,415 thousand euros at 31 December 2010 represents the balancing entry of the fair value loss recognised in profit or loss on options granted to certain categories of Italian and foreign employee and to the Group's chief executive officer.

18. Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of 38,004 thousand euros (compared to a loss of 47,095 thousand euros at 31 December 2009) and a weighted average number of 301,827 thousand shares outstanding during the year, calculated in the following manner:

(Thousands of shares)

	31/12/2010	**31/12/2009**
Ordinary shares at 1 January	301,309	300,630
Treasury shares at 1 January	–	–
Treasury shares sold during the year	–	–
Issue of new shares	1,037	679
Ordinary shares at 31 December excluding treasury shares	302,346	301,309
Weighted average of ordinary shares	**301,827**	**300,969**

Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of 38,004 thousand euros (compared to a loss of 47,095 thousand euros at 31 December 2009) and a weighted average number of 306,357 thousand shares outstanding during the year.

(Thousands of shares)

	31/12/2010	31/12/2009
Weighted average of ordinary shares	301,309	300,630
Dilutive effect of options	5,048	2,308
Weighted average of ordinary shares (diluted)	**306,357**	**302,938**

19. Current and non-current financial liabilities

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

(Thousands of Euros)

	31/12/2010	31/12/2009
Current financial liabilities		
Current bank loans and borrowings	42,979	37,642
Other current financial liabilities	139	244
	43,118	**37,886**
Non-current financial liabilities		
Non-current bank loans and borrowings	72,572	75,081
Other non-current financial liabilities	140,575	136,214
	213,147	**211,295**

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

(Thousands of Euros)

	Balance at 31/12/2010	Interest rate	Balance at 31/12/2009	Interest rate
Bulgari S.p.A.	–	–	–	–
Bulgari Japan Ltd.	41,215	1.79%	22,319	1.23%
Bulgari Global Operations S.A.	–	–	9,100	1.10%
Bulgari Commercial (Shanghai) Co. Ltd.	1,049	3.47 %	2,542	6.31%
Bulgari (Thailand) Ltd.	–	–	–	–
Bulgari (Taiwan) Ltd.	–	–	1,614	1.90%
Bulgari Asia Pacific Ltd.	–	–	–	–
Bulgari Malaysia Sdn.	195	4.46%	1,580	3.72%
Prestige d'Or S.A.	440	2.75%	337	2.75%
Bulgari South Asian Operations Pte Ltd.	–	–	–	–
Bulgari Korea Ltd.	–	–	150	4.29%
Bulgari Australia Pty. Ltd.	–	–	–	–
Cadrans Design S.A.	80	2.20%	–	–
	42,979		**37,642**	

“Current bank loans and borrowings” consist mainly of long-term loans with residual term of less than one year. Their weighted average interest rate is 1.85%.

In order to further improve its ability to obtain medium-term funding the Group also has committed, and unused, credit facilities for an equivalent value of 93 million euros with a weighted average residual term of 1 year 8 months.
The Group has a total of 428 million euros in uncommitted credit facilities that it may use for its liquidity requirements.

Credit facilities obtained in connection with currency and gold price derivatives amount to approximately 1,200 million euros, of which approximately 361 million euros had been used at 31 December 2010. 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 liabilities” of 139 thousand euros consist of liabilities regarding hedges of currency risk, gold risk, interest rate risk and commodity price risk.

The following tables provide details of “non-current financial liabilities” 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 31/12/2010	Due date	Interest rate	Currency
Bulgari International Corporation (BIC) N.V.	9,204	2013	1,18 %	1,000,000,000 Yen
	9,204			**1,000,000,000 Yen**
Bulgari Japan Ltd.	16,236	2019	2.30%	1,764,000,000 Yen
	13,806	2013	1.48%	1,500,000,000 Yen
	6,903	2012	1.42%	750,000,000 Yen
	11,505	2013	1.47%	1,250,000,000 Yen
	4,602	2012	1.56%	500,000,000 Yen
	1,988	2013	1.85%	216,000,000 Yen
	4,142	2015	1.60%	450,000,000 Yen
	59,181			**6,430,000,000 Yen**
Prestige d’Or S.A.	1,080	2014	2.90%	1,350,000 Chf
	720	2012	3.45%	900,000 Chf
	1,800			**2,250,000 Chf**
Cadrans.	**1,200**	**2015**	**2.20%**	**1,500,000 Chf**
Milano Hotel	**1,188**	**2027**	**3.88%**	**1,188,477 Eur**

The BIC loan in yen was converted into a euro loan by means of a Cross Currency Swap.

Other non-current bank loans and borrowings

(Thousands of Euros)

	Balance at 31/12/2010	Due rate	Interest rate	Currency
Bulgari S.p.A. of which:	139,368			139,368,211 Euro
– *Bond loan*	*137,951*	*2014*	*8.03%*	*137,951,521 Euro*
– *Revaluation of bond loan*	*1,417*			*1,416,690 Euro*
Bulgari Hotels & Resorts B.V.	1,207	2027	Euribor + 3%	1,206,981 Euro
	140,575			

The main features of the bonded loan may be summarised as follows:

– Amount:... 150 million euros

– Redemption date: .... 8 July 2014

– Coupon:... fixed rate, 5.375%, semi-annual

– Conversion price: .... 5 euros

Option rights for Euro 50,000 were exercised in the second half of the year. Consequently, the nominal amount of the Bond at 31 December 2010 was Euro 149,950,000.
The debt component of the bond (137,951 thousand euros) is classified under “other non-current financial liabilities” and the principal portion (13,178 thousand euros) in “other reserves” in equity.
The bond will reimburse at par unless converted by the bondholders before the redemption date.

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 use of the following hierarchy to determine 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 2010 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 fair value measurement of these instruments is “based on valuation techniques whose variables include 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 nominal amount and fair value of outstanding derivatives at 31 December 2010, grouped by type.

(Thousands of Euros)

	Fair value hierarchy	Nominal amount		Fair Value		Delta
		31/12/2010	31/12/2009	31/12/2010	31/12/2009	
Cash Flow Hedge Derivatives						
– Foreign Exchange	2	127,517	118,217	2,178	970	1,209
– Commodities	2	76,835	17,789	3,753	627	3,126
Fair Value Hedgeing Derivatives						
– Foreign Exchange	2	151,139	113,833	1,475	447	1,027
– Commodities	2	–	542	–	6	(6)
– Interest rate	2	70,000	70,000	1,151	27	1,124
Trading Derivatives (*)						
– Foreign Exchange	2	–	5,000	–	(66)	66
– Commodities	2	5,240	–	256	–	256
– Interest rate	2	20,000	20,000	(71)	(87)	16
TOTAL		**450,732**	**345,381**	**8,742**	**1,924**	**6,818**
of which:						
CURRENT FINANCIAL ASSETS		430,732	248,697	8,813	2,049	6,764
CURRENT FINANCIAL LIABILITIES		20,000	96,684	(71)	(125)	54

(*) *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 policies and measurement criteria", 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 forecasts of sales and purchases in the next 18 months, as stated in the annual budget and quarterly revisions, is kept at an acceptable level by entering into derivatives contracts (mainly forward contracts and, to a lesser extent, options contracts). Outstanding derivatives at 31 December 2010 had terms of less than 12 months and their effect on profit or loss will also occur by the end of December 2011.

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 loan 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 865 thousand euros at 31 December 2010. An adverse change of 10% in the spot rate, applied to all the currencies, compared to the official closing rate at that date would have led to a theoretical negative fair value of 3,624 thousand euros. On the other hand, a favourable change of 10% in exchange rates would have led to a positive fair value of 4,732 thousand euros.

Derivatives relating to the price of gold, designated as cash flow hedges, had a positive fair value of 4,008 thousand euros at 31 December 2010. A hypothetical decrease of 10% in the spot price of gold would have led to a negative fair value of 3,235 thousand euros. A hypothetical favourable change of 10% in the spot price of gold compared to the official fixing at 31 December 2010 (and therefore a higher price) would have led to a positive fair value of 11,000 thousand euros.

The fair value of interest rate derivatives originally designated as cash flow hedges, used to convert fixed rates to floating rates on a notional amount of 20 million euros, was a negative 71 thousand euros at 31 December 2010. A hypothetical decrease of 10% in interest rates on all maturities would have led to a negative fair value of 81 thousand euros. A hypothetical increase of 10% in interest rates on all maturities would have led to a negative fair value of 63 thousand euros.

Outstanding derivatives at 31 December 2010 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 floating 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, depending on the way in which these benefits are given, there are two types of plan: defined benefit and defined contribution.

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 company, 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	**2010**	**2009**
Bonds	50.5%	46.7%
Shares	25.5%	26.9%
Real estate securities	13.9%	10.5%
Liquidity	10.1%	15.9%

Post-employment benefits at 31 December 2010 may be analysed as follows:

Employee benefit plansv

(Thousands of Euros)

	31/12/2010	**31/12/2009**
Defined benefit plans	7,896	8,401
Defined contribution plans	10,237	7,493
	18,133	**15,894**

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 2010**	**Swiss pension funds 31 December 2010**
Annual discount rate	4.65%	3%
Annual inflation rate	2.00%	n/a
Annual salary increase rate	3.00%	0.80%
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 in defined benefit plans during the year are as follows:

(Thousands of Euros)

	Note	2010	2009
Post-employment benefits (TFR) at 1 January		**8,401**	**9,779**
Service cost		93	115
Interest expense	**5**	451	541
Amortisation of actuarial gains/losses		–	–
Total cost recognised in profit or loss account		**544**	**656**
Payments		(1,049)	(2,034)
Post-employment benefits (TFR) at 31 December		**7,896**	**8,401**

Personnel expenses

"Defined contribution plans" include the liabilities accrued by the foreign companies as well as the additional portion of the Italian employees' post-employment 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.

Personnel expenses may be analysed as follows:

(Thousands of Euros)

	Note	2010	2009
Wages and salaries		157,702	158,675
Social security charges		34,858	33,848
Sales commissions		8,955	7,333
Provisions to other employment benefits		5,272	4,412
Hiring and training		2,085	1,348
Other costs		9,004	9,761
		217,876	**215,377**
Salesmen's commissions		(8,955)	(7,333)
Transfer to cost of sales		(23,360)	(25,465)
	4	**185,561**	**182,579**

Personnel expenses relates to the selling and administrative functions.

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

Average number of employees	**31/12/2010**	**31/12/2009**
Executives and middle management	485	511
White-collar workers	2,860	2,986
Blue-collar workers	333	412
	3,677	**3,909**

This table does not include the average number of employees with companies consolidated on a proportionate basis (amounting to 116).

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 managers.
The options are granted at the average officially quoted price for the thirty days preceding the grant date. The vesting period is variable, ranging from nine months to five 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 2,265 thousand euros relating to stock option plans in effect at 31 December 2010. 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 and measurement criteria."
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:	1.8 to 9.1%
Stock price volatility:	22 to 41%
"Risk free" interest rate:	1.3 to 4.8%
Average expected option term:	2.4 to 5.5 years

In 2010, stock options relating to plans previously approved by shareholders were exercised for a total of 1,026,500 shares, with a consequent increase in share capital by approximately 72 thousand euros.

On 10 May 2010, in accordance with the resolution passed by the Shareholders on 21 July 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 2011, and an additional 300,000 options exercisable from July 2012, all at 6.31 euros each.

Also on 10 May 2010, in accordance with resolutions passed by the Shareholders on 10 April 1996, 29 April 2003, and 21 July 2009, the Board of Directors of Bulgari S.p.A. also assigned 307,250 options exercisable from July 2011, 307,250 options exercisable from July 2012, 130,250 options exercisable from July 2013, 305,250 options exercisable from July 2014, and 175,000 options exercisable from July 2015, all at 6.31 euros each, to some members of management.
As in previous plans, settlement will be upon physical delivery of the shares.

Information relating to changes in stock option plans during 2010 is set out in the following table:

Prices in euros	31 December 2010			31 December 2009		
	Number of options	Average exercise price	Market price (*)	Number of options	Average exercise price	Market price (*)
(1) Options at 1 January	9,187,000	6.78	5.76	8,457,000	7.29	4.42
(2) New options granted in the year	1,825,000	6.31	6.12	1,969,000	4.00	4.15
(3) (Options exercised in the year)	(1,026,500)	5.91	6.39	(679,250)	4.31	4.43
(4) (Options cancelled in the year)	–	–	–	–	–	–
(5) (Options expiring in the year)	(409,750)	7.54	6.39	(559,750)	7.65	4.43
(6) Options at 31 December	9,575,750	6.75	8.09	9,187,000	6.78	5.76
(7) Of which: exercisable at 31 December	5,927,500	7.46	–	5,406,000	7.64	–

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, divided between the Chief Executive Officer and other employees:

Price band	Residual contractual life						
	< 2 years			> 2 years			
	CEO	Others	Total	CEO	Others	Total	Total
<=2,0	–	–	–	–	–	–	–
> 2,0 <5,0	–	118,750	118,750	600,000	1,172,500	1,772,500	1,891,250
> 5,0	1,200,000	772,250	1,972,250	2,100,000	3,612,250	5,712,250	7,684,500
Total	1,200,000	891,000	**2,091,000**	2,700,000	4,784,750	**7,484,750**	**9,575,750**

	Of which exercisable at 31/12/10		
Price band	CEO	Others	Total
<=2,0	–	–	–
> 2,0 < 5,0	300,000	302,000	602,000
> 5,0	2,700,000	2,625,500	5,325,500
Total	3,000,000	2,927,500	**5,927,500**

22. Provisions for risks and charges

Changes in this item for the year ended 31 December 2010 were as follows:

(Thousands of Euros)

	Net balance at 31/12/2009	Accrual	Utilisation	Other changes	Net balance at 31/12/2010
Tax provisions	1,854	305	(5)	(756)	1,398
Product warranty provision	1,564	21	–	158	1,743
Restructuring provision	13,018	423	(6,609)	(4,244)	2,588
Provisions for litigation and other provisions	8,503	1,194	(3,355)	921	7,263
Total	**24,939**	**1,943**	**(9,969)**	**(3,921)**	**12,992**

"Tax provisions" consist mainly of the following items:

– 932 thousand euros relating mainly to a provision made by Bulgari France S.A.S. and Bulgari Montecarlo S.A.M. 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 "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.

Other changes refer mainly to the release by Bulgari Corporation of America Inc. of amounts accrued for tax disputes regarding royalties.

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

23. Other current and non-current liabilities

(Thousands of Euros)

	31/12/2010	31/12/2009
Current liabilities:		
Due to personnel	14,028	13,566
Due to the public administration	10,180	9,995
Due to social security and institutions	6,608	7,495
Due to shareholders	241	241
Other payables	861	2,362
Total other payables	**31,918**	**33,659**
Deferred income	403	402
Accrued loan interest expense	4,338	5,627
Other accrued expenses	7,018	6,905
Total accrued expenses and deferred income	**11,759**	**12,934**
Total other current liabilities	**43,677**	**46,593**
Non-current liabilities:		
Other non-current liabilities	1,799	1,498
Deposits	24	22
Total other non-current liabilities	**1,823**	**1,520**

Other current liabilities

The increase in "Due to personnel" compared to 31 December 2009 is attributable mainly to an increase of 379 thousand euros in accrued employees' untaken holiday leave.

"Other accrued expenses" relate mainly to lease instalments of 6,481 thousand euros.

Other non-current liabilities

"Other non-current liabilities" of 1,799 thousand euros mainly regard the balance of the non-current portion of the liability of Bulgari Time (Switzerland) S.A. amounting to 1,599 thousand euros for the purchase of machinery, plant, and know-how for the manufacture of watch parts.

24. Segment reporting

The Group operates in two segments: “Hard Luxury” and “Soft Luxury.” The first is characterised by less cyclical products (jewellery and watches) that provide a multi-year contribution and demand a large inventory investment. The second is guided by seasonal products (perfumes and accessories) that demand large advertising support, do not require a high inventory level, but need widespread and rapid distribution.

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 line “Other” includes all unallocated revenue and costs managed by the central (Corporate) structure as well as minor activities relating to hotels and restaurants.

Following the change to its internal organisation compared to 2009, the Group changed the composition of the segments subject to reporting and revised the information with reference to the previous year.

(Thousands of Euros)

	Hard Luxury		Soft Luxury		Other		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Revenue	**709.9**	**619.4**	**335.6**	**285.9**	**23.6**	**21.3**	**1,069.0**	**926.6**
Operating profit (loss)	**108.7**	**39.6**	**18.9**	**(8.8)**	**(42.3)**	**(50.6)**	**85.3**	**(19.8)**
Net working capital (excl. Inventories)	(38.3)	(21.5)	38.5	21.7	2.1	1.6	2.3	1.9
Inventories	550.0	509.8	104.5	105.2	1.0	0.5	655.5	615.5
Property, plant and equipment, and intangible assets	263.7	253.5	62.5	66.0	12.3	12.3	338.5	331.8
Investments and other financial assets	32.0	29.1	7.0	6.2	12.0	13.4	51.0	48.6
Other non-current assets (liabilities)					22.1	0.9	22.1	0.9
Net Invested Capital	**807.4**	**770.9**	**212.4**	**199.0**	**49.4**	**28.7**	**1.069.3**	**998.7**

The Hard Luxury business increased turnover by 14.6%. This growth, plus firm margins and control of operating expenses, achieved a more-than-proportional increase in profitability. The increase in inventories was due exclusively to exchange rates, without which there would have been a slight reduction.

The Soft Luxury business, with a 17.4% increase in turnover, increased margins by 22.9%, costs by 6.2%, and recorded a profit (as opposed to a loss in 2009) thanks to growth in all segments, including luxury.

Segment reporting conforms to the requirements of IFRS 8 - Operating segments and is in line with decision-making information used by Management.

25. Related-party transactions

Disclosures of related party transactions, as defined by the IFRS and by Consob Communication DEM/6064293 of 28 July 2006, and their impact on the total consolidated figures are provided below.

Financial and commercial transactions

Financial and commercial transactions between Bulgari S.p.A. and other group companies have been eliminated in the consolidated financial statements.

