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The Process of Going Public:
Incentives and Obstacles
Case of Lebanon

by

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Abstract

A privately held firm, which is concerned about the disadvantages of using too much debt, will sometimes resort to going public. The process of selling shares to the public is known as an Initial Public Offering (IPO). Upon going public, the firm's ownership structure gets diluted and pressure is imposed on management in order to achieve projected or targeted results. Any underperformance by the firm will result in decreasing the stock price, thus, lowering the overall value of the firm and the investor's confidence.

This study intends to provide an understanding of the initial public offering (IPO) process in Lebanon. The objective is to highlight the IPO process, its benefits, obstacles and disincentives.

The methodology used is a survey of privately held companies in Lebanon in addition to statistical and financial analysis.

We have found that the IPO process in Lebanon is still in its infancy when compared to most developed countries or even most Arab countries that have active stock markets. The political and economic instability of the country has not been encouraging many businesses to go through the IPO adventure. The number of IPO's has remained muted in recent years.

The Beirut Stock Exchange (BSE), the only stock exchange in the country, was established in the 1920s and was the first in the Middle East. The BSE is currently characterized by a limited number of listed domestic companies with a low daily volume of trading. Beirut Stock Index is highly volatile due to the instability in the country.

Upon examining a number of listed Lebanese companies, I found that their stock prices are not strongly affected by the political and economic conditions which currently govern the country. These companies are performing well and are generally closely held, which means that the majority of the shares are under the control of management. On the other hand, these companies have a high level of reliance on their businesses outside Lebanon. These two reasons together with others, have made these companies immune to many changes or troubling events in the country.

The study proceeds as follows: Section I provides an overview of the Lebanese economy and the different components of the economy. Section II describes the common forms of business in Lebanon with the brief understanding of rules and regulations related to these businesses. Section III discusses the history of the Beirut Stock Exchange, the administration, the listing requirements, the costs of going public, the rules concerning foreign investors and the correlation with other stock markets. Section IV analyses the pros and cons of going public in Lebanon through a survey conducted for this reason. Section V includes a financial analysis of four Lebanese publicly traded companies. Section VI concludes this paper.

I - Introduction: The Lebanese economy

a) An Overview of the Current State of the Lebanese Economy.

Lebanon gained its independence in 1943. Since then it has been known to have an open laissez-faire economy. This was the direct result of the existence of a traditionally influential business class which was close to the political leadership and which supported liberal economic policies, generally conservative fiscal and monetary policies, and the opening of the national economy to the outside world. This openness was evidenced in the early 1950's when the exchange rate system became completely free of any restrictions in sharp contrast to the exchange systems of most neighboring countries which were distinguished by strict controls and restrictions. Most of the government policies were in support of the private sector and individual initiatives. This action was the direct opposite of nearby Arab countries that were nationalizing the private sector of the country. As a result, private capital in these countries tended to seek refuge and investment opportunities abroad especially in Lebanon with its private sector oriented and open economy. Lebanon also attracted foreign capital and investments from Lebanese expatriates who live abroad, especially in Africa and South America. The outcome was the rapid and broad-based expansion of the Lebanese national economy.

This economic growth continued and reached its peak in the 1970s when the economy was booming, and Lebanon, with its banking secrecy and service-oriented economy, was the destination of the major foreign investors. These investors had also a direct effect in the flourishing of the Beirut Stock Exchange.

This bright picture, however, did not last long and was damaged by the ignition of the civil sectarian conflict which lasted for about 15 years. As a result, the whole economy collapsed, the infrastructure of the country was severely damaged and the Lebanese pound quickly depreciated accompanied by mounting inflation.

By the end of the civil war Lebanon started reconstructing its ruined infrastructure, revised basically most of its business laws and regulations, and regained its banking sector reputation characterized by high financial standing and banking secrecy laws.

The economy enjoyed an accelerating growth rate in the period stretching from 1991 though 1994 reaching its peak of 8 percent in 1994. It was induced by increasing public sector expenditure and private sector investments led by the construction sector. The private sector had high and positive expectations regarding future prospects. The period stretching from 1995 to 2000, saw a gradually declining rate which became slightly negative in 2000. This was partly attributable to continuous borrowing by the Lebanese government at relatively high interest rates in order to finance continuous budgetary deficits, with a consequent dramatic rise in the public debt. Regional political uncertainties and conflicts also contributed to the declining rate of growth and the decrease in foreign investments to the region generally and to Lebanon particularly.

For the years stretching from 2001 through 2004, the Lebanese economy revived again. The economy started to grow, due to better economic and political situation in the country and the region. This growth reached an estimated 5 percent in 2004. This improvement was mainly related to the flow of Arab capital and investment towards Lebanon, as well as other Arab countries, in the aftermath of the September 11, 2001 event in USA. These investments were mainly in the real estate sector and service oriented-sectors such as hospitality and tourism. Banks benefited the most from these investments, where an expansion in deposits was noted easing the pressure coming from the budgetary deficits of the Lebanese government that was financed by local banks. This improvement was also enforced by monetary and fiscal policies imposed by the government aiming at reducing the public debt, where higher taxes were imposed and value-added tax (VAT) was introduced in 2001, bringing more income to the government. The "Paris II" donors Conference in November 2002 secured USD 4.3 billion in financial assistance to help re-schedule much of the burden caused by the debt. However, the results of this conference were sabotaged by the then ongoing conflict between the Government and the President especially concerning the disputes over privatization.

Starting in February 2005, following the assassination of Prime Minster Mr. Rafic Hariri, Lebanon was once again submerged in political and security turmoil. As a result, the growth rate of the economy in 2005 was estimated to have dropped to 1 percent. This decline in growth was also observed in Lebanon's Beirut Stock Exchange which had major fluctuations triggered by the different political and security conditions that marked the year 2005. This, however, was changed at the beginning of 2006 where there was positive economic outlook with the renewed interest from Arab and foreign investors, increased consumer confidence, a rise in exports, strong construction activity and a promising year for tourism. This was the direct result of the liquidity generated in the Gulf area as a result of increasing oil prices. This trend was accompanied by regional and international support for the structural reforms that the authorities were trying to implement. However, this positive outlook for 2006, characterized with strong first half results, was severely affected by the Israeli war which started in July and lasted for 33 days of hostilities, resulting in a direct damage that was estimated by the European Commission at USD 2.8 billion together with indirect losses (foregone revenues in the form of lost investments, construction, spending...) estimated also by the European Commission to be two to three times the direct losses. Thus, the Lebanese economy stagnated during this period. The last quarter of the year did not experience any improvement, since Lebanon was under siege by Israel for months. The political situation was in deep crisis caused by the conflict between the government and the opposition.

The Lebanese pound, which is unofficially pegged to the U.S. dollar, remained stable throughout these crises due to adequate tactics employed by the Central Bank.

The banking sector, which is the backbone of the Lebanese economy, sustained its aggressive strategies towards pulling domestic corporate and retail clients. On the other hand, Lebanese banks continued their expansion and diversification policies in the region and emerging markets in order to minimize the effect of local political and security risks.

The performance of the Beirut Stock Exchange (BSE) was in harmony with the events which disrupted the country. Required and necessary measures were taken by the BSE officials in order to protect the rights of listed companies and investors. The first half of 2006 recorded strong performance by the BSE similar to the same period in 2005, especially in February, where the BSE reached its peak performance due to high expectations and strong confidence. However, the overall performance during the year 2006 remained below that of 2005. Trading on the BSE during 2006 witnessed activity fluctuations but managed to be favorable, despite the exceptional events witnessed by the country. The values of shares traded reached USD 2,032 million compared to USD 923 million during 2005, posting an increase of 120%. The volume of shares traded increased from 89.75 million shares to 134.85 million shares marking a 50% rise during the said period. Moreover, the number of transactions executed was 42,928 making an increase of 164.5% between 2005 & 2006. It is worth mentioning that the above listed performance indicators are the highest since the reopening of the stock exchange in 1996.

The year 2007 started with the government adopting ambitious and comprehensive medium-term programs of socio-economic reforms. These reforms were the result of the international community's support to Lebanon in the form of Paris III donation Conference, held in January, which secured around USD 7.6 billion in potential financial aid and conditional loans. However, the implementation of the reforms, required by the conference, was faced with a lack of national consensus on the reforms necessary and serious political instability.

The Lebanese economy has managed to end the year with a slightly positive real GDP growth. Results were much better than 2006, but still much lower than 2005. The mounting of political tension between the Government and the Opposition has been harming the country because of the wait and see attitude among investors.

Despite the negative outlook of the political, economic and the security situation, the banking sector enjoyed a healthy growth in deposits by 10.9% with consolidated net earnings growing by more than 30%.

The Beirut Stock Exchange (BSE) had an acceptable performance considering the unstable situation in the country. This performance experienced high fluctuations driven by the political situation. The BSE reported a narrow trading volume, with an annual trading volume reported at USD 925 millions, thus dropping more than 50% from the previous year.

Currently the Lebanese economy appears to be in a recessionary phase as a result of the continuous political and security turmoil in the country, where the unofficial data for unemployment is estimated to be between 15% and 20%. Reform is badly needed in the public sector, with many being given jobs by the state in order to keep them off the unemployment lines. This has, of course, led to huge wage bills for the government. To make matters worse, pressure not to cut back on jobs was coupled with pressure to increase wages. Corruption has also been a problem throughout the Lebanese economy.

Within such an environment, the country is in need for a real economic growth, way above 6% for years to come, in order to improve the living and welfare standards. Such growth is needed for returning the confidence of investors and a realistic and comprehensive action from all in order to bring the country back on the right track.

b) The main components of the Lebanese economy (different sectors and industries)

The liberal and open market economy of Lebanon is mostly dominated by two main sectors which are the services and banking sectors representing 70% of the country's gross national product. The remaining 30% are distributed mainly between the industrial and agriculture sectors.

i. The Tourism Sector

One of the major components of the Lebanese economy is the service sector. ***Tourism***, which is the main driving force behind the service sector, accounting for 25 percent of the economy, is supported by an industry of hotels, restaurants, casinos, and nightclubs. Tourists are attracted to Lebanon's magnificent natural scenery, its moderate climate, historical sites, and cultural activities. This sub-sector is highly affected by the political situation in the country. As an example of this effect, we compared the statistics released by the Lebanese Ministry of Tourism for the years 2005, 2006 and 2007 which were the scene for varying political instabilities discussed in Audi-Saradar Group "Economic Report" (2008) and Fransabank (2007). The number of tourists in 2007 declined by 4.3% compared to 2006 which also noticed a decrease by 6.8% compared to 2005. If we compare the year 2007 to previous years and not just 2006 which had a war, the number of visitors would be the lowest in three years. The adverse political and security conditions placed Lebanon on a list of the "world's most dangerous destinations" published annually by *www.Forbes.com,* a US based-web magazine producing these rankings since 2003. In 2007, Lebanon was the 8^{th} most dangerous country out of 10 states, up from the 11^{th} place in 2006's list of 12 countries. This was also the direct result of the Israeli July 2006 war on Lebanon and the siege that followed, that continued for several months, reducing the willingness of tourists to visiting Lebanon even after the end of the war. After all who will visit a country with so much political instability?

ii. The Banking Sector:

Lebanon was the region's ***Financial Services*** Center. In the 1960s, Lebanese banks were the main recipients of the region's petrodollars generated as a result of the booming oil sectors in most of the region's Arab countries. Currently, financial services consist mainly of commercial banking, investment banking and insurance. Despite the conflict and a crisis in the late 1980s involving a small number of banks, the commercial banking sector remains a centerpiece of the country's service-oriented economy. The banking sector witnessed unique growth during the period from 1992 to the present. This growth also continued in the period after the assassination of Prime Minster Mr. Rafic Hariri in spite of all political instability. The banking system is seen as playing a key role by being the entry point for capital inflows for the region's development. At the same time the authorities are aiming at widening and deepening the financial sector by facilitating the establishment and evolution of, and providing a regulatory framework to, more diversified private financial institutions. Several investment banks, with capital raised offshore, have been established in Beirut and offer a variety of traditional investment banking services, including debt and equity raising and corporate finance advisory services. Several commercial banks have established investment banking subsidiaries offering similar services. As a part of the Government's strategy of re-establishing Beirut as a regional financial services center, the Central Bank established in 1994 a central depositary, settlement and clearing agency, MIDCLEAR, which is a joint stock company whose roles and functions are discussed in further details in section III of this paper. The Government reopened the Beirut Stock Exchange in 1996 (also discussed in section III).

According to the Central Bank of Lebanon (2998 & 2007), despite of the political and economic conditions in Lebanon, the banking sector had a good year in 2007, where the sector had a 30 % annual growth in net profits compared to 29.5% increase in 2006 and an increase of 5.7% in 2005. Assets grew by 10.7% in 2007 which was mainly due to the increase in customer deposits by 10.9% compared to 6.5% increase in 2006 and a shy increase of 3.9% in 2005.

iii. The Commerce Sector

Another sector of the Lebanese economy is the ***Commerce*** sector. Before the war erupted in 1975, domestic, foreign, and transit trade (the re-export of products manufactured outside Lebanon but distributed through it) stimulated prosperity; these forms of trade have begun to revive since the war. The Port of Beirut plays an important role in Lebanon's commercial activities. After World War II, Beirut became the most important Arab port on the Eastern Mediterranean serving the Arab world. A free-port area for re-exports added to Beirut's success. Work has been completed on the reconstruction of the Duty Free Zone at the Port of Beirut to restore its pre-war capacity together with the rehabilitation and expansion of the Port of Beirut. As per data released by Audi-Saradar Group (2008) and Fransabank (2007) research departments, an increase in activities of the port in 2007 was noticed compared to 2006 by more than 20% in terms of number of ships, containers and tons of goods transported. This increase was due to the fact that 2006 noticed a dead period during and after the July war. The number of ships was up by 19.4% in 2007 compared to 2006 which dropped by 17.8% compared to 2005. The number of containers increased by 28% compared to 2006 which noticed a decrease of 6%. Likewise the volume of merchandise unloaded at the port went up by 25.8% in 2007 compared to 2006 which had a declined by 5.5% compared to 2005. According to the port authorities *"year 2007 was characterized by strong operations reaching full capacity and plans to further expend this potential. Trade is also benefiting from the regional boom, as half the port's activities are transited to neighboring countries"*.

iv. The Construction Sector

Construction is another major sector in the Lebanese Economy. Prior to the civil war in Lebanon, the property sector had always been significant, with a substantial portion of the activity concentrated in Beirut, where the housing needs of the city's rapidly increasing urban population had to be met. Beirut saw an almost uninterrupted boom from the late 1950s to the early 1970s, when it expanded dramatically, eventually to house half of the country's population. Mountain towns and villages close to Beirut favored by tourists, such as Aley and Bhamdoun, also experienced a boom. After the end of the civil war, Lebanon witnessed a significant construction boom especially in Beirut Downtown area where the largest construction project started by a publicly held company "Solidere" which we study in Section V of this paper. Real estate prices have risen steeply, especially for prime property, but have recently stabilized. The boom has been fuelled by a mixture of local, expatriate and Gulf Oil booms which are placing their liquidity in this sector. With respect to residential property, it has been concentrated mostly at the upper end of the housing market. As the stock market has resumed its operations only recently, land and construction have been viewed by many as attractive investment opportunities. Construction projects are financed mainly by equity investments. The relative low taxes in Lebanon, the improvement made in terms of property transfer operations, and the facilitation of foreign ownership, have been other demand-pushing factors. Lebanese real estate is considered the cheapest in the region where the return on property investment is quite higher compared to low interest rates and depreciated US dollar. Real estate prices are rising everyday since big investors are buying and holding large portions of real estate in anticipation of a bright future for Lebanon. According to the Directorate of Real Estate disused in Audi-Saradar Group *"Economic Report"* (2008), the real estate transactions in 2007 increase by 21.4% compared to 2006 which had an increase of only 3.7% compared to 2005. On the other hand, the number of sales operations increase in 2007 by 33.7% compared to 2006 which noticed a decreased by 2.15% compared to 2005.

v. The Industrial Sector

The ***Industrial*** sector, consisting mainly of the production of cement, furniture, paper, detergents, cosmetics, pharmaceuticals, batteries, garments and processed foods, is almost entirely privately owned except for the production of cement lead by Holcim

Liban SAL, a publicly held company, which we study in more depth in Section V. Exchange rate and price stability coupled with the gradual fall in Lebanese Pound interest rates have contributed to a better environment for investment and growth in industry. Infrastructural bottlenecks resulting from the conflict are being addressed as improvements in roads, telephones and electricity supply are realized. The Government provides various incentives for the establishment of industrial facilities in Lebanon, including fiscal incentives in the form of reduced customs duties and tax exemptions. As per Audi-Saradar Group *"Economic Report"* (2008), cement deliveries, which is an indicator of building activity, increase by 19.7% in 2007 as compared to 2006, however if we exclude the particular growth in the months of July and August as compared to the equivalent months in 2006 that noticed the destructive war, the growth rate would be limited to less than 3%.

vi. The Energy Sector

Lebanon's ***Energy*** sector is dominated by the state-owned Electricité du Liban ("EDL"). EDL is a vertically integrated utility with approximately 900,000 subscribers. Lebanon's energy production facilities include three thermal power stations, two gas turbine stations in each of Baalbek and Tyre and seven hydroelectric stations. In addition to two combined cycle power plants. The power sector sustained severe physical damage to all its production transmission and distribution facilities during the civil war and the Israeli aggressions against Lebanon. EDL also incurred financial losses resulting from low tariffs, high technical and non-technical losses, including widespread illegal connections, and loss of control over its commercial operations. EDL has been regaining control over its operations. Following the rehabilitation of existing plants, tariffs were increased significantly. Steps are being taken to address billing and collection weaknesses as well as non-technical losses. EDL is considered as the second major burden on the Lebanese government, after personnel cost of the public sector employees, due to the high cost per ton of electricity produced as a result of high oil prices that most of EDL factories operate on and the fact that most of these factories are obsolete with old production equipments and mechanism.

vii. The Agricultural Sector

Although one third of the Lebanese land can be used for Agricultural intentions, the ***Agriculture*** sector is one of the weakest and neglected sectors in the Lebanese economy. The most fertile areas are located along the coastal strip and in the Bekaa valley. The diversity of the Lebanese topography and climate enables cultivation of a wide variety of vegetables, fruits, industrial crops and cereals. As per Audi-Saradar Group *"Economic Report"* (2008), the *Higher Customs Council* reported a growth in agricultural exports by 28.8% in 2007 compared to 2006. this sector remains underdeveloped compared to neighboring countries. Farmers complain of lack of government support with most of the assistance coming from NGO's and in the form of technical assistance. A major threat to this sector arises at present from the gradual lifting of Lebanon's import barriers against the European Union starting 2008, and exposing the sector to strong competition from western countries that have sophisticated techniques and high quality produce. Lebanon will not benefit from the free trade agreements in agriculture, not only because the sector is underdeveloped and not well equipped to meet international competition, but also because there is no direct and indirect support to farming by the government as is the case in other neighboring countries.

<u>Conclusion:</u>

The Lebanese economy is mostly dominated by the services and banking sectors, where all the other sectors suffer from major losses or lack of interest from the public or the Government in general.

On the other hand, tourism, which is a major component of the Lebanese services sector, is highly volatile and sensitive to any political conditions in the country. This fact was highly evident in the last few years, where this sector suffered form major setbacks due to unstable political conditions in the country.

Despite all the political and economic crisis and conflicts that the country passed though in recent years, it is clear that the banking sector remains the centerpiece of the country's service oriented economy.

II- The Common Forms Of Business In Lebanon

a) Legal forms of companies in Lebanon

Lebanon is known in the region for having a liberal and open economy, especially when compared to other Middle Eastern countries. Its free market economy encourages investors from all over the world to conduct their business activities in Lebanon with supportive liberal laws, despite governmental bureaucracy which prolongs the time it takes to complete official papers necessary for conducting business.

Generally, all companies are governed by the Lebanese Commercial Code and its regulations. The government encourages cooperation between foreign and Lebanese companies. Unlike many countries in the region, Lebanese law does not require joint ventures to have a minimum percentage of Lebanese ownership.

An investor has two options for conducting business in Lebanon:

a. Providing the capital needed, and establishing a business on his/her own or

b. Partnering with other people which might take one of various forms depending upon the desired number of partners, except in certain cases where the law imposes a specific business form, as we shall see later.

In this section we will provide a brief description of the types of companies that are authorized by law in Lebanon in addition to some taxation laws which govern these companies as such:

A – Companies of persons;

B – Companies of capitals;

C – Other forms of companies; and

D – Lebanese Taxation Laws.

A – COMPANIES OF PERSONS:

The creation of these types of companies is based on acquaintance and trust between partners; hence, it is based on the unification of both efforts and capital.

In discussing each of these company types, we will refer to their main characteristics and the establishment process of the companies.

Companies included in this type include the following:

1) The Partnership Company:

- *Main Characteristics:*

A Partnership company has the following main characteristics:

- Each partner has the legal position of a merchant and is therefore subject to commercial and bankruptcy laws i.e. the bankruptcy of the company might lead to the personal bankruptcy of the partner.
- Creditors of the company can sue one partner or all partners personally and seize their private estates in settlement of their claims, if the company fails partially or totally to do that. This responsibility on the part of partners is collective in that the creditor can sue even one partner for all the debts of the company.
- The title of the company should carry either the name of one partner or the names of some partners added the word «partners».
- A partner is not permitted to sell his share in the company to others without the consent of the other partners.

- *Establishment Procedures:*

The following represents the establishment procedures of a Partnership company:

- Two or more persons are required for the establishment of a partnership company. Each person should naturally enjoy the legal capacity to perform contracts and to practice business.

- The partners sign what is called a statute or by-laws regulating the terms of the company mainly: Capital required (no minimum amount is imposed), location, title, subject and term of the company, the share of each partner, the extent of his participation in profits and in losses and the manner of ceding his shares as well as the management policy of the company.
- Each partner submits to the company the amount of capital he had promised to invest whether money or otherwise.
- The statute of the company should be registered and deposited at the commercial register.
- A declaration about the date of the beginning of work should be submitted to the Ministry of Finance.

2) The Simple Commandite Company

- *Main Characteristics*

A Simple Commandite company has the following main characteristics:

- This type of company, like a partnership company is established on the basis of confidence and acquaintance between partners, and as such a partner is not allowed to dispose of his shares without the consent of all other partners.
- The company is composed of two categories of partners:

  Silent or sleeping partners and authorized partners (no restriction is imposed upon the number of partners in each category).

  Silent or sleeping partners: Are those who want to invest the capital they have in the company in anticipation of profits. They prefer to be partners ready to bear risks and to share profits rather than being lenders especially in cases when the company is not willing to borrow. These are the silent partners whose names do not appear publicly and who are not allowed to take an active part in the management of the business; their functions are those of management control, and any appearance as partners in the company shifts them into acting or authorized partners.

Authorized partners: Their position is similar to that of partners in a partnership company. Partners of this kind may offer their money, experience, business reputation and work to the company. They are the ones who assume the management responsibility. They are liable individually and collectively for the debts and obligations of the firm, i.e. every partner assumes full personal liability for the debts, whereas the liability of a silent partner is limited to the amount of capital he has invested in the company.

- Unlike an acting partner, a silent partner does not possess the legal position of a merchant and cannot act as such.

- *Establishment Procedures*

This company is established along the same lines of a partnership. The only difference is that a silent partner's name should not appear in the title of the company.

3) The Particular Partnership Company or Joint Venture

- *Main Characteristics*

A Particular Partnership company has the following main characteristics:

- This company has no legal presence; it exists only between partners and is not known by outsiders. It deals with customers and others in the person of one of the partners who carries out its affairs not in his capacity as a representative of the company, but as the sole owner of the business.
- Adjustment of shares and participation in profits and losses are agreed upon between partners.

- *Establishment Procedures*

There is no need for this type of companies to be publicly established, that is registered at the commercial register, since it does not appear to the public. There is only the contract or deed of the company which is set by partners and limited solely to them.

4) **Limited Liability Company**

These types of companies were established according to a resolution passed in 1967 by the Lebanese Government. The characteristics of these companies pertain to both Companies of Persons and Capital Companies; however, it is listed under Companies of Persons since the shares are not freely negotiable.

