

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

Ordinary Shareholders' Meeting of 28 April 2005

Fourth item on the agenda

Shareholders,

In its meeting of 22 March 2005, the Board of Directors of Bulgari S.p.A. resolved to update the report put at your disposal on the approval of the financial statements and consolidated financial statements at 31 December 2003, and provide you with a revised report to compare the corporate governance rules of Bulgari S.p.A. and the provisions of the Code of Self Regulation for Listed Companies (the "Code").

The corporate governance system of Bulgari S.p.A. has been designed to control and manage business risks in an effective manner and to enable communications to be made to the market in a transparent way, in compliance with the requirements of law and the 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 the principles of the Code of Ethics adopted by the Company in the meeting of the Board of Directors of 10 March 2004.

Summary tables provided at the foot of the present report give details of the following:

- The composition and structure of the Board of Directors and its committees.
- The Board of Statutory 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 to enable them to manage shops in Italy and the rest of the world which sell under the sole trademark Bvlgari. In addition to its holdings in the sales companies, Bulgari S.p.A. holds the entire share capital of companies which manufacture and distribute watches, jewellery, perfumes and accessories bearing the Bvlgari trademark. In order to obtain an overall view of this situation, the Group's structure at 31 December 2004 is provided as an attachment.

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

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

At the date of preparation of the present report, shareholders owning more than 2% of share capital were as follows, based on the communications received:

✓ UNIONE FIDUCIARIA SPA	51.99% of which:
○ Paolo Bulgari	23.78%
○ Nicola Bulgari	23.79%
○ Francesco Trapani	4.45%
✓ FIDELITY INVESTMENTS	4.86%

- ✓ HARRIS ASSOCIATES LP 4.90%
- ✓ CAISSE DES DEPOTS et CONSIGNATIONS 2.23%
- ✓ SCUDDER KEMPER INVESTMENTS INC. 2.71%

The Board of Directors, its role and composition; remuneration of the directors

The Board of Directors has a central role in the definition of the Group's strategies; it assigns and revokes the powers of the managing director 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 in general meeting. The Board meets generally at least quarterly, even though this is not specified in the Company's bylaws, and in any case meets whenever an operation must be approved which is of strategic importance for the Company or for the Bulgari Group, or which exceeds by its nature or by its amount, the limits delegated to the Managing Director or the Chairman of the Board. Board meetings are scheduled on the basis of a timetable approved at the beginning of the year and organized in order to achieve the maximum attendance at the meetings.

The Board of Directors met seven times during 2004; it is expected that it will meet at least six times during the year in course.

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

Proposals for appointment as director must be deposited at the Company's headquarters and at its registered office at least ten days prior to the date on which the shareholders have been called to discuss and decide on such appointment. These proposals must include all the information required in respect of the candidate's personal and professional attributes including a description as to why it is believed that the candidate is independent, and must be filed both on the renewal of a director's term of office on expiry or when a director is to be replaced. This procedure is not formalized in the Company's bylaws, but is rather a consolidated Company practice.

On 29 April 2004, the shareholders in general meeting renewed the term of office of the following directors for a further three years, whose new term accordingly expires on the approval of the financial statements at 31 December 2006:

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

Of these, the Chairman and Managing Director are executive directors and the remaining five are non-executive directors.

The non-executive directors are in a position to be able to provide a substantial contribution to board decisions, both in terms of their number and in terms of their professional qualifications and authority. On the basis of the information received from each director, it is possible to state that the majority of non-executive directors are independent, inasmuch as they hold the requisites provided for by the Code in this respect; this statement is also valid for 2004.

The directors hold positions in other listed companies, including those listed on regulated foreign markets, in financial companies, in banks and in insurance companies as follows:

- ✓ the Chief Executive Officer Mr. Francesco Trapani, is a non-executive director of Banca Nazionale del Lavoro S.p.A. since 2002;
- director Avv. Francesco Ago is a member of the board of Acotel Group S.p.A., which is listed on the New Market in Italy.