(Thousands of Euros)

	Payables			
	Bulgari S.p.A.	**Subsidiaries**	**Joint ventures**	**Total**
Receivables				
Bulgari S.p.A.	–	123,783	1,324	**125,107**
Subsidiaries	126,576	821,774	50	**948,400**
Joint ventures	5	15	–	**20**
Total	**126,581**	**945,571**	**1,374**	**1,073,526**

	Expenses			
	Bulgari S.p.A.	**Subsidiaries**	**Joint ventures**	**Total**
Revenue				
Bulgari S.p.A.	–	82,725	318	**83,043**
Subsidiaries	26,452	1,228,312	–	**1,254,764**
Joint ventures	153	–	–	**153**
Total	**26,605**	**1,311,037**	**318**	**1,337,960**

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

(Thousands of Euros)

	31/12/2010			31/12/2009		
	Total consolidated	**Related parties**	**%**	**Total consolidated**	**Related parties**	**%**
Non-current financial receivables	434	434	100	418	418	100
Trade receivables	195,172	40	–	148,400	76	–
Other current assets	23,198	9	–	26,252	9	–
Trade payables	193,003	7	–	145,345	16	–
Other current liabilities	43,677	1	–	46,593	1	–

(Thousands of Euros)

	2010			2009		
	Total consolidated	**Related parties**	**%**	**Total consolidated**	**Related parties**	**%**
Gross sales	1,155,870	52	–	1,003,582	56	–
Royalties	10,776	73	0.68	9,198	67	0.70
Other revenue	4,076	15	0.37	2,706	13	0.40
Net operating expenses	579,480	109	0.02	567,000	42	0.00
Interest income	3,162	25	0.79	2,997	37	1.20

Directors' and statutory auditors' fees

(Thousands of Euros)

	Directors		Statutory auditors	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
Bulgari S.p.A.	2,803	1,841	165	172
Other group companies	64	135	143	136
	2,867	**1,976**	**308**	**308**

The above mentioned transactions were conducted at market conditions that would have been applied between independent parties and that were also conducted in the economic interest of each subsidiary.

26. Guarantees, commitments and risks

(Thousands of Euros)

	31/12/2010	31/12/2009
Commitments	430,006	382,930
Guarantees given	9,776	10,267
Sureties from third parties	38,664	36,554
	478,446	**429,751**

"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, as detailed below:

(Thousands of Euros)

	31/12/2010
Under 1 year	67,162
1 to 5 years	298,304
Over 5 years	64,540
	430,006

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

"Sureties from third parties" mainly refer to sureties of 14,104 thousand euros pledged by banks on behalf of Bulgari S.p.A. in favour of the tax authorities regarding VAT credits for which Bulgari S.p.A. has requested reimbursement, 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 2,199 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 regard, 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 2008 concerning the tax period 2002 with reference to the alleged tax domicile of the subsidiary Bulgari International Corporation (BIC) N.V. An appeal has been filed with the Provincial Tax Commission of Rome.

On the basis of information currently available and opinions received from attorneys 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.

With regard to the above, on 24 November 2010 the Provincial Tax Commission of Rome issued a ruling (filed 28 February 2011) with which it admitted the Company's appeal.

Furthermore, in April 2009 the regional department for Lazio of the Rome tax office notified a preliminary assessment report 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 notices of assessment in December 2009 and in September 2010, relating to fiscal years 2004 and 2005, respectively, to Bulgari Retail

USA S.r.l. and to Bulgari S.p.A. the parent in the context of the national tax consolidation scheme. The Company fully disagrees with the reconstruction proposed by the tax auditors and with the notices of assessment scheme, and has filed an appeal with the Provincial Tax Commission of Rome, maintaining that it has properly interpreted prevailing laws and regulations. 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.
Lastly, with reference to additional notices of assessment for tax years 2004 and 2005, issued by the Rome tax office to Bulgari Gioielli S.p.A. with regard to transfer prices, the Company, based on currently available information and on Benchmark studies prepared by external advisors, with reference to the years subject to audit as well as to later years, believes that all disputes relating to the above-mentioned notices of assessment are completely groundless and that there is little risk of a negative decision and of potential liabilities. 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 Management.
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, geographic 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 Bulgari S.p.A.: issued 150 million euros in bonds convertible into shares and redeemable on 8 July 2014. At 31 December 2010, the Group's non-current financial payables were 213.1 million euros, with weighted average maturity of 3 years 6 months. To deal with any unplanned and adverse conditions on the credit market the Group has outstanding and available credit facilities of 93 million euros with a weighted average residual term of 1 year 8 months and defined and committed cost parameters until expiry.

At 31 December 2010, the Group did not have any loans subject to financial covenants.

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 margins 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 margins 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 currency 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 2010.

The Group's policy has not undergone any significant changes in 2010 with respect to previous years.

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 both a lower current cost for financial expense and a minimisation of the potential adverse change in such cost in proportion to the volatility of the interest rate market.
At 31 December 2010, 69% 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 over 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 bond 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 2010 would have led to a potential loss in fair value of these financial instruments of approximately 2,590 thousand euros, whereas a favourable shift of 0.5% in market interest rates would have led to a potential gain in fair value of approximately 2,476 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 2010 would have been approximately 485 thousand euros, whereas a decrease of 0.5% in these interest rates would have led to financial expense of approximately 255 thousand euros.

Credit risk

The estimated potential loss on open items at 31 December 2010 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 granted only 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 10 February, 2005 "*Recommendations for the Consistent Application of the European Commission's Regulation on Prospectuses*", the net financial position of the Group at 31 December 2010 is as follows:

(Thousands of Euros)

	31 Dec 2010	31 Dec 2009
Cash	13,408	1,046
Cash equivalents	98,292	28,187
Cash and cash equivalents	**111,700**	**29,233**
Current financial receivables	**8,853**	**2,726**
Current bank loans and borrowings	(31,044)	(35,487)
Current portion of non-current debt	(11,935)	(2,155)
Other current financial payables	(139)	(244)
Current financial debt	**(43,118)**	**(37,886)**
Current financial debt, net	**77,435**	**(5,927)**
Non-current financial receivables	**434**	**418**
Non-current bank loans and borrowings	(72,572)	(75,081)
Bonds issued	(139,368)	(133,871)
Other non-current payables	(1,207)	(2,343)
Non-current financial debt	**(213,147)**	**(211,295)**
Non-current financial debt, net	**(212,713)**	**(210,877)**
Net Financial Debt	**(135,278)**	**(216,804)**

29. List of consolidated companies

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

Company	% holding 31/12/2010	% holding 31/12/2009	Currency	Share/quota capital	Head Office	Business
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	18,319,200	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	Parigi	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 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. ([1])	–	100.00	Euro	–	Rome	Perfume distribution
Bulgari Portugal Acessorios de Luxo Lda. ([2])	–	100.00	Euro	–	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	30,100,000	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	16,334,000	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 warches
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. ([3])	100.00	100.00	Euro	50,000	Rome	Retail sales and wholesale
Bulgari Gioielli S.p.A.	100.00	100.00	Euro	2,700,000	Valenza (Alessandria)	Jewellery production
Bulgari Parfums Deutschland Gmbh ([4])	–	100.00	Euro	–	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	Florance	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. ([5])	100.00	100.00	Bat	100,000	Bangkok	Sub-holding
Bulgari (Thailand) Ltd.	99.50	99.50	Bat	260,000,000	Bangkok	Retail sales
Bulgari Commercial (Shangai) Co. Ltd.	100.00	100.00	Us$	19,000,000	Shanghai	Retail sales
Bulgari Holding Europe B.V. ([6])	–	100.00	Euro	–	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. ([7])	–	100.00	Euro	–	Barcellona	Perfume production
Bulgari Panama Inc.	100.00	100.00	Us$	10,000	Panama City	Retail sales
H. Finger AG ([8])	–	100.00	SwFr	–	Lengnau dei Biel (Canton of Berna)	Production of watch components
Bulgari Ireland Ltd.	100.00	100.00	Euro	1	Dublin	Logisticaj support and distribution
Bulgari Qatar Lcc	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	100.00	Swfr	100,000	La Chaux de Fonds	Production of warches

Companies consolidated on a proportionate basis

Company	% holding 31/12/2010	% holding 31/12/2009	Currency	Share/quota capital	Head Office	Business
Bulgari Hotels & Resorts B.V. (9)	65.00	65.00	Euro	18,000	Amsterdam	Company in joint venture with the Marriot Group
Bulgari Hotels and Resorts Milano S.r.l. (10)	65.00	65.00	Euro	100,000	Rome	Company involved in the Bvlgari Hotels and Resorts project

(1) Company merged into Bulgari Italia S.p.A.
(2) Company wound up 2010.
(3) Company in liquidation.
(4) Company merged into Bulgari (Deutschland) GmbH.
(5) Company consolidated as it owns 100% of class A shares equal 49,000 Bat.
(6) Company merged into Bulgari International Corporation (BIC) N.V.
(7) Company merged into Bulgari Espana S.A. Unipersonal.
(8) Company merged into Prestige d'Or S.A.
(9) Company held throught Bulgari S.p.A.
(10) Company held indirectly throught 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 S.p.A. 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) (*)

		Bulgari Hotels & Resorts B.V.	Bulgari Hotels and Resorts Milano S.r.l.
	% of holding	65% Euro	65% Euro
Current assets		–	4.0
Non-current assets		9.0	1.4
Current liabilities		0.3	2.3
Non-current liabilities		2.9	2.2
Revenue		–	16.6
Expense		0.2	18.1

(*) Amounts stated at 100%.

31. Significant non-recurring transactions

In the year ended 31 December 2010, the Group did not conduct any significant non-recurring transactions as defined in Consob Communication DEM 6064293 of 28 July 2006.

32. Atypical and/or unusual transactions

In the year ended 31 December 2010, the Group did not conduct any atypical and/or unusual transactions as defined in Consob Communication DEM 6064293 of 28 July 2006.

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

The following table, prepared pursuant to article 149-duodecies of the Consob Issuer Regulations sets out the fees relating to 2010 or audit services and non-audit services provided by the independent auditors and by members of its network.

(thousands of Euros)

Type of service	Provided by	Provided to	2010 Fee
Audit	KPMG S.p.A.	Bulgari S.p.A.	135.7
	KPMG S.p.A.	Subsidiaries	203.8
	KPMG network	Subsidiaries	1,005.6
Attestation services	KPMG S.p.A.	Bulgari S.p.A. (1)	3.5
	KPMG S.p.A.	Subsidiaries (2)	11.3
	KPMG network	Subsidiaries	–
Tax advisory services	KPMG S.p.A.	Bulgari S.p.A.	–
	KPMG S.p.A.	Subsidiaries	–
	KPMG network	Subsidiaries	107.5
Other services	KPMG S.p.A.	Bulgari S.p.A. (3)	4.0
	KPMG S.p.A.	Subsidiaries	–
	KPMG network	Subsidiaries	–

(1) 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)

Disclosures pursuant to Article 36 of Market Regulations
Local currency/000

Bulgari Corporation of America Inc.
Share Capital: 24,350,000 usd

	2010		31/12/2010
Revenue	*185,342*	Non-current assets	58,776
Cost of sales	(109,527)	Current assets	122,027
Contribution margin	*75,815*	*Total assets*	*180,803*
Operating expenses	(96,443)		
Operating loss	*(20,628)*	Equity	(64,310)
Financial expense	(1,442)		
Loss before taxation	*(22,070)*	Non-current liabilities	(264)
Current and deferred taxation	(34)	Current libilities	(116,229)
Loss for the year	***(22,104)***	*Total equity and liabilities*	*(180,803)*

Bulgari Japan Ltd.
Share Capital: 100,000,000 yen

	2010		31/12/2010
Revenue	*18,626,638*	Non-current assets	8,083,902
Cost of sales	(10,050,404)	Current assets	14,522,512
Contribution margin	*8,576,234*	*Total assets*	*22,606,415*
Operating expenses	(7,897,520)		
Operating profit	*678,714*	Equity	(7,929,187)
Financial expense	(224,593)		
Profit before taxation	*454,120*	Non-current liabilities	(7,652,865)
Current and deferred taxation	(237,585)	Current libilities	(7,024,363)
Profit for the year	***216,535***	*Total equity and liabilities*	*(22,606,415)*

Bulgari Global Operations S.A.
Share Capital: 6,000,000 chf

	2010		31/12/2010
Revenue	*496,072*	Non-current assets	143,372
Cost of sales	(404,191)	Current assets	676,457
Contribution margin	*91,881*	*Total assets*	*819,829*
Operating expenses	(119,347)		
Operating loss	*(27,466)*	Equity	(382,962)
Financial expense	(15,271)		
Loss before taxation	*(42,737)*	Non-current liabilities	(442)
Current and deferred taxation	0	Current libilities	(436,425)
Loss for the year	***(42,737)***	*Total equity and liabilities*	*(819,829)*

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

	2010		31/12/2010
Revenue	*33,073*	Non-current assets	25,560
Cost of sales	(35,494)	Current assets	30,405
Contribution margin	*(2,421)*	*Total assets*	*55,964*
Operating expenses	(6,663)		
Operating loss	*(9,084)*	Equity	(5,886)
Financial expense	(227)		
Loss before taxation	*(9,311)*	Non-current liabilities	(8,552)
Current and deferred taxation	10,130	Current libilities	(41,526)
Profit for the year	***819***	*Total equity and liabilities*	*(55,964)*

Bulgari Commercial (Shanghai) Co. Ltd.
Share Capital: 19,000,000 usd

	2010		31/12/2010
Revenue	*374,984*	Non-current assets	41,660
Cost of sales	(305,171)	Current assets	528,279
Contribution margin	*69,813*	*Total assets*	*569,939*
Operating expenses	(91,969)		
Operating loss	*(22,155)*	Equity	(71,812)
Financial income	7,093		
Loss before taxation	*(15,063)*	Non-current liabilities	0
Current and deferred taxation	0	Current libilities	(498,127)
Loss for the year	***(15,063)***	*Total equity and liabilities*	*(569,939)*

Bulgari Asia Pacific Ltd.
Share Capital: 1,000,000 Hk$

	2010		31/12/2010
Revenue	*562,893*	Non-current assets	44,620
Cost of sales	(304,589)	Current assets	404,845
Contribution margin	*258,304*	*Total assets*	*449,465*
Operating expenses	(173,817)		
Operating profit	*84,487*	Equity	(133,387)
Financial expense	(609)		
Profit before taxation	*83,878*	Non-current liabilities	(5,887)
Current and deferred taxation	(14,398)	Current libilities	(310,191)
Profit for the year	***69,480***	*Total equity and liabilities*	*(449,465)*

Bulgari Time (Switzerland) S.A.
Share Capital: 1,000,000 chf

	2010		31/12/2010
Revenue	*111,760*	Non-current assets	24,033
Cost of sales	(83,611)	Current assets	201,615
Contribution margin	*28,150*	*Total assets*	*225,648*
Operating expenses	(25,738)		
Operating profit	*2,411*	Equity	(197,365)
Financial income	1,695		
Profit before taxation	*4,107*	Non-current liabilities	(14,872)
Current and deferred taxation	(5,989)	Current libilities	(13,411)
Loss for the year	***(1,882)***	*Total equity and liabilities*	*(225,648)*

Bulgari Parfums S.A.
Share Capital: 1,000,000 chf

	2010		31/12/2010
Revenue	*249,207*	Non-current assets	15,637
Cost of sales	(131,890)	Current assets	173,961
Contribution margin	*117,317*	*Total assets*	*189,598*
Operating expenses	(101,458)		
Operating profit	*15,858*	Equity	(141,430)
Financial expense	(6,860)		
Profit before taxation	*8,999*	Non-current liabilities	-
Current and deferred taxation	(921)	Current libilities	(48,168)
Profit for the year	***8,078***	*Total equity and liabilities*	*(189,598)*

Bulgari Collection Internationale S.A.
Share Capital: 3,000,000 chf

	2010		31/12/2010
Revenue	*67,974*	Non-current assets	0
Cost of sales	(49,577)	Current assets	161,469
Contribution margin	*18,397*	*Total assets*	*161,469*
Operating expenses	(10,455)		
Operating profit	*7,942*	Equity	(163,181)
Financial expense	(617)		
Profit before taxation	*7,324*	Non-current liabilities	-
Current and deferred taxation	0	Current libilities	1,711
Profit for the year	***7,324***	*Total equity and liabilities*	*(161,469)*

Bulgari Commercial (Shanghai) Co. Ltd. Branch

	2010		31/12/2010
Revenue	*245,850*	Non-current assets	34,969
Cost of sales	(138,778)	Current assets	321,437
Contribution margin	*107,072*	*Total assets*	*356,405*
Operating expenses	(96,572)		
Operating profit	*10,501*	Equity	10,797
Financial expense	(21)		
Profit before taxation	*10,479*	Non-current liabilities	-
Current and deferred taxation	0	Current libilities	(367,203)
Profit for the year	***10,479***	*Total equity and liabilities*	*(356,405)*

Bulgari Macao Branch

	2010		31/12/2010
Revenue	*317,211*	Non-current assets	21,197
Cost of sales	(146,878)	Current assets	226,047
Contribution margin	*170,333*	*Total assets*	*247,243*
Operating expenses	(85,668)		
Operating profit	*84,665*	Equity	(177,285)
Financial expense	(681)		
Profit before taxation	*83,983*	Non-current liabilities	(1,896)
Current and deferred taxation	(11,195)	Current libilities	(68,062)
Profit for the year	***72,788***	*Total equity and liabilities*	*(247,243)*

Bulgari S.p.A. and Subsidiaries

Certification of consolidated financial statements pursuant to Art. 81-ter of Consob Regulation 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 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

   of the administrative and accounting procedures for the preparation of the consolidated financial statements in 2010.

2. The above-named individuals also 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 Italian 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 results of operations and of 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.

11 March 2011

Signed: Chief Executive Officer

(Francesco Trapani)

(Signed on the original)

Signed: The manager responsible for 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 articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Bulgari S.p.A.

1 We have audited the consolidated financial statements of the Bulgari Group as at and for the year ended 31 December 2010 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 6 April 2010 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the consolidated financial statements of the Bulgari Group as at and for the year ended 31 December 2010 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 the Bulgari Group as at 31 December 2010, 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, published in the Investor Relations section of Bulgari S.p.A.'s website, 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 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 the Bulgari Group as at and for the year ended 31 December 2010.

Rome, 28 March 2011

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 2010

Bulgari S.p.A.

Director's report on the performance of the Parent Bulgari S.p.A. at 31 Decemeber 2010

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.

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

Bulgari S.p.A.

Directors' report on the performance of the Parent Bulgari S.p.A. at 31 December 2010

Introduction

The Board of Directors of Bulgari S.p.A. has prepared this report on the performance 2010 pursuant to the requirements of Article 2428 of the Italian Civil Code.
The separate financial statements as at and for the year ended 31 December 2010 have been audited by KPMG S.p.A. and include figures at 31 December 2009 for comparative purposes.

Analysis of the income statement

The year ended 31 December 2010 closed with a profit of 22.6 million euros, compared with 17.7 million euros in 2009. This result includes dividends from subsidiaries of 41 million euros (40 million euros in 2009) net of impairment losses on investments totalling 143 thousand euros.
The Company incurred an operating loss of 13.5 million euros, essentially unchanged compared with 2009.