- *Main Characteristics*

A Limited Liability company has the following main characteristics:

- The liability of a partner is proportional to his investment in the company, and a partner does not possess the legal quality of a merchant and as such his position is similar to that of a partner in a joint stock company.
- The establishment of this company does not undergo same complicated formalities as those of a joint stock company.
- The number of partners is relatively small (a maximum of twenty partners) as is the case in other companies of persons.
- A partner does not have the right to dispose of his shares without the consent of a minimum of three fourth of the partners.
- The Limited Liability Company is taxed at a flat rate of 10% on generated net profits.

- *Establishment Procedures*

The establishment procedures of a Limited Liability company are as such:

- The creation of a limited liability company requires the association of a minimum of three persons and a maximum of twenty. If the number of persons exceeds twenty, the company has to be transformed into a joint stock or limited company.
- Partners united should contribute a maximum amount of L.L. 5 million as capital.
- After the statute of the company is set up and contributions both in kind and in money are delivered, the following arrangements are taken:
  - ➢ Contributions in kind are assessed by an expert juryman.
  - ➢ Statute is hung at the door of the headquarters of the company.
  - ➢ Shares are distributed among partners.

- ➢ Statute is registered and deposited at the commercial register where the headquarters of the company are located.
- ➢ A declaration about the date of the beginning of operations is submitted to the Ministry of Finance.

❖ As far as regards the subject of the company, i.e. nature of its business, limited liability companies are not permitted to engage in operations related to insurance, savings, organized air transport, banking or capital investments for the account of others. He who wants to undertake such operations has to choose another form of company usually a joint stock company.

❖ A controller (auditor) has to be appointed when capital invested exceeds L.L. 30 million (USD 20 thousands).

B – CAPITAL COMPANIES:

These companies are composed of persons who invest their money jointly in the company without having any previous knowledge of each other.

In discussing each type of these companies, we will refer to their main characteristics and the establishment process of the companies.

Companies include in this type include the following:

1) The Joint Stock or Limited Company

- *Main Characteristics*

A Joint Stock or Limited company has the following main characteristics:

- All partners are shareholders and each partner owns one or more shares of the capital.
- A partner does not possess the legal position of a merchant.
- The personal liability of a partner is limited to the amount of his investment in the enterprise.
- The title of the company does not include any of the partners' names; it is usually descriptive in that it indicates the nature of the business undertaken by the firm.

- The form of a joint stock company is usually depended in big well organized businesses requiring great amounts of capital, and most often the businessman resorts to such form of company either because he does not possess the total amount of capital required, or if so, he prefers to invest only a part of this capital in the business under consideration.
- Certain joint stock companies enjoy the membership of the stock exchange where their stocks are traded. The advantage of such an arrangement is that the shares of a partner are made more readily convertible into cash.
- The limited form of company is legally imposed on certain business organizations such as insurance companies, banks and other financial institutions.
- The interests of a partner are safeguarded through his right to management control and by the detailed legal regulating process of managerial functions required in such kinds of companies.
- In terms of tax liability, a joint stock company is subject to a ten percent (10%) tax on its net profit and a five percent (5%) tax on the distribution of dividends

(Lebanese Taxation laws are discussed in further details in Section D at the end of this chapter).

- *__Establishment Procedures__*

The establishment procedures of a Joint Stock or Limited company are as such:

- The establishment of a joint stock company calls for the association of a minimum of three members and a maximum of twelve (half of the members should be Lebanese citizens).
- The statute should be specified in writing and duly signed by establishers.
- The statute has to include the terms of the company mainly: the subject of the company, its title, headquarters, branches, term, amount of capital, (provided it is not less than L.L. 30 million or USD 20 thousands) number and classification of shares, value of each share, determination of contributions in kind, ways of capital adjustment, management policy, general assemblies, profits and reserves.
- The statute should be registered and deposited with the notary public concerned.
- Subscription to the shares should be called for through press (accomplished usually by a bank).

- Contributions in kind should be assessed by an expert juryman.
- The meeting of the establishing general assembly of shareholders should be previously called through press. Agenda of business before the assembly being:
  - ➢ The approval of the "Statute, of the establishing functions and of the assessment of contributions.
  - ➢ The election of the members of the board of directors.
  - ➢ The appointment of the controller.
- The statute of the company should be registered and deposited at the commercial register where the headquarters of the company are located.
- A declaration about the date of the beginning of work should be submitted to the Ministry of Finance.

2) <u>The Commandite Shareholding Company</u>

- *<u>Main Characteristics</u>*

A Commandite Shareholding company has the following main characteristics:

- It is composed of two categories of partners: the acting partners who assume full personal and collective liability for the debts of the company, and who are solely entrusted with management responsibility towards the public, and the silent partners whose personal liability is limited to the amount of capital each has invested in the business.
- The company may carry for title the name of one or of more acting partners.
- Except for these two characteristics which are similar to those of a simple commandite company, this form of company is subject to same establishing laws and operating procedures as those of a limited liability company, except for certain simple differences, examples of which are:
  - ➢ A minimum of two persons are required for the creation of such a company, instead of three as is the case in a limited liability company. These two persons are: the silent partner and the acting partner.
  - ➢ Management responsibility is limited to acting partners or trusted to an outsider.

- ➢ A board of directors is not necessarily required, and managers are not supposed to own qualification shares (as a guarantee for their managerial conduct).

C – OTHER TYPES OF COMPANIES:

In discussing each type of these companies, we will refer to their main characteristics.

Companies include in this type include the following:

1) Holding Company

- *Main Characteristics*

A Holding company has the following main characteristics:

- It must be established in the form of a joint stock holding company and it must have its head office in Lebanon.
- It is required to have a minimum capital investment of L.L. 30 million (USD 20 thousands).
- Its board must consist of at least two members who are of Lebanese nationality.
- The company must be registered in the Commercial Register and in a special register for holding companies.
- Holding companies are exempt from income taxes on their profits and on profit distribution. They are subject to capital gains tax (currently taxed at 6%) if the shares sold were owned by the holding company for less than two years. Annual fixed taxes on capital and reserves range from 2-6%.
- The activities of a holding company are limited to the following:
  - ➢ the acquisition of shares/equity;
  - ➢ management and granting of loans to companies operating within Lebanon in which the holding company owns at least twenty percent (20%) of the shares;
  - ➢ holding and leasing of patents, inventions, concession rights, and registered trademarks; and

- ➢ The purchase of goods and real estate needed for its operations.

2) Offshore Company

- *Main Characteristics*

An Offshore company has the following main characteristics:

- It is specifically prohibited from engaging in industry, banking operations, insurance or any other commercial activity in Lebanon. It is also prohibited from earning any profits or revenues through movable or immovable assets in Lebanon, or through providing services to companies located in Lebanon, except for the interests on its bank accounts.
- The offshore company must be formed as a joint stock company and a bank guarantee of L.L. 100,000 is required upon formation.
- At least two Lebanese nationals must occupy positions on the company's Executive Board.
- The company must be registered both in the Commercial Register and in a special register for offshore companies.
- Profits are tax exempt but the company is subject to an annual flat tax of L.L. 1 million. The capital gains resulting from the sale of the offshore company's fixed assets in Lebanon are taxed at a rate of 6 percent. The salaries and wages of the employees working at the offshore company are subject to taxes on wages and salaries at rates varying from 2 to 10 percent.
- The activities of an offshore company are limited to the following:
  - ➢ negotiating and concluding of contracts and agreements to be executed outside of Lebanon or in the free trade zone areas;
  - ➢ storage of goods and products in customs free zone;
  - ➢ preparation of studies or undertaking consulting for use abroad; and
  - ➢ Banking, financial and brokerage activities to be executed outside Lebanon.

3) **Branch or Representative Office**

- *Main Characteristics*

Branch or Representative Office has the following main characteristics:

- A foreign company doing business in Lebanon may set up either a branch office or a representative office. These offices must be registered at the Commercial Register of the district in which they are located.
- A representative office is a liaison office that offers technical assistance in the market and handles public relations. The office may not engage in any commercial activity or generate any business profit. As such, all expenses and costs of the office must be covered by foreign transfer from the outside head office. Because of its nature, the representative office is only subject to personal income tax.
- A branch office, on the other hand, may undertake any commercial activity, except that which by law requires a certain legal form and/or that which is exclusively reserved for Lebanese nationals and/or companies. A branch office is subject to both corporate and personal income tax.

4) **Insurance Company**

- *Main Characteristics*

Insurance Company has the following main characteristics:

- Special authorization from the Ministry of Economy is required to establish an insurance company. They must take the form of joint stock companies.
- Minimum capital of L.L. 300 million (USD 200 thousands), is required, with basic reserves of L.L. 90 millions (USD 60 thousands) and cautionary reserves of L.L. 750 millions (USD 500 thousands).
- In order to conduct business in Lebanon, a foreign insurance company must demonstrate that its country of origin provides reciprocal treatment for Lebanese companies doing business there. Once it has done so, it will be licensed to do business in Lebanon in the same types of insurance it is licensed to pursue in its home country.

5) **Banks**

- *Main Characteristics*

Banks have the following main characteristics:

- Banks must be formed as joint stock companies and require prior authorization from the Central Bank. The Central Bank sets the specific capital requirements.

- One-third of all bank shares must be held by Lebanese nationals or Lebanese companies with foreign participation.

- Lebanon also has very strict banking secrecy laws that, with few exceptions, prohibit disclosure of client information by bank employees and others with access to the client's banking details. The Code of Banking Secrecy governs this area and sets out the additional advantages, as well as exceptions, to this system.

D – LEBANESE TAXATION LAWS:

All legal entities, both Lebanese and foreign, are subject to the tax law, whether or not they are based in Lebanon.

Generally, the maximum income tax rate for corporations is 10% of net profits and 5% on the distribution of dividends. Companies deriving income in Lebanon, but not having a place of business there, are subject to a 10% tax on their net taxable income.

The Lebanese laws provide for numerous tax exemptions. The most relevant are:

- Educational institutions; hospitals, orphanages and shelters that admit patients for free; and mental institutions receive an indefinite exemption.

- Agricultural ventures and agricultural consumer cooperatives also receive an indefinite exemption under the Tax Law.

➢ Profits generated by an industrial entity in Lebanon receive a ten (10) year tax exemption if the entity: (1) is established in Lebanon after 1980; (2) is established in an area the government is seeking to develop; (3) produces products not produced in Lebanon before January 1, 1980 and (4) owns more than L.L. 500 million in production assets. This exemption requires a government decree based on a recommendation by the Ministers of Finance and Industry and Oil.

➢ Holding companies are exempt from the tax on profits and distributions described above; however, they do pay tax on their capital at the following rates:

- 6% of capital up to L.L. 50 million.
- 4% of capital between L.L. 50 and LL 80 millions
- 2% on any amount over LL 80 million.

➢ Offshore companies are exempt from tax on their actual profits, but the law does mandate that they pay an annual flat rate of LL 1 million. Furthermore, foreign employees of offshore companies benefit from a thirty percent (30%) exemption on earned income tax. It is important to note that if an offshore company engages in unauthorized activity, it will be taxed as a joint stock company and subject to a penalty equal to fifty percent (50%) of that tax.

The information discussed in this section was based on the following sources:

- Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon.

http://www.ccib.org.lb/

- Ali & Partners (Attorney & Counselors at Law, Specialized in Middle East Law)

http://www.mideastlaw.com/

b) Family Owned Businesses.

The Lebanese economy is supported mostly by small family-owned businesses. According to an article in the Daily Star (2007), Family-owned businesses that dominate the private sector in Lebanon are reluctant to relinquish the control typically given to investors. *"The attitude of these companies' owners has always been unprofessional and wrong,"* said Nicholas Photiades, head of research and investment banking at BLOM Invest *"they wanted to have their cake and eat it, too"*. War and political instability have been crippling the Beirut Stock Exchange, which means that almost not many companies will consider an initial public offering (IPO) under these conditions. Thus the Lebanese economy will continue to be controlled by small family-owned businesses until more favorable conditions exist that favor taking private companies public.

Family-owned Business in Lebanon and most Arab countries face many issues, foremost among them is the issue of succession, i.e. who will carry on the business? How to ensure survival and continuity? How to separate ownership from management and what are the trade-offs?

Nasser Saidi's (2004), who is a former Minister of Economy and Trade, Minister of Industry, and First Vice Governor of the Central Bank of Lebanon, argued that *"separation allows specialization in mobilizing capital from shareholders and creditors, and efficient use of resources through management; and finally, majority versus minority shareholders"*. These issues could be resolved thought the active involvement of the family-owned businesses in financial markets which reduces risk through diversification and divestment of family assets. Also families should decide on an exit strategy in order to solve the successor problem and equity in family inheritance. The challenge is to develop qualified managers who can take care of the business at the best interest of the shareholders.

Dr. Saidi (2003) emphasized the importance of corporate governance in Lebanon and the Arab countries as a whole. In his opinion, small- and medium-sized enterprises (SMEs) will face difficulties enforcing the principles and standards of corporate governance. For example, some 85% of Lebanese firms have fewer than ten employees and 90% of these firms are family-owned. The enforcement of corporate governance measures for SMEs is rather costly.

Dr. Saidi continues with his argument that trust, honesty, and reputation in business transactions are hallowed principles that have been around a thousand years; however, they have to be translated into the modern context of conducting business. With businesses reminded regularly of such principles and creating an incentive-compatible framework so that achieving good corporate governance standards does not necessitate high costs. Individual business people must be convinced that good corporate governance pays off, even in an environment of pervasive bribery and corruption. Commercial laws in Lebanon and most Arab countries need to be reformed in order to better streamline corporate governance principles within the laws. For example, commercial law does not separate ownership from control.

It was further discussed by Dr. Saidi in his paper *"Mobilizing the Arab Private Sector for Corporate Governance"* (2003), that having efficient and well supervised financial markets is essential since they are able to impose transparency, discipline, and accountability. Stock exchanges can play this role provided that they are efficient and supervised by an independent capital market authority. Hence, in many cases, a modern capital markets law must be put into force. In Lebanon, a draft law that privatizes the capital markets (the Beirut Stock Exchange) was prepared five years ago, but it is still awaiting review by the Ministry of Finance.

Dr. Saidi (2003) recommended solving these problems through the implementation of twelve internationally recognized, generic standards for sound financial systems and to follow up on countries' compliance with these standards. The standards are organized under three broad areas: Macroeconomic Policy and Data Transparency; Institutional and Market Infrastructure; and Financial Regulation and Supervision. (See Exhibit 1 for Lebanon's Compliance with the twelve internationally recognized standards for Sound Financial Systems).

Naji Bejjani (2004) argued that that *"Lebanon is often ruled by an elite who by "rite" has the right to access top positions regardless of their qualifications"*. It has been said that *"Ownership and management are tightly entangled, which in a way serves as a glass ceiling for talented employees who cannot hope for a decision-making position within a family-owned and family-managed organizational structure. So the more ambitious choose to either leave the company to establish their own business or consider* *escaping the country altogether"* (The Executive, 2001). In summary, what often counts in Lebanon is not what your qualifications are, but rather who you are, whom do you know, which religious sect you were born into, and which political party you seem to be associated with.

Naji Bejjani (2004) discussed a major set-back for employees working in a family-owned business, which is the lack of interest for training employees in the lower levels. Training is held only at the upper managerial level positions which are occupied by family members, since family members think that they should benefit from training programs much more than employees who are not family members for fear of falling *"victims"* of a situation where subordinates become more knowledgeable than them. The good thing is that current family member-executives consider that training is a necessity since these members themselves are more educated than the older generation that founded the business.

One of the institutions which deal with this matter is the Institute of Family & Entrepreneurial Business (IFEB). This institution, which was established by the School of Business in Lebanese American University (LAU), aims at coordinating and managing research in Family Owned Businesses. The institute provides development programs that assist family businesses in preparing for the future. It facilitates communication amongst faculty, management specialists, company executives, students and the business community at large and allows them to exchange plans and successful ideas in an intellectually stimulating environment. (See Exhibit 2 for more details about IFEB functions).

The situation with family-owned businesses is changing slowly. *"Families are becoming more willing to sell their businesses or parts of their businesses, particularly when they believe they can add value to their business,"* says Samir Assaad, a Director at NBK Capital, during an interview with Kathryn Wells, Euromoney Magazine (2006) *"In the region there is no shortage of money, but business owners are looking for smart money. Today it is much less frowned upon to sell a part of your business than in the past."*

Exhibit 1: Lebanon's Compliance with the 12 Internationally Recognized Standards for Sound Financial Systems:

Macroeconomic Policy and Data Transparency	
1	Monetary and Financial Policy Transparency • This standard is formulated in the form of a Code of Good Practices on Transparency in Monetary and Financial Policies, with the issuing body being the IMF. • Lebanon has achieved substantial progress in this area.
2	Fiscal Policy Transparency • The standard is the Code of Good Practices in Fiscal Transparency; the issuing body is the IMF. • Lebanon is seeking to implement the Code.
3	Data Dissemination • The standards are the Special Data Dissemination Standard (SDDS)/General Data Dissemination System (GDDS), both issued by the IMF. • Lebanon has now entered the GDDS and the Central Bank, with assistance from international institutions (IMF, World Bank) is establishing the Lebanese Statistics Portal (LebStat), which will provide a statistics gateway, a single-access point to available economic, social, financial and real sector data.
Institutional and Market Infrastructure	
4	Insolvency and Bankruptcy Procedures • The World Bank is assisting the Lebanese government in drafting modern insolvency and bankruptcy laws. Principles of bankruptcy are essential for the viability of corporate governance.
5	Principles of Corporate Governance. • The standard defined by the OECD awaits formal adoption in Lebanon by relevant institutions such as chambers of commerce and business and professional associations.
6	Accounting • The standard is the International Accounting Standards, issued by the IASB. • Lebanon recognizes the IAS, but there is no mandatory implementation by business or effective enforcement.
7	Auditing • The standard is enforcing the International Standards on Auditing, issued by the IFAC. • Lebanon recognizes the ISA, but there is no compliance mechanism for the auditing and related professions.
8	Payment and Settlement • The standards are the Core Principles for Systemically Important Payment Systems and the Recommendations for Securities Settlement Systems, issued respectively by the BIS-CPSS and the BIS-IOSCO. • Lebanon has, with the assistance of the IMF, modernized its payments media and systems, bringing them into compliance with BIS Core Principles and related

	recommendations. If the payment systems are not safe, sound, and efficient, firms would not be able to conduct business properly.
Financial Regulation and Supervision	
9	Market Integrity • The standard is establishing the 40 Recommendations of the Financial Action Task Force (FATF) and the Eight Special Recommendations Against Terrorist Financing, issued by the FATF. • Lebanon has issued and enforces a modern Anti-Money Laundering Law (No. 318, April, 2001).
10	Banking Supervision • Lebanon is at the forefront among emerging economies in the application of the Core Principles for Effective Banking Supervision issued by the BIS and related measures, such as the creation credit and audit committees, general audit, and independent surveillance reporting that are directly accountable to the board of directors. It has a well-managed, professional and independent Banking Control Commission.
11	Securities Regulation • The standard is the implementation of the Objectives and Principles of Securities Regulation, issued by the IOSCO. • Lebanon cannot effectively enforce principles and regulations in this key area, until the government establishes an independent capital market authority with the relevant mandate.
12	Insurance Supervision • The standard being the Insurance Core Principles (ICP), issued by the IAIS • An independent Insurance Control Commission has been established as a result of passage of a Law (in 1999) leading to extensive reform of the insurance industry in Lebanon. However, policy measures have yet to be taken to implement the ICP.
	Source: Corporate Governance & Business ethics in Lebanon by Dr. Nasser Saidi "Launch of RDCL "Code of Business Ethics" *Beirut, 28 April 2004*

Exhibit 2: Institute of Family & Entrepreneurial Business (IFEB) functions:

The purpose of the Institute of Family & Entrepreneurial Business (IFEB) is "to enhance the continuity, health and growth of Family Enterprises by:

1. Developing and maintaining a center of research and innovation in a field that hasn't received its due attention;
2. Being a leader in developmental activities in the Family Business field in Lebanon and the Middle East through generating and disseminating information and data on leading and managing Family Owned Businesses;
3. Serving Family Businesses by offering high powered courses in the field;
4. Allowing Family members to interact freely and openly in an intellectually stimulating environment, while at the same time encouraging the education and development of individuals involved in the management and ownership of Family Owned Businesses;
5. Improving knowledge of Family Businesses, facilitating links among professionals serving family Businesses and assisting Family members solve their problems and maximize the potential of their businesses"

Source: Institute of Family & Entrepreneurial Business (IFEB).

c) Small and Medium enterprises (SMEs) versus large Corporations

The Lebanese economy and industrial sector is not very diversified, mostly consisting of small and medium size enterprises (SMEs) with less than ten sub-sectors, among which:

- *The plastic industry:* Leading companies produce containers, tubes, domestic items, and advertising materials. Some of these are very competitive and have established production units outside Lebanon.
- *Textile industry:* Spinning mills and readymade, knitting and weaving factories are the main components of the Lebanese textile industry. It is very export oriented with more than 50% of production sold abroad.
- *Furniture industry:* thanks to a sustained internal demand, the leading companies in this industry have implemented modern production processes and compete on foreign markets.
- *Paper industry:* This sector also invested heavily in modernizing production tools.
- *Marble industry:* Using up-to-date equipment, this industry grew with the domestic demand generated by the reconstruction.
- *Cement industry:* Right after the war, this was among the main industrial products and is now dropping as major infrastructure projects have been completed.
- *Wood industry:* This is a very fragmented industry, ranging from door manufacturing, to traditional furniture.

According to Oxford Business Group (OBG) (September 22, 2006) the Lebanese economy depends heavily on imports, especially fuel and consumer goods, and has been increasingly relaying on the tourism industry. Much of the recent focus in the Lebanese economy has been on how to get the country moving again, however, recently increasing attention is being paid to the needs of small and medium sized enterprises (SMEs) which are very vulnerable to any political or economic setback.

Recently the Ministry of Finance has been trying to ease the burden on businesses by cutting fines for unpaid taxes by 90%. In addition to reducing custom duties to 5% and canceling the fines for late payments for the inspection of vehicles. Such a move has encouraged businesses to pay their late-tax fines as well as the taxes themselves, actually bringing the government a flow of revenues.

Lebanese SMEs face a major problem when raising capital upon close examination of the banking credit allocated to the private sector in Lebanon, one can infer that there is inequality in the distribution of credit. As per the World Bank Group (2004), one percent of the borrowers get 52 percent of the banking credit, while 45 percent get only two percent of the credit. Having access to credit is directly linked to investment and job creation, especially within small and medium enterprises (SME). The concentration of credit in the hands of few family-owned businesses is a major constraint to the development of small and medium enterprises. The establishment of "Kafalat" as a way to aid SMEs is a step in the right direction.

Kafalat is a state-sponsored organization that provides financial guarantees for loans up to US$ 200,000 earmarked for the set up and expansion of small and medium-sized companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during that grace period.

On September 19, 2006 the World Bank announced that it will provide Lebanon with a $70 million grant to assist with reconstruction efforts, with the money being placed in a special trust fund. Some of the grant funds will be directed to the International Finance Corporation (IFC), the private sector arm of the World Bank Group, which is working with the Lebanese government to prepare a program to rehabilitate Lebanon's private sector, focusing on SMEs.

d) Government-owned versus privately owned businesses

Inefficiency, corruption and absence of reforms have been the characteristic of Lebanon. According to Meir Javedanfar article, Meepas (2005), Lebanon was ranked 98th on the Transparency Corruption Index, which makes it one of the world's most corrupt countries.

According also to Meir Javedanfar article, Meepas (2005), The Wall Street and International Heritage Foundations ranked the Lebanese economy as "mostly unfree" which stressed the difficulty of doing business in Lebanon. This was enforced, for example, by the increase of corruption in the judicial system, whose decisions are highly influenced by political and governmental figures. Other areas of corruption include government jobs and contracts being granted to individuals or companies with close sectarian links, rather than on the basis of qualifications.

As a consequence of the above mentioned problems, Lebanon suffers from low level of investments due to the fact that the international investor is weary of investing in a country where the system is viewed as being unstable and open to manipulation. *(See Exhibit 3 for Lebanese Country Rating)*. This has affected the growth of the economy as foreign companies and local entrepreneurs face increasing challenges such as red tape, extra costs and excessive regulations which reduces their productivity and profitability. Corruption has also meant that many sectors of the country are owned and operated by government-owned companies which operate in monopolistic conditions.

Low economic growth and investments mean that the Lebanese economy has not been able to generate sufficient income to finance the country's expenses, such as, health, education, defense and infrastructure investments.

