# MONACO

FINANCIAL TIMES SPECIAL REPORT | Wednesday September 29 2010

#### Royalty

Page 5

Prince Albert is moulding the state according to his beliefs





Building up the waterfront: 'Every 10 years, Monaco needs another three to five hectares. By 2020 we will have used up practically all our land,' says Franck Biancheri, Monaco's economic development minister

# Statelet seeks to stimulate growth

**Peggy Hollinger** explains how the principality is now seeking to attract entrepreneurs rather than tax exiles

hen Prince Albert II announced his engagement to South African former swimmer Charlene Wittstock, the small principality of Monaco let out a collective sigh of relief.

Residents could hope for a continuation of the fairy tale that began in economic crisis takes its toll on a 1956, when Albert's father, Rainier III state of just 33,000 people, some 24,000 wed Grace Kelly, the American actress. After years of hesitation, the couple's 52 year old playboy son is finally ready to settle down.

the hills of France and the Mediterra- Monaco is in deficit.

ble overseas development aid to €30m by 2015

The principality, which had for so long fiercely defended the secrecy of its banking system, has signed 24 tax agreements that have helped to get it off the OECD's blacklist. An International Monetary Fund report in 2008 praised "important steps" taken by Monaco to reinforce the supervision of its financial sector, though it warned there was still more to be done.

Yet, the gradual demise of its tax haven status has presented Monaco with new domestic challenges. These are made even harder as the global of whom are foreign residents.

Between 2008 and 2009, the principality's turnover tumbled from €16.5bn to €13.2bn. Government The implications for the tiny coun- receipts have fallen from €897m to try of just 2 sq kms, squeezed between €744m and, for the first time in years,

slope that threatens the very factors that have made Monaco a success in the past: the cultural life that brings some of the world's most famous artists to its venues, high healthcare standards, and the security so important to Monaco's wealthy residents.

With one police officer for every 62 inhabitants Monaco claims to be one of the safest places in the world, and that counts, says one billionaire who has chosen to take up residence in the principality. "I can walk anywhere," he says.

"If we don't reduce the deficit, the risk is decline," Mr Roger says. "We will no longer have the money to pay for the social system, we will have to cut back on our cultural spending. What I absolutely want to do is to avoid a descending spiral.'

The government was this week preparing to unveil measures to reinvigorate growth and to provide the foundation for a new-look principality, based on a road map set out by Prince Albert this year.

ronmental awareness and plans to tre- Mr Roger, it represents a slippery not mean that Monaco is throwing our estimates and by 2020 we will will decide - as Monaco has no other open its doors to every start-up.

'It will not be Bill Gates when he was starting up in his garage who will be encouraged to come," says Pierre André Chiappori, economics professor at Columbia University in the US, whose views on Monaco's future have contributed to the government plan. "It is the creators, the innovators such as Kenzo [the fashion designer] who they should look for."

Yet the big challenge will be to provide the services this new population will need, housing and schooling for example. Already the statelet is running up against the limits imposed by its size. "Every 10 years, Monaco needs another three to five hectares," says Mr Biancheri. "We have made

have used up practically all our land." Monaco has two options to find the space it needs: either it builds up – as is being done with the landmark Odeon Tower project. Or it reclaims land from the sea, as Prince Albert's father did with an extension that increased the size of Monaco by 23 per cent in the 1960s.

Prince Albert had his own project to extend Monaco by 20 hectares. But the €10bn extension was suspended in 2008, because of both the economic crisis and Prince Albert's concerns over the environmental consequences. Close advisers say he will take a decision in 2013 on a smaller less expensive extension project. Many believe they already know what he

option if it wants to preserve its cachet. Already the world's most densely populated state, new tower blocks would just increase the "feeling of suffocation" says one official.

But, this being Monaco, no one is willing publicly to second-guess the prince, whose power is undeniable, despite the democratic trappings of an elected National Council.

Monaco's ruler will take his time, say his advisers and he will not be rushed. Environmental concerns are important, yet much will also depend on whether the deficit is dealt with.

Yet, just like its prince, Monaco seems ready to settle down and start a new life. All it needs to show now is a little commitment.

nean Sea, could be significant.

"We are hoping the marriage will restore a bit of glamour to Monaco," says Jean-Yves Lorenzi, the Monégasque proprietor of the Roc estate agents just a few steps from the Prince's Palace. "And we hope it might give the economy a boost.

Like many countries struggling to find a way out of the current economic gloom, Monaco is in the doldrums and desperately needs the boost of confidence that a royal wedding can bring.

"Clearly, it will contribute to tourism and strengthen interest in Monaco," says Michel Roger, the French civil servant appointed by Prince Albert in March to lead his government as minister of state, in effect the prime minister.

Yet years before the global economic crisis cast its shadow over the world's second smallest state, the glamour had already begun to fade. Decades of high-rise building had taken their toll on the once elegant seaside resort and Monaco was suspected by its neighbours of harbouring tax evaders, drawn by the absence of income tax and the highly confidential nature of its banking system.

Monaco's transformation from playground for the rich and famous to a shady haven for tax evaders and wealth of dubious origins was sealed in 2004, when the OECD branded the principality uncooperative in the fight against fraud and money laundering.

In the five years since Prince Albert II came to the throne, he has worked hard to change that image.

In his accession speech, the prince promised his subjects their country would become a model of ethics and global citizenship. He has pledged to cut emissions in the principality by 80 per cent by 2050, campaigned for envi-

The principality, which derives some 50 per cent of its revenues from value added tax (VAT), 13 per cent from property transactions and 3 per cent from financial services, has seen business in all three areas tumble, as the downturn hit even Monaco's wealthy residents. Last year the state suffered a €61m shortfall in its budget, and this will rise to €80m in 2010, with a deficit on the cards again next year.

For some countries, an €80m shortfall would be insignificant, and for many Monaco residents it would hardly count as pocket money. But for



#### Inside this issue

Tax A lack of agreement with its neighbours leaves the state vulnerable to criticism even though it is no longer on the OECD blacklist of uncooperative tax havens, writes Vanessa Houlder Page 2

Sporting events They might bring in the crowds and give the state an international profile, writes Roger Blitz but sporting events such as the Grand Prix are a drain on resources Page 4

Lifestyle Former resident Paul Betts bemoans the constant construction and cramped living space but says life in Monaco still has much to recommend it Page 5

The hope is that Monaco will be able to attract a new type of resident, one that plans to do more than retire on the proceeds of past success. "We believe that younger families are coming to set up in Monaco," says Franck Biancheri, Monaco's economic development minister. "These are people who want to come to exercise a profession.