Table 1 – BULGARI S.p.A. – Income Statement (in millions of Euros)

	2010	%	2009	%	difference	%
REVENUE	**92.0**	**100%**	**76.5**	**100%**	**15.5**	**20.3%**
Personnel expense	29.4	32%	28.4	37%	1.0	3.5%
Other income and expense	25.6	28%	24.6	32%	1.0	4.1%
Advertising and promotional expenses	35.3	38%	23.5	31%	11.8	50.2%
Depreciation, ammortisation and impairment losses	15.2	17%	13.4	18%	1.8	13.4%
TOTAL OPERATING EXPENSES	**105.5**	**115%**	**89.9**	**118%**	**15.6**	**17.4%**
OPERATING LOSS	**(13.5)**	**(15%)**	**(13.4)**	**(18%)**	**(0.1)**	**0.7%**
Other non-operating income	30.8	33%	26.7	35%	4.1	15.4%
PROFIT BEFORE TAXATION	**17.3**	**19%**	**13.3**	**17%**	**4.0**	**30.1%**
Current and deffered taxation	5.3	6%	4.4	6%	0.9	20.5%
PROFIT FOR THE YEAR	**22.6**	**25%**	**17.7**	**23%**	**4.9**	**27.7%**

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 2010. "Other income and expense" includes service costs and various other operating expenses on the official income statement.
"Other non-operating income 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, rose by approximately 20% over 2009.
Revenue for royalties and the provision of services amounted in total to 80.4 million euros. More specifically, royalties, which are received both from Group companies and from third parties, represent approximately 87.4% of total revenue.

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

Table 2 – BULGARI S.p.A. – Analysis of revenue by geographical segment (in millions of Euros)

Geographical segment	2010		2009	
	Absolute value	%	Absolute value	%
Italy	10.2	13%	9.9	15%
EU (excluding Italy)	3.1	4%	3.1	5%
Europe (excluding EU)	47.9	59%	36.6	56%
Americas	2.8	3%	1.8	3%
Japan	5.3	7%	5.5	8%
Far East	7.9	10%	5.5	9%
Middle East and other	2.6	3%	1.8	3%
Other	0.6	1%	0.7	1%
TOTAL REVENUES	**80.4**	**100%**	**64.9**	**100%**

Operating expenses

Operating expenses totalled 105.5 million euros compared with 89.9 million euros in 2009, an increase of approximately 17%. This was due primarily to higher advertising and promotional expenses, which increased by approximately 50% compared with 2009, totalling 35.3 million euros at 31 December 2010.
Advertising and promotional expenses increased by 50.2% compared with the previous year, due mainly to the contribution to Bulgari France S.A.S. for the organisation and management of the “Bulgari Retrospective” exhibition held in Paris, as well as higher advertising contributions to Group companies.
There was an overall increase in service costs, due mainly to higher fees paid to the Board of Directors, which amounted in total to 24.1 million euros at year end (+6.2% over 2009). 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.
Personnel expense amounted to 29.4 million euros, 1 million euros higher than in 2009 (28.4 million euros).
Depreciation and amortisation charges for the year amounted to 15 million euros, an increase of roughly 13% over 2009. These relate principally to a charge of 11.9 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 148 thousand euros were made for probable non-recurring costs regarding disputes with resigning personnel, calculated on the best estimate of expenses to be incurred, and considering the opinions of independent attorneys that the company has hired to settle such disputes.

Dividends and financial income

Dividends for the year amounted to 41 million euros (40 million euros in 2009), all paid (as occurred last year) by Bulgari Ireland Ltd..

Current and deferred taxes

Current taxes mainly refer to foreign income taxes of 1.5 million euros (1.7 million euros in 2009) and the charge for IRAP (regional tax on production) of 562 thousand euros (584 thousand euros in 2009).
The item also includes deferred tax income of 5.5 million euros (5 million euros in 2009) recognised on the 2010 tax losses included in the "national tax consolidation" scheme and positive adjustments of 1.9 million euros arising from taxes and tax credits of prior years. Therefore, the item shows a positive net balance of 5.3 million euros.
Further details of this item may be found in the notes to the income statement, to which reference should be made. The Company opted for the "national tax consolidation" scheme for the period from 2010-2012, together with its subsidiaries Bulgari Gioielli S.p.A., Bulgari Italia S.p.A., Bulgari Retail USA S.r.l. and Bulgari Accessori S.r.l..

Financial position

The Parent had net debt of 126.8 million euros at 31 December 2010 (110.8 million euros at 31 December 2009), an increase of 16 million euros. Dividends of 41 million euros were received from Bulgari Ireland Ltd. during the year while dividends of 15 million euros were paid to shareholders.
Capital payments totalling 2 million euros were made to subsidiaries, including 1 million euros to Bulgari Gioielli S.p.A., 935 thousand euros to Bulgari Hotels & Resorts B.V., and 65 thousand euros to Bulgari Hotels & Resorts Milano S.r.l..
1,026,500 new shares were issued in 2010 as the result of decisions to exercise options under the stock option plans reserved to the Chief Executive Officer and certain employee categories, which generated an overall increase of approximately 8 million euros in equity. The Company had a negative net financial position with subsidiaries of 54.7 million euros at 31 December 2010, caused by increased exposure of 89.1 million euros (mainly in the European pooling account held with Bulgari Global Operational S.A.) deriving from centralised management of the treasury. On the other hand, loans were granted to Bulgari Italia S.p.A., Bulgari Gioielli S.p.A., and Bulgari Commercial (Shangai) Co. Ltd. for 15, 10 and 9.4 million euros, respectively.
At 31 December 2010, the debt/equity ratio (gearing) increased by approximately 3%, from 56% in 2009 to 59% in 2010.

Table 3 – BULGARI S.p.A. – Net financial position (thousand of Euros)

	31/12/2010	31/12/2009
Cash	**65,185**	**5,185**
Current financial receivables - third parties	1,232	576
Current financial receivables - related parties	42,195	56,387
Current financial receivables	**43,427**	**56,963**
Current financial payables - third parties	–	–
Current bank loans and borrowings	(300)	(299)
Current financial payables - related parties	(96,940)	(39,973)
Current financial debt	**(97,240)**	**(40,272)**
Net current financial debt	**11,372**	**21,876**
Non-current financial receivables	**1,240**	**1,194**
Non-current financial payables - third parties	(139,368)	(133,871)
Other non-current payables	–	–
Non-current financial debt	**(138,128)**	**(132,677)**
NET FINANCIAL DEBT	**(126,756)**	**(110,801)**
Gearing	59%	56%

Capital expenditure

Capital expenditure of 17.6 million euros was made in 2010, broken down as follows:

– 13.5 million euros in intangible assets regarding mainly application software and the related development and implementation costs;

– 4.1 million euros in property, plant and equipment, regarding mainly hardware and assets under construction.

Equity investments

Investments of 2 million euros were made in non-current financial assets (equity investments) during 2010 in the form of share capital injections of 1 million euros in Bulgari Gioielli S.p.A., 935 thousand euros in Bulgari Hotels & Resorts B.V. and 65 thousand euros in Bulgari Hotels & Resorts Milano S.r.l..

Research and development

The Company incurred research and prototype development expenditure during the year of 3.2 million euros, both directly and through Bulgari Gioielli S.p.A. and Bulgari Accessori S.r.l.. All of such costs were charged to the year's income statement and refer to research and development for new jewellery products and leather goods bearing the Bvlgari brand.

Management and co-ordination, and related-party transactions

The Parent Bulgari S.p.A. with main office in Rome, has share capital of 21,164 thousand euros and owns the BULGARI trademark. The Company's principal activities are:

- 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 2010, Bulgari S.p.A. had commercial relations with its various subsidiaries that manufacture and distribute BVLGARI brand products; these relations 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 promotional 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.S. and Bulgari (UK) Ltd. 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.

For purposes of ensuring the transparency and the substantive and procedural correctness of related-party transactions, as identified by IAS 24, conducted directly or through Italian or foreign subsidiaries, Bulgari S.p.A. has adopted the "Procedure for conducting related-party transactions" in conformity to the laws and principles specified in regulations, including Art. 2391 bis of the Italian Civil Code, Italian Legislative Decree 58/98, and the Regulations adopted with Consob Resolution 17221 of 12 March 2010, as modified with Resolution 17389 of 23 June 2010. This procedure, which took effect on 1 January 2011, is published in the Investor Relations section of the Bulgari S.p.A. website.
As stated above, Bulgari S.p.A. carries out research and development activities through its subsidiaries 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 conducted with directly and indirectly held subsidiaries in 2010 and the amounts involved are set out in the following tables:

Receivables and payables from commercial, financial and other transactions at 31 December 2010 (Thousands of Euros)

	2010		2009	
Description	**Receivables**	**Payables**	**Receivables**	**Payables**
Royalties from the licesing of the trademark	40,814	–	31,731	–
Services	12,409	24,478	13,574	17,201
Goods and products not intended for sale	–	273	–	121
Financial	43,804	97,450	57,892	40,006
Group VAT settlement	21,285	1,208	12,559	1,230
Tax consolidation scheme	2,715	12	930	8,369
Other	2,839	3,160	1,446	1,083
Total	**123,866**	**126,581**	**118,132**	**68,010**

Revenue and expenses from commercial, financial and other transactions in 2010 (Thousands of Euros)

	2010		2009	
Description	**Income**	**Expense**	**Income**	**Expense**
Royalties from the licesing of the trademark	65,767	–	52,737	–
ICT service	10,240	–	9,448	–
Technical and administrative services	1,528	–	1,690	–
Legal, fiscal and design services	179	–	138	–
Interest, commissions and financial income and expense	2,193	651	2,585	202
Research and developments/Prototypes and models	–	1,579	–	2,127
Subletting of permises	471	–	486	–
Other income and expense	2,693	8,426	1,492	1,137
Income and expense from the tax consolidation scheme	2,715	12	133	3,471
Dividends	41,000	–	40,000	–
Advertising contributions	–	14,346	–	11,568
Total	**126,786**	**25,014**	**108,709**	**18,505**

Bulgari S.p.A. has entered into an agreement with the Italian subsidiaries Bulgari Italia S.p.A., Bulgari Gioielli S.p.A., Bulgari Retail USA S.r.l. and Bulgari Accessori S.r.l. regarding participation in the National Tax Consolidation scheme for the period 2010-2012.

There were no related-party transactions as defined in Consob Communication no. 2064231 of 30 September 2002 other than those described above.

As required by Consob Communication DEM 6064293 of 28 July 2006, the detail and amount of commercial and financial related-party transactions between Bulgari S.p.A. and other group companies are shown in the notes to the financial statements.

At 31 December 2010, the company had 9 direct subsidiaries (of which 4 with registered office outside Italy) and 32 indirect subsidiaries (all with registered office outside Italy).

Direct subsidiaries

Bulgari Italia S.p.A.
has its registered office in Rome, is wholly owned and has 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, Serravalle Scrivia, Capri and Porto Cervo, and distributes to third parties in Italy.

Bulgari Retail USA S.r.l.
has its registered office in Rome, is wholly owned and has quota capital of 50 thousand euros. Retail sales activities in the United States ended in 2009, and the company was put into liquidation pursuant to the resolution taken by the shareholders in their meeting held on 16 September 2010.

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 Gioielli 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.

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 International Corporation (BIC) N.V.
has its registered office in Amsterdam, is a wholly-owned sub-holding and has 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., Bulgari S.A., Bulgari France S.A.S., Bulgari (Deutschland) GmbH, Bulgari (Austria) GmbH, Bulgari Belgium S.A., Bulgari (U.K.) Ltd., Bulgari Espana S.A., Daniel Roth et Gérard Genta Haute Horlogerie S.A., Prestige d'Or S.A., Cadrans Design S.A., Bulgari Japan Ltd., Bulgari Australia Pty Ltd., Bulgari (Malaysia) Sdn., Bulgari Korea Ltd., Bulgari South Asian Operations Pte 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., Bulgari Reinsurance Company Ltd., Bulgari Qatar LLC and Bulgari Kuwait WLL.
In addition the company holds investments in Opera Partecipations S.c.A. and Opera Partecipations 2 S.c.A..

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 Hotels & Resorts B.V.
has its registered office in Amsterdam, is a 65% held sub-holding company, has 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 share 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.

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 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 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 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 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 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 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 share capital of 100 thousand Swiss francs. The company produces watch mechanisms and components.

Bulgari S.A.
has its registered office in Geneva, is wholly owned by Bulgari International Corporation (BIC) N.V. and has 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, Lugano and St. Moritz.

Bulgari France S.A.S.
has its registered office in Paris, is wholly owned by Bulgari International Corporation (BIC) N.V. and has 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, and distributes to third parties in France. 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 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 International Corporation (BIC) N.V. and has 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 International Corporation (BIC) N.V. and has 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 and Hamburg, and distributes to third parties in Germany.

Bulgari (Austria) GmbH
has its registered office in Vienna, is wholly owned by Bulgari International Corporation (BIC) N.V. and has share capital of 17.5 thousand euros. The company carried out retail sales of perfumes in Austria until 2009, and is currently inoperative.

Bulgari Espana S.A. Unipersonal
has its registered office in Madrid, is wholly owned by Bulgari International Corporation (BIC) N.V. and has 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, and distributes to third parties in Spain.

Bulgari (UK) Ltd.
has its registered office in London, is wholly owned by Bulgari International Corporation (BIC) N.V. and has share capital of 30.1 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 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 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 share capital of 16.3 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 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 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 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 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 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 share capital of Bath 260,000,000. 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 share capital of 24.3 million US dollars. The company's business is the retail sale through its exclusive US stores and the distribution of jewellery, watches, perfumes and accessories in the United States and Latin America through third parties who are BVLGARI trademark licensees.

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 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.

Bulgari Reinsurance Company Ltd.
has its registered office in Dublin, is wholly owned by Bulgari International Corporation (BIC) N.V. and has 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. The company was put into liquidation in 2010.

Bulgari Qatar LLC
has its registered office in Doha, is 49% owned by Bulgari International Corporation (BIC) N.V. and has 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 is currently inactive.

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.	68,797,000 (2)	–	–	68,797,000 (2)
Francesco Trapani	Bulgari S.p.A.	13,206,348 (3)	–	–	13,206,348 (3)

(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) 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 relevant section of the notes, to which reference should be made.

Powers granted to the Chairman and to the Chief Executive Officer

On 22 April 2010, Bulgari S.p.A.'s 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, in addition to the exclusive powers attributed to it by Article 2381 of the Italian Civil Code:

– when the commitment exceeds 30 million euros (or equivalent value in foreign currency) for each individual transaction, to incorporate new companies or associations of any kind in Italy and abroad, to buy and sell equity investments of any kind and amount in Italy and abroad, to conduct share capital transactions in new or existing companies;
– when the commitment exceeds 30 million euros (or equivalent value in foreign currency) for each individual transaction, to borrow sums from banks and credit institutions, to enter into financing agreements with the same and/or with other institutions, to conduct financial purchase transactions, request the issuance of sureties for the company and for third parties, give sureties and guarantees for third parties, pledge collateral or personal guarantiees;
– when the commitment exceeds 10 million euros (or equivalent value in foreign currency) for each individual transaction, to purchase equipment, services, movable property and registered movable property, excluding transactions with direct or indirect subsidiaries;
– purchase and sell property, excluding transactions with direct or indirect 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.

In 2010, neither the Chairman nor the Chief Executive Officer exercised any of their extraordinary management powers, nor were they given any special proxies by the board of directors for transactions affecting the share capital of subsidiaries for amounts exceeding their powers.

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

At 31 December 2010, the subscribed and paid-in share capital of Bulgari S.p.A. amounted to 21,164,196.27 euros, consisting of 302,345,661 ordinary shares of par value of euro 0.07 each.

In 2010, stock options relating to plans previously approved by shareholders were exercised for a total of 1,026,500 shares, with a consequent increase in share capital of 71.8 thousand euros. The company also issued 10,101 new shares of nominal amount equal to 0.07 euros each, following an early conversion of the bond loan issued in 2009.

At the date of preparation of this report, based on notifications received pursuant to Article 120 of the Consolidated Finance Law, the following shareholders held investments exceeding 2%:

UNIONE FIDUCIARIA S.p.A.	50.43%
of which:	
– Paolo Bulgari	23.31%
– Nicola Bulgari	22.75%
– Francesco Trapani	4.37%
OPPENHEIMERFUNDS INC.	3.519%
AMUNDI S.A.	2.026%
CREDIT AGRICOLE S.A.	2.008%
of which:	
– Predica S.A.	1.863%
– Credit Agricole CIB	0.009%
– Credit Agricole Vita S.p.A.	0.136%

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 by the necessary deadline 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 122 and 207 of Legislative Decree 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 50.43% of the Company's share capital, were restricted at 31 December 2010. 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.

In their meeting of 22 April 2010, the Shareholders 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 2.5 and 11 euros each, and in any case within the limits of the distributable profits and available reserves as stated in the most recently approved financial statements, by the means provided in Consolidated Finance Law 58/1998 and pursuant to the Regulations for Markets Organised and Managed by Borsa Italiana S.p.A..

For all the other information concerning the corporate governance and ownership 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

In compliance with Art. 2428 paragraph 2 of the Italian Civil Code, the Company declares that it conducts all of its operations in full conformity to regulations concerning the environment and health and safety at the workplace.

Social responsibility

Bulgari's activities are based on the highest ethical standards, 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 of diversity.

Bulgari promotes safe working conditions, training for its employees and a collaborative and informed working environment. In addition, the Company 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, supported by its adoption of the Kimberly Process in 2003 and by its membership in the Council for Responsible Jewellery Practices since 2004.

Bulgari's confirmed its commitment to the promotion of child education throughout the world, in collaboration with Save the Children, by donating more than 6 million euros in 2009. The Company's renewed commitment for 2010 is represented by a special B.Zero1 ring in silver and ceramic. BVLGARI is also organising a series of gala evenings in Rome, Shanghai, Tokyo, and Los Angeles to collect additional funds for Save the Children. Fabrizio Ferri will continue to support the initiative by shooting photos of celebrities who support Bulgari's commitment.

Human resources

The Company has 329 employees, most of whom work in its operational department in Rome.

Development

People are essential for Bulgari's growth and thus for Bulgari S.p.A. as well. Therefore, 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.
Bulgari's Development and Management System comprises procedures and tools that enable an employee:

- to get to know and support improvements in the individual skills and professionalism required by the Company 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, with objectives and contents that depend on each person's position in the Company and 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.