Another major problem facing the Lebanese economy is the lack of economic reforms. A leading example of this problem is the mobile telecom tariffs which are the highest in the Middle East as both telecom companies operating in the market are government-owned; therefore, they are not under any market pressure to reduce their prices. Lebanon is also characterized as having the highest water and electricity rates in the region, despite the fact that many substandard rural areas of the country lack these basic services. This problem is also due to the monopolistic nature of the market. Both companies lose millions of dollars every year thus seriously compounding the budget deficit problem of the country which is faced with growing concerns regarding the fact that the Lebanese government might not be able to honor the debt repayment due to the economy's current lack of performance. (*Shuaa Capital: April 6th, 2006*).

With a growing budget deficit problem and economic stagnation, time is running short for the Lebanese authorities, because their present corrupt and unproductive system of running the economy could have serious political and economic repercussions in the near future.

Exhibit 3: Lebanese Country Rating:

	Rating	Outlook
Standard & Poor's (Long-term)	B-	Stable
Moody's (Long-term)	B3	Negative
Fitch (Long-term)	B-	Positive
Capital Intelligence (Long-term)	B	Stable
EIU	D	-

Sources: EIU, Capital Intelligence, Fitch, Moody's, Standard & Poor's (April 2006)

III. A Discussion of the History of the Beirut Stock Exchange (BSE)

a) Overview of the Beirut Stock Exchange

A French mandate in July 3, 1920, just after World War I, stated the establishment of the Beirut Stock Exchange according to ruling no. 1509. In its early years, the operations of the Beirut Stock Exchange were limited to gold and currency transactions, which was first in the Middle East, attracted a large number of investors from France and Syria in addition to Lebanese investors, and flourished with the establishment of mixed Lebanese-French joint stock companies in the 1930s, which were quoted simultaneously on the Paris and the Beirut Stock Exchanges.

The Beirut Stock Exchange continued to flourish during the 1950s and 1960s reaching its peak in the 1970s. At that time, 45 companies were listed including 4 banks, 10 real estate firms and 16 manufacturing companies. But this success story suddenly changed in 1975, the beginning of the civil war. The Beirut Stock Exchange continued to operate in spite of the rough economical and political conditions until 1983 when the Stock Exchange Commission suspended activities, as economic activity was seriously disrupted. This suspension lasted 12 years.

Lebanon's economic and physical infrastructures have been severely damaged by years of conflict and civil war subsequent to being recognized as the financial center of the Middle East.

The country began its recovery when the war officially ended in 1991. The path to reconstruction was made less difficult by Lebanon's historical status as a cultural and economic power in the region. Many of the financial institutions that were closed down at the onset of the war, including the Beirut Stock Exchange (BSE), were being to reopen once again. An improved capital market and regulatory environment strongly stimulate economic recovery and expansion.

In September 25, 1995, the Beirut Stock Exchange was officially reopened, and trading began in January 22, 1996.

Assessments of the Beirut Stock Exchange and the related capital market and regulatory environment were completed in September 1996 by Anderson Wilson, Managing Director of the International Securities Consultancy in London and Capital Markets Specialist for MetaMetrics Inc. This work was performed under a subcontract to Coopers & Lybrand, through the Private Enterprise Development Support Project funded by the U.S. Agency for International Development. The purpose was to identify the functions most in need of being strengthened and restructured.

The final report of Anderson Wilson (1996) was received in both Washington and Beirut and formed the basis for further technical assistance on the high priority issue of the development of a Securities Law that meets international standards. The report includes a discussion of the legal structure of the BSE; recommendations regarding risk management and physical security; constraints to the expansion of the stock and bond markets on the BSE; a discussion of the investment climate; and a description of the central depository and the Beirut Secondary Market. The assessment also contains a report on property rights, legal recourse for investors, securities law, and other capital market legal provisions; a discussion of foreign investors' status, tax treatment, and access to markets; recommendations on appropriate balance between regulation and market development; and a discussion of other key factors likely to affect the development of the market, with recommendations regarding appropriate regulations to encourage and safeguard investors.

As a follow-on activity, in early 1997 a MetaMetrics team assisted the Lebanese Central Bank and the Ministry of Finance in the drafting of a revised securities law, and assisted in defining an appropriate regulatory structure to attract additional capital, expand the kind and number of financial instruments traded, and increase involvement of brokers and investors, both domestic and international. MetaMetrics included a Resident Advisor and a team of Security Specialists that assisted the Lebanese Government to develop securities and investment fund regulations and establish the National Council for the Securities Market whose tasks include: licensing of brokers, underwriters, and advisors; timely disclosure; takeover bids; prohibition of insider trading and other abusive investment conduct; regulation of stock exchanges; and government powers of investigation.

Consultant recommendations were incorporated by the Banque du Liban counterparts into the securities legislation approach, and a foundation was established for conducting tasks to support continuing capital markets development in Lebanon.

In June, 1999, the BSE Committee signed an agreement with "Paris Bourse S.A." whereby the latter would provide new computer software that will allow for continuous electronic trading. This new system enables investors to place orders at any time during working hours, and the current fixing system continues to operate alongside the new system for the less liquid stocks.

On October 17, 2000, the BSE Commission announced that it adopted a new trading system on a mixed "Continuous and Price Fixing System". In this respect, the Bourse has two hours of continuous trading each day, after starting with the price fixing system.

On June 23, 2001, the BSE Commission announced that it fully adopted the new trading system based on a "Continuous Pricing System". Orders are executed by open outcry, in which brokers shout orders to each other across the trading floor. Clearing and settlement are performed by "Midclear" on physical basis with a book entry with a time limit of three days from the time of the transaction.

On July 7, 2003 the BSE adopted a new trading system designed by the European Stock Exchange "Atos Euronext" under the name of "NSC-UNIX". It is "trading manual at the Beirut Stock Exchange".

During the period starting from the reopening of Beirut Stock Exchange in 1996 till February 2005, the assassination of Prime Minister Raffic Al Hariri, Lebanon witnessed an active Stock Exchange, where an increasing number of companies went public during this period due to sound economic and political conditions in the country.

However, the BSE took a major hit after the assassination of Prime Minister Raffic Al Hariri and many other political figures in the country, where Lebanon entered into a phase of economic, political and security unrest.

The performance of the BSE was strong during the first half of 2006 same as in the second half of 2005. However, the overall performance during the year 2006 remains below that of the year 2005. The BSE has shown throughout 2006 strength and tenacity in dealing with the various and multiple challenges witnessed by the country, by taking the required and necessary measures in order to protect the rights of the listed companies and investors.

The current uncertain situation overwhelming the Lebanese economy in general and the ongoing internal political conflict negatively affected the activity of the BSE which experiences upward and downward fluctuations. The BSE remains working below its potential and it is not really benefiting from the financial surpluses in the Arab region, unlike other bourses in the region which are witnessing a growing activity. When compared to other Arab stock exchanges, the BSE reported a dull activity during the first half of 2007. In fact, the BSE reported a tiny growth of almost 2%, while most Arab stock indices reported a moderate progress over the same period, with AMF composite rising 6.3%.

This section was based on the following sources:
- Banque du Liban Financial Markets Handbook - Financial Markets Department December 31, 2006; and
- MetaMetrics Inc. web site http://www.metametrics.com/

<u>Exhibit 4:</u> Currently Beirut Stock Exchange includes the following companies:

➢ *Development and Reconstruction:*

1. Solidere A & B

➢ *Banking*

2. Bank Audi
3. Bank of Beirut
4. Banque Libanaise pour le Commerce (BLC)
5. BEMO Bank
6. BLOM Bank
7. Byblos Bank

➢ *Trading*

8. Rasamny Younis Motor Company (RYMCO)

➢ *Industrial*

9. Holcim Liban
10. Ciments Blancs
11. Uniceramic

Source: Beirut Stock Exchange (2008)

b) The Administration of the Stock Exchange

As per Beirut Stock Exchange (2008) the BSE is organized according to By-Laws as per the Official Gazette - Issue No.51 - 21/12/95, Ministry of Finance, Decree No.7667 "Implementation of the By-laws of the Beirut Stock Exchange". These By-Laws are divided into 10 sections, where each section is divided into several chapters.

In what follows we present a summary of some articles taken from BSE By-Laws which are relevant to our study.

The Beirut Stock Exchange is subject to the provisions of legislative decree No.120 issued on September 16, 1983 and its amendments. The BSE operates under the direction of the *Stock Exchange Committee* and the supervision of the Ministry of Finance (MOF).

The *Stock Exchange Committee* formed from a Chairman, a Vice-Chairman (who should be a representative of the Ministry of Finance) and eight members (representatives from two Banks, two brokers, three Lebanese joint stock companies and a Lebanese or foreign expert) appointed by the Council of Ministers in accordance with a proposal by the Minister of Finance.

The Committee's mandate is of four years' duration and has the following responsibilities:

- Managing, regulating, and developing the markets
- Protecting the interest of the investors trading at the Stock Exchange.
- Monitoring the activities of the issuing companies, and providing information to the issuers and traders at the Stock Exchange on an equal footing.

The Government also appoints a Commissioner who attends the Committee's meetings in an advisory capacity and objects to all Committee decisions he considers to be in violation of the laws and regulations.

The following are considered as Members in the Stock Exchange:

- Any joint stock company whose capital exceeds the minimum stipulated by the law.
- Every member in the Stock Exchange shall pay the annual fees stipulated in the present By-laws.
- Every member who fails to pay the annual fees within the time-limit set by the Committee shall be subject to a fine equivalent to a maximum of five times the value of the annual fees.

Exhibit 5: Documents Needed When Applying To Be Listed:

- Certified copy of the Commercial Register's application registration
- Certified copy of registration certificate issued by the Commercial Register
- Certified copy of the company's by-laws and all their amendments, including the pricing of the issuer's securities
- Recent commercial Circular Copies of the general meetings and the Board of Directors registered with the Commercial Register for the past three years or between the time when the company was formed and the date it submitted its application to be listed
- Detailed statement describing the nature and value of the securities stated in the application
- Description of subsidiary companies, their proportion of the capital and their main activities
- All the balance sheets, profit and loss accounts, inventories and consolidated final accounts. Portion of the capital and their main activities.
- All reports Board of Directors and auditors issued over the past three years

Source: BSE 2008

c) The Listing requirements on the Beirut Stock Exchange

Section V of the By-Laws of the Beirut Stock Exchange, which is divided into four chapters, states the listing requirements of issuers of securities traded on the Stock Exchange.

1) General Provisions Relating to the Official and Secondary Markets

All securities issued or fully guaranteed by the Lebanese State, or the securities issued by established issuing companies are automatically admitted in the Stock Exchange.

Any company issuing securities fulfilling the conditions of adherence to the official or secondary market, which has already offered securities for public subscription, should request the admission of these securities in the Stock Exchange within a maximum one-year. It also bound to submit the request, even if its capital is not completely paid up. In this event, the Stock Exchange's Committee can decide if it is possible to deal with the temporary nominal stocks issued by the said issuing company.

The application for the admission of securities in the official or secondary market shall be addressed via an authorized broker charged by the issuer to follow up the admission procedures.

The following may apply for the admission of its securities in the official or secondary market:

- ➢ Any Lebanese joint-stock company which is member in the Stock Exchange.
- ➢ Any foreign company or another foreign issuer of securities.

The issuer's application for admission includes the following type of securities:

- ➢ All share categories and all rights authorizing their purchase, subscription or benefit from them.
- ➢ The bonds, including convertible bonds, provided the securities resulting from this conversion are traded in the BSE.
- ➢ Certificates of deposit issued by banks.

- The bonds issued by public institutions.
- Securities and bonds issued by Lebanese Joint-Stock companies in which the state participates in its capital.
- Global Depository Receipts (GDR) provided their number when listed in the BSE is equivalent to at least 20% of the issuer company's shares.
- Any other securities or financial rights that are tradable by nature.

The Committee may refuse by means of a justified decision the admission of any security, even if the application conforms to the rules and the security fulfills all of the conditions required.

The Stock Exchange's Committee publishes its decision in the Stock Exchange official bulletin in the event it approves the application for admission, while fixing the trading and the first pricing terms of the securities admitted.

The issuer signs when applying for admission a written commitment that conforms to the rules set by the Committee and include the following:

- Providing the Stock Exchange with all of the minutes of the ordinary and extraordinary general meetings, and the board of directors within a period of two weeks from the date of submission.
- Notifying the Committee and the pubic in accordance with the rules fixed by the Committee of every element or change affecting the issuer's financial situation or activity.
- Publishing the balance sheets, and the annual consolidated and certified final accounts in the Stock Exchange official bulletin, within a maximum six-month period from the date of closing the accounts.
- Publishing the issuer's results every six months in the official bulletin of the Stock Exchange, in accordance with the rules set by the Committee.
- The commitment of any issuer of a security listed in any of the official or secondary market of the Stock Exchange to notify explicitly its shareholders at any moment and under any circumstances about all of the information of interest to those shareholders, and to treat them fairly without any discrimination among them, regardless of the number of securities they own. The issuer is also

committed to abstain from all undertaking that may mislead on the price of the traded security.

- The commitment to provide the Stock Exchange with all of the information and the pertinent detailed documents about it or any of its branches within a fifteen-day period as of the date of the publication or the entering into force of these documents. (A branch means any Joint-Stock company owned directly or indirectly by the issuer up to more than 50% and which represents more than 10% of the consolidated net value of the assets belonging to the group), such as:
  a) Any essential change in the nature of the operations carried out by the company.
  b) Any total or partial change in the company's administration, general management or board of directors.
  c) Any appointment of new auditor for the company.
  d) Any selling or transfer of ownership of the issuing company's assets, when the operation exceeds 5% of its market capitalization.
  e) Anything that may positively or negatively affect the price of the issuer's financial securities.
  f) any amendment of the number of voting rights enjoyed by any of the shareholders, when the issuer is aware of it, and when the variation exceeds:
     i. 2% for the General Manager, the Assistant General Manager, or a member of the company's board of directors.
     ii. 10% for the other shareholders enjoying directly or indirectly more than 10% of the voting rights in the company whose securities are priced in the Sock Exchange.
- A commitment to include in the contract signed with the broker to play the role of the manager of the issue or subscription, a clause in which the broker guarantees 10% of the issuing or subscription value.
- The issuer's commitment to send immediately and free of charge to the Stock Exchange and to all of its brokers five copies of every document addressed to the shareholders and any statement published in the newspapers, in order to give the

opportunity to the public to read them freely. The issuer's commitment also to publish this information in its annual report.

- The notification of the Stock Exchange's committee about every notice addressed to the shareholders or security bearers to attend any ordinary or extraordinary general assembly, at least 20 days before the expected date.
- The issuer's commitment to convene an annual general assembly of the shareholders and to inform the Stock Exchange in detail about the date of the convening, the agenda and any postponement.
- The issuer's commitment to include in the company's constitutive By-laws a text fixing the voting rights at 10% for each shareholder not having declared explicitly beforehand to the issuer's board of directors that he has reached or exceeded this proportion. The shareholder should explicitly inform the board of any change exceeding 10% in terms of the number of voting rights.

Any issuer who does not implement the obligations mentioned in the articles above should pay a fine of 2‰ of its capital, in addition to the other disciplinary sanctions which can be imposed.

Any issuer should inform the Stock Exchange annually of the exact number of securities still traded and outstanding.

Any issuer having been previously admitted in the official or secondary market, and wishing to issue additional securities, should apply via its brokers for an additional admission, in accordance with the rules set by the Committee.

The Committee may refuse by means of a justified decision the above application even if it is duly completed and it meets the required conditions.

The Committee's decision to approve the application should be published with the detailed operational procedures in the Stock Exchange's official bulletin.

2) Provisions Applying to the Official Market

The issuer of securities wishing to join the official market should conform to the following:

- It should have distributed at least 25% of its capital to the public, on the first day of pricing at the latest.
- The issuer's capital is the equivalent of at least US$ 3 million in Lebanese pounds.
- The number of shareholders holding 25% of the company's capital should be at least 50 shareholders.
- It should have been incorporated at least three years earlier.

In the event the Committee accepts an issuer of bonds in the official market, the value of the issue should be the equivalent of at least US$ 2 million in Lebanese pounds.

The issuer shall publish in the Stock Exchange's official bulletin an announcement summarizing the transfer file in accordance with the rules set by the Committee.

3) Provisions Applying to the Secondary Market

The issuer of securities wishing to join the secondary market must meet the following conditions:

- It should have distributed at least 25% of its capital among the public, on the first day of pricing at the latest.
- The issuer's capital should be equivalent of at least US$ 1 million in Lebanese pounds.
- The number of shareholders holding 25% of the company's capital should be at least 50 shareholders.

In the event that the Committee accepts an issuer of bonds in the secondary market, the value of the issue should be the equivalent of at least US$ 1 million in Lebanese pounds.

4) Provisions applying to the Market of Securities not listed on the Stock Exchange

Any security issued by a Lebanese Joint-Stock company whose capital is equivalent to at least US$ 100,000 in Lebanese pounds may be the subject of an application for trading in the stock market not listed on the Stock Exchange. However, this security may not be traded before three working days in the Stock Exchange from the date of publication of this application.

5) Summary of Conditions of Listing on the Beirut Stock Exchange:

	Senior Market	Junior Market	Over the Counter
Type of the Company	Corporation	Corporation	Corporation
Minimum Capital	Equivalent to $3m. in LBP	Equivalent to $1m. in LBP	Equivalent to $100th.in LBP
Years of Activity	3 years and above	-	-
Amount Listed	Equivalent to $2m. in LBP	Equivalent to $1m. in LBP	-
% of Capital Freely Traded	25% on the 1st Trading Day	25% on the1st Trading Day	-
Minimum No. of Shareholders	50 or more	50 or more	-

Source: Beirut Stock Exchange Bylaws, the Official Gazette, No. 51 dated December 21, 1995.

d) The costs involved in being a publicly traded company

Section VII of the By-Laws of the Beirut Stock Exchange, which is divided into two chapters, stated the Membership Fees, Fees, Commissions, Compensations and Allocations.

1) Annual Fees and Membership Fees

Issuers admitted to the BSE shall pay an annual fee for the first twelve-month period by the equivalent of US$ 10,000 in Lebanese pounds.

For the second year of admission the Issuers pay half per mill of the Stock capitalization for every category of securities listed on the official or secondary Stock Exchange market. The Stock Exchange's capitalization means: the average trading price in the last month prior to the due annual fee, multiplied by the number of securities accepted for trading, provided that the total fee is not less than the equivalent of US$ 2,000 in Lebanese pounds and not more than the equivalent of US$ 10,000 in Lebanese pounds.

Every member in the Stock Exchange shall pay an annual membership fee equivalent to US$ 100 in Lebanese pounds. In the event that the issuer fails to pay the annual fees for more than three months after the due date, he shall pay a penalty equivalent to 20% of the amount of the fee for each month of delay, in addition to being subject to possible disciplinary sanctions.

2) Commissions Due on Each Transaction

The following commissions shall be paid on each buying or selling transactions carried out in any of the official or secondary markets:

BSE COMMISSION CHARGES				
Transaction volume	***Commission***	**Commission breakdown**		
$1 - $100,000	0.40%	BSE 24%	Midclear 12%	Broker 64%
$100,000 - $1 million	0.25%			
$1 million - $5 million	0.10%			
More than $5 million	0.01%			
Minimum commission	$10			

Source: Beirut Stock Exchange (2008)

The commission specified above shall be doubled on each direct transaction carried out outside the Stock Exchange.

Every buying and selling transaction carried out on the market of securities not listed in the Stock Exchange, bears a commission of 7.5‰.

Cost of Selected Online Services

Information provider	Services	Cost per month
Markets 24	Pager, foreign exchange and news, world stock indices, news, commodities and futures	$65 $115
Reuters	Pager Real-time services	$75 to $120 $400 to $2,000
S&P ComStock	Foreign exchange, futures and news	$600 to $1,400
Satquote	Foreign exchange, precious metals, etc.	$250
Telerate	Foreign exchange, interest rates, money markets (Europe, U.S. and total), News headlines	$600 to $800

Source: InfoPro Research (2008)

e) MIDCLEAR

__A – Introduction:__

The back-office of all operations undertaken on the Beirut Stock Exchange is performed by Midclear which is the custodian and clearing center of financial instruments in Lebanon and the Middle East. It was established on June 14, 1994 as a Lebanese joint stock company with a paid-up capital of L.L. 2.8 billions (around US$ 1.8 millions). On an operational level, Midclear has introduced the concept of dematerialization, i.e. the property right of financial instruments to be represented by simple inscription in an account, thus helping to bring clearing and settlement operations in the Lebanese market into line with international standards. The company is governed by the provisions of the Lebanese commercial code and takes out its activities on behalf of holders of securities accounts relating to custody, clearing, settlement, circulation and management of share holder registers and stock events. These securities and financial instruments comprise shares, debt securities, units in a collective investment scheme, miscellaneous warrants, certificates representing debt securities, treasuries, and warrants or options to subscribe or purchase securities.

The depository and clearing services provided for investors conform with international standards recommended by the "Group of Thirty". Midclear's services are available for Lebanese and non-Lebanese issuers, including supra-national entities, denominated in Lebanese pounds or U.S. dollars, with plans to extend this to other currencies. On January 22, 1996, the company started the exclusive clearing and settlement operations for the Beirut Stock Exchange.

Midclear was appointed as the Central Securities Depository according to Law number 139 dated October, 1999.

Source: This section was based on Banque du Liban Financial Markets Handbook – Financial Markets Department (December 31, 2006).

B – Structure:

1. Capital

Banque du Liban is mandated to hold not less than 75% of Midclear's capital, and at present, it holds around 99% of the capital, and the remaining is owned by Lebanese banks and financial institutions.

2. Participants

a. Financial intermediaries approved to trade securities on a regulated financial market in Lebanon are members of Midclear in their capacity as traders.

b. Financial intermediaries providing custody and management of securities services may become members of Midclear in their capacity as custody agents.

c. Issuers of securities can also become members of Midclear in such capacity.

d. The membership of all other entities is subject to the approval of the Board of Directors.

C. Functions & Services

The main functions of Midclear can be summarized as follows:

1. Safekeeping of securities for participants.
2. Immobilization of physical securities.
3. Book-entry clearing and settlement of transactions in the real-time, secure and cost-effective environment; for both the local and Euro debt and equity.
4. Accurate, timely and cost-effective collection, distribution and accounting of dividend and interest payments.
5. Maintenance of shareholder registers.
6. Registering and safeguarding all banks shares. Proofs of ownership, trading operations, share pledging, and the institution of other rights over bank shares shall be affected through the books of Midclear.

__The services offered are comprised of:__

1. Provision of assistance to issuers and lead managers in preparing new issues for clearing.
2. Allocation of securities codes, admission to Midclear books and custody of issues.
3. Closing in compliance with international regulations and coordination of closing procedures with national and international central depositories to allow placement on the international markets directly from Lebanon.
4. Centralized administration of custody of whole issues in book-entry form, for greater safety and reliability.
5. Clearing and settlement of secondary domestic and international market transactions on a delivery versus-payment (DVP) basis.
6. Payment of coupons or redemptions as these fall due, with or without a record date, following fast and efficient distribution of proceeds.
7. Registration of global certificates for global bonds and shares.

Source: This section was based on Banque du Liban Financial Markets Handbook – Financial Markets Department (December 31, 2006).