The initiative is the principality's latest attempt to be taken seriously as a state, and to be seen as more than just a casino with a town and castle attached. "We are not a tax paradise,' says Mr Roger. "We are a real country with a real state of law."

Nonetheless, even Mr Roger admits that Monaco will not abandon the easy tax regime that has drawn many of the world's richest to apply for residency. "Our model is not condemned to death, even if it has to evolve," he says. It remains one of the chief attractions of Monaco, even with the global drive towards transparency. "The world is open and we are in competition," he says.

The government's plan is to encourage a younger population - but only those who promise to create wealth through innovation or services. "We want to favour entrepreneurs," says Mr Roger. "We want people who don't come here to escape the taxman, but who want to set up businesses. To do that, we will have to improve the way we welcome new residents. We will have to simplify the procedures for creating companies and we will have to modernise the legal framework for businesses.'

The principality has always been choosy over who it allows to claim residency and new simplified measures for certain types of resident do



#### **Economy**

Keynesian policies have led to a deficit, writes **Scheherazade** Daneshkhu

haven and a magnet for millionaires, it may come as a surprise that Monaco's government has taken its inspiration from economic than a cost. policies propounded by

John Maynard Keynes, the includes a redevelopment of spending one's way out of recession.

According to preliminary figures, tax receipts fell 17 per cent in 2009, leaving a budget deficit of €61m some wealthier residents.

finance minister, says that For a country labelled a tax 30 per cent of last year's budget was spent on *grands travaux* – large infrastruc- the budget to be in deficit ture projects which she considers an investment rather

economist who advocated the port, works on the old rail station, a new Yacht Club, tunnels to ease congestion, a new secondary school and state housing.

The public works in part compensate for an indusalbeit small change for trial sector that has suffered in the recession, lead-Sophie Thevenoux, the ing to job losses – although the country does not publish unemployment figures. Ms Thevenoux expects again this year because the economic recovery is hesitant and "we have The schedule of activities not wanted to slow down



#### Monaco train station

on our public works" There are no income or inheritance taxes and business taxes are low. Most government receipts from the services-oriented economy derive from value added tax, set at the French rate of 19.6 per cent, and from stamp duty on property sales.

These taxes account for

Continued on Page 2

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## Monaco

# **Exclusive address** is still in demand

#### **Property**

#### An apartment in Monte Carlo retains its attractions, writes **Daniel Thomas**

he world's most expensive sale of a private residence in September reinforced Monaco's position as the top market for luxurv homes.

Beating recent record deals in London and Hong Kong, the sale for €240m of a vast apartment occupied by British property entrepreneurs Nick and Christian Candy – and owned by Christian – showed the allure of the stamping ground for the world's playboys in the Mediterranean remains untarnished.

Monaco, and specifically Monte Carlo, the harbour area, remain unique among the world's property markets, with the vast casino at its heart surrounded by blocks of flats, grand hotels and topped by the palace on the skyline.

La Belle Époque, the Candys' former residence, is in a sense typical of the sort of high-end properties that trade in Monaco, with a history of the halcyon days of swinging Monte Carlo but more recently better known as the last home of Edmond Safra, the financier.

Size is rarely as important as location along the harbour, with

most of the better blocks having occupied by two banks. And full access to concierge services, swimming pools and the allimportant parking spaces for the fleets of luxury cars. Owners of the more luxurious properties will probably have boats moored

within walking distance. The prices partly reflect the tight supply of properties, with residence in the area seen almost as membership to an exclusive club among the world's wealthy.

Nick Candy, chief executive of Candy & Candy and a Monaco resident, says the property market has never been stronger. He declined to comment on the sale of his brother's flat, but did add: "It's hard not to love Monaco. It has everything from good restaurants, shops, beautiful scenery and an abundance of style and character. Not to mention that its geographical position makes it the ideal base from which to conduct business across Europe.

'You can be sure that most business men and women will be passing through. There is a shortage of supply of good quality properties coming on to the market. Vendors can charge a premium and purchasers are

willing to pay a premium." Although the penthouse has just three bedrooms over two floor, the buyer's €240m secured 17,500 sq ft of prime Monte Carlo space with unsurpassed views. Just as crucial, says another source, the flat is secure – the

security is important to the sort of reclusive wealthy buyer that is active in the principality. There have been rumours cir-

culating as to the identity of the buyer, with many believing it to be a member of one of the ruling families in the Middle East. If so, the buyer would not be typical of the main buyers for properties in Monaco at the moment.

Agents report that the strongest demand originates from Europe, including the UK, as well as the billionaires of Russia and former Soviet states such as Kazakhstan at the top end. However, there is demand from all parts of the world because of Monaco's tax haven status.

It became the most expensive residential property market in 2009, according to the Citi Private Bank and Knight Frank's Wealth Report, overtaking London with an average price for homes of more than £1m or about €50,000 per sq m.

Prices for properties did drop during the global slowdown in house prices, however, and the level of transactions fell even more sharply, as more turned to renting.

Some properties on Avenue Princesse Grace, a key marinafront address, saw prices fall by more than a quarter. This saw the road overtaken

restrictions on both where and what to build, following worries in the global property agent's league tables by other addresses over the architectural merits of for prime property such as Sevthe previous generations of high ern Road in Hong Kong and rise apartments

Kensington Palace Gardens in Land reclamation remains an London.

properties, with studio and one-

bedroom apartments trading

The shortage of supply has

been exacerbated by a lack of

new development, with tight

between  $\in 1m$  and  $\in 3m$ .

option, although it has proved However, the Candy sale is difficult. An extension was just the froth on the recovering planned in front of the Fairmont market. Demand has emerged as but was cancelled because of particularly strong for the cost and environmental consmaller - and more affordable cerns.