Recruiting

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 recruiting process is structured into individual or group assessments designed to assess candidates in terms of their abilities, skills, values and drive.
The recruiting tools used, therefore, aim at ensuring equal assessment and identifying the best candidates.

Bulgari-SDA Bocconi Partnership

In December 2010, Bulgari and SDA Bocconi entered into a partnership agreement to unite their competences and create a new specialisation in luxury business management as part of Bocconi's MBA course (starting in 2011-2012). The new specialisation will be reserved to 20 students and will teach them the management skills required for today's luxury goods and services market.
The SDA Bocconi MBA with a specialisation in the luxury sector will be the only one available in major international schools.

Information relating to the data protection document

In accordance with prevailing laws and regulations, the Parent updated its data protection document before 31 March 2010 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, Bulgari S.p.A. declares that it 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 2010 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 22 April 2010, the shareholders approved the financial statements as at and for the year ended 31 December 2009, which closed with a profit of 17.7 million euros, and resolved the distribution of a dividend of 0.05 euros per share for a total of 15 million euros.

In addition, shareholders in ordinary session also authorised the Chairman of the Board of Directors and the Chief Executive Officer, severally, to purchase (within 18 months of the resolution) a maximum of 30,000,000 treasury shares at a unit price ranging from 2.5 to 11 euros per share, and in any case within the limits of the distributable profits and available reserves as stated in the most recent by approved financial statements, by the means provided in Consolidated Finance Law 58/1998 and pursuant to the Regulations for Markets Organised and Managed by Borsa Italiana S.p.A..

As part of the programme to reorganise and rationalise the investments of Bulgari S.p.A. in Italy and abroad, the following mergers between group companies were conducted during the year:

- with legal effect as of 1 May 2010, but with accounting and tax effects retroactive to 1 January 2010, Bulgari Parfums Italia S.p.A. was merged into Bulgari Italia S.p.A.;
- with legal effect as of 1 July 2010, but with accounting and tax effects retroactive to 1 January 2010, Bulgari Gioielli S.p.A. was merged into Bulgari Manifattura S.p.A. which, following such merger, changed its name to Bulgari Gioielli S.p.A.;
- with legal effect as of 1 September 2010, but with accounting and tax effects retroactive to 1 January 2010, Bulgari Holding Europe B.V. was merged into Bulgari International Corporation (BIC) N.V..

Lastly, Bulgari Portugal Lda was put into liquidation during the year.

Capital transactions involving subsidiaries and associates

Capital injections of 2 million euros were made to certain subsidiaries as discussed above. Equity investments total 206.4 million euros, all of which relate to subsidiaries.

Treasury shares

There were no treasury shares at 31 December 2010.

Secondary offices

The Company has no secondary offices.

Events subsequent to 31 December 2010

There were no key events subsequent to 31 December 2010 other than as described in the report on the consolidated financial statements.

Business outlook for the Parent

According to many analysts, there will be a gradual economic recovery in 2011 that should lead the way out of the crisis, even though there will remain uncertainties linked to limited economic growth and to a higher unemployment rate in general.

Asia, the Middle East, and Latin America will continue to lead growth, but traditional markets (Europe, United States, and Japan) should make gains as well.
Naturally, a decisive economic recovery, even if not especially strong, may give new thrust to consumer spending by stimulating the propension to purchase. This essentially positive outlook is sustained by a major renewal of tourism, along with the traditional propensity of customers to favour markets offering prestigious, high-quality products.
Economic recovery on international markets may generate positive effects on the sales trends of licensee companies, with consequent increase in royalties revenue for Bulgari S.p.A..
Therefore, in consideration of the amount of dividends expected from group companies in 2011, we may expect a positive economic performance for next year as well.

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.

Proposal for the allocation of profit for the year 2010

Dear Shareholders,

the Board of Directors submits for your review the separate financial statements at 31 December 2010 of Bulgari S.p.A., audited by KPMG S.p.A., together with the consolidated financial statements of the Group for 2010, also audited by KPMG S.p.A., and the related proposal for the allocation of the profit for the year of 22,637 thousand euros.

The Board of Directors, furthermore, proposes to distribute a dividend of 0.12 euros per share by distributing all of 2010 net income and a portion of past years' retained earnings for the difference.

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

Approval of the financial statements at 31 December 2010 and allocation of profit

Dear Shareholders,

on 18 April 2011 the Shareholders Meeting approved the proposed financial statements at 31 December 2010 of Bulgari S.p.A., as approved by the Board of Directors, audited by KPMG S.p.A. and the related proposal for the allocation of the profit for the year of 22,636,905 euros.

The Shareholders Meeting, furthermore, decided to distribute a dividend of 0.12 euros per share by distributing all of 2010 net income and a portion of past years' retained earnings for the difference.

Payment of this dividend will take place from 26 May 2011, in accordance with the provision of the Regulations for the market organised and managed by Borsa Italiana S.p.A., by detaching coupon no. 17 on 23 May 2011.

Bulgari S.p.A.
Chairman of the Board of Directors
Paolo Bulgari

Bulgari S.p.A.

Financial Statement as at and for the years ended 31 December 2010 and 31 December 2009

Bulgari S.p.A.

Income Statement for the years ended 31 December 2010 and 2009
(Euros)

	Note	2010	of which related parties	2009	of which related parties
Net sales		–		13.496	
Royalties	(1)	76,266,622	65,766,956	61,725,576	52,736,642
Revenue from services	(2)	4,183,540	4,183,540	3,197,443	3,197,443
Total revenues from royaltes and services		**80,450,162**		**64,936,515**	
Other income	(3)	11,597,162	10,927,754	11,538,836	10,057,415
Total revenue from royalties, services and other income		**92,047,324**		**76,475,351**	
Personnel expense	(4)	29,409,680	1,480,648	28,443,159	1,487,887
Service costs	(5)	24,062,575	2,985,830	22,650,260	2,782,693
Advertising and promotional expenses	(6)	35,339,128	19,885,353	23,523,718	12,049,707
Depreciation, amortisation, impairment losses and other provisions	(7)	15,195,597		13,435,894	
Other operating costs	(8)	1,566,082		1,876,858	
Total cost of production		**105,573,062**		**89,929,889**	
Operating loss		**(13,525,738)**		**(13,454,538)**	
Dividends		41,000,000	41,000,000	40,000,000	40,000,000
Other financial income		4,441,245	2,193,300	3,417,268	2,584,591
Interest and financial expense		(13,493,446)	650,868	(11,846,099)	201,948
– of which Interest and financial expense relating to the bond loan		*10,902,558*		*(5,134,960)*	
Foreign exchange rate gains (losses)		(915,426)		432,924	
Total financial income	(9)	**31,032,373**		**32,004,093**	
Reversal of impairment losses (impairment losses) on financial assets	(10)	(142,855)		(5,195,602)	
Other non-operating income (expense)	(11)	180		(1,797)	
Profit before taxation		**17,363,960**		**13,352,156**	
Current and deffered taxation	(12)	(5,272,944)		(4,358,497)	
Profit for the year		**22,636,904**		**17,710,653**	

Bulgari S.p.A.

Statement of comprehensive Income
for the years ended 31 December 2010 and 2009
(Euros)

	2010	2009
Profit for the year as per the income statement	**22,636,904**	**17,710,653**
Gains (losses) on capital transactions	–	(340,633)
Income (expense) recognised directly in equity	**–**	**(340,633)**
Total comprehensive income for the year	**22,636,904**	**17,370,020**

Bulgari S.p.A.

Statements of financial position as at 31 December 2010 and 2009
(Euros)

ASSETS	Note	31/12/2010	of which related parties	31/12/2009	of which related parties
Property, plant and equipment	(13)	24,819,728		23,503,810	
Intangible assets	(14)	41,916,566		40,695,418	
– Equity investments		*206,388,145*	206,388,145	*204,179,931*	204,179,931
– Other non-current financial assets		*24,190*		*25,680*	
Total non-current financial assets	(15)	206,412,335		204,205,611	
Deffered tax assets	(16)	11,578,315		8,803,276	
Other non-current assets	(17)	13,352,910		13,129,405	
Non-current financial assets	(18)	1,240,364		1,194,066	
NON-CURRENT ASSETS		**299,320,218**		**291,531,586**	
Non-current assets held for sale		–		–	
Inventories	(19)	113,676		113,676	
Trade receivables	(20)	62,081,489	57,289,843	48,948,555	44,712,522
– Financial assets		*43,427,808*	42,195,323	*56,963,194*	56,386,906
– Other financial assets		–		–	
Total financial assets	(21)	43,427,808		56,963,194	
– Tax assets		*15,731,099*		*12,901,244*	
– Other current assets		*27,496,318*	24,381,066	*19,260,356*	17,032,896
Total other current assets	(22)	43,227,417		32,161,600	
Cash and cash equivalents	(23)	65,184,933		5,185,347	
CURRENT ASSETS		**214,035,323**		**143,372,372**	
TOTAL ASSETS		**513,355,541**		**434,903,958**	

Bulgari S.p.A.

Statements of financial position as at 31 December 2010 and 2009
(Euros)

LIABILITIES AND EQUITY	Note	31/12/2010	of which related parties	31/12/2009	of which related parties
Equity	(24)				
– *Share capital*		21,164,196		21,091,634	
– *Reserves*		134,282,033		126,015,790	
– *Retained earnings*		35,491,572		32,846,372	
– *Profit for the year*		22,636,904		17,710,653	
TOTAL EQUITY		**213,574,705**		**197,664,449**	
Employee benefits	(4)	4,040,014		4,172,270	
Provisions for risks and charges	(25)	750,362		933,605	
Deffered tax liabilities	(16)	–		–	
Other non-current liabilities		–		–	
Non-current bank loans and borrowings		–		–	
Other non-current financial liabilities	(26)	139,368,212		133,870,663	
NON-CURRENT LIABILITIES		**144,158,588**		**138,976,538**	
Non-current liabilities held for sale		–		–	
Trade payables	(27)	45,790,438	27,183,204	36,640,198	18,148,287
Current financial liabilities	(28)	97,239,731	96,940,144	40,272,821	39,973,467
– *Advances*		*114*		*2,372*	
– *Current tax liabilities*		*267,791*		*664,353*	
– *Other current liabilities*		*12,324,174*	2,457,168	*20,683,227*	9,888,600
Other current liabilities	(29)	12,592,079		21,349,952	
CURRENT LIABILITIES		**155,622,248**		**98,262,971**	
TOTAL LIABILITIES AND EQUITY		**513,355,541**		**434,903,958**	

Bulgari S.p.A.

Statement of Cash flows
(Euros)

	2010	of which related parties	2009	of which related parties
Cash flows from operating activities				
Profit for the year	22,636,904		17,710,653	
Depreciation, amortisation and impairment losses	15,190,452		18,189,496	
Cash flows from operating activities	**37,827,356**		**35,900,149**	
(Increase) decrease in current trade receivables	(13,132,934)	(12,577,321)	6,799,139	6,169,668
(Increase) decrease in other current receivables	(11,065,817)	(7,348,170)	(11,695,182)	(9,253,875)
(Increase) decrease in inventories	–		44,521	
Increase (decrease) in trade payables	9,150,240	9,034,917	(1,039,313)	506,247
Increase (decrease) in other payables	(8,757,873)	(7,431,432)	3,349,355	3,512,560
Cash flows from changes in net working capital	**(23,806,384)**		**(2,541,480)**	
Other non-current assets (including other non-current financial assets)	(2,997,054)		(8,623,623)	
Other non-current liabilities	(315,499)		(1,181,800)	
(a) Cash flows from operating activities	**10,708,419**		**23,553,246**	
Cash flows from investing activities				
Purchases of property, plant and equipment (net of disposals)	(4,073,146)		(6,253,941)	
Purchases of intangible assets	(13,511,516)		(13,992,692)	
Increase in non-current financial assets (excluding other non-current financial assets)	(2,351,069)	(2,351,069)	(43,101,252)	(43,101,252)
(b) Cash flows used in investing activities	**(19,935,731)**		**(63,347,885)**	
Cash flows from financing activities				
Change in equity for capital increases	72,562		47,547	
Dividends paid	(15,065,453)		(30,062,981)	
Other changes	8,266,243		18,339,442	
(c) Total changes in equity	**(6,726,648)**		**(11,675,992)**	
Change in non-current financial liabilities	5,497,549		133,870,663	
Change in non-current financial assets	(46,298)		846,486	
(d) Total changes non-current financial assets	**5,451,251**		**134,717,149**	
(e) Cash flows used in investing activities	**(1,275,397)**		**123,041,157**	
(f) Changes in short-term net financial position (a)+(b)+(e)	**(10,502,709)**		**83,246,518**	
Net cash (debt) at the beginning of the year (*)	**(110,800,877)**		**(59,330,246)**	
Change in in short-term debt (f)	(10,502,709)		83,246,518	
Change in long-term debt (e)	(5,451,251)		(134,717,149)	
Net (debt) at the end of the year	**(126,754,837)**		**(110,800,877)**	
of which:				
– cash and cash equivalents	65,184,933		5,185,347	
– current financial liabilities	(97,239,731)		(40,272,821)	
– current financial assets	43,427,808		56,963,194	
– non-current financial liabilities	(139,368,211)		(133,870,663)	
– non-current financial assets	1,240,364		1,194,066	

(*) Including non-current cash (debt).

Bulgari S.p.A.

Statement of changes in equity for the years ended 31 December 2009 and 2010
(Euros)

	Note	Share capital	Share premium reserve	Share premium reserve on bond conversion	Legal Reserve	Treasury share premium 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 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		**21,091,634**	**93,116,439**	**–**	**5,762,389**	**695,770**
Treasury share transactions						
Total income and expense recognised directly in equity						
Profit for the year						
Total income and expense						
Allocation of 2009 profit to:						
Dividends						
Retained earnings						
Capital increase for exercise of stock options		71,855	5,991,621			
Stock option reserve						
Bond conversion		707		49,293		
Reserve created for bond issue						
31 December 2010	24	**21,164,196**	**99,108,060**	**49,293**	**5,762,389**	**695,770**

Stock options reserve	Extraordinary reserve	Taxed reserve	Contribution reserve	Bond issue reserve	Capital transaction reserve	Retained earnings	Profit (loss) for the year	Total
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**
					–			–
					–			**–**
							22,636,905	22,636,905
							22,636,905	**22,636,905**
							(15,065,453)	(15,065,453)
						2,645,200	(2,645,200)	–
								6,063,476
2,229,723								2,229,723
								50,000
				(4,394)				(4,394)
13,723,543	**27,886**	**144,693**	**1,933,240**	**13,177,792**	**(340,633)**	**35,491,572**	**22,636,905**	**213,574,706**

Bulgari S.p.A.

Note to the separate financial statements as at and for the year ended 31 december 2010

Bulgari S.p.A.

Financial Statements as at and for the year ended 31 December 2010

Accounting policies standards and evaluation criteria

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 2010.
These financial statements were authorised for publication by the directors on 11 March 2011.

Statement of compliance

Bulgari S.p.A. has prepared its separate financial statements as at and for the year ended 31 December 2010 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 at 31 December 2010 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. Income and expense 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 thereto 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 DEM no. 6064293 of 28 July 2006, took place during the year.

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 fair value of the net assets acquired is accounted for as goodwill. If the 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 equipment 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 equipment 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:

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 shorter 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 the 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:

Category	Usefu life (years)
Development expenditure	max 5
Industrial patents and intellectual property rights	3 - 7
Concessions, trademarket 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 is 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. Subsequent measurement 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.

(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 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.

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 reporting 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 italian 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 contri¬butions 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.

Taxes

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

In addition 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 off setting right.

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 Retail USA S.r.l., and Bulgari Accessori S.r.l. regarding the joint exercise of the option to use "national consolidation" regime (renewed for the period 2010-2012), 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 scheme.
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 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 impairment, 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 and for risks and charges and 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 of 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 2010, 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 currency 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 2010, 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 17 thousand euros at 31 December 2010. 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 foreign 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 2010 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 2010 would have led to a potential loss in fair value of these financial instruments of approximately 1.1 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 1.2 thousand euros.
Floating rate financial instruments consist of current debt and derivative instruments leading to the payment of interest at floating rates.
Bulgari S.p.A. held no floating rate financial instruments at 31 December 2010.

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 impairment losses 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 2010 that did not lead to any accounting effects for the Company on adoption

- IAS 27 (2008) – *Consolidated and Separate Financial Statements.*
- IFRS 3 (Revised in 2008) – *Business combinations.*
- Improvement to IFRS 5 – *Non-current assets held for sale and discontinued operations*.
- Amendments to IAS 28 – *Investments in associates,* and to IAS 31 – *Investments in joint ventures, subsequent to changes made* to IAS 27.
- *Improvement to IAS/IFRS (2009).*
- Amendment to IFRS 2 – *Share-based payments: payment based on Group shares settled in cash.*
- IFRIC 17 – *Distribution of non-cash assets to owners.*
- IFRIC 18 – *Transfer of assets from customers.*
- Amendment to IAS 39 – *Financial instruments: recognition and measurement – reclassification.*

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

On 20 December 2010, the IASB issued a minor amendment to IAS 12 "Income Taxes" that requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. As a result of this amendment, SIC-21 – Income Taxes – Recovery of Revalued Non-Depreciable Assets will no longer be applicable. The amendment will take effect on 1 January 2012. 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 7 October 2010, the IASB published a few amendments to IFRS 7 "Financial Instruments: Disclosures," applicable for reporting periods beginning on or after 1 July 2011. The amendments were issued to improve understanding of transfer transactions of financial assets, including understanding of the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions is undertaken around the end of a reporting period. 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 6 May 2010, the IASB issued a collection of amendments to seven IFRS ("*improvements*"), approved by the competent EU bodies in February 2011 and applicable beginning on 1 January 2011; the amendments that will cause a change in the presentation, recognition, and measurement of financial statement items are described below:

- IFRS 3 (2008) "Business Combinations": the amendment clarifies that assets of an NCI that do not give holders the right to receive a proportionate share of the net assets of the subsidiary must be measured at fair value or as required by applicable accounting standards. Therefore, in case of a business combination, an employee stock option plan must be measured in accordance with the rules of IFRS 2 and the equity share of a convertible bond must be measured in accordance with IAS 32. In addition, the Board clarified the subject of share-based payment plans that are replaced in a business combination, adding a specific guide to clarify their accounting treatment.
- IFRS 7 "Financial Instruments": disclosures: the amendment emphasises the interaction between qualitative disclosures and quantitative disclosures required by the standard regarding the nature and extent of exposure to risks arising from financial instruments. This should help users of the financial statements to understand the information presented and to form a general description regarding the nature and extent of risks arising from financial instruments. In addition, the amendment eliminated the disclosure requirement for financial assets that have expired but whose terms have been renegotiated or derecognised, as well as the disclosure regarding fair value of collateral.
- IAS 1 "Presentation of financial statements": the amendment requires that the reconciliation of changes in each equity component be presented in the notes or in the statement of changes in equity.
- IAS 34 "Interim financial reporting": a number of examples were used to clarify the disclosures that must be presented in Interim Financial Reports.