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

The Chairman and the Chief Executive Officer report to the Board on a periodic basis on those operations which may have a significant effect on results or the Company's financial position. The Chairman and Managing Director may, singly, call meetings of the Board and coordinate the activities of these meetings. The Chief Executive Officer, as necessary with the assistance of other directors or external advisors, carries out his duties in order that the Board may be informed as to the principal changes in legislation or regulations which may affect the Company and its bodies, takes care of confidential information and is responsible for the publication or other communication of price sensitive information to third parties in accordance with CONSOB regulations. In this respect, each director has been made sensitive to keeping documents and other information acquired in the course of his duty under strict confidentiality.

The Chairman and the Chief Executive Officer have been granted with the widest possible powers of ordinary and extraordinary management in every sector in which the Company operates, as a free, single, sole signatory.

The Board of Directors maintains exclusive powers over the following matters, in addition to those exclusive powers granted by article 2381 of the civil code:

- for each single operation, where the commitment involved exceeds Euro 30 (thirty) million (or equivalent value in foreign currency): to purchase or sell equity investments; to establish in Italy or abroad of new companies or associations; to carry out capital operations regarding both new and existing companies;
- for each single operation, where the commitment involved exceeds Euro 30 (thirty) million (or equivalent value in foreign currency): to sign loan agreements; to issue guarantees;
- for each single operation, where the commitment involved exceeds Euro 2 (two) million (or equivalent value in foreign currency): to purchase goods or services;
- to purchase or sell land and buildings, except for operations with companies either directly or indirectly controlled;
- to sell or otherwise dispose of licences to use trademarks, trade names, intellectual property and other inventions belonging to the Company, unless such operations regard the temporary disposal of such assets.

In addition, the Board:

- ✓ elects from amongst its members a Chairman, a Deputy Chairman and a Secretary; it is possible for the Secretary not to be a shareholder or director;
- ✓ elects from amongst its members a Managing Director, to whom are delegated, singly and separately by other directors, in whole or in part, his duties, responsibilities and powers; the areas or sectors for which he is responsible; and his remuneration. All of these are governed by the limits stated in article 2381 of the civil code;
- ✓ determines the remuneration of the executive directors and of those without specific duties, in accordance with article 2389, paragraph 2, of the civil code;
- ✓ assigns and revokes those powers delegated to persons who are not members of the Board, such as corporate managers or other Company executives or managers, and defines the manner and the limits within which they carry out their duties;
- ✓ reports on behalf of the Chairman to the shareholders in general meeting.

Remuneration committee and committee for the appointment of directors

The remuneration committee was established at the Board meeting of 10 March 2004 in the persons of the directors Giuseppe Ansaldo (Chairman), Roberto Zanchi and Francesco Ago, all of whom are non-executive directors, and met on one occasion in 2004 to propose to the Board of Directors the general criteria by which

the remuneration of top management should be determined, on the basis of the guidelines indicated by the directors delegated for this purpose.

The remuneration of the Chief Executive Officer is linked to the Group's results, including a variable component which is proportional to the net earnings of the Group. In addition, as a result of the resolution taken by shareholders at their meeting of 29 April 2002, amended on 7 March 2003, the Board and the Chairman on the Board's behalf have granted the Managing Director with stock options on Bulgari shares in a series of tranches.

There are no specific procedures for the appointment of directors, such as for example voting by list or the requirement to deposit nomination proposals which include the candidate's *curriculum vitae*; nonetheless this procedure is followed voluntarily by shareholders as a general practice and the Company consents to this.

The Company does not have an appointment committee for nominations to the office of director, as the Board has never met with any difficulty on the shareholders' part to make such nominations.

Internal control system

The Board of Directors is responsible for the internal control system. The Board determines the guidelines of the internal control system and the management of business risks, checking their adequacy, and that they are functioning effectively, on a regular basis, and ensuring that the principal business risks have been identified and are being managed in a suitable manner. These checks are performed with the assistance of the internal control committee.

The internal control system has the following objectives: to verify that business processes are adequate in terms of effectiveness and efficiency and that they are cost-effective; to guarantee the reliability and correctness of financial information; to safeguard the Company's assets; and to ensure that the Company is in compliance with internal and external regulations.

