

B V L G A R I

**Transition to International
Accounting Standards
(IAS/IFRS)**

Rome – 13 September 2005

INTRODUCTION

As a result of EC Regulation no. 1606 of July 2002 having gone into effect, and based on the provisions of article 81 of the Issuer Regulations, as amended by CONSOB Resolution no. 14990 of 14 April 2005, the Bulgari Group has prepared its consolidated half-yearly report as at 30 June 2005 in accordance with the principles established by International Accounting Standard (IAS) no. 34, which is applicable to interim financial reports.

As required by IFRS 1 – *First-time Adoption of International Financial Reporting Standards*, and in order to illustrate how the transition to international accounting standards (hereafter also referred to as IAS/IFRS) has influenced the Group's balance sheet, cash flow and income statement, this Appendix includes, together with the respective explanatory notes:

- Reconciliations of the consolidated balance sheet as at 1 January 2004 (transition date) and 31 December 2004 (the date on which the group presented its most recent consolidated financial statements based on Italian accounting standards), prepared according to Italian accounting standards, and the balance sheets for those same dates prepared according to IAS/IFRS;
- A reconciliation of the consolidated income statement as at 31 December 2004 prepared according to Italian accounting standards and the consolidated income statement as at the same date prepared according to IAS/IFRS;
- A reconciliation of consolidated shareholders' equity as at 1 January 2004 and 31 December 2004 and the income statement as at 31 December 2004 prepared according to the former accounting standards and the same prepared in accordance with IAS/IFRS;
- A reconciliation of the consolidated balance sheet and consolidated shareholders' equity as at 31 December 2004, restated according to IAS/IFRS, and the consolidated balance sheet and consolidated shareholders' equity as at 1 January 2005, which was the starting date of the first period that includes information based on IAS 32 and IAS 39.

In preparing the above, the amounts shown in the balance sheet as at 1 January 2004 and 31 December 2004 and those shown in the income statement as at 31 December 2004 according to Italian accounting standards were restated in order to reflect the new financial statement schedules that the Group decided to adopt.

Note that these statements were prepared solely for the purposes of the transition plan for preparation of the first consolidated financial statements of the Group as at 31 December 2005 according to IAS/IFRS, and therefore they do not include all the comparative information and explanatory notes that would be needed to provide a complete representation, according to IAS/IFRS, of the balance sheet, cash flow and income statement of the Bulgari Group as at 31 December 2004.

It is also noted that the first-time adoption of IFRS, and as a result, these consolidated financial statements, were prepared in accordance with IAS/IFRS and the interpretations of the International Financial Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) presently in existence, and which it is assumed will be in effect as at 31 December 2005. However, as the adjustment and interpretation activities of the official bodies and the required approval process of the European Commission are still underway, and also because at the time the consolidated financial statements as at 31 December 2005 are prepared, new IFRS standards and IFRIC interpretations may be in effect, for which early application may be allowed, the information presented below could change for the purposes of being used as comparative data in future consolidated financial statements prepared according to IAS/IFRS.

OPTIONAL EXCEPTIONS ESTABLISHED BY IFRS 1

In preparing the balance sheet as at 1 January 2004 in accordance with IAS/IFRS (opening balance sheet), the Group applied international accounting standards as if they had always been the standards used.

However, IFRS 1 allows some exceptions to be made to this general rule, and in this regard the Bulgari Group has made the following choices:

- **Business Combinations:** the Group does **not** apply IFRS 3 – *Business Combinations* retrospectively to all the business combinations that occurred prior to 1 January 2004.
- **Fair value or recalculation of the value as a replacement for the cost:** the Group does **not** use the option of valuing its tangible or intangible assets other than goodwill at the fair value as at the transition date and using that value as a replacement for the cost.
- **Employee benefits:** the Group has decided to recognize all cumulative actuarial gains and losses existing as at 1 January 2004, having chosen the “*corridor method*” for subsequent actuarial gains and losses.
- **Reserve for translation differences:** the Group has decided to offset the reserve for translation differences existing as at 1 January 2004 resulting from translation of the financial statements of the consolidated companies operating in currencies other than that of the Group.
- **Financial instruments:** the Group used the exception that allows the adoption of IAS 32 and IAS 39, regarding the presentation and valuation of financial instruments, to be deferred to 1 January 2005.
- **Share-based payments:** the Group has decided to apply IFRS2 – *Share-based payments* to all the stock option plans awarded after 7 November 2002 and not yet vested as at 1 January 2005.

GENERAL ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

Subsidiaries

“Subsidiaries” means companies in which the Group exercises control, directly or indirectly, through holding a majority of the voting rights. Subsidiaries’ financial statements are included in the consolidated financial statements starting from the date on which control is obtained and until such time as said control is transferred outside the Group. The portions of shareholders’ equity and profit attributable to minority shareholders are stated separately in the consolidated balance sheet and income statement.

Subsidiaries whose influence over all assets, liabilities, financial position and profits of the Group is not significant are not included in the consolidation.

Joint Ventures

“Joint Ventures” means companies in which the Group exercises joint control, established by contractual agreements, with other entities. The financial statements of joint venture companies are consolidated using the proportional method. Therefore, the consolidated financial statements include, line by line, the assets, liabilities, revenues and costs of these companies in proportion to the Group’s percentage of ownership.

Consolidation procedures

The financial statements of the companies consolidated are all prepared at the same date as the consolidated financial statements and are adjusted, where necessary, to make them consistent with the accounting principles applied by the Parent Company.

All intra-group balances and transactions, including any profits not yet realised with third parties arising from relationships among Group companies are eliminated for the share attributable to the Group. Any losses not yet realised with third parties are eliminated for the share attributable to the Group unless they are of a permanent nature.

Conversion of items in foreign currency

The financial statements of each company consolidated are prepared using the functional currency of the economic environment in which the company operates.

In these statements, all transactions stated in a currency other than the functional currency are shown at the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a currency other than the functional currency are later adjusted to reflect the exchange rate in effect as at the closing date of the reporting period.

