

B V L G A R I

**Consolidated quarterly report
as at 30 September 2005**

B V L G A R I

Bulgari S.p.A. and Subsidiaries

**Report of the Board of Directors
on performance
as at 30 September 2005**

Bulgari S.p.A. and Subsidiaries

Report of the Board of Directors on the Group's operations at 30 September 2005

Introduction

The Bulgari Group has prepared its consolidated quarterly report at 30 September 2005 in accordance with the criteria established by International Accounting Standard (IAS) n.34, which applies to interim financial reporting.

The financial statements at 30 September 2005, prepared in accordance with International Financial Reporting Standards (IAS/IFRS), are presented together with comparative figures from the financial statements at 31 December 2004 and 30 September 2004, opportunely adjusted in accordance with those standards.

Performance of the Group

The Bulgari Group closed the third quarter with a growth of 7.3% in net sales at constant exchange rates and 8.1% at comparable exchange rates after nine months. The progressive growth in the Group's net revenues has thereby reached 9.1% at current exchange rates and 9.8% at comparable exchange rates.

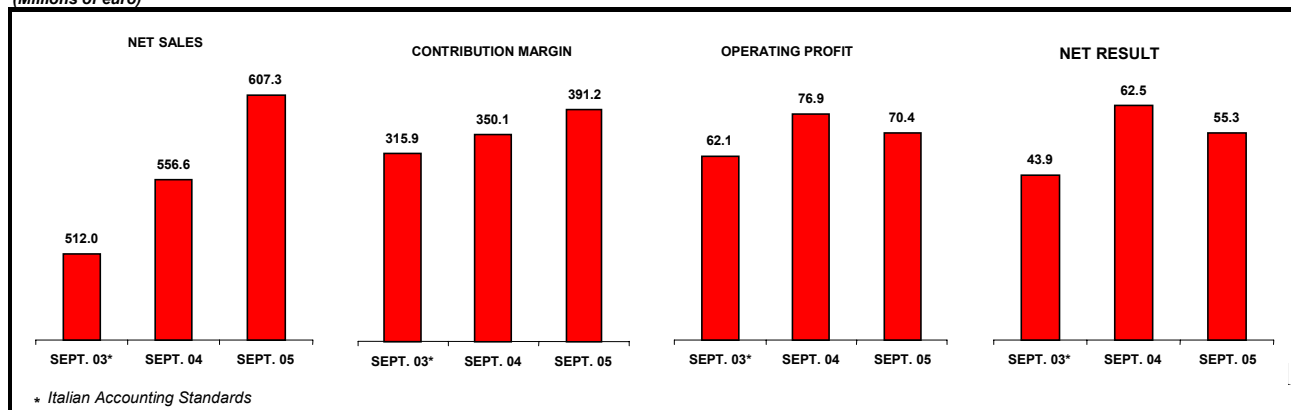
From a profitability point of view, the third quarter has also confirmed the positive impact of the steps taken to improve the contribution margin (up 10.2%), whereas the operating result (down 9.1%) and the net result (down 7.6%) show a fall over 2004 due to the costs incurred to support growth, whose positive effects are awaited in future months.

MAIN ECONOMIC INDICATORS

Consolidated net revenues for the third quarter of 2005 amounted to 218.1 million euros compared to 203.3 million euros for the corresponding period of the previous year. The effect on sales of the change in the consolidation scope which regards the purchase of the remaining 50% of Crova S.p.A. at the end of 2004, 50% of Cadrans Design S.A. in April 2005 and 51% of Prestige D'Or S.A. in July 2005, has been immaterial (less than 0.5%), since a large part of the sales of these companies are bought by other Group companies.

Net revenues at the end of September reached 607.3 million euros, compared to 556.6 million euros at 30 September 2004.

(Millions of euro)



In the third quarter the contribution margin, which rose from 127.6 to 140.6 million euros (up 10.2%), represented 64.5% of net sales compared to 62.8% in the third quarter of 2004, with an especially significant improvement considering the persisting negative effect of exchange rates and an unfavorable product mix. On a cumulative basis the contribution margin amounted to 64.4% of sales, against 62.9% in the first nine months of 2004. This result bears witness yet again to the success achieved in the steps taken to arrive at production efficiencies and to obtain a greater vertical integration in strategic sectors.

In order to support growth performance in the future, both in terms of sales and contribution margin, operating costs, excluding those for advertising and promotion, in the third quarter rose from 71.7 to 86.6 million euros (up 20.8%), while amounting to 243.4 million euros over the nine months, showing an increase of 16.2%.

The steps being taken to sustain the BVLGARI brand name continue to increase, with advertising and promotional expenses amounting to 22.2 million euros (up 6.1%) in the quarter and to 77.5 million euros (up 21.3%) in the nine months. As a percentage of net revenues, these costs represented 10.2% in the quarter and 12.8% in the first nine months of 2005.

Net operating profit of 31.9 million euros for the three months from July to September represents a decrease of 9.1% compared to 35.0 million euros earned in the same period of 2004. After nine months the operating profit has reached a level of 70.4 million euros, a fall of 8.4% compared to 2004; if advertising and promotional costs, which were particularly high during the period, are excluded, then growth of 5.1% was achieved.

Net profit for the quarter of 26.3 million euros shows a decrease of 7.6% compared to the third quarter of 2004, whereas that after nine months, penalized by greater foreign exchange losses and a less favourable tax rate than 2004, amounted to 55.3 million euros, a decrease of 11.6% over the figure of 62.5 million euros for the same period of the previous year.

INCOME STATEMENT

| <i>Million of euro</i> | III QUARTER | | 30 SEPTEMBER | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2005 | 2004 | 2005 | 2004 |
| NET REVENUES | 218.1 | 203.3 | 607.3 | 556.6 |
| NET CONTRIBUTION MARGIN | 140.6 64.5% | 127.6 62.8% | 391.2 64.4% | 350.1 62.9% |
| Variable selling expenses | 8.7 | 7.3 | 23.8 | 19.6 |
| Personnel costs | 36.7 | 31.5 | 106.7 | 90.8 |
| Other income/expenses | 31.6 | 25.0 | 87.0 | 76.3 |
| Commercial and promotion expenses | 22.2 | 20.9 | 77.5 | 63.9 |
| Ammortiz. Deprec. and writes-down | 9.6 | 7.8 | 25.8 | 22.6 |
| TOTAL OPERATING COSTS | 108.8 | 92.6 | 320.9 | 273.2 |
| OPERATING PROFIT | 31.9 14.6% | 35.0 17.2% | 70.4 11.6% | 76.9 13.8% |
| Other non operative gains (losses) | (2.9) | (2.8) | (6.6) | (5.9) |
| RESULT BEFORE TAXES AND MINORY INT. PROFIT | 29.0 | 32.2 | 63.8 | 71.0 |
| Current and deferred taxes | (2.6) | (3.2) | (7.8) | (7.5) |
| RESULT BEFORE MINORITY INT. PROFIT | 26.4 12.1% | 29.0 14.3% | 55.9 9.2% | 63.5 11.4% |
| Minorità interest profit | (0.1) | (0.5) | (0.7) | (1.0) |
| GROUP NET RESULT | 26.3 12.1% | 28.5 14.0% | 55.3 9.1% | 62.5 11.2% |

MACROECONOMIC SCENARIO

The results achieved by the Group to date and its prospects for the coming months may be understood better through an analysis, although somewhat summarised, of the macro-economic scenario, which continues to be a determining factor for the Group in reaching its objectives.

The economy of the United States has continued to grow, with a rise of 3.8% in annualised GDP in the third quarter, exceeding both the analysts' forecasts and that of the previous quarter (3.3%). This was the tenth consecutive quarter that the U.S. economy grew by more than 3%. Personal consumption and the high level of public spending have been above all the contributory factors. Inflation, however, has begun to be an issue again, as the retail price index rose by 4.7% in September, although the main cause was the price of oil. The Federal Reserve, the U.S. central bank, has continued with its strategy of gradually increasing interest rates which on 1 November 2005 increased from 3.75% to 4%.

There is a very different picture in the European Union where economic growth is still weak and for which OCSE forecasts a growth in GDP of less than 2%. The situation in Italy is particularly uncertain where, despite certain signs of confidence, growth in 2005 will probably not exceed 1%. In this context the European Central Bank maintains a waiting position, with interest rates unchanged at 2% since the middle of 2003.

After a number of uncertainties in the first quarter, all stock exchanges have taken an upwards route again. In America, in Europe and in Asia, stock market prices are above the levels of a year ago and in various cases

have reached their highest levels for many years.

In the third quarter of 2005 a new factor entered the scene to cause a rise in the quotation of gold: the rise in oil prices, capable of generating inflationary pressure and slowing economic growth. This explains the significant appreciation in the price of the metal, which was quoted at 473 dollars per ounce at the end of September (the average for September 2005 was 431 dollars per ounce, up 7.6% compared to the price of 401 dollars per ounce for the first nine months of 2004), which is on the increase at the same time that the dollar is in a recovery phase against the euro. The quotation of gold expressed in euros per ounce has always remained around an average of 320-330 euros per ounce over the past few years, while at the end of September 2005 it reached 393 euros per ounce. In the weeks following the end of the quarter, the price of gold remained at very high levels (the average for October 2005 was 470 dollars per ounce), although it fell again in the first few days of November to 460 dollars per ounce.

REVENUE ANALYSIS

REVENUES BY PRODUCT TYPE

Sales at comparable exchange rates increased in all the sectors in which the Group operates during the third quarter of 2005, except for that regarding watches, which remained essentially stable compared to the same period of 2004.

As for jewellery, Bulgari's main product line, there was a growth of 7.3% (6.5% at current exchange rates), in line with the cumulative figure at the end of September which shows an increase of 7.5% (6.8% at current exchange rates). This result is without doubt positive, considering the growth achieved in the same period of the two previous years (15.0% and 15.6% at comparable exchange rates) and confirms the success of the numerous new lines recently presented to the market.

Sales of watches start from a very challenging base due to the launch of *Ergon* in 2004 (third quarter of 2004: up 23.6% over 2003 at comparable exchange rates) and in the quarter have substantially confirmed the same levels reached in the third quarter of 2004 (down 1.3% at comparable exchange rates and down 2.4% at current exchange rates). The positive results of the new products already introduced during the early months of the year, such as the *Carbon Gold* and the *Titanium*, and the innovation represented by *Assioma*, launched in September with a consequent limited impact on the quarter, lead to high expectations for sales for the last part of the year.

The extraordinary success of accessories continues, with sales in the quarter achieving growth of 22.2% at comparable exchange rates (up 21.5% at current exchange rates) and in the nine months of 30% (up 29.4% at current exchange rates), with this success being achieved in all sales channels.

Overall the JWA Division (Jewels-Watches-Accessories Division) grew by 6.4% in the first nine months of 2005 at comparable exchange rates (up 5.8% at current exchange rates).

Sales of the Perfume Division showed an extraordinary level of growth in the quarter compared to 2004, equal to 19.3% at comparable exchange rates (18.4% at current exchange rates) and amounted to 115.1 million euros by the end of the period, an increase of 21% (20.6% at current exchange rates). The new products are meeting with an impressive success in every market, starting with *Aqua*, the new male fragrance launched on the market at the end of 2004.