The internal control system may be divided into two parts: (i) line controls, represented by the set of controls which each individual business function carries out on its own particular processes. The responsibility for such controls is that of operational management, who must ensure that there are valid and effective processes to manage risks; (ii) internal audit, assigned to the specific company "internal control" function. This function, equipped with adequate resources, does not respond hierarchically to the head of any operating area, but reports directly to the Chief Executive Officer and refers its findings to the internal control committee and to the Board of Statutory Auditors. The audit activity is extended to all business processes and essentially controls and monitors the first-line risks, contributing in this way to an improvement in the systems of risk management and control. The heads of the business processes have the responsibility for establishing the corrective action required to monitor risks and putting that action into effect.

Internal control committee

The internal control committee is made up of the directors Roberto Zanchi (Chairman), Francesco Ago and Giulio Figarolo di Gropello, all of whom are non-executive directors and independent with respect to the owners and management of the Company. The chairman of the Board of Statutory Auditors and other members of that Board attend the meetings of the committee, as do the Managing Director and, if invited by a member of the committee, managers and advisors of the Company.

The internal control committee has the following duties, which may be either of an advisory or propositional nature:

(i) to assist the Board of Directors in managing and coordinating the activities of the internal control function; (ii) to review the work programme prepared by the Managing Director and by the head of the internal control function and to receive the periodic reports issued by them; (iii) to review together with the head of administration and the Company's independent auditors the suitability of the accounting principles and policies adopted and their consistency for the preparation of the consolidated financial statements; (iv) to review the proposals made by the independent auditors for the respective engagement under consideration, together with the audit programme and the findings described by the auditors in their report and in their management letter; (v) to vigilate over the manner in which the Ethical Code is being put into place and over its effectiveness, with the assistance of the internal control function and, where necessary, external consultants; (vi) to coordinate, as necessary through the Managing Director, the activities of the internal control function established to identify the risks relating to Legislative Decree 231/2001 and to design a

model consisting of organising, administrative and control activities that is able to prevent those actions considered as offences by Legislative Decree 231/2001 being committed; (vii) to report to the Board on its activities and the adequacy of the internal control system at least on a six-monthly basis on the approval of the annual and of the half-yearly financial statements.

The duties of the internal control function, taking the Company's activities as a whole, are: (i) to be responsible for periodically updating those parts of the internal control system set in place to monitor compliance with laws and regulations, the safeguarding of the Company's assets and the reliability of financial information; (ii) to bring to a conclusion the activities currently in progress to identify risks, paying particular attention to those offences to which Legislative Decree 231/2001 relates, and to design a model consisting of organising, administrative and control activities that is able to prevent the occurrence of those offences; (iii) to vigilate over the manner in which the internal control system is being put into place and over its effectiveness; (iv) to note any breaches of the procedures, models or codes of conduct adopted; (v) to note any need to modify the system of internal control.

In 2004, the internal control committee reviewed the 2005 audit programme prepared by the head of the internal control function and noted the contents of the management letter issued by the independent auditors on the internal control system and on the accounting and administrative procedures currently used by Group companies. The committee similarly reviewed the progress being made in preparing the management, organisation and control model intended to prevent those offences to which Legislative Decree 231/2001 relates being committed.

Related party transactions

If the Company's directors have any interest in transactions performed with related parties (as defined by International Accounting Standard 24 and as referred to in CONSOB Communication no. 2064231), carried out and completed by the Company itself or through a company or companies under its control then, in accordance with the CONSOB recommendations, with the recent provisions introduced by the CONSOB Regulations for issuers and with CONSOB Communication no. 2064231 of 30 September 2002, they are required to inform the Board on a timely basis and in a complete manner as to the existence of such interest and the underlying circumstances, even though this may only be of a potential or indirect nature, and to leave the Board meeting when any decision is being taken in this regard.

The Board may engage third parties to provide *fairness opinions* or *legal opinions* in those situations in which the value or other characteristics of a transaction with a related party deem this to be necessary, in order to assist them in ensuring that the terms and conditions of these operations do not differ from those which would probably be agreed between unrelated parties.

Relations with institutional investors and other shareholders - information management

A dedicated business function has been set up within the Administration, Finance and Control Department with the aim of encouraging a continuing dialogue with shareholders at large and in particular with institutional investors.