Non-monetary assets and liabilities denominated in foreign currency and recorded at historical cost are converted at the exchange rate in effect as at the date on which the transaction was originally recorded.

Translation of financial statements in foreign currency

Revenues, costs, assets and liabilities included in the consolidated financial statement are expressed in euros, the functional currency of the Parent Company, Bulgari S.p.A.

For purposes of the preparation of the consolidated financial statements, the assets and liabilities, including goodwill and consolidation adjustments, shown in the financial statements of companies that are consolidated and whose functional currency is not the euro, are converted at the exchange rate in effect at the closing date of the period. Shareholders' equity accounts are converted at the historical rates in effect at the time of their formation, and the items of the income statement are converted at the average exchange rates for the period in question, which approximate the exchange rates in effect as at the date of the respective transactions. The respective foreign exchange differences are recorded directly in shareholders' equity and are stated separately in a specific shareholders' equity reserve.

Foreign exchange differences are recorded in the income statement only at the time of a disposal or liquidation of the investment in the company to which the differences refer.

Tangible assets

Tangible assets are stated at acquisition cost, including any directly attributable expenses.

These assets are recorded under balance sheet assets only if it is probable that use of the assets will generate future economic benefits and the cost of the same can be reliably determined.

The cost includes:

- a) the acquisition price (including any non-recoverable import duties and purchase taxes) net of any trade discounts and allowances;
- b) any directly attributable costs for bringing the asset to the proper location and ensuring its condition meets the requirements for its operation as intended by company management;

Improvements made to leased premises are stated at cost and are depreciated over the remaining term of the lease or their estimated useful life, whichever is the lesser.

Assets held through finance lease agreements, under which substantially all of the risks and benefits related to ownership are transferred to the Group, are recognised as Group assets at their actual value,

or at the present value of the minimum lease payments, whichever is lower. The corresponding liability to the lessor is stated in the financial statements under bank overdrafts and borrowings.

After being initially recorded, the assets, including those acquired under finance leases, are recorded net of depreciation and any losses in value determined using the methods described below. Depreciation, which begins when the asset is available for use and stops when it is sold or no longer expected to generate future benefits, is determined systematically based on the estimated future useful life of the asset.

The estimated useful life is re-examined annually.

Intangible assets

Goodwill

Goodwill arising from the purchase of a subsidiary or joint venture represents the excess of the acquisition cost over the fair value of the assets acquired, net of existing and potential liabilities assumed. After being recorded initially, goodwill is not amortised and is recorded net of any reductions in value, determined according to the methods described below.

Any negative goodwill is immediately recognised in the income statement.

Goodwill arising from acquisitions made prior to 1 January 2004 is recorded at the book value stated in the most recent consolidated financial statements, prepared based on the former accounting principles (31 December 2003).

Other intangible assets

Intangible assets, which are recorded in assets only if it is probable that use of the asset will generate future economic benefits, and the cost of the same can be reliably determined, are stated at cost, including any directly attributable incidental expenses.

Research costs are charged to the income statement when incurred. Development costs are capitalised only if it can be shown that the asset is capable of producing future economic benefits.

After being initially recorded, intangible assets with a defined useful life are recorded net of amortisation and any reductions in value, in accordance with the methods described below. Amortisation, which begins when the asset is available for use and stops when it is sold or no longer expected to generate future benefits, is determined systematically based on the estimated future useful life of the asset. The estimated useful life is re-examined annually.

Any intangible assets without a defined useful life are not amortised. Instead they are recorded net of any reductions in value determined according to the methods described below.

Such reductions in value are restored if the reasons that caused them cease to exist.

Impairment testing

On each closing date, tangible and intangible assets, including goodwill, are analyzed in order to identify any indicators of reductions in value. If an indicator of a reduction in value is found to exist, the recoverable value of that asset is determined.

The recoverable value of goodwill and other intangible assets with an indefinite life, if any, is still estimated at least annually. This estimate is made at the same time each year.

The recoverable value is the greater of the net sale price and the value in use.

The value in use is determined by discounting the future cash flows expected from use of the asset, before taxes, using a pre-tax discount rate that reflects the current market changes in the time value of money and the risks of the asset. In the case of an asset that does not generate significantly independent cash flows, the realisable value is determined based on the “cash generating unit” to which that asset belongs.

A reduction in value is recognised in the income statement if the recorded amount of the asset, or of the respective “cash generating unit” to which it is allocated, is greater than the presumed realisable value.

Reductions in value, with the exception of goodwill, are restored if the reasons that caused them cease to exist, with the resulting effect posted to the income statement.

Financial Instruments

Investments in other companies

Investments in other companies “available for sale” are valued at their fair value, and any profits or losses are recorded directly in shareholders’ equity. When the asset is sold these accumulated profits and losses are posted to the income statement. If the fair value cannot be reliably determined, the asset is recorded at cost, adjusted for permanent losses in value, the effect of which is recognised in the income statement, having been determined based on the present value of the expected cash flows and discounted at the current market yield for a similar financial asset.

Losses in excess of the book value of an investment are stated in liabilities in the item “reserves for risks and charges – other”, to the extent the company holding the investment has a commitment to perform legal or implicit obligations for the company in which the investment is held, or in any case to cover its losses.

Derivative instruments

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

In order to minimise these risks, derivative contracts are entered into to hedge specific transactions and to cover overall exposures, using the instruments offered by the market.

Consistent with the provisions of IAS 39, these instruments are recorded according to the methods established for hedge accounting only when:

- a) at the outset of the hedge there is formal designation and documentation of the relationship itself;
- b) the relationship between the derivative and object of the hedge is formally documented;
- c) the hedge is highly effective and its effectiveness can be reliably demonstrated.

If an instrument is designated to offset the exposure to changes in fair value of the hedged item (e.g., hedge of variability of the fair value of floating rate financing and receivables and payables in foreign currency), the instrument is recorded at fair value, and the effects are recognized in profit or loss. Likewise, instruments being hedged are adjusted to reflect changes in fair value associated with the risk covered.