Sequence of Operations in Midclear

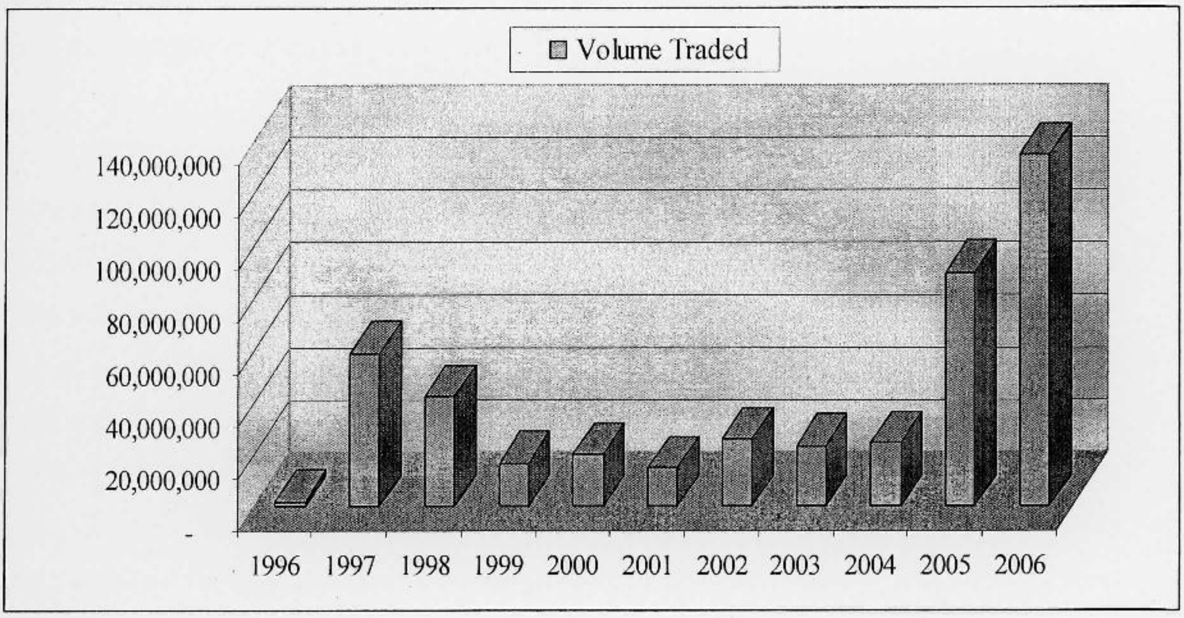
1	Deposit of physical securities at Midclear before settlement: - For registered securities, delivery no later than 09:00 - For bearer securities, delivery up to 14:00
2	The customer communicates his/her buying or selling order to a broker, which acts as an account holder or trader
3	Brokers communicate orders to the BSE before 11:00 on the trading day (day T). No prior matching of orders is allowed; each customer order is individually transmitted to the market
4	On day T the BSE matches all orders in the system to determine a fixing price for each security (fixed-price mechanism)
5	When the order is executed, an execution statement is sent to the broker
6	The broker relays the execution statement to its customer. Transfer of ownership occurs on the trading day
7	The results of the trading session are communicated to Midclear
8	The BDL transmits the cash balances of the brokers to Midclear on a daily basis
9	Transactions to be settled are validated against cash and securities balances on the settlement date
10	The BDL records irrevocable debit or credit entries transmitted by Midclear after the settlement process
11	The following day, Midclear provides account statements to its members.

Source: Beirut Stock Exchange (2008)

f) Trading volume

The following shows the volume traded on Beirut Stock Exchange since its inception in 1996.

Years	Volume Traded	% Change
1996	2,018,175	-
1997	59,173,871	2,832%
1998	42,234,807	-29%
1999	16,836,267	-60%
2000	19,971,288	19%
2001	14,731,255	-26%
2002	26,183,757	78%
2003	23,479,483	-10%
2004	24,536,530	5%
2005	89,744,480	266%
2006	134,846,533	50%



As shown in the above graph, 1996 noticed a weak level of trading activities, which was soon compensated by a large volume of Trade in 1997 and 1998 due to the offering of Solidaire share to the public. The trading volume was lower but stable during the years 1999 till 2004.

The Beirut Stock Exchange has shown throughout 2005 and 2006 strength and tenacity in dealing with the various and multiple challenges witnessed by the country, by taking the required and necessary measures in order to protect the rights of the listed companies and investors.

Trading on the BSE during 2006 witnessed activity fluctuations but managed to be favorable, despite the exceptional events witnessed by the country.

The volume of shares traded increased from 89.75 million shares to 134.85 million shares marking a 50% rise during the said period. It is worth mentioning that the above listed performance indicators are the highest since the reopening of the stock exchange in 1996.

g) Rules concerning foreign investors

Despite all its problems, Lebanon presents several good investment opportunities for investors, due to encouraging aspects of the Lebanese economy. These strengths include, among other things, a free and open market, highly dollarized economy, the absences of control on the movement of capital and foreign exchange, a highly educated labor force, good quality of life, limited restrictions on investors and the presence of a modern strong developed banking system that works according to the latest international methods and systems.

Lebanon's openness to foreign investments was enhanced in recent years through passing several laws and decrees to encourage investment and also through the development of the Investment Development Authority of Lebanon (IDAL), which is a public agency under the Prime Minister, authorized to award licenses and permits for new investments, as well as to grant special incentives, exemptions and facilities to large projects (IDAL, 2008).

According to the 2008 Country Commercial Guide for U.S. Companies: Doing Business in Lebanon, in 2007, 44 foreign companies, including seven U.S. companies opened offices, representative offices, or branches in Lebanon, according to statistics from the Ministry of Economy and Trade (MOET).

A foreigner can establish a business under the same conditions that apply to a Lebanese national, provided the business is registered in the Commercial Registry. An investor can have branch offices, undertaking any business activity permitted by Lebanese law, with no minimum capital or performance requirements. A foreigner who wishes to establish a branch in Lebanon must have a residence permit and a work permit from the Ministry of Labor. Foreign companies need a license to operate from the Ministry of Economy and Trade. Companies may operate through local branches provided they obtain a "Receipt of Acknowledgement" from the Ministry of Economy and Trade and register in a local commercial court. For trade activity, the company must be registered at any of the four regional Chambers of Commerce and Industry. All companies established in Lebanon must abide by the Lebanese Commercial Code and regulations, and are required to retain the services of a lawyer. There are no sector-specific laws on acquisitions, mergers, or takeovers, except for bank mergers *(IDAL, 2008 and Country Commercial Guide for U.S. Companies, 2008).*

Lebanese law does not differentiate between local and foreign investors, except in land acquisition. Foreign investors can generally establish a Lebanese company, participate in a joint venture, or establish a local branch or subsidiary of their company without difficulty. Specific requirements apply for holding and offshore companies, real estate (*real estate property is discussed in more details in the next paragraph*), insurance, media (television, political newspapers), and banking *(IDAL, 2008 and Country Commercial Guide for U.S. Companies, 2008).*

Law No. 296, dated April 3, 2001, which amended the 1969 Law No. 11614, governs foreign acquisition of property. The new law eased legal limits on foreign ownership of property to encourage investments in Lebanon, especially in industry and tourism, abolished discrimination for property ownership between Arab and foreign nationals, and lowered real estate registration fees from six percent for Lebanese and 16 percent for foreigners to five percent for both Lebanese and foreign investors. The law permits foreigners to acquire up to 3,000 square meters of real estate without a permit; acquiring more than 3,000 square meters needs Cabinet approval. Cumulative real estate acquisition by foreigners may not exceed three percent of total land in each district and 10 percent of the total land area in Beirut region *(IDAL, 2008 and Country Commercial Guide for U.S. Companies, 2008).*

As per section V of the By-Laws of the Beirut Stock Exchange any foreign company or foreign issuer of securities may apply for the admission of its securities in the official or secondary market.

The same conditions and commitments applying to the Lebanese issuer set in these By-laws apply similarly in their form and content to the foreign issuer wishing to apply for admission. The foreign issuer should present all of the documents requested by Lebanese companies, or their equivalent in the country of registration. The financial documents presented should necessarily conform to the Lebanese or International Accounting Standards.

The Committee may request official Lebanese or foreign authentication of the documents constituting the file presented by the foreign issuer. This authentication should demonstrate the conformity of the documents presented to the laws and regulations in force in the country of registration.

One can not talk about investing in Lebanon without highlighting some major disadvantages related to this matter. In the recent year, many foreign companies left Lebanon or relocated their regional offices to neighboring courtiers, or even refrained from investing in Lebanon, because of frustration resulting from some obstacles such as red tape and corruption, arbitrary licensing decisions, complex customs procedures, outdated legislation, an ineffectual judicial system, high taxes and fees, high telecommunications and power charges, varying interpretation of laws and a lack of adequate protection of intellectual property. Not forgetting recent political instability which have severely impacted economic growth and led to a slowdown in investments.

h) Correlation of the Beirut Stock Index with other stock indices

In order to draw a conclusion about the correlation of the Beirut Stock Index with other stock indices, we have performed a hypothesis testing by choosing percentage Daily Return of the Beirut Stock Index and selecting percentage Daily Return of the following Market indices:

- X Variable 1 - MSCI Europe – NDDUE 15 index
- X Variable 2 - France – CAC 40 index
- X Variable 3 - S&P 500
- X Variable 4 - UAE Index – DFMGI index
- X Variable 5 - Egypt Hermes – HERMES index
- X Variable 6 - Saudi Tadawul – SASEIDX index

Note that, the Percentage Daily Return of the S&P 500 index had a difference of two days with the rest of the indices in order to have a more accurate comparative data.

The null hypothesis: Beirut Stock Index is not correlated with the other stock indices

Correlation:

	BSE	MSCI Europe	France – CAC 40	S&P 500	UAE – DFMGI	Egypt Hermes	Saudi Tadawul
BSE	1.0000						
MSCI Europe	(0.0143)	1.0000					
France – CAC 40	(0.0011)	0.7875	1.0000				
S&P 500	0.0983	0.0146	0.0135	1.0000			
UAE – DFMGI	(0.0250)	0.0107	0.0108	(0.0370)	1.0000		
Egypt Hermes	(0.0561)	0.1099	0.1061	(0.0015)	0.0576	1.0000	
Saudi Tadawul	0.0056	(0.0460)	(0.0244)	0.0206	0.1379	0.0694	1.0000

Interpretation of the correlation results

In order to determine the level of significance for the correlation results obtained, we have calculated the *t critical* for each index and analyzed the results.

We used the following formula in order to calculate the *t critical*:

$$t\ critical = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

Where,

r is the correlation coefficient

n is the number of observation

If *t critical* is greater than 2 we can conclude that the correlation between the percentage daily returns of Beirut Stock Index and the percentage daily returns of all the other indices is Significant.

If *t critical* is less than 2 we can conclude that the correlation between the percentage daily returns of Beirut Stock Index and the percentage daily returns of all the other indices is Not Significant.

	t Critical *(In absolute terms)*
MSCI Europe – NDDUE 15 index	0.55
France – CAC 40 index	0.04
S&P 500 index	**3.76**
UAE Index – DFMGI index	0.95
Egypt Hermes – HERMES index	**2.14**
Saudi Tadawul – SASEIDX index	0.21

The *t* critical of both the S&P 500 index and the Egypt Hermes index are both greater than 2, thus, we can conclude that the correlation between the BSE and both the S&P 500 index and the Egypt Hermes index is significant with respect to percentage daily returns.

And, since the t critical of all the other indices are all less than 2, we can conclude that the correlation between the Beirut Stock Index and all the other indices are not significant with respect to percentage daily returns.

<u>Conclusion:</u>

Although the above results confirms that there is a significant correlation between the Beirut Stock Index and both the S&P 500 index and the Egypt Hermes index with respect to percentage daily returns, in our opinion these results are merely due to chance, since, there is no structural relation between the Beirut Stock Index and all these indices.

Thus, we can conclude that there is no correlation between the Beirut Stock Index and all the other indices directing us toward not rejecting the null hypothesis.

IV – A survey of the business environment in Lebanon as far as the advantages, obstacles and disincentives of publicly-held versus privately-held companies.

This section reveals the results of a study conducted about the business environment and the issue of going public in Lebanon, where we have interviewed a few successful CEO's of companies operating in Lebanon concerning their motives, opportunities and concerns about going public. The questionnaire was designed for companies which are currently privately-held; however, if a company did go public recently, we have asked the CEO of these companies to share with us their experience of going public in Lebanon.

The survey was conducted on a confidential basis, where the true identity of the responding companies would not be revealed and we will be using fictitious company names in the final analysis of the results.

The survey consists of fourteen questions tackling different issues related to going public and the process of IPO (initial public offering). As we started documenting the replies, we have provided a literature review of each question, then provided the answers of the interviewees, and finally a conclusion was drawn based upon the replies that we have received.

Question 1:

If you are currently a privately-held company, are you concerned about your portfolio being non-diversified by having most of your wealth tied up in your private company?

As a firm goes public it has two aims in its mind, one is to raise capital for the firm and the other is for the shareholders to convert their wealth into cash at a future date. Increased publicity is another purpose of going public, although this is of lesser interest to managers who would rather spend their time running their company.

The question of why IPOs are considered as the best way of raising capital can be answered through a study by Gompers and Lerner (2001) cited from Welch and Ritter (2002). It reported that "there were fewer U.S. IPOs from 1935-1959 than the 683 in 1969 alone". La Porta, Lopez de-Silanes, Shleifer, and Vishny (1997) report "wide differences in IPO activity across countries".

Welch and Ritter (2002) referred to a study performed by Chemmanur and Fulghieri (1999); the study developed the more conventional wisdom that IPOs allow more dispersion of ownership, with its advantages and disadvantages. Pre-IPO "angel" investors or venture capitalists hold undiversified portfolios, and therefore are not willing to pay as high a price as diversified public-market investors. Thus, early in its life cycle a firm will be private, but if it grows sufficiently large, it becomes optimal to go public".

Welch and Ritter (2002) in their paper discussed Maksimovic and Pichler (2001) findings who pointed out that *"a high initial public price can attract product market competition. Public trading, however, can in itself add value to the firm, as it may inspire more faith in the firm from other investors, customers, creditors, and suppliers".*

Pagano, Panetta, and Zingales (1998) conducted a study on Italian firms and found out that "larger companies and companies in industries with high market-to-book ratios are more likely to go public, and that companies going public seem to have reduced their costs of credit. Remarkably, they also find that IPO activity follows high investment and growth, not vice versa". Lerner (1994) focused on a single U.S. industry, biotechnology. Lerner documents that "industry market-to-book ratios have a substantial effect on the decision to go public rather than to acquire additional venture capital financing".

This question addresses the issue of diversification which can be explained by the Modern Portfolio Theory (Markowitz 1952, 1959). This theory involves two basic constructs:

First: Statistical effects of diversification on the expected return and risk of a portfolio, where, the investor can reduce the risk by diversifying across securities that are not perfectly correlated; the lower the correlation, the greater will be the risk-reducing benefits of diversification.

Second: attitudes of investors towards risk; specifically, it is assumed that investors are averse to risk, but are sufficiently tolerant of risk to bear it if sufficient compensation, in form of higher expected return, is provided.

Modern Portfolio Theory addresses the task of identifying the portfolio that maximizes an investor's expected utility, given the investor's willingness to trade off risk and expected return.

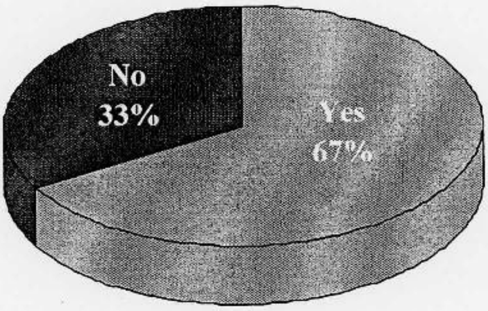
According to Lubo's P'astor, Lucian Taylor & Pietro Veronesi (2007) the benefits of IPO diversification are twofold. First it reduces risk though investments made in a portfolio of stocks and bonds instead of private firm holdings. The second benefit is "consumption smoothing which is when the private firm's expected profitability rises, the entrepreneur expects higher consumption in the future. He wants to increase his consumption immediately but he cannot borrow against expected future profitability. If expected profitability rises high enough, the entrepreneur's consumption path under private ownership becomes so unattractively steep that he prefers to cash out in an IPO and smooth his consumption by trading stocks and bonds. In short, going public allows the entrepreneur to smooth his consumption not only across states of nature but also across time".

Diversification is considered as a key motive for an IPO, where Lubo's P'astor, Lucian Taylor & Pietro Veronesi cited from Bodnaruk et al (2006) work, who finds that "firms held by less diversified shareholders are more likely to go public". According to Benninga et al (2005), *"the IPO decision is also driven by the tradeoff between diversification benefits and private benefits".*

The firm's performance is highly dependent upon its ownership structure. Leland and Pyle (1977) argue that the ownership structure is a signal of a firm's value.

Survey results:

Our survey results show that 67% of the respondents are concerned about their portfolio being non-diversified by having most of their wealth tied up in their private company, where only 33% were not concerned.



The following are some of the comments that we received on this question:

Comment 1: From a risk management point of view, your portfolio should be well diversified specially in a risky environment like Lebanon.

Comment 2: Our concern as board of directors is to maintain the majority. Introducing new investors would be on a minority stake basis.

Comment 3: Although our company is privately-held, we have no concern regarding the issue of diversification, since our company is part of a group of companies operating in different countries and in different sectors, thus, the group is already well diversified.

Comment 4: Having a diversified portfolio will secure your business & wealth, it is risky to have a non-diversified portfolio which may lead the company to major financial problems in case any problem arises in that specific field.

Comment 5: We have no concerns regarding the issue of diversification. In our opinion, companies should diversify their portfolios to a certain extent since they will be taking a high risk of putting all their wealth in one business, which is a suicide.

__Question 2:__

Do you believe that it will be easier to borrow money if your company does go public and that you will be able to borrow at a lower cost?

Managers prefer internal financing (equity financing via retained earnings) to external financing (issuing debt or equity). If the firm is obliged to obtain funds externally, managers prefer to issue the least risky security: straight debt, convertible debts, preferred stocks and finally common stock. This is known as Pecking Order Hypothesis Theory discussed by Stewart Myers (1983).

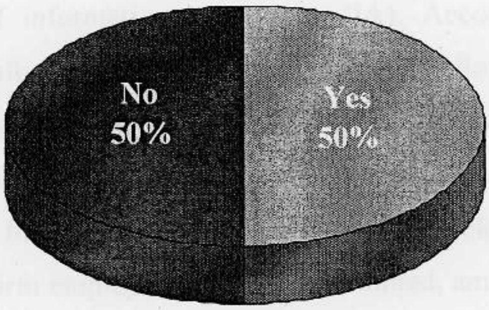
Myers & Majluf (1984) formulated a theoretical model that explains the aspects of observed corporate finance behavior as consequences of information asymmetry as such: Markets are under-informed about the relative value of projects in the market, therefore, market tends to undervalue these projects and thus to undervalue the securities issued to finance them. Basically a Pooling Equilibrium forms such that uninformed investors break even. Consequently, managers find that the effective cost of external financing greater than it should be, because the firm tends to surrender a substantial portion of project net present value to investors who purchase the security. Therefore, avoid issuing equity or reject a good project.

If external financing must be considered, debt is preferred to and less costly than equity. Of course, the best way to avoid the surrender of value is to avoid external financing altogether, which can be achieved by issuing internal financing and maintaining financial slack in the form of cash and marketable securities.

An exception to the above is when management believes its stocks are overvalued, thus, issue new equity. The market is aware of this adverse selection problem and takes this news as a signal of overvalued stocks, therefore, the stock price falls.

Survey results:

Our survey results show that 50% of the respondents believe that it will be easier to borrow money if their company does go public and that they will be able to borrow at a lower cost and 50% did not.



The following are some of the comments that we received on this question:

Comment 1: Yes, since as one of the advantages of being "public" is to be able to borrow at lower cost from external and local flow of funds and to avoid additional risk premiums from financial institutions (specifically banks).

Comment 2: No, since our company is healthy and growing fast, we find no difficulty in borrowing money at low rates.

Comment 3: Borrowing money will be easier but not necessarily with a lower cost upon going public.

Comment 4: We do not think that going public will make it easier for borrowing; since taking a loan requires a healthy financial position of the company no matter if it is a private-held or public-held company.

__Question 3:__

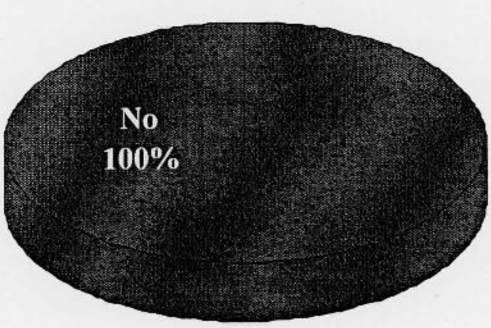
Do you see a benefit in issuing stocks to pay-off some of your debts (retire some debts)?

Researchers have argued that a firm's leverage may be a powerful signal of true value under conditions of information asymmetry (IA). According to Ross (1977) managers have private information regarding future cash flows. Management can distinguish its firm as a higher quality firm by issuing debt. By committing the firm to make future payments of interest and principal, management signals its confidence in the sustainability of the firm's future Cash Flows. Ross's model yields an interior optimum Capital Structure; i.e., the firm employs a positive, but limited, amount of debt relative to equity.

On the other hand, Besanko & Thakor (1987) argue that collateral can act as an effective screening mechanism to mitigate IA problem in the corporate debt market. Riskier Borrowers have greater default risk, that is, they have a higher probability of losing their collateral, and therefore, they choose an unsecured loan contract with higher interest rate. Borrowers who are less risky choose a secured loan contract with a lower interest rate. That is, collateral can serve as a powerful signal of Value.

Survey results:

Our survey results show, upon responding to question number three, that 100% of the respondents see no benefits in issuing stocks to pay-off some of their debts.



The following are some of the comments that we received on this question:

Comment 1: Usually debt is the cheapest way used to finance future projects, issuing extra shares will be costly due to additional compensation required by the investor.

Comment 2: No, since we will use the money injected by new investors to invest in other projects, or expand the business to new horizons like opening branches abroad instead of retiring some of our debts.

Comment 3: No, probably issue public bonds but not issue public stocks. It is cheaper to pay banks/public rather than having a partner.

Comment 4: Issuing stocks will be favourable if the company does not have sufficient cash to meet its short term debt obligations, however, this decision may affect other shareholders which will decrease their percentage ownership of shares.

Question 4:

Do you believe that going public will help you to know the "*True Value*" of your company?

The market value of a firm's shares emerges from trading among investors. If investors (at least collectively) are rational, the market value of the firm's shares will be equal to their true value, defined simply as the (appropriately discounted) present value of future expected cash flows. This argument is the essence of the well-known Efficient Market Hypothesis (Fama 1970).

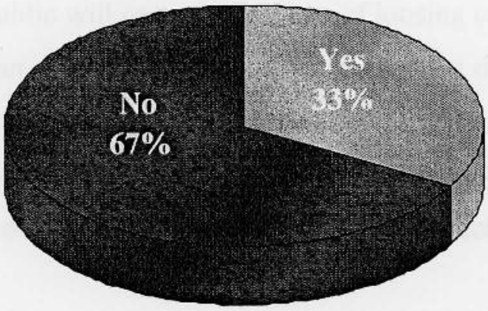
Knowing the true value of the firm can be derived from the motives of the shareholders to maximize their future utility of consumption. This is achieved by maximizing their personal wealth, measured in terms of market value.

The quality of the market for a stock is closely related to its information efficiency, that is, the extent to which a stock's current price incorporates all available information, and therefore it is an accurate reflection of its true value.

The value of the firms stock can be questioned as a difference arises between the offer price and the first-day price. The most common method as per Welch and Ritter (2002) study for valuing a firm going public is *"the use of comparable firm multiples"*. But according to their findings, such method is difficult to implement since most of the companies that are going public are valued on the basis of their growth potential and not their historical performance. As a result, *"the power of tests to explain pricing relative to the "true value" is too low to make much headway in testing whether IPO pricing or after-market valuation better reflects the IPOs' fundamental valuations unless the sample is large"*. Welch and Ritter (2002) discussed this issue by introducing the views of different researches conducted for this matter, where we quote the following: Kim and Ritter (1999) *"find only a modest ability to explain the pricing of IPOs using accounting multiples, even when using earnings forecasts"*. Purnanandam and Swaminathan (2001) *"construct a measure of intrinsic value based on industry-matched Price/Sales and Price/Ebitda from comparable publicly traded firms ("comps") for a sample of over 2,000 IPOs from 1980-1997. They find that, when offer prices are used, IPO firms are priced about 50% above comparables, which is an enormous difference. They also find* *that this initial overpricing with respect to comparables helps predict long-run underperformance".*

Survey results:

33% of our survey participants agreed that going public will help them to know the "*True Value*" of their company, whereas 67% answered did not agree.



The following are some of the comments that we received on this question:

Comment 1: In Lebanon, markets are inefficient for different reasons: political risk, small market, family dominance... etc. so if your company is small (by Lebanese market standards), then considering the disadvantage of market inefficiency, you will not be able to know your true value of your company.

Comment 2: We believe that a periodic valuation study of the company can reflect the true value of the company, so there is no need to go public for this purpose.

Comment 3: No, the true value can be estimated by the company by itself.

Comment 4: Your ethical consideration of your personality and business life will let you notice the true value of your company whether you stay private or take the company public.

