

R REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

on the terms and conditions governing the preparation and organization of the Board's work and the internal control procedures

Pursuant to the recommendations of the Autorité des Marchés Financiers (French securities regulator) of January 23, 2004 ("Corporate governance and internal control – Disclosure and publication requirements for securities issuers"), adopted in accordance with Article 122 of the French Financial Security Act of August 1, 2003, the following report focuses on the terms and conditions governing the preparation and organization of the Board's work and the internal control procedures implemented by the Company, it being understood that these procedures apply to the Company and all its subsidiaries.

This report was reviewed by the Board of Directors during its meeting on July 26 and 27, 2007.

TERMS AND CONDITIONS GOVERNING THE PREPARATION AND ORGANIZATION OF THE BOARD'S WORK

Functions of the Board

The Board of Directors defines and approves Company policy and determines its implementation.

Subject to the powers officially attributed to stockholders' meetings and within the limit of the corporate purpose, it has wider powers in order to manage, control and supervise the Company's business.

The Board of Directors performs the controls that it deems necessary for the best interests of the Company.

Organization and activities of the Board of Directors

Under the bylaws, the Board of Directors has a minimum of seven members and a maximum of eleven members, and comprises two director categories:

- a maximum of six members are appointed by the General Meeting for a renewable term of six years,
- a maximum of five members are appointed by the Government of HSH the Prince of Monaco for a renewable term of six years (government directors) and can only be dismissed by the Government of HSH the Prince of Monaco.

As of March 31, 2007, the Board of Directors comprised five directors appointed by the General Meeting and four government directors.

Under the bylaws, the Board meets every two months and when required in the interests of the Company.

The Board's responsibilities are defined by legal and statutory provisions and cover the following areas:

- appointment, supervision and dismissal of the Managing Director or the Chief Executive Officer,
- approval of the annual and half-yearly financial statements,
- assessment of the consistency and appropriateness of management,
- supervision of management of employee-related issues in the broad sense of the term,
- respect of the equality and rights of stockholders, etc.

The Chairman appointed by the Board of Directors chairs the General Meetings.

Government Commissioner

The Company is monitored and supervised by the concession granting authority through a Government Commissioner, responsible for ensuring the compliance with the Company's terms of reference and bylaws and the application of gaming regulations.

The Government Commissioner attends the Board of Directors' meetings that he convenes, but does not take part in voting.

Gaming control

The Company's principal activity is monitored by the public authorities through two bodies:

- the Gaming Commission, responsible for assessing gaming activity and the application of gaming regulations,
- the Gaming Control Board, responsible for ensuring the observance of legal provisions and the measures adopted for their application.

The employees allocated to the principal activity and the gaming equipment and machines are subject to a previous authorization from the concession granting authority.

Review of the Board of Directors' activity during the fiscal year ended March 31, 2007

The Board of Directors met eight times during the fiscal year ended March 31, 2007. A detailed analysis of the results of the Company and its subsidiaries was submitted to the Board at each meeting, together with presentations by operational directors on topics essential to the understanding of the Group's strategy, activities and outlook.

Activities of the Director Committees

The Board of Directors has set up three committees for even closer monitoring: a Finance and Audit Committee, a Human Resources Committee and an Environment and Quality Committee.

- **The Finance and Audit Committee** is responsible for providing insight to the Board of Directors' meetings, especially with respect to the following:
 - Audit of the annual and half-yearly financial statements, the financing plans and the capital expenditure programs,
 - Analysis and assessment of internal control and the accounting methods adopted for the preparation of the parent company and consolidated financial statements,
 - Analysis of financial and cash flow risks, in addition to miscellaneous risks (off-balance sheet commitments, litigations, etc.) and appraisal of risk coverage, etc

This committee, comprising three Board members, met six times during the fiscal year ended March 31, 2007 and had discussions, in particular, with the Chief Executive Officer, the Chief Financial Officer, the Internal Audit Manager and the Group's auditor and statutory auditors during its meetings.

- **The Human Resources Committee** comprising three Directors, is responsible for assisting the Board of Directors and General Management with employee-related and remuneration issues. It met nine times during the fiscal year ended March 31, 2007 and heard reports from the Chief Executive Officer and the Human Resources Manager during its meetings.
- **The Environment and Quality Committee** comprising three Directors, is responsible for dealing with environmental issues, and proposing to the Board of Directors the actions to be undertaken in order to actively contribute to the environmental protection policy initiated by the Principality of Monaco. Created in January 2006, the committee met three times during the 2006/2007 fiscal year.

INTERNAL CONTROL PROCEDURES

General context

The purpose of the internal control system implemented by the Company and its subsidiaries is to provide reasonable assurance as to the achievement of the following objectives:

- performance and efficient management of operations,
- reliability of financial information,
- compliance with prevailing laws and regulations.

This system is based on a set of organizational rules, policies, procedures and practices, designed to anticipate and control risks resulting from the Company's activity and risks of error or fraud, particularly with respect to finance and accounting. However, it cannot provide absolute assurance that these have been totally removed, the level of assurance being related to the limits inherent to any internal control system, e.g. the cost/benefit ratio regarding the implementation of new controls or the risk of collusion that could impede controls.

Internal reference documents

Among the internal reference documents distributed to the various managers and their teams are the following:

- **The code of ethics**

This document focuses on the rules of ethics and professional conduct that all the Company's managerial staff are provided with and must apply. It is an integral part of the employment contracts of the relevant personnel.