Following its inauguration in May 2004, the operations of the hotel in Milan, the first to bear the BVLGARI brand name, continue with increasing acclaim; the hotel is managed in partnership with the Marriott group through the company Bulgari Hotels and Resorts Milano S.r.l. This company, consolidated on a proportionate basis, contributed turnover of 7.2 million euros in the first nine months of the year. In the third quarter alone its growth amounted to 52.3% on a consistent basis for comparison with 2004.

Tables 1 and 2 which follow show revenues for the third quarter of 2005 and the percentage of total revenues that each product line represented at 30 September 2005; the tables also show the increase over the same period of the previous year and over 31 December 2004, respectively, at current and comparable exchange rates.

TABLE 1
BULGARI GROUP
REVENUES BY PRODUCT TYPE – THIRD QUARTER

| Product line <i>(Millions of euros)</i> | Third quarter 2005 | | | | Third quarter 2004 | | | |
|--|--------------------|-------------|-------------|-------------|--------------------|-------------|-------------|-------------|
| | absolute value | % | Δ % vs PVY | | absolute value | % | Δ % vs PVY | |
| | | | Curr. exch. | Comp. exch. | | | Curr. exch. | Comp. exch. |
| <i>Jewellery</i> | 85.9 | 39% | +7 | +7 | 80.6 | 40% | +12 | +15 |
| <i>Watches</i> | 63.6 | 29% | -2 | -1 | 65.1 | 32% | +20 | +24 |
| <i>Accessories</i> | 18.4 | 8% | +21 | +22 | 15.1 | 7% | +26 | +27 |
| <i>Other</i> | 1.5 | 2% | +31 | - | 1.2 | 1% | -45 | - |
| JWA Division | 169.4 | 78% | +5 | +5 | 162.0 | 80% | +16 | +18 |
| Perfume Division | 44.6 | 20% | +18 | +19 | 37.7 | 18% | -7 | -5 |
| Hotel Division | 2.5 | 1% | +52 | - | 1.6 | 1% | - | - |
| Royalties/other (incl elim) | 1.6 | 1% | -17 | - | 2.0 | 1% | +42 | - |
| TOT. NET REVENUES | 218.1 | 100% | +7 | +8 | 203.3 | 100% | +12 | +14 |

TABLE 2
BULGARI GROUP
REVENUES BY PRODUCT TYPE – THIRD QUARTER – CUMULATIVE AT 30 SEPTEMBER AND TOTAL 2004

| Product line <i>(Millions of euros)</i> | 30 September 2005 | | | | 30 September 2004 | | | | Total 2004 | | | |
|--|-------------------|-------------|----------------|-------------|-------------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|
| | Absolute value | % | Δ % v. pr. yr. | | Absolute value | % | Δ % v. pr. yr. | | Absolute value | % | Δ % v. pr. yr. | |
| | | | Curr. exch. | Comp. exch. | | | Curr. exch. | Comp. exch. | | | Curr. exch. | Comp. exch. |
| <i>Jewellery</i> | 249.3 | 41% | +7 | +8 | 233.5 | 42% | +12 | +15 | 342.7 | 41% | +11 | +15 |
| <i>Watches</i> | 171.7 | 28% | -2 | -1 | 174.6 | 31% | +8 | +13 | 256.4 | 31% | +5 | +9 |
| <i>Accessories</i> | 54.6 | 9% | +29 | +30 | 42.1 | 8% | +6 | +9 | 62.1 | 7% | +12 | +14 |
| <i>Other</i> | 4.6 | 1% | +20 | - | 3.9 | 1% | -30 | - | 6.1 | 1% | -27 | - |
| JWA Division | 480.2 | 79% | +6 | +6 | 454.1 | 82% | +10 | +13 | 667.3 | 80% | +8 | +12 |
| Perfume Division | 115.1 | 19% | +21 | +21 | 95.5 | 17% | +4 | +7 | 154.2 | 19% | +13 | +16 |
| Hotel Division | 7.2 | 1% | +226 | - | 2.2 | 0% | - | - | 4.0 | 0% | - | - |
| Royalties/other (incl elim) | 4.8 | 1% | -1 | - | 4.8 | 1% | -9 | - | 6.1 | 1% | -10 | - |
| TOT. NET REVENUES | 607.3 | 100% | +9 | +10 | 556.6 | 100% | +9 | +12 | 831.6 | 100% | +10 | +13 |

The operating profitability of each sector is provided in the accompanying notes.

REVENUES BY GEOGRAPHICAL AREA

Following the positive results already reported for the first six months of 2005, revenues in Italy rose again in the third quarter by 25.6% and for the nine months ended 30 September 2005 grew by 18.7% compared to the same period of 2004, due also to the Milan hotel which made its contribution for little more than four months in 2004. Excluding this effect, accumulated growth for the nine months in any case exceeded 12%.

In Europe (excluding Italy), sales in the third quarter 2005 (up 9.3%) showed certain signs of recovery, especially in owned shops which are obtaining the benefits of a gradual pick-up in the tourist trade, a factor which could also be a positive indication for the future. Sales increased by 7.2% over the nine months; of particular note were sales in the UK, due also to the new shop in New Bond Street, although expectations which were higher still partly suffered from the terrorist attacks in July.

There was a slowing down in the quarter of the growth in revenues in America, (up 4.7% at comparable exchange rates and up 4.3% at current exchange rates), although the situation for the nine months shows an increase of 19.5% (17% at current exchange rates). Significant growth in sales was achieved in all product categories in this market, with a particular success in perfumes, for which the Group's strategic decision to manage distribution on the American market was rewarded, a distribution previously handled by third parties.

The impressive growth taking place in Japan continues, amounting to 13.6% in the quarter at comparable exchange rates (12.5% at current exchange rates). The excellent trend in sales of the first half of 2005 has therefore been confirmed and after nine months the increase amounts to 16.2% at comparable exchange rates (14.6% at current exchange rates). The Group's results in this country which has an especial importance for our sector are particularly positive, given also the challenging point of reference (an increase of 25.8% at comparable exchange rates for the first nine months of 2004 compared to the corresponding period of 2003).

In the Far East there was a fall in sales for the quarter of 16.2% at comparable exchange rates (down 14.2% at current exchange rates). The decrease after nine months amounted to 2.8% at comparable exchange rates (down 2.1% at current exchange rates).

Tables 3 and 4 which follow show revenues for the third quarter of 2005 and for the nine months ended 30 September 2005 by geographical area, defined as the outlet market; the figures are also presented as a percentage of total revenues and set out the changes over the third quarter of 2004 (in the first table) and over the nine months ended 30 September 2004 (in the second table) at current and comparable exchange rates.

TABLE 3
BULGARI GROUP
REVENUES BY GEOGRAPHICAL AREA - THIRD QUARTER

| Geographical area <i>(Millions of euros)</i> | Third quarter 2005 | | | | Third quarter 2004 | | | |
|---|--------------------|-------------|-------------|-------------|--------------------|-------------|-------------|-------------|
| | Absolute value | % | Δ % vs PVY | | Absolute value | % | Δ % vs PVY | |
| | | | Curr. exch. | Comp. exch. | | | Curr. exch. | Comp. exch. |
| Italy | 34.3 | 16% | +26 | - | 27.3 | 13% | +25 | - |
| Europe (excl. Italy) | 50.7 | 23% | +9 | - | 46.3 | 23% | -8 | - |
| America | 30.0 | 14% | +4 | +5 | 28.8 | 14% | +9 | +17 |
| Japan | 57.6 | 26% | +13 | +14 | 51.2 | 25% | +30 | +32 |
| Far East | 31.2 | 14% | -14 | -16 | 36.4 | 18% | +9 | +14 |
| Middle East | 10.5 | 5% | +16 | - | 9.1 | 5% | +46 | - |
| Other | 3.8 | 2% | -8 | - | 4.2 | 2% | -2 | - |
| TOT. NET REVENUES | 218.1 | 100% | +7 | +8 | 203.3 | 100% | +12 | +14 |

TABLE 4
BULGARI GROUP
REVENUES BY GEOGRAPHICAL AREA - THIRD QUARTER – CUMULATIVE AT 30 SEPTEMBER
AND TOTAL 2004

| Geographical area <i>(Millions of euros)</i> | 30 September 2005 | | | | 30 September 2004 | | | | Total 2004 | | | |
|---|-------------------|-------------|-------------|-------------|-------------------|-------------|-------------|-------------|----------------|-------------|-------------|-------------|
| | Absolute value | % | Δ % vs PVY | | Absolute value | % | Δ % vs PVY | | Absolute value | % | Δ % vs PVY | |
| | | | Curr. exch. | Comp. exch. | | | Curr. exch. | Comp. exch. | | | Curr. exch. | Comp. exch. |
| Italy | 85.9 | 14% | +19 | - | 72.3 | 13% | +2 | - | 112.6 | 13% | +7 | - |
| Europe (excl. Italy) | 140.2 | 23% | +7 | - | 130.7 | 24% | -3 | - | 189.6 | 23% | 0 | - |
| America | 91.3 | 15% | +17 | +20 | 78.1 | 14% | +13 | +23 | 122.8 | 15% | +13 | +22 |
| Japan | 155.3 | 26% | +15 | +16 | 135.6 | 24% | +24 | +26 | 206.5 | 25% | +24 | +27 |
| Far East | 97.6 | 16% | -2 | -3 | 99.7 | 18% | +4 | +10 | 146.5 | 18% | +3 | +8 |
| Middle East | 26.0 | 4% | -5 | - | 27.5 | 5% | +42 | - | 36.8 | 4% | +26 | - |
| Other | 11.0 | 2% | -13 | - | 12.7 | 2% | -2 | - | 16.8 | 2% | -3 | - |
| TOT. NET REVENUES | 607.3 | 100% | +9 | +10 | 556.6 | 100% | +9 | +12 | 831.6 | 100% | +10 | +13 |

THE GROUP'S FINANCIAL SITUATION

The Group's net indebtedness at the end of September 2005 was 159.4 million euros against 13.0 million euros at 31 December 2004 and 90.6 million euros at 30 September 2004.

The increase over the nine months since 31 December 2004 is partly due to the normal increase in inventory, in particular that of new products, in preparation for the final months of the year when sales historically reach their maximum levels. Inventory at 30 September 2005 increased on a deseasonalised basis by 10%, proportional to the increase in sales, with a stable level of turnover. In addition the distribution of dividends of 65 million euros in May 2005, double the amount distributed in 2004, has affected the financial position.

Shareholders' equity including minority interests amounted to 621.2 million euros at the end of September, compared to 643.5 million euros at 31 December 2004 and 594.6 million euros at 30 September 2004.

The ratio between indebtedness and shareholders' equity including minority interests, or gearing, was 26% at the end of the quarter.

The reclassified balance sheet of the Group is as follows:

| RECLASSIFIED BALANCE SHEET | | |
|---|----------------------------|------------------|
| | TOTAL FOR THE GROUP | |
| <i>(Million of Euros)</i> | 30 Sept 05 | 31 Dec 04 |
| Net trade receivables | 142.9 | 160.8 |
| Other receivables | 47.0 | 74.6 |
| Inventory | 520.9 | 463.2 |
| Trade payables | (103.0) | (153.1) |
| Other debts | (41.8) | (80.7) |
| Total net working capital | 566.0 | 464.8 |
| Tangible and Intangible Assets | 177.8 | 151.6 |
| Financial Assets | 35.1 | 38.9 |
| Other Long-term Assets (Liabilities) | 1.8 | 1.1 |
| NET INVESTED CAPITAL | 780.7 | 656.5 |
| Equity | 621.2 | 643.5 |
| Short-term indebtedness | 135.1 | (46.5) |
| Long-term indebtedness | 24,3 | 59,5 |
| Total indebtedness | 159.4 | 13.0 |
| HEDGE FUND | 780.7 | 656.5 |

INVESTMENTS

Investments of 22.1 million euros were made in tangible fixed assets in the first nine months of 2005, relating to work carried out or still being carried out for the opening or renewing of shops and to the purchase of shop windows for third party distributors for the display of BVLGARI products. This amount also includes investments in computer hardware, made in particular by the Parent Company, and in production plant made by Bulgari Time (Switzerland) S.A. and Daniel Roth et Gérald Genta Haute Horlogerie S.A..