The Tour Odeon is one of the few new developments, with most building work focused on refurbishing or updating existing buildings. However, this huge double skyscraper on the eastern side of Monaco will not be finished for several years. Most other developments are for rental units, such as Tour Simona, although Meijer Berg-

man, the property company, is building a block of flats at 23 Boulevard de Belgique.

Markus Meijer, chief executive of Meijer Bergman, says this will be the only new supply when it is finished in 2011 until the Tour Odeon is completed. Sales of units will start in the next few months, with most between 250 and 500 sq m.

Mr Meijer says the sales market is mainly "secondary stock of an older generation and lowquality", but that can still command €20,000 a sq m without a sea view against €75,000 for the best units: "Demand has been

slow during the crisis and vendors have not dropped prices, so there has not been much movement. A pick-up is expected in 2011 following increased demand and a lack of supply.'

While the Candy sale is unlikely to be replicated, the constrained supply and strong demand from the European wealthy and Middle Eastern and Asian states is likely to continue to underpin a buoyant market. The sunny principality with its tax advantages and stunning views remains firmly on the tick box of accessories for the world's rich.

## Move to more transparency brings new set of problems

bottom levels of the building are

#### Tax

A lack of agreement with neighbours leaves the state vulnerable to criticism, writes Vanessa Houlder

author of the "uncooperative ured by its deal with the US. tax haven" tag, is about to pubinformation exchange.

The report, by an interna- - is likely to raise eyebrows. tional team chaired by France,

under scrutiny. The OECD, the its good intentions can be meas-

Now that it has signed about lish a peer review of Monaco's two dozen tax information legal and regulatory frame- exchange agreements, it reckons works, in the first tranche of it has done enough. But the reviews into transparency and omission of Italy - a country

with important links to Monaco

The decision to spurn a poten



Angel Gurría, OECD

fidential information by bank employees in Switzerland and Liechtenstein has undermined

Another impetus for more

transparency is Prince Albert's

desire to shed the image as a

secretive tax haven. At his

accession in 2005, he promised

to put morality and probity at

Monaco has long argued that

the tax haven tag is unfair.

Even though it charges no

income tax – except for French

citizens who took up residence

after 1957 - the territory is not

tax-free. It charges 19.6 per cent

value added tax, stamp duty and

other taxes. Companies face a 33

per cent tax on profits - unless

over is generated within the

Monaco wants to promote

go to live, drawn by its benign

atmosphere. But while the leni-

principality.

the heart of Monaco's policies.

confidence in offshore banks.

## Taxman peers into expat life

#### **Expatriates**

Vanessa Houlder says new rules mean residents are looking over their shoulders

When Sir Philip Green, a retail magnate, became an adviser to the British government in August, it sparked a political

resident in France, particularly if their spouse lives there or their children go to school there

After the renegotiation of the Anglo-French tax treaty, Britons living in Monaco with second homes in France need to worry about this issue for the first time. French property taxes, which are calculated as a multiple of the property's rental value, can be

substantial. Expat Britons, like

its guidance on residency rules. In April 2008 it was made clear that individuals had to make a clean break when they left Britain and it was not enough to rely on "day-counting" to stay outside the UK tax net.

That has already changed peoples' attitudes according to Stella Mitchell-Voisin, a director of Close Summit Trust Company who lives in Monaco: "The residency rules are the hot issue for a lot of UK people. They can't be as free

La Belle Epoque: the Candy brothers spent more than £26m refurbishing the €240m appartment

Monaco has long been branded an "uncooperative tax haven" by its bigger neighbours. But the unflattering title was formally withdrawn 18 months ago after it bowed to pressure by declaring it was "ready to increase its co-operation in the fight against tax fraud".

Monaco, like other paradis fis*caux*, was under attack from France, Germany and other big countries. Responding to ballooning budget deficits, financial crises and a string of highprofile evasion scandals, G20 leaders declared "the era of banking secrecy is over"

Welcoming Monaco's announcement, Angel Gurría, secretary-general of the Parisbased Organisation for Economic Co-operation and Development, said meeting international standards was no longer optional. "Governments require it. customers require it, and competitors require it.

Monaco says it has done what it was asked to do. But its attitude to tax evasion is again

will be scrutinised during an OECD meeting in Singapore. Similar reports will be produced for Bermuda, Botswana, the Cayman Islands, India, Jamaica, Panama and Qatar.

The review could be an uncomfortable experience for Monaco, if it questions the thoroughness with which it complied with OECD norms.

It managed to vault on to the OECD's "whitelist" of jurisdictions that have substantially implemented the international tax standard by quickly signing a dozen "tax information exchange agreements". These were with small countries such as the Faroes, Liechtenstein and Andorra, as well as Sweden, Australia and the US.

Monaco was acutely aware that it would face criticism for signing deals with other small states that were accused of being tax havens. But its choice of partners was determined by its desire to move quickly to reach a dozen deals, the benchmark used by the OECD for the whitelist. Monaco also argues

tial deal with Italy partly stemmed from a concern that Italy would not remove Monagesque companies from its blacklist. It was also eager not to begin negotiations while the Italian government was offering its citizens an amnesty for undeclared money. It feared it would create an uneven playing field by striking a deal, while its rivals Switzerland and Luxembourg held out.

Ensuring a level playing field with Switzerland and Luxembourg will also influence its willingness to make concessions to the European Union over efforts to make the savings directive a more effective tool in fighting tax evasion.

Monaco's long-standing reluctance to move faster than its rivals in abandoning banking secrecy reflects the value placed on privacy by many of the seriously wealthy. This may not primarily be because they want to dodge tax so much as a fear that information could fall into unfriendly hands.

But the spate of leaks of conimpossible to shift.

storm. Monaco, the home of his wife, was at the centre of a stream of criticism about the couple's tax status. "My wife's not a tax exile." he said in their defence.

The incident highlighted the incipient tensions in Monaco's relationships with its neighbours.

Higher-tax countries that have seen some of their richest citizens decamp to Monaco are anxious; as a result, Monaco residents must be vigilant to ensure they do not fall foul of tax rules.

Take, for example, the issue they can demonstrate that of second homes. Many people three-quarters of company turnput up with cramped accommodation in Monaco for its tax benefits but keen a larger second home in France itself as a country where people where they spend weekends.