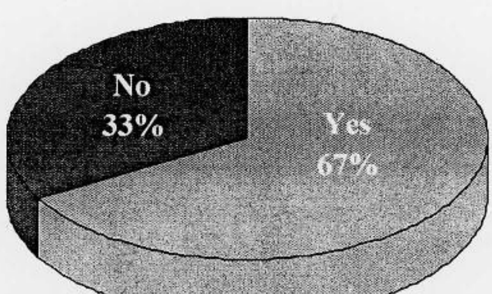
__Question 5:__

Are you concerned about giving up some voting power and control when your company goes public?

As a company goes public, its ownership structure becomes more diffused, thus, the initial owners of the company, who had all the shares, loose control of the company. New equity-holders may press the firm to change its policies, and/or to replace management. Thus going public will generate an issue of loosing control and some voting power especially in Lebanon where all or major businesses are owned by families who inherited the business from their fathers or established the business on their own, and where most of the managers are family members. So loosing some voting power for these families are a major concern and might be one of the setbacks of going public in Lebanon.

Survey results:

Our survey results show that 67% of the respondents were concerned about giving up some voting power and control when going public, whereas 33% were not concerned.



The following are some of the comments that we received on this question:

Comment 1: Companies in Lebanon are mostly family owned, hence losing some voting power would be a great concern.

Comment 2: No concern since there is a proper and clear shareholders' agreement.

Comment 3: No, voting power can be controlled by the number of shares.

Comment 4: It would be better to provide more voting rights & control when the company goes public, as you are not diluting your own power.

Comment 5: Of course we will be concerned about giving up some voting power and control to new investors and shareholders upon going public.

Question 6:

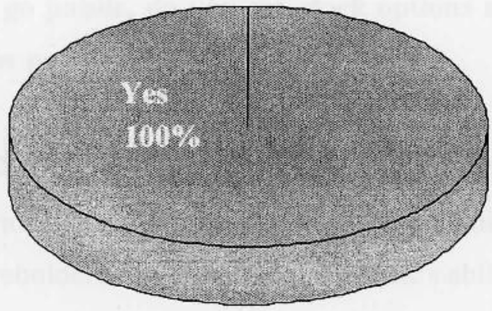
For companies which do go public, do you see a benefit in using stock options as a possible compensation tool which would align the interests of management with the interests of the company?

Harris & Raviv (1990) developed a theoretical model of optimal Capital Structure in which debt serves as a) a means to provide investors with information about the firm and b) as a disciplining device to limit management's engagement in self-serving activities. In their model, debt disciplines managers when: *First*, Managers able to make contractual payments and interest to debt-holders on time. *Second*, in case of default management face the exposure to bankruptcy proceedings, thus loss of their job.

Another tool for aligning the interests of the manager with the interests of the company or shareholders is when the manager owns a high proportion of the company's shares. This conveys a strong signal about the value of the firm to the outside investors, since stock prices are highly related to changes in the ownership structure. The increase of the managerial ownership should convey a positive signal to the firm value because the benefit of the shareholders is connected to the benefit of insider manager. That is, the agency cost is reduced to raise the firm value when managers own more shares. On the other hand, the increase of the managerial ownership causes the managers to gain more power to control the firm and reduces the chance of being taken over.

Survey results:

Our survey results show, upon responding to question number six, that 100% of the respondents see benefits in using stock options as a possible compensation tool that align the interests of management with the interests of the company.



The following are some of the comments that we received on this question:

Comment 1: Stock option is a major tool in this respect among others like bonus, promotions etc.

Comment 2: Priorities in compensation policies should be in a greater detail than it has been previously where new compensation disclosures will be required.

Question 7:

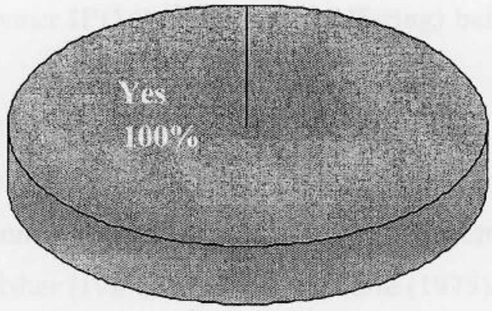
For companies which do go public, do you see stock options as a tool which would reduce a possible cash flow problem?

Noe & Rebello (1996) argue that the firm's budget constraints dictate that, as more dividends are paid, more external financing is required, which can be achieved by issuing debt or equity. Shareholders could limit management's ability to pursue their self-interest by limiting the free cash flow, which can be achieved by paying higher dividends meaning higher external financing. This can be achieved by: *issuing debt*, which has a higher risk of default but a positive signal, or *issuing equity*, which has a negative signal.

Another way of tackling this issue is by discussing the "Agency Theory" which suggests that debt can have both negative and positive effects on firm value. The negative effect of debt is due to incentives for the firm's management, acting in the shareholders' interest, to take actions to *expropriate* wealth from the firm's creditors. In anticipation of such actions, creditors require a higher *ex ante* yield on the firm's debt, and in this way the agency cost of debt is ultimately borne by shareholders. In addition, leverage induces *underinvestment*, particularly if creditors capture part of the benefit of a new project. On the positive side, agency theory suggests that debt can be used as a *disciplinary device* against management's tendency to engage in various self-serving, value-destroying activities. The trade-offs between the agency-related benefits and cost of debt may yield an optimal level of leverage.

Survey results:

Our survey results show, upon responding to question number seven, that 100% of the respondents see stock options as a tool which would reduce a possible cash flow problem.



No major comment was expressed related to this issue except for the following:

Comment: It is a good tool in this sense, but it has to be well balanced.

Question 8:

Are you concerned about your IPO (Initial Public Offering) being under-priced?

Cheng, Chenung and Tse (2005) argue that IPOs are generally underpriced in the short term and underperformers in the long run. Cheng, Chenung and Tse revealed that many studies have been conducted on the underpricing phenomenon including those performed by: Miller and Fisher (1987), Ibbotson and Jaffe (1975), Ritter (1984 & 1991) and Loughran and Ritter (1995). These studies came to the result that IPOs are a good investment in the short term and become a poor investment over the long term. For example, Ritter (1991) examines a sample of new U.S. IPOs listed between 1975 and 1984 and finds that, *"for a three-year holding period, IPOs underperform a control sample of matching seasoned firms"*. However, Ritter and Loughran (1995) find *"negative long-term returns are not as significant if firms are matched. Among the factors that are investigated are firm age and size, industry, underwriter reputation and listing exchange"*.

According to Cheng, Chenung and Tse (2005) investors rely on the certifying function of the Exchanges and the screening process of new issues based on the firms fulfillment of minimum size, number of years in operation and financial information disclosure requirements so that it can be listed on the exchange. The exchange's approval reveals *"its satisfaction with the quality and quantity of information supplied by the applicant company"*. In their paper, Sanger and McConnell (1986) and Ying et al. (1977) observed *"an increase in shareholder wealth after the listing and conclude that this increase is due to increased liquidity or managerial signaling"*. However, they ignore the *certifying* function of the listing requirements.

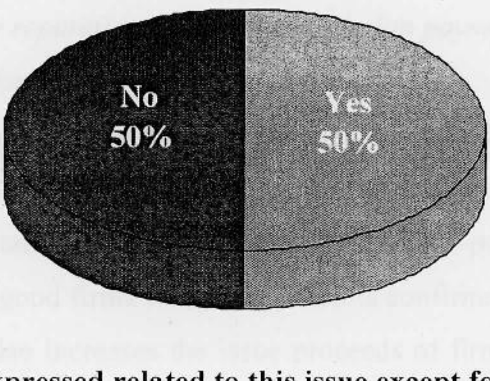
In his paper, Salim Chahine (2002) discussed the issue of underpricing by revealing studies conducted by Benveniste, Spindt and Wilhelm (1989) who suggest that *"underpricing is needed to attract investors and then extract their information, especially for those issues where information is costly for investors to obtain"*. They suppose that *"deliberate underpricing by underwriters induces investors' truthful interest revelation. The quantity of received shares is inevitably an increasing function of revealed information and the offer price is adjusted only partially with the private information* *gathered on the firm's value. The underwriter has to sufficiently underprice issues with the most favorable information to induce investors to participate and report their information".*

Salim Chahine also discussed the findings of Sherman and Titman (2001) who assume that "investors' interest prior to the IPO is positively related to the degree to which firms look for accurate pricing". They show that "demand for accuracy is positively correlated with the expected underpricing which would be high enough to exceed the cost of information and compensate investors participating in the offerings. Similarly, firms which do not need accurate pricing, will have little underpricing so as to attract few investors to participate in the offering. The expected underpricing will exactly offset the cost of investors' private information".

Rock (1986) proposed the existence of two types of investors: "an investor informed about the aftermarket equilibrium price of the issue and an uninformed one. While the informed investor participates only in underpriced IPOs, an uninformed investor does not distinguish the firm's quality and participates in the entire offerings. Under- priced issues are thus oversubscribed compared to overpriced offerings".

Survey results:

Our survey results show that 50% of the respondents were concerned about their IPO being under-priced and 50% were not concerned.



No major comment was expressed related to this issue except for the following:

Comment: The IPO should reflect the true value of the company.

Question 9:

Are you concerned about the cost of underwriting or the issuance cost?

The process of going public starts from the appointment of an underwriter who assists in selecting other advisors, prepare a prospectus, advice and analysed the pricing and the governance of the firm in addition to other underwriting services.

According to Menyah and Paudyal (2002), a firm, which is going public, negotiates with the underwriter as whether to conduct a placing agreement or an underwriting contract. The commission paid to the underwriter is usually 2% of the issue proceeds in an offer for sale and for subscription. 1.25% of the commission is paid to sub-underwriters who bear the ultimate underwriting risk. One-quarter of 1% is paid to brokers who find subscribers for the issue while the primary underwriter receives a commission of half of 1% of the proceeds. Upon placing the issue, a fee of three-quarters of 1% of the issue proceeds is paid usually. Separate fee are paid to underwriters for services performed in areas related to corporate finance of the issue firm. As per Menyah and Paudyal research "these fees contrasts significantly with the US practice where the gross spread which ranges from 5% to over 9% pays for corporate finance work and for the effort involved in selling the issue in addition to compensating the syndicate members for underwriting risk". *(For more details, refer to Section III – part d of this paper for the commissions and charges applied in Lebanon).*

Booth and Smith (1986) argued that *"underwriters who incur costs to build their reputation as regular participants in the IPO market, can be used by firms to certify that the issue price reflects potentially adverse inside information. Issuers compensate underwriters for using their reputation (through commission payments) and for the direct costs of obtaining inside information".*

Chemmanur and Fulghieri (1994) argued that "investment banks with special expertise in evaluating firms, use high standards to determine the value of an issue. Such banks develop a high reputation because investors observe ex-post that the firms they take public are, on average good firms whose valuation is confirmed in secondary market prices. A high reputation also increases the issue proceeds of firms they take to market and enables such sponsors to maximize their profits".

Part of the issuance cost can be considered the "*Lockup provision*", which is an important aspect of insiders' commitment to continuing ownership, whereby pre-IPO shareholders (especially insiders) agree to refrain from selling their shares for a period (typically 180 days) after the IPO date. Lockup is a bonding mechanism that resolves information asymmetry problems between the insiders and new investors. Its downside is that only a minority of the firm's shares freely float in the initial secondary market, limiting liquidity.

The underwriter process is usually performed by investment banks in Lebanon. A company going public should choose an investment bank that will undertake the underwriting process. An agreement should be made between both parties upon the method of offering which can be in the following forms:

1. Firm commitment: the entire issue is sold to the underwriter who then attempts to sell it to the public. The price of issuance is not agreed until later in the issuance process.

2. Best effort: the underwriter makes a best effort to sell at the agreed price.

3. Rights offering: securities are first offered to existing shareholders.

After selecting the method of offer, the underwriter values the firm in order to determine a price for the firm's shares. The valuation of the firm will depend on different methods used by the underwriter, like using discounted cash flow analysis, but the most common method used is by taking the value of similar firms and using financial ratios to provide a range of values for the firm.

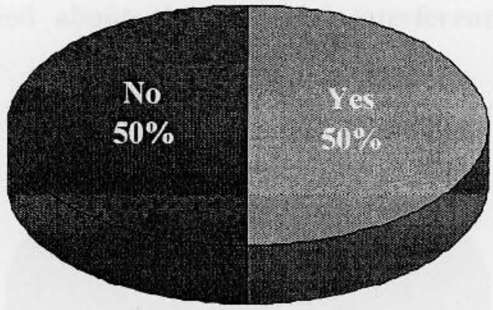
Next, the underwriter prepares and files all the documents required, in order to be reviewed by the Beirut Stock Exchange Committee. In the USA this period is known as the "*waiting period*, or *cooling-off period*", the length of this period depends on the Security Exchange Commission (SEC) which might require additional documents. Also, the filing contains two parts, one that is made available to the public (prospectus) and another part that is kept private, only for SEC use. During the period of review, the underwriter visits big investors, in order to persuade them to buy shares and build a demand schedule (this process is called *"Book Building"*).

The final stage of this process occurs when an approval is received and the shares are issued to the public.

Note that the underwriter receives fees for performing IPOs. These fees depend upon the agreement between the underwriter and the firm. The reputation of the underwriter and its ability to get investors before the issuance of the shares play an important part in the IPO process and the determination of the fees. If a "Firm Commitment" was agreed between both parties, the underwriter fees are based on: *Gross spread*, which is the spread between the price sold to the market and the price bought from the firm (typically 7%). Also, underwriters benefit from *Underpricing*, discussed in question 8 above, where usually the offer is under price by as much as 15% or more.

Survey results:

Our survey results show that 50% of the respondents were concerned about the cost of underwriting or the issuance cost and 50% were not concerned.



No major comment was expressed related to this issue except for the following:

Comment: No, the benefits would be greater.

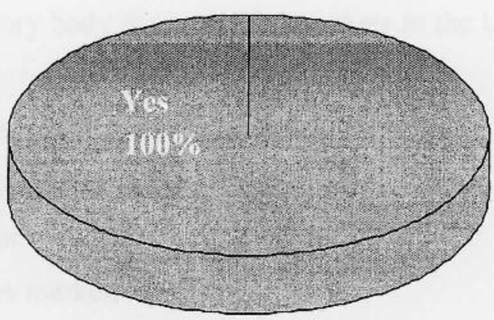
Question 10:

Are you concerned about shareholders' interference in the company's policies (the choice of business line, product line, dividend policy, etc...)?

This is one of the major issues which face a company upon going public. The managers, who usually are the founders of the company, will face constant interference in the company's policies (the choice of business line, product line, dividend policy, etc...) from the new shareholders, especially, those shareholders who own a large proportion of the company's shares.

Survey results:

Our survey results show, upon responding to question number ten, that 100% of the respondents are concerned about shareholders' interference in the company's policies.



The following are some of the comments that were received on this question:

Comment 1: Yes it is a major concern, that's why our decision would be to introduce minority shareholders.

Comment 2: This can be controlled by the number of shares

Question 11:

Are you concerned about revealing information through reporting requirements and disclosures which might jeopardize your company's competitiveness?

A firm which goes public has to provide financial statements in order to lower general information asymmetry in addition to other reporting requirements and disclosures.

Following the stock market crash of 1929, the US Congress responded by issuing two Acts to rectify observed abuses in the issuance and trading of securities in public markets: a) *The Securities Act of 1933.* This Act has two basic objectives, (1) to require that investors are provided with material information concerning securities offered for public sale, and (2) to prevent misrepresentation, deceit, and other fraud in the sale of securities. *b) The Securities Exchange Act of 1934 and the SEC:* By issuing this Act, Congress created the Securities and Exchange Commission (SEC) which is the principal federal government regulatory body for securities markets in the US. The SEC's mission includes the following:

1- To administer federal securities laws
2- Issue rules and regulations
3- To provide protection for investors
4- Ensure that the securities markets are fair and honest
5- Serve as adviser to federal courts in corporate reorganization proceedings
6- To provide the means by which firms can comply with the registration requirement of the Securities Act of 1933 which requires:
    - A description of the company's properties and business,
    - A description of the security to be offered for sale and its relationship to the company's other capital securities,
    - Information about the company's management, and
    - Financial statements certified by independent public accountants.

A public company has to file a proposed proxy in advance for examination by the SEC for compliances with disclosure requirements. Also shareholders can submit proposals for a vote at annual meetings.

The Prohibition of Insider Trading:

A firm's insiders, including management and members of Board of Directors, have private information about the firm, since, they receive information on the success of their current operations on a virtually continuous basis, and they prepare the firm's strategic plans. The SEC prohibited Insider Trading to prevent insiders from making profits at the expense of less informed investors. This does not mean that insiders cannot own or trade shares of their firm; instead, the rule prohibits an insider from engaging in short-term trading in the firm's stock for the purpose of generating a personal profit or avoiding personal losses. If an insider realizes a short-term profit on his/her short-term trading in the firm's stock, he/she must surrender the gains to the firm, and many be subject to other penalties. Insiders are also prohibited from (1) informing others of material inside information which they could use to buy or sell securities before such information is available to the public, and (2) making short sales of their company's equity securities.

Ownership and Trading Disclosures:

Section 16 of the 1934 Act requires that all officers of a company and owners of more than 10% of its registered equity securities must file an initial report with the SEC, and with the exchange on which the stock is listed, showing their holdings of the company's securities and any change in those holdings. Since this allows shareholders to gain control and to make informed decisions on critical corporate events.

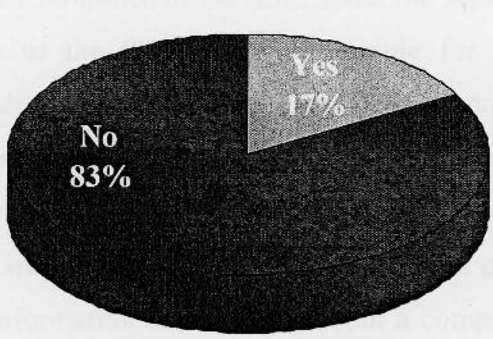
The same rules applicable in the US, related to disclosure requirements, prohibition of insider trading and ownership and trading disclosures, are implemented on the Beirut Stock Exchange, through the implementation of the By-Laws. Section V of these By-Laws states clearly the listing requirements of the issuers of securities traded on the Stock Exchange. Articles 85, lists the documents and information needed for a company to be listed on the BSE.

Note also that all Lebanese companies, whether listed or not, must file annual returns before 31 May of each year except for partnerships, which must file before 31 March of each year.

According to Decree number 8089 dated March 15th, 1996 all limited liability companies (SAL or SARL) as well as partnership and sole proprietorships (whose number of employees exceeds 25 or whose turnover exceeds LL 750 million per annum) and branches of foreign companies must submit to the tax authorities their financial statements together with audit report issued by a licensed accountant. (Ernst and Young, 2005).

Survey results:

Our survey results show that 83% were not concerned about revealing information through reporting requirements and disclosures which might jeopardize their company's competitiveness and 17% were concerned.



The following are some of the comments that we received on this question:

Comment 1: Not at all, this will help the company.

Comment 2: Reporting requirements should not as much as possible affect the competitiveness or strong points of the company.

Question 12:

Do you worry about performance pressure from shareholders, the business press, equity research analysts and debt rating agencies?

Shareholders, the business press, equity research analysts and debt rating agencies, are all examples of informed traders. They generally gain valuable private information about the true value of a firm through their analytical expertise and their superior access to information gathering and processing technologies. Analysts have two advantages over the typical investors: Superior ability to trade quickly on the basis of public information and private self-generated information. Private information, for example, can be obtained from having private conversation with the company's management about earnings forecast. In the USA, the Security Exchange Commission (SEC) has taken action to eliminate the unfairness of this practice by imposing *Regulation Fair Disclosure*, where a firm's insider discloses nonpublic information to an analyst, the insider must immediately disclose this information to the public.

The Stock Exchange Committee of the BSE, under the supervision of the Ministry of Finance is comparable to the SEC; it is responsible for the "Fair Disclosure" requirement of publicly traded companies in Lebanon. This Committee is the organizing body of the BSE that monitors the activities of the issuing companies, and provides information to the issuers and traders at the Stock Exchange on an equal footing

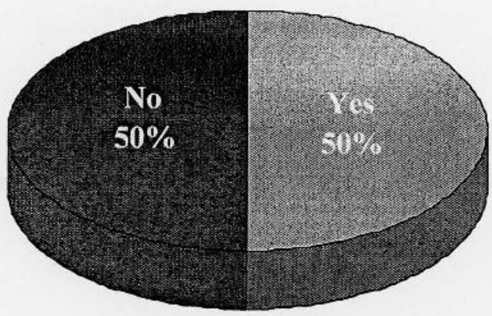
Since Lebanon is a small market, to the extent that most of the large companies' owners know each other, information and rumours about a company's performance can quickly spread. Also, Lebanon is characterized by having free press that is not controlled by the government as is the case in most Arab countries; this fact makes it difficult for companies to hide information from the public.

In recent years, Lebanese Financial institutions noticed improvements in the areas of financial analysis, mainly due to the fact that most of these companies deal with Arab investors and Arab stock markets, which developed more than the Lebanese stock markets. These institutions may add pressure on publicly listed companies in Lebanon, but the fact remains that, this institutions focus more on foreign stock markets than

Lebanese markets, since the later is much less developed and is considered very small compared to other stock market, thus, no major pressure is imposed by these institutions on BSE listed companies.

Survey results:

Our survey results show that 50% of the respondents replied that they do worry about performance pressure from shareholders, the business press, equity research analysts and debt rating agencies.



The following are some of the comments that we received on this question:

Comment 1: This will defiantly put pressure on our company, but this pressure will be great for us, because it will force us to improve our performance.

Comment 2: No this should not be a concern, on the contrary it helps management to correct and adjust weaknesses if any.

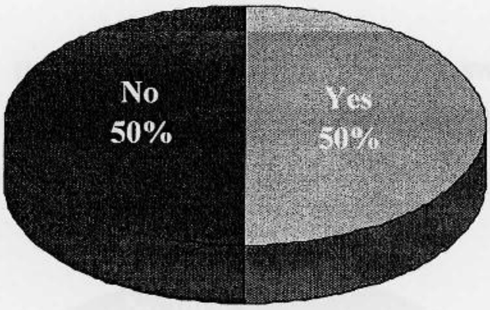
Question 13:

Are you concerned about being distracted by time consuming investor relations such as visits from major shareholders?

One of the disadvantages of a company going public is that management is often distracted by time-consuming investor-relations tasks, such as press releases, personal visits from or to major shareholders, etc. these tasks are often very time consuming and do keep management from focusing on the core and daily operations of the company.

Survey results:

Our survey results show that 50% of the respondents are concerned about being distracted by time consuming investor relations such as visits from major shareholders.



The following are some of the comments that we received on this question:

Comment 1: Yes this should be well scheduled and not time consuming and mainly to be practiced for valid reasons.

Comment 2: public relations can be massively time consuming for key executives. This leaves less time for them to carry out their daily jobs and might increase the risk of not being able to address major business issues on a timely basis.

Question 14:

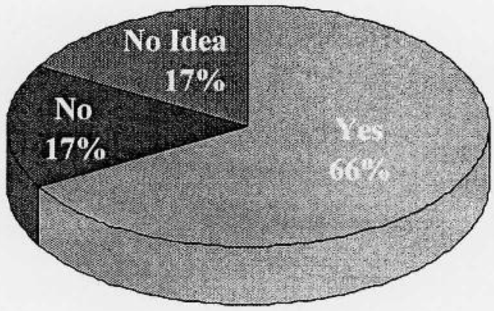
Are you concerned about the complexity of the IPO process?

Certainly the process of taking a company public (IPO) is considered as a complex process, especially the matters related to the initial offering, listing requirements, reporting, disclosures and many other matters which require the close attention of management.

Generally the BSE By-Laws specify all the requirements for an IPO. These requirements are not considered as complex as the US regulated markets. This is due to the fact that, the Lebanese stock exchange is not as advanced compared to the USA. The BSE has only a limited number of listed companies, with fewer regulatory requirements than a US or any other advanced stock exchange in Europe or other developed parts of the world.

Survey results:

Our survey results show that 66% of the respondents answered yes to question number fourteen, 17% answered no and another 17% had no idea about the subject and did not express an opinion.



The following are some of the comments that we received on this question:

Comment 1: I am not familiar with the going public process in Lebanon.

Comment 2: To a certain extent yes but this could be remedied by creating the proper logistics.

Comment 3: Yes, specially related to time consuming paper work as well as preparing periodic financial statements.