Investments in intangible assets of 21.2 million euros relate mainly to costs incurred by Bulgari France S.A. to take over the lease of the new shop in Paris, which is expected to be opened in November 2005 and by Bulgari Italia S.p.A. to take over the lease of premises in Milan and Florence. In addition expenditure was incurred on the purchase and implementation of software for managing the Group's main operating activities.

TRANSACTIONS WITH RELATED PARTIES

Bulgari S.p.A., which has its head office in via dei Condotti 11, Rome, is the Group's Parent Company and has an authorized capital of 20.9 million euros (excluding treasury shares held of 16.8 million euros).

Bulgari S.p.A. is the owner of the BVLGARI trademark and its main activities are as follows:

- purchasing equity stakes and granting loans to Group companies;
- making commercial use of the BVLGARI name and trademark;
- the technical, financial and administrative co-ordination of its subsidiaries;
- the invention, design and creation of items of jewellery, gold jewellery, watches, perfumes, leather and silk accessories, and porcelain, silver and crystal articles.

Bulgari S.p.A. maintains business relations governed by specific agreements relating to the licensing of the BVLGARI trademark with the different subsidiaries that manufacture and distribute BVLGARI brand products.

The Parent Company also maintains business relations similarly governed by specific agreements between the parties relating to the provision of technical, legal, fiscal, administrative, commercial, financial and IT services to its subsidiaries.

The Parent Company also plays a financial role with Group companies through centralised treasury management, for which fees are paid at market rates.

There have been no transactions with related parties, as defined by Consob Communication no. 2064231 of 30 September 2002, other than those described above.

SIGNIFICANT EVENTS IN THE NINE MONTHS ENDED 30 SEPTEMBER 2005

On 4 April 2005, Bulgari International Corporation (BIC) N.V. acquired 50% of the shares of Cadrans Design S.A., a company specialising in the production of watch faces, and on 22 July 2005 bought 51% of the shares of Prestige D'Or S.A., a company specialising in the production of components for watches, in particular watch straps, and a supplier to the Group for several years.

EVENTS SUBSEQUENT TO 30 SEPTEMBER 2005

The acquisition of 100% of an Italian company renamed Bulgari Accessori S.r.l. was finalised on 12 October 2005; this company specialises in production in the leather goods sector. An expansion programme is planned also for this company, although this is currently of a limited dimension, with the aim of optimising the processes for the production of leather accessories.

FORECAST FOR THE YEAR 2005

Said with the necessary caution imposed by the constant risk of instability in the economic and geo-political picture, the year 2005 as a whole should be marked as one in which the recovery in demand of luxury goods has continued. This forecast, together with the success being looked for in the new products presented by the Group during the year, should lead to a confirmation at the end of 2005 of the expectations of sales growth and good profitability.

B V L G A R I

Bulgari S.p.A. and Subsidiaries

Notes to the Consolidated Financial Statements

B V L G A R I

Bulgari S.p.A. and Subsidiaries

**Consolidated financial statements
as at 30 September 2005, 30 September 2004
and 31 December 2004**

BULGARI GROUP
CONSOLIDATED FINANCIAL STATEMENTS
 €/000

| ASSETS | Notes | 30 September 2005 | 31 December 2004 |
|--|--------------|--------------------------|-------------------------|
| Tangible assets | 1 | 92,569 | 85,554 |
| Intangible assets | 2 | 85,262 | 66,079 |
| Financial investments | 3 | 35,109 | 38,925 |
| Total fixed assets | | 212,940 | 190,558 |
| Other long-term assets | 4 | 45,974 | 43,336 |
| LONG-TERM ASSETS | | 258,914 | 233,894 |
| LONG-TERM ASSETS HELD FOR SALE | | - | - |
| Inventory | 5 | 520,885 | 463,193 |
| Receivables | 6 | 135,614 | 161,262 |
| Other current assets | 7 | 52,691 | 79,833 |
| Cash and bank balances | 8 | 19,581 | 71,276 |
| CURRENT ASSETS | | 728,771 | 775,564 |
| TOTAL ASSETS | | 987,685 | 1,009,458 |
| LIABILITIES | | | |
| Shareholders' equity attributable to the Group | | (613,495) | (636,622) |
| Shareholders' equity attributable to minority shareholders | | (7,730) | (6,876) |
| TOTAL SHAREHOLDERS' EQUITY | 9 | (621,225) | (643,498) |
| Employee severance reserve and other personnel reserves | 10 | (13,336) | (12,355) |
| Reserve for risks and charges | 11 | (3,397) | (3,239) |
| Other non current liabilities | 12 | (29,822) | (28,352) |
| Non current financial debts with banks | 13 | (22,448) | (58,139) |
| LONG-TERM LIABILITIES | | (69,003) | (102,085) |
| LONG-TERM LIABILITIES HELD FOR SALE | | - | - |
| Trade payables | | (95,239) | (153,095) |
| Other current liabilities | 14 | (53,277) | (83,899) |
| Current financial debts with banks | 15 | (148,941) | (26,881) |
| CURRENT LIABILITIES | | (297,457) | (263,875) |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | (987,685) | (1,009,458) |

BULGARI GROUP
CONSOLIDATED INCOME STATEMENT
 €/000

| | Notes | 30 September 2005 | 30 September 2004 | Third quarter 2005 | Third quarter 2004 |
|---|-------|-------------------|-------------------|--------------------|--------------------|
| Total net revenues | | 607,317 | 556,599 | 218,135 | 203,262 |
| Cost of sales | | (216,068) | (206,509) | (77,505) | (75,626) |
| Total contribution margin | | 391,249 | 350,090 | 140,630 | 127,636 |
| - Personnel costs | 16 | (106,672) | (90,828) | (36,722) | (31,530) |
| - Variable selling expenses | 17 | (23,848) | (19,607) | (8,690) | (7,284) |
| - Other general expenses | 18 | (87,039) | (76,339) | (31,603) | (25,019) |
| - Advertising and promotional expenses | | (77,481) | (63,880) | (22,191) | (20,912) |
| - Amortisation and depreciation | 19 | (25,815) | (22,582) | (9,556) | (7,842) |
| Total operating expenses | | (320,855) | (273,236) | (108,762) | (92,587) |
| Operating profit | | 70,394 | 76,854 | 31,868 | 35,049 |
| - Financial gains (losses) | | (4,623) | (5,078) | (2,053) | (1,991) |
| - Foreign exchange gain (losses) | | (2,018) | (810) | (798) | (834) |
| Total financial gains (losses) | 20 | (6,641) | (5,888) | (2,851) | (2,825) |
| Net result before taxes and minority interest profit | | 63,753 | 70,966 | 29,017 | 32,224 |
| Current and deferred taxes | 21 | (7,826) | (7,455) | (2,608) | (3,235) |
| Minority interest profit | 22 | (657) | (980) | (71) | (479) |
| Net result of the period | | 55,270 | 62,531 | 26,338 | 28,510 |
| Earnings per share (in Euros) | | 0.18 | 0.21 | | |
| Number of shares on which the calculation is based | | 297,119,087 | 296,105,527 | | |
| Diluted earnings per share (in Euros) | | 0.18 | 0.21 | | |
| Number of shares on which the calculation is based | | 301,362,195 | 299,890,004 | | |

Bulgari S.p.A. and Subsidiaries

Notes to the Consolidated Financial Statements as at 30 September 2005

INTRODUCTION

As a result of the coming into effect of regulation n. 1606 of July 2002, and in conformity with the provisions of article 81 of the Issuers' Regulations as amended by Consob Resolution no. 14990 of 14 April 2005, the Bulgari Group has prepared its quarterly consolidated report at 30 September 2005 in accordance with International Accounting Standard (IAS) n.34, which applies to interim financial reporting.

In order to enable a comparison to be made on a consistent basis, the information provided in the income statement for the period ended 30 September 2004 and in the balance sheet for the period ended 31 December 2004 have been suitably reclassified in accordance with IFRS/IAS.

A reconciling schedule of the consolidated income statement for the period ended 30 September 2004 is provided as an annex to this report (annex 1). A reconciling schedule of the consolidated balance sheet at 31 December 2003 has already been presented in the half year report.

These interim financial statements have been prepared in accordance with IAS/IFRS and with the interpretations issued by the International Financial Interpretations Committee (IFRIC), and by the Standing Interpretations Committee (SIC), as are currently effective and which it has been assumed will continue to be effective as at 31 December 2005. Since, however, official bodies are currently going through a phase of adapting themselves to and interpreting the pronouncements which have been proposed to them, since the process of approval by the European Commission is still in progress and, moreover, since there could be new IFRS standards or IFRIC interpretations for which early adoption may be permitted at the time that the consolidated financial statements at 31 December 2005 are prepared, the data which follow could require changes if presented as comparative figures in future consolidated financial statements prepared in accordance with IAS/IFRS.

The quarterly report consists of a balance sheet, an income statement, a cash flow statement, a statement of changes in shareholders' equity and these notes.

The cash flow statement is prepared using the indirect method.

The accounting principles and criteria used are consistent with those used in the preparation of the IFRS transition statements at 1 January 2004 and 31 December 2004.

This quarterly report has been prepared in euros and all amounts are stated in thousands of euros unless otherwise indicated.

MAIN ACCOUNTING PRINCIPLES AND VALUATION PRINCIPLES

Subsidiaries

Subsidiaries are those entities in which the Group has control, directly or indirectly, though the majority of voting rights. The financial statements of subsidiaries are consolidated from the date on which that control is acquired and until the date that control is transferred out of the Group. The portions of shareholders' equity and of the result which are attributable to minority shareholders are separately stated in both the consolidated balance sheet and the consolidated income statement.

Subsidiaries whose effect on the Group's total assets, total liabilities, financial position and result is immaterial are excluded from the scope of consolidation.

A list of consolidated subsidiaries is provided in table 1.

Joint ventures

Joint ventures are those entities over which the Group exerts contractually agreed joint control with other parties. The financial statements of joint ventures are consolidated using the proportionate method. As a result the consolidated financial statements include, line by line, the Group's proportionate share of the assets, liabilities, income and expenses of those companies.

A list of consolidated joint ventures is provided in table 1.

The totals of current assets and current liabilities, long-term assets and long-term liabilities, and income and expense relating to joint ventures is provided in table 2.

Consolidation procedures

The financial statements of consolidated companies are all prepared with the same reporting date as that of the consolidated financial statements and are adjusted, where necessary, to conform to the accounting principles used by the Parent Company.

Intragroup balances and transactions, including any profits not yet realized with third parties, resulting from relations between 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 consolidated company are prepared using the functional currency relating to the economic environment in which the company operates.