Cecile Acolas, from advisory climate, tight security, good firm Moore Stephens, says tax transport and cosmopolitan issues surrounding second homes in France are important ent tax regime is at the heart of for Monaco residents. Those its offering, its image as a tax lacking the protection of a tax haven is likely to be well nigh treaty need to be vigilant to ensure they do not become tax-

Land of the wealthy faced with difficult financial choices

other EU citizens, are pinning their hopes on an antidiscrimination clause in the Treaty of Rome. Its efficacy is being tested in a series of court cases, which could reach the Supreme Court next year. Another court case being closely followed by the British contingent in Monaco concerns Robert Gaines-Cooper a Seychelles-based entrepreneur who fled high taxes in Britain in 1976. He was recently granted leave to appeal to the Supreme Court after a landmark defeat at the Court of Appeal, which judged that his social and domestic ties to the UK meant that he had never shed his status as a UK

resident. One Monaco lawyer says that even though well-advised Britons in Monaco have nothing to fear from the case, they are following it closely: "For most people, nothing new has come out of the case. But people are asking: am I sure I am doing the right things? Even before the Appeal Court

and their families. They can

ruling, Britain had tightened

and easy with popping in and out of the UK as they used to be.

The Italian community in Monaco has also been affected by domestic tax developments. Italians rushed to take advantage of the generous terms of last year's tax amnesty - known as the scudo *fiscale*. or fiscal shield.

Overall, the amnesty was more successful than many expected, generating €95bn (\$129bn) of newly declared assets. But Monaco only saw about €3.5bn out of the €75bn on deposit repatriated to Italy.

Karl von Bezing, a director of Scorpio Partnership, a consultancy, says Monaco, a relatively small force in offshore banking, has had less of an impact from the Italian amnesty than centres such as Lugano in Switzerland.

'We have seen an exodus of Italian people as a result of the amnesty," says Ms Mitchell-Voisin. "But Monaco is still attracting a lot of people. It is still booming.'

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#### Continued from Page 1

75 per cent of receipts, of which the bulk is VAT. Few properties changed hands last year, hitting the government's tax take. Only 231 apartments were sold, of which two were

new-builds. This represents a sharp fall from the 417 properties that changed hands in 2008.

In general, someone who owns a property in Monaco does not need to sell: "We

#### erty market in Monaco," says Ms Thevenoux.

"Last year, people did not want to sell because offers

were too low. The recent sale of an unusually large apartment for €240m by Christian Candy, the British property developer, may signal a revival of the market.

on three sides by France and barely 7km from Italy, Monaco cannot be insulated from the economic forces sweeping its neighbours, for all its haven status.

cent.

lished 2009 national income figures, though initial estimates indicate a fall in gross domestic product last year compared with 2008.

the previous year. Per capita GDP rose 2 per cent to €60,595, one of the highest in Europe.

between 74,144 people, made up of 35,352 residents including just under 8,000 native Monégasques – and

daily commuters. Monaco began measuring

turnover – €13.2bn in 2009, €2.1bn.

a 20 per cent drop from 2008.Trading - wholesale and retail - and hotels generate 46 per cent of annual business.

Last year, these sectors fell 12 per cent compared with 2008, reflecting falling demand.



The Société des Bains de Mer, the state-controlled group that runs the principality's casinos and several of the leading hotels is a traditional bellwether of the impact of tourism on the city-state.

Revenues fell 6.5 per cent in the year to March 31, hit by a fall in visitors and fewer gamblers. The average occupancy rate at its four plush hotels was 50 per cent, down from

have a very special prop- 38,792 French and Italian 57 per cent in 2008-09. However, the biggest fall in Monaco's business turn-

have a certain way of life over was in banking and here, security, an internafinancial services which tional education for their come as residents people tumbled by 50 per cent to children and at the same who defraud their tax

This industry mainly manages wealth and the fall in revenues in part reflects low interest rates.

Ms Theyenoux denies that Monaco has suffered any negative fallout from having been declared an "uncooperative" tax haven by the Organisation of Economic Co-operation and

Development between 2002 and 2009. The state was finally removed from the blacklist

of tax havens last year, after agreeing to increase international co-operation in fighting tax fraud.

Ms Thevenoux points out that the tax information agreements signed with other countries do not target Monaco residents, but those who deposit money in Monaco but are tax-resident elsewhere.

To that extent, the tax cooperation agreements have not put off prospective residents, she says, nor have there been noticeable bank account closures

time, they bring their busi- authorities," she adds. MONACO **PROPERTY SEARCH SPECIALISTS** 20 years experience Making sense of a highly specialised market Saving time and complication Clarifying structure options Controlling transaction costs Residential and commercial, rent or buy Independent and impartial Full Information on Monaco residency Comprehensive advice and responsive service from a dedicated team KNOWLEDGEABLE-THOROUGH-PRACTICAL For more information please email or call CAPITAL AMPTONS REAL ESTATE

"We favour entrepreneurs ness and run their company

from here,"

Thevenoux.

says

"Monaco does not wel-

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Surrounded

The French economy con-

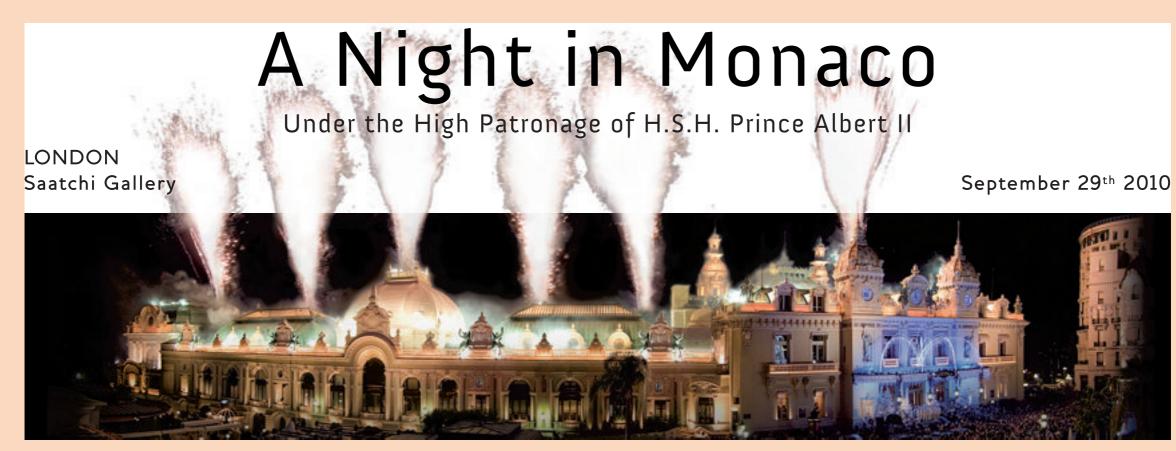
tracted by 2.5 per cent last year and Italy's by 5 per