Conclusion:

Having a well diversified portfolio minimizes the risk on investors in a way that their wealth can be invested in different companies and not just their own. Thus going public helps achieving diversification. By selling shares in their company, shareholders can invest the proceeds generated in buying new shares in other companies. But the fact remains that most of the Lebanese companies are family owned, where owners do not like to lose control in their companies, without realizing the risk associated with the act, like for example, having low performance, continuous losses, losing market shares and having an unprofitable company. Thus the wealth of the owners will vanish eventually as the company reaches to a point that it can not continue. On the other hand, most Lebanese companies achieve diversification through investments made outside Lebanon by having branches or investments abroad, thus, lowering the risk associated with having a non-diversified portfolio.

Borrowing money will be easier and less costly as a company goes public, where the company avoids getting financing from banks that is usually associated with high cost. Most Lebanese companies that are doing well and are potential candidates for going public are receiving low cost upon borrowing from banks or other financial institutions. Other companies get venture capital or silent partners that finance their projects without having the risk of losing control over the company. This form of financing is more favorable to most Lebanese companies than going public.

Our survey shows that, investing the money raised from going public in additional investments or projects that generate income to the company is preferred than retiring some of the company's debts.

Going public will reveal the true value of the firm as shares are trading in the market and the demand and supply rules determine how much investors are willing to pay for the shares of the company that are available to the public. But since Lebanon is known to be a small and inefficient market, influenced and dominated by families, it will be hard to know the true value of the firm even if it goes public.

On of the major concerns of going public is losing voting powers or control over the firm. The majority of Lebanese companies are family owned, where the current managers have inherited their firms from their families. These managers usually like to hire relatives in order to keep tight control of the firm. Going public will reduce this control, thus, it will not be appealing to implement.

In order to reduce agency problems between shareholders and managers, stock options can be viewed as a possible compensation tool which would align the interests of management with the interests of shareholders in addition to other incentives like bonuses, promotions and others. Stock options can also be used as a tool which would reduce possible cash flow problems.

The process of going public is not a cheap one. High costs are incurred along the way, especially when an underwriter is assigned in order to initiate an IPO. Thus a company must balance well its choice of going public, since these high costs might not be covered by the proceeds generated from trading the shares of the company in the market.

Another concern when going public is the interference of shareholders in the company's policies. Our survey revealed that most of the companies, that are thinking to go public in Lebanon, like to keep their companies closely held by introducing limited number of shares to the public in order not to lose control and not facing the problem of any interference from new shareholders.

The survey result showed that, the majority of companies do not have a concern about revealing information through reporting requirements and disclosures as long as the no competitive information about the company is revealed.

No concern was revealed regarding performance pressure from shareholders, the business press, equity research analysts and debt rating agencies, where these parties can shed light the company's weakness that can be improved.

As a company goes public, management can be distracted by time consuming relations with investors that leave less time for managers to carry out their daily jobs, thus increasing the risk of not addressing major issues on a timely basis.

A major concern was raised about the IPO process in Lebanon, since this process is still developing and many companies that are thinking about going public lack the basic knowledge of this process.

V - An analysis of the stock performance of four listed companies in different sectors.

a) Introduction

In this section, we have chosen four companies which are listed on the Beirut Stock Exchange (BSE), they represent three different sectors. We analyze the historical and price movement of their stocks which are offered to the public.

The purpose of this analysis is first to explore the nature of publicly listed companies in Lebanon and to draw a closer look at the composition of these companies as far as their ownership structure, the types of shares offered to the public and the effect of publicly trading these shares on their financial and economic performance.

The second purpose of this study is to show the vulnerability of the market price of the shares of these companies to any changes in the political or economic situation in Lebanon, especially, due to the fact that Lebanon is characterized with a high level of political and economic instability, thus, causing a major setback for companies wishing to go public in Lebanon.

Another purpose is to study the financial situation of these companies and try to draw conclusions as for the benefits or disincentives of going public in Lebanon.

We start the discussion by introducing the concept of the Efficient Market Hypothesis (EMH) in order to address the effects of competition in the financial markets on the market prices of securities.

In the last part of this section, we performed testing for the correlation between the Beirut Stock Index and the four selected companies in our sample with respect to *"Daily Prices"* and *"Percentage Daily Returns"* for the period starting in January 2, 2004 till September 25, 2007.

Companies Selected:

The following companies were selected:

1. BLOM Bank SAL – Banking sector
2. Byblos Bank SAL – Banking sector
3. Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. (Solidere) – Development and Reconstruction sector
4. Holcim Liban SAL – Industrial sector

Basis of the selection:

As it is well known, the Beirut Stock Exchange consists of 11 companies that are divided into different sectors, which are: the banking sector (six banks), the Development and Reconstruction sector (one company), the Trading sector (one company), and Industrial sector (three companies).

Thus, we have selected a representative sample from each sector as such:

- Since Banks represent almost half of the companies listed on BSE, we have selected two banks (BLOM and Byblos banks); representing a sample of 33% out of total banks listed on BSE (a selection of two banks over a total of six banks).

- One Development and Reconstruction company (Solidere); representing the only Development and Reconstruction company listed on BSE.

- One company form the industrial sector (Holcim Liban); representing a sample of 33% of total Industrial companies that are listed on BSE (a selection of one company over a total of three Industrial companies).

No sample was selected for the Trading sector, since the only company that exists in this sector Rasamny Younis Motor Company (RYMCO) is held by few family and the shares are not offered to the public. *(According to Zawya (2008), RYMCO's major shareholders consist of: Rasamny family 70%, Mohamed Abdulmohsin Al Kharafi & Sons Co. 12.80%, Younis family 6.40% and Middle East Capital Group 4.17%).* The company's stock market value is almost fixed where no major movement is noted in prior years. Thus, the results of a study of this stock would not add any value to our analysis.

Thus the present analysis of a representative sample of 36 % (4 companies out of 11) of total companies listed on the BSE which should represents fairly the population of listed companies.

Analysis performed:

We start the analysis of each company by introducing the company and the type of business that it is engaged in. We provide the basic ownership and corporate structure of each company and analyze the type of ownership of these publicly held companies.

Next the historical price movement of each stock is plotted and an analysis of these movements is carried out in order to show the events and situations which affected the stock price. The objective here is to draw an overall conclusion about the performance of publicly held companies in Lebanon.

The last part of the analysis is the calculation of some major ratios drawn from the financial statements in order to study the financial performance of these companies.

Basic Concepts:

i. *Ownership structure*

Ownership structure is the distribution of shares among classes of investors. And it is an integral part of firm's financial policies and strategies. A primary determinant of firm's ownership structure is whether the firm's equity is privately held or traded publicly on an exchange.

For a typical publicly traded firm, major classes of shareholders include:

(a) The firm's managers and board of directors, who are called insiders,
(b) Financial Institutes,
(c) Individual investors at large, and
(d) Other firms

Owners in categories (b), (c) and (d) are called outsiders.

If *insiders* hold a large proportion of equity shares, it is said that the firm is closely held. Conversely, if numerous *outsiders* have the majority of shares, the firm's ownership is diffuse.

ii. *Financial Ratios*

For the purpose of having a comprehensive understanding of the financial performance of the companies selected for our analysis the following ratios were analysed:

1 - Market / Book Ratio (M / B):

This ratio is calculated by dividing the market value of the shares of the company by its book value. This ratio reflects how much the market equity values of the firm exceed its book equity values. Therefore, how much future earnings the firm is expected to produce, in present value terms, as compared to the book value of assets used to generate them, thus, how much the firm is efficient in creating value for its shareholders.

2 - Debt Ratio:

If a business fails and must be liquidated, the claims of creditors take priority over those of the owners. But if the business has accumulated a great deal of debt, there may not be enough assets to make full payment to all creditors.

A basic measure of the safety of creditors' claims is the debt ratio, which states total liabilities as a percentage of total assets.

The debt ratio is not a measure of short-term liquidity. Rather, it is a measure of creditors' long-term risk. The smaller the portion of total assets financed by creditors, the lower the risk that the business may become unable to pay its debts. From the creditors' point of view, the lower the debt ratio, the safer their position.

3 – Return on Equity (ROE)

Return on Equity, which is calculated as net income over average total Stockholders' equity, gives the firm a clear measurement about the return earned by management on the stockholders investment, that is, upon owners' equity.

4 - Price-earnings Ratio (P/E)

Price-earning ratio is calculated as the ratio of the firm's stock price to its latest annual earnings (earnings per share).

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

An individual firm's P/E ratio tends to be volatile, in part because of a mismatch between numerator and denominator. According to valuation theory, a firm's stock price reflects investors' assessments of the firms' expected *future earnings,* as well as their willingness to pay for these expected future earnings, whereas the denominator in the ratio is simply the firm's earnings over the past year, therefore, a company with very low earnings is likely to have a high P/E ratio even if investors are not optimistic about future earnings.

5 - Dividend Payout Ratio (DPO)

The Dividend payout ratio is the fraction of the firm's earnings in a given year that are paid out as cash dividends in that year.

6 - Dividend Yields (DY)

The Dividend Yields is the ratio of the firm's dividends payments over the year-end market equity price.

b) The Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (Fama 1970, 1991) addresses, in general terms, the effects of competition in the financial markets on the market prices of securities. The EMH is one of the most important and pervasive, as well as controversial, concepts in the theory of finance.

EMH emerges from the same set of assumptions that defines the ideal capital market. The EMH asserts that, at all times, a security's market price fully reflects the true, rational value of the security; in other words, the security is fairly priced. For this to occur, the security's market price must rationally reflect all available value-relevant information. Rational investors use all available information useful in determining (a) the security's expected future cash flows, (b) the riskiness of these cash flows, and (c) the appropriate discount rate to apply to the security's expected cash flows.

In his 1970 paper, Fama specified the following forms of the EMH:

1) Weak Form

The weak form of the Efficient Market Hypothesis (EMH) states that it is impossible to predict future stock prices by analyzing prices from the past.

- The current price is a fair one that considers any information contained in the past price data.
- Charting techniques are of no use in predicting stock prices

2) Semi-Strong Form

The semi-strong form of the EMH states that security prices fully reflect all publicly available information, example, past stock prices, economic reports, brokerage firm recommendations, investment advisory letters, etc.

Academic research supports the semi-strong form of the EMH by investigating various corporate announcements, such as:

- Stock splits

- Cash dividends
- Stock dividends

This means that investors are seldom going to beat the market by analyzing public news.

3) Strong Form

The strong form of the EMH states that security prices fully reflect all public and private information. This means that even corporate insiders cannot make abnormal profits by using inside information. (*Inside information* is information not available to the general public).

4) Semi-Efficient

The semi-efficient market hypothesis (SEMH) states that the market prices of some stocks react more efficiently than others due to the fact that:

- Less well-known companies are less efficiently priced
- The market may be tired
- A security pecking order may exist

We believe that the Lebanese stock market is not information efficient due to low participation and weak enforcement of laws especially as far as insider trading and because of the fact that most of the shares are closely held.

c) Financial analysis of four listed companies on the Beirut Stock Exchange

<u>A - BLOM Bank</u>

BLOM Bank SAL is a Lebanese joint stock company, was incorporated in 1951 and registered under No 2464 at the commercial registry of Beirut and under No 14 on the banks' list published by the Bank of Lebanon.

The Bank, together with its subsidiaries, BLOM INVEST Bank SAL, Arope Insurance SAL, BLOM Bank France SA, BLOM Bank (Switzerland) SA, Bank of Syria and Overseas SA, BLOM Bank Egypt SAE, BLOM Development Bank SAL, Syria International Insurance (Arope Syria) SA and BLOM Egypt Securities SAE (the Group), provide all banking activities as well as insurance and brokerage activities.

During the year 2006, the Central Bank of Lebanon approved the Bank's request to open a representative office in Sharjah – UAE provided that the Bank obtains the approval of the Central Bank of the United Arab Emirates.

BLOM Bank SAL signed on 29 August 2006 a Memorandum of Understanding with a Saudi holding company to establish a company in the Kingdom of Saudi Arabia to deal in financial instruments. The two parties agreed to obtain a license from the corresponding authorities in the Kingdom of Saudi Arabia to establish a Saudi joint stock company under the name of "BLOM Invest-Saudi Arabia", to be located in Riyadh to deal in financial instruments in the Kingdom of Saudi Arabia, with a capital of around 100 million Saudi Riyal allocated 60% between BLOM Bank SAL and BLOM Invest Bank SAL and 40% to the Saudi party.

According to Shuaa Capital (2006), BLOM Bank (Banque du Liban et d'Outre-Mer s.a.l.) is one of the largest banks operating in Lebanon since 1981 with more branches outside Lebanon than any other Lebanese bank. The bank's financial strength and strong franchise name in Lebanon allows the bank to borrow at lower rates than its peers. BLOM's strategy of choosing the lowest risk asset allocation made it as the most cost efficient bank in Lebanon. In order to finance its expansion into more foreign and

Arab countries, the bank needs to raise new capital, setup an Islamic banking subsidiary, and meet potential Basel II requirements.

BLOM Bank (2008) reveals that the bank currently owns 44 branches in Lebanon, 13 overseas branches operated by BLOM directly and another 13 branches operated by BLOM Bank Egypt where BLOM currently owns around 99% of it. BLOM's further growth potential can be characterized by the fact that the bank's assets constitute around 16% of total banking assets in Lebanon.

According to BLOM Bank (2008), the bank issued on February 2006, 3 millions Global Depositary Receipts" GDR" for a total amount of USD 276 million at a price of USD 92 per share. Credit Suisse acted as Global Coordinator, Sole Book-runner and Lead Manager for the issue and both SHUAA Capital PSC and Global Investment House as co-lead managers. Also at the same period, BLOM established an Islamic subsidiary named: "BLOM Development Bank" in order to penetrate more into the Arab countries and catch up with the developing Islamic banking in the region.

BLOM Bank received all the awards granted for Lebanese banks in 2006 by Euromoney magazine; The Best Bank and the Best Investment Bank in Lebanon. BLOM Bank was awarded as well 'The Best Bank in Lebanon' by Global Finance as well as Bank of the year from The Banker.

According to Capital Intelligence, BLOM continues to enjoy solely the highest financial strength rating among Lebanese banks.

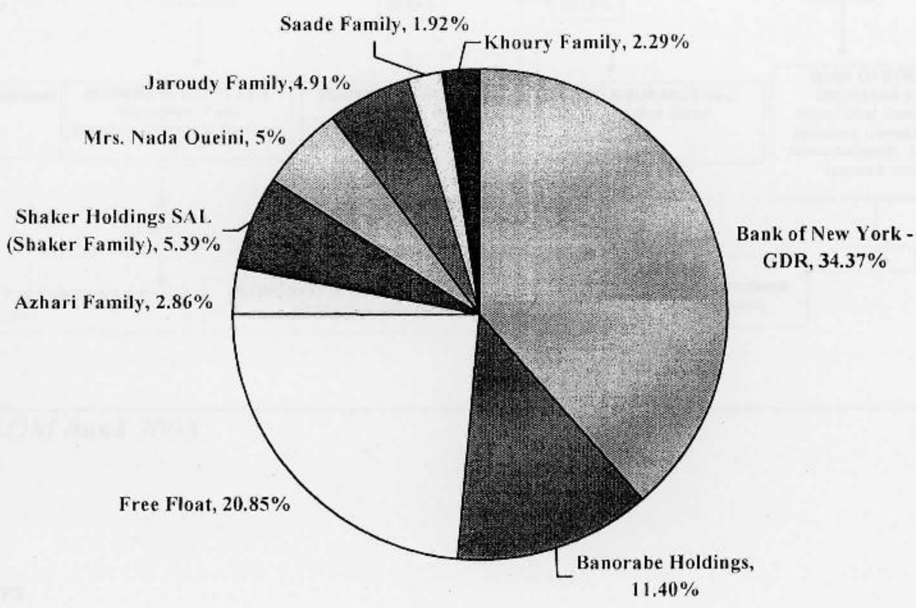
Rating

As mentioned in the above paragraph, BLOM enjoys the highest financial strength rating of all financial institutions in Lebanon. Its rating is capped by the sovereign ceiling in several of the ratings. The ratings are based on the long-term foreign currency deposits of the Bank.

Long-term foreign currency deposit rating: (April 2006)

	Rating	Outlook
Standard & Poor's	B-	Stable
Moody's	B3	Stable
Capital Intelligence	B	-
Sources: Moody's, Standard & Poor's, Capital Intelligence		

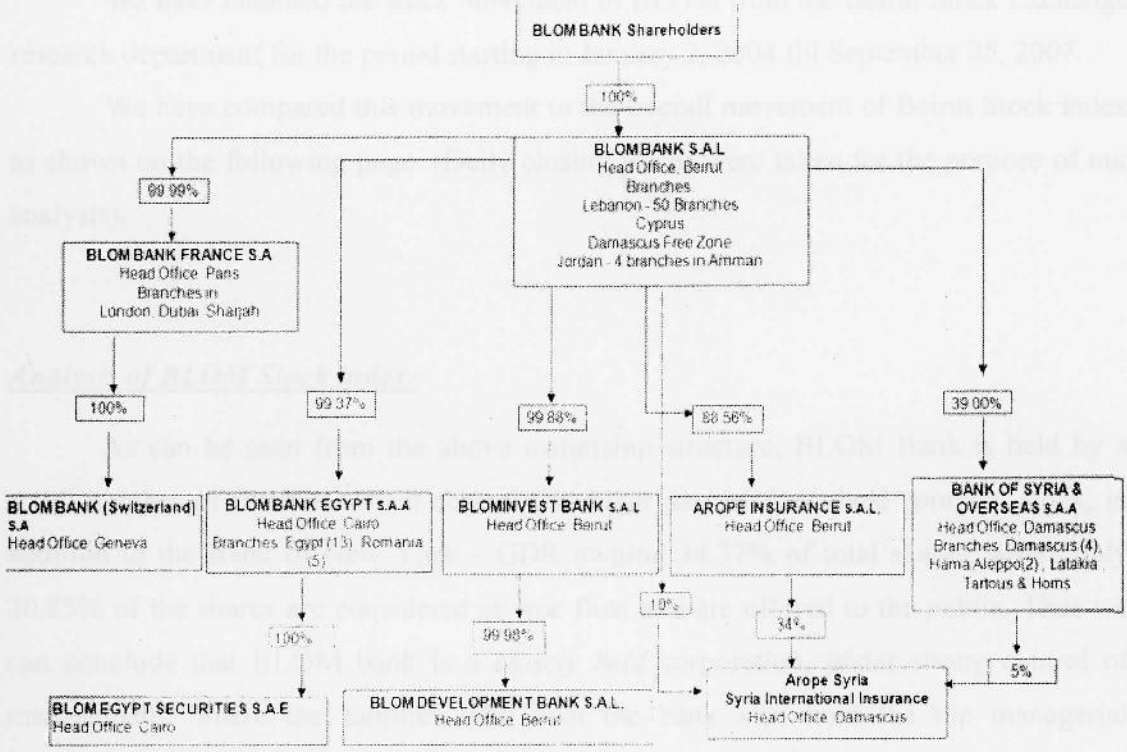
BLOM Ownership Structure



Source: BLOM Bank 2008

The major shareholders in BLOM Bank include the Bank of New York, GDR holders as well as several Lebanese and other Arab families. The organizations' basic structure is provided below; however most of the bank's current activities and returns take place within the BLOM Bank's Lebanese braches.

BLOM Organizations Structure



Source: BLOM Bank 2008

Key Officers

Saad Azhari: Chairman

Saad Azhari: General Manager

Historical movement of BLOM Stock prices:

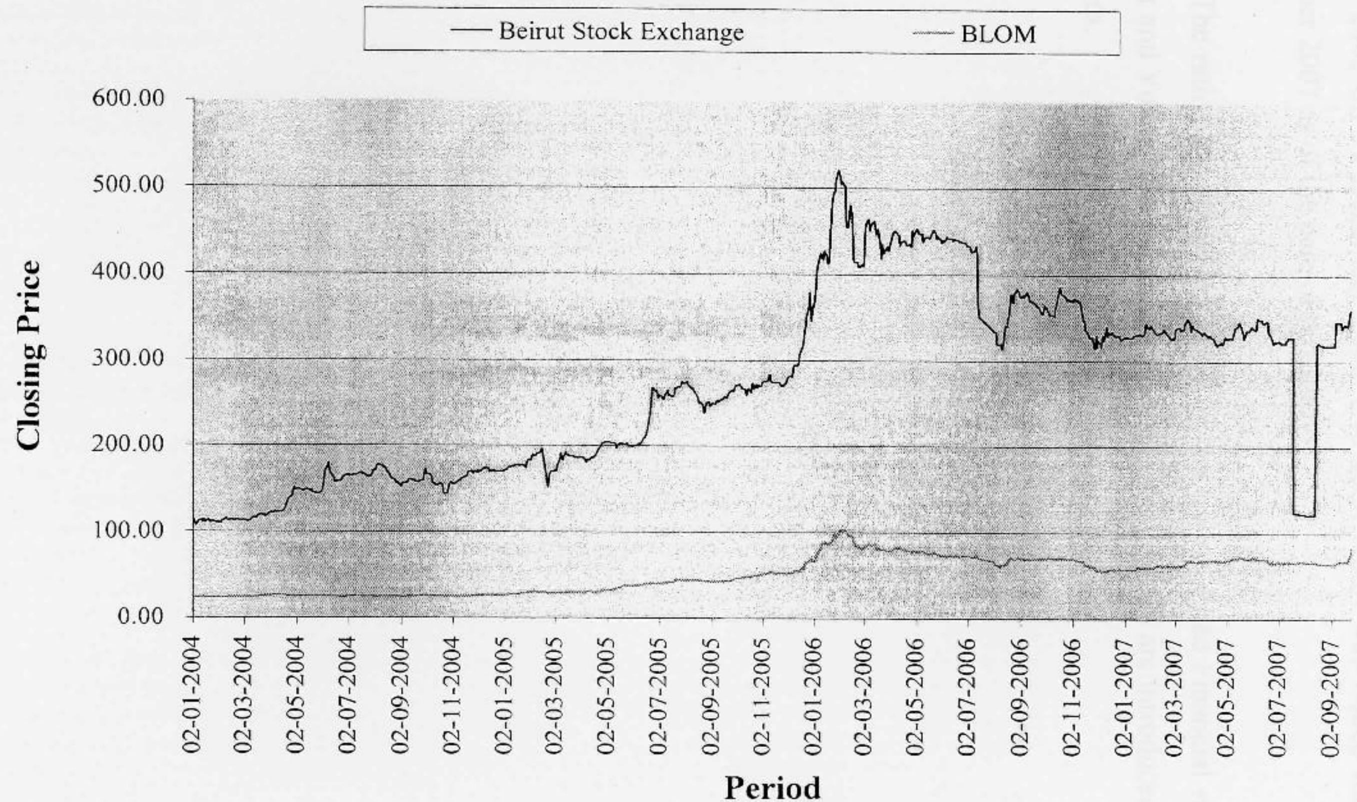
We have obtained the stock movement of BLOM from the Beirut Stock Exchange research department for the period starting in January 2, 2004 till September 25, 2007.

We have compared this movement to the overall movement of Beirut Stock index as shown on the following page. (Daily closing prices were taken for the purpose of our analysis).

Analysis of BLOM Stock index:

As can be seen from the above ownership structure, BLOM Bank is held by a small number of families which control the major part of the issued common stock, in addition to the Bank of New York – GDR owning 34.37% of total shares, where only 20.85% of the shares are considered as free float and are offered to the public. Thus we can conclude that BLOM bank is a *closely held* corporation, under strong control of management, where the families who own the bank also hold the top managerial positions. Therefore, as a result, limited fluctuations of stock prices can be expected. The graph below clearly shows this fact, where no major fluctuation was noted during the period under study except for the month of February 2006 during which BLOM's stock price had a record closing price of USD 103.70 per share. The BLOM stock was moving in line with the overall movement of the Beirut Stock Index due to high expectations of the Lebanese economy, where major stocks in the BSE recorded high prices due to the increase in demand, mainly from Gulf investors, attributable to high liquidity as a result of the increase in oil prices.

BLOM Index



Source: Beirut Stock Exchange and BLOM Bank

Financial Ratio Analysis:

In order to have a more comprehensive understanding of BLOM Bank, we have obtained the consolidated Financial Statements of the bank for the period starting from 1 January 2002 till 31 December 2006. (No audit report was issued for the year-end 31 December 2007 as of the date of this study)

The ratios are calculated based on the Consolidated Financial statements audited by Ernst and Young throughout the years under study and are introduced in the following two pages.