All foreign currency transactions in a currency different from the functional currency are recorded in those financial statements by applying the spot exchange rate at the date of the transaction. Monetary assets and liabilities measured in a currency other than the functional currency are subsequently translated using the closing rate at the date of the balance sheet.

Non-monetary assets and liabilities measured in foreign currency and recorded at historical cost are translated using the exchange rate at the date of the initial transaction.

Translation of financial statements in foreign currency

Income, expense, assets and liabilities included in the consolidated financial statements are stated in euros, which is the functional currency of the Parent Company Bulgari S.p.A..

In the preparation of the consolidated financial statements, the financial statements of consolidated companies having a functional currency different from the euro are translated as follows: assets and liabilities, including goodwill and consolidating adjustments are translated at the closing rate at the date of the balance sheet; items of shareholders' equity are translated at the historical rates at the date of their formation; and income statement items are translated at the average rates of the period to which the statement refers, which approximate the rates at the date of the respective transactions. Exchange differences arising are recognized directly as a component of equity and separately showed into an equity reserve.

Exchange differences are recognized in the income statement only on the sale or disposal of the investment in the company to which they relate.

Tangible assets

Tangible assets are stated at cost of acquisition including any directly attributable accessory costs. These are recognized as assets only if it is probable that future economic benefits associated with the asset will flow to the entity and if the cost of an asset can be measured with reliability.

Cost includes:

- a) the purchase price (including any import duties and non-refundable purchase taxes), net of any trade discounts and rebates;
- b) any costs 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.

Assets acquired under finance lease arrangements which transfer substantially to the Group all the risks and rewards incidental to ownership of the asset are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding obligation to pay the lessor is recognized in financial payables.

Subsequent to their initial recognition, tangible assets, including those acquired under finance leases, are stated net of accumulated depreciation and any impairment losses as described below. Depreciation of an asset begins when it is available for use and ceases when it is sold or if is not expected to produce future economic benefits, and is allocated systematically on a straight-line basis over its estimated useful life.

The estimated useful lives of assets are reviewed annually.

The main depreciation rates are set out as follows:

| Category | % |
|---|--------|
| Land and buildings | 3 |
| Plant and machinery | 7.5-30 |
| Industrial and commercial equipment | 15-20 |
| Furniture, office equipment and furnishings | 12-20 |
| Motor vehicles | 25 |
| Aircraft (engines and avionics) | 33.33 |
| Aircraft (other) | 3.33 |

Improvements to rented premises are stated at cost and are depreciated over the lower of the remainder of the term of the rental agreement and their estimated future economic-technical lives.

Intangible assets

Goodwill

Goodwill, which derives from the acquisition of subsidiaries or investments in joint ventures, represents the excess of the purchase cost over the fair value of the assets acquired, net of the liabilities and contingent liabilities assumed. Goodwill is not amortised subsequent to initial recognition but is remeasured for any impairment, as described below.

If negative goodwill arises it is immediately recognised in the income statement.

Goodwill deriving from acquisitions taking place prior to 1 January 2004 is stated at its net book value in the latest consolidated financial statements prepared before that date in accordance with previous accounting principles, being those at 31 December 2003.

Other intangible assets

Intangible assets are recognized into the balance sheet as such only if it is probable that future economic benefits associated with the asset will flow to the entity and if the cost of an asset can be measured with reliability, and are stated at cost, including any directly attributable accessory costs.

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

Subsequent to their initial recognition, intangible assets having a finite useful life are stated net of accumulated amortization and any impairment losses are recognized as described below. Amortization of an asset begins when it is available for use and ceases when it is sold or if is not expected to produce future economic benefits, and is allocated systematically on a straight-line basis over its estimated useful life. Estimated useful lives are reviewed annually.

Intangible assets having an indefinite useful life are not amortized but stated net of any impairment losses as described in the following.

Impairment losses are reversed if the reasons leading to the loss no longer exist.

Impairment losses

Tangible and intangible assets, including goodwill, are reviewed at the closing date of every period presented, to assess whether there are any indications that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is determined.

The recoverable amount of goodwill and other intangible assets having an indefinite useful life, if present, is in any case determined at least once a year. This estimate is made in the same period each year.

The recoverable amount is the higher of its net selling price and its value in use.

The value in use is the pre-tax present value of the future cash flows expected to be derived from the use of the asset, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks of the related activities. 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 recognized 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.

Impairment losses other than those relating to goodwill are reversed and recognized in the income statement if the reasons leading to the loss no longer exist.

Financial instruments

Investments in other entities

“Available for sale” investments in other entities are stated at fair value, with any gains or losses recognized directly in equity. These profits and losses are released 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 recognized in the income statement on the basis of present value of the expected future cash flows discounted at the current market yield for a similar financial asset.

Losses exceeding the carrying value of an investment are recognized as a liability in the caption “reserves for risks and charges – other”, to the extent that the investor is committed to fulfill any legal or constructive obligations towards the investee company or make good its losses.

Management of risk and hedging (derivative instruments)

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

To minimize these risks, the Group acquires derivative financial instruments available on the market to hedge the risk of both specific operations and complex exposures.

In particular, to reduce the risk of changes in the value of assets, liabilities and expected foreign currency cash flows to be generated by expected future operations, mainly forward and option contracts are used. The same instruments are used to reduce the risk of changes in the price of gold.

To minimize the risk connected with interest rate fluctuations, interest rate swaps and option contracts are used.

The Group does not enter into speculative transactions in managing its finance and treasury and has adopted specific procedures which require that prudent criteria be followed.

Consistent with IAS 39, derivative instruments acquired for hedging purposes 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;
- c) the effectiveness can be reliably demonstrated.

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

If an instrument is designated to offset the exposure to variability in cash flows of a transaction (a cash flow hedge; for example the hedging of the variability 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 recognized directly in equity (the ineffective portion is recognized immediately in the income statement under the item foreign exchange gains (losses)).

The amounts recognized in equity are subsequently reclassified into the income statement in the period in which the forecast contracts and transactions affect profit or loss.

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

Other financial assets

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

Trade receivables whose due date is based on normal commercial terms are not discounted and are recognized at cost (determined as face value), net of any losses in value. Losses in value are determined on the basis of the present value of expected future cash flows.

Cash and bank balances consist of those balances that are payable on demand or within a very short period

and which may be withdrawn without cost.

Other financial liabilities

Trade payables whose due date is based on normal commercial terms are not discounted and are recognized at cost (determined as face value).

Financial liabilities, excluding derivatives, are initially recognized at cost, represented by the fair value of the liability less any transaction costs directly attributable to the issue of the financial liability.

The measurement of financial liabilities subsequent to initial recognition is at amortized cost using the effective interest method.

Inventory

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

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 weighted average cost;
- c. work in progress is value on the basis of production cost, which includes the consumption of raw materials, direct labour and indirect production costs, based on the stage of production completed at the balance sheet date.

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

Reserves for risks and charges

Reserves for risks and charges are established to cover certain or probable losses or liabilities, the amount and date of occurrence of which cannot be determined at the balance sheet date. Amounts are recognized if there is a present obligation (legal or implicit) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and reflect a realistic estimate of the cost to be incurred on the basis of the available information.

If the effect is material, the amounts provided are determined on the basis of the present value of expected future cash flows, using a pre-tax discount rate that reflects current market assessments of the time value of money and, if applicable, the risk specific to the obligation.

Treasury stock

Treasury stock is recognized at cost as a reduction of equity. Gains and losses arising as a result of any subsequent sales are recognized as changes in equity.

Employee benefits

Short-term employee benefits, such as wages, salaries and social security contributions, compensated absences and annual leave, falling due within 12 months of the period end and all other non-monetary benefits are recognized in the period in which the employee renders the related service.

Benefits guaranteed to employees and payable on or after the completion of employment through defined

benefit plans are recognized in the period in which the right matures.

A liability relating to a defined benefit plan, net of any plan assets, is determined using actuarial assumptions and recognized on a basis consistent with the employee service required to obtain the benefit; the measurement of the liability is performed by independent actuaries.

The actuarial gains and losses resulting from changes in the actuarial assumptions used or from amendments to the terms of a plan are recognized in the income statement if, and to the extent to which, the net cumulative unrecognized amount at the end of the previous period exceeds the greater of 10% of the liability relating to the plan and 10% of the fair value of plan assets (the corridor method).

On first-time adoption of IAS/IFRS, the Group elected to recognize all accumulated gains and losses at 1 January 2004, even though it elected to use the corridor method for subsequent actuarial gains and losses.

Revenues and costs

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

In particular, revenues from sales and services are recognized when the risks and rewards of ownership of the goods are transferred to the buyer and when services have been rendered.

Financial income and expense is recognized on an accruals basis on the basis of the interest matured on the net amount of the related financial assets and liabilities using the effective interest rate.

Dividends are recognized as income when the shareholders' right to receive payment is established.

Cost of sales consists of the cost of production or purchase of the products or goods sold. In particular, cost of sales includes the cost of materials, labour and general expenses directly attributable to the production and write-downs of inventory.

Income taxes

Current income taxes are determined on the basis of a realistic estimate of the tax charge for the period for each company included in the scope of consolidation, using rates and regulations that have been enacted, or substantively enacted, in the respective country at the balance sheet date; Italian companies take into account the effects resulting from the election by the Group to use the national tax consolidation.

The expected amount to be paid is recognized in the balance sheet under the item "Current taxes payable", net of any advance payments, or in the item "Taxes receivable" in the event of an asset.

Deferred tax liabilities and assets are determined on the basis of the temporary differences between the book values of assets and liabilities as stated in the consolidated financial statements and their tax bases, using the tax rates which it is expected will apply in the year that these differences reverse.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the assets can be recovered; the recoverability of deferred tax assets is reassessed at the end of every period.

Deferred tax liabilities are provided on undistributed profits at period end if these profits are subject to taxation when distributed.

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

Share-based payment

The Group grants stock options to particular categories of employees and to the managing director as remuneration for services rendered.

The cost of these services is determined by reference to the fair value of the options on the grant date.

This cost is recognized in the income statement over the period between the grant date and the date on which a specified period of service is completed (the vesting period), taking into account the best estimate of the number of options that will be exercised.

Use of estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date. Actual results could differ from those estimates, due to the uncertainties that characterize the assumptions and conditions on which the estimates are based.

In particular, estimates are used for the classification of certain current and long-term assets and liabilities, and for the recognition and measurement of the inventory obsolescence reserve, the provision for bad debts, any impairment of tangible and intangible assets, depreciation and amortization, employee benefits, taxation and other contingent liabilities such as reserves for risks and contingencies.

Earnings per share

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

Diluted earnings per share is calculated on the basis of the weighted average number of shares outstanding during the period, excluding treasury shares, plus the weighted average number of shares that would have been issued if all stock options had been exercised grossed up by the difference between the average market price during the period and the weighted average exercise price.

