

Annual report of the Board of Directors on the Corporate Governance model adopted by Bulgari S.p.A. to accomplish the recommendations of the Code of Self Regulation

IA.2.12 Instructions to the Stock Exchange Regulations

Point 4 of the Order of the Day

Shareholders Meeting of 27/4/2006

Shareholders,

At their meeting of March 27, 2006, the Bulgari S.p.A. Board of Directors resolved to update the already submitted report for approval of the financial statements and consolidated financial statements at 31 December 2004, and provide a revised report comparing Bulgari S.p.A. corporate governance rules with provisions of the Code of Self Regulation for Listed Companies (the “Code”).

The Bulgari S.p.A. corporate governance system was designed to effectively control and manage business risk and to enable transparent communications to the market, in compliance with legal requirements and CONSOB rules and regulations.

The current corporate governance rules of Bulgari S.p.A. (the “Company”) are described in the following paragraphs, also in the light of principles of the Code of Ethics adopted by the Company at the meeting of the Board of Directors of 10 March 2004.

Summary tables provided at the end of this report give details of the following:

- The composition and structure of the Board of Directors and its committees.
- The Board of Auditors.
- Further requirements of the Code of Self Regulation.

Bulgari S.p.A. is the Group holding company and owner of the Bvlgari trademark; it licenses the use of this trademark to Group sales companies for the management of Bvlgari shops in Italy and the rest of the world. In addition to its holdings in the sales companies, Bulgari S.p.A. holds the entire share capital of companies which manufacture and distribute Bvlgari watches, jewellery, perfumes and accessories. In order to obtain an overall view of this situation, the Group structure at 31/12/2005 is attached herewith.

Bulgari S.p.A. is listed on the Italian stock market and as such carries out its activities in full respect of laws and regulations issued from time to time. Particular attention is paid to share market transparency, achieved through press releases describing operations which may have a significant effect on results in addition to the periodic issue of financial statements.

The majority of Bulgari S.p.A. share capital is held through a duly communicated shareholders’ agreement by certain members of the Bulgari family, who own approximately 52% overall; the residual balance is floated on the market.

As at the date this report, based on communications received, shareholders owning more than 2% of share capital are as follows:

✓ UNIONE FIDUCIARIA SPA	51.72% of which:
○ Paolo Bulgari	23.65%
○ Nicola Bulgari	23.65%
○ Francesco Trapani	4.43%
✓ BPU Prumerica Gl. Inv. SGR	2.35%
✓ Caisse des depots et consignations	2.22%
✓ Deutsche Bank AG	2.18%
✓ Banca Nazionale del Lavoro	1.36%
✓ Goldman Sachs International	1.30%

The Board of Directors role and composition; directors fees

The Board of Directors plays a central role in the definition of Group strategies; it assigns and revokes managing director powers and determines his remuneration. The Board watches over the general progress of operations, taking into account any information received from the Managing Director, and reports to the shareholders meeting.

The Board normally meets at least once per quarter, though this is not specified in Company regulations, and in any case meets whenever an operation of strategic importance to the Company or for the Bulgari Group is to be approved, or the nature or amount of which exceeds the limits delegated to the Managing Director or Chairman of the Board. Board meetings are scheduled on the basis of a timetable approved at the beginning of the year and organized to achieve the maximum attendance at the meetings.

The Board of Directors met six times during 2005; it is expected that no less than six meetings will be held this year.

Reasonably in advance, except in cases of necessity or urgency, the Company provides the Board with all documentation necessary for it to reach informed conclusions on matters under discussion.

For the renewal of director mandate on expiry of their term of office or for eventual replacements, proposals for appointment as director, including all information concerning personal and professional attributes of the candidate with an indication of suitability of independence, must be deposited at Company headquarters and at its registered office at least ten days prior to the date of the shareholders meeting called to resolve on the appointment. This procedure is Company practice rather than a formal statutory requirement.

