

**Illustrative report of the Board of Directors of Bulgari S.p.A. (the “Company”) for the ordinary and extraordinary shareholders’ meetings called in first and second call on 21 and 22 July 2009 respectively to adopt a resolution on the proposal to carry out an increase in share capital in divisible form having a value of Euro 150 million by way of cash consideration, with the exclusion of pre-emption rights pursuant to article 2441, paragraph 5, of the Italian civil code, to be used as may be necessary by the Company to exercise its right to satisfy through consideration in shares any requests for the redemption of the index-linked bonds having a value of Euro 130 million and maturing in 2014 (increased to Euro 150 million following the exercising in full of the over-allotment option as provided) (the “Index-linked Bonds”), fully allocated on 10 June 2009, and by the Board of Directors to exercise the above-mentioned right to redeem the Index-linked Bonds by delivering ordinary shares of the Company which are either newly issued or treasury shares.**

### **Point I on the agenda of the extraordinary meeting**

Shareholders,

The Board of Directors considered it appropriate to call you to an extraordinary meeting to discuss and adopt a resolution on a cash increase in share capital aimed at enabling the Board to exercise its right to satisfy requests for the redemption of the Index-linked Bonds by means of the Company’s ordinary shares which are either newly issued or already held as treasury shares following the implementation of the treasury share purchase programme.

The capital increase for which you have been called to this meeting will be in divisible form, will exclude pre-emption rights pursuant to article 2441, paragraph 5, of the Italian civil code and will amount to a maximum nominal value of Euro 2,100,000 (two million one hundred thousand) and a maximum value of Euro 150,000,000 (one hundred and fifty million), and may be carried out on one or more occasions by issuing a maximum of 30,000,000 (thirty million) ordinary shares of the Company each having a nominal value of Euro 0.07 (seven cents), excluding any premium, with normal dividend rights, to be used exclusively to redeem the Index-linked Bonds under the above-mentioned terms and conditions.

Pursuant to article 2441, paragraph 6, of the Italian civil code, article 72 of Consob regulation no. 11971 of 14 May 1999 (as subsequently amended, the “Regulations for Issuers”), and in particular format 2 of Annex 3 of the Regulations for Issuers and of Ministerial Decree no. 437 of 5 November 1998, the Company’s Board of Directors has prepared this report with the aim of describing the proposal to increase share capital.

### **1.1) PURPOSE OF THE OPERATION - TO EXERCISE THE RIGHT TO CONVERT THE BONDS ISSUED BY THE COMPANY AND TO INCREASE SHARE CAPITAL TO SERVICE THE CONVERSION**

In order for you to understand more clearly the operation upon which you have been called to adopt a resolution, it is useful to recall that the Company’s Board of Directors placed the Index-linked Bonds on 10 June 2009, additionally granting Goldman Sachs International, in its capacity as sole bookrunner (the “Sole Bookrunner”), an over-allocation option for a further Euro 20 million. The Sole Bookrunner exercised this option on 15 June 2009, thereby establishing the total value of the Index-linked Bonds in Euro 150 million.

In particular, pursuant to the Regulations for the Index-linked Bonds (the “Bond Regulations”), each holder of an Index-linked Bond (the “Bondholder”) is entitled to make a request for

redemption in cash (the “Redemption Right in Cash”) at any time from the date of issue of the Index-linked Bonds up to seven days before the bonds mature.

The Company also has the right, at its full discretion, to decide to satisfy the Bondholder’s Redemption Right in Cash by means of the issue and/or delivery of ordinary shares of the Company (the “Redemption Right in Shares”).

More specifically, pursuant to the Bond Regulations, from the date that the Company decides to elect for this means of redemption the Redemption Right in Cash will no longer be available and the Company will only be able to redeem the Index-linked Bonds by the means associated with the Redemption Right in Shares. The number of shares to be issued and/or delivered following the exercising of the Redemption Right in Shares is determined as the ratio between the nominal value of the Index-linked Bonds to be redeemed and the conversion price prevailing at that time (the “Conversion Price”).

