corporate funding and treasury

corporate treasury

The balance sheet at year end shows a cash position of US$89.7 million.

The Company continued to invest its liquid funds in assets presenting minimum risk and with top-ranking deposit banking institutions in the domestic and international markets.

During the year 2003, 126 cash investments totaling US$878 million were made. These figures include investments made in 2003 which matured in the same year or will mature in the year 2004 or later.

A strategy of short-term cash investments was pursued again during the year. The weighted average holding period of these investments was about 36 days.

On average, Solidere secured around 97 basis points over the median three-month LIBOR rate prevailing in 2003. The interest income earned on the cash investments during the year was equivalent to an annualized interest rate of about 2.19%.

funding program

The Company had contracted a number of loans to finance infrastructure and real estate activities within Phase One of the BCD reconstruction. Stemming from the Board of Directors' resolution to progressively reduce borrowing, the funding program implemented in 2003, to be pursued in 2004, follows two lines of action: to lower the borrowing level, thus reducing debt service and improving profitability; and to resort to funding arrangements that help bridge some gaps and cover some temporary deficits in the cash flow at low cost.

Repayment continued on the US$107.3 million, ten-year marine works loan concluded in 1996 with BNP Paribas and Banque Indo-Suez, with US$7.3 million representing the COFACE guarantee premium. The half-yearly payments, started in 2001, comprise US$7.7 million in principal repayment and interest at 7.39% per annum. The outstanding balance amounted to US$61.3 million at end 2003, and US$53.6 million by end February 2004. Having reached a debt-equity ratio of 20%, Solidere reduced the loan collateral in 2003 from US$37 million to US$30 million, with a further reduction being currently negotiated.

Consolidated repayment continues on the three loans financing the waterfront environmental cleanup:

- A US$22 million locally syndicated loan concluded in 2000, with Citibank N.A. - Beirut Branch as lender, arranger and agent; Banque Libano-Française s.a.l. and Byblos Bank s.a.l. as co-lenders. The loan has a tenor of 6 years with repayments ending in June 2006. It is subject to an interest rate of one-year LIBOR plus 4%.
- Two parallel facilities totaling US$24.7 million concluded with Citibank N.A. - Beirut Branch in 2001: US$14.7 million in export credit financing with guarantee from the US Export-Import Bank, repaid in 10 semi-annual installments, at an interest rate of LIBOR plus 0.25%; and a US$10 million local facility with a matching tenor.

A four-year, US$10 million non-recourse financing facility concluded in 1999 with Standard Bank London was fully repaid in April 2003. Of three loans totaling US$250 million concluded with local banks in 1998 and maturing in 2003, the US$50 million loan was fully repaid in June 2003, while the two syndicated bullet loans of US$100 million each, were refinanced locally.

The first, maturing in April 2003, was refinanced for a three-year period, through a new syndication led by Banque du Liban et d'Outre-Mer s.a.l. (BLOM) in which BLOM participated at 60% and Byblos Bank s.a.l. at 40%, at a floating interest rate of three-month LIBOR plus 4.25%, with a floor of 7.5% per annum. The second, maturing in December 2003, was refinanced in 2003 for a three-year period, through a new syndication led by Banque de la Méditerranée s.a.l. through a different bank syndication, at exactly the same terms and conditions.

With a view to buy the floor and hedge against possible future LIBOR rate increases, Solidere entered towards end 2001 into a five-year interest swap agreement with Citibank on a notional amount of US$100 million. The interest rate to be paid in the first year was fixed at 4.39%, compared to a 5% rate to be received from Citibank. In the second year the interest rate was fixed at 3.58% compared to 4.94% to be received.

Apart from the refinancing of the two US$100 million loans, no further long-term borrowing was concluded in 2003.

Solidere has resorted to short-term financial arrangements at a lower cost than those concluded on a longer-term basis. Some are linked to the maturity of its sales receivables without the use of note discounting, thereby reducing the cost of finance. In discounting without recourse all the notes of a given sales mortgage loan over the loan duration, the bank fully takes over the financial risk. This practice entails a higher cost to Solidere because of the duration and risk factor.

In the new practice, however, the Company presents to the bank a number of receivables from different sale mortgage loans, with maturities of less than one year. It obtains facility periods of up to twelve months, depending on the maturity dates of the receivables. Amounts drawn are matched with the receivables without having to pledge the corresponding notes. The discount rate incurred is lower as the bank is taking a short-term risk. One of these facilities was the one arranged with Byblos Bank s.a.l. to borrow up to US$20 million over a maximum period of one year, which expired and was fully repaid in February 2004.

Several banks, including Lebanon Invest as arranger, were approached for the creation of a certificate of deposit which could be rolled over, renewed or repeated. In 2003, a US$15 million transaction of this type was concluded with Lebanon Invest, with US$10 million outstanding at year end and maturing in July 2004.

The Company's indebtedness to banks at end 2003 amounted to US$319.6 million, close to the 2002 level. This included US$293 million in long-term loans and US$26 million in short-term facilities. By end February, the debt fell to US$295 million, of which US$285 million in long-term loans and US$10 million in short-term facilities. All short-term facilities bear lower interest rates.

Solidere maintains a debt-equity ratio of less than 20%, both as a self-imposed limitation decided by the Board of Directors and to fulfill a covenant of the COFACE guaranteed loan.

The progressive reduction in the Company's debt since 2001 was reflected in the income statement, with interest charges falling from US$33 million in 2001 to US$24.9 million in 2002 and US$23.7 million in 2003.

At the beginning of 2003, Solidere had 9.6 million treasury shares outstanding, of which 4 million shares previously sold to various individual investors with a put back option; upon the investors exercising the option, these shares were bought back by the Company, with the settlement of US$34.6 million made in April 2003. In February 2003, 600,000 shares were sold to an individual investor with a three-year option maturing on February 24, 2006. The selling price is US$6.5 per share, generating US$3.9 million. The strike price which includes interest is US$7.61. In addition, 4 million shares were sold on June 27, 2003 to a financial institution with an option period ending on December 14, 2005. The selling price is US$6.5 per share, generating US$26 million. The strike price which includes interest is US$7.63.

Following the annual general meeting's decision, in June 2003, to make a one to 40 stock dividend distribution for a value of US$19.6 million, the corresponding 3.9 million distributed shares were taken from the Company's treasury share portfolio. This brings to 5.8 million the total number of treasury shares held by Solidere at year end.