The Board of Directors mandate terminates with approval of the financial statements as at 31 December 2006 and is composed of the following members:

- Paolo Bulgari, Chairman
- Nicola Bulgari, Deputy Chairman
- Francesco Trapani, Chief Executive Officer
- Giuseppe Ansaldo, Director
- Roberto Zanchi, Director
- Francesco Ago, Director
- Giulio Figarolo di Gropello, Director.

including two executive directors, the Chairman and Deputy Chairman, and five non-executive directors.

The number, professional qualifications and authority of non-executive directors provide a substantial contribution to board decisions. On the basis of information received from each director, it is confirmed that in relation to 2005 the majority of non-executive directors are independent, meeting Code requirements in this respect.

In relation to offices covered by members in other listed companies, also on foreign markets, in financial, banking or insurance companies, it is declared that Director Francesco Ago is board member of the Acotel Group S.p.A., listed on the New Market.

No other member of the Company Board of Directors holds a position as director or auditor in other listed companies.

The Chairman and the CEO periodically report to the Board on operations significant economic and financial effect. The Chairman and Managing Director may individually call and coordinate meetings. The Chief Executive Officer, with the assistance of other directors or external advisors, ensures that the Board is informed on principal changes in legislation or regulations affecting the Company and its bodies, and manages confidential information and the disclosure of price sensitive information to third parties in accordance with CONSOB regulations. In this respect, each director is sensitised to the confidentiality of documents and information acquired in the course of their duties.

The Chairman and the Chief Executive Officer are granted all ordinary and extraordinary administrative power as sole signatories in every business sector of the Company.

In addition to exclusive power granted by article 2381 of the Italian civil code, the Board of Directors has exclusive power over the following:

- where commitment in a single operation exceeds 30 (thirty) million Euros (or equivalent value in foreign currency): to purchase or sell equity, to establish new companies or associations in Italy or abroad, to perform operations on the capital of new and existing companies;
- where commitment in a single operation exceeds 30 (thirty) million Euros (or equivalent value in foreign currency): to sign loan agreements and issue guarantees;
- where commitment in a single operation exceeds 2 (two) million Euros (or equivalent value in foreign currency): to purchase goods and services;
- to purchase or sell real estate, except for operations with either direct or indirect subsidiaries;
- to sell or otherwise dispose of trademark licences, trade names, intellectual property and inventions possessed by the Company, except in the case of temporary concessions.

In addition, the Board:

- ✓ elects from amongst its members the Chairman, Deputy Chairman and, not necessarily a shareholder or director, a Secretary.
- ✓ elects from amongst its members a CEO, delegated to whom, separately from other directors, wholly or in part, are duties, responsibilities and powers, any sectors for which he is responsible and remuneration, notwithstanding the limits of article 2381 of the Italian civil code;
- ✓ determines the remuneration of executive directors and of those without specific duties, in accordance with article 2389, section 2, of the Italian civil code;
- ✓ assigns and revokes delegations to persons not members of the Board, such as Central and/or other Company Managers, and defines operating limits and methods;
- ✓ reports via the Chairman to the shareholders meeting.

Remuneration committee and Committee for the appointment of directors

The remuneration committee was established at the Board meeting of 10 March 2004 as formed by directors Giuseppe Ansaldo (Chairman), Roberto Zanchi and Francesco Ago, all non-executive directors, and met on one occasion in 2005 to propose to the Board of Directors on general criteria to be adopted for top management remuneration, based on indications from delegated directors.

CEO remuneration is linked to Group results, also including a variable component proportional to the net consolidated earnings of the Group. In addition, by virtue of the shareholders meeting resolution of 28 April 2005, the Chairman on behalf of the Board and granted the Managing Director with split instalment stock options on Bulgari shares.

There are no specific procedures for the appointment of directors, such list voting or deposit of nomination proposals including candidate *curriculum vitae*; nonetheless the Company consents to the voluntary adoption of this procedure by shareholders.

The Company no committee for the appointment of directors, as proposed appointments by the Board have never met with difficulty from the shareholders.

Internal control system

The Board of Directors is responsible for the internal control system. The Board determines the guidelines for internal control and the management of business risks, periodically checking their adequacy and effectiveness, with support from the Internal Control Committee, to ensure the identification and appropriate management of principal business risks.