It is planned to issue the Index-linked Bonds on 8 July 2009 with a due date of 8 July 2014 and accordingly the Redemption Right in Cash or the Redemption Right in Shares will be exercisable by and not beyond 2 July 2014 or, should the issue date be postponed, seven days prior to the due date of the bonds (the “Final Conversion Date”).

The Board of Directors has decided to proceed with the issue of the index-linked bonds given the favourable conditions in the market, while the decision taken by the Company to exercise its right to satisfy redemption requests by means of the delivery of shares will additionally enable it to limit cash outflows relating to the payment of interest and the repayment of the principal on maturity, at the same time strengthening its equity structure.

The Index-linked Bonds will actually allow the Company to obtain funds from the non-bank capital market in a short period of time and at an interest cost discounted by the conversion option.

On the other hand the Company will be able to use the increase in capital to make a free choice as to whether to redeem the Index-linked Bonds by means of shares, thereby increasing capitalisation and reducing debt at the same time.

The exclusion of pre-emption rights is therefore justified in full by the issue of the Index-linked Bonds, which are a complex debt instrument reserved exclusively for qualified investors (and also because of the minimum subscription of Euro 50,000), and by the opportunity available for the Company to take advantage of its right to redeem the Index-linked Bonds in shares, thereby limiting cash outflows and at the same time strengthening equity structure, as mentioned.

The Board of Directors believes it essential for the Index-linked Bonds to be convertible into shares, as by exercising this conversion right the Company is able to limit the financial repayment to par (100% of the nominal value of the loan plus interest), considering also that the Index-linked Bonds are indeed indexed (meaning considering the risk of having to repay the loan - including by early redemption at the request of the Bondholder - at an amount exceeding 100% of its nominal value, namely increased in proportion to the percentage increase in the market price of the Company’s share over the Conversion Price established on the issue of the bonds).

## **1.2) FEATURES OF THE INDEX-LINKED BONDS**

The Index-linked Bonds will be issued at a price equal to 100% of their nominal value and, in the absence of early redemption requests, conversions, purchases or cancellations, will mature five

years from the date of issue, namely in 2014.

The Index-linked Bonds have a six months coupon corresponding to an annual interest rate of 5.375% and a Conversion Price determined in Euro 5.00 (which therefore incorporates a premium of 33.58% over the reference price of the Company's ordinary shares during the period from 10 June 2009 to the time of the determination of the conditions of the offer, calculated as the average price weighted by the number of Bulgari shares, as is market practice for this type of operation).

In this respect, consistent with market practice for this type of debt instrument, the Bond Regulations provide price adjustment formulae for use in predetermined situations, such as the occurrence of the following events amongst others: a change of controlling shareholder; a change in the nominal value of the shares; a capital increase through a bonus issue, by transferring profits or reserves to capital; a distribution of dividends; share capital increases for payment when the issue price is lower than the market value of the shares; mergers and demergers; and the granting of rights to shareholders to purchase or convert into shares financial instruments other than the Company's shares.

The Company will be entitled to redeem the Index-linked Bonds early if it is required to pay additional amounts to settle interest as the result of changes in tax legislation and regulations; in this case the amount to be paid will be the nominal value plus the interest not yet paid accruing from the most recent date of payment of the coupon.

The Index-linked Bonds provide complete protection when compared with the future dividends to be paid by the Company. In particular, should the Company decide to distribute dividends during the bond term, the Conversion Price of the Index-linked Bonds will be adjusted in order to compensate Bondholders for the amount of the dividend distributed.

As a final point it is recalled that an official request will be made for the Index-linked Bonds to be quoted on the official list of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange.

*The Index-linked Bonds may not be offered, sold or distributed to the public within the territory of the Republic of Italy ("Italy") other than: (i) to qualified investors as these are defined by article 100, paragraph 1(a), of Legislative Decree no. 58 of 24 February 1998 (the "Consolidated Finance Law") as subsequently amended, and by article 34 ter, paragraph 1(b) of Consob regulation no. 11971 of 14 May 1999 as subsequently amended (the "Consob Regulation") or (ii) in any of the other circumstances provided by article 100 of the Consolidated Finance Law and by article 34 ter of the Consob Regulation in the cases in which the conditions occur for exemption from the requirement to publish a prospectus as provided by article 94 of the Consolidated Finance Law. The Index-linked Bonds are only issued to qualified investors as these are defined by Directive 2003/71/EC of the European Parliament and by the Council of 4 November 2003 and in accordance with the laws of each of the countries in which the Index-linked Bonds are offered.*

### **1.3) RECENT ANALYSIS OF THE COMPOSITION OF SHORT-TERM AND LONG-TERM NET FINANCIAL DEBT**

The funds obtained from the issue of the Index-linked Bonds will be used for the Company's general working capital requirements and for the purposes of diversifying its sources of funding and extending its average debt term.