A specific section of the web site www.bulgari.com is dedicated to financial and legal communications, and presentations distributed during meetings with the financial community may be found within this section, together with the text of press releases, a timetable of the more important Company events, documentation regarding the financial and consolidated financial statements of recent years, quarterly and half-yearly reports and all the explanatory reports issued by the directors to provide information on matters to be presented to the Company's shareholders for their discussion and approval in general meetings; in all these cases, an indication is provided of the latest update. The latest version of the Company's bylaws, the regulations governing shareholders' meetings, the composition of Company bodies, information on the Company's corporate governance and the Internal Dealing Code may also be found in this section.

A mailing list has been set up to enable documentation requests to be handled on specific matters of interest. The Company organised regular meetings in 2004 with the financial community.

The Company follows the "Guidelines for Providing Information to the Market", issued by Borsa Italiana S.p.A., when reporting information to the public.

Press releases regarding resolutions taken to approve the annual financial statements and the half-yearly and quarterly reports, together with those relating to decisions taken by the Board of Directors or to extraordinary operations requiring the Board's approval, are presented in advance to the Board for its screening and

approval; if this is not possible for operating reasons, then the screening and approval of the Managing Director is obtained in the Board's place.

Press 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. 06 68810593) and Investor Relations office (Renata Casaro - renata.casaro@bulgari.com, tel. 06 68810467).

The Board of Directors has recently adopted the Code of Behaviour, also known as the "Internal Dealing Code", in compliance with the regulations recently introduced by Borsa Italiana S.p.A.. This requires Relevant Persons, as defined in the Code, to transmit the requisite market communications to the Company by the third day open of trading following the last day of each calendar quarter for transactions whose individual amount or cumulative total exceeds Euro 50,000 for each person making such statement, or immediately and without delay for transactions whose individual amount or cumulative total for the days to date within the quarter exceeds Euro 250,000 for each person making such statement.

Regulations governing shareholders' meetings

The Company has a set of regulations which governs the procedures of order and the functional procedures of shareholders' meetings, which guarantee each shareholder the right to speak on the matters under discussion. The full text of the regulations is published on the Company's internet site.

Board of Statutory Auditors

The Company's bylaws establish the use of voting lists for the election of the Board of Statutory Auditors, in compliance with consolidated law TU 58/1998, which guarantees minority representation in the Board. The bylaws explicitly state that the names of proposed candidates should be deposited at the Company's registered office prior to the shareholders' meeting and should include the curriculum vitae of each candidate by way of consolidated practice. Details of the most important operations or asset transactions are provided to the Board of Statutory Auditors on a quarterly basis.

The Board of Statutory Auditors is currently made up of Prof. Paolo Resta as Chairman, Dr. Maurizio De Magistris and Dr. Stefania Libori as Standing Members and Dr. Berardino di Paolo and Dr. Alberto Sabatini as Substitutes. Their term of office expires on the approval of the financial statements as of 31 December 2004. As a consequence, a new Board will be appointed at the coming shareholders' meeting to be held on 28 April 2005, elected under the voting list procedure.

The Board of Statutory Auditors regularly attended the meetings of the internal control committee during 2004.

The following is a list of other positions held by the Standing Members of the Board of Statutory Auditors in other companies listed in Italy or on foreign regulated markets or in financial companies, banks or insurance companies:

- The Chairman Prof. Paolo Resta is a Standing Member of the Board of Statutory Auditors in Banca del Fucino in Rome
- The Standing Member Dr. Maurizio De Magistris is a Standing Member of the Boards of Statutory Auditors of the companies Alenia Marconi System S.p.A. and Alenia Spazio S.p.A. of the Finmeccanica Group.

