CHAIRMAN'S MESSAGE

The year 2008 witnessed dramatic developments on the local, regional and global scenes, which had important repercussions on Solidere. In Lebanon, a turning point occurred by midyear. The resolution of the political situation and end of the sit-in led to renewed hope.

In central Beirut, streets regained their vibrancy and businesses recovered their normal level of economic and tourist activity.

Construction accelerated, as many projects that had been thwarted during the preceding period were resumed. As a result, a number of completed developments are expected to be inaugurated during this year.

On the regional and international level, despite the exacerbation of the world financial and economic crisis in the second half of 2008, with its serious repercussions on regional markets, Beirut city center has maintained its position as an investors' destination.

This is reflected in Solidere's consolidated financial statements. During 2008, Solidere realized a net income of US$214.3 million (US$182.7 million after income tax amounting to US$31.6 million). This results mainly from increasing land sales, as well as property rental income. Land and real estate sales amounted to US$257 million. Furthermore, a sales backlog of US$605 million at year end is expected to be translated in realized sales in the next three years. Land sales of around US$294 million have been signed in the last six months, and ongoing negotiations for additional sales are expected to be finalized in the coming few months.

The sustained demand comes as no surprise, even in the regional and international economic context. As city maker, we pride ourselves that we always take the necessary actions to create, preserve and enhance value in Beirut city center. Our development activities, based on careful master planning, have enhanced a site with inherent assets, and where land is in limited supply, through high-quality infrastructure, landscaping, upkeep and services. As far as architecture and real estate, we are providing in the city center products that are suitable for end-users and investors.

As land bank, we seek to enhance land values throughout the Project, rather than to maximize profit on a specific development. We are not involved in real estate development on a retail scale and are very selective in land sales, targeting developers with serious plans, not speculators. Our risk is minimized by favoring block sales to master developers with strong financial means that are well-positioned in the market. Our model is thus in contrast to some models based on retail development, where, with little capital offered upfront, developers, rather than investing their own money, rely on cheap and easy finance from banks and off-plan sales to investors to fund their projects. This is why we believe that our model continues to work today, while those models do not, as banks are running scared of further exposure to real estate projects, and sales continue to dip as buyers become increasingly uncertain.

The Company's balance sheet figures illustrate its financial strength, represented by a solid land bank, a high value real estate property portfolio, the quality of its receivables and financial investments, and the soundness of its policy of maintaining high liquidity levels with no debt. These factors combine to give it resilience in the context of unfavorable political or economic circumstances.

The inventory of land and projects in progress amounts to US$1,274 million, net investment properties to US$217 million, and investment in Solidere International to US$296 million. Solidere does not revalue its assets, which are still registered at their book value, in compliance with international accounting standards and best practice.

Resulting mostly from development land sales, accounts and notes receivable of US$1,027 billion at year end, include US$296 million from realized sales, with the biggest part of maturities at various dates during the next five years. The balance of US$731 million represent the reserve of signed land sales not yet recognized in the Company's income statement, but expected to be so during the coming three years after completing all necessary criteria for their recognition.

The cash position of the Company at the end of 2008 amounted to around US$292 million. Solidere has always maintained a high level of liquidity to ensure financing most of its development projects and other operations. Medium- and long-term indebtedness was reduced to around US$2 million, and outstanding short-term bank facilities, needed for effective cash management, amounted to US$177 million.

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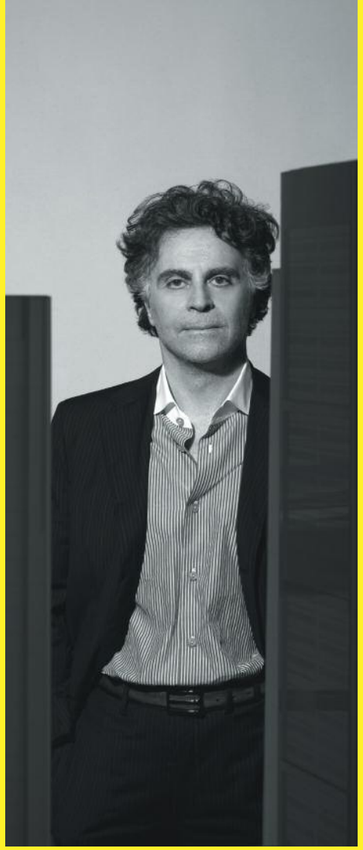

To Solidere, a primary source of reliable income is rentals from its growing revenue generating property portfolio. The Company earned around US$22 million in rental revenue in 2008, a figure expected to grow threefold at the full completion of Beirut Souks.

In Beirut, our city making activities start with master planning, with guidelines and detailed plans defining the rules and regulations of construction and urban development in Beirut city center. This is a continuous and ongoing operation whose success depends to a large extent on flexibility and adaptability to changing circumstances and to various economic, urban and standard-of-living conditions throughout development, which spans a long time period. Beirut city center's initial master plan, ratified in Decree 4830 of 1994, received a number of amendments that were first approved by Beirut Municipal Council and the Higher Council for Urbanism and then ratified in Council of Ministers' decrees.

These amendments relate to various requirements and constraints resulting from archeological discoveries in several areas, overlapping boundaries of existing and preserved buildings, architectural requirements of a number of projects; and some were based on modern technical and planning studies.

Having completed land reclamation and preparation of the New Waterfront District, Solidere is initating the design of infrastructure, hardscaping and landscaping of open areas, in order to make possible the start of real estate development in the area within the next two years.