LONG-TERM ASSETS

1. Tangible assets – 92,569 thousand euros

Details of tangible assets and changes which have occurred are as follows:

| Description | Historical | Depreciation | Net | | | | Historical | Depreciation | Net |
|---|----------------|------------------|---------------|---------------|---------------|--------------|----------------|------------------|---------------|
| | cost | reserve | balance | Acquisitions | Depreciation | Other net | cost | reserve | balance |
| | 31/12/04 | 31/12/04 | 31/12/04 | | | changes | 30/09/05 | 30/09/05 | 30/09/05 |
| Land and buildings | 11,642 | (3,735) | 7,907 | 260 | 857 | 3,186 | 18,124 | (7,628) | 10,496 |
| Plant and machinery | 16,127 | (11,719) | 4,408 | 1,322 | 1,386 | 3,780 | 21,772 | (13,648) | 8,124 |
| Equipment | 14,288 | (9,784) | 4,504 | 1,268 | 1,160 | 62 | 15,559 | (10,885) | 4,674 |
| Other tangible assets | 182,459 | (114,671) | 67,788 | 12,801 | 17,181 | 2,349 | 194,565 | (128,808) | 65,757 |
| Construction in progress and advance payments | 947 | - | 947 | 6,460 | - | (3,889) | 3,518 | - | 3,518 |
| | | | | | | - | | | |
| TOTAL | 225,463 | (139,909) | 85,554 | 22,111 | 20,584 | 5,488 | 253,538 | (160,969) | 92,569 |

The increase in “other tangible assets” relates mainly to investments made for the opening of the new shops in Houston (United States), Shinsaibashi (Japan) and Tainan (Taiwan), and the refurbishment of the shop in Honolulu (United States).

The increase in “construction in progress and advance payments” relates principally to the investments made in the shops in Düsseldorf, Paris and Via dei Condotti in Rome.

In addition, the increase in tangible assets for the change in the consolidation scope regarding the new companies Cadrans Design S.A. and Prestige d’Or S.A. amounts to 3,303 thousand euros.

2. Intangible assets – 85,262 thousand euros

Goodwill – 41,464 thousand euros

Changes in goodwill in the period ended 30 September 2005 are as follows:

| | Goodwill |
|-------------------------------------|---------------|
| Balance at 31/12/2004 | 38,760 |
| Change over the period | |
| Foreign exchange differences | 2,255 |
| Increases | 449 |
| Total change over the period | 2,705 |
| Balance at 30/09/2005 | 41,464 |

- The increase in goodwill relates to the purchase by Bulgari International Corporation (BIC) N.V. of 50% of Cadrans Design S.A. at the beginning of April 2005 and the purchase by Bulgari International Corporation (BIC) N.V. of 51% of Prestige D’Or S.A. in July.

- The increase arising from foreign exchange gains results from the adjustment to year end exchange rates of goodwill generated by the purchase of holdings in companies whose functional currency is different from that of the euro.

An impairment test is performed on goodwill resulting from the purchase of holdings in companies whenever there is an indication that the goodwill has been impaired and, in any case, at least annually.

No impairment losses were recognized at 30 September 2005.

The estimate of the recoverable amount of goodwill recognized as an asset was performed using the discounted cash flow method, which requires a forecast to be made of future cash flows and a suitable discount rate.

The discount rate used was determined using the weighted average cost of capital that is by weighting the yield percentage on debt capital with the expected return from a similar economic activity.

The average rate used was approximately 8%.

The expected cash flows used in the impairment test are based on budgets and business plans, in general prepared for a three year period by the management of the respective business segment. To extrapolate cash flow projections beyond the periods covered by the budgets and business plans, the present value to perpetuity was used using growth rates from zero up to the rate of assumed price increases.

Other intangible assets – 43,798 thousand euros

An analysis of other intangible assets at 30 September 2005 and the related changes is as follows:

| Description | Historical | Amortisation | Net | | | | Historical | Amortisation | Net |
|---|---------------|-----------------|---------------|---------------|--------------|------------|---------------|-----------------|---------------|
| | cost | reserve | balance | Acquisitions | Amortisation | Other net | cost | reserve | balance |
| | 31/12/04 | 31/12/04 | 31/12/04 | | | changes | 30/09/05 | 30/09/05 | 30/09/05 |
| Development costs | 6,645 | (5,143) | 1,502 | 607 | 676 | (8) | 7,181 | (5,756) | 1,425 |
| Industrial patents and intellectual property rights | 37,057 | (27,867) | 9,190 | 4,383 | 3,201 | 1,272 | 42,433 | (30,789) | 11,644 |
| Concessions, trade marks and licences | 2,359 | (1,820) | 539 | 270 | 165 | (3) | 2,610 | (1,969) | 641 |
| Assets in progress and advance payments | 1,606 | - | 1,606 | 9,688 | - | (1,207) | 10,087 | - | 10,087 |
| Deferred charges to be amortised | 16,832 | (2,350) | 14,482 | 6,230 | 1,063 | 352 | 23,527 | (3,526) | 20,001 |
| TOTAL | 64,499 | (37,180) | 27,319 | 21,178 | 5,105 | 406 | 85,838 | (42,040) | 43,798 |

The increase in “assets in progress and advance payments” refers for 7,851 thousand euros to fees paid to take over the lease of the new shop in Paris which is expected to be opened in November 2005; this item also includes additional costs of 1,476 thousand euros relating to the development of application software which was still at an implementation stage at 30 September 2005.

The increase in “deferred charges to be amortized” refers for 6,170 thousand euros to costs incurred to take over the leases of the shops in Milan and Florence.

3. Financial investments – 35,109 thousand euros

This item includes the Group's investments in Opera Partecipations S.c.a. and Opera Partecipations 2 S.c.a. amounting to 19,452 thousand euros (23,535 thousand euros at 31 December 2004). On adopting IAS 32 and IAS 39 for the first time on 1 January 2005, the cost of the investment in Opera Partecipations S.c.a. was adjusted by 8,019 thousand euros to align its carrying amount to the present value of expected cash flows, discounted at the current market rate for the return on a similar financial asset as required under IAS 39.

The carrying amounts of the investments in Opera Partecipations S.c.a. and Opera Partecipations 2 S.c.a. have increased by 2,333 thousand euros and 1,578 thousand euros respectively

Other financial investments amounting to 15,657 thousand euros relate to security deposits and insurance reserves for the benefit of employees.

4. Other long-term assets – 45,974 thousand euros

This item consists principally of deferred tax assets amounting to 26,815 thousand euros. Details are set out in the following table, with a description of the items which generate temporary differences.

| Description | Balance at 30/09/2005 | Balance at 31/12/2004 |
|------------------------------------|----------------------------------|----------------------------------|
| Long-term assets | 1,260 | 1,782 |
| Tax losses | 2,355 | 2,773 |
| Elimination of intercompany profit | 17,594 | 15,258 |
| Other non-deductible provisions | 5,606 | 4,515 |
| Total | 26,815 | 24,328 |

The changes between the deferred tax asset at 30 September 2005 of 26,815 thousand euros (24,328 thousand euros at 31 December 2004) include also the foreign exchange effect resulting from the translation of financial statements having a functional currency different from the euro.

Current assets

5. Inventory– 520,885 thousand euros

Inventory may be analysed as follows:

| Description | 30/09/2005 | | 31/12/2004 | |
|--|------------------------------|-------------------------------------|--------------------|--------------------|
| | Gross stock value | Reserve for obsolescence | Net balance | Net balance |
| Raw materials | 42,228 | - | 42,228 | 39,827 |
| Work-in-progress and semi-finished goods | 142,148 | 19,574 | 122,574 | 113,742 |
| Finished goods and packaging | 382,445 | 26,362 | 356,083 | 309,624 |
| Total | 566,821 | 45,936 | 520,885 | 463,193 |

The net balance of inventory of 520,885 thousand euros has increased by 57,692 thousand euros, or 12%, compared to that at 31 December 2004. This increase may be attributed to the growth in sales of approximately 10% over 2004 and to the build-up of supplies of stocks of finished goods by distributing companies in advance of the promotional campaigns for Autumn and Christmas, which traditionally are significant seasonal peaks.

The reserve for obsolescence at 30 September 2005 amounted to 45,936 thousand euros (43,952 thousand

euros at 31 December 2004); additional provisions of 4,959 thousand euros have been made to take the carrying amount of inventory to its expected realizable value, partially set off by utilizations as a result of the destruction or sale of previously written-down products, and by exchange differences of 2,973 thousand euros.

6. Trade receivables – 135,614 thousand euros

Trade receivables may be analyzed as follows:

| Description | 30/09/2005 | | | | 31/12/2004 | |
|-----------------------------------|---------------------------------|--------------------------------|-------------------|-------------------------|---------------------------|---------------------------|
| | Receivables due within one year | Receivables due after one year | Total receivables | Provision for bad debts | Net balance at 30/09/2005 | Net balance at 31/12/2004 |
| Retail customers and distributors | 121,157 | - | 121,157 | 3,366 | 117,791 | 148,837 |
| Franchisees | 17,900 | - | 17,900 | 77 | 17,823 | 12,425 |
| Total | 139,057 | - | 139,057 | 3,443 | 135,614 | 161,262 |

Trade receivables are stated net of a provision for bad debts of 3,443 thousand euros (3,630 thousand euros at 31 December 2004) believed to be sufficient to adjust the face value of receivables to their expected realizable value.

During the period the fund was utilized for 334 thousand euros and additional provisions of 361 thousand euros were made.

7. Other current assets – 52,691 thousand euros

This item relates mainly to tax credits due within one year and other current financial assets.

The tax credits amounting to 32,660 thousand euros (61,701 thousand euros at 31 December 2004) are principally made up of VAT and sales tax receivables.

The decrease over 31 December 2004 is essentially due to the receipt of withholding tax credits of 31 million euros on dividends distributed by Bulgari Jewels S.A. to its parent company Bulgari International Corporation (BIC) N.V..

The Parent Company Bulgari S.p.A has tax credits that include VAT of 4,733 thousand euros (4,242 thousand euros at 31 December 2004) as a result of becoming the tax representative of Bulgari Parfums S.A.; 3,413 thousand euros (3,562 thousand euros at 31 December 2004) relating to the cumulative credit due from the tax authorities for Group VAT payments pursuant to article 73, final paragraph, and article 3 of the Ministerial Decree of 13/12/1979; and 3,999 thousand euros relating to corporation income tax (IRPEG) of the Parent Company (3,562 thousand euros at 31 December 2004).

Other current financial assets of 5,683 thousand euros (5,176 thousand euros at 31 December 2004) refer mostly to an amount of 4,910 thousand euros relating to a loan granted by Bulgari International Corporation (BIC) N.V. to LB Diamonds & Jewelry Sarl., a company 50% owned and consolidated on a proportionate basis, bearing interest at a variable rate (from 3.8% to 4.8%) and repayable in September 2005.

In addition, the item includes an amount of 324 thousand euros of receivables relating to agreements for hedging fluctuations in interest rates and commodity prices, described in further detail in Note 14 “Other current liabilities”.

8. Cash and bank balances – 19,581 thousand euros

This item may be analyzed as follows:

| Description | Balance at 30/09/2005 | Balance at 31/12/2004 |
|------------------|--------------------------|--------------------------|
| Bank deposits | 24,447 | 70,352 |
| Cash and cheques | 963 | 1,017 |
| Bank overdrafts | (5,829) | (93) |
| Total | 19,581 | 71,276 |

Bank interest rates at 30 September 2005 on short-term deposits and current accounts, in which balances are held in the various currencies were on average approximately 0.75%.

9. Shareholders' equity

Reference should be made to tables 3 and 4 for changes in shareholders' equity.

Stock options for a total of 642,600 shares, with dividend rights from 1 January 2005, were exercised during the first nine months of the year, relating to stock option plans previously approved by shareholders, leading to an increase in authorised capital of approximately 44 thousand euros.