When a financial instrument is designated to offset the exposure to variability in cash flows of forecast transactions (cash flow hedge; e.g., hedging of variability of cash flows from expected future transactions due to foreign exchange rate fluctuations), the effective portion of the gains and losses arising from changes in fair value of the hedge instrument is directly recognized in equity, (the ineffective portion is immediately recognized in the profit or loss in exchange gains/losses). The amounts recognized in equity are reclassified in profit and loss in the same period during which the asset acquired or liability assumed affects profit or loss.

Changes in the fair value of derivatives that do not satisfy the conditions for being classified as a hedge are shown in the income statement.

Other financial assets

Financial assets for which there is the intention and ability to hold to maturity, are recorded at cost (as represented by the fair value of the initial consideration given in exchange) increased by the transaction costs (e.g., commissions, consulting fees, etc.). After initial recognition the financial asset, it is valued based on amortised cost using the effective interest rate method.

Trade receivables that are due on normal business terms are not discounted and are recorded at cost (i.e., their nominal amount) net of respective losses in value. Losses in value are determined based on the present value of expected future cash flows.

Cash and bank balances include negotiable securities that meet the requirements of availability on demand or in a very short period, ability to be placed, and lack of collection expenses.

Other financial liabilities

Trade payables that are due on normal business terms are not discounted and are recorded at cost (i.e., their nominal amount).

Financial liabilities excluding derivatives, are initially recognized at cost (as represented by the fair value of the liability net of the transaction costs directly attributable to its issuance). After the initial recognition, financial liabilities are valued based on amortised cost using the effective interest rate method.

Inventory

Inventories are stated at the lower of the acquisition or production cost and the estimated market value.

The cost configuration adopted is as follows:

- a. stocks of finished goods, consisting of single pieces, are valued on the basis of the specific identification of the cost;
- b. all other stock, grouped together in homogeneous categories, is valued on the basis of the weighted average cost.
- c. work in progress is valued on the basis of the production cost, which includes the consumption of raw materials, direct labour and indirect production costs, based on the stage of production completed as at the financial statement date.

The value of any obsolete and slow-moving goods is written down on the basis of an estimation of their future use/sale, by creating an adjustment reserve to reduce the value of the inventories.

Reserves for risks and charges

A reserve for risks and charges is set up to cover certain or probable losses or liabilities, the amount and date of occurrence of which cannot be determined at the end of the period. These provisions are recorded when there is an actual (legal or implicit) obligation that derives from a past event, and it is probable that funds will be disbursed to settle the obligation. They reflect a realistic estimate of the expense that will be incurred on the basis of available information.

If the effect is significant, the provisions are determined by discounting the expected future cash flows at a *pre-tax* discount rate that reflects the current market valuation of the cost of money over time and, if applicable, the specific risk applicable to the obligation.

Treasury stock

Treasury stock is recorded, at cost, as a reduction to shareholders' equity. Gains or losses on any subsequent sales are shown as changes in shareholders' equity.

Employee benefits

Short term employee benefits, such as salaries, wages and social contributions, paid vacations and annual holidays that must be paid within 12 months of the closing of the period, and all other benefits in kind, are recorded in the period in which service is rendered by the employee.

Post-employment benefits, provided through defined benefits plans, are recognised in the period in which the right is earned.

The defined benefit liability, net of any plan assets, is determined using actuarial assumptions and is recognized on an accrual basis consistent with the services that must be provided to obtain the benefits. Independent actuaries calculate the liability.

Actuarial gains and losses resulting from changes in the actuarial assumptions used or from changes in the plan conditions are recognised in the profit or loss if, and to the extent, that their net unrecognized actuarial gains and losses at the end of the previous reporting period exceeds the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of any plan assets (so called *corridor method*).

As part of the first-time adoption of IAS/IFRS, the Group has decided to recognize all cumulative actuarial gains and losses in existence at 1 January 2004, even though it has chosen to use the corridor method for subsequent actuarial gains and losses.

Revenues and costs

Revenues from sales and services are recognised to the extent that it is probable that the economic benefits will flow to the Group and their amount can be reliably measured. Revenues are stated net of discounts, returns and allowances.

In particular, revenues from the sales and services are recognised when the risks and benefits of ownership are transferred to the buyer or when the services have been rendered.

Financial income and expenses are recognised on an accrual basis based on the interest accrued on the net amount of the related financial assets and liabilities, using the effective interest rate.

Dividends are recognised when the shareholders' right to receive payment is established.

Cost of sales includes the cost of producing or acquiring the products and goods sold. In particular, it includes all costs for materials, processing and general expenses directly attributable to the production, and write-downs of inventories.

Taxes

Current income taxes are determined on the basis of the amount expected by each consolidated company to be paid using tax rates and regulations that have been enacted, or substantively enacted by the balance sheet date. Regarding the Italian companies, the effects of the Group's adoption of consolidated taxation within Italy are taken into account.

The estimated liability is recognized in the Balance Sheet in the item "Current taxes payable", net of any advance payments, or in the item "Taxes receivable" if the balance is positive.

Deferred tax liabilities and deferred tax assets are determined on the basis of the timing differences between the amounts of assets and liabilities for purposes of consolidation and the amounts resulting from application of tax regulation. These entries are measured at the tax rates that are expected to be applying when the differences will be reversed.

Deferred tax assets are recognised only if it is probable that there will be future taxable income against which they can be recovered. Recoverability is re-examined at each period close.

Deferred tax liabilities on undistributed profits at the end of a period are also recognised if the profits, when distributed, will be subject to taxation.

Current and deferred tax assets and liabilities are offset when the same taxation authority levies the taxes and when there is a legally enforceable right to set off the recognized amounts.

Share-based payment transactions

The Group grants stock option plans to particular categories of employees and to the Managing Director, as compensation for services rendered.

The cost of these services is determined by reference to the fair value of the options as at the date on which they are awarded.