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 year. The interpretation was endorsed by the competent bodies of the European Union in July 2010 and has been applicable since 1 July 2010.

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 the first part of a project to entirely replace IAS 39, 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 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 standard was endorsed by the competent bodies of the European Union in July 2010 and is applicable from 1 January 2011.

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 in equity regardless of the currency in which the exercise price is denominated. The amendment was endorsed by the competent bodies of the European Union in December 2009 and is applicable to financial statements dated after 31 January 2010.

With regard to newly-issued amendments, standards and interpretations that have not yet been endorsed by the European Union but that treat situations that currently or potentially involve the Group, the Company is assessing possible impacts on its financial statements deriving from their application, with consideration of each effective date.

CONTENTS AND MAIN CHANGES

Income statement

1. Royalties

Royalties may be analysed as follows:

(Thousands of Euros)

	2010	2009
Royalties from related parties	65,767	52,737
Royalties from third party companies	10,500	8,989
Total Royalties	**76,267**	**61,726**

Revenue from the licensing of the Bvlgari trademark increased by 14,541 thousand euros, +23.5% compared to the previous year reflecting the increase in licensee sales volumes.
Royalties from third party companies include revenue from 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 4,183 thousand euros, representing an increase of 986 thousand euros over the previous year.

The following table provides an analysis of this revenue by company:

(Thousands of Euros)

	2010	2009
Bulgari Italia S.p.A.	1,065	1,035
Bulgari Gioielli S.p.A.	356	531
Bulgari Corporation of America Inc.	–	46
Bulgari Japan Ltd.	19	–
Bulgari Deutschland Gmbh	–	3
Bulgari France S.A.S.	–	3
Bulgari Parfums S.A.	529	58
Bulgari Global Operation S.A.	492	–
Bulgari Collection International S.A.	1,556	1,315
Bulgari Retail USA S.r.l.	23	55
Bulgari Accessori S.r.l.	102	99
Bulgari Hotels and Resorts Milano S.r.l.	41	38
Bulgari Hotels and Resorts Japan Ltd.	–	14
Total revenue from services to related parties	**4,183**	**3,197**

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 from the sale of goods and provision of services by geographical segment is as follows:

(Thousands of Euros)

	Italy	EU	Europe Other	Americas	Middle East	Far East	Japan	Other	Total
Royalties from the licensing of the trademark:									
– from related parties	2,300	2,940	44,948	2,564	308	6,828	5,315	564	65,767
– from third parties	6,435	118	335	263	2,258	1,077	–	14	10,500
Total royalties from the licensing of the trademark	8,735	3,058	45,283	2,827	2,566	7,905	5,315	578	76,267
Revenue from services									
– from related parties	1,587		2,577				19		4,183
– from third parties									–
Total revenue from services	**1,587**	**–**	**2,577**	**–**	**–**	**–**	**19**	**–**	**4,183**
Total revenue from royalties and services	**10,322**	**3,058**	**47,860**	**2,827**	**2,566**	**7,905**	**5,334**	**578**	**80,450**

3. Other income

(Thousands of Euros)

	2010	2009
– Other income from related parties	10,928	10,057
– Other income from third parties	669	1,482
Total other income	**11,597**	**11,539**

Other income amounted to 11,597 thousand euros for the year ended 31 December 2010, an increase of 58 thousand euros compared to the previous year. Operating income from related parties of 10,928 thousand euros relates mainly to the recharge of costs for the development and implementation of application software of 10,240 thousand euros and office subletting agreements with Bulgari Gioielli S.p.A., Bulgari Retail USA S.r.l. and Bulgari Italia S.p.A. for 471 thousand euros. All arrangements with related parties are governed by specific contracts.

Other income from third parties of 669 thousand euros decreased by 813 thousand euros compared to the previous year. This item relates primarily to contingent assets regarding the non-existence of costs allocated in previous years (285 thousand euros), the recharge of costs of 240 thousand euros incurred for the restructuring of certain franchised stores, income from defence of the brand of 22 thousand euros, and other minor income.

The following table provides an analysis by company of “Other income from related parties”:

(Thousands of Euros)

	2010	2009
Bulgari Italia S.p.A.	1,419	1,068
Bulgari Gioielli S.p.A.	1,541	1,480
Bulgari International Corporation (BIC) N.V.	40	34
Bulgari Corporation of America Inc.	820	636
Bulgari Time (Switzerland) S.A.	435	578
Bulgari Japan Ltd.	816	796
Bulgari S.A.	121	135
Bulgari (Deutschland) Gmbh	269	225
Bulgari France S.A.S.	189	207
Bulgari Montecarlo S.A.M.	13	15
Bulgari Espana S.A. Unipersonal	304	186
Bulgari Parfums S.A.	367	563
Bulgari South Asian Operations Pte Ltd.	151	132
Bulgari (UK) Ltd.	134	129
Bulgari Belgium S.A.	14	24
Bulgari Australia Pty. Ltd.	62	76
Bulgari (Malaysia) Sdn Bhd	34	26
Bulgari Global Operations S.A.	922	1,395
Bulgari Collection Internationale S.A.	53	90
Bulgari Asia Pacific Ltd.	288	176
Bulgari (Taiwan) Ltd.	137	116
Bulgari Korea Ltd.	197	168
Bulgari Saint Barth S.a.S.	9	9
Bulgari Parfums Deutschland Gmbh	–	30
Bulgari Retail USA S.r.l.	12	249
Prestige D'Or S.A.	3	–
Bulgari Commercial (Shanghai) Company Ltd.	774	723
Bulgari Accessori S.r.l.	232	211
Bulgari Austria Gmbh	–	1
Bulgari Thailand Ltd.	9	–
Bulgari Panama Inc.	11	10
Bulgari Parfums Iberia	–	61
Bulgari Qatar LLC	19	–
Bulgari Ireland Ltd.	1,533	508
Total other income from related parties	**10,928**	**10,057**

4. Employee benefits

The following changes took place in the number of employees during the year, analysed by category:

	At 31/12/2009	Joiners	Leavers	Change in category	At 31/12/2010	Average 2010	Average 2009
Executive	32	3	(2)	1	34	33	34
Middle mgt.	61	4	(5)	3	63	62	63
White collars	240	11	(21)	(4)	226	233	256
Blue collars	8	–	(2)	–	6	7	8
Total	**341**	**18**	**(30)**	**–**	**329**	**335**	**361**

Personnel expense

Personnel expense relates to the following:

(Thousands of Euros)

	2010	2009
– Wages and salaries	18,492	17,537
– Social security charges	5,944	5,739
– Accrual for post-employment benefits (TFR)	1,265	1,341
– Remuneration component of stock option plan	1,741	1,927
– Other personnel expense	1,967	1,899
Total personnel expenses	**29,409**	**28,443**

Personnel expense amounted to 29,409 thousand euros, an increase of approximately 3% over the prior year. The remuneration 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 2010 the balance for employee benefit plans amounted to 4,040 thousand euros, excluding payments for defined contribution plans of 1,164 thousand euros and related advances of 998 thousand euros, compared to 4,172 thousand euros at 31 December 2009.

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 4,040 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)

	2010	2009
Accruals for post-employment benefits (TFR) at 1 January	4,172	4,406
Costs recognised in profit or loss	1,469	1,575
Transfers to pension funds	(307)	(304)
Transfer to the INPS Treasury Fund	(857)	(912)
Utilisation	(437)	(593)
Accruals for post-employment benefits (TFR) at 31 December	**4,040**	**4,172**

Changes during the year recognised in the income statement were as follows:

(Thousands of Euros)

	2010	2009
Services costs	1,265	1,341
Interest on discounting post-employment benefits	204	234
Total changes in profits or loss	**1,469**	**1,575**

The main assumptions used in making the actuarial estimate were as follows:

Annual discount rate	4.65%
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 for 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 14 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 expense includes costs of 1,741 thousand euros relating to stock option plans in place at 31 December 2010. This cost has been determined at a fair value ranging between 0.96 and 2.56 euros per share using the method described in "Accounting policies and measurement criteria".

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: .... 1.2 to 9.1%
- Stock price volatility: .... 22 to 41%
- "Risk free" interest rate: .... 1.1 to 4.8%
- Average expected option term: .... 2.4 to 5.5 years

In 2010, stock options relating to plans previously approved by shareholders were exercised for a total of 1,026,500 shares, with a consequent increase in share capital of 72 thousand euros.

In accordance with the resolution passed by shareholders in an ordinary and extraordinary general meeting on 22 April 2010 and on the basis of a resolution adopted by the board of directors on 10 May 2010, 300,000 stock options were granted at the latter date to the Chief Executive Officer which may be exercised from July 2011, and a further 300,000 options which may be exercised from July 2012, all at a price of 6.31 euros each.

On the same date, certain members of management were granted 162,750 options exercisable from July 2011, 162,750 options exercisable from July 2012, 77,250 options exercisable from July 2013, 252,250 options exercisable from July 2014, and 175,000 options exercisable from July 2015, all at a price of 6.31 euros each.
Settlement will be on the physical delivery of the shares as per the previous plans.

Information relating to changes in stock option plans during 2010 is set out in the following table:

	2010	
	Number of options	**Average exercise price**
Options at 01/01/2010	7,494,500	€6.75
Granted 2010	1,430,000	€6.31
(Options exercised in the year)	907,500	€5.95
(Options expiring in the year)	90,750	€6.57
Options at 31/12/2010	7,926,250	€6.77
Of which exercisable at 31/12/2010	5,127,750	€7.47

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	118,750	–	118,750	894,500	600,000	1,494,500	1,613,250
> 5.0	579,750	1,200,000	1,779,750	2,433,250	2,100,000	4,533,250	6,313,000
Total	698,500	1,200,000	**1,898,500**	3,327,750	2,700,000	**6,027,750**	**7,926,250**

Price band	Of which exercisable at 31/12/2010		
	Others	CEO	Total
<=2.0	–	–	–
> 2.0 < 5.0	224,750	300,000	524,750
> 5.0	1,903,000	2,700,000	4,603,000
Total	2,127,750	3,000,000	**5,127,750**

5. Service costs

(Thousands of Euros)

	2010	2009
– Cost of related-party services	2,986	2,782
– Cost of third-party services	21,077	19,868
Total service costs	**24,063**	**22,650**

Service costs totalled 24,063 thousand euros for 2010, an increase of 1,413 thousand euros over the previous year.

Costs of related-party services

Costs of related-party services refer principally to recharges of operating costs incurred by subsidiaries. The increase of 204 thousand euros over the previous year relates mainly to a rise in the cost of product development prototypes incurred by Bulgari Gioielli S.p.A. and by Bulgari Accessori S.r.l., and recharged to the Company pursuant to specific agreements.

The following table provides an analysis of this item:

(Thousands of Euros)

	2010	2009
Bulgari Italia S.p.A.	9	11
Bulgari Gioielli S.p.A.	1,724	1,602
Bulgari Corporation of America Inc.	14	21
Bulgari Time S.A.	–	15
Bulgari Japan Ltd.	159	128
Bulgari (Deutschland) Gmbh	–	1
Bulgari Parfums S.A.	1	–
Bulgari France S.A.S.	1	–
Bulgari (UK) Ltd.	4	6
Bulgari Australia Pty Ltd.	8	–
Bulgari Global Operations S.A.	2	46
Bulgari (Taiwan) Ltd.	–	4
Bulgari Commercial Shanghai Company Ltd.	–	70
Bulgari Accessori S.r.l.	1,058	873
Bulgari Hotels and Resorts Milano S.r.l.	6	2
Bulgari Hotels and Resorts Japan Ltd.	–	3
Total cost of related-party services	**2,986**	**2,782**

Costs of third-party services

Third-party service costs are analysed in the following table:

(Thousands of Euros)

	2010	2009
External costs for technical, organisational, legal, tax and administrative consultancy services	3,465	3,540
Fees to members of corporate bodies	2,968	2,013
Services for employees and management bodies	1,878	1,348
Protection and filing of trademark and designs	935	1,160
Hiring costs	1,807	1,612
Maintance instalments and maintenance and repair costs	2,647	2,825
Lease costs	4,478	4,704
Energy, telephone and communications costs	1,221	1,355
Security services	595	665
Insurance	137	142
Technical monitoring department expenses	564	13
Premises cleaning costs	236	239
Other services	146	252
Total cost of third-party services	**21,077**	**19,868**

In 2010, third-party service costs rose by approximately 6% and referred mainly to:

– costs for external services of 3,465 thousand euros, which increased by 75 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 2,968 thousand euros (2,013 thousand euros in 2009), which consist of fees to directors of 2,703 thousand euros, including social security contributions, fees for the members of the board of statutory auditors of 165 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 fees;

– costs for services to employees and management bodies of 1,878 thousand euros (1,348 thousand euros in 2009), which increased by 530 thousand euros. These include the costs and reimbursement of business travel expenses for employees and members of the Board of Directors;

– costs of 935 thousand euros for the protection and filing of trademarks and designs, compared with 1,160 thousand euros in the previous year, representing a decrease of 225 thousand euros;

– hiring costs amounting to 1,807 thousand euros (1,612 thousand euros in 2009), representing an increase of 195 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 2,647 thousand euros, a decrease of 178 thousand euros compared to the previous year. In particular, instalments for the maintenance of application software amounted to 1,644 thousand euros, while maintenance instalments relating to computer hardware totalled 33 thousand euros. This item also includes costs of 310 thousand euros for the maintenance and repair of office equipment and machines;

– lease costs of 4,478 thousand euros for premises housing the Company's registered office, headquarters and administrative offices and related accessory costs, which decreased by 226 thousand compared to the previous year.

Fees to Directors and Statutory Auditors in office at 31/12/2010 (*)

(Thousands of Euros)

Person	Role		Fees		
Name	Office	Term of office	Fees for office	Bonus and other incentives	Other fees (See note 1)
Paolo Bulgari	Chairman Bulgari S.p.A.	2010-2012	253		
Nicola Bulgari	Vice-Chairman Bulgari S.p.A.	2010-2012	176		
Francesco Trapani	Chief executive officer Bulgari S.p.A.	2010-2012	2,000	See Stock options plan table	
Paolo Cuccia	Director Bulgari S.p.A.	2010-2012	45		10 [c] 30 [d]
Giulio Figarolo Di Gropello	Director Bulgari S.p.A.	2010-2012	45		10 [c] 20 [d]
Claudio Costamagna	Director Bulgari S.p.A.	2010-2012	45		20 [d]
Claudio Sposito	Director Bulgari S.p.A.	2010-2012	45		10 [c]
Eugenio Pinto	Chairman, Board of statutory Auditors Bulgari S.p.A.	2008-2010	65		
Maurizio De Magistris	Statutory Auditor Bulgari S.p.A.	2008-2010	50		41 [b]
Gerardo Longobardi	Statutory Auditor Bulgari S.p.A.	2008-2010	50		

(*) Amounts stated in the table refer to fees recorded or earmarked during year and are recognised on an accrual basis.

(1) Other fees paid for office such as:
[a]: Director in other companies in the Bulgari Group.
[b]: Chairman of the Board of Statutory Auditors or Statutory Auditor of other Bulgari group companies.
[c]: Chairman or member of the Remuneration Committee.
[d]: Chairman or member of the Control Committee.

6. Advertising and promotional expenses

(Thousands of Euros)

	2010	2009
– Related-party advertising and promotional expenses	19,885	12,050
– Third-party advertising and promotion	15,454	11,474
Total advertising and promotional expenses	**35,339**	**23,524**

Advertising and promotional expenses of 35,339 thousand euros, compared to 23,524 thousand euros in the previous year, increased by 11,815 thousand euros. This increase is principally due to higher advertising and promotional contributions paid to subsidiaries of 7,835 thousand euros, and an increase in advertising costs incurred with third parties of 3,980 thousand euros.

As the owner of the Bvlgari trademark, Bulgari S.p.A. contributes on the basis of specific agreements or, in some cases, supplements to the licensing agreement, to the advertising and promotional 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.

These contributions are calculated using criteria and parameters based on the promotional investments made and the turnover achieved by these related parties, and in 2010 led to the recognition of a higher contribution of 1,958 thousand euros.

Bulgari S.p.A. has also signed an agreement with Bulgari France S.A.S for a 5,000 thousand euros contribution recognised for the organisation and management of the "Bulgari Retrospective" exhibition, held in Paris at the Grand Palais in December 2010.

The following tables provides an analysis of this item by company:

Related-party advertising and promotional expenses at 31 December 2010 (Thousands of Euros)

	Advert. contrib.	**Other budget support**
Bulgari Italia S.p.A.	1,000	1
Bulgari Corporation of America Inc.	6,845	48
Bulgari Japan Ltd.	3,272	18
Bulgari (Deutschland) Gmbh	282	18
Bulgari France S.A.S.	317	5,106
Bulgari Espana S.A. Unipersonal	161	50
Bulgari Parfums S.A.	–	5
Bulgari South Asian Operation Ltd.	33	6
Bulgari (UK) Ltd.	746	11
Bulgari Australia Pty. Ltd.	–	5
Bulgari Global Operations S.A.	–	44
Bulgari (Taiwan) Ltd.	–	8
Bulgari Korea Ltd.	–	1
Bulgari Commercial (Shanghai) Ltd.	1,690	53
Bulgari Accessori S.r.l.	–	17
Bulgari Hotels and Resorts Milano S.r.l.	–	148
Total advertising and promotional expenses for Group	**14,346**	**5,539**

Advertising and promotional expenses with third parties, which increased by 3,980 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)

	2010	**2009**
– Amortisation of intangible assets	12,289	10,478
– Depreciation of property, plant and equipment	2,759	2,516
– Other provisions	148	442
Totale depreciation, amortisation, impairment and other provisions	**15,196**	**13,436**

"Amortisation, depreciation, impairment losses and other provisions" increased by 1,760 thousand euros in 2010. This is mainly due to an increase in the amortisation charged on application software licenses and the related development expenses, which rose by 1,721 thousand euros over 2009; an increase of 503 thousand euros in the depreciation charged on property, plant and equipment compared to the previous year; and a decrease of 294 thousand euros in other provisions, which mainly refer to probable non-recurring costs regarding disputes with resigning personnel, calculated on the best estimate of expenses to be incurred, and considering the opinions of independent attorneys that the company has hired to settle such disputes.