BLOM Consolidated Balance Sheet:

	2006 LL (000)	2005 LL (000)	2004 LL (000)	2003 LL (000)	2002 LL (000)
Assets					
Cash and Central Banks	6,246,406,000	5,601,546,941	4,326,470,770	4,151,001,257	1,580,469,087
Lebanese treasury bills and other governmental bills	3,474,920,000	3,539,844,690	3,209,545,634	3,223,171,708	3,957,203,950
Bonds and financial instruments with fixed income	386,100,000	434,203,370	377,709,350	260,994,931	241,948,866
Marketable securities and financial instruments with variable income	8,403,000	21,556,940	47,727,222	43,280,035	4,601,306
Banks and financial institutions	7,754,284,000	5,297,127,134	5,907,395,017	3,513,112,578	3,192,435,673
Loans and advances to customers*	2,996,698,000	2,517,981,986	2,127,322,349	1,755,261,299	1,501,726,483
Bank acceptances	173,260,000	200,155,400	172,021,195	116,697,751	128,983,995
Financial fixed assets and investments and loans to related parties	3,220,000	3,080,623	4,694,812	22,459,892	5,231,122
Tangible fixed assets (including revaluation variance approved by Bank of Lebanon)	231,086,000	209,200,105	143,816,784	130,482,456	132,344,961
Intangible fixed assets	2,845,000	3,952,463	3,167,135	468,484	667,282
Other assets	33,715,000	23,785,831	6,347,813	1,888,584	1,889,160
Regularization accounts and other debit accounts	61,408,000	52,537,697	27,674,272	24,688,753	24,382,852
Goodwill	63,980,000	61,758,202	1,024,799	1,200,093	1,394,238
Total Assets	21,436,325,000	17,966,731,382	16,354,917,152	13,244,707,821	10,773,278,975
Liabilities and Shareholders' Equity					
Banks and financial institutions	1,308,844,000	704,120,635	1,251,815,044	440,606,424	316,263,880
Customers' deposits	17,690,381,000	15,317,488,997	13,621,133,784	11,586,975,288	9,369,208,884
Engagements by acceptances	173,260,000	200,155,400	172,021,195	116,697,751	128,983,995
Other liabilities	128,641,000	136,222,251	101,078,933	90,924,786	65,501,321
Regularization accounts and other creditor accounts	129,869,000	94,870,594	40,555,842	26,334,911	18,474,783
Provisions for risks and charges	76,360,000	69,990,530	20,136,936	20,799,417	16,558,419
Subordinated notes	-	-	82,849,693	112,964,131	112,652,773
Total Liabilities	19,507,355,000	16,522,848,407	15,289,591,427	12,395,302,708	10,027,644,055
Share capital	240,000,000	210,000,000	200,000,000	192,500,000	192,500,000
Revaluation variance recognized in the complementary shareholders' equity	14,727,000	14,726,847	14,853,746	14,658,391	14,730,518
Reserve for general banking risks	59,324,000	50,718,511	43,206,483		-
Reserve and premiums and equity differences	1,162,790,000	725,783,035	572,366,549	36,103,366	29,196,687
Cumulative changes in fair values	21,430,000	81,067,390	485,785	435,427,200	398,880,026
Treasury stocks	(52,108,000)	-	-	-	(15,988,281)
Retained earnings - Profit	133,450,000	99,236,842	70,379,524	37,411,514	74,472
Net results of the financial period - Profit	270,186,000	202,187,337	137,550,281	133,106,076	126,061,267
	1,849,799,000	1,383,719,962	1,038,842,368	849,206,547	745,454,689
Minority interest	79,171,000	60,163,013	26,483,357	198,566	180,231
Total Shareholders' Equity	1,928,970,000	1,443,882,975	1,065,325,725	849,405,113	745,634,920
Total Liabilities and Shareholders' Equity	21,436,325,000	17,966,731,382	16,354,917,152	13,244,707,821	10,773,278,975

Source: BLOM Bank (Consolidated Financial Statements audited by Ernst & Young)

BLOM Consolidated Income Statement:

	2006 LL (000)	*2005 LL (000)*	*2004 LL (000)*	*2003 LL (000)*	*2002 LL (000)*
Interest and similar income	1,264,824,000	932,291,984	823,657,012	794,050,773	755,055,393
Interest and similar charges	(857,569,000)	(658,758,098)	(586,842,295)	(563,044,963)	(531,760,687)
Net provisions less recoveries on loans and advances	(808,000)	2,008,766	(13,392,941)	(15,167,642)	(29,369,071)
Net interest received	406,447,000	275,542,652	223,421,776	215,838,168	193,925,635
Revenues from investments and financial instruments with variable income	1,123,000	344,518	383,249	650,955	332,495
Net commissions	82,703,000	47,279,092	38,463,250	31,660,763	28,420,391
Profit from financial operations	45,505,000	50,745,439	22,056,317	21,249,994	18,838,365
Loss on financial operations	(18,706,000)	(189,622)	(839,814)	(2,450,108)	(230,840)
Net profit from financial operations	26,799,000	50,555,817	21,216,503	18,799,886	18,607,525
Other operational income	16,680,000	18,498,707	14,251,112	10,788,831	10,815,459
Other operational expenses	(11,675,000)	(6,470,317)	(944,436)	(886,604)	(452,317)
General and administrative expenses	(183,238,000)	(131,597,042)	(121,467,369)	(108,987,060)	(97,079,105)
Amortization and depreciation of tangible and intangible assets	(16,143,000)	(11,561,447)	(10,305,141)	(9,125,306)	(10,347,817)
Net provisions less recoveries on financial fixed assets	395,000	(347,611)	11,244	40,889	-
Net provisions less recoveries on off balance sheet items	(1,458,000)	(17,400)	(17,400)	(17,400)	(17,400)
Profit before tax	321,633,000	242,226,969	164,979,736	158,880,835	149,360,039
Income tax	(49,247,000)	(35,928,948)	(27,571,272)	(25,763,156)	(23,284,367)
Profit for the year	272,386,000	206,298,021	137,408,464	133,117,679	126,075,672
Minority interest – loss (profit)	(2,200,000)	(4,110,684)	141,817	(11,603)	(14,405)
Results of the financial period– profit	270,186,000	202,187,337	137,550,281	133,106,076	126,061,267
Earning per share in LL	10,997.08	9,187.27	6,332.15	6,577.24	6,571.27

Remark:

Yearly net income growth	*32%*	*50%*	*3%*	*6%*	-

Source: BLOM Bank (Consolidated Financial Statements audited by Ernst & Young)

Ratios Table:

	2006	*2005*	*2004*	*2003*	*2002*	*Average*
1 -						
Market price of 1 share of Common Stock	86,455	100,173	40,205	35,049	NA	
Book value of 1 share of Common Stock	10,000	10,000	10,000	10,000	10,000	
Market / Book Ratio (M/B)	**8.65**	**10.02**	**4.02**	**3.50**	**NA**	**6.55**
2 -						
Total Liabilities	19,507,355,000	16,522,848,407	15,289,591,427	12,395,302,708	10,027,644,055	
Total Assets	21,436,325,000	17,966,731,382	16,354,917,152	13,244,707,821	10,773,278,975	
Debt Ratio	**91%**	**92%**	**93%**	**94%**	**93%**	**93%**
3 -						
Net Income	272,386,000	206,298,021	137,408,464	133,117,679	126,075,672	
Average total Stockholders' equity	1,686,426,488	1,254,604,350	957,365,419	797,520,017	NA	
Return on Equity (ROE)	**16%**	**16%**	**14%**	**17%**	**NA**	**16%**
4 -						
Market Price of Common Stock	86,455	100,173	40,205	35,049	NA	
Earning per share	10,997	9,187	6,332	6,577	6,571	
Price-earnings Ratio (P/E)	**7.86**	**10.90**	**6.35**	**5.33**	**NA**	**7.61**
5 -						
Dividend	117,002,000	75,763,608	70,475,737	60,878,874	55,303,533	
Net Income	272,386,000	206,298,021	137,408,464	133,117,679	126,075,672	
Dividend Payout Ratio (DPO)	**43%**	**37%**	**51%**	**46%**	**44%**	**44%**
6 -						
Dividend	117,002,000	75,763,608	70,475,737	60,878,874	55,303,533	
Market Equity value	2,074,923,120	2,103,640,980	804,100,600	674,700,565	NA	
Dividend Yields (DY)	**6%**	**4%**	**9%**	**9%**	**NA**	**7%**

1 - Market / Book Ratio (M / B):

The above results indicate that market equity values in general far exceed their book equity values. Therefore, the bank is expected to produce future earnings that, in present value terms, are much greater than the book value of assets used to generate them.

In other words, the bank is expected to be very efficient in creating value for shareholders. As such, these results reflect a very positive image of the current financial health of BLOM Bank. In addition, the results may have important implications for the bank's financial policies.

The M / B ratio averaged 6.55 meaning that the market price of BLOM stock is 6.55 times its book value.

The above results also indicate that year-end 2005 was the best year in terms of generating the highest overall Market to Book ratio of 10.02 which was reduced in year-end 2006 to 8.65 but still remained at high value compared to the previous years under study.

2 - Debt Ratio:

Most financially sound companies traditionally maintain a debt ratio of 60% depending on the industry. As a bank we noticed high debt ratios for the years under study which is consistent with the fact that banks have very high debt ratios – usually over 90% which is the case of BLOM. As indicated in the above table, BLOM has stable debt ratios averaged at 93%. Note that we have calculated the average debt ratio for Bank of America for the same period of our study and obtained a ratio of 92%.
(This ratio was calculated based on the 10K filling of Bank of America to the SEC).

3 – Return on Equity (ROE)

The above table shows that BLOM bank has a rather stable ROE ratio of 16% on average throughout the years understudy. Thus management is able to provide a return on shareholders' investment of 16% yearly.

4 - Price-earnings Ratio (P/E)

BLOM P/E ratio averaged 7.61 for the years under study, indicating that on average shareholders are paying US$7.61 for each dollar of projected earnings per share.

The year 2005 continues to appear as an exceptional year compared to the other years understudy where a P/E ratio of 10.90 was recorded. This result is consisted with the Market to Book ratio which shows similar results consistent with the P/E ratio.

5 - Dividend Payout Ratio (DPO)

For BLOM, the DPO ratio averaged 44% for the years understudy. We noticed a high DPO ratio in 2004 of 51% which was due to the fact that there was an increase in cash dividends paid from 2003 by 16% where net income grow only by 3%.

It is worth noting that the net income of BLOM was at and increasing phase for the years understudy, where 2005 recorded the highest increase of 50% as compared to 2004 net income, *thus, resulting in the lowest DPO ratio. (Refer to the Net Income growth calculated at the bottom of the Income Statement).*

The above results confirm our conclusions that 2005 was the best year for BLOM for the years understudy.

6 - Dividend Yields (DY)

BLOM DY ratio decreased throughout the years understudy and averaged 7%. The primary reason for this trend was that market equity values grew at a much faster average annual rate than dividends. The DY ratio was the lowest in 2005 of 4% where BLOM had the highest market closing value of LL 100,173 per share.

Conclusion

As we mentioned earlier, BLOM bank is a closely held company, where most of the shares are owned by few families. Thus, BLOM is under the influence of its management and their policies, meaning that variation in the sock market price of the shares will have a minimum effect over the bank's equity value. This can be noticed by comparing the stock market of BLOM with overall Beirut Stock Exchange, as we have done so in the preceding paragraph.

BLOM results show that the bank stands strong against all the political and economical situation of Lebanon, where its net income kept on increase from year to year, in the period understudy, and the ratios calculated above have shown the financial strength of the company. On the other hand, BLOM's expansion into some foreign and Arab countries have better improved the financial position of the bank, through diversifying its portfolio, thus, getting more immune to any political and economic instabilities in Lebanon. This had a positive value of the market price of BLOM shares, where investors viewing the financial strength of the bank where encouraged to buy shares.

B - Byblos bank

Byblos Bank SAL is a Lebanese joint stock company incorporated in 1961 and registered under No 14150 at the commercial registry of Beirut and under No 39 on the banks' list published by the Bank of Lebanon. The Bank's head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon.

The Bank, together with its subsidiaries, Byblos Invest Bank SAL, Byblos Bank Europe SA, Byblos Bank Africa, Byblos Bank Syria S.A., Adonis Insurance and Reinsurance Co. (ADIR) SAL and Adonis Brokerage House SAL are involved in all banking and insurance activities.

According to Byblos Bank annual report (2006) the bank is considered as one of the leading banks in Lebanon (third largest bank) that provides a full range of banking services through its extensive branch network (around 73 branches in Lebanon with 1,766 employees). Byblos bank also provides a wide range of commercial banking and financial activities in Europe, Middle East and North Africa (MENA) region.

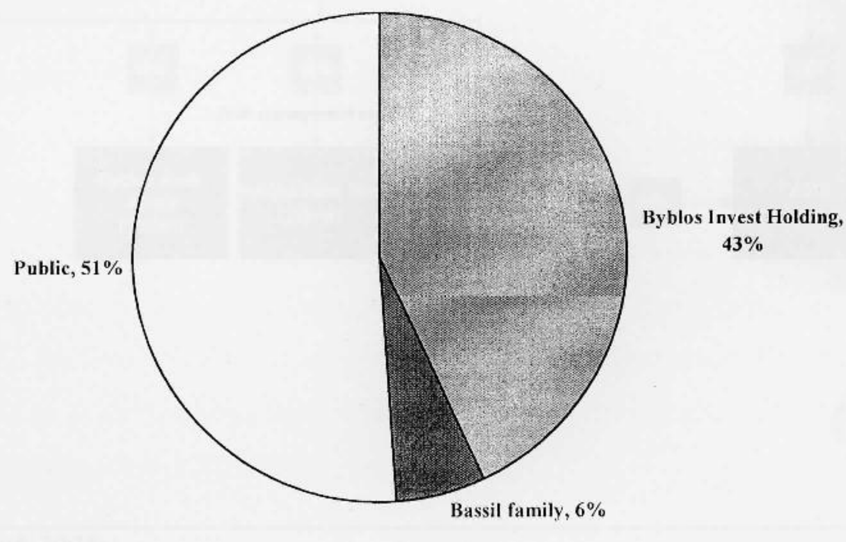
Byblos bank subsidiary, "Byblos Bank Europe S.A.", which is 99.95% owned by the bank have branches in Brussels, London and Paris. Also Byblos subsidiary, "Byblos Bank Africa Ltd", which is 65% owned by the bank, have one branch in Khartoum, Sudan. Another subsidiary of Byblos bank is "Byblos Bank Syria", which is 41.5% owned by the bank, have branches in Damascus, Aleppo and Homs. Byblos also has a representative office in Abu Dhabi, United Arab Emirates.

Byblos bank is known for its leading role in developing and marketing new products which meets the rapid growing market in Lebanon.

By opening new branches in nearby countries and regions, Byblos has expanded and improved its market shares and profiles in these countries by undertaking strategies and steps especially tailored to meet the demand of customers in these countries in terms of retail and commercial banking and the launching of new products.

According Byblos data, at the year ended 31 December 2006, "the Bank ranked third among all banks operating in Lebanon in terms of net profit of LBP 118.7 billion (U.S. $78.7 million), in terms of total assets of LBP 12,373 billion (U.S. $8,208 million), in terms of total equity of LBP 1,134 billion (U.S. $752 million), in terms of customer deposits of LBP 9,464 billion (U.S. $6,278 million) and in terms of customer loans of LBP 2,645 billion (U.S. $1,755 million)". Also Byblos has announced that, during the same period, "it has a high level of nominal liquidity, with cash, placements with the Central Bank, inter-bank deposits and investments in Lebanese treasury bills and other marketable securities representing 73% of total assets".

Byblos Bank Ownership Structure

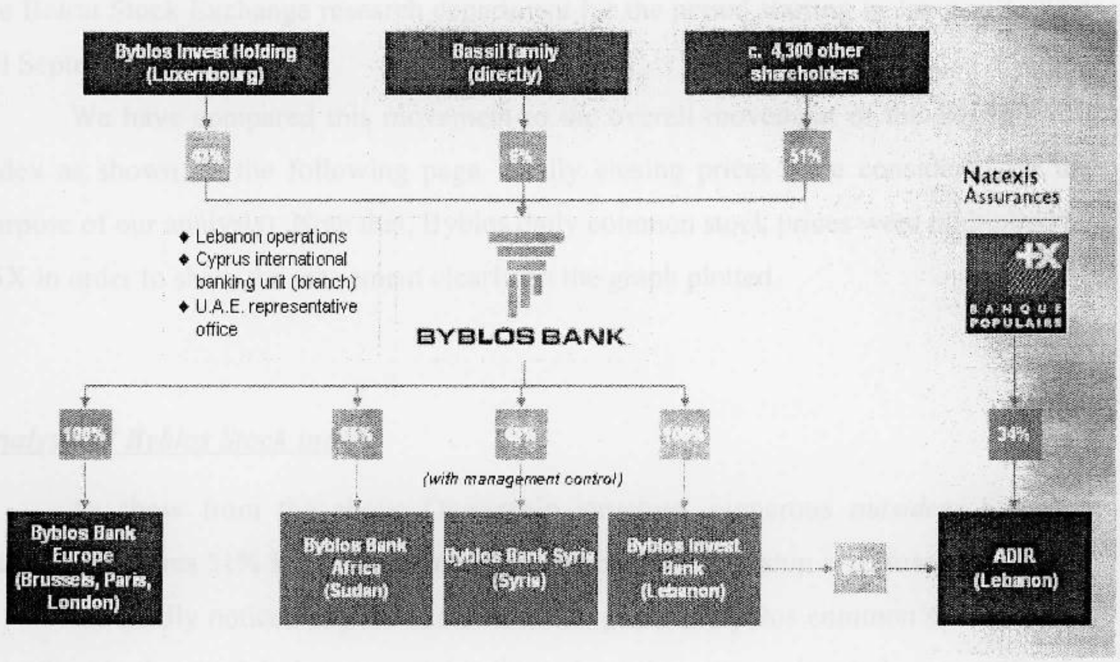


Source: Zawya 2008

Byblos Bank's major shareholders include Byblos Investment Holding, Bassil Family and the rest are offered to the public.

The organizations' basic structure is provided below.

Byblos Bank Organizations Structure



Source: Byblos Bank 2008

Historical movement of Byblos Bank Stock prices:

We have obtained the stock (common and preferred) movement of Byblos from the Beirut Stock Exchange research department for the period starting in January 2, 2004 till September 25, 2007.

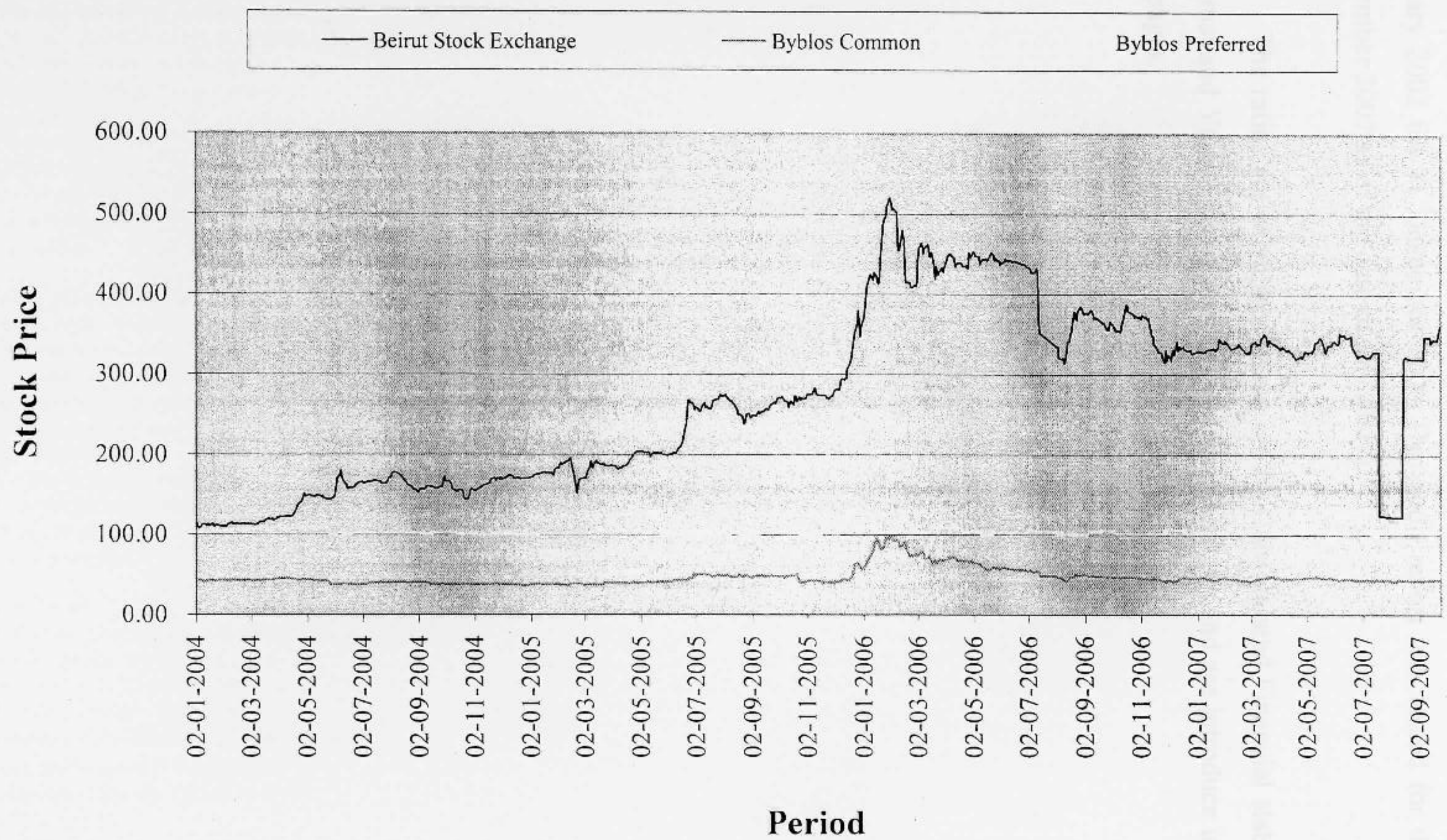
We have compared this movement to the overall movement of the Beirut Stock index as shown on the following page. (Daily closing prices were considered for the purpose of our analysis). Note that, Byblos daily common stock prices were multiplied by 25X in order to show the movement clearly on the graph plotted.

Analysis of Byblos Stock index:

As show from the above Ownership structure, numerous *outsiders* have the majority of shares 51% in Byblos Bank; thus, the bank's ownership is diffuse.

We hardly noticed any fluctuations in the price of Byblos common stock, which, according to the graph below, was stable throughout the years under study, except for the month of February 2006, where Byblos stock price had a record closing price of LL 5,879 (USD 3.90) moving in alignment with the overall increase in Beirut Stock index due to same reasons as mentioned in our BLOM analysis.

Byblos Index



Source: Beirut Stock Exchange and Byblos Bank

Major Ratio Analysis:

In order to have a more comprehensive understanding of Byblos Bank we have obtained the consolidated Financial Statements of the bank for the period starting from 1 January 2002 till 31 December 2006. (No audit report was issued for the year-end 31 December 2007 as of the date of this study).

The ratios are calculated based on the Consolidated Financial statements audited by Ernst and Young throughout the years under study and are introduce in the following two pages.