- **Company internal regulations**

As is the case for any Monegasque firm, the Company is required to have internal regulations that define the working conditions and the principles of order and discipline applicable to staff members.

Moreover, under the law of June 12, 1987 on games of chance, the internal regulations are subject to administrative approval and must mention:

- The regulations relating to discipline, particularly dress and conduct while on service, and the attitude to adopt towards clients;
- The regulations governing the hierarchical organization of personnel and the definition of the functions relating to each type of employment.

Considering the diversity of its sites and services, the Company applies specific internal regulations where necessary.

- **User guide to new information and communication technologies**

This guide defines the best practices for data processing resources (IT, electronic and digital equipment used for data processing). It has been distributed to all users of such resources and has been individually approved by each relevant employee. The guide is an integral part of the employment contracts of new employees.

- **Procedures**

Many procedures prevail within the Company and an action plan has been set up to make them even more effective.

Internal control environment

- **General Management**

The Company is organized into activity sectors and transversal departments serving as a support for operations.

The division of operations into activity sectors (gaming and hotel sectors) under the responsibility of the operational directors ensures an improved understanding of their related issues and risks.

In addition, General Management ensures that the strategy applied to each sector complies with that defined at Company level. Regular meetings are organized to assess the positions and performances of the various Company and Group sectors, in order to verify that they meet the objectives set by the Board in terms of allocated resources and results.

The transversal departments serve as a support for the operational sectors and their centralized activities ensure the cohesion of management principles and rules, and facilitate the optimized use of the Company's resources. These departments are as follows:

- General Secretariat – Legal Department,
- Administrative and Financial Departments,
- Technical Department,
- Information Systems Department,
- Human Resources Department,
- Sales and Marketing Department,
- Arts Department,
- Purchasing Department,
- Security Department.

• **Finance Department**

The Finance Department is responsible for managing financial risks (foreign exchange rate, interest rate exposure, etc.) and the risk control mechanism.

More particularly, it is responsible for implementing procedures to ensure the faithful representation and reasonableness of the financial statements, in accordance with prevailing accounting and regulatory legislation.

The Finance Department also ensures management control at various levels. Each activity sector undergoes management analyses, which are consolidated and used at Group level.

• **Internal Audit**

The Internal Audit Department's main competencies are as follows:

- Identification of risks that could affect the Company and the internal control system,
- Coordination of audit procedures with the auditor and the statutory auditors,
- Completion of selected tasks initiated by the Chief Executive Officer or the Finance Department,
- Preparation of the annual audit plan.

The Internal Audit Department, reporting directly to the Chief Executive Officer, is able to carry out its duties independently.

Internal control mechanism

• **General and internal control procedures**

- **Control environment**

The internal control culture developed by General Management throughout the organization is based on a clear allocation of responsibilities and authorizations, appropriate segregation of duties, commitment limits and compliance with internal and external standards.

- **Risk appraisal**

Under the authority of General Management, the activity sector directors and managers supervise the Company's operations and ensure their consistency with the objectives defined by the Board of Directors. They contribute more specifically to the continual development of strategic plans, in order to identify potential risks that could affect their operations and implement appropriate corrective measures. In addition, any investments or significant development projects are subject to a specific risk analysis.

- **Budgetary monitoring**

The Company has implemented a budgetary monitoring process broken down by activity sector, which results in a monthly analysis of performances and the identification of shortcomings compared to the defined objectives. This monitoring process is constantly reviewed by General Management and the Finance Department, in direct cooperation with the operational departments. This budgetary process is one of the key mechanisms of the Company's internal control system.

The control environment also relies on a very strict management of capital expenditure, with a detailed and centralized analysis of capital expenditure requests and the related contractual commitments, and a verification of capital expenditure incurred based on a system for monitoring granted authorizations.

- Internal control system coordination

The various operational activity sector or transversal department managers are responsible for developing and promoting this internal control culture by implementing specific and formalized procedures, based, in particular, on the use of integrated information systems, in order to quickly identify any performance variances compared to the defined objectives.

In order to verify that the internal control system operates satisfactorily, the Company regularly monitors the control mechanisms implemented and their appropriateness.

Internal control is specifically monitored through procedures conducted by Internal Audit, and the Group's auditor and statutory auditors. The possible weaknesses identified during these procedures are then communicated to General Management and corrective action plans are implemented.

• Specific procedures: control activities

- Preparation of financial information

The preparation of financial information is based on a standardized process of collecting data from the operational systems. By way of example, information relating to inventories, purchases, revenues etc. is extracted from accounting management systems using automated interface procedures.

Financial information is consolidated at Group level according to defined rules, formats and production time limits.

The integration of the operational and accounting information systems within each subsidiary, and the standardization of the account production process are factors contributing to the quality of the consolidated financial statements.

The financial statements are drawn up in accordance with the following principles:

- completeness and accuracy of accounting entries,
- cut-off,
- more generally, compliance with prevailing laws and regulations.

- Other controls performed by the operational department and transversal department managers.

In addition to guaranteeing the reliability of the information produced, the transversal and operational sector managers ensure the following internal control processes:

- safeguarding of the Group's assets (inventories, fixed assets, receivables, cash) within each activity sector,
- compliance with the basic principles of the segregation of duties, and the strict application of an appropriate policy regarding the control of profiles for access to the Group's various management software packages,
- compliance with authorization rules, which have been specifically defined according to the individuals, and understanding of the limits surrounding third-party commitments. This principle is reinforced by the substantial centralization of expense commitments and the existence of approval and control procedures at the various stages of the purchasing process.