This cost is recognised in the income statement over the period between the award date and the date on which the option may be exercised, which is called the vesting period, based on the best estimate available of the number of options that will be exercised.

CONSOLIDATED BALANCE SHEET AS AT 1 JANUARY 2004
RECONCILIATION OF ITALIAN ACCOUNTING STANDARDS AND IAS/IFRS

<i>Amounts in €/000</i>	Italian Accounting Standards	IAS/IFRS Adjustments	Notes	IAS/IFRS
Tangible assets	83,467	(2,070)	1	81,397
- <i>Goodwill</i>	39,806	(6,522)		33,284
- <i>Other intangible assets</i>	19,188	482		19,671
Intangible assets	58,994	(6,039)	2	52,955
- <i>Investments in subsidiaries</i>	730			730
- <i>Investments in associated companies</i>	869			869
- <i>Investments in other companies</i>	16,121			16,121
- <i>Other long-term financial assets</i>	12,062			12,062
Financial assets	29,782			29,782
Total long-term assets	172,243	(8,109)		164,134
Deferred tax assets	21,796	559	3	22,356
Other long-term assets	17,693			17,693
Financial receivables due after one year	1,435	5	4	1,439
LONG-TERM ASSETS	213,167	(7,545)		205,621
Long-term assets held for sale				
Total inventory	429,964	2,989	5	432,953
Trade receivables	131,999			131,999
- <i>Taxes receivable</i>	30,067			30,067
- <i>Other current assets</i>	9,530	(5)		9,525
Total other current assets	39,597	(5)	7	39,592
Short-term financial assets	6,859			6,859
Cash and bank balances	40,371			40,371
CURRENT ASSETS	648,789	2,984		651,773
TOTAL ASSETS	861,956	(4,562)		857,394
- <i>Authorised capital</i>	(20,741)			(20,741)
- <i>Reserves</i>	(119,435)	5,386		(114,049)
- <i>Retained earnings (losses)</i>	(345,997)	15,213		(330,784)
- <i>Income (loss) for the period</i>	(92,141)			(92,141)
Total Group Shareholders' Equity	(578,313)	20,600		(557,715)
Minority interests	(8,545)	(62)		(8,607)
TOTAL SHAREHOLDERS' EQUITY	(586,858)	20,538		(566,321)
Employee severance pay reserve and other personnel reserves	(10,559)	837	9	(9,721)
Reserves for risks and charges	(3,844)	(292)	10	(4,135)
Deferred tax liabilities	(7,412)	(14,505)	11	(21,917)
Other long-term liabilities	(2,889)			(2,889)
Bank overdraft and borrowings due after one year	(73,630)			(73,630)
Other long-term financial liabilities	0			
LONG TERM LIABILITIES	(98,333)	(13,959)		(112,292)
Long-term liabilities held for sale				
Trade payables	(108,664)			(108,664)
- <i>Advances</i>	(3,423)			(3,423)
- <i>Current taxes payable</i>	(24,697)			(24,697)
- <i>Other current liabilities</i>	(20,822)	(1,939)		(22,760)
Total other current liabilities	(48,941)	(1,939)	14	(50,879)
Bank overdraft and borrowings due within one year	(12,827)			(12,827)
Financial payables due within one year	(6,333)	(77)	15	(6,410)
CURRENT LIABILITIES	(176,765)	(2,016)		(178,780)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	(861,956)	4,562		(857,394)

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2004
RECONCILIATION OF ITALIAN ACCOUNTING STANDARDS AND IAS/IFRS

<i>Amounts in €/000</i>	Italian Accounting Standards	IAS/IFRS Adjustments	Notes	IAS/IFRS
Tangible assets	86,705	(1,151)	1	85,554
- <i>Goodwill</i>	44,578	(5,818)		38,760
- <i>Other intangible assets</i>	25,221	2,099		27,319
Intangible assets	69,798	(3,719)	2	66,079
- <i>Investments in subsidiaries</i>	991	(6)		985
- <i>Investments in associated companies</i>				
- <i>Investments in other companies</i>	23,535			23,535
- <i>Other long-term financial assets</i>	14,400	5		14,405
Financial assets	38,926	(1)		38,925
Total long-term assets	195,429	(4,871)		190,558
Deferred tax assets	23,608	720	3	24,328
Other long-term assets	18,351	(1)		18,350
Financial receivables due after one year	1,879	(1,221)	4	658
LONG-TERM ASSETS	239,267	(5,374)		233,894
Long-term assets held for sale				
Total inventory	458,774	4,419	5	463,193
Trade receivables	161,057	205	6	161,262
- <i>Taxes receivable</i>	61,113	588		61,701
- <i>Other current assets</i>	12,313	643		12,956
Total other current assets	73,426	1,231	7	74,657
Short-term financial assets	5,159	18		5,176
Cash and bank balances	70,874	402	8	71,276
CURRENT ASSETS	769,290	6,274		775,564
TOTAL ASSETS	1,008,557	901		1,009,458
- <i>Authorised capital</i>	(20,816)			(20,816)
- <i>Reserves</i>	(121,457)	9,620		(111,837)
- <i>Retained earnings (losses)</i>	(405,545)	10,332		(395,213)
#NAME?	(108,296)	(460)		(108,756)
Total Group Shareholders' Equity	(656,114)	19,492		(636,622)
Minority interests	(6,742)	(134)		(6,876)
TOTAL SHAREHOLDERS' EQUITY	(662,856)	19,358		(643,498)
Employee severance pay reserve and other personnel reserves	(13,656)	1,301	9	(12,355)
Reserves for risks and charges	(3,721)	482	10	(3,239)
Deferred tax liabilities	(6,658)	(15,883)	11	(22,541)
Other long-term liabilities	(3,781)			(3,781)
Bank overdraft and borrowings due after one year	(58,139)			(58,139)
Other long-term financial liabilities		(2,030)	12	(2,030)
LONG TERM LIABILITIES	(85,955)	(16,130)		(102,085)
Long-term liabilities held for sale				
Trade payables	(151,489)	(1,606)	13	(153,095)
- <i>Advances</i>	(2,913)			(2,913)
- <i>Current taxes payable</i>	(11,797)			(11,797)
- <i>Other current liabilities</i>	(63,696)	(2,425)		(66,121)
Total other current liabilities	(78,406)	(2,425)	14	(80,831)
Bank overdraft and borrowings due within one year	(26,881)			(26,881)
Financial payables due within one year	(2,969)	(99)	15	(3,068)
CURRENT LIABILITIES	(259,746)	(4,130)		(263,875)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	(1,008,557)	(901)		(1,009,458)