8. Other operating costs

(Thousands of Euros)

	2010	2009
– Related-party other operating costs	–	–
– Third-party other operating costs	1,566	1,877
Total other operating costs	**1,566**	**1,877**

At 31 December 2010, "Other operating costs" decreased by 311 thousand euros compared to 2009, and relate entirely to costs incurred with third parties.
These costs, amounting to 1,566 thousand euros, consist of all operating costs of a general nature, such as costs for the insurance and transportation of products for events (226 thousand euros), postal and shipping costs (106 thousand euros), costs for stationery and consumables (154 thousand euros), the cost of running company cars (94 thousand euros) and membership expenses (45 thousand euros). Also included in this item are prior year expenses (186 thousand euros), the commissions and fees payable to Monte Titoli and its depositaries (50 thousand euros), listing fees (70 thousand euros), costs for managing company shares (57 thousand euros), losses on receivables (230 thousand euros), and other taxes and duties (128 thousand euros).

9. Financial income

(Thousands of Euros)

	2010	2009
– Dividends received	41,000	40,000
– Other financial income	4,441	3,417
– Financial expense and interest	(13,494)	(11,846)
– Exchange rate gains (losses)	(915)	433
Total financial income	**31,032**	**32,004**

Financial income

(Thousands of Euros)

	2010	2009
Dividends received	41,000	40,000
Other related-party financial income:		
– *Interest income*	*1,970*	*2,357*
– *Income from commissions on securities*	*223*	*228*
Total other related-party financial income	**2,193**	**2,585**
Other third-party financial income:		
– *Interest income on bank current accounts*	*14*	*11*
– *Other interest income from the public administration*	*223*	*307*
– *Loan interest income*	*1,992*	*410*
– *Premium income on financial forward transactions*	*9*	*104*
– *Gains on sale of securities*	*10*	*–*
Total other third-party financial income	**2,248**	**832**
Total financial income	**45,441**	**43,417**

The Company received dividends of 41,000 thousand euros during the year, an increase of 1,000 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)

	2010	2009
Bulgari Italia S.p.A.	1,047	1,229
Bulgari Gioielli S.p.A.	479	535
Bulgari Corporation of America Inc.	10	2
Bulgari Japan Ltd.	145	98
Bulgari France S.A.S.	12	16
Bulgari Global Operations S.A.	–	12
Bulgari Montecarlo S.A.M.	2	1
Bulgari Retail USA S.r.l.	–	9
Bulgari Commercial (Shanghai) Ltd.	249	337
Bulgari Accessori S.r.l.	180	244
Bulgari Hotels & Resorts B.V.	38	44
Bulgari Hotels and Resorts Milano S.r.l.	31	58
Total related-party financial income	**2,193**	**2,585**

Other third-party financial income amounts to 2,248 thousand euros, an increase of 1,416 thousand euros over 2009; of this, 1,992 thousand euros relates to interest income earned on medium- and long-term interest rate swaps used to hedge the interest rate risk on the bond loan; the balance refers to premium income on financial transactions and interest on bank current accounts.

Financial expense

(Thousands of Euros)

	2010	2009
Other related-party financial expense:		
– *Interest expense*	*651*	*202*
Total other related-party financial expense	**651**	**202**
Other third-party financial expense		
– *Interest expense on bank current accounts*	*59*	*40*
– *Bond loan interest expense*	*10,902*	*5,135*
– *Loan interest expense*	*1,342*	*3,854*
– *Other interest expense to the pubblic administration*	*36*	*28*
– *Commissions on sureties from third parties*	*92*	*87*
– *Club deal commissions*	*–*	*2,108*
– *Bank charges and fees*	*76*	*86*
– *Premium expense on financial transactions*	*131*	*72*
– *Interest on discounting the post - employment benefits obligation*	*204*	*234*
Total other third-party financial expense	**12,842**	**11,644**
Total financial expense	**13,493**	**11,846**

Financial expense rose by 1,647 thousand euros compared to the previous year.

Related-party financial expense consists of interest expense on centralised management of the Group's treasury and on loans taken out by the Company.

The following table provides an analysis of this item by company:

(Thousands of Euros)

	2010	2009
Bulgari International Corporation (BIC) N.V.	–	83
Bulgari Global Operations S.A.	651	114
Bulgari Retail USA S.r.l.	–	5
Total financial expense - related parties	**651**	**202**

Third-party financial expense rose by a net amount of 1,198 thousand euros compared to the previous year, and refer mainly to interest accrued on the Bond Loan issued by Bulgari S.p.A. on 8 July 2009 for 150,000 thousand euros.

Foreign exchange rate gains (losses)

(Thousands of Euros)

	2010	2009
– Exchange rate gains	7,335	3,725
– Exchange rate losses	(8,250)	(3,292)
Total exchange rate gains (losses)	**(915)**	**433**

There were net exchange rate losses of 915 thousand euros in 2010 compared to net exchange rate gains of 433 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 above 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 may be found in note 31 "Information concerning financial risks".

10. Reversals of impairment losses (impairment losses) on financial assets

(Thousands of Euros)

	2010	2009
Impairment losses on equity investments	143	5,196
Total reversals of impairment losses (impairment losses) on financial assets	**143**	**5,196**

There was a net impairment loss on investments of 143 thousand euros during 2010, compared with 5,196 thousand euros in the prior year.

The item includes the total impairment loss on the investment in Bulgari Portugal Accessorios de Luxo Lda following conclusion of the liquidation process.

11. Other non-operating income (expense)

(Thousands of Euros)

	2010	2009
Other non-operating income	–	2
Total other non-operating income (expense)	**–**	**2**

There was no other non-operating income at 31 December 2010.

12. Current and deferred taxation

(Thousands of Euros)

	2010	2009
Current IRES	–	–
Current IRAP	562	584
Foreign income taxes	1,518	1,748
Deferred taxes	(2,775)	(8,309)
Taxes from national consolidated tax scheme	(2,703)	3,338
Prior year taxes	(1,884)	(1,734)
Prior year administrative penalties and fiscal interest	9	15
Total current and deferred taxation	**(5,273)**	**(4,358)**

There was a net balance of 5,273 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 consolidated scheme amounted to 2,703 thousand euros.
Deferred tax income of 2,775 thousand euros was recognised in 2010 (8,309 thousand euros in 2009); this mainly represents the recognition of deferred tax assets on the losses included in the 2010 tax consolidation scheme.
The IRAP tax charge amounted to 562 thousand euros compared to 584 thousand euros at 2009 year end.
Taxes on foreign earnings amounting to 1,518 thousand euros (1,748 thousand euros in 2009) relate to withholding tax that was incurred and paid on a final basis outside Italy.
Prior year tax income regarding accruals relating to 2009 amounts to 1,884 thousand euros (1,734 thousand euros in 2009).

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	**2010**	**2009**
Ordinary IRES (corporate income tax) rates applicable	**27.50%**	**27.50%**
– Tax effect of permanent differences:		
· Impairments losses on investments	0.23%	10.70%
· Other non-deductible costs	15.06%	16.89%
· Dividends	(61.69%)	(78.26%)
· Other exempt income and tax-deductible costs	(12.65%)	(14.84%)
– Foreign income taxes	8.74%	13.09%
– Prior year income taxes	(10.79%)	(12.88%)
– Adjustment to deferred tax liabilities calc. on accumulated temp. differences	0.00%	0.76%
IRES effective rate	**(33.60%)**	**(37.04%)**
– IRAP effect *(current and deferred)*	3.23%	4.40%
Total effective tax rate	**(30.37%)**	**(32.64%)**

Statement of financial position

13. Property, plant and equipment

(Thousands of Euros)

	Plant and machinery	Indust. and comm. equipment	Leasehold improvements	Electronic machines	Assets under construction and payments on account	Bulgari Museum	Other	Total
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)
Balanced at 31/12/2008	**145**	**25**	**1,274**	**2,818**	**3,584**	**11,640**	**265**	**19,751**
Changes in 2009								
Puchases	50	124	564	275	4,533	451	272	6,269
Reclassifications	107	962	4,515	1,310	(8,004)	–	1,110	–
Transfers	–	–	–	(18)	–	–	(3)	(21)
Depreciation	(85)	(160)	(601)	(1,147)	–	–	(249)	(2,242)
Impairment	–	–	–		–	(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)
Balanced at 31/12/2009	**217**	**951**	**5,752**	**3,242**	**113**	**11,831**	**1,398**	**23,504**
Changes in 2010								
Puchases	35	2	38	1,624	398	1,961	29	4,087
Reclassifications	–	–	–	90	(90)	–	–	–
Transfers	–	–	–	–	–	(14)	–	(14)
Depreciation	(89)	(224)	(791)	(1,313)	–	–	(328)	(2,745)
Impairment	–	–	(16)	(1)	–	–	–	(17)
Util. of accum. depreciation	–	–	5	–	–	–	–	5
Total changes in 2010	**(54)**	**(222)**	**(764)**	**400**	**308**	**1,947**	**(299)**	**1,316**
2010								
Historical cost	2,095	1,613	10,351	12,885	421	13,778	3,568	44,711
Accumulated depreciation	(1,932)	(884)	(5,363)	(9,243)	–	–	(2,469)	(19,891)
Balanced at 31/12/2010	**163**	**729**	**4,988**	**3,642**	**421**	**13,778**	**1,099**	**24,820**

Property, plant and equipment amounted to 24,820 thousand euros at 31 December 2010, representing a net increase of 1,316 thousand euros over 31 December 2009.

This item is made up as follows:

– *Plant and machinery* (163 thousand euros) decreased by 54 thousand euros and relate to alarm and communication systems.

– *Industrial and commercial equipment* (729 thousand euros) decreased by a net amount of 222 thousand euros and relate to equipment and accessories for setting up stands at shows and fairs and store window displays.

- *Leasehold improvements* (4,988 thousand euros) decreased by 764 thousand euros and mainly relate to costs incurred to restructure and adapt the Company's offices at Via del Tritone 142, Rome.
- *Electronic machines* (3,642 thousand euros) increased by a net amount of 400 thousand euros and consist of costs incurred for the purchase of electronic equipment, servers and printers.
- *Assets under construction and payments on account* (421 thousand euros) increased by 308 thousand euros compared to 31 December 2009.
- *The Bulgari Museum* (13,778 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* (1,099 thousand euros) decreased by a net 299 thousand euros and mainly comprise furniture, fittings, mopeds and assets having an original carrying amount of less than 516.46 euros.
- Total investments in property, plant and equipment during the year amounted to 4,087 thousand euros, while 2010 depreciation amounted to 2,745 thousand euros.

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 lease and their estimated future useful lives.
The different depreciation rates used for plant and machinery 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 2010.

14. Intangible assets

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:

(Thousands of Euros)

	Concessions and licences	Indust. patents and intellectual property rights	Assets under development	Develop. expend.	Multi-year expenses to be amortised	Total
2008						
Historical cost	85	69,967	3,448	904	516	74,920
Acc. amortisation	(42)	(37,230)	–	(181)	(272)	(37,725)
Balanced at 31/12/2008	**43**	**32,737**	**3,448**	**723**	**244**	**37,195**
Changes in 2009						
Purchases		7,797	6,229			14,026
Decrease	(5)	(22)	(29)			(56)
Reclassifications	904	6,580	(6,580)	(904)		–
Amortisation	(96)	(10,248)		(90)	(44)	(10,478)
Reclassification of acc. amortisation	(271)			271		–
Util. of acc. 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
Acc. amortisation	(408)	(47,471)	–	–	(316)	(48,195)
Balanced at 31/12/2009	**576**	**36,851**	**3,068**	**–**	**200**	**40,695**
Changes in 2010						
Purchases		10,063	2,949	500		13,512
Decrease		(1)				(1)
Reclassifications		2,495	(2,495)			–
Amortisation	(187)	(11,859)		(200)	(43)	(12,289)
Reclassification of acc. amortisation						–
Util. of acc. amortisation						–
Total changes in 2010	**(187)**	**698**	**454**	**300**	**(43)**	**1,222**
2010						
Historical cost	984	96,879	3,522	500	516	102,401
Acc. amortisation	(595)	(59,330)	–	(200)	(359)	(60,484)
Balanced at 31/12/2010	**389**	**37,549**	**3,522**	**300**	**157**	**41,917**

Intangible assets amount to 41,917 thousand euros at 31 December 2010 and increased by a net 1,222 thousand euros.

Amortisation of 12,289 thousand euros was charged during the year while increases amount to 13,512 thousand euros. Increases relate primarily to “Industrial patents and intellectual property rights” which rose by 10,063 thousand euros.
“*Concessions, licences, trademarks and similar rights*” (389 thousand euros) decreased by 187 thousand euros compared to the previous year. 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 and the OMNIA perfume bottle.
“*Industrial patents and intellectual property rights*” (37,549 thousand euros) consist of the rights to integrated application software, whose use also benefits other Group companies and is recharged on a proportional basis under specific agreements.

"*Assets underdevelopment*" (3,522 thousand euros) refer to costs incurred to develop integrated application software regarding procedures that were still being implemented at the reporting date.
"*Development expenditure*" (300 thousand euros) refer to development costs incurred for the creation of the new B.Zero 1 ring by Anish Kapoor.
"*Multi-year expenses to be amortised*" (157 thousand euros) refer principally to the costs incurred to take over the lease of new premises for the administrative offices and headquarters at Lungotevere Marzio 11, Rome in 2002.

There are no restrictions on the Company's ownership of intangible assets securing its liabilities.

15. Non-current financial assets

(Thousands of Euros)

	2010	2009
– Investments in subsidiares	206,388	204,043
– Investments in other companies	–	137
– Other non-current financial assets	24	26
Total non-current financial assets	**206,412**	**204,206**

Investments in subsidiaries

Details of this item are set out in the following table:

(Thousands of Euros)

Investments in subsidiaries	Percentage holding at 31/12/2010	Balance at 31/12/2009	Increases	Increases (Stock Options)	Decreases (Stock Options)	Decreases	Riclassific. due to merger	Balance at 31/12/2010
Bulgari Italia S.p.A.	100%	42,582		33			2,035	44,650
Bulgari Gioielli S.p.A. (old)	100%	2,593	1,000				(3,593)	–
Bulgari Parfums Italia S.p.A.	100%	2,035					(2,035)	–
Bulgari Retail USA S.r.l.	100%	6,115						6,115
Bulgari International Corporation (BIC) N.V.	100%	51,717		401			51,671	103,789
Bulgari Hotels and Resorts Milano S.r.l. (1)	3.25%	1,744	65					1,809
Bulgari Hotels and Resorts B.V.	65%	–	935					935
Bulgari Portugal Accessorios de Luxo Lda.	100%	143				(143)		–
Bulgari Gioielli S.p.A.(ex Bulgari Manifattura S.p.A.)	100%	24,013					3,593	27,606
Bulgari Accessori S.r.l.	100%	6,685						6,685
Bulgari Comm. Shangai Co. Ltd	100%	14,731		40				14,771
Bulgari Holding Europe B.V.	100%	51,671					(51,671)	–
Bulgari Ireland Ltd.	100%	14		14				28
Total subsidiaries		**204,043**	**2,000**	**488**	**–**	**(143)**	**–**	**206,388**
Opera Sgr S.p.A.	12.50%	137				(137)		–
Total other companies		**137**	**–**	**–**	**–**	**(137)**	**–**	**–**
Total investments		**204,180**	**2,000**	**488**	**–**	**(280)**	**–**	**206,388**

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

Investments in subsidiaries of 206,388 thousand euros increased by a net amount of 2,346 thousand euros over 31 December 2009. As seen in the table, there was an increase of 2,000 thousand euros from capital injections and a decrease of 143 thousand euros due to the closing of Bulgari Portugal Accessorios de Luxo Lda. The column for reclassifications includes the change in investments in merged companies.
There was also an increase of 488 thousand euros in 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 impaired as there was no evidence of impairment in the test carried out at the end of the year.
A list of investments in indirectly held subsidiaries may be found in the directors' report operations.

List of direct investment in subsidiaries at 31 December 2010

(Thousands of Euros)

	Share capital	Carrying amount at 31/12/2009	Increases	Increases (Stock Options)	Decreases (Stock Options)	Decreases	Carrying amount at 31/12/2010	% Holding	Equity at 31/12/2010	Profit (loss) for year	Corresponding equity (A)	Carrying amount (B)	Differences (B) - (A) if positive (B - A) (*)
Subsidiares													
Bulgari Italia S.p.A. Via dei Condotti, 10 Roma	12,000	42,582	2,035	33			44,650	100%	31,195	1,574	31,195	44,650	13,455
Bulgari Gioielli S.p.A. Lungotevere Marzio, 11 Roma	2,580	2,593	1,000			(3,593)	–	100%					
Bulgari Parfums Italia S.p.A. Lungotevere Marzio, 11 Roma	1,020	2,035				(2,035)	–	100%					
Bulgari Retails USA S.r.l. Lungotevere Marzio, 11 Roma	50	6,115					6,115	100%	5,961	(186)	5,961	6,115	154
Bulgari Intern. Corp. N.V. WTC Strawinskylaan 1131 Amsterdam (Olanda)	18,301	51,717	51,671	401			103,789	100%	473,150	(18,142)	473,150	103,789	
Bulgari Hotels and Resorts Milano S.r.l. Via Privata Fratelli Gabba Milano	100	1,744	65				1,809	3.25%	1,056	(1,477)	34	1,809	1,775
Bulgari Portugal Acess. de luxo Lda Funchal - Rua Arriaga 30 Madeira (Portogallo)	93	143				(143)	–	100%					
Bulgari Gioielli S.p.A. Valenza Po (Alessandria)	2,700	24,013	3,593				27,606	100%	10,423	1,072	10,423	27,606	17,183
Bulgari Accessori S.r.l. Via Le Plessis Robinson, 6/12 Bagno a Ripoli (FI)	50	6,685					6,685	100%	5,175	1,772	5,175	6,685	1,510
Bulgari Comm. (Shanghai) Co. Ltd. Pechino (Cina)	13,073	14,731		40			14,771	100%	7,193	243	7,193	14,771	7,578
Bulgari Holding Europe B.V. Amsterdam	18	51,671				(51,671)	–	100%					
Bulgari Hotels and Resorts B.V.	18	–	935				935	65%	2,153	(230)	1,399	935	
Bulgari Ireland Ltd. (**) Dublin	1	14		14			28	100%	6,156	44,087	6,156	28	
Total subsidiares		**204,043**	**59,299**	**488**	**–**	**(57,442)**	**206,388**						

(*) The positive differences listed in this column are not considered of a permanent nature and therefore the investments held in such companies have not been impaired.