Since the funds obtained from the increase in share capital (and earlier still through the issue of the Index-linked Bonds) will also be used to reduce or change the Company's financial debt structure, an analysis is provided below of the composition of the Company's short-term and long-term net financial debt in accordance with the requirements of the Regulations for Issuers, together with comparative figures taken from the most recent annual financial statements, being those for the year ended 31 December 2008.

In particular, an analysis is also provided of the composition of the short-term and long-term net financial debt of the Bulgari Group at 31 March 2009, comparing this with the corresponding data taken from the most recent annual and consolidated financial statements, being those for the year ended 31 December 2008.

It should be noted that the figures which follow are merely indicative as they are based on amounts which at the date of redemption of the Index-linked Bonds may change, even significantly. This example should therefore not necessarily be considered to be representative of what the actual effect of the operation will be on the income statement and balance sheet of the Company and the Bulgari Group.

## **BULGARI GROUP**

(€000)

	<b>31.03.2009</b>	<b>31.12.2008</b>
Current financial liabilities	(268,395)	(258,907)
Non-current financial liabilities	(82,336)	(85,468)
Cash and cash equivalents	3,547	19,880
Financial receivables, securities and other equivalent assets	8,346	20,937
<b>Net Financial Position</b>	<b>(338,928)</b>	<b>(303,558)</b>

## **BULGARI SPA**

(€000)

	<b>31.03.2009</b>	<b>31.12.2008</b>
Current financial liabilities	(169,012)	(158,931)
Non-current financial liabilities	-	-
Cash and cash equivalents	1,038	3,763
Financial receivables, securities and other equivalent assets	103,340	95,838
<b>Net Financial Position</b>	<b>(64,634)</b>	<b>(59,330)</b>

### **1.4) UNDERWRITING GROUP, RELATED COMPOSITION, TERMS AND CONDITIONS OF INTERVENTION**

No underwriting group is envisaged in connection with the increase in share capital. The placement of the Index-linked Bonds was instead guaranteed up to 130 million euros by the Sole Bookrunner and following the exercising of the over-allocation option the Sole Bookrunner was obliged to subscribe bonds for an additional Euro 20 million, thereby taking the total value of the issue to Euro 150 million.

## **1.5) OTHER FORMS OF PLACEMENT ENVISAGED**

No other forms of placement are envisaged.

## **1.6) CRITERIA UNDERLYING THE DETERMINATION OF THE ISSUE PRICE FOR THE NEW SHARES, PLANNED ALLOCATION RATIO AND CONVERSION RATIO**

Considering that the increase in share capital will be carried out to service any conversion of the Index-linked Bonds, the Board of Directors has established that the issue price of the shares to be used in the conversion shall be the Conversion Price of the Index-linked Bonds.

In this respect the Company's Board of Directors has employed valuation criteria used in equivalent operations and conforming to market practice for debt instruments to define the Conversion Price of the Index-linked Bonds, meaning taking into consideration the price of the shares to be used in the conversion and that of the bonds themselves.

More specifically, the Conversion Price of the Index-linked Bonds has been determined as the sum of (i) the average price weighted over the number of shares for which the Sole Bookrunner has received indications of an interest to subscribe (Bookbuilding) during the period from 10 June 2009 to the time of the determination of the terms and conditions of the offer, and (ii) a conversion premium of 33.58%, which together with the coupon of 5.375% gives the market value of the bond placement. The two pricings are closely connected with each other as the price of the Index-linked Bonds also depends on the size of the conversion premium while the conversion premium is also affected by the coupon flow offered to the Bondholder.