The purpose of the existing internal control system is to verify that business processes are adequately effective, efficient and cost-effective, guarantee reliability and correctness of financial information, safeguard Company assets and ensure compliance with internal and external regulations.

The internal control system involves: (i) *line controls*, represented by the set of controls followed in individual department processes. The responsibility for such controls falls to operational management, who must ensure the existence of valid and effective risk management processes: (ii) *internal audit* performed by the special Internal Control department (so-called Internal Audit). This department, with adequate resources, has no operational department line management but instead reports directly to the CEO, Internal Control Committee and Board of Auditors. Audit is extended to all processes, controlling and monitoring risk, and contributing to the improvement of the risk management and control systems. Department Managers are responsible for indicating and implementing necessary corrective action to monitor risk.

Internal control committee

The Internal Control Committee is formed by directors Roberto Zanchi (Chairman), Francesco Ago and Giulio Figarolo di Gropello, all non-executive directors and independent with respect to Company owners and management. The chairman and/or other members of the Board of Auditors participate in Committee tasks, as do the CEO and, if invited by a Committee member, also Company managers and/or consultants.

The Internal Control Committee has the following advisory and recommendational duties:

- (i) to assist the Board of Directors and CEO in managing and coordinating the Internal Control Department activities; (ii) to review the work plan prepared by the CEO and by Internal Control Department Manager and to receive their periodic reports; (iii) to review together with the head of administration and independent auditors of the Company on the adequacy of adopted accounting principles and policies and their consistency for preparation of the consolidated financial statements; (iv) to review proposals submitted for the appointment of independent auditors, together with the audit plan and the findings described by auditors in their report and in letter of proposals; (v) to monitor implementation and adequacy of the Code of Ethics,

with support from the Internal Control Department and/or, if necessary, external consultants; (vi) to submit reports to the Board of Directors, on at least a half-yearly basis at the time of approval of half-yearly and year end financial statements, on tasks completed and on the adequacy of the internal control system.

The duties of the Internal Control Department, in reference to integrated Company business, are: (i) to periodically update the internal control system in order to monitor compliance with laws and regulations, the safeguarding company assets and the reliability of financial data, (ii) to monitor as necessary the implementation and adequacy of the internal control system, (iii) to report any violation of adopted procedures or codes of conduct, (iv) to report on control system modification needs.

During 2005 the Internal Control Committee met 4 times, and reviewed the work plan drafted by the audit company in the “Letter of proposals on the Group internal control system and administrative accounting procedures” for Bulgari Group audit and results. The Committee also monitored Internal Control Department tasks and approved the 2006 Audit Plan, and examined the Management, Organisation and Control Model as required under Italian Leg.Decree 231/2001.

Related party transactions

In compliance with CONSOB recommendations, recent provisions introduced by CONSOB Regulations for Issuers and CONSOB Communication 2064231 of 30 September 2002, if Company directors have any interest in related party transactions (as defined by international accounting standard IAS 24 and as identified in CONSOB Communication 2064231) performed by the Company or a subsidiary, they are required to immediately inform the Board of full details of the interest and surrounding circumstances, also of a potential and indirect nature, and to leave the Board meeting at the time of related resolution.

The Board may engage third parties to provide *fairness opinions* or *legal opinions* in situations in which the value or other characteristics of a related party so require, in order to avoid a difference in the terms and conditions for such operations and those negotiated between unrelated parties.

Relations with institutional investors and other shareholders - treatment of information

A dedicated business section has been set up in the Administration, Finance and Control Department with the aim of encouraging ongoing dialogue with shareholders and with institutional investors in particular.

A specific section of the web site www.bulgari.com is dedicated to financial and legal communications subdivided – with an indication of the latest update - into presentations distributed during meetings with the financial community, press release texts, calendar of significant Company events, documentation regarding the financial and consolidated financial statements of recent years, quarterly and half-yearly reports and all director reports on matters submitted for approval at Company shareholders meetings. The latest version of the Company statute, Shareholder Meeting regulations, the composition of Company administrative bodies and information on Company corporate governance may also be found in this section.

