

chairman's message



Solidere was created ten years ago. At that time, in Beirut, a derelict, war-damaged inner city provided a haunting image for citizens and photographers. Things have definitely evolved since.

Fulfilling the terms of our agreement with the State, we have installed new infrastructure and utilities and reconstituted the public domain, and are now closely cooperating with relevant authorities for their protection and maintenance, and for preserving security and ensuring compliance with traffic regulations.

Beirut city center has received wide praise for the quality of its urban planning, infrastructure, public domain, restoration and development. Numerous financial and business activities, international and local institutions have settled there. An interesting range of residential and leisure facilities, including the Beirut Marina, are contributing to the recovery of Beirut as a favored location for living and tourist destination, especially among Arabs and Lebanese expatriates. Above all, we have succeeded in re-creating life in the heart of Beirut, making it once more the vibrant place where young and old from various countries and walks of life come together.

Inspired by a Master Plan that makes a judicious use of the site's natural assets, its archeology, urban and architectural heritage, we have adopted effective preservation policies. Beirut city center bears testimony to the

continuity of urban settlement over more than five millennia, its long history vividly illustrated by the archeological riches unearthed during the last ten years, its reconstituted urban fabric, and the restoration of its fine historic streetscape and buildings from many periods.

We have reconciled preservation with the realities of modern life, making Beirut city center an ideal environment for living, conducting business and enjoying oneself. The result is clear in several sectors of the city center. The restored city core areas, Serail hill, Riad El Solh, NejmeH-Maarad and Foch-Allenby, are bustling with activity. In the residential periphery, Saifi and Zokak El Blatt have re-emerged as urban villages.

The properties developed by Solidere, UN House, Saifi Village, embassy compound, Rue de France multiuse complex, while in tune with the site identity and architectural context, are geared to the requirements of a sophisticated clientele. Together with the restored properties, they meet modern requirements of safety, security and comfort and enjoy high standards of design, execution, finishing and management. The Souks of Beirut will provide 100,000 sq m of predominantly shopping floor area. Inspired by the success of Saifi Village, several residential schemes are under way in the traditional neighborhoods. They will give back to Wadi Abou Jamil its distinctive character, and will complete the development of Saifi and Zokak El Blatt.

With the successful completion of Phase One of the Master Plan, important projects, involving a mix of land uses and a variety of developers, have seen the light in the newly planned sectors of the city center: Serail corridor, hotel district and Ghalghoul gateway. While the real estate development process continues there, it is about to start in the Souks of Beirut, and will extend to other gateway districts around the Beirut Marina and the Martyrs' Square axis. It will eventually evolve further to encompass the New Waterfront District, once we receive official approval for our detailed sector plan, and upon completion of our ongoing reclamation works.

The completion of all these projects, leading to the creation of the finest city center in the Middle East, will take several more years. But already, the growing interest on the part of Lebanese and Arab investors and end-users is being translated into significant construction and space occupancy.

In the year under review, a positive factor on the official level was the issuance in October of a Council of Ministers' decree removing some misinterpretations of the BCD Master Plan and Regulations that had delayed the release of building permits for a number of large-scale real estate projects undertaken by Solidere as well as other developers, including the Souks of Beirut. This development, combined with other positive demand factors, will no doubt have a favorable impact on the performance of your Company in 2004. Unfortunately, it came too late in the year under review to be reflected in recognized sales.

This explains the lower performance achieved by Solidere in 2003, as compared to 2002. The results for the year show a net income of US\$16.4 million, mostly caused by the lower level of recognized sales due to buyers - developers' delays in fulfilling technical and financial conditions for their projects. Gross revenues of US\$87.2 million were earned from land and real estate sales, while our remaining portfolio of developed properties earned us US\$15.4 million in gross rental revenues.

Our funding program aims at progressively reducing the Company's medium- and long-term borrowing which resulted from the heavy investment expenditures involved in Phase One of the BCD development. The outstanding debt of US\$319.6 million at end 2003 represents a debt-equity ratio of 19.5%, lower than our 20% self-imposed limit, also dictated by our current covenants to lending institutions. A substantial reduction in our borrowing level to US\$295 million followed in the first quarter of 2004. The significant drop in the total liabilities since end 2002 confirms our determination to reduce the level of overall debt. Short-term funding arrangements to cover temporary cash needs contributed to maintain an adequate liquidity level during the year, resulting in a cash position of US\$89.7 million at year end. General Company overheads and administrative expenses remained at the same level of US\$9 million as in 2002, despite revived development activity, demonstrating sustained control over expenditure.

The poor share performance persisted during 2003, with closing prices of US\$4.72 for share A, US\$5 for share B and US\$4.95 for the GDRs. Significant improvement was registered in the first part of this year, with share prices reaching a high of US\$7 in May. The shares remain undervalued despite strong financial and operational fundamentals.

Starting June 2004, a new, favorable scheme will be offered to buyers of development land in Beirut city center, allowing them to benefit from a discount of up to 15% on the land sale price, provided 30% to 40% of the reduced price is settled by ceding an equivalent amount of Solidere shares, with the possibility of settling 10% in cash, upon signature of the sale agreement. Ceded shares will be progressively cancelled, reducing the Company's capital. The remaining 60% will be settled over a maximum period of three years in equal annual installments, with interest at rates currently applied by the Company.

The program is adopted with the objective of activating share trading to enhance Solidere share values on the stock exchange, and maximize shareholders' equity, while at the same time boosting land sales, improving liquidity through cash payments and shorter financing periods, to allow a faster reduction of the Company's indebtedness.

It is our belief that the results of the above program, added to the important real estate projects currently undertaken by Solidere and other developers, based on renewed market interest, will enhance the value of property in Beirut city center in the coming years, and will generate positive impact on its final results and its share performance.

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Chairman
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