

CORPORATE FUNDING and treasury

Corporate Treasury

The balance sheet at year end shows a cash position of US\$101.1 million.

The Company has invested its liquid funds in assets presenting minimum risk and with top-ranking deposit banking and financial institutions in the domestic and international markets, including some structured products that carry high returns with guaranteed initial capital.

During the year 2004, 146 cash investments totaling US\$587 million were made. These figures include investments made in 2004 which matured in the same year or will mature in the year 2005 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 45 days.

On average, Solidere secured around 275 basis points over the median three-month LIBOR rate prevailing in 2004. The interest income earned on the cash investments during the year was equivalent to an annualized interest rate of about 4.43%.

Funding Program

The Company had contracted a number of loans to finance infrastructure and real estate activities within Phase One of the project. In 2003 the Board of Directors resolved to progressively reduce the borrowing level to reduce debt service and improve profit. This strategy was pursued in 2004, and reinforced by the land-for-share sales program, which aimed at improving liquidity through bigger sales volume and shorter financing periods. The higher liquidity was intended to be used in part to further accelerate bank loan repayments and reduce borrowing levels. In parallel, flexible short-term funding arrangements were agreed with local lenders to help bridge some gaps and cover temporary shortages in the cash flow at low cost.

The two locally syndicated corporate loans, US\$100 million each, which were refinanced in 2003, were again refinanced in 2004 with shorter tenor and lower interest rates, to reduce the debt service charge. The first, syndicated by BLOM and Byblos Bank and maturing in April 2006, was replaced through Arab Bank by a US\$60 million loan over eighteen months with equal quarterly principal repayments, at an interest rate of three months LIBOR plus 2.5%. The second, syndicated by Banque de la Méditerranée, Banque Audi and Arab Bank and maturing in December 2006, was replaced through Fransabank by a US\$60 million loan over three years, with equal annual principal repayments, at an interest of one year LIBOR plus 2.5%.

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\$46 million at end 2004, and US\$38.3 million by end February 2005. Having reached a debt-equity ratio of 20%, Solidere successively reduced the loan collateral from US\$37 million to US\$30 million in 2003 and US\$18.5 million in 2004. Thereafter, the collateral will be reduced progressively to represent at all times two principal maturities plus accrued interest.

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%. The remaining balance at year end is US\$6.9 million.

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. The remaining balance at year end is US\$21.1 million.

In 2004, the Company resorted to more flexible arrangements, mainly temporary overdrafts, at a lower cost than term loans. This practice was pursued to replace the discounting of sales receivables, as a less costly financing of temporary cash shortfalls. Previously contracted short-term arrangements, namely the Byblos Bank US\$20 million and Lebanon Invest US\$10 million term facilities, were fully repaid in 2004.

At year end, Solidere's indebtedness to banks amounted to US\$234 million, substantially lower than the 2003 level of US\$319.6 million. By end April 2005, the debt fell to US\$187 million, all of which represents long-term loans.

The Company maintains a debt-to-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. By end 2004 the debt-equity ratio dropped to 13.98%, substantially lower than 19.48% by end 2003.

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. In 2004, the fixed rate contract was unwound and replaced by a floating rate arrangement at LIBOR plus 1.4%, with a cap of 5%.

At end 2004, Solidere had US\$8.7 million in treasury shares outstanding, of which US\$4 million shares sold in 2003 with a put back option, and with a call option in favor of Solidere. The selling price was US\$6.5 per share, with the strike price at maturity, on December 14, 2005, at US\$7.63 per share. Another 600,000 shares with a put back option, maturing on February 24, 2006, were sold at US\$6.5 per share and a strike price of US\$7.61 per share. The put option with respect to one million other shares, sold at US\$6 per share with a strike price of US\$7.1 per share, was not exercised at maturity date, on March 31, 2005. The put option is considered expired and the shares are deemed sold.

The sales deals signed under the land-for-share sales program launched in June 2004, generated 3 million shares which were delivered to Solidere during the year.