

## CORPORATE FUNDING AND TREASURY

### Treasury

The balance sheet at year end shows positions of US\$102.3 million for cash, US\$9.6 million for investments in securities and US\$10 million for bank overdrafts.

The Company maintained its previous policy of investing its liquid funds in assets presenting minimum risk, and with top-ranking banking and financial institutions in the domestic and international markets, including some structural products that carry high returns with guaranteed capital. For efficient cash management, Solidere also arranged with local banks certain revolving current overdraft facilities, utilized and refunded according to cash needs and availability.

During 2005, Solidere made 73 cash investments totaling US\$236 million. These figures include investments made in 2005 which matured in the same year or will mature in 2006 or later. The Company pursued again this year a strategy of short-term cash investments, with a weighted average holding period of about 44 days. Around 304 points were secured on average over the median 2005 three-month LIBOR rate.

Interest income earned during the year on the aggregate cash investments was equivalent to an annualized interest rate of about 5.6%. This includes an annualized rate of return of 8.2% on investment in securities.

### Corporate Funding

In line with the decisions made by the Company's management in 2004 to reduce borrowing levels by accelerating bank loan repayments, this strategy was pursued in 2005, utilizing growing levels of liquidity generated from land sales. Previous flexible and low cost short-term funding arrangements with local banks were maintained in parallel for optimum cashflow management.

The two locally syndicated corporate loans, US\$100 million each, which were refinanced in 2004 for the second time with shorter term and lower interest rates, were again considered by the Company for prepayment. At end 2005, prepayment notices were issued for the remaining outstanding principals of US\$40 million and US\$30 million with Fransabank and Arab Bank respectively. Both of these loans were fully repaid by end March 2006.

Solidere continued repayment 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 as COFACE guarantee premium. Half-yearly payments of US\$7.7 million in principal repayment and interest at 7.39% per annum had started in 2001. The outstanding balance was US\$31 million at end 2005 and US\$22.4 million by end February 2006. Having reached a debt-equity ratio of 20%, Solidere reduced the loan collateral from US\$37 million to US\$30 million in 2003 and US\$18.5 million in 2004. The collateral is to be reduced progressively to represent at all times two principal maturities plus accrued interest.

Consolidated repayment continues on the three loans used to finance land reclamation works:

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\$2.3 million.

Two parallel facilities concluded with Citibank N.A. - Beirut Branch in 2001 to the amount of US\$24.7 million: a US\$14.7 million 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\$16.4 million.

In 2005, 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. At end 2005, Solidere had outstanding overdrafts of US\$10 million with two local lenders.

At year end, Solidere's indebtedness to banks amounted to US\$129.4 million, substantially lower than the 2004 level of US\$234 million. By end March 2006, the debt fell to US\$51 million, all of which in 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 2005 the debt-equity ratio dropped to 7%, substantially lower than the 13.98% ratio by end 2004.

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%. This five-year arrangement will mature in 2006.

At end 2005, Solidere had 4.3 million treasury shares outstanding, of which 2 million shares were sold in 2005 with a two-year put back option. The price was US\$10.3 per share, with the strike price at maturity, December 14, 2007, of US\$11.44 per share. By end March 2006, the option is deemed expired as part of these shares were traded. Another 600,000 shares with a put back option maturing on February 24, 2006 were deemed finally sold as the option was not exercised by the investor at the maturity date.

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 and were still held at end 2005 with a view to be retired.