2004 INCOME STATEMENT
RECONCILIATION OF ITALIAN ACCOUNTING STANDARDS AND IAS/IFRS

<i>Amounts in €/000</i>	Italian Accounting Standards	IAS/IFRS Adjustments	Notes	IAS/IFRS
- <i>Gross sales</i>	894,408	3,910		898,317
- <i>Discounts and allowances</i>	(79,099)			(79,099)
Net sales	815,309	3,910		819,219
Royalties	7,163			7,163
Other income	5,181	(10)		5,171
Total net revenues	827,653	3,900	16	831,553
Cost of sales	(299,917)	(2,494)	17	(302,412)
Total contribution margin	527,736	1,405		529,142
- <i>Personnel costs</i>	(128,484)	(721)	18	(129,205)
- <i>Variable sales expenses</i>	(30,799)	(190)	19	(30,989)
- <i>Other income / (expenses)</i>	(98,795)	(6,813)	20	(105,608)
- <i>Advertising and promotion expenses</i>	(96,388)	(28)	21	(96,416)
- <i>Depreciation, amortisation and write-downs</i>	(39,096)	3,931	22	(35,166)
Total operating expenses	(393,562)	(3,821)		(397,383)
Operating profit	134,172	(2,416)		131,756
- <i>Interest income</i>	1,361	(47)		1,314
- <i>Interest expense</i>	(5,782)	(66)		(5,848)
- <i>Other financial income (expense)</i>	(2,415)	(415)		(2,831)
- <i>Gains (losses) on foreign exchange</i>	(75)	29		(45)
Total financial income (expense)	(6,911)	(499)	23	(7,410)
Revaluation (write-down) of financial assets	(2,429)	2,429	24	
Other non-operating income (expense)	(2,106)	2,106	25	
Result before taxes and minority interests	122,728	1,619		124,348
Current and deferred taxes	(12,859)	(1,084)	26	(13,943)
Result for the period belonging to minority interests	(1,573)	(75)		(1,648)
Net income for the period	108,296	460		108,756

NOTES ON THE MAIN IAS/IFRS ADJUSTMENTS MADE TO BALANCE SHEET ITEMS AS AT 1 JANUARY 2004 AND 31 DECEMBER 2004

The main effects of application of IAS/IFRS on the balance sheet as at 1 January 2004 and 31 December 2004 are described below.

Based on the recommendation of *IAS 31 - Interests in Joint Ventures*, the Group has elected proportional consolidation, as at 31 December 2004, of Bulgari Hotels & Resorts BV and Bulgari Hotels & Resorts Milano S.r.l., instead of a valuation based on the equity method. This change in consolidation method had no effects on consolidated shareholders' equity or consolidated net income, but did cause differences, in the composition of individual items of the consolidated balance sheet and income statement, between the version prepared according to Italian accounting standards and the version prepared according to IAS/IFRS.

1) Tangible assets (-2,070,000 euros at 1 January 2004 and -1,151,000 euros at 31 December 2004)

The adjustments to tangible assets were related to:

- proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l. of +1,640,000 euros at 31 December 2004;
- posting of costs incurred for assets not owned that, according to international accounting standards, satisfy the conditions for capitalisation (+538,000 at 1 January 2004 and +753,000 euros at 31 December 2004);
- reclassification of 2,989,000 euros at 1 January 2004 and 4,165,000 euros at 31 December 2004 of the amount related to the Bulgari museum, as already discussed in the item "inventory" (note 5);
- posting of assets acquired under financial leases net of the respective amortization according to the accounting method provided by *IAS 17 - Leasing* (+381,000 euros at 1 January 2004 and +621,000 euros at 31 December 2004);

2) Intangible assets (-6,039,000 euros at 1 January 2004 and -3,719,000 euros at 31 December 2004)

The adjustments to intangible assets were related to:

- decrease in goodwill due to conversion at the closing exchange rate of goodwill arising in currencies other than the euro, as provided by *IAS 21 - The Effects of Changes in Foreign Exchange Rates* (-6,522,000 euros at 1 January 2004 and -7,165,000 euros at 31 December 2004) and due to the reversal of the amortization of goodwill no longer allowed by IFRS 3 (+2,212,000 euros at 31 December 2004);
- increase in other intangible assets (+482,000 euros at 1 January 2004 and +1,234,000 euros at 31 December 2004) due to the combined effect of the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l. (+80,000 euros at 31 December 2004) and the reversal of the reserve for amortization of deferred expenses under subleases for stores in France (+2,298,000 euros at 1 January 2004 and +3,109,000 euros at 31 December 2004), where, even in the case of a lease for a fixed period, the protection afforded the lessor by local legislation is such as not to justify amortization of such expenses according to the criteria established by *IAS 38 - Intangible Assets*. These effects are partially offset by the elimination of organisation and start-up costs, advertising costs, deferred charges and development costs that do not satisfy the requirements for posting as provided by *IAS 38 - Intangible Assets* (-1,816,000 euros at 1 January 2004 and -1,955,000 euros at 31 December 2004).

3) Deferred tax assets (+559,000 euros at 1 January 2004 and +720,000 at 31 December 2004)

This adjustment essentially reflects the tax effects of reconciling entries to shareholders' equity and more specifically includes deferred tax assets of +559,000 euros at 1 January 2004 and +720,000 euros at 31 December 2004.