Monaco has not yet pub-

In 2008 GDP was €4 49hn - virtually unchanged from

Revenues are divided

output based on GDP only in 2007, but still produces figures for total business



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#### Her Excellency Evelyne Genta Ambassador of the Principality of Monaco to the United Kingdom

Michel Bouquier President, Monaco Tourist Authority and his Monaco and London Office teams

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## Monaco

## Grand Prix and other events are a drain on resources

#### Sport

**Roger Blitz** says bringing top class sporting events to the principality is an expensive business

Marc Keller was coming to the end of his professional football career when in 1998 he was transferred to West Ham United in the rough, tough East End of London, a signing by Harry Redknapp, the English club manager.

"Harry is from the East End, he taught me you have to be committed to the club you're playing for," says Mr Keller. 'West Ham is a special club, a historic club'

On the hills of Monaco Football Club's training ground, as

far removed from the deprived surrounds of West Ham's Upton Park stadium as one could imagine, Mr Keller tries to instil the same spirit of commitment to the principality's young professional footballers.

Nowhere offers a backdrop for top-class sport quite like Monaco.

The football club's stadium is on the coast, Monte Carlo's Formula One Grand Prix is raced through the winding streets of the principality, and the Mediterranean twinkles while Federer and Nadal thrash tennis balls in the Monte Carlo Open.

"It is a top area to live. You have the security, the climate, you are in the centre of Europe," says Mr Keller. "It's difficult to leave. You have to explain to players that Monaco is built for the top. You have to have results.'

Mr Keller is general manager,

grappling to restore success to a ball's governing body is club, which in 2004 scaled the heights of Europe's top competition, the Uefa Champions League, reaching the final. But he must do so against

considering Monaco's wealth. With a small population to work with, Monaco attracts on

average just 10,000 fans to its 18,500 seat stadium at the Fontvieille seaside district of the principality, and so generates far lower revenue than topflight French clubs.

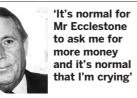
Moreover, there is no largesse from the ruling Grimaldi family to call upon.

Prince Albert may love football, but the club is run by a board headed by Étienne Franzi, director-general of Compagnie Monégasque de Banque, an Itala relatively lowly eighth in the ian-owned bank based in the principality.

In any case, European foot-

demanding that clubs live within their means, a line Monaco FC has pursued of its own accord for several years.

It means that the club must unusual financial restraints, regularly cash in on the revered crop of young players it nur-



tures out of its academy system. Winning France's La Liga something it has achieved seven times - and qualifying for the lucrative Champions League are distant dreams.

Last season, Monaco finished

league "We have to face reality," says

Mr Keller, "we have to sell some players.'

Money worries are also a running sore for Michel Boeri, the president of Auto Club de Monaco. He has been responsible for organising Monaco's showpiece sports event, the Monte Carlo Grand Prix, since 1972.

"The problem is the Grand Prix is a terrible waste of money," he says, as he sits in an ACM office cataloguing event costs.

"In Monte Carlo, with all the work you have to do to build the track and the grandstands, when you take the balance of receipts and costs, you have a very heavy loss in the millions of euros.'

Mr Boeri smiles ruefully when asked about the staging rights fees that Bernie Ecclestone, the Formula One supremo, demands.

"It's normal for Mr Ecclestone to ask me for more money and it's normal that I'm crying," he

He winces about the 30 per cent drop in advertising income, and the 15 per cent loss in grandstand receipts last year, but says that he feels things are starting to tick up again.

But this is not a man who likes to focus on money, preferring to talk about the profile the

event gives the principality. "It is a choice, he says. "You can't do a Grand Prix cheaply. You have a lot of problems you don't have in other sports, such as security. You always have to be thinking how to protect people. This has a cost.

As is the case for other Grand Prix host cities, Monaco's government compensates it for the

losses be a big blow, it is the best

known race event in the world," Mr Boeri savs

At the Monte Carlo Country Club, the ability to bring the world's top men's tennis players gives organisers no qualms about staging and retaining the Monte Carlo Open.

Rolex and Banque Nationale de Paris are long-term sponsors, while ticket sales and TV viewing figures are positive, says Eric Seigle, director.

With 2,000 members, it is among the top five tennis clubs in France.

The only question for its notfor-profit association is whether it can expand without upsetting the membership.

There is no professional women's tournament, nor a seniors event.

"We are careful to make sure our members are comfortable "To lose the Grand Prix would and have access to all facilities easily," says Mr Siegle.

# Principality seeks fresh sources of paying guests

hall and public access.

extra hotel.

good," she says.

#### Tourism

Conferences and emerging markets are target areas, writes **Roger Blitz** 

big society ne wedding in Monaco is definitely on next year's social calendar – but there may be another. The world knows about

Prince Albert's nuptials. In July, the ruler of the principality is marrying Charlene Wittstock, a South African swimmer.

Less well known is a cerepencilled in for mony March.

As he sips coffee on a glo-

rious September afternoon, Michel Bouquier, president of Monaco's tourism and convention authority, reveals a conversation he has had that morning with an influential Indian citizen.

"A friend of his is planning an Indian wedding in ask Prince Albert for one Monaco," says Mr Bouquier. "That will be the first of its kind." The guest list will number 1,000. "We're talking high, high, high end. We're talking the highest quality possible."

Mr Bouquier's problem how to accommodate them most of space – two-thirds – is a familiar one in of its 7,500 sq m is under-Monaco, which has 11 hotels providing 2,600 four and five-star rooms, and no land for more. The Indian wedding will fill up three Hotel revenues fell 11 per hotels on its own.