In order to determine the Conversion Price of the Index-linked Bonds, the Board of Directors, in accordance with the provisions of article 2441, paragraph 6, of the Italian civil code, took into consideration the value of consolidated net equity per share as per the financial statements at 31 December 2008, which amounted to Euro 2.74 per share (Euro 2.63 per share on the basis of the quarterly situation at 31 March 2009) and the performance of the share price over the previous six months, which fell to a minimum of Euro 2.83 on 17 March, rose to a maximum of Euro 4.45 on 8 May and had a weighted average of Euro 3.5758.

In this respect it is recalled that in the case where pre-emption rights are excluded, article 2441, paragraph 6, of the Italian civil code establishes that the issue price of the shares must be determined "*on the basis of the value of net equity, taking into consideration the stock market quotation of the share over the past six months for companies with listed shares*".

The Conversion Price was thus determined to be Euro 5.00, consisting of Euro 0.07 as the nominal value and Euro 4.93 as a premium.

The Board of Directors believes that the criteria used to determine the Conversion Price of the Index-linked Bonds, and therefore the issue price of the shares to be used in the conversion, are consistent with those established by article 2441, paragraph 6, of the Italian civil code.

### **1.7) SHAREHOLDERS WHO HAVE INDICATED THAT THEY ARE WILLING TO SUBSCRIBE TO NEWLY ISSUED SHARES AND/OR CONVERTIBLE INSTRUMENTS, IN PROPORTION TO THEIR HOLDINGS, AND TO ANY UNEXERCISED OPTION RIGHTS**

For the reasons discussed above the Board of Directors believes it appropriate to increase share capital solely to service any possible conversion of the Index-linked Bonds, including by means of newly issued shares, excluding therefore the possibility for shareholders to exercise their pre-emption rights.

### **1.8) PERIOD ENVISAGED FOR CARRYING OUT THE OPERATION**

The Board of Directors will have the responsibility for managing the proposed capital increase ensuring that any conversion of the Index-linked Bonds is carried out in accordance with the Bond Regulations. If the capital increase upon which it is proposed to adopt a resolution is not fully subscribed by the Final Conversion Date, the Company's share capital will be increased by the amount resulting from the subscriptions made by that date.

The commitment to act as an underwriter of the Index-linked Bonds was formally undertaken by Goldman Sachs International on 10 June 2009. It is envisaged that the Index-linked Bonds will be issued on 8 July and become due on 8 July 2014. The Company may only exercise its right to elect for the Redemption Right in Shares following a resolution adopted by shareholders in an extraordinary general meeting which approves the exercising of that right and the capital increase servicing the conversion.

### **1.9) ENJOYMENT RIGHTS OF THE CONVERTIBLE INSTRUMENTS**

The shares offered on the conversion of the Index-linked Bonds will have normal enjoyment rights (meaning from the start of the financial year in which they are issued), with the exclusion, though, of any dividend relating to the previous financial year.

### **1.10) PRO-FORMA EFFECTS ON THE FINANCIAL AND ECONOMIC SITUATION AND EFFECTS ON UNIT SHARE VALUE**

Given that the increase in share capital is of a significant amount (in terms of a comparison between the amount of the operation and the Company's equity), information is provided below regarding the effects of the proposed capital increase on the financial and economic situation of the Company and the Bulgari Group and on unit share value.

Since at the date of preparation of this report the number of Index-linked Bonds that will be converted to the Company's shares is uncertain, as indeed and no less is the date when such conversion will take place, the following assumptions have been made to determine the consequences of the operation on income and the consolidated balance sheet:

- number of bonds converted: conversion of all the Index-linked Bonds
- Conversion Price: Euro 5.00;
- conversion timing : on maturity of the loan for the total amount;
- pro-forma data used: equity is consolidated net equity at 31 December 2008.