4) Long-term financial receivables (+5,000 euros at 1 January 2004 and –1,221,000 euros at 31 December 2004)

The changes in other long term financial receivables can be attributed to the combined effect of the recalculation of lease agreements using the method provided by *IAS 17 – Leasing* and to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l. and Bulgari Hotels & Resorts BV.

Specifically, the recalculation of lease agreements resulted in an increase in other long-term financial receivables of +5,000 euros at 1 January 2004 and +12,000 euros at 31 December 2004.

The proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l. and Bulgari Hotels & Resorts BV resulted in a decrease in other long-term financial receivables of –1,233,000 euros at 31 December 2004.

5) Inventory (+2,989,000 euros at 1 January 2004 and +4,419,000 euros at 31 December 2004)

The increase reflects the reclassification of the value of products that are representative of the past and present production of jewellery, watches and accessories which form an historical archive of Bulgari products, which was previously included in tangible assets.

6) Trade receivables (+205,000 euros at 31 December 2004)

The increase as at 31 December 2004 is attributable to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l..

7) Other current assets (-5,000 euros at 1 January 2004 and +1,231,000 euros at 31 December 2004)

The increase as at 31 December 2004 is attributable to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l..

Specifically, this item includes additional tax credits of 588,000 euros and additional prepaid expenses on rents and leases of 637,000 euros.

8) Cash and Bank Balances (+402,000 euros at 31 December 2004)

The adjustment is due to an increase in cash and bank balances (+402,000 euros as at 31 December) attributable to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l. and Bulgari Hotels & Resorts BV.

9) Reserve for employee severance pay (-837,000 euros at 1 January 2004 and –1,301,000 euros at 31 December 2004)

The adjustment reflects the application of actuarial methods to the reserve for employee severance pay, and the posting of the financial/actuarial amount of the projected liability.

The 2004 increase also includes approximately 70,000 euros related to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l..

10) Reserves for risks and charges (+292,000 euros at 1 January 2004 and –482,000 euros at 31 December 2004)

The change as at 1 January 2004 is attributable to an increase in write-down of investments valued using the equity method following adjustments made in the financial statements of companies in which investments are held, in order to conform to international accounting standards.

The change as at 31 December 2004 is due to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l., and the resulting elimination of the write-down of the investment. The amount in excess of the book value was included in the reserve for risks and charges.

11) Deferred Tax Liabilities (+14,505,000 euros at 1 January 2004 and +15,883,000 at 31 December 2004)

The adjustment is related mainly to a provision for deferred tax liabilities on undistributed profits of subsidiaries (+10,026,000 euros as at 1 January 2004 and +11,455,000 euros as at 31 December 2004) and to timing differences between the amounts used in the consolidated financial statements and the corresponding tax amounts of some Group companies (+3,984,000 euros as at 1 January 2004 and +3,603,000 euros as at 31 December 2004) not posted in the financial statements prepared according to Italian accounting standards given the low probability of the liability actually falling due. The adjustment reflects mainly the tax effects of postings to reconcile the shareholders' equity statement, and specifically, includes deferred tax liabilities of +495,000 euros and +825,000 euros, at 1 January 2004 and 31 December 2004, respectively.

12) Bank overdraft and borrowings payable after one year (+2,030,000 euros at 31 December 2004)

The changes in bank overdraft and borrowings payable after one year are attributable to the combined effect of the recalculation of the lease agreements according to the method provided by *IAS 17 – Leasing* and to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l. and Bulgari Hotels & Resorts BV.

Specifically, the lease agreements recalculation resulted in an increase in bank overdraft and borrowings payable after one year of +48,000 euros as at 31 December 2004.

The proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l. and Bulgari Hotels & Resorts BV resulted in an increase in bank overdraft and borrowings payable after one year of +1,982,000 euros as at 31 December 2004.

13) Trade payables (+1,606,000 euros at 31 December 2004)

The increase as at 31 December 2004 is attributable to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l..

14) Other current liabilities (+1,939,000 euros at 1 January 2004 and +2,425,000 euros at 31 December 2004)

The increase is due mainly (+1,905,000 euros at 1 January 2004 and +2,022,000 euros at 31 December 2004) to the posting of rents and leases using the straight line method as provided by *IAS 17 – Leasing*.

The remaining increase of 403,000 euros, at 31 December 2004, is attributable to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l. and is related more specifically to amounts payable to personnel (+112,000 euros), amounts payable to social security institutions (+132,000 euros), taxes payable (+43,000 euros) and to other payables due within one year (+116,000 euros).

15) Financial liabilities due within one year (+77,000 euros at 1 January 2004 and +99,000 euros at 31 December 2004)

This adjustment is related mainly to an increase in financial payables due within one year resulting from the recalculation of the lease agreements using the method provided by *IAS 17 – Leasing* (+77,000 euros as at 1 January 2004 and +99,000 euros as at 31 December 2004).

NOTES ON THE MAIN IAS/IFRS ADJUSTMENTS MADE TO 2004 INCOME STATEMENT ITEMS

16) Net revenues (+3,900,000 euros)

The increase is due entirely to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l..

17) Cost of sales (+2,494,000 euros)

The increase is due entirely to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l..

18) Personnel costs (+721,000 euros)

The increase in personnel costs is due mainly to an approximate increase of 1,400,000 euros in the amount recorded for stock option plans according to the method provided by IFRS 2.

This increase was partially offset by a decrease of approximately 670,000 euros caused by the change in the method used to value benefits (financial – actuarial) owed to employees (“employee severance pay”).

19) Variable sales expenses (+190,000 euros)

The increase is due entirely to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l..

20) Other income/(expenses) (+6,813,000 euros)

Of the increase, 2,107,000 euros is attributable to the reclassification of the item other non-operating income/(expenses) (see note 25), and 3,753,000 euros is attributable to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l. and Bulgari Hotels & Resorts BV.