Reference should be made to the report of the board of directors on performance referring to the consolidated financial statements at 31 December 2004 and to the notes on the 2005 half year report for information relating to the plans existing at 31 December 2004.

Minority interest in equity

The minority interest in equity, amounting to 7,730 thousand euros, reflects the interest of minority shareholders in the equity of Bulgari Japan Ltd., owned by the Group as to 80%, and in the equity of Bulgari Korea Ltd. and Prestige D'Or S.A., owned by the Group as to 51%, all consolidated on a line by line basis.

LONG-TERM LIABILITIES

10. Reserve for employee severance pay and other employee reserves – 13,336 thousand euros

The obligation for employee severance pay of 9,933 thousand euros is similar to a defined benefit obligation and is determined on the basis of prevailing agreements and regulations through a valuation carried out by an independent actuary under the projected unit credit method.

Costs of 1,394 thousand euros were recognised at 30 september 2005, of which 315 thousand euros regard the interest cost resulting from the actuarial calculation which is recognised in financial expenses.

The principal actuarial assumptions made were as follows:

| | |
|--|-------|
| Annual discount rate | 5.00% |
| Annual inflation rate | 2.00% |
| Annual rate of increase in personnel costs | 4.00% |

11. Reserves for risks and charges – 3,397 thousand euros

Changes in this item at 30 September 2005 were as follows:

| Description | Balance at 31/12/2004 | Provision | Use of reserves | Other changes | Balance at 30/09/2005 |
|---|-----------------------|------------|-----------------|---------------|-----------------------|
| Reserve for taxes | 1,267 | - | (162) | (360) | 745 |
| Other reserves | 1,972 | 936 | (316) | 60 | 2,652 |
| Total reserves for risks and charges | 3,239 | 936 | (478) | (300) | 3,397 |

12. Other long-term liabilities – 29,822 thousand euros

This item consist mainly of deferred tax liabilities of 23,632 thousand euros (22,541 thousand euros at 31 December 2004).

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

| Description | Balance at 30/09/2005 | Balance at 31/12/2004 |
|--|-----------------------|-----------------------|
| Undistributed profits | 12,653 | 11,545 |
| Inventory obsolescence reserve | 6,207 | 5,871 |
| Provision for bad debts | 1,406 | 1,592 |
| Accelerated depreciation | 801 | 1,336 |
| Tax clean-up | 282 | 576 |
| Discounting to present value of reserve for employee severance pay | 729 | 620 |
| Other | 1,554 | 1,001 |
| Total | 23,632 | 22,541 |

The changes between the deferred tax liability balance at 30 September 2005 and that at 31 December 2004 include also the foreign exchange effect resulting from the translation of financial statements having a functional currency different from the euro.

13. Long-term borrowing from banks – 22,448 thousand euros

The following table sets out a detail of long-term borrowing from banks indicating separately the repayment date, the interest rate and the original amount in foreign currency:

| Description | Balance at 30/09/2005 | Repayment date | Interest rate | Amount in currency |
|-------------------------------------|-----------------------|----------------|---------------|--------------------|
| Bulgari Corporation of America Inc. | 20,761 | 2007 | 4.14% | 25,000,000 US\$ |
| Prestige D'Or S.A. | 1,687 | 2022 | 2.46% | 2,625,000 CHF |
| Total | 22,448 | | | |

The loan to Bulgari Corporation of America Inc. bears interest at a variable rate which is based on LIBOR.

CURRENT LIABILITIES

14. Other current liabilities – 53,277 thousand euros

This item includes “current financial payables” of 11,429 thousand euros (3,068 thousand euros at 31 December 2004) and “other current liabilities” of 41,848 thousand euros (80,831 thousand euros at 31 December 2004).

“Current financial payables” consist of “financial payables due within one year” of 7,026 thousand euros mainly relating to Bulgari International Corporation (BIC) N.V. for 2,825 thousand euros, which bear interest at current market rates (2.00%) and to LB Diamonds & Jewelry Sarl for 4,152 thousand euros, granted by LL International Holding B.V. and bearing interest at 5.20%.

In addition, this item includes payables of 4,402 thousand euros relating to foreign exchange, interest rate and commodity hedging agreements.

The following table sets out the nominal value and fair value of derivatives at 30 September 2005, grouped by type and separated between current financial assets and current financial liabilities.

| | Nominal value | | Fair Value | | Difference |
|--------------------------------------|----------------|----------------|----------------|--------------|----------------|
| | 30/09/2005 | 01/01/2005 | 30/09/2005 | 01/01/2005 | |
| Cash flow hedge derivatives | | | | | |
| - Commodities | 5,895 | 10,188 | 25 | (180) | 205 |
| - Interest rate | 8,304 | 7,342 | 299 | 152 | 147 |
| CURRENT FINANCIAL ASSETS | 14,199 | 17,530 | 324 | (28) | 352 |
| Cash Flow hedge derivatives | | | | | |
| - Foreign exchange | 129,358 | 102,646 | (3,328) | 3,655 | (6,976) |
| Fair Value hedge derivatives | | | | | |
| - Foreign exchange | 143,405 | 114,733 | (1,568) | 41 | (1,609) |
| Trading derivatives | | | | | |
| - Foreign exchange | 6,470 | 12,181 | (5) | (33) | 28 |
| CURRENT FINANCIAL LIABILITIES | 279,232 | 229,560 | (4,901) | 3,662 | (8,557) |

Interest rate hedges

The Group has adopted a procedure to limit the exposure to variations in interest rates on debt which ensures that a percentage of debt bears interest at fixed rates. This percentage is proportional to financial needs, to the average term required and to the reference market (country and currency). At 30 September 2005 the Group had an interest rate swap denominated in U.S. dollars on which it was paying interest at a fixed rate of 3.4%.

Foreign exchange rate hedges

The Group is exposed to the fluctuation in a series of currencies but mainly the Japanese yen and the U.S. dollar.

In order to reduce this risk, the net exposure by currency originated by trade receivables and payables and estimated cash flows in currency based on forecasts of sales and purchases resulting from the annual budget is restricted by entering into derivative contracts (mostly forward contracts and, residually, options) having a term shorter than one year. If necessary, the hedge is rolled over until the due date is reached.

Determination of fair value

Derivative contracts are market to market using listed quotations or by discounting future cash flows and then comparing these with current market values. Market quotations refer to the official fixing (by central banks or associations of banks) or alternatively the quotations of financial brokers published by financial information providers. The fair value calculation models also make reference to these quotations.

Other current liabilities of 41,848 thousand euros may be analyzed as follows:

| Description | Balance at 30/09/2005 | Balance at 31/12/2004 |
|--|--------------------------|--------------------------|
| Advance payments | 2,759 | 2,912 |
| Current taxes payable | 2,834 | 11,797 |
| Payables to personnel | 18,530 | 16,716 |
| Payables to public authorities | 7,337 | 37,570 |
| Payables to social security institutions | 3,315 | 4,909 |
| Payables to shareholders | 238 | 560 |
| Other payables | 2,033 | 3,381 |
| Total payables | 37,046 | 77,846 |
| Total accrued expenses and deferred income | 4,802 | 2,985 |
| Total other current liabilities | 41,848 | 80,831 |

The decrease in “payables to public authorities” is attributable to a payment of withholding tax of 31 million euros made by Bulgari Jewels S.A. resulting from the distribution of dividends to Bulgari International Corporation (BIC) N.V..

“Other payables” of 2,033 thousand euros includes the liability of Bulgari S.p.A. for emoluments payable to members of the Board of Directors. This item also includes a payable of 406 thousand euros in relation to certain premises (cellars) in Rome in dispute at 30 September 2005; the dispute was settled in October 2005 with the payment of this debt.

“Total accrued expenses and deferred income” of 4,802 thousand euros mostly refers to accrued lease and rental payments. The increase in this item over that at the end of the previous year is mainly attributable to the taking over of leases of additional premises in America.

15. Short-term borrowing from banks and overdrafts – 148,941 thousand euros

This item, which includes amounts due within one year, may be analyzed as follows:

| Description | Balance at 30/09/2005 | Interest rate |
|---|--------------------------|------------------|
| Bulgari Japan Ltd. | 71,927 | 0.60% |
| Bulgari S.p.A. | 55,956 | 2.54% |
| Bulgari Korea Ltd. | 5,419 | 4.81% |
| Crova S.p.A. | 5,269 | 0.73% |
| Bulgari (Taiwan) Ltd. | 4,114 | 2.14% |
| Bulgari South Asian Operations Pte Ltd. | 1,965 | 2.37% |
| Bulgari Australia Pty. Ltd. | 1,894 | 0.78% |
| Bulgari (Malaysia) Sdn Bhd | 1,234 | 4.00% |
| Bulgari Corporation of America Inc. | 830 | 4.00% |
| Prestige d'Or S.A. | 204 | 5.25% |
| Bulgari Collection Internationale S.A. | 129 | 1.81% |
| Total | 148,941 | |

Short-term credit facilities at 30 September 2005 amounted to approximately 350 million euros, while hedging forward contracts amounted to approximately 1,000 million euros, of which approximately 150 million euros had been utilized at that date.

SEGMENT REPORTING

BULGARI GROUP - SEGMENT REPORTING

| | | | | SEPT. 2005 | | | SEPT. 2004 | | | DELTA % | | |
|-----------------------------------|--------------|--------------|--------------|------------------------------------|--------|--------|------------|-------------------------------|-------------|-------------|--------------|--|
| Net revenues by division | | | | Operating profit by segment | | | | | | | | |
| (Million of Euro) | | | | (Million of Euro) | | | | | | | | |
| <i>Jewellery</i> | 249.3 | 233.5 | +6.8% | JWA division | 85.7 | 84.9 | +1.0% | Perfume division | 12.9 | 11.1 | +16.0% | |
| <i>Watches</i> | 171.7 | 174.6 | -1.6% | Other activities and eliminations | (28.2) | (19.1) | +47.6% | Total operating profit | 70.4 | 76.9 | -8.4% | |
| <i>Accessory</i> | 54.6 | 42.1 | +29.5% | | | | | | | | | |
| <i>Others</i> | 4.6 | 3.9 | +20.3% | | | | | | | | | |
| JWA division | 480.2 | 454.1 | +5.8% | | | | | | | | | |
| Perfume division | 115.1 | 95.5 | +20.6% | | | | | | | | | |
| Other activities and eliminations | 12.0 | 7.0 | +70.2% | | | | | | | | | |
| Total net revenues | 607.3 | 556.6 | +9.1% | | | | | | | | | |

RECLASSIFIED BALANCE SHEET

| (Million of Euro) | JWA DIVISION | | PERFUME DIVISION | | Not allocated and elim. | | TOTAL GROUP | |
|--------------------------------------|--------------|--------------|------------------|--------------|-------------------------|--------------|--------------|--------------|
| | 30 Sept 05 | 31 Dec 04 | 30 Sept 05 | 31 Dec 04 | 30 Sept 05 | 31 Dec 04 | 30 Sept 05 | 31 Dec 04 |
| Net trade receivables | 100.3 | 112.1 | 53.3 | 58.8 | (10.7) | (10.1) | 142.9 | 160.8 |
| Other receiv | 44.3 | 38.2 | 10.5 | 9.0 | (7.9) | 27.4 | 47.0 | 74.6 |
| Inventory | 442.7 | 399.6 | 73.1 | 59.1 | 5.1 | 4.4 | 520.9 | 463.2 |
| Trade payments | (87.6) | (129.9) | (36.1) | (56.4) | 20.7 | 33.2 | (103.0) | (153.1) |
| Other pay. | (33.8) | (60.5) | (6.9) | (5.9) | (1.1) | (14.3) | (41.8) | (80.7) |
| Total net working capital | 466.0 | 359.4 | 93.9 | 64.7 | 6.1 | 40.6 | 566.0 | 464.8 |
| Tang. and intang. Assets | 113.0 | 90.6 | 8.5 | 8.5 | 56.3 | 52.5 | 177.8 | 151.6 |
| Financial Assets | | | | | 35.1 | 38.9 | 35.1 | 38.9 |
| Other LT assets (liabilities) | 5.6 | (3.9) | (1.4) | (1.2) | (2.4) | 6.2 | 1.8 | 1.1 |
| NET INVESTED CAPITAL | 584.6 | 446.2 | 101.0 | 72.0 | 95.0 | 138.3 | 780.7 | 656.5 |
| Shareholders' equity | | | | | | | 621.2 | 643.5 |
| Short term indebtedness | | | | | | | 135.1 | (46.5) |
| Long term indebtedness | | | | | | | 24.3 | 59.5 |
| Total indebtedness | | | | | | | 159.4 | 13.0 |
| HEDGE FUND | | | | | | | 780.7 | 656.5 |

NOTE:

Eliminations refer to transactions between the various segments of the Group.