At the Grimaldi Forum, is better, up 28 per cent on kets. That means challeng-Monaco's convention-cumventions, says Mr Bouquier cultural centre, Sylvie Biancheri, its president, is though 80 per cent of not short of funds to invest. hotel activity comes from leisure visitors. The Grimaldi Forum has

The Monaco Yacht Show, €50m for redesigning the the Monte Carlo Interna-But she says: If she could tional Television Festival, and leading conventions on wish, it would be for an anti-ageing, insurance and luxury packaging are main-"If you want to target the stays, some of them reguvery big conventions, you lars for more than 50 years, need to be sure the availaeven if some have cut back bility of all the hotels is on their duration.

But Monaco is in competition with other destinations The forum makes the with Singapore, Dubai and Abu Dhabi in the luxury resort market, Barceground – but its convention capacity is limited to 3,000. lona, Berlin and several Monaco has taken its other European cities for share of recession pain. business tourism - and the recession has the principalcent last year, but this year ity looking for new mar-

business tourism and con- ing the perception that it is too expensive, something that puts off convention organisers in particular. 'That's the impression that we're fighting against,"

Mr Bouquier says. "They think they know Monaco, but actually they don't know Monaco.3 He reels off a story of how he persuaded one sceptical

conference organiser to make Monaco her first choice. Under the slogan "Enchante-moi Monaco", the tourism authority has since the downturn sought to woo leisure visitors with price-conscious packages spas, helicopter tours, cook-

ing demos, wine tasting, and the like. Attracting more priceconscious tourists is one of the targets Monaco hopes to have achieved by 2013. It also wants to set standards in eco-tourism, make more

sporting events and centres,



Historic waterfront: Monaco retains its allure for tourists

It is also small enough to quier. "We cannot focus what Monaco is all about. offer convention organisers only on one segment; that lic lamp posts. "We've got deluxe tourism for a few Monaco as the deluxe destiout of big cultural and

"Our job in China as well banner promotions on pub- could be for nostalgic-only as in India is to position



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One tourism strength is the geographical spread of visitors. For example, its hotels pull in twice as many Japanese and Australians as does the average four- or five-star hotel on the French Riviera. It has 11 offices abroad,

including in Sydney, Tokyo, Moscow, New Delhi and savs New York. A São Paulo office opens in January.

Moneghetti

Palace

#### MONACO

400 m

Monaco

Ireland

Finland

Austria

Belgium

France

Italy

Germany

0

50

Sources: UN; US Census Bureau; Foreign & Commonwealth Office

100

150

200



close contact, arranging a convention programme is easy, a factor becoming more important now that the lead time for conferences has come down so sharply. "It is more and more last minute," she

BEAUSOLEIL

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MEDITERRANEAN

SEA

Tourism in Monaco is a kets such as China and fine balance, says Mr Bou-India

Station

La Condamine

Monaco

O L'Escarène

Port

people," he says. says Mr That is why the Oceanographic Museum has staged an exhibition of the contemsavs porary British artist Damien Hirst, while the Nou-

has just opened.

to about 400,000.

veau Museum de Monaco

At the same time, tapping

involves extolling

ROQUEBRUNE

St - Roman Sporting

the emerging travel mar-

Tenao

Club

Larvotto

FRANCE

**Population density** 

MONACO

cated destination they can dream of," says Mr Bouquier. "So we're not talking

about packages and rates, we're talking about experience, high quality experience, about sophistication.

nation, the most sophisti-

Day visitors number up to 5m a year, but the big "We're talking about really the highest you could growth is in cruise passenger numbers, expected to find.' rise this year by 40 per cent If Monaco does get to host

that prospective Indian wedding those party. wedding guests should be in for the full deluxe treatment.

#### **Country information**

Area		1.95 sq km	
Languages French, (official) English, Italian, Monegasque			
Currency		Euro (€)	
Exchange rate:			
2009 average		1€ =\$1.39	
Latest 2010	1€ =\$1.31		
<b>Population:</b> 32,543 (2006)			
By age (%)	Male	Female	Both
Up to 29	27.1	24.7	25.8
30-59	41.3	39.7	40.5
Above 60	31.6	35.7	33.7

#### Constitution

#### Official name

The Principality of Monaco Major political parties Union for Monaco (L'Union pour Monaco (UPM)), Rally and Issues for Monaco (Rassemblement et Enjeux pour Monaco (REM))

#### Government

Monaco has been a Constitutional Monarchy since 1911. The executive branch of government is under the supreme authority of the Crown Prince and enforced by a Minister of State. The Minister of State (Prime Minister equivalent) presides over a Council of Government. The five Government Counsellors are each responsible for an area of government policy, respectively Finances and the Economy, the Interior, Public Works, Social Affairs and External Relations. The Minister of State and the Government Councillors are appointed by and accountable to the Prince

#### Head of State

His Serene Highness, Prince Albert II of Monaco Prime Minister equivalent

SEM Jean - Paul Proust Ministre d'Etat since June 2005 Foreign Minister equivalent

S.E. Mr Jean Pastorelli, Conseille de Gouvernement pour les Relations Extérieurs

CAP D'AIL Stadium Fontvieille Heliport 8 km Carros Vence O Cagnes -sur - Mer

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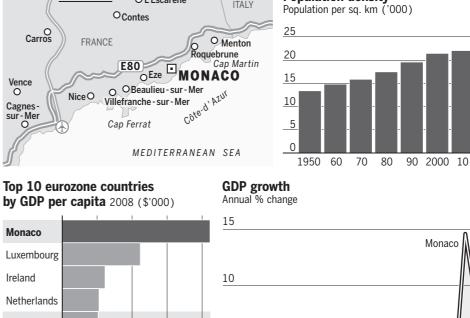
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## Monaco

## Balmy and safe but also noisy, expensive and cramped

#### Lifestyle

#### Former resident Paul Betts looks at the pros and cons of living in the Principality

It is easy to caricature the Principality of Monaco. Where else do you ring for a cab and a black Bentley with a taxi sign on the roof rolls up? Where else do you have such a concentration of wealth in a country no bigger than Hyde Park in London? Where else do you have a daily changing of the guard ceremony outside the sovereign prince's palace involving a tiny handful of soldiers?