A mailing list has been activated to receive specific documentation on request.

In 2005, the Company again organised periodic meetings with the financial community.

For the public disclosure of information, the Company follows principles contained in the “Market Disclosure Guidelines”, issued by Borsa Italiana S.p.A.

Press releases on resolutions to approve the annual financial statements, half-yearly and quarterly reports, together with extraordinary resolutions or transactions subject to approval by the Board of Directors, are presented in advance to the Board for screening and approval; or, if this is not operationally feasible, for screening and approval by the CEO.

Relations and communications with the press and with institutional and private shareholders are the responsibility of the External Relations office (Paolo Piantella - paolo.piantella@bulgari.com, tel. +39 06 68810593) and Investor Relations office (Renata Casaro - renata.casaro@bulgari.com, tel. +39 06.68810467)

In compliance with the recently introduced CONSOB discipline on the new Issuer Regulations, the Company submitted the new “Procedure for the Market Disclosure of Operations performed by Relevant Persons or Closely Related Persons” for Board of Directors approval; this procedure, which will replace the *Internal Dealing* Code, will also be published in the company web site section on financial and legal communications. The procedure obliges Relevant Persons, as defined therein, to inform CONSOB and the Company within five days of market opening on the date of transaction for the purchase, sale, subscription or swap of Bulgari shares for a total sum exceeding 5,000 (five thousand) Euros per declarant.

Regulations governing shareholders' meetings

The Company has a set of regulations governing the order and functional procedures of shareholders' meetings, guaranteeing each shareholder the right to speak on the matters under discussion. The full text of the regulations is published on the Company web site.

Auditors

In compliance with Italian Amalgamated Law 58/1998, the statute includes a list voting mechanism to guarantee the presence of minority interest representatives on the Board of Auditors. By express statute provision, candidate proposals are deposited at head office prior to the shareholders' meeting accompanied, as common practice, by the curriculum vitae of each candidate. Details of significant transactions are provided to the Board of Auditors on a quarterly basis.

The mandate of the current Board of Auditors, composed of Maurizio De Magistris, Stefania Libori and Francesco Mariano Bonifacio as Auditors, and Odilia Petrolillo and Fabrizio del Franco as Deputy Auditors, expires on approval of the financial statements as at 31 December 2007.

In 2005, the Board of Auditors regularly attended meetings of the Internal Control Committee.

In relation to other positions held by Auditors in other companies listed on Italian or foreign markets or in financial companies, banks or insurance companies, it is declared that:

- ✓ the Chairman of the Board of Auditors, Maurizio de Magistris, is Auditor and Chairman of the Board of Auditors of a number of securitisation companies of the FONSPA SPA Group, i.e. Chairman of the Board of Auditors of International Credit Recover (123) Srl and Auditor of International Credit Recovery (6) Srl, International Credit Recovery (8) Srl and Enea Securitisation Srl.
- ✓ Francesco Mariano Bonifacio is Auditor of the Istituto di Credito Fondiario Industriale – FONSPA SPA and Chairman of the Board of Auditors of a number of securitisation companies of the same Institute (International Credit Recovery (6) Srl, International Credit Recovery (8) Srl and Enea Securitisation Srl); he is also Chairman of the Board of Auditors of the Istituto Italfondario Spa and Torre Real Estate Speculative SGR S.p.A.