Divisional costs also include recharges for royalties made by the owner, the Parent Company, for the use of the BVLGARI trademark (included in unallocated central activities).

Information on sales by geographical area has already been provided in the Report of the Directors on

Operations.

INFORMATION ON THE INCOME STATEMENT

16. Personnel costs – 106,672 thousand euros

This item may be analyzed as follows:

| Description | 30/09/2005 | 30/09/2004 |
|-------------------------------|----------------|---------------|
| Wages and salaries | 87,899 | 74,211 |
| Social security contributions | 19,869 | 16,229 |
| Employee severance pay | 2,086 | 1,506 |
| Selection and training | 3,534 | 2,447 |
| Other costs | 6,651 | 5,202 |
| Total | 120,039 | 99,595 |
| Transfer to cost of sales | (13,367) | (8,767) |
| Total | 106,672 | 90,828 |

Personnel costs of 106,672 thousand euros (90,828 thousand euros at 30 September 2004) are stated exclusive of costs of direct and indirect labour amounting to 13,367 thousand euros employed in the manufacture of finished and semi-finished goods, which are included in cost of sales.

17. Variable selling expenses – 23,848 thousand euros

This item may be analyzed as follows:

| Description | 30/09/2005 | 30/09/2004 |
|-------------------------|---------------|---------------|
| Credit card commissions | 2,973 | 2,500 |
| Brokerage commissions | 3,943 | 4,702 |
| Transportation costs | 6,633 | 5,392 |
| Sales commissions | 3,809 | 2,870 |
| Other | 6,490 | 4,143 |
| Total | 23,848 | 19,607 |

“Brokerage commissions” of 3,943 thousand euros consist essentially of agents’ commissions of 3,727 thousand euros for the sale of perfumes (4,513 thousand euros at 30 September 2004).

“Other” expenses of 6,490 thousand euros relate to Bulgari Parfums S.A. for 1,913 thousand euros (1,650 thousand euros at 30 September 2004) and Bulgari Parfums Italia S.p.A. for 741 thousand euros (495 thousand euros at 30 September 2004), due mostly to the cost of warehousing products; to Bulgari Corporation of America Inc. for 1,748 thousand euros (91 thousand euros at 30 September 2004) for commissions on the distribution of BVLGARI products; to Bulgari Italia S.p.A. for 1,038 thousand euros (818 thousand euros at 30 September 2004) relating mainly to premises costs for the BVLGARI shops in duty free areas; and to Bulgari Gioielli S.p.A. for 484 thousand euros (247 thousand euros at 30 September 2004) for costs for customs assistance relating to sales.

18. Other costs – 87,039 thousand euros

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

| Description | 30/09/2005 | 30/09/2004 |
|---------------------------|---------------|---------------|
| Rent | 31,561 | 26,156 |
| Sundry operating expenses | 24,695 | 21,227 |
| Other general expenses | 30,784 | 28,956 |
| Total | 87,039 | 76,339 |

“Rent” of 31,561 thousand euros consists of rental installments for premises used by Group companies to carry out operations. The increase is above all due to the increase in instalments resulting from new premises used to carry out operations and in particular those used by Bulgari (UK) Ltd., Bulgari Espana S.A. Unipersonal, Bulgari (Deutschland) GmbH and Bulgari Hotels and Resorts Milano S.r.l..

“Sundry operating expenses” of 24,695 thousand euros relate principally to general expenses of 9,979 thousand euros (9,305 thousand euros at 30 September 2004), utilities of 3,460 thousand euros (2,653 thousand euros at 30 September 2004), lease installments of 3,242 thousand euros (2,499 thousand euros at 30 September 2004) mostly relating to company cars and office equipment, and maintenance expenses of 3,113 thousand euros (3,049 thousand euros at 30 September 2004).

“Other general expenses” of 30,784 thousand euros (28,956 thousand euros at 30 September 2004) consist principally of travel expenses of 9,424 thousand euros (7,959 thousand euros at 30 September 2004), consultancy expenses of 8,822 thousand euros (9,691 thousand euros at 30 September 2004), taxes other than income taxes of 4,545 thousand euros (4,368 thousand euros at 30 September 2004), non-deductible taxes of 1,409 thousand euros relating to prior years, paid definitively abroad and not recoverable by Bulgari S.p.A., fees to members of corporate bodies of 3,552 thousand euros (2,873 thousand euros at 30 September 2004), insurance expenses of 3,102 thousand euros (3,067 thousand euros at 30 September 2004) and expenses to protect the trade mark against counterfeiting of 1,038 thousand euros (890 thousand euros at 30 September 2004).

19. Amortization and depreciation – 25,815 thousand euros

| Description | 30/09/2005 | 30/09/2004 |
|---|---------------|---------------|
| Depreciation of tangible assets | 20,584 | 10,652 |
| Transfer of depreciation to cost of sales | (174) | (91) |
| Total depreciation of tangible assets | 20,410 | 10,561 |
| Amortization of intangible assets | 5,105 | 4,005 |
| Write-downs | 300 | 174 |
| Total | 25,815 | 22,582 |

Details of depreciation and amortization by category of asset may be found in the tables showing changes in long-term assets.

“Write-downs” consist mainly of the write-down of leasehold improvements.

20. Financial income (expense) – (6,641) thousand euros

This item may be analyzed as follows:

| Description | 30/09/2005 | 30/09/2004 |
|---|----------------|----------------|
| Bank interest income | 507 | 196 |
| Interest income from public authorities | 290 | 558 |
| Discounts on hedging operations | 485 | 372 |
| Other interest income | 13 | 22 |
| Bank interest expense | (98) | (114) |
| Loan interest expense | (2,200) | (1,386) |
| Premiums on hedging operations | (2,590) | (2,674) |
| Other interest expense | (22) | (75) |
| Income from discounts and allowances | 587 | 207 |
| Expense from discounts and allowances | (737) | (1,394) |
| Bank commissions and charges | (468) | (452) |
| Other financial income (expense) | (390) | (338) |
| Total other financial income (expense) | (4,623) | (5,078) |
| Foreign exchange gains | 30,601 | 31,882 |
| Foreign exchange losses | (32,619) | (32,691) |
| Foreign exchange gains (losses) | (2,018) | (809) |
| Total | (6,641) | (5,887) |

21. Current and deferred taxes – 7,826 thousand euros

This item consists of the estimate of income taxes for the period.

Total income taxes of 7,826 thousand euros (7,455 thousand euros at 30 September 2004) are made up as follows:

- current income taxes of 8,512 thousand euros (8,696 thousand euros at 30 September 2004);
- deferred taxes of 686 thousand euros relating to net deferred tax assets of 2,191 thousand euros and net deferred tax liabilities of 1,505 thousand euros.

The average tax rate of the Group was 12.3%. This average rate is influenced positively by the effect of the tax paid by the Swiss companies.

22. Profit attributable to minority interest – 657 thousand euros

This item represents the minority interest share of profits in Bulgari Japan Ltd., owned by the Group at 80%, and in Bulgari Korea Ltd. and Prestige D'Or S.A., owned by the Group at 51%, all consolidated on a line by line basis.

Bulgari S.p.A.
The Chairman
Paolo Bulgari

Bulgari S.p.A. and Subsidiaries
Table 1

Fully Consolidated Companies

| Company | % owned 30/09/2005 | % owned 31/12/2004 | Currency | Authorised capital | Head office | Business |
|---|-----------------------|-----------------------|----------|-----------------------|-----------------------|--|
| Bulgari Gioielli S.p.A. | 100.00 | 100.00 | Euro | 2,580,000 | Rome | Jewellery production |
| Bulgari Italia S.p.A. | 100.00 | 100.00 | Euro | 12,000,000 | Rome | Retail sales |
| Bulgari International Corporation (BIC) N.V. | 100.00 | 100.00 | Euro | 18,301,200 | Amsterdam | Sub-holding company |
| Bulgari Corporation of America Inc. | 100.00 | 100.00 | Us\$ | 24,350,000 | New York | Retail sales 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 Jewels S.A. | 100.00 | 100.00 | Swfr | 5,000,000 | Neuchatel | Jewellery production |
| Bulgari France S.A. | 100.00 | 100.00 | Euro | 225,000 | Paris | Retail sales |
| Bulgari Montecarlo S.A.M. | 100.00 | 100.00 | Euro | 800,000 | Montecarlo | Retail sales |
| Bulgari (Deutschland) GmbH | 100.00 | 100.00 | Euro | 2,556,459 | Munich | Retail sales |
| Bulgari Japan Ltd. | 80.00 | 80.00 | Yen | 400,000,000 | Tokyo | Retail sales |
| Bulgari Espana S.A. Unipersonal | 100.00 | 100.00 | Euro | 5,418,344 | Madrid | Retail sales |
| Bulgari Parfums S.A. | 100.00 | 100.00 | Swfr | 1,000,000 | Neuchatel | Perfume production |
| Bulgari Parfums Italia S.p.A. | 100.00 | 100.00 | Euro | 1,020,000 | Rome | Perfume distribution |
| Bulgari Portugal Accesorios de Luxo Lda. | 100.00 | 100.00 | Euro | 92,873 | Madeira | Sub-holding company |
| Bulgari Asia Ltd. (1) | 100.00 | 100.00 | HK\$ | 12,126,809 | Hong Kong | Sub-holding company |
| Bulgari South Asian Operations Pte Ltd. | 100.00 | 100.00 | Sg\$ | 1,000,000 | Singapore | Retail sales |
| Bulgari (UK) Ltd. | 100.00 | 100.00 | Lgs | 20,100,000 | 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 | 5,200,000 | Sydney | Retail sales |
| Bulgari (Malaysia) Sdn Bhd | 100.00 | 100.00 | Rm | 3,334,000 | Kuala Lumpur | Retail sales |
| Bulgari Global Operations S.A. | 100.00 | 100.00 | SwFr | 1,000,000 | Neuchatel | Logistical support |
| Bulgari Operational Services ApS | 100.00 | 100.00 | DKK | 500,000 | Copenhagen | Services |
| Daniel Roth et G rald Genta Haute Horlogerie S.A. | 100.00 | 100.00 | SwFr | 7,100,000 | Geneva | Production of watches |
| Bulgari Asia Pacific Ltd. | 100.00 | 100.00 | HK\$ | 1,000,000 | Hong Kong | Retail sales |
| Bulgari (Taiwan) Ltd. | 100.00 | 100.00 | Twd | 260,000,000 | Taipei | Retail sales |
| Bulgari Korea Ltd. | 51.00 | 51.00 | Kwon | 4,500,000,000 | Seoul | Retail sales |
| Bulgari Collection Internationale S.A. | 100.00 | 100.00 | Swfr | 3,000,000 | Neuchatel | Jewellery production |
| Bulgari (Luxembourg) S.A. | 100.00 | 100.00 | Euro | 100,000 | Luxembourg | Holding company relating to the Bvlgari Hotels and Resorts project |
| Bulgari Saint Barth S.a.S. | 100.00 | 100.00 | Euro | 40,000 | Saint Barthelemy | Retail sales |
| Bulgari Retail USA S.r.l. | 100.00 | 100.00 | Euro | 50,000 | Rome | Retail and wholesale |
| Crova S.p.A. | 100.00 | 100.00 | Euro | 2,700,000 | Valenza (Alessandria) | Jewellery production |
| Bulgari Parfums Deutschland GmbH | 100.00 | 100.00 | Euro | 25,000 | Wiesbaden | Perfume distribution |
| Prestige d'Or S.A. | 51.00 | - | Euro | 100,000 | Saignel gier | Production of components for watches |