Ruritania, perhaps? Indeed, if Monaco did not

exist, you would probably have to invent it. Yet for all its opu- minuscule country has greatly lent quirkiness, the principality

is also a series of contradictions. On the one hand there is the glamour and glitz of its millionaire residents – tax exiles for the most part – with their yachts crammed into the two harbours. There are also the grand hotels, the casino, the summer Sporting festival with its gala nights and fireworks that set Monaco's large population of well-

groomed dogs howling. And then, on the other hand, there is a perfectly normal and on the whole happy population of local Monégasques and some 30,000 people who commute every day to work in the banks, the shops, the hotels and cafés. I have always had a soft spot for the place. I first came to live in the principality with my parents in 1956 after we had to leave Egypt as a result of the Suez crisis. My aged mother still lives there. And although this

changed during the half century

I have known it, certain things have not

It used to be very pretty. But the building boom has transformed it into a mini Manhattan on the Mediterranean, destroying many of the old villas and replacing them with a jungle of ugly skyscrapers. A paradise for construction companies and property developers, the princi-

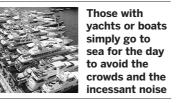
pality was expanded seawards via large landfill developments. The old railway and the station are now buried underground to make way for new roads and more building land. A huge new jetty built in

Spain and brought by sea has made it easy for giant cruise ships to dock in Monaco. The recent downturn and financial crisis does not seem to have stopped the permanent construction activity with all its noise and traffic congestion. This is the other big paradox

of Monaco. Why and how does

such an affluent population put in the principality can lunch at up with the perpetual noise of drilling and building, huge traffic jams at rush hours, not to mention the high cost of buying or renting a flat?

The answer is that they get used to it and that they probably think the advantages of liv-



ing there outweigh the disadvantages.

There is, of course, no income tax. But the high price of property is in a sense the equivalent of a tax, although you do not have to bother with filling boring tax returns. Then there is the Riviera weather. The bankers and businessmen who reside

the beach and return to their offices after a swim. Tax exiles can update their portfolios sitting on their balconies or yachts and tapping on their computers. Monaco has always had good leisure and sporting facilities.

The tennis country club is a haven. The golf club high above sits in a spectacular setting.

The beach club has sadly been expanded too much, but it seems people are still prepared to pay an extravagant entrance fee to be squeezed like sardines around the big swimming pool. In any case, those with yachts or boats simply go out at sea for

the day to avoid the crowds. The other advantage is that Monaco has all the facilities of a big country and in many cases far better - hospital and specialised medical centres, schools and so on. It is also a pretty safe place with extremely tight

police security.

Indeed, many residents feel it street markets that nonetheless is one of the rare places in the world where they feel safe enough to walk around with their jewels and Rolex watches. And then, many residents also tend, as they have always done, to use Monaco as a base.

They can escape from the noise and dust of the incessant building works in the hills behind – the so-called arrière pays - which in parts is still quite wild and beautiful.

Other residents also own villas along the coast they use as second residences to take refuge from the din of the principality. Even when you live in Monaco, you often hear in the morning, apart from the traffic, a cock crowing in the back yard of a small house in the neighbouring French town of Beausoleil.

There are still one or two corners that have retained a Provençal atmosphere, especially the

have to struggle against the competition of Carrefour and other supermarkets.

But for all its advantages, Monaco still needs to make a big effort to ensure a viable balance between its ongoing property development - this is, after all, one of its prime sources of income these days - and maintaining a good quality of life.

The Prince and his government need to tread carefully. In an age when tax havens are increasingly under siege. Monaco will have to show it continues to have more to offer than its friendly fiscal system.

And that does not only imply efficient services and leisure facilities, smart hotels and good restaurants, but a careful monitoring of its own environment.

There is an obvious limit to how much construction noise and disruption residents can take

# Modern monarch is sticking to principles

#### Profile

**Paul Betts** examines how Prince Albert is moulding the principality according to his interests and beliefs

was once asked to introduce Prince Albert of Monaco who had kindly agreed to be the guest speaker at a Parisian lunch organised by the Financial Times and Moët Hennessy. His entourage told me I could say practically anything, but - please, please - avoid the one issue that irritates the Prince more than anything else, his private and sentimental life and especially when and if he intended finally to get married

A year later, the subject is no longer taboo. Prince Albert this summer formally announced his engagement to be a glamorous way of the South African former swimmer Charlene Wittstock. The marriage will reviving international take place early next July and the attention on his tiny and principality is already gearing itself

his father's death, he made clear right He has taken part in two Paris-Dakar continue to rule in the tradition of his father and his ancestors.

At the same time, he has also stamped his own vision and personality with a very relaxed and plain speaking attitude for a sovereign head of state.

Prince Albert is a modern-day cosmopolitan monarch. He is part American and part Irish. He went to school in Monaco and then to Amherst College in Massachusetts where he graduated in political sciences.

He did a stint on Wall Street at Morgan Guarantee Trust to get a handle on international finance and then at Moët & Chandon, the champagne house, to learn how to manage a brand. For Monaco, his late father also believed, was a particularly

A fairy tale wedding will

from the start that he intended to desert rally races. And he strongly believes that sport is part and parcel of his country's economic model.

After all, Monaco is famous for its car rally, its Formula One Grand Prix, its international tennis tournament, its sailing competitions, the professional soccer team that plays in the French premier league, and so on. Prince Albert even persuaded the Tour de France to start in the principality two years ago.

Like his great-great grandfather Prince Albert 1, he is a committed explorer and protector of the environment, especially marine life. One of the first things he did soon after becoming monarch was to travel to the Norwegian island of Spitsbergen in the Arctic Ocean in the footsteps of his great-great grandfather.

The following year he took part in an Artic expedition, becoming the first head of state to reach the North Pole on Easter Day 2006. Last year, he spent a month in the Antarctic, visiting scientific research centres to learn more about climate change and its impact



up for a glamorous international event that is expected to give the tiny Mediterranean state a huge boost in difficult times.

Not only does the royal wedding remove all the old worries about the eventual succession if the 52-year-old prince had remained a happy go lucky bachelor. But many hope it will have the same effect in putting the spotlight once again on Monaco, its attractions and its potential, as spectacularly did Prince Rainier's marriage to the actress Grace Kelly in 1956.