The results of this are set out in the following:

	Dati del Gruppo Bulgari		Dati della Bulgari S.p.A	
	31/12/2008	31/03/2009	31/12/2008	31/03/2009
Patrimonio Netto (Euro)	824.983.247	791.952.408	191.629.788	183.294.830
N. azioni attuale	300.629.810		300.629.810	
Patrimonio Netto per azione attuale (Euro)	2,74	2,63	0,64	0,61
N. di azioni sottoscritte	30.000.000		30.000.000	
Prezzo unitario di sottoscrizione (Euro)	5,00		5,00	
Importo sottoscritto (Euro)	150.000.000		150.000.000	
Patrimonio netto prospettico pro-forma (Euro)	974.983.247	941.952.408	341.629.788	333.294.830
N. azioni post-aumento	330.629.810		330.629.810	
Patrimonio Netto per azione prospettico pro-forma (Euro)	2,95	2,85	1,03	1,01
Numero di azioni emesse	30.000.000			
Capitale sociale attuale (Euro)	21.044.087			
Capitale sociale prospettico (Euro)	23.144.087			
Incremento patrimonio netto contabile (Euro)	150.000.000			

\* \* \*

A copy of this report of the Board of Directors in the form stated above has been delivered to (i) the auditors pursuant to article 158 of Legislative Decree no. 58 of 24 February 1998 and (ii) to Consob pursuant to article 92 of the Regulations for Issuers.

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Shareholders,

In the light of the above, in order to enable the Company's Board of Directors to exercise its right to satisfy the requests to redeem the Index-linked Bonds by means of the delivery of shares (newly issued and/or held by the Company in portfolio) it is necessary for you to adopt a resolution on the exercising of that right, at the same time authorising the increase in share capital servicing the conversion under the terms and conditions described above.

We therefore invite you to adopt the following proposal:

*"The extraordinary shareholders' meeting,*

- *acknowledging the proposals made by the Board of Directors relating to the exercising by the Company's Board of Directors of the right to satisfy requests for the redemption of the index-linked bonds having a value of Euro 150 million and falling due in 2014 (the "Index-linked Bonds") by means of the delivery of ordinary shares of Bulgari S.p.A. which are either newly issued or treasury shares and the attached terms and conditions of the Index-linked Bonds (the "Bond Regulations");*
- *acknowledging the main terms and conditions of the Bonds as provided in the Bond Regulations and illustrated in the report of the Board of Directors;*

- *acknowledging the opinion issued by the auditors KPMG S.p.A. on the fairness of the issue price,*

*resolves*

- 1. to approve the exercising by the Board of Directors of the right to satisfy requests for the redemption of the Index-linked Bonds by means of the delivery of ordinary shares of the Company which are either newly issued or treasury shares;*
- 2. to approve the proposal to increase share capital formulated by the Board of Directors and consequently to increase share capital in divisible form by way of cash payment, with the exclusion of pre-emption rights pursuant to article 2441, paragraph 5, of the Italian civil code and with the increase to be used exclusively to service the conversion of the Index-linked Bonds, up to a maximum value of Euro 150,000,000 and up to a maximum nominal amount of Euro 2,100,000 to be carried out on one or more occasions by issuing a maximum of 30,000,000 ordinary shares with normal dividend rights each having a nominal value of Euro 0.07 at an issue price of Euro 5 per share (and accordingly with a premium of Euro 4.93) excluding any conversion price adjustments as provided by the Bond Regulations;*
- 3. to establish that the final date for subscribing to the newly issued shares shall be 30 September 2014, with the additional detail that if the resolved capital increase is not fully subscribed by that date, it shall be understood that the capital shall in any case be increased by the amount of the subscriptions received, starting from the date of such subscriptions, provided that these are made later than the entry of this resolution in the Companies' Register;*
- 4. to instruct, severally, the pro tempore Chairman and Managing Director to issue the shares relating to the subject capital increase by the means, with the timing and under the terms and conditions provided by the Bond Regulations, proceeding to file the documents required by law and to update the numerical data included in article 6 of the Company's bylaws;*
- 5. to grant, severally, the pro tempore Chairman and Managing Director, also severally, the widest powers to execute the resolutions adopted allowing them to make any changes that may be required by the competent authorities, as well as any changes required on making the respective entry in the Companies' Register, and additionally proceeding to file the updated text of the Company's bylaws on the completion of the resolved operation".*

Rome 16 June 2009

On behalf of the Board of Directors  
The Chairman  
Paolo Bulgari