



CHAIRMAN'S MESSAGE



I am happy to come to you with assurance now that your Company, after traversing a difficult period, has realized the turnaround I announced in my message of last year. At that time, heavy infrastructure spending combined with the stalling of projects due to slow administrative procedures, had resulted in a cash flow squeeze which took its toll on your Company's financial results. Fortunately, things have changed since.

SOLIDERE experienced an upturn in the last months as a result of renewed interest in Beirut city center on the part of Lebanese and Arab investors. Of crucial importance to us was the publication in June 2001 of decree 5714 which addressed pressing issues relating to the Master Plan. By clearing the way for infrastructure and public domain handover to the State, a procedure unduly delayed for a long time by various public agencies, it is expected to spare us substantial maintenance and operating costs. It is also hoped to put BCD real estate activity back on track, through releasing easement and alignment certificates, allowing property lot subdivision and regrouping, property transfer registration, and the issuing of construction and occupancy permits. However outstanding issues remain with the Municipality on both fronts.

The Company thus registered a substantial pick-up in sales, as well as the reactivation of its development projects, particularly the most important one, the Souks of Beirut.

Performance improved accordingly, the small but positive US\$1.9 million net result recorded in 2001 heralding our comeback to profitability. Gross revenues of US\$77.5 million were earned from land and real estate sales, a spectacular increase compared to the preceding year's US\$7.8 million. Of this total, US\$14.2 million was contributed by residential sales. As it continues to enjoy healthy occupancy and rental rates, our remaining portfolio of developed properties earned us US\$10.1 million in gross rental revenues.

Our real estate products enjoy special quality in design, execution and finishing. Above all, they have been carefully planned to meet the requirements of modern living, work, shopping and leisure. These efforts were vindicated by the very favorable market response.

Saifi Village is a harmonious ensemble of colorful new and restored traditional buildings. Enhancing these architectural qualities, squares, pedestrian passages and soft landscaping accentuate its character as a quaint village within the city. Less than one year after being placed on the market, all apartments and duplexes had been leased or sold to people seeking to live and raise their children in this quality urban environment.

Confirming the SOLIDERE approach to residential neighborhoods, Saifi Village has become a trend-setter, with Wadi Abou Jamil and Zokak El Blatt following suit.

The embassy compound, meeting the stringent requirements of four foreign embassies, has reinforced our serious experience in institutional buildings already evidenced in UN House.

The same regard to end-user requirements is displayed in our multi-use development near the Serail hill, offering office and residential facilities, together with a health club.

The improvement in our sales results and the success of our real estate products are not the only achievement we pride ourselves on. The dramatic revitalization of the city center has vindicated the Master Plan principles as well as the policies adopted by SOLIDERE and the high standards it strives to achieve in land development, conservation and multi-use real estate development.

In the traditional city center, the return or relocation of major banks and companies has led to a surge in business activity. The pedestrianized historic core has also witnessed a phenomenal growth in retail, restaurant and entertainment business. This has created a phenomenal market demand for space, with rental rates doubling in less than a year. Above all, we hope to fully continue in our mission to build a vibrant city, enjoying pluralism and peaceful communal living, enhanced with heritage, public space and activities.

New residential areas are growing close to the waterfront, with strong performance and early presale registered in the high value projects under construction facing Beirut Marina and the planned waterside park.

These developments, combined with important hotel projects, fall in an area, partly on reclaimed land, which stretches out the pre-war city center towards the Beirut Marina and the new waterfront district. A privileged location, it is coming to life under the influence of a strong recovery in the hotel sector and new developments in the city center.

As Beirut Marina prepares for a soft opening in the summer of 2003, its full development will be based on an international design competition. The new waterfront district is bracing itself to become a prime modern district. The second and final phase of environmental cleanup is scheduled for completion in 2004. On reclaimed land, leased space is already accommodating conferences, exhibitions and leisure activities.

I am happy to announce that the waterfront district sector plan, by Skidmore Owings and Merrill, was among projects receiving the 2002 Charter Award from the Congress for the New Urbanism. On the verge of official approval are recent amendments to the sector plan, destined to meet the technical specifications of the Formula One racing event which may be held there in 2005.

An adequate liquidity level was maintained during the past year, with lower cash outlays expected in the future due to substantial advances in the costly infrastructure works executed within our agreement with the State. Among the measures taken to provide liquidity were the sale of treasury shares generating US\$5 million in proceeds, and the discounting of part of our notes receivable from land sales amounting to US\$15 million.

At year-end, the balance of loans contracted to finance infrastructure and real estate activities that are part of Phase One of the BCD reconstruction, amounted to US\$343.5 million. This represents a debt-equity ratio of 21.56%, within the 25% limit dictated by our current covenants to lending institutions. The level of indebtedness is expected to fall as loan maturities continue to be honored.

Although trading activity increased in 2001, the poor share performance persisted for the third year, with closing prices of US\$45/8 for both shares A and B and US\$4.3 for the GDRs. The shares remain undervalued despite strong fundamentals and improved operational results. It is hoped that confidence will gradually prevail as profitability is firmly reestablished and enhanced

Based on the land sale deals negotiated in the latest months, which raised the sale backlog to US\$164 million, we are fairly confident that the upturn both in sale and rental activities is here to stay. With the Souks of Beirut development and the Beirut Marina operation, they should accelerate the growth of your Company in the coming years, and contribute to the creation of the finest city center in the Middle East.

NASSER CHAMMAA
Chairman
May 31, 2002