Taking over from his father was never going to be easy. Prince Rainier in his extremely long reign transformed and modernised the principality and extended its territory by 20 per cent by landfills into the sea.

True, Prince Albert had long been carefully groomed for the role. And when he was enthroned in 2005 after

intriguing country

strong brand that nonetheless needed to be developed continually.

Since taking over, Prince Albert has sought to do just that, in his own way. In one of his first speeches after succeeding his father, he acknowledged Monaco was a tiny state. But that did not prevent it from having ambitions international and "dreams". Prince Albert has sought to enlarge his country's voice and standing in two areas he is passionately engaged in - sport and protection of the environment.

He has always been a keen allround sportsman. He has been a member of the International Olympic Committee for more than two decades. He has competed in several Olympics leading his country's bobsleigh team.

One of his pet ventures is his foundation to finance Monaco's efforts in supporting sustainable and ethical projects around the world.

But the past few years have been particularly challenging. The global financial crisis has hit its core economic sectors, including tourism, the property market and banking. Worse, the principality has found itself caught in the campaign by its much bigger neighbours and members of the G20 group of leading countries to clamp down on tax evasion and banking secrecy.

The Prince has made it clear he is committed to financial transparency and adapting the country and its financial system to international rules. And just like his late father, he is keen to shed the principality's traditionally frivolous image and persuade the world to take his postage

Royal wedding: Prince Albert and Charlene Wittstock are to marry in 2011

doing, he has also shown he can take difficult and unpopular decisions.

In particular, he decided to suspend indefinitely a plan to expand his territory even further with a new peninsula that would have jutted into the sea near the old harbour's entrance. Property developers were put out

stamp state more seriously. In so and disappointed. However, the Prince felt that the project did not meet his strict environmental standards and that in any case it was not the moment to embark on such a

> Promoters of the now aborted landfill design still argue that the project would have given the principality a

much needed fresh boost to consolidate its economic future in complex and changing times.

By announcing instead his forthcoming fairy tale wedding, the Prince may have opted for a simpler and far more glamorous way of reviving international attention on his tiny and intriguing country.

## A tough run of luck at the casino

profit but rather for long-

Mr Biamonti says the

company also suffered last

year from Monaco's late

introduction of a ban on

smoking in public places.

flocked to its casinos to

escape the ban in France

and Italy but Monaco lost

its competitive advantage

The gaming business

€26.7m in 2009-10, even if

The group expects

this year to be "difficult"

too, although the hotel

November 2008.

Smoker gamblers had

term value.'

#### Profile

Société des Bains de Mer

Profits are down at the gaming group, says Scheherazade Daneshkhu

Société des Bains de Mer may have a monopoly on casinos in the playboys' playground, but this advantage has not prevented revenues and net profits from plunging over the past two years.

In addition to its casinos, the company runs most of the principality's luxury hotels and is one of its biggest employers.

As such, it is an important bellwether of the city-state's economic fortunes. Indeed the state owns 70 per cent of its shares, which are quoted on the NYSE Euronext stock exchange.

Revenues fell by 6.5 per cent in the year to March 31 2010 to €374 1m Net profit nosedived from €40.6m in 2008-09 to €1.1m and  $\notin$  93.5m the previous year.

Jean-Luc Biamonti, chairman, says the company has been hit by the economic crisis, particularly in its gambling activities, which account

for just over half of group turnover: "The fall in gaming activities is a direct consequence of a deterioration in the economic environment. People gamble more when the money is easy.' The group's opulent but

only half-full hotels also acted as a drag on profitability, with an operating loss of €4.7m in 2009-10, against a €7.4m profit the year before.

In part this was due to a refurbishment programme including €48m spent on the stately Hotel Hermitage.

SBM also renovated its 1930s waterfront hotel, the Monte Carlo Beach, and opened the Buddha Bar, a restaurant and bar aimed

Total investment rose to €199.3m in 2009-10, against achieved in 2007-08 €35.4m the year before, but €140m of this represented its stake in Mangas Gaming. SBM took a 50 per sector appears to have cent stake in the online gaming group in 2009 alongside entrepreneur Stéphane Courbit, its founder. Mangas made a €8.6m loss in 2009-10. linked to charges for a series of acquisitions,

including Betclick, Expekt and Everest Poker, and Online gambling was

at attracting Asian visitors.

asset depreciations. legalised in France this year and Mr Biamonti says SBM wants to grow quickly in this area

through its partnership months to June 30. with Mangas: "You can However, gambling play for profitability or you revenues continued to fall, can play for market share. dropping 26 per cent Our strategy is to generate compared with the cash flow to reinvest in previous year. Group acquisitions and market revenues fell 11 per cent to share gains. So we are not €88m in the first quarter. looking for immediate

Mr Biamonti dismisses suggestions that Monaco's glamorous heyday is over, with a knock-on effect on its main businesses.

A recent report on the principality in L'Express, a French weekly, echoed an oft-repeated sentiment that Prince Albert lacks the allure of his glamorous parents, Prince Rainer and Grace Kelly, and that once it too followed suit in sports and business personalities have replaced film stars and models. made an operating profit of These days, it said, you are more likely to see Eddy this was less than half that Merckx, the veteran Belgian cyclist, than supermodel Claudia Schiffer on Monaco's beaches "I honestly think Monaco

is becoming more and



more attractive," counters Mr Biamonti, before saying that the group's performance is "more conjunctural than structural".

"It's up to us to improve the offer," he adds. To that end, the company is keeping a close eye on introducing new card games, since Asian players - still only a tiny part of the clientele but expected to be important in the future – prefer cards to roulette. It is also introducing

new versions of poker - a game that 10 years ago could be played only in private clubs - and building an extension to the terrace at its main casino for gamblers who want to smoke.

The company believes Monaco's good weather compared with Paris or London should give its casino a further competitive advantage.

Finally, online gambling is "in its infancy", says Mr Biamonti but will grow quickly. He points out that in return for its gambling monopoly, SBM pays royalties and sponsors sports and cultural events. He hopes the state will renew the monopoly conceded in 1863, as it has done up to now. But as the renewal date is a stilldistant 2027, SBM has much to occupy it until

risky and expensive project.



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