

This has been a crucial year, with times of high and low tide. But we have stood the test and shown our mettle, as performance and resilience are the two mottos of Solidere

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The first half of 2006 was very bullish. Beirut city center, reinvigorated as the focus of government, business and banking, also provided marvelous living and fostered culture, heritage and civic values. A main tourist, shopping, leisure and art destination, it was vibrant with shops and cafés, yachts and boats, people and events. Brisk sales and intense development activity were fueled by a growing interest on the part of a large and diversified network of investors, including some key business figures and institutions in the Arab world. Solidere achieved excellent midyear results thanks to substantial sales, including some undelivered sites in the new waterfront district.

Chairman's Message

Then came the tragedy of the July war and its aftermath, with long periods of closure and negative effects on activity, customer demand and public morale. Solidere withstood the shock and stress and showed ability to function under duress. Remaining present throughout the war, we sustained a certain level of

operations, preserved and serviced our buildings, and answered queries from our investors, especially international institutional investors seeking reassurance that the Company assets were intact. We also continued to honor our commitments and implemented all the decisions made previously, notably as far as share buyback and dividend distribution.

But as the politico-economic environment weighed heavily on the expectations of investors, end users and developers, Solidere's share performance and sales could not but bear the brunt. Share prices slid from highs of US\$26 to lows of US\$15, ending the year at US\$16. As far as demand, no new land sales were concluded until beginning 2007, when we signed a sale in the waterfront district totaling 32,000 sq m BUA.

However, we believe that this lull in demand is temporary, as the city center continues to elicit interest from Gulf or regional investors. They maintain and increase their investments here in the face of adversity, both as a gesture of political support and as a sign of confidence in the future of this country, where real estate investments have had a good track performance, even through wars and crises.

Beirut city center presents a special investment opportunity as prime land, limited in amount and due to be scarcer and more valuable as its development proceeds. Existing developers and prospective buyers, who have been achieving excellent returns on their investments, thus continue to realize the advantage of preceding the market, but may have become cautious as to the timing. A revealing indicator is that owners of prime land are holding on to it, with prices remaining resilient.

The July war and subsequent events may have frozen the emergence of new real estate projects, but it did not stop the course of existing projects. Despite delays, most development projects are proceeding. Out of a 4.69 million sq m target floor area for the city center, including the waterfront district, 2.66 million sq m have been so far the subject of development: 824,300 sq m have been completed, 664,800 sq m are under construction, and the balance is in various stages of planning and design.

We are advancing in the marketing of the South Souks, as we forge ahead for their delivery in the first half of 2008, with the North Souks entertainment center to follow later. Other real estate projects include facilities in the Saifi Village, Wadi Abou Jamil and Zokak El Blatt residential neighborhoods; around Beirut Souks and Beirut Marina; and in high-density zones in the hotel district, on the Martyrs' Square axis and on the south and north edges of the city center. We continue to stimulate real estate projects, helping investors with concept designs and managing their development projects.

A number of government decrees issued in 2006 ratified BCD Master Plan amendments to reflect the new sector plans for the Martyrs' Square axis, Ghalghoul, Souks, hotel and waterfront districts. Additional amendments proposed by Solidere for the new waterfront district in 2006, and still awaiting official approval, involve the creation of two high-rise building clusters, one of which constitutes a special business district, while maintaining in the district a majority of low-rise residential and office buildings, in continuity with the traditional city center.

Having sold some lots in the new waterfront district, we are committed to deliver the sites for development within the next three years. We have expedited reclamation works for completion by end 2007, after termination of the Radian contract in February 2006, and are starting the process for infrastructure and public domain design. In 2009, we expect to start installing the infrastructure integrating Formula One capability and comprising an upgraded range of utility networks. A landscape competition will be launched for the waterside park and corniche promenades.

Financially, the year registered a net profit of US\$132.2 million, US\$153.2 million before income tax. This represents a 22% increase over 2005 profits. Recognized sales contracts reached US\$253.3 million, the highest level since inception. In addition, sales backlog at year end amounted to US\$1.2 billion, not far from the US\$1.37 billion cumulative recognized sales since inception. We have stopped selling finished products in order to build a portfolio of income-generating properties. Rental revenues amounted to US\$20.7 million, and are expected to grow around threefold from 2009 due to rental revenues from the Beirut Souks. Revenues from project management and consulting amounted to US\$2.1 million and are likely to expand in the future. For the first time in the last six years, net interest income shifted from negative to a positive of US\$19.5 million, due to the increase in sales receivables and cash, and the significant debt reduction.

The liquidity derived from these activities was used in part to reduce bank indebtedness to US\$27.1 million at end 2006. Cashflows in 2007 and thereafter will be used to complete Beirut Souks and renovation projects; implement land development of the new waterfront district; and develop some selected real estate projects. We also intend to honor our commitment to distribute dividends regularly. This, we believe, will have a positive impact on the share value and will be to the advantage of shareholders.

Finally, we have decided to go abroad, following your approval of the Board of Directors' resolution to that effect in your extraordinary general meeting of November 2006. With a more than 78% quorum, the meeting almost unanimously voted for the Company to export its expertise outside Beirut city center and to leverage its brand name. We will apply our know-how in urban regeneration and city making within the Middle East and around the Mediterranean basin, teaming up with our network of consultants, investors and operators. External projects will offer a new source of revenue in the form of fee income as well as equity and/or profit participations, while avoiding to invest any of your cash abroad.

To conclude, as it drew on its internal strength elements, its fundamentals and above all its human resources, your Company adapted its policies in a dynamic and efficient way to market conditions, diversifying its activities and growing both in depth and globally.

NASSER CHAMMAA
Chairman and General Manager
May 11, 2007