Organisational, administrative and control model as per Italian Legislative Decree 231/2001

Italian Legislative Decree 231/2001, "*Regulation of the administrative responsibility of legal entities, companies and associations not necessarily of a corporate nature*" embodied within Italian law a regime of company administrative responsibility for offences defined therein and committed by Directors, Managers or Employees in the interest of or to the benefit of the company. In 2005, the Board of Directors approved an Organisation, Management and Control Model in accordance with Italian Leg.Decree 231/2001 and appointed a Surveillance Authority composed of three members: two external members, experts in legal matters (Prof. Avv. Bruno Assumma as Chairman, and Avv. Cristiano Fava), and the Internal Control Department Manager (Lucilla Marchetti). The Model was also approved on the basis of guidelines drafted by industrial associations on this subject, with the support of external consultants. The Surveillance Authority has the power to initiate and control action, the responsibility to update the model in relation to any change in reference legislation and/or the Company organisation, surveillance over the Model and its implementation, and the promotion of staff sensitisation. The aim of these tasks is the ongoing effectiveness and adequacy verification of the Model. Since its foundation, the Surveillance Authority has met 3 times and submitted operational reports to the Board of Directors and Internal Control Committee. In 2005 the Surveillance Authority assessed the mapping of existing business risk and is currently drafting the adaptation and implementation of the Model to satisfy recent legal modifications in relation to asset management.

Position	Members	executive	non-executive	Independent	Number of other positions held		
Chairman	Paolo Bulgari	X					
Deputy Chairman	Nicola Bulgari		X				
Managing Director	Francesco Trapani	X			1		
Director	Francesco Ago		X	X	1	X	X
Director	Giuseppe Ansaldo		X				X
Director	Giulio Figarolo di Gropello		X	X		X	
Director	Roberto Zanchi		X	X		X	X

TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

<u>Board of Directors</u>	<u>Internal Control Committee</u>	<u>Remuneration Committee</u>
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	Board of Directors	Internal Control Committee	Remuneration Committee
Number of meetings held this period	6	4	1

TABLE 2: BOARD OF AUDITORS

Position	Members	Percentage attendance of the Board at Board of Directors meetings	Number of other positions held**
Chairman	Maurizio De Magistris	84%	2
Auditor	Stefania Libori	100%	
Auditor	Francesco Mariano Bonifacio	100%	
Deputy auditor	Odilia Petrolillo	-	
Deputy auditor	Fabrizio del Franco	-	
Number of meetings held this period: 6			
Indicate the quorum required for the presentation of minority voting lists for the election of one or more auditors (article 148 Italian Amalg. Financial Law): 3% of capital with voting rights in ordinary shareholder meetings			

TABLE 3: OTHER CODE OF SELF REGULATION REQUIREMENTS

	YES	NO	Summary of reasons for any deviation from Code recommendations
Related party delegation and transactions system			
Has the Board of Directors issued delegation defining:			
a) limits	X		
b) operating methods	X		
c) reporting frequency?	X		
Is the Board responsible for examination and approval of operations and transactions of a particular economic or financial significance (including related party transactions)?	X		
Has the Board defined guidelines and criteria to identify “significant operations”?		X	
Are these guidelines and criteria described in the report?		X	
Has the Board defined appropriate procedures to examine and approve related party transactions?		X	
Are the procedures for approval of related party transactions described in the report?		X	
Procedures for the most recent appointment of directors and auditors			
Were director candidate proposal details deposited at least ten days in advance?	X		
Was the director candidate proposal accompanied by full details?	X		
Did the director candidate proposal include a description of candidate suitability for classification as independent?	X		
Were auditor candidate proposals deposited at least ten days in advance?	X		
Was the audit candidate proposal accompanied by full details?	X		
Shareholders meetings			
Has the company approved Shareholder Meetings Regulations?	X		
Are the regulations attached to the report (or are receipt/download indications given)?	X		
Internal control			
Has the company appointed Internal Control Officers?	X		
Are the officers independent from heads of operating departments?	YES		
Internal Control Manager (article 9.3 of the Code)	Lucilla Marchetti Lungotevere Marzio, 11 Tel. +39 06 68810418 – fax +39 06 68810614 Lucilla.Marchetti@bulgari.com		

Investor relations			
Has the company appointed an investor relations manager?	X		
Investor Relations Manager contact details (address/telephone/fax/e-mail)	Renata Casaro Lungotevere Marzio, 11 Tel. +39 06 68810467 – fax +39 06 68810614 Renata.casaro@bulgari.com		

Rome, 27 March 2006
For the Board of Directors
Chairman
Paolo Bulgari