(**) Share capital equals 1; authorised capital equals one millions euros.

Other non-current financial assets

“Other non-current financial assets” amounted to 24 thousand euros at 31 December 2010 (26 thousand euros at 31 December 2009) and relate principally to guarantee deposits for lease agreements and utilities.

16. Deferred taxation

(Thousands of Euros)

	2010	2009
– Deferred tax assets	11,578	8,803
Total deferred tax assets	**11,578**	**8,803**

This item includes deferred tax assets for a net amount of 11,578 thousand euros (an increase of 2,775 thousand euros compared to 2009), originating mainly from taxes calculated on the loss incurred from the national tax consolidation scheme.

The following table provides details of the calculation of deferred tax assets and liabilities and the resulting effects:

Statements of deferred tax assets and liabilities and effects

	2010			2009		
	Amount of temporary differences	**Tax effect**	**Tax rate**	**Amount of temporary differences**	**Tax effect**	**Tax rate**
Deferred tax assets:						
– Deferred tax assets on tax losses for the year	(41,623)	(11,446)	27.50%	(31,193)	(8,578)	27.50%
– Deferred tax assets on tax losses from prior years	(11)	(3)	27.50%	–	–	–
– Provisions for risk and charges and other minor temporary differences	(469)	(129)	27.50%	(819)	(225)	27.50%
Total deferred tax assets	**(42,103)**	**(11,578)**		**(32,012)**	**(8,803)**	
Net total	**(42,103)**	**(11,578)**		**(32,012)**	**(8,803)**	

Deferred tax assets of 11,446 thousand euros arising from the 2010 tax loss and of 129 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 within the time limits specified by current tax rules.

17. Other non-current assets

(Thousands of Euros)

	2010	2009
– VAT for which a refund has been requested	12,466	12,466
– Interest on VAT for which a refund has been requested	887	663
Total other non-current assets	**13,353**	**13,129**

Other non-current assets of 13,353 thousand euros (an increase of 224 thousand euros compared to 2009) relate to VAT for which a refund has been requested.
This increase arises exclusively from increased interest accrued on the VAT credit for which a reimbursement has been clained.

18. Non-current financial assets

This item, amounting to 1,240 thousand euros at 31 December 2010 (1,194 thousand euros at 31 December 2009), refers to subordinated loans, inclusive of accrued interest, to Bulgari Hotels & Resorts B.V. of 1 million euros (963 thousand euros at 31 December 2009), charged at a rate of 3.88%, and to Bulgari Hotels & Resorts Milano S.r.l. of 240 thousand euros (231 thousand euros at 31 December 2009), charged at a floating rate of three-month Euribor plus 3%, granted on the basis of written agreements with the Marriott Group.

19. Inventories

This item amounted to 114 thousand euros at 31 December 2010, unchanged from the previous year.

20. Trade receivables

(Thousands of Euros)

	2010	2009
Trade receivables from third parties	4,858	4,303
Allowance for impairment	(67)	(67)
Total	4,791	4,236
Trade receivables from related parties	57,290	44,713
Total trade receivables	**62,081**	**48,949**

The allowance for impairment is calculated on the basis of an assessment of the risk inherent in certain minor receivables from third parties.
Trade receivables are all due within twelve months and overdue balances are not significant.

Trade receivables from third parties

This item amounts to 4,791 thousand euros (4,236 thousand euros at 31 December 2009) and consists entirely of receivables due within one year and relating mostly to royalties earned with the licensees of the BVLGARI trademark. There was an increase of 556 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 from related parties

Trade receivables from related parties (group companies) of 57,290 thousand euros relate mainly to receivables for royalties earned from licensing the trademark and increased by 12,577 thousand euros over 31 December 2009.

The following table provides details of trade receivables due from group companies:

(Thousands of Euros)

	2010	2009
Bulgari Italia S.p.A.	3,774	2,783
Bulgari Gioielli S.p.A.	1,861	1,805
Bulgari International Corporation (BIC) N.V.	40	33
Bulgari Corporation of America Inc.	2,043	1,804
Bulgari Time S.A.	434	567
Bulgari Japan Ltd.	3,890	3,280
Bulgari S.A.	880	1,027
Bulgari Deutschland Gmbh	622	547
Bulgari France S.A.S.	764	694
Bulgari Montecarlo S.A.M.	97	85
Bulgari Espana S.A.	623	789
Bulgari Parfums S.A.	7,169	5,977
Bulgari South Asian Operations Pte. Ltd.	488	317
Bulgari U.K. Ltd.	557	606
Bulgari Belgium S.A.	56	60
Bulgari Australia Pty Ltd.	406	388
Bulgari Malaysia Sdn Bhd	110	85
Bulgari Global Operations S.A.	18,429	12,522
Bulgari Collection International S.A.	3,559	3,354
Bulgari Asia Pacific Ltd.	1,934	1,239
Bulgari Taiwan Ltd.	705	544
Bulgari Korea Ltd.	635	506
Bulgari Saint Barth S.a.S.	188	135
Bulgari Parfums Germany Gmbh	–	30
Bulgari Retail USA S.r.l.	8	508
Prestige d’Or	3	–
Bulgari Commercial (Shanghai) Co. Ltd.	5,644	3,517
Bulgari Accessori S.r.l.	372	347
Bulgari Austria Gmbh	–	40
Bulgari Thailand Ltd.	46	29
Bulgari Parfums Iberia	–	61
Bulgari Panama INC.	45	59
Bulgari Qatar LLC	314	277
Bulgari Ireland Ltd.	1,533	508
Bulgari Hotels and Resorts Milano S.r.l.	61	121
Bulgari Hotels and Resorts Japan Ltd.	–	69
Total trade receivables from Group Companies	**57,290**	**44,713**

The following table sets out gross trade receivables by geographical area:

(Thousands of Euros)

	Italy	EU	Europe other	Americas	Midlle East	Far East	Other	Total
Trade receivables:								
– from third parties	1,710	192	203	320	1,619	699	49	4,792
– from related parties	6,068	4,195	30,570	2,284	314	13,453	406	57,290
Total trade receivables	**7,778**	**4,387**	**30,773**	**2,604**	**1,933**	**14,152**	**455**	**62,082**

21. Financial assets

Financial assets consist of receivables from related parties of 42,195 thousand euros, a decrease of 14,192 thousand euros compared to 31 December 2009. These receivables are all due within one year and consist mainly of receivable balances on intragroup current accounts resulting from the centralised treasury management system for Italian subsidiaries and from 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 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.

The following table provides details by company of financial receivables due from related parties at 31 December 2010:

(Thousands of Euros)

	2010	2009
Bulgari Italia S.p.A.	15,000	26,325
Bulgari Gioielli S.p.A.	10,000	10,949
Bulgari Accessori S.r.l.	7,840	10,436
Bulgari Commercial (Shanghai) Co. Ltd.	9,355	8,677
Total financial receivables from Group companies	**42,195**	**56,387**

22. Other current assets

(Thousands of Euros)

	2010	2009
Tax assets	15,731	12,901
Other current assets - third parties	3,115	2,227
Other current assets - related parties	24,381	17,033
Total other current assets	**43,227**	**32,161**

Tax assets

(Thousands of Euros)

	2010	2009
– IRES receivables	7,945	7,356
– IRAP receivables	–	198
– Tax credit	887	1,099
– VAT credit	2,580	3,198
– With holding tax on foreign earnings	–	537
– Various tax assets	4,319	513
Total tax assets	**15,731**	**12,901**

Tax receivables at 31 December 2010 increased by 2,830 thousand euros over the previous year, and consist mainly of:

– IRES receivables of 7,945 thousand euros, consisting of prior year balances;

– VAT credit of 2,580 thousand euros, which represent the current receivable under the group VAT settlement scheme;

– tax assets of 887 thousand euros, relating to research and development expenditure pursuant to Article 1, paragraph 280 of Italian Law no. 296/2006;

– various tax assets of 4,391 thousand euros, mainly regarding tax assessment notices paid to the Tax Commission at the time of the submission of appeals on tax disputes.

Tax assets are stated at fair value and are subject to adjustment through the recognition of accrued interest.

Other current assets - third parties

The balance of 3,115 thousand euros at 31 December 2010 has increased by 888 thousand euros and consists mainly of prepayments to third parties of 1,303 thousand euros (1,094 thousand euros at 31 December 2009) relating to lease instalments, insurance premiums and maintenance and hire instalments, advances to suppliers of 869 thousand euros (385 thousand euros at 31 December 2009), accrued income from third parties of 484 thousand euros (410 thousand euros at 31 December 2009) and other minor receivables.

Other current assets - related parties

(Thousands of Euros)

	2010	2009
– Other intragroup receivables	100	3,378
– Receivables for transfer of group VAT	21,285	12,559
– National tax consolidation scheme receivables	2,715	930
– Intragroup accrued income	281	166
Total other current assets - related parties	**24,381**	**17,033**

This caption, which increased by 7,348 thousand euros over 31 December 2009, consists mainly of the VAT credit from Bulgari Italia S.p.A. for the payables transferred as part of the group VAT settlement scheme.

The receivable from 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)

	2010	2009
Bulgari Italia S.p.A.	1,319	533
Bulgari Gioielli S.p.A.	501	165
Bulgari Accessori S.r.l.	895	–
Bulgari Retail USA S.r.l.	–	232
Total receivables from tax consolidation scheme	**2,715**	**930**

23. Cash and cash equivalents

(Thousands of Euros)

	2010	2009
Bank deposits	65,159	5,168
Cash and valuables in hand	26	17
Total cash and cash equivalents	**65,185**	**5,185**

Cash and cash equivalents of 65,185 thousand euros at 31 December 2010 increased by 60,000 thousand euros over 31 December 2009.

24. Equity

(Thousands of Euros)

	2010	2009
– Share capital	21,164	21,092
– Reserves	134,282	126,015
– Retained earnings	35,492	32,846
– Profit for the year	22,637	17,711
Total equity	**213,575**	**197,664**

Share capital

The Company's share capital of 21,164 thousand euros at 31 December 2010 consisted of 302,345,661 fully subscribed and paid-up shares of par value 0.07 euros each.
The increase of 72 thousand euros in the year is due to the issue of 1,026,500 new shares (71.8 thousand euros) in relation to stock option plans reserved to the Chief Executive Officer and to certain employees, and to the issue of 10,101 new shares of nominal amount equal to 0.07 euros each, following an early conversion of a bond loan issued by the Company in 2009.

Reserves

	2010	2009
		(Thousands of Euros)
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	13,178	13,182
Capital transactions reserve	(341)	(341)
Share premium reserve	99,108	93,116
Bond conversion premium reserve	49	–
Stock option reserve	13,724	11,494
Total reserves	**134,282**	**126,015**

The increase of 8,267 thousand euros at 31 December 2010 derived from the following:

– share premium reserve: the net increase of 5,992 thousand euros arises from the exercise of stock options on 1,026,500 shares;

– stock option reserve: the increase of 2,230 thousand euros represents the cost recognised in the income statement in 2010 (11,494 thousand euros at 31 December 2009) for the stock options on Bulgari S.p.A. shares granted to employees and to the Chief Executive Officer, which are measured at their fair value at the grant date;

– the bond issue reserve of 13,178 thousand euros represents the decrease in equity of 4 thousand euros following conversion of the bond;

– the capital transactions reserve of a negative 341 thousand euros represents the costs incurred by Bulgari S.p.A. for issuing the bonds;

– bond conversion premium reserve: 49 thousand euros.

Retained earnings

Retained earnings amounted to 35,492 thousand euros at 31 December 2010, an increase of 2,646 thousand euros. The increase derives from the carry forward of 2009 profit net of 15,065 thousand euros in dividends distributed by the Company.

Classification of reserves by availability at 31 December 2010

Nature/description	Amount	Possible use	Portion avaible	Summary of utilisations in the past three years	
				To cover losses	For dividends
Share capital	21,164				
Equity-related reserves:					
– Treasury share premium reserve	696	A, B, C	696		
– Stock option reserve	13,724	A, B, C	6,267		
– Share premium reserve	99,108	A, B, C	99,108		39,776
– Bond issue reserve	13,178	–	–		
– Capital transactions reserve	(341)	–	–		
– Bond conversion premium reserve	49	–	–		
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	35,492	A, B, C	35,492		4,893
Total			**149,431**		**44,669**
Non-distributable amount			5,762		
Remaining amount distributable			143,669		

Key:
A: for capital increase.
B: to cover losses.
C: for distribution to shareholders.

Profit for the year

The profit for 2010 amounts to 22,637 thousand euros. Dividends received from subsidiaries contributing to this result totalled 41,000 thousand euros and relate exclusively to Bulgari Ireland Ltd..

25. Provisions for risks and charges

(Thousands of Euros)

	2010	2009
Provision for fiscal risks	426	426
Provision for disputes	153	5
Provision for restructuring	171	502
Total provisions for risks and charges	**750**	**933**

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 accrued in previous years is the estimate of probable liabilities for the company based on information available to directors.
The provision for disputes of 153 thousand euros (5 thousand euros at 31 December 2009) consists of accruals made for outstanding disputes and litigation with former personnel for which the risk of loss is deemed proba-

ble. The increase over 31 December 2009 is due to the utilisation of the provision for 148 thousand euros.
The provision for restructuring of 171 thousand euros (502 thousand euros at 31 December 2009) consists of accruals for probable costs to be incurred under individual or collective agreements for the mutually-agreed early termination of employment for organisational restructuring purposes. The decrease for the year refers to the use and release of 331 thousand euros.

26. Other non-current financial liabilities

This item amounted to 139,368 thousand euros at 31 December 2010 and includes the net liability for the bond issued in 2009.

27. Trade payables

(Thousands of Euros)

	2010	2009
Third party trade payables	18,607	18,492
Related party trade payables	27,183	18,148
Total trade payables	**45,790**	**36,640**

Third-parties trade payables

This item amounted to 18,607 thousand euros at 31 December 2010, an increase of 115 thousand euros over 31 December 2009, and consists of trade payables for invoices to be received relating to 2010 (5,248 thousand euros).

Related-party trade payables

Related-party trade payables (group companies) amounted to 27,183 thousand euros at 31 December 2010, an increase of 9,035 thousand euros over 31 December 2009.
The item also includes amounts payable to subsidiaries for invoices to be received relating to 2010 (16,354 thousand euros).

The following table provides an analysis of this item by company:

(Thousands of Euros)

	2010	2009
Bulgari Italia S.p.A.	1,279	1,169
Bulgari Gioielli S.p.A.	1,731	1,602
Bulgari Corporation of America Inc.	6,685	2,787
Bulgari Japan Ltd.	3,458	6,379
Bulgari S.A.	1	17
Bulgari Deutschland GMBH	282	303
Bulgari France S.A.S.	5,366	611
Bulgari Espana S.A.	163	10
Bulgari Parfums S.A.	4	3
Bulgari South Asian Operations Pte. Ltd.	37	9
Bulgari U.K. Ltd.	757	1,103
Bulgari Australia Pty Ltd.	–	110
Bulgari Global Operations S.A.	20	55
Daneil Roth et Gerald Genta Haute Horlogerie S.A.	1	–
Bulgari Asia Pacific Ltd.	–	54
Bulgari Taiwan Ltd.	3	58
Bulgari Korea Ltd.	1	–
Bulgari Retail USA S.r.l.	156	156
Bulgari Commercial (Shanghai) Co. Ltd.	4,280	2,316
Bulgari Accessori S.r.l	2,955	1,369
Bulgari Austria Gmbh	3	22
Bulgari Hotels and Resorts B.V.	–	1
Bulgari Hotels and Resorts Milano S.r.l.	1	10
Bulgari Hotels and Resorts Japan Ltd.	–	4
Total related-party trade payables	**27,183**	**18,148**

The following table provides an analysis of payables by geographical area:

(Thousands of Euros)

	Italy	EU	Europe (other)	Americas	Middle/ Far East	Other	Total
Payables:							
to suppliers	16,119	881	903	590	114	–	**18,607**
to related parties:							
– *trade*	*6,123*	*6,572*	*25*	*6,685*	*7,778*	–	***27,183***
– *financial*	*22,836*	–	*74,104*	–	–	–	***96,940***
Total to related parties	**28,959**	**6,572**	**74,129**	**6,685**	**7,778**	**–**	**124,123**
Other payables	1,234	6	1,212	5		–	2,457
Total	**46,312**	**7,459**	**76,244**	**7,280**	**7,892**	**–**	**145,187**

28. Current financial liabilities

(Thousands of Euros)

	2010	2009
Bank overdraft	300	299
Related party financial payables	96,940	39,973
Total current financial liabilities	**97,240**	**40,272**

Current financial liabilities amounted to 97,240 thousand euros at 31 December 2010, an increase of 56,968 thousand euros over 31 December 2009.
Bank overdrafts relate to current accounts held by the company at 31 December 2010 and amounted to 300 thousand euros (299 thousand euros at 31 December 2009).
Related-party financial payables increased by 56,967 thousand euros over the previous year and regard payable balances on intragroup current accounts arising from centralised treasury management, in particular to Bulgari Global Operations S.A. (74,104 thousand euros), Bulgari Italia S.p.A. (14,714 thousand euros), Bulgari Retail USA S.r.l. (5,854 thousand euros) and Bulgari Gioielli S.p.A. (2,268 thousand euros).

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 lia¬bility, 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 2010 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 fair value measurement of these instruments is "based on valuation techniques 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 nominal amount and fair value of outstanding derivatives at 31 December 2010, grouped by type:

(Thousands of Euros)

	Fair value *hierarchy*	Nominal amount		*Fair value*		Nominal	*Fair value*
		31/12/2010	**31/12/2009**	**31/12/2010**	**31/12/2009**	**Difference**	**Difference**
Cash Flow Hedge Derivatives							
– Foreign Exchange	2	–	–	–	–	–	–
– Interest rate	2	–	–	–	–	–	–
Fair Value Hedge Derivatives							
– Foreign Exchange	2	13,936	9,213	17	520	4,723	(503)
– Interest rate	2	70,000	70,000	1,151	27	–	1,124
Trading Derivates (*)							
– Interest rate	2	20,000	20,000	(71)	(87)	–	16
TOTAL		**103,936**	**99,213**	**1,097**	**460**	**4,723**	**637**
of which:							
CURRENT FINANCIAL ASSETS		**83,936**	**7,529**	**1,168**	**575**	**76,407**	**593**
CURRENT FINANCIAL LIABILITIES		**20,000**	**91,684**	**(71)**	**(115)**	**(71,684)**	**44**

(*) 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 policies and measurement criteria," 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 the 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.

Determination of fair value

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 bond loan 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.