The adjustment also includes approximately 953,000 euros for increased organisation and start-up costs, and development and deferred costs that do not satisfy the criteria for capitalization as provided by IAS 38 – Intangible Assets, and that were therefore entirely expensed to the income statement.

21) Advertising and promotion expenses (+28,000 euros)

The adjustment is related to advertising costs that do not satisfy the criteria for capitalisation provided by IAS 38 – *Intangible Assets*, and that were therefore entirely expensed to the income statement.

22) Depreciation, amortisation and write-downs (-3,931,000 euros)

The adjustment includes a decrease of 4,392,000 euros related to the reversal of amortisation of the item “goodwill” that is no longer permitted according to IFRS3, and to reductions in amortisation resulting from the reduction of the amount of “other intangible assets” because of the more restrictive criteria established by the IAS/IFRS.

This effect was offset by an increase of 194,000 euros related to amortisation of leasehold improvement costs, as described in note 6, an increase of 63,000 euros related to amortisation of leased assets, as described in note 6, and an increase of 204,000 attributable to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l..

23) Financial income/(expenses) (+499,000 euros)

The adjustment is attributable mainly to the financial component of the discounting of benefits owed to employees, and also to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l. and Bulgari Hotels & Resorts BV.

24) Revaluation/(write-down) of financial assets (-2,429,000 euros)

The adjustment arises from the elimination of the write-downs of the investments in Bulgari Hotels & Resorts Milano S.r.l. and in Bulgari Hotels & Resorts BV made in prior years, as a result of the proportional consolidation of these two companies.

25) Other non-operating income /(expenses) (+2,106,000 euros)

This item was entirely reclassified to general and administrative expenses, i.e., to operating expenses, because IAS 1 does not allow income and expenses to be presented as extraordinary components in the income statement.

26) Current and deferred taxes (+1,084,000 euros)

This item includes deferred tax liabilities on the 2004 increase in undistributed profits, in the amount of 1,429,000 euros. The remainder is related to the tax effects on the adjustments made to income statement items.

**RECONCILIATION OF SHAREHOLDERS' EQUITY AS AT 1 JANUARY 2004 AND 31
DECEMBER 2004, AND OF CONSOLIDATED NET INCOME**

<i>Amounts in €/000</i>	Notes	Shareholders' Equity 1 January 2004 <i>Group and minority interests</i>	Income Statement for 2004 <i>Group and minority interests</i>	Shareholders' Equity 31 December 2004 <i>Group and minority interests</i>
Shareholders' Equity according to Italian accounting standards		586,858	108,296	662,856
- Costs for organisation and start-up, development and advertising and other intangible assets, with related amortisation	a	482	(206)	276
- Goodwill	b	(6,522)	2,704	(4,953)
- Employee benefits	c	837	464	1,301
- Share-based payments	d	0	(1,393)	0
- Operating leases	e	(1,905)	(119)	(2,024)
- Deferred taxes on undistributed profits and on other timing differences	f	(14,010)	(1,048)	(15,058)
- Other adjustments	g	516	94	1,205
- Tax effects on IAS/IFRS adjustments		64	(36)	(105)
Total IAS/IFRS adjustments		(20,538)	460	(19,358)
IAS/IFRS Shareholders' Equity		566,321	108,756	643,498

NOTES ON THE RECONCILIATION OF SHAREHOLDERS' EQUITY AS AT 1 JANUARY 2004 AND 31 DECEMBER 2004 AND OF CONSOLIDATED 2004 NET INCOME

a) Costs related to organisation and start-up, development and advertising, and other intangible assets, with respective amortisation

IAS 38 – Intangible Assets does not allow the capitalization of costs classified, according to the former accounting standards, as some types of intangible assets. Therefore, the amounts previously related to “organisation and start-up costs”, “advertising costs”, “deferred costs” and “development costs” have been reversed.

b) Goodwill

As provided by IFRS 3, the book value of the goodwill shown in the financial statements prepared according to the accounting standards as at the transition date is no longer subject to systematic amortisation, but rather to a process of valuation, at least annually, intended to determine the recoverability of the goodwill (impairment test). Therefore, the amortisation taken in 2004 in the financial statements prepared according to Italian accounting standards has been reversed.

In addition, as provided by *IAS 21 - The Effects of Changes in Foreign Exchange Rates*, goodwill related to acquisitions of investments in a currency other than the Group's functional currency has been adjusted to period-end exchange rates with an offsetting entry to a shareholders' equity reserve.

c) Employee benefits

According to *IAS 19 – Employee Benefits*, the reserve for employee severance pay is considered a defined benefit obligation.

Therefore, the reserve for employee severance recorded according to Italian accounting standards has been recalculated as at the transition date using the method of “unit projection of the credit”.

d) Share-based payments

According to IFRS 2 – *Share-based payments*, the stock options allocated to employees are valued according to their fair value as at the allocation date.

This cost, in contrast to Italian accounting standards, is recognized in the income statement, with an offsetting entry to a shareholders' equity reserve. The overall impact of applying the IAS/IFRS to shareholders' equity is therefore zero.

e) Operating leases

According to *IAS 17 – Leasing*, payments under an operating lease must be shown as a cost with even payments throughout the life of the lease.

Therefore, an accrued liability has been recorded to divide the increase in future lease payments throughout the life of the agreements.

f) Deferred taxes on undistributed profits and on other timing differences

Deferred tax liabilities on undistributed profits were posted at the end of each period when it was expected that the profits would be subject to taxation upon distribution, and were posted based on timing differences between the amounts used for consolidated financial statements purposes and the corresponding tax amounts of some Group companies, as provided by *IAS 12 – Income taxes*.

These taxes were not recorded in the financial statements prepared according to Italian accounting standards given the low probability of the liability actually falling due.

g) Other adjustments

Other adjustments consist mainly in the recording of financial lease agreements, according to the method provided by *IAS 17 – Leasing*, and to the capitalisation of leasehold improvement costs.