Subsequent events regarding Corporate Governance 2004

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

Legislative Decree 231/2001 entitled "*Regulation of the administrative responsibility of corporate persons, companies and associations not necessarily of a corporate nature*" introduced into the body of Italian law a regime of the administrative responsibility of companies for offences defined therein and committed by Directors, Managers or Employees in the interest of or for the benefit of the company. In compliance with article 6 of the Decree, the Company has approved through a resolution of the Board of Directors of 22 March 2005 an organisational, administrative and control model as required by this Decree, based also on the specific guidelines developed for this issue by the trade associations and with the assistance of external advisors. This model has yet to be supplemented in certain areas. The Controlling Body is made up of three members selected on a collegiate basis and consists of two external members who are experts in legal matters (Prof. Avv. Bruno Assumma as Chairman and Avv. Cristiano Fava) and the head of internal control (Mrs. Lucilla Marchetti). This body has the power to initiate action and the power to control. It has the

responsibility to report to the Board of Directors any additions or amendments to the model which may be needed as a result of changes in legislation or from changes of an organisational nature within the Company; to watch over the manner in which the model is functioning and the extent to which it is being followed; and to promote the training of personnel. The objective of these activities is to ensure a continuous verification of the effectiveness and suitability of the model.

TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board of Directors							Internal control committee	Remuneration committee		
(2) Percentage attendance by directors at the meetings of the Board of Directors										
Position	Members	Executives	Non-executives	Independent	(1)	Number of other positions held		(1)		(1)
Chairman	Bulgari Paolo	X								
Deputy Chairman	Bulgari Nicola		X							
Managing Director	Trapani Francesco	X				1				
Director	Ago Francesco		X	X		1	X		X	
Director	Ansaldo Giuseppe		X						X	
Director	Figarolo di Gropello Giulio		X	X			X			
Director	Zanchi Roberto		X	X			X		X	
		Board of Directors		Internal control committee			Remuneration committee			
Number of meetings held during the year		7		3			1			

TABLE 2: BOARD OF STATUTORY AUDITORS

Position	Members	Percentage attendance of the Board at meetings of the Board of Directors	Number of other positions held**
Chairman	Resta Paolo	86%	1
Standing member	De Magistris Maurizio	100%	2
Standing member	Libori Stefania	100%	
Substitute	Di Paolo Berardino	-	
Substitute	Sabatini Paolo	-	
Number of meetings held during the year: 7			
Indicate the threshold required for minorities to present voting lists for the election of one or more standing members (article 148 TUF): 3% of capital holding voting rights in an ordinary general meeting			

TABLE 3: OTHER INFORMATION REQUIRED BY THE CODE OF SELF REGULATION

	YES	NO	Summary of reasons for any deviation from the recommendations of the Code
Delegation system and related party transactions			
Has the Board of Directors delegated on the basis of the following:			
a) limits	X		
b) means of accomplishment	X		
c) reporting frequency?	X		
Has the Board reserved for itself the examination and approval of operations and transactions having a particular economic or financial importance (including related party transactions)?	X		
Has the Board defined guidelines and criteria for the identification of “significant operations”?		X	
Are these guidelines and criteria described in the report?		X	
Has the Board established appropriate procedures to examine and approve related party transactions?		X	
Are the procedures for the approval of related party transactions described in the report?		X	
Procedures for the most recent appointment as director or statutory auditor			
Were the proposal details of the candidate for director deposited at least ten days in advance?	X		
Did the proposal for candidature as director include complete information?	X		
Did the proposal for candidature as director include a description by the candidate of his suitability to be considered independent?	X		
Were the proposal details of the candidate for statutory auditor deposited at least ten days in advance?	X		
Did the proposal for candidature as statutory auditor include complete information?	X		
Shareholders’ meetings			
Has the company approved regulations governing shareholders’ meetings?	X		
Are the regulations attached to the report (or is there a description as to where these may be obtained or from where they may be downloaded)?	X		
Internal control			
Has the company appointed an internal control officer or officers?	X		
Is the officer/are the officers independent hierarchically from the heads of operating areas?	X		

Business unit head of internal control (article 9.3 of the Code)	Lucilla Marchetti Lungotevere Marzio, 11 Tel. 06 68810418 – fax 06 68810614 Lucilla.Marchetti@bulgari.com		
Investor relations			
Has the company appointed a head of investor relations?	X		
Business unit and contact details of the head of investor relations (address/telephone/fax/e-mail)	Renata Casaro Lungotevere Marzio, 11 Tel. 06 68810467 – fax 06 68810614 Renata.casaro@bulgari.com		

Rome, 22 March 2005

For the Board of Directors

The Chairman

Paolo Bulgari