Fair value of exchange rate derivatives – sensitivity analysis

There were no exchange rate derivatives designated as cash flow hedges at 31 December 2010; the financial instruments designated as fair value hedges acquired to hedge treasury transactions had a positive value of 17 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 exchange rate derivatives - sensitivity analysis

The fair value of interest rate derivatives originally designated as cash flow hedges was a negative 71 thousand euros at 31 December 2010. A hypothetical decrease of 10% in interest rates on all maturities would have led to a negative fair value of 81 thousand euros. A hypothetical increase of 10% in interest rates on all maturities would have led to a positive fair value of 63 thousand euros.

Fair value of interest rate derivatives – sensitivity analysis

The fair value of interest rate derivatives originally designated as cash flow hedges was a negative 71 thousand euros at 31 December 2010. A hypothetical decrease of 10% in interest rates on all maturities would have led to a negative fair value of 81 thousand euros. A hypothetical increase of 10% in interest rates on all maturities would have led to a positive fair value of 63 thousand euros.

Outstanding derivatives at 31 December 2010 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)

	2010	2009
– Advances	–	2
– Current tax liabilities	268	664
– Other current third-party liabilities	9,867	10,795
– Other current related-party liabilities	2,457	9,889
Total other current liabilities	**12,592**	**21,350**

Advance

Advances are zero at 31 December 2010, a decrease of 2 thousand euros compared to 31 December 2009.

Current tax liabilities

This item amounts to 268 thousand euros (664 thousand euros in the previous year), and relates to the IRAP provision net of payments already made.

Other current third-party liabilities

(Thousands of Euros)

	2010	2009
– Due to personnel for wages and salaries	1,683	1,464
– Payables to directors and statutory auditors	325	312
– Due to social security and pensions organisations	1,419	1,339
– Social security charges on wages and salaries	464	403
– Personal income tax (IRPEF) payables	1,070	949
– Payables to shareholders for dividends	240	239
– Other payables	406	476
– Accrued expenses and deferred income	4,260	5,613
Total other current third-party liabilities	**9,867**	**10,795**

Due to personnel at 31 December 2010 amount to 1,683 thousand euros, representing an increase of 219 thousand euros. The item relates to deferred remuneration consisting of 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.
Payables to directors of 325 thousand euros increased by 13 thousand euros over 31 December 2009 and regard the fees vested and due to the members of the company's management and control bodies for 2010.
Due to social security and pensions organisations amount to 1,419 thousand euros, all due within one year, and relate to the social security contributions payable by the company, its contract workers on remuneration and fees for December 2010 and settled in January 2011.
Social security charges on wages and salaries amount to 464 thousand euros, an increase of 61 thousand euros, and relate to the Company's portion of the charge payable on deferred remuneration.
Personal income tax (IRPEF) payables amount to 1,070 thousand euros, an increase of 121 thousand euros over 31 December 2009. This balance relates to withholdings of personal income tax in December 2010 on the remuneration and fees of consultants and free-lancers. This liability was regularly settled in January 2011.
Dividends of 240 thousand euros payable to shareholders regard approved dividends not yet collected by shareholders.
Other payables of 406 thousand euros mainly consist of payables for employee travel expenses, commissions and fees to be settled with the securities depositary Monte Titoli and other minor balances.
The balance of 4,260 thousand euros for accrued expenses and deferred income at 31 December 2010 consists mainly of interest accrued on the bonds at 31 December 2010. This item amounted to 5,613 thousand euros at 31 December 2009.

Other current liabilities - related parties

(Thousands of Euros)

	2010	2009
– Payables for tranfers of group VAT	1,208	1,231
– National tax consolidation scheme payables	12	8,369
– Related-party deferred income	510	32
– Other payables to related-parties	727	257
Total other current related-party liabilities	**2,457**	**9,889**

Payables for transfers of group VAT by related parties amounted to 1,208 thousand euros, a decrease of 23 thousand euros. This item consists of VAT credits not yet repaid by the tax authorities which have been transferred by Italian subsidiaries as part of the group settlement.

The tax consolidation scheme payables of 12 thousand euros decreased by 8,358 thousand euros over 31 December 2009. 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)

	2010	2009
Bulgari Italia S.p.A.	1,184	2,617
Bulgari Gioielli S.p.A.	39	1,728
Bulgari Corporation of America Inc.	4	14
Bulgari Time S.A.	–	2
Bulgari France S.A.S.	6	3
Bulgari Montecarlo S.A.M.	2	–
Bulgari Parfums S.A.	388	257
Bulgari Global Operations S.A.	492	–
Bulgari Collection International S.A.	331	–
Bulgari Retail USA S.r.l.	7	4,863
Bulgari Accessori S.r.l.	–	401
Bulgari Hotels and Resorts Milano S.r.l.	4	4
Total other current liabilities to group companies	**2,457**	**9,889**

30. Guarantees, commitments and other contingent liabilities

(Thousands of Euros)

	2010	2009
Guarantees pledged		
– Sureties pledged for subsidiaries	161,919	181,214
– Hire and lease instalments not yet due	12,028	16,846
Total guarantees pledged	**173,947**	**198,060**
Guarantees received		
– Sureties pledged by subsidiaries	1,882	2,742
– Sureties pledged by third parties	24,900	21,997
Total guarantees received	**26,782**	**24,739**
Other:		
– Other commitments	103,898	98,677
Total other	103,898	98,677
Total memorandum and contingency accounts	**304,627**	**321,476**

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 a decrease of 16,849 thousand euros compared to the previous year.
“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)

(Thousands of Euros)	2010	2009
Bulgari Italia S.p.A.	6,927	6,736
Bulgari Gioielli S.p.A.	2,768	2,769
Bulgari Corporation of America Inc.	4,512	5,712
Bulgari Japan Ltd.	66,268	54,070
Bulgari France S.A.	9,374	9,447
Bulgari Montecarlo S.A.M	1,236	196
Bulgari Espana S.A.	–	2,000
Bulgari South Asian Operations Pte. Ltd.	3,501	2,971
Bulgari U.K. Ltd.	1,510	2,027
Bulgari Australia Pty Ltd.	2,322	1,905
Bulgari Global Operations S.A.	23,992	43,812
Bulgari Asia Pacific Ltd.	2,888	6,981
Bulgari Taiwan Ltd.	22,500	19,121
Bulgari Retail USA S.r.l.	1,837	1,704
Prestige D'or S.A.	1,040	687
Bulgari Commercial (Shanghai) Co. Ltd.	–	11,000
Bulgari Thailand Ltd.	7,468	6,252
Bulgari Panama Inc.	1,497	1,388
Bulgari Ireland Ltd.	80	80
Bulgari Hotels and Resorts Milano S.r.l.	2,199	2,356
Total guarantees pledged to group companies	**161,919**	**181,214**

Hire and lease instalments not yet due of 12,028 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.

Guarantees received totalling 26,782 thousand euros consist of:

– related-party lease instalments not yet due of 1,882 thousand euros, which more specifically regard Bulgari Italia S.p.A., Bulgari Gioielli S.p.A. and Bulgari Retail USA S.r.l.;

– sureties of 24,900 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 claims, 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 103,898 thousand euros regard financial agreements for hedging the currency risk deriving from receivables and payables in foreign currency which were outstanding at 31 December 2010.

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 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 of 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 2010, 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.

Rischio di cambio

Fluctuations in exchange rates can affect the Company's results and equity.
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 currency 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 2010, 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 17 thousand euros at 31 December 2010. 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 foreign 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 2010 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 2010 would have led to a potential loss in fair value of these financial instruments of approximately 1.1 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 1.2 thousand euros.
Floating rate financial instruments consist of current debt and derivative instruments leading to the payment of interest at floating rates.
Bulgari S.p.A. held no floating rate financial instruments at 31 December 2010.

Credit risk

The potential loss from credit risk on open items at 31 December 2010 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 prior year items emerging.

32. Significant non-recurring transactions

In the year ended 31 December 2010, Bulgari S.p.A. did not conduct any significant non-recurring transactions as defined in Consob Communication DEM 6064293 of 28 July 2006.
In terms of significant non-recurring transactions as these are defined by Consob in its Communication of 28 July 2006, the Company issued convertible bonds of 150,000 thousand euros in 2009. This financial transaction led to interest expense of 10,902 thousand euros in 2010.

33. Atypical and/or unusual transactions

The Company did not carry out any atypical or unusual transactions during the year ended 31 December 2010 as the term is defined by Consob Communication DEM 6064293 of 28 July 2006.

34. Transactions during the year with directly and indirectly held subsidiaries:

(Thousands of Euros)

Description	Receivables	%	Payables	%
Royalties from licensing of the trademark	40,814	32.95%	–	–
Services	12,409	10.02%	24,478	19.34%
Goods and products not intended for sale	–	–	273	0.22%
Financial	43,804	35.37%	97,450	76.99%
Group VAT settlement	21,285	17.18%	1,208	0.95%
Tax consolidation	2,715	2.19%	12	0.01%
Other	2,839	2.29%	3,160	2.50%
Total	**123,866**	**100%**	**126,581**	**100%**

(Thousands of Euros)

Description	Income	%	Expenses	%
Royalties from licensing of the trademark	65,767	51.87%	–	–
ICT services	10,240	8.08%	–	–
Technical and administrative services	1,528	1.21%	–	–
Legal, fiscal and design services	179	0.14%	–	–
Interest, commissions and financial income and expense	2,193	1.73%	651	2.60%
Research and development / Prototypes and models	–	–	1,579	6.31%
Subletting of premises	471	0.37%	–	–
Other income and expense	2,693	2.12%	8,426	33.69%
Income and expense from the tax consolidation	2,715	2.14%	12	0.05%
Dividends	41,000	32.34%	–	–
Advertising contributions	–	–	14,346	57.35%
Total	**126,786**	**100%**	**25,014**	**100%**

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

The following table, prepared pursuant to article 149-duodecies of the Consob Issuer Regulation, sets out the fees relating to 2010 or audit services and non-audit services provided by the independent auditors and by members of its network.

(Thousands of Euros)

Type of service	Provided by	Provided to	2010 Fee
Audit	KPMG S.p.A.	Bulgari S.p.A.	135,7
Attestation services	KPMG S.p.A.	Bulgari S.p.A.	3,5
Other services	KPMG S.p.A.	Bulgari S.p.A.(1)	4,0

(1) 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:	31/12/10	31/12/09
Revenue from sales and services	106,643	95,274
Personnel expense	10,768	10,865
Depreciation and amortisation	3,123	3,225
Net financial expense	(1,209)	(1,504)
Profit (loss) for year	1,574	(2,195)
Investments in non-current assets	1,833	223
Intangible assets	3,270	3,920
Property, plant and equipment	12,477	13,117
Net cash (indebtedness)	(159)	(24,854)
Equity	31,195	29,588

Bulgari Retail USA S.r.l.
Registered office: Rome
Quota capital Euro 50,000

Key data in thousands of euros:	31/12/10	31/12/09
Revenue from sales and services	109	10,640
Personnel expense	58	5,188
Depreciation and amortisation	–	–
Net financial revenue	1	336
Loss for year	(186)	(4,742)
Investments in non-current assets	–	–
Intangible assets	–	–
Property, plant and equipment	–	–
Net cash (indebtedness)	5,855	2,053
Equity	5,921	6,147

Bulgari Hotels and Resorts Milano S.r.l.
Registered office: Rome
Quota capital Euro 100,000

Key data in thousands of euros:	31/12/10	31/12/09
Revenue from sales and services	16,594	15,304
Personnel expense	4,405	4,234
Depreciation and amortisation	444	556
Net financial expense	(125)	(159)
Loss for year	(1,477)	(1,883)
Investments in non-current assets	245	83
Intangible assets	1,057	1,301
Property, plant and equipment	424	379
Net cash (indebtedness)	–	–
Equity	1,056	533

Bulgari Hotels and Resorts B.V.
Registered office: Amsterdam
Share capital Euro 18,000

Key data in thousands of euros:	31/12/10	31/12/09
Revenue from sales and services	–	–
Personnel expense	–	–
Depreciation, amortisation and other general costs	120	74
Net financial expense	(110)	(132)
Loss for year	(230)	(205)
Investments in non-current assets	–	–
Intangible assets	–	–
Property, plant and equipment	–	–
Net cash (indebtedness)	–	–
Equity	(2,153)	(2,539)

Bulgari Commercial (Shanghai) Co. Ltd.
Registered office: Beijing
Share capital USD 17,000,000

Key data in thousands of euros:	31/12/10	31/12/09
Revenue from sales and services	69,522	52,457
Personnel expense	3,805	3,538
Depreciation, amortisation and other general costs	10,407	7,635
Net financial revenue	788	744
Profit for year	243	2,859
Investments in non-current assets	4,268	3,171
Intangible assets	61	71
Property, plant and equipment	7,623	6,166
Net cash (indebtedness)	(7,889)	(8,438)
Equity	7,193	6,670

Bulgari Gioielli S.p.A.
Registered office:Valenza (Alessandria)
Share capital Euro 2,700,000

Key data in thousands of euros:	31/12/10	31/12/09
Revenue from sales and services	76,696	44,417
Personnel expense	15,010	14,775
Depreciation and amortisation	1,327	1,077
Net financial expense	(750)	(588)
Profit (loss) for year	1,072	(4,386)
Investments in non-current assets	1,429	845
Intangible assets	233	250
Property, plant and equipment	6,001	5,763
Net cash (indebtedness)	–	–
Equity	10,423	8,351

Bulgari International Corp. (BIC) N.V.
Registered office: Amsterdam
Share capital Euro 18,301,200

Key data in thousands of euros:	31/12/10	31/12/09
Dividends	49	385,735
Other general and administrative costs	778	601
Net financial revenue (expense)	2,092	(44,531)
Profit (loss) for year	(21,086)	340,603
Investments in non-current assets	1,526	1
Non-current financial assets	387,616	269,806
Other long-term investments	–	–
Impairment loss on equity investments	–	–
Net cash (indebtedness)	86,603	214,241
Equity	470,206	486,563

Bulgari Accessori S.r.l.
Registered office : Bagno a Ripoli (Florence)
Quota capital Euro 50,000

Key data in thousands of euros:	31/12/10	31/12/09
Revenue from sales and services	28,765	15,800
Personnel expense	3,792	3,603
Depreciation and amortisation	646	617
Net financial expense	(189)	(261)
Profit (loss) for year	1,772	(816)
Investments in non-current assets	175	321
Intangible assets	1,887	2,264
Property, plant and equipment	882	975
Net cash (indebtedness)	–	–
Equity	5,175	3,403

Bulgari Ireland Ltd.
Registered office : Dublin
Share capital Euro 1

Key data in thousands of euros:	**31/12/10**	**31/12/09**
Revenue from sales and services	545,742	437,303
Personnel expense	2,957	3,260
Depreciation, amortisation and other general costs	5,208	3,458
Net financial expense	(3,180)	(650)
Profit for year	44,087	41,826
Investments in non-current assets	70	77
Intangible assets	41	49
Property, plant and equipment	1,336	1,527
Net cash (indebtedness)	–	–
Equity	6,156	3,069

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

Dear Shareholders,

We are pleased to report to you on the procedures we have performed during the year ended 31 December 2010 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.

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.. The audit firm's report has been issued today and contains no comments or requests for information.

During the year ended 31 December 2010 we 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 met 8 times and:
– attended 7 meetings of the Board of Directors;
– attended 3 meetings of the Internal Control Committee;
– attended the ordinary and extraordinary meeting of shareholders of 22 April 2010;
– 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.

For this year as well, we can state as follows:

1. With regard to our supervision of the work of the directors and of management of the company, we believe that the resolutions adopted by the board of directors and the operations carried out are in the company's interests and conform to principles of good management, to the law, and to the by-laws.
   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 light of the information we obtained and our supervisory activities, we can state that no transactions or initiatives were performed that were manifestly imprudent or risky, in potential conflict of interest, contrary to resolutions adopted by shareholders meetings, or that compromised the integrity of the company's equity; in addition, we found no evidence of atypical or unusual transactions.
   To the best of our knowledge and belief, intragroup and related-party transactions are carried out as part of ordinary commercial or financial relations and at normal market conditions. Details of these transactions may be found in the financial statements. The Directors Report provides adequate information about intragroup and related-party transactions.

2. We consider 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 2010, 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 2010 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.
   At a specific meeting, the audit firm described to us the internal methods and procedures it applies to ensure its independence from companies that it audits.
   Tasks in addition to the audit assigned by Group companies to KPMG S.p.A. or to its associates are reported in the Notes to the Financial Statements.
   In light of the above, we are aware of no critical aspects with regard to the independence of the audit firm.

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.
   In 2010, the Company introduced a procedure for conducting related-party transactions in conformity to the provisions of Consob Rule no. 17221 of 12 March 2010 as modified. The functions of the *Related-parties Committee* are performed by the *Internal Control Committee* and, in situations regarding the remuneration of directors with special assignments and of mangers with key responsibilities, by the *Remuneration Committee*.

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.

6. During the year, we received a report, pursuant to Article 2408 of the Italian Civil Code, in which a shareholder complained that he had difficulty accessing official company documents at the registered office. After promptly examining this report and acquiring all pertinent information, the Board concluded that the complaint was groundless.
   No third party petitions were received and no legal opinions were issued during the year.
   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, 28 March 2011

The Board of Statutory Auditors

Eugenio Pinto	(Chairman)
Maurizio de Magistris	(Statutory Auditor)
Gerardo Longobardi	(Statutory Auditor)

Bulgari S.p.A.

Statement on the separate financial statements pursuant to art. 81-ter of Consob Regulation 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 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 Company's characteristics and
   - the effective application

   of the administrative and accounting procedures for the preparation of the separate financial statements in 2010.

2. The above-named individuals also certify that:
   - the separate financial statements:
     a. are consistent with 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 Italian 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 directors' report contains a reliable analysis of the performance and results of operations and of the situation of Bulgari S.p.A., together with a description of the main risks and uncertainties to which it is exposed.

11 March 2011

Signed: Chief Executive Officer
(Francesco Trapani)
(Signed on the original)

Signed: The manager responsible for
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

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

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 2010, 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 6 April 2010 for our opinion on the prior year separate financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the separate financial statements of Bulgari S.p.A. as at and for the year ended 31 December 2010 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 2010, 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, published in the Investor Relations section of Bulgari S.p.A.'s website, 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 shareholding structure are consistent with the separate financial statements of Bulgari S.p.A. as at and for the year ended 31 December 2010.

Rome, 28 March 2011

KPMG S.p.A.

(signed on the original)

Marco Maffei
Director of Audit

Bulgari S.p.A.

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Direzione Generale

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