**List of companies consolidated
using the proportional method**

| Company | % owned 30/09/2005 | % owned 31/12/2004 | Currency | Share capital | Head office | Business |
|--|-----------------------|-----------------------|----------|---------------|-------------------|--|
| LB Diamonds & Jewelry Sarl. | 50.00 | 50.00 | Euro | 1,250,000 | Neuchatel | Jewellery production |
| Opera Management S.A. | 50.00 | 50.00 | Euro | 120,000 | Luxembourg | Management of equity interests |
| Bulgari Hotels & Resorts B.V. (2) | 65.00 | 65.00 | Euro | 18,000 | Amsterdam | Company in joint venture with the Marriot Group |
| Bulgari Hotels and Resorts Milano S.r.l. (3) | 65.00 | 65.00 | Euro | 100,000 | Rome | Company involved in the Bvlgari Hotels and Resorts project |
| Cadrans Design S.A. | 50.00 | - | Euro | 100,000 | La Chaux de Fonds | Production of watches |

(1) Company put into liquidation in 2004.

(2) Company owned through Bulgari (Luxembourg) S.A..

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

**Changes in the scope of consolidation
in the period ended 30 September 2005 compared to
31 December 2004**

| Companies added to the scope of consolidation | Head office | Business |
|---|-------------------|--------------------------------------|
| Prestige d'Or S.A. | Saignel gier | Production of components for watches |
| Cadrans Design S.A. | La Chaux de Fonds | Production of watches |

INFORMATION ON COMPANIES CONSOLIDATED USING THE PROPORTIONATE METHOD

Table 2

| <i>(in Millions)*</i> | Opera Management S.A. | LB Diamonds & Jewelry Sarl | Cadrams Design SA | Bulgari Hotels & Resorts BV | Bulgari Hotels & Resorts Milano S.r.l. |
|-----------------------|--------------------------|-------------------------------|----------------------|--------------------------------|---|
| <i>% ownership</i> | 50% | 50% | 50% | 65% | 65% |
| <i>local currency</i> | euro | chf | chf | euro | euro |
| Current assets | 4.4 | 45.6 | 2.0 | 0.1 | 4.1 |
| Long-term assets | 0.5 | - | 1.3 | 5.2 | 4.1 |
| Current liabilities | 3.0 | 34.9 | 3.0 | 0.2 | 4.9 |
| Long-term liabilities | - | - | 1.0 | 1.2 | 2.7 |
| Revenues | 4.4 | 12.6 | 2.3 | 0.1 | 11.1 |
| Costs | 3.1 | 14.7 | 2.2 | 0.1 | 12.0 |

* The above amounts are stated at 100%

BULGARI GROUP

Statement of changes in the items of

consolidated shareholders' equity between 31 December 2003 and 30 September 2004

Table 3

| | Authorised capital | Share premium reserve | Legale reserve | Translation reserve | Other reserves | Stock option reserve | Hedging reserve | Retained earnings | Net income | Shareholders' equity for the Group | Shareholders' equity for third parties | Total shareholders' equity |
|---|--------------------|-----------------------|----------------|---------------------|----------------|----------------------|-----------------|-------------------|---------------|------------------------------------|--|----------------------------|
| Balances at 31 December 2003 | 20,741 | 103,346 | 5,762 | - | 4,828 | 594 | - | 330,303 | 92,141 | 557,715 | 8,607 | 566,322 |
| Income and expense recognised directly in shareholders' equity | - | - | - | - | - | - | - | - | - | - | - | - |
| Net income for the period | | | | | | | | | 62,531 | 62,531 | 980 | 63,511 |
| Total income and expense | - | - | - | - | - | - | - | - | 62,531 | 62,531 | 980 | 63,511 |
| Dividends distributed | - | - | - | - | - | - | - | (2,603) | (29,991) | (32,594) | (677) | (33,271) |
| Allocation of 2003 net income | - | - | - | - | - | - | - | 62,150 | (62,150) | - | - | - |
| Authorised capital increase due to exercise of stock options | 35 | 2,051 | - | - | - | - | - | - | - | 2,086 | - | 2,086 |
| Treasury share purchases | - | (847) | - | - | 847 | - | - | - | - | - | - | - |
| Translation differences | - | - | - | (6,470) | - | - | - | 4,097 | - | (2,373) | (116) | (2,489) |
| Stock options | - | - | - | - | - | 970 | - | - | - | 970 | - | 970 |
| Disposal of investments | - | - | - | - | - | - | - | - | - | - | (2,525) | (2,525) |
| Balances at 30 September 2004 | 20,776 | 104,550 | 5,762 | (6,470) | 5,675 | 1,564 | - | 393,947 | 62,531 | 588,335 | 6,269 | 594,604 |

BULGARI GROUP
Statement of changes in the items of
consolidated shareholders' equity between 31 December 2004 and 30 September 2005
Table 4

| | Authorised capital | Share premium reserve | Legale reserve | Translation reserve | Other reserves | Stock option reserve | Hedging reserve | Retained earnings | Net income | Shareholders' equity for the Group | Shareholders' equity for third parties | Total shareholders' equity |
|---|-----------------------|--------------------------|-------------------|------------------------|-------------------|-------------------------|--------------------|----------------------|----------------|---------------------------------------|---|-------------------------------|
| Balances at 31 Decmebr 2004 | 20,816 | 107,135 | 5,762 | (7,273) | 2,107 | 1,987 | - | 397,332 | 108,756 | 636,622 | 6,876 | 643,498 |
| Treasury stock | (3,569) | - | - | - | - | - | - | - | - | (3,569) | - | (3,569) |
| Valuation of derivatives at fair value | - | - | - | - | - | - | 2,297 | - | - | 2,297 | - | 2,297 |
| Valuation of investments at fair value | - | - | - | - | - | - | - | (8,019) | - | (8,019) | - | (8,019) |
| Balances at 1 January 2005 | 17,247 | 107,135 | 5,762 | (7,273) | 2,107 | 1,987 | 2,297 | 389,313 | 108,756 | 627,331 | 6,876 | 634,207 |
| Valuation of derivatives at fair value | - | - | - | - | - | - | (3,528) | - | - | (3,528) | - | (3,528) |
| Income and expense recognised directly in shareholders' equity | - | - | - | - | - | - | (3,528) | - | - | (3,528) | - | (3,528) |
| Net income of the period | - | - | - | - | - | - | - | - | 55,270 | 55,270 | 657 | 55,927 |
| Total income and expense | - | - | - | - | - | - | (3,528) | - | 55,270 | 51,742 | 657 | 52,399 |
| Dividends distributed | - | - | - | - | - | - | - | - | (65,422) | (65,422) | (664) | (66,086) |
| Allocation of 2004 net income | - | - | - | - | - | - | - | 43,336 | (43,336) | - | - | - |
| Treasury stock 2005 | (440) | - | - | - | - | - | - | - | - | (440) | - | (440) |
| Authorised capital increase due to exercise of stock options | 44 | 3,290 | - | - | - | - | - | - | - | 3,334 | - | 3,334 |
| Allocation to treasury stock reserve of value of shares at period end | - | (440) | - | - | - | - | - | 440 | - | - | - | - |
| Translation differences | - | - | - | (3,509) | - | - | - | (1,390) | - | (4,899) | 862 | (4,037) |
| Stock options | - | - | - | - | - | 1,846 | - | - | - | 1,846 | - | 1,846 |
| Balances at 30 September 2005 | 16,851 | 109,985 | 5,762 | (10,782) | 2,107 | 3,833 | (1,231) | 431,699 | 55,270 | 613,495 | 7,730 | 621,225 |

**CONSOLIDATED INCOME STATEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2004
RECONCILIATION BETWEEN ITALIAN ACCOUNTING PRINCIPLES AND IAS/IFRS**

| <i>€/000</i> | Italian accounting Principles | IAS/IFRS adjustments | IAS/IFRS |
|---|--|---------------------------------|-----------------|
| - <i>Gross sales</i> | 594,860 | 2,209 | 597,069 |
| - <i>Discounts and allowances</i> | (49,148) | - | (49,148) |
| Net sales | 545,712 | 2,209 | 547,921 |
| Royalties | 5,013 | - | 5,013 |
| Other revenues | 3,665 | - | 3,665 |
| Total net revenues | 554,390 | 2,209 | 556,599 |
| Cost of sales | (205,171) | (1,338) | (206,509) |
| Total contribution margin | 349,219 | 871 | 350,090 |
| - <i>Personnel costs</i> | (90,333) | (495) | (90,828) |
| - <i>Variable selling expenses</i> | (19,607) | - | (19,607) |
| - <i>Other costs</i> | (72,319) | (4,020) | (76,339) |
| - <i>Advertising and promotional expenses</i> | (63,843) | (37) | (63,880) |
| - <i>Amortisation and depreciation</i> | (25,636) | 3,054 | (22,582) |
| Total operating expenses | (271,738) | (1,498) | (273,236) |
| Operating profit | 77,481 | (627) | 76,854 |
| - <i>Interest income</i> | 1,186 | (38) | 1,148 |
| - <i>Interest expense</i> | (4,209) | (40) | (4,249) |
| - <i>Other financial income (expense)</i> | (1,705) | (272) | (1,977) |
| - <i>Foreign exchange gains (losses)</i> | (827) | 17 | (810) |
| Total financial income (expense) | (5,555) | (333) | (5,888) |
| Revaluations (write-downs) of financial assets | (1,552) | 1,552 | - |
| Other non-operating income (expense) | (707) | 707 | - |
| Net result before taxes and profit attributable to minority interest | 69,667 | 1,299 | 70,966 |
| Current and deferred taxes | (6,708) | (746) | (7,455) |
| Profit attributable to minority interest | (963) | (17) | (980) |
| Net result of the period | 61,996 | 536 | 62,531 |