EFFECTS ON THE CASH FLOW STATEMENT AND ON NET FINANCIAL INDEBTEDNESS AS AT 31 DECEMBER 2004

The reconciliation of the consolidated cash flow statement is not presented here as the effects of application of IAS/IFRS accounting standards are not significant.

The reconciliation of net financial indebtedness as at 31 December 2004 is presented below, with amounts determined according to Italian accounting standards and IAS/IFRS.

<i>amounts in euros/000</i>	31/12/2004
Net financial indebtedness according to Italian accounting standards	(10,168)
- <i>proportional consolidation Hotel</i>	402
- <i>other</i>	<u>(82)</u>
Short-term available funds (indebtedness)	320
- <i>proportional consolidation Hotel</i>	(3,215)
- <i>other</i>	<u>(36)</u>
Long-term available funds (indebtedness)	(3,251)
IAS/IFRS effects on net indebtedness	(2,931)
Net financial indebtedness according to IAS/IFRS	(13,100)

The difference is due mainly to the proportional consolidation of Bulgari Hotels & Resorts Milano S.r.l., which resulted in a total change of approximately 2.8 million euros, as already described in the notes on the main adjustments made.

**RECONCILIATION OF IAS/IFRS CONSOLIDATED BALANCE SHEET AS AT 1
JANUARY 2005, INCLUDING THE EFFECTS OF IAS 32/39**

<i>Amounts in €/000</i>	IAS/IFRS 12/31/2004	Effects of IAS 32/39	Opening IAS/IFRS on 1/1/ 2005
Tangible assets	85,554		85,554
- <i>Goodwill</i>	38,760		38,760
- <i>Other intangible assets</i>	27,319		27,319
Intangible assets	66,079		66,079
- <i>Investments in subsidiaries</i>	985		985
- <i>Investments in associated companies</i>			
- <i>Investments in other companies</i>	23,535	(8,019)	15,516
- <i>Other long-term financial assets</i>	14,405		14,405
Financial assets	38,925	(8,019)	30,906
Total long-term assets	190,558	(8,019)	182,539
Deferred tax assets	24,328		24,328
Other long-term assets	18,350		18,350
Financial receivables due after one year	658		658
LONG-TERM ASSETS	233,894	(8,019)	225,875
Long-term assets held for sale			
Total inventory	463,193		463,193
Trade receivables	161,262		161,262
- <i>Taxes receivable</i>	61,701		61,701
- <i>Other current assets</i>	12,956	(1,272)	11,684
Total other current assets	74,657	(1,272)	73,385
Short-term financial assets	5,176		5,176
Cash and bank balances	71,276		71,276
CURRENT ASSETS	775,564	(1,272)	774,292
TOTAL ASSETS	1,009,458	(9,291)	1,000,167
- <i>Authorised capital</i>	(20,816)		(20,816)
- <i>Reserves</i>	(111,837)	9,291	(102,546)
- <i>Retained earnings (losses)</i>	(395,213)		(395,213)
- <i>Income (loss) for the period</i>	(108,756)		(108,756)
Total Group Shareholders' Equity	(636,622)	9,291	(627,331)
Minority interests	(6,876)		(6,876)
TOTAL SHAREHOLDERS' EQUITY	(643,498)	9,291	(634,207)
Employee severance pay reserve and other personnel reserves	(12,355)		(12,355)
Reserves for risks and charges	(3,239)		(3,239)
Deferred tax liabilities	(22,541)		(22,541)
Other long-term liabilities	(3,781)		(3,781)
Bank overdraft and borrowings due after one year	(58,139)		(58,139)
Other long-term financial liabilities	(2,030)		(2,030)
LONG TERM LIABILITIES	(102,085)		(102,085)
Long-term liabilities held for sale			
Trade payables	(153,095)		(153,095)
- <i>Advances</i>	(2,913)		(2,913)
- <i>Current taxes payable</i>	(11,797)		(11,797)
- <i>Other current liabilities</i>	(66,121)		(66,121)
Total other current liabilities	(80,831)		(80,831)
Bank overdraft and borrowings due within one year	(26,881)		(26,881)
Financial payables due within one year	(3,068)		(3,068)
CURRENT LIABILITIES	(263,875)		(263,875)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	(1,009,458)	9,291	(1,000,167)

RECONCILIATION OF AND NOTES ON CONSOLIDATED SHAREHOLDERS' EQUITY AS AT 1 JANUARY 2005, INCLUDING THE EFFECTS OF IAS 32 AND IAS 39

Amounts in €/000

IAS/IFRS Shareholders' Equity 12/31/2004	Notes	643,498
- Treasury Stock	a	(3,569)
- Derivatives instruments	b	2,297
- Reduction in value of financial assets recorded at cost	c	(8,019)
Total IAS 32/39 adjustments		(9,291)
Patrimonio Netto IAS/IFRS 1/1/2005		634,207

a) Treasury stock

At January 1 2005 the treasury stock held by Bulgari S.p.A. was recorded as a reduction of shareholders' equity, as provided by *IAS 32 – Financial instruments: Disclosure and presentation*. Any gains or losses on future sales of these shares will be shown as changes in shareholders' equity, and will have no impact on the income statement.

b) Derivatives instruments

As provided by *IAS 39 – Financial instruments: recognition and measurement* a reserve has been established for the measurement of derivatives in the amount of 2,297,000 euros, which represents the offsetting entry of the fair value measurements of the derivatives existing as at 1 January 2005, which fall under hedge accounting.

Of this amount, 2,198,000 euros is related to hedging of future net cash flows (forecast transaction) of currencies other than the euro. This reserve will be reclassified to the income statement when the respective future underlying assets and/or liabilities will have an effect on the income statement.

The amount of 99,000 euros is related to the fair value measurement of the interest rate swap undertaken to cover interest rate risk under floating rate financing.

c) Reduction of value of financial assets recorded at cost

This amount is the reduction in the item "investment in other companies" required to align the book value to the present value of the expected cash flows, discounted at the current market yield rate for a similar financial asset, as provided by *IAS 39*.