As far as our real estate activity, we have pursued implementation of Beirut Souks with a view to complete the South Souks and officially launch the project during the last quarter of 2009. Many of the 250 retail shops are progressively completing their preparations for their gradual opening starting the summer. Visitors will be invited to stroll along streets, some covered and some open, shop to their heart's content, stop and rest in landscaped squares, or enjoy restaurants with special character.

Vis-à-vis the world economic crisis, Solidere differentiates itself from other companies, particularly those within the regional real estate development industry.

The Company does not suffer from any toxic debt, unlike many regional developers. Having no debt, we will not be under any pressure from any bank for deleveraging or refinancing. We have also always sought to keep a comparatively high level of liquidity, and in fact hope to maintain a fixed percentage of assets liquid for the life of the company. Thanks to high liquidity with no debt, we expect to fully weather the financial crisis.

The creation and preservation of value extends to maximizing Company profits through innovative real estate projects, quality development and property management services, and new business that ensure growing revenue streams.

One of the most important commercial centers in Lebanon and the region, Beirut Souks are to constitute the heart of economic and tourist activity

in Beirut city center, contributing to put it on the world map as a major regional center for shopping, work and entertainment. To this effect, Solidere is coordinating with a number of world renowned experts and specialized establishments in the fields of restaurants and cafés regarding outlets in the Beirut Souks or elsewhere in the city center.

The North Souks, currently under development by Solidere, include a department store, an entertainment center and cinema complex. Design by Zaha Hadid of the department store is proceeding in coordination with Solidere teams and the store operator. The excavations and retaining wall started in April 2009 for the entertainment center and cinema complex, expected to be completed within two years after obtaining the building permit.

Solidere is engaged in Beirut Waterfront Development, in which it has a 50% shareholding. In 2009, we have completed the basement floors of the main building, accommodating the yacht club, together with furnished and serviced apartments, and started construction of the ground and above ground levels, after obtaining the building permit. The project also includes quayside restaurants and cafés along Beirut Marina under the sea corniche level, with their roofs at the level of and forming a continuation to the corniche promenade. The project is expected to be gradually inaugurated starting the second half of 2010. Construction works on the under corniche parking to serve this area are already underway.

We are reviving our real estate projects that had been put on hold in 2006, starting with 178 Saifi Village, a residential development designed by Nabil Gholam. Other projects are at different stages, with new designs envisaged in light of our new real estate strategy. These are; Grand Théâtre boutique hotel in Bachoura; and, in Mina El Hosn, a mixed retail, restaurant and hotel project on lot 1338, an extension of Beirut Souks on Patriarch Hoyek Street; a furnished apartment building on lot 1408; and a high-end office tower to be built to the highest international standards on lot 1493.

In association with real estate, we are launching a new activity: hospitality management. Solidere is strengthening the restaurant activity of the South Souks to provide dining and entertainment for shoppers and visitors. Our idea is to develop the concept, looking at hospitality management in all its aspects and extend it to the entire city center. This is especially important as Beirut may be able to benefit from the regional clientele in spite of the crisis, by remaining an attractive place for tourists. Boutique hotels, restaurants and cafés with special character are to re-create the vibrancy of the early 2000's. The opening of the Beirut Souks presents a good opportunity to be more proactive in keeping downtown buzzing. The program of activities planned for their launching should be followed by a sustainable level of events throughout the year, both in and around the Souks. The Grand Théâtre is among the projects that will strongly support this activity, and become a renewed focal point of activity that will bring more people into the city center.

Outside Beirut, Solidere has leveraged its brand name, unique expertise and tested business model, by investing in, advising and managing, urban projects in the Middle East and the Mediterranean basin through Solidere International, in which Solidere owns around 38% of the shares. In the last year, we have earned significant income from our participation in and services to the Solidere International group.

The group itself also enjoys a high level of liquidity, nearing a US$350 million level at end 2008 with no debt. Thanks to Solidere's wisdom, it has been able to weather the prevailing world economic crisis and adapt its flexible development strategy to the changed market circumstances.

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Al Zorah project in Ajman (UAE) has close to US$700 million in liquidity with no leverage, allowing the company to carry on its development activity without the need for any debt. Development has effectively started with the launching of infrastructure works, expected to accelerate with the tendering of the marine works in the second half of this year. Project phasing has been amended to take into account the new realities of the real estate market in the wake of the current economic situation.

Finally, Solidere's retained profits as at end 2008 amount to US$272 million, consisting of profits from its activities in Beirut and its share of profits from affiliated companies in the Solidere International group. In this regard, our board of directors is recommending to the annual general meeting of shareholders to distribute from distributable profits a dividend equivalent to one US Dollar per share, as was done in the two previous years.

Our share and GDR have maintained a sustained market value in Beirut and London stockmarkets respectively, in spite of adverse regional and international market conditions. The contagious effect that hit all markets had a minor impact on the share price, with downward pressures bringing it down to the US$15 level. However, the strong fundamentals of the Company and its resilience, supported by a resilient Lebanese economy, helped the share price gradually improve to recently reach a level of US$24, alhough the Net Asset Value calculation consistently gives a higher valuation.

It is expected that all the above factors will have a positive impact on the value of its land in the city center and on the Solidere share price, whose present market level is below the true value of the Company's assets and its ability to generate growing profits due to its strong fundamentals.

To conclude, I am sure you must all be very proud that throughout this and previous financial turmoil, the reputation of Solidere as a city maker and developer of integrity and financial strength, has remained intact and even grown in the eyes of our investors and clients. More than ever I remain positive that this will differentiate us.

Nasser Chammaa
Chairman and General Manager
June 5, 2009