

**Report of the Board of Directors
on the increase of share capital by cash payment, divisible, in accordance with article
2441, fifth paragraph, of the civil code**

Extraordinary Shareholders' Meeting of 28 April 2005

First item on the agenda

Shareholders,

shareholders for their approval in accordance with the terms described below.

In its meeting of 7 March 2005, the Board of Directors took the decision that it would be appropriate to convene you to discuss and resolve on a proposal to increase the Company's share capital by cash payment, divisible, through the issue of up to 1,800,000 ordinary shares of the Company, with the exclusion of shareholders' option rights in accordance with article 2441, fifth paragraph, of the civil code, as these are to be retained for the Chief Executive Officer Mr. Francesco Trapani.

The term for subscribing to the shares is determined as 2014, as the Board intends to retain the right to grant options up until 2007 and to require that the options may only be exercised after a certain period of time following their assignment (the so-called vesting period) and that they then may be exercised for a suitably long period following such vesting period.

It is in the Company's interest to exclude option rights, as this provides a means by which an incentive may be given to the Chief Executive Officer of the Company, through a stock option mechanism, a means used in the past. In addition, this is required since the stock option plan resolved by shareholders in 2002 and subsequently amended has been fully realised, with the assignment of all the options permitted under that decision.

The issue price of the shares will be determined by the Company's Board of Directors, which may delegate such responsibility to the Chairman, at the date on which the options are granted, at a price per share, consisting of par value plus the share premium, equal to the average of the official price of the Bulgari share on the Telematic Share Exchange, organised and administered by Borsa Italiana S.p.A., during the month preceding that in which they are granted (by "previous month" is intended the period from the date on which the options are granted to the same day of the preceding month; in determining the average price, only those days will be counted on which the Stock Exchange is open for trading and on which the Bulgari share was traded in a genuine transaction). The issue price cannot in any case be lower than that determined under the provisions of the sixth paragraph of article 2441 of the civil code, and namely on the basis of the net equity of the Company as stated in the most recent financial statements approved by shareholders prior to the date of granting the options, taking also into consideration the variations in the quoted price of the share in the previous six months.

The reasons supporting the adoption of the previous plan are the same as those which lead us believe that it is appropriate to maintain such a means of incentivisation for the three year period from 2005 to 2007, noting also the important results which the Company has achieved. We have also taken into consideration the fact that stock options are also, and indeed especially, widely used in market practice as a valid means of instilling loyalty in the most deserving echelons of top management

The shares to be issued are therefore to be allocated to a stock option plan, to be put into effect by the Board of Directors, with the possibility for the Board to delegate this responsibility to its Chairman, as per the proposal which will be presented to

The Board of Directors believes that the reference to the average value expressed by the Stock Exchange in the month prior to the date of granting the options, which is a means of expressing the Company's value on the

basis of its market capitalisation, is a suitable criterion for the determination of the issue price.

This criteria is moreover that used as a basis for determining the so-called “normal value”, with respect to which the prevailing tax legislation permits a favourable treatment of the profits which are earned on the exercise of a stock option.

The Board similarly believes that the establishment of a minimum price, based on the value of the Company’s net equity stated in the most recent financial statements approved by shareholders prior to the date of granting the options, taking also into consideration the variations in the quoted price of the share in the previous six months, in the period during which it is intended to grant the options is, from one time to the next, in conformity with the principles included in article 2441, sixth paragraph, of the civil code.

The shares issued will have dividend rights commencing on the first day of the calendar year in which they are subscribed.

The Board of Directors, which may delegate such duties to the Chairman if necessary, will therefore have the possibility, but not the obligation, to grant option rights, and may determine each and every other condition regarding the granting of the options, without limit, including the time period during which the shares must be subscribed, which may not extend beyond 2014, the number of options, the period after the grant date beyond which the options may be exercised, the treatment of options not yet exercised or not yet exercisable should the relationship between the Managing Director and the Company cease, for whatsoever reason, and the amendments to be made if there are changes to social security or tax legislation or other laws and regulations which relate to carrying out the stock option plan.

The following resolution is therefore presented to shareholders for their approval:

“Share capital is increased by cash payment, in a divisible form, by the issue of a maximum of 1,800,000 (one million eight hundred thousand) shares each of par value Euro 0.07. In accordance with article 2441, fifth paragraph, of the civil code, the increase is reserved to the Chief Executive Officer Mr. Francesco Trapani, to whom the Board of Directors, which may delegate such duties to the Chairman if necessary, may grant the respective subscription rights in one or more tranches by and not beyond 31 December 2007.

The increase in share capital may be subscribed on the basis of the rights granted by and not beyond 31 December 2014; if the increase is not fully subscribed by that date, it will remain at such lower amount which is the result of the subscriptions actually made.

The issue price of the shares will be determined by the Company’s Board of Directors, which may delegate such responsibility to the Chairman, on granting the subscription rights, at a price per share consisting of the par value plus the share premium, equal to the average of the official price of the Bulgari share on the Telematic Share Exchange, organised and administered by Borsa Italiana S.p.A., during the month preceding that in which they are granted (by “previous month” is intended the period from the date on which the options are granted to the same day of the preceding month; in determining the average price, only those days will be counted on which the Stock Exchange is open for trading and on which the Bulgari share was traded in a genuine transaction). The issue price cannot in any case be lower than that determined under the provisions of the sixth paragraph of article 2441 of the civil code, and namely on the basis of the net equity of the Company as stated in the most recent financial statements approved by shareholders prior to the date of granting the options, taking also into consideration the variations in the quoted price of the share in the previous six months.

The shares issued in this manner will have the same rights as the ordinary shares already in circulation and will have dividend rights commencing on the first day of the calendar year in which they are subscribed.

The Board of Directors, which may delegate such to the Chairman, is hereby assigned each and every power necessary to put into effect the present resolution including, without limit, the possibility of determining the date on which the options are to be granted, within the time period established above, of determining the number of subscription rights to be granted, which may be in one or more tranches, the possible period after the grant date beyond which the options may be exercised, the treatment of options not yet exercised or not yet exercisable should the relationship between the Managing Director and the Company cease, for whatsoever reason, and the amendments to be made if there are changes to social security or tax legislation or other laws and regulations which relate to carrying the stock option plan.

Rome, 7 March 2005

For the Board of Directors

The Chairman

Paolo Bulgari