Byblos Bank Consolidated Balance Sheet:

	2006 LL million	2005 LL million	2004 LL million	2003 LL million	2002 LL million
ASSETS					
Cash and balances with Central Banks	2,506,877	2,720,961	3,549,031	3,104,587	930,123
Lebanese and other governmental treasury bills and bonds	4,174,808	3,667,788	2,449,692	2,108,584	3,301,220
Bonds and financial instruments with fixed income	86,383	162,417	347,259	116,264	57,336
Shares, securities and financial instruments with variable income	38,648	35,818	16,017	21,522	7,339
Banks and financial institutions	2,368,851	2,093,825	1,654,656	1,638,579	1,554,443
Loans and advances to customers	2,645,034	2,243,108	2,020,869	1,780,676	1,800,909
Bank acceptances	284,106	205,274	271,128	123,218	120,582
Tangible fixed assets	208,374	180,026	154,904	148,210	138,921
Intangible fixed assets	1,324	1,449	1,574	-	-
Other assets	3,091	2,814	3,043	3,079	746
Regularisation accounts and other debtor accounts	55,550	31,433	36,332	32,201	59,796
Total Assets	**12,373,046**	**11,344,913**	**10,504,505**	**9,076,920**	**7,971,415**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Due to Central Banks	77,085	94,566	82,595	80,620	98,823
Banks and financial institutions	876,875	865,631	652,218	474,440	476,496
Customers' deposits	9,463,992	8,510,975	8,254,350	7,420,001	6,482,276
Engagement by acceptances	284,106	205,274	271,128	123,218	120,582
Liabilities under financial instruments	273,519	266,820	193,849	-	12,308
Other liabilities	159,371	127,990	116,561	111,265	99,157
Regularisation accounts and other credit balances	37,490	24,379	15,130	9,928	19,260
Provisions for risks and charges	66,691	52,448	40,850	30,578	15,715
Subordinated loans	47,835	152,988	155,070	157,303	159,551
Total Liabilities	**11,286,964**	**10,301,071**	**9,781,751**	**8,407,353**	**7,484,168**
Share capital	494,456	494,456	247,228	247,228	246,028
Revaluation variance for other fixed assets	5,689	5,689	5,689	5,689	5,689
Reserve for general banking risks	48,159	39,859	32,418	26,243	20,243
Other reserves and premiums	343,592	314,509	316,682	300,557	137,576
Retained earnings – (loss) profit	18,824	4,704	-3,491	2,432	2,324
Net results of the financial period - profit	115,389	102,094	79,415	69,233	65,487
Cumulative change in fair value	(12,250)	21,190	25,173	1,743	1,047
Foreign currency translation reserve	11,272	4,580	6,640	4,568	3,458
	1,025,131	**987,081**	**709,754**	**657,693**	**481,852**
Minority share	60,951	56,761	13,000	11,874	5,395
Total Shareholders' Equity	**1,086,082**	**1,043,842**	**722,754**	**669,567**	**487,247**
Total Liabilities and Shareholders' Equity	**12,373,046**	**11,344,913**	**10,504,505**	**9,076,920**	**7,971,415**

Source: Byblos Bank (Consolidated Financial Statements audited by Ernst & Young)

Byblos Bank Consolidated Income Statement:

	2006 *LL million*	*2005* *LL million*	*2004* *LL million*	*2003* *LL million*	*2002* *LL million*
Interest and similar income	811,188	661,004	587,138	626,677	569,193
Interest and similar charges	(584,265)	(482,979)	(436,923)	(444,368)	(405,708)
Net provisions less recoveries on loans and advances	(10,282)	(24,869)	(9,355)	(32,644)	(6,563)
Net interest received	216,641	153,156	140,860	149,665	156,922
Revenues from shares, securities and financial instruments with variable income	990	327	890	1,552	182
Net commissions	79,393	71,786	47,858	34,177	31,074
Profit on financial operations	52,504	54,316	40,441	31,403	8,686
Loss on financial operations	(27,646)	(1,691)	(2,142)	(152)	(566)
Net profit or loss from financial operations	24,858	52,625	38,299	31,251	8,120
Other operating income / expense	(6,791)	(1,706)	4,506	1,174	1,015
General and administrative expenses	(150,769)	(131,721)	(113,742)	(110,050)	(100,432)
Depreciation and amortization	(17,963)	(17,472)	(22,830)	(24,458)	(15,299)
Results before taxes	146,359	126,995	95,841	83,311	81,582
Income tax	(27,672)	(22,372)	(14,943)	(13,419)	(15,175)
Profit for the year	118,687	104,623	80,898	69,892	66,407
Attributable to:					
Equity holders of the parent	115,389	102.094	79.415	69,233	65,487
Minority interests	3,298	2,529	1,483	659	920
Profit for the year	118,687	104,623	80,898	69,892	66,407
Earnings per share					
Common shares	LL 212.51	LL 384.35	LL 298.73	-	-
Priority shares	LL 260.51	LL 432.35	-	-	-
Remark:					
Yearly net income growth	13%	29%	16%	5%	-

Source: Byblos Bank (Consolidated Financial Statements audited by Ernst & Young)

Ratios Table:

	2006	*2005*	*2004*	*2003*	*2002*	*Average*
1 -						
Market price of 1 share of Common Stock	2,774	3,377	2,201	2,502	NA	
Book value of 1 share of Common Stock	1,200	1,200	1,200	1,200	1,200	
Market / Book Ratio (M/B)	**2.31**	**2.81**	**1.83**	**2.09**	**NA**	**2.26**
2 -						
Total Liabilities	11,286,964	10,301,071	9,781,751	8,407,353	7,484,168	
Total Assets	12,373,046	11,344,913	10,504,505	9,076,920	7,971,415	
Debt Ratio	**91%**	**91%**	**93%**	**93%**	**94%**	**92%**
3 -						
Net Income	118,687	104,623	80,898	69,892	66,407	
Average total Stockholders' equity	1,064,962	883,298	696,161	578,407	NA	
Return on Equity (ROE)	**11%**	**12%**	**12%**	**12%**	**NA**	**12%**
4 -						
Market Price of Common Stock	2,774	3,377	2,201	2,502	NA	
Earning per share	213	384	299	NA	NA	
Price-earnings Ratio (P/E)	**13.05**	**8.79**	**7.37**	**NA**	**NA**	**9.74**
5 -						
Dividend	52,980	51,644	51,177	49,196	51,893	
Net Income	118,687	104,623	80,898	69,892	66,407	
Dividend Payout Ratio (DPO)	**45%**	**49%**	**64%**	**70%**	**78%**	**61%**
6 -						
Dividend	52,980	51,644	51,177	49,196	51,893	
Market Equity value	1,140,163	1,388,025	451,247	513,062	NA	
Dividend Yields (DY)	**5%**	**4%**	**11%**	**10%**	**NA**	**7%**

1 - Market / Book Ratio (M / B):

The M / B ratio averaged 2.26 meaning that the market price of Byblos bank stock is 2.26 times its book value.

The above results also indicate that year-end 2005 was the best year in terms of generating the highest overall Market to Book ratio of 2.81 which was reduced in year-end 2006 to 2.31 but still remained above average compared to the previous years understudy.

The overall results for Byblos common stocks are lower than the results obtained in our BLOM analysis, which had an average M / B ratio of 6.55. On the other hand 2005 remains the best year for both banks where higher M / B ratio was recorded.

2 - Debt Ratio:

Byblos had high debt ratios for the years under study, similar to BLOM bank, that is consistent with the fact that Banks have very high debt ratios – usually over 90%. As indicated in the above table, Byblos had an average debt ratio of 92% (similar to average debt ratio of Bank of America 92% and BLOM 93% during the same period). This ratio was lower in 2005 and 2006 than the other years understudy indicating that the performance of the bank was better during these two years than the other years.

3 – Return on Equity (ROE)

The above table shows that Byblos bank has a rather stable ROE ratio of 12% on average throughout the years understudy. Thus management is able to provide a steady and consistent return on shareholders' investment of 12% yearly.

4 - Price-earnings Ratio (P/E)

Byblos bank P/E ratio averaged 9.74 for the years under study indicating that on average shareholders are paying US$9.74 for each dollar of projected earnings per share.

A P/E ratio of 13.05 was recorded for the year-end 2006. This result was due to the fact that although Market Price of common stock decrease by 18% compared to 2005, the earning per share decrease by a bigger portion of 45% compared to 2005, thus, resulting in a high P/E ratio.

5 - Dividend Payout Ratio (DPO)

For Byblos bank, the DPO ratio averaged 61% for the years understudy. We noticed that the DPO ratio continued to fall down from 2002 to 2006 as the proportion of the increase in cash dividends paid were lower than the increase in net income recorded at the end of each year. *(Refer to the Net Income growth calculated at the bottom of the Income Statement).*

The above DPO ratios result indicated that 2006 recorded the best results for Byblos bank for the years understudy.

6 - Dividend Yields (DY)

Byblos bank DY ratio decreased throughout the years understudy and averaged 7% (similar to BLOM bank). The primary reason for this trend was that market equity values grew at a much faster average annual rate than dividends. The DY ratio was the lowest in 2005 of 4% (similar to BLOM) where Byblos bank had the highest market closing value of LL 3,377 per share of common stocks.

Conclusion:

As a company listed in Beirut Stock Exchange, Byblos bank is in a sound financial position despite all the political and economical turmoil that the country is passing through since February 2005, where the bank is recording an increasing trend of net profits as evident in the years understudy. Also having a diversity portfolio, by opening branches in different countries throughout Europe, Middle East and North Africa, the bank has reduced its vulnerability to any political or economic event in the country.

Although 51% of the shares of Byblos are offered to the public, unlike BLOM which is a closely held public company, the bank's share kept on gaining value as shown in the above table upon calculating the bank's Market to Book ratio despite all the troubling events that occurred in Lebanon during the passed few years. Meaning that management was successful in the implementation of its strategies and polices which kept a high demand on its shares.

<u>C- The Lebanese Company for the Development and Reconstruction of the Beirut Central District SAL (Solidere)</u>

The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. (Solidere) was established as a Lebanese joint stock company on May 5, 1994 based on Law No. 117/91, and was registered on May 10, 1994 under Commercial Registration No. 67000. The articles of incorporation of the Company were approved by Decree No. 2537 dated July 22, 1992.

The objective of Solidere is acquiring real estate properties, financing and ensuring the execution of all infrastructure works together with preparing and reconstructing of the Central District of Beirut, where Solideres currently operates and is responsible for the reconstructing or restoring the existing buildings, selling, leasing or exploiting such buildings and lots and developing the landfill on the seaside.

The duration of Solidere was originally scheduled to be 25 years, beginning from the date of establishment. An extraordinary general assembly dated June 29, 1998 resolved to amend Solidere duration to be 75 years beginning from the date of establishment. During 2005, the Council of Ministers approved the extension of the duration of Solidere for 10 years.

Solidere's shares are listed on the Beirut stock exchange and Global Depository Shares (GDS) are listed on the London stock exchange. Furthermore, Solidere's shares were listed on the Kuwait stock exchange during the year 2005.

Ownership structure

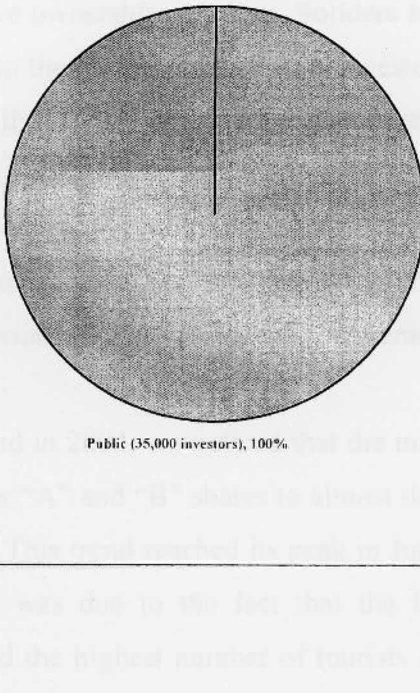
Solidere shares are 100% offered to the public (around 35,000 investors), where no single investor dominated or owns a large quantity of stocks.

These shares are divided into two types:

Type "A" shares: Originally issued to property owners in the Central District of Beirut, together with individuals or companies which have ownership rights in that area according to valuations performed by appraisal committees.

Type "B" shares: Issued to investors willing to buy shares in Solidere.

Solidere Ownership Structure



Source: Zawya 2008

Historical movement of Solidere Stock prices:

We have obtained the stock (common and preferred) movement of Solidere from the Beirut Stock Exchange research department for the period starting in January 2, 2004 till September 25, 2007.

We have compared this movement to the overall movement of Beirut Stock index as shown on the following page. (Daily closing prices where taken for the purpose of our analysis). Note that, Solidere daily common stock prices "A" and "B" were multiplied by 10X in order to show the movement clearly on the graph plotted.

Analysis of Solidere Stock index:

As shown from the above ownership structure, Solidere has a diffused ownership where all its shares are offered to the public and no single investor owns a big proportion of stocks in the company, thus, the market price of the shares are solely the results of the expectation of the investors and the economic and the political situation in the country.

This vulnerability is shown on the following page, where the stock market prices had ups and downs, depending on the situation in the country, although this trend was in an increasing phase and is consistent with the overall movement of the Beirut Stock Index.

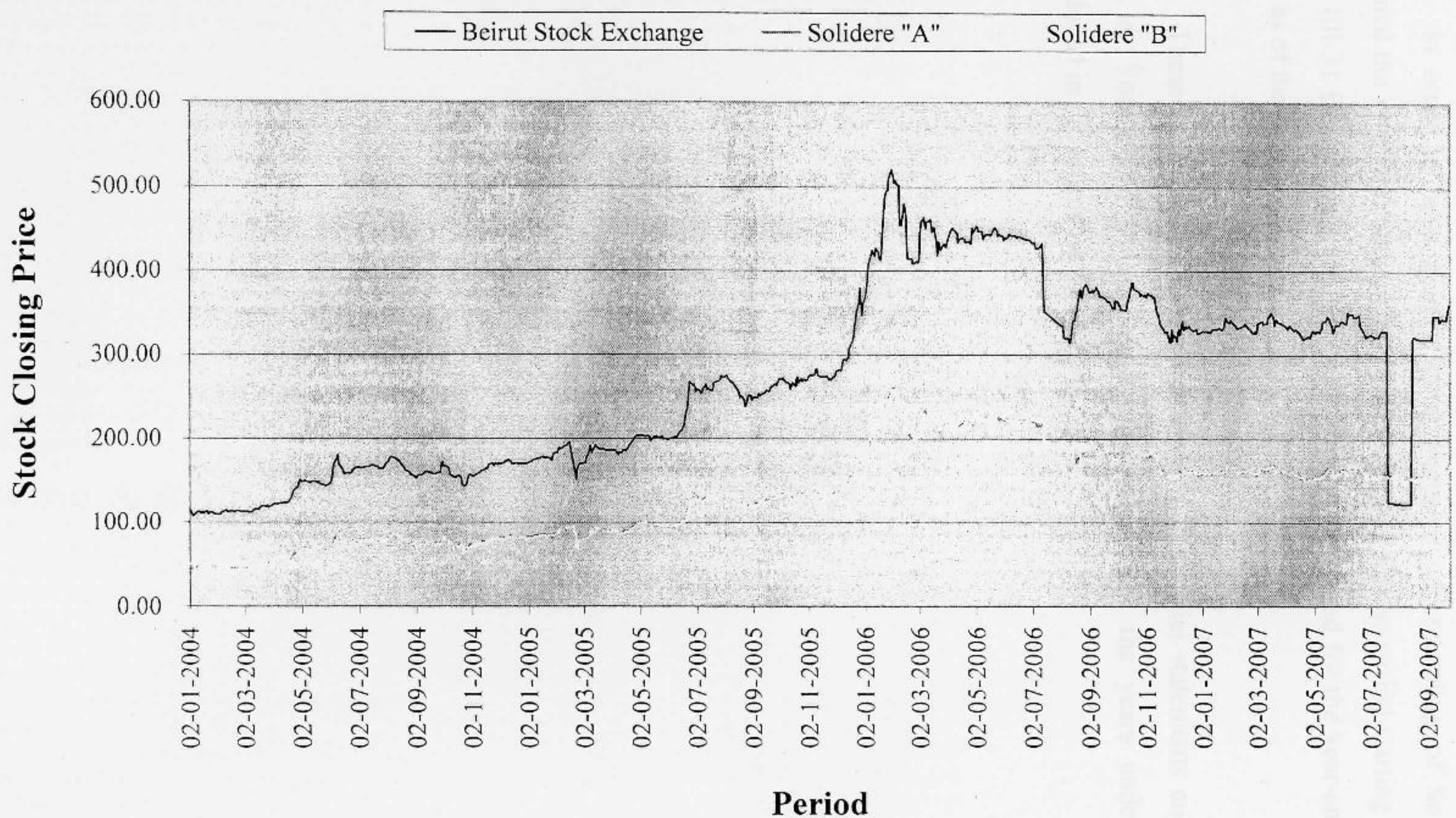
Upon examining the trend in 2004, we noticed that the market movement kept on rising from a value of USD 5 for "A" and "B" shares to almost doubling at year end with market closing rated of USD 8. This trend reached its peak in June to a record of USD 9 for "A" and "B" shares. This was due to the fact that the Lebanese economy was booming, where the country had the highest number of tourists compared to prior years and there were high expectations for the future of Lebanon.

2005 was a year where Lebanon faced high political instability, starting from February 2005, the assassination of Solidere's founder, ex-prime minister Mr. Raffic El Hariri, which had a direct impact on the Lebanese economy and a direct hit to BSE, where all stocks recorded a decrease in their values, including Solidere, which had a drop of 15% in two consecutive days during February. Things changed during the period from

July till August, where the economy was revived due to the renewal of confidence in the economy and the improvement of the political situation in the country especially after the withdrawal of the Syrian army, where Solidere stock values reached its peak in August to a record of USD 14 for "A" and "B" shares.

Solidere shares started year 2006 on a positive note. News about major land sales early in 2006 triggered a buying spree that pushed both classes of shares to new highs. A period of relative stability followed, where the shares traded sideways around the low twenties level. The year looked very promising for the country and the company. The outbreak of hostilities against Lebanon in July, with resulting causalities and destruction of infrastructure and civilian houses, took everyone by surprise. Listed Lebanese shares were hammered in local and international markets, and local exchange authorities had to take drastic measures to calm the markets, including a full closure of the Beirut Stock Exchange for about two weeks. When the market was reopened beginning August, Solidere shares found a strong base around the USD 15.5 level, then recouped some of their losses, pushing up back to USD 19 level by end of August. Trading activities remained subdued during the last quarter, as political instability around the year end, and the sit-in from mid December in some public spaces of the city center, affected investors' mood. Trading volumes retreated along with prices, erasing earlier gains in the year. Shares "A" and "B" both closed the year at USD 16 representing an 11% decrease from the previous year closing.

Solidere "A & B" Index



Source: Beirut Stock Exchange and Solidere

Major Ratio Analysis:

In order to have a more comprehensive understanding of Solidere we have obtained the Financial Statements of the company for the period starting from 1 January 2002 till 31 December 2006. (No audit report was issued for the year-end 31 December 2007 as of the date of this study).

These ratios are calculated based on the financial statements audited jointly by Ernst & Young and Deloitte & Touche throughout the years understudy and are introduced in the following two pages.

Solidere Balance Sheet:

	2006 US$	2005 US$	2004 US$	2003 US$	2002 US$
ASSETS					
Cash and bank balances	106,202,604	102,252,651	111,718,596	89,700,337	75,609,160
Prepayments and other debit balances	28,253,397	22,096,374	15,714,828	12,629,518	13,022,751
Accounts and notes receivable, net	348,942,550	272,820,638	210,894,461	190,852,815	214,275,079
Investments in securities	8,610,673	9,579,440	3,650,907	-	-
Properties held for development and sale, net	1,457,804,977	1,521,139,228	1,606,321,475	1,633,167,383	1,654,214,354
Investment properties, net	150,651,813	160,487,428	158,720,275	166,951,014	150,207,571
Investment in a joint venture		31,609,950	9,950	-	-
Fixed assets, net	26,115,483	19,410,670	18,683,557	20,283,276	21,228,558
TOTAL ASSETS	**2,126,581,497**	**2,139,396,379**	**2,125,714,049**	**2,113,584,343**	**2,128,557,473**
LIABILITIES					
Bank overdrafts	48,362,001	10,018,093	10,596,118	-	-
Accounts payable and other liabilities	83,323,709	74,864,832	76,778,392	64,300,720	106,560,350
Dividends payable	30,877,712	10,266,707	11,430,866	12,166,888	12,285,665
Deferred revenues and other credit balances	168,305,793	65,849,426	61,583,981	19,066,509	34,303,783
Deferred credits	-	3,900,000	35,911,930	35,911,930	6,012,000
Loans from banks and financial institutions	27,062,700	129,399,059	234,050,237	319,567,995	320,078,186
Total Liabilities	**357,931,915**	**294,298,117**	**430,351,524**	**451,014,042**	**479,239,984**
SHAREHOLDERS' EQUITY					
Capital					
Issued capital at par value US$10 per share:					
100,000,000 class (A) shares	1,000,000,000	1,000,000,000	1,000,000,000	1,000,000,000	1,000,000,000
65,000,000 class (B) shares	650,000,000	650,000,000	650,000,000	650,000,000	650,000,000
	1,650,000,000	1,650,000,000	1,650,000,000	1,650,000,000	1,650,000,000
Legal reserve	59,935,830	46,710,223	35,864,534	30,454,144	28,810,948
Retained earnings	90,736,571	87,904,016	34,183,162	16,972,617	22,039,557
Change in fair value of interest rate swap agreement	-	(861,982)	(3,557,815)	(6,452,074)	(3,902,520)
Cumulative changes in fair value	38,760	(233,180)	-	-	-
Surplus on sale of treasury shares	11,653,751	2,508,180	-	-	-
Net income for the year less legal reserve	118,948,473	97,611,198	48,693,508	-	-
Less: Treasury shares	(162,663,803)	(38,540,193)	(69,820,864)	(28,404,386)	(47,630,496)
Total Shareholders' Equity	1,768,649,582	1,845,098,262	1,695,362,525	1,662,570,301	1,649,317,489
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,126,581,497**	**2,139,396,379**	**2,125,714,049**	**2,113,584,343**	**2,128,557,473**

Source: Solidere (Financial Statements audited jointly by Ernst & Young and Deloitte and Touche)

Solidere Income Statement:

	2006 US$	2005 US$	2004 US$	2003 US$	2002 US$
Net revenues from land and real estate sales	138,759,616	127,878,025	82,522,304	35,209,434	59,068,222
Net revenues from rented properties	14,261,868	14,313,820	11,519,521	9,620,108	8,336,716
Net revenues from project management & consulting services	235,008	-	-	-	-
Gain on sale of investment properties	264,974	297,436	1,695,723	749,394	-
Revenues from operations	**153,521,466**	**142,489,281**	**95,737,548**	**45,578,936**	**67,404,938**
General and administrative expenses	(14,304,800)	(11,371,373)	(10,057,472)	(9,237,392)	(9,287,770)
Depreciation	(1,699,106)	(1,424,025)	(1,129,359)	(1,101,733)	(1,065,570)
Provision for doubtful receivables and write-offs	-	(298,693)	(739,083)	-	-
Impairment loss on properties held for development and sale	(3,036,061)	(1,685,783)	-	-	-
Other taxes	(1,319,859)	-	-	-	-
Provision for contingencies and other charges	-	-	(1,820,362)	-	-
Interest income	27,211,687	15,402,238	8,281,358	5,672,856	8,534,855
Interest expense	(7,173,307)	(17,490,405)	(26,045,835)	(23,675,550)	(24,920,498)
Cost of discounting notes receivable	-	-	-	(805,161)	(2,462,787)
Write back of provision for contingencies	-	-	-	-	2,937,000
Net income for the year before income tax	**153,200,020**	**125,621,240**	**64,226,795**	**16,431,956**	**41,140,168**
Income tax	(21,033,071)	(17,164,353)	(10,122,897)	-	-
Net income for the year	**132,166,949**	**108,456,887**	**54,103,898**	**16,431,956**	**41,140,168**
Basic earnings per share	**0.8375**	**0.6858**	**0.3400**	**0.1042**	**0.2646**

Remark:

	2006	2005	2004	2003	2002
Yearly net income growth	**22%**	**100%**	**229%**	**(60)%**	

Source: Solidere (Financial Statements audited jointly by Ernst & Young and Deloitte and Touche)

Ratios Table:

	2006	2005	2004	2003	2002	Average
1 -						
Market price of 1 share of "A" Stock (YE closing)	*15.66*	*17.25*	*8.25*	*4.40*	*NA*	
Market price of 1 share of "B" Stock (YE closing)	*15.83*	*17.24*	*8.10*	*4.62*	*NA*	
Average market price of "A" & "B"	15.75	17.25	8.18	4.51	NA	
Book value of 1 share of Common Stock	10.00	10.00	10.00	10.00	10.00	
Market / Book Ratio (M/B)	**1.57**	**1.72**	**0.82**	**0.45**	**NA**	**1.14**
2 -						
Total Liabilities	357,931,915	294,298,117	430,351,524	451,014,042	479,239,984	
Total Assets	2,126,581,497	2,139,396,379	2,125,714,049	2,113,584,343	2,128,557,473	
Debt Ratio	**17%**	**14%**	**20%**	**21%**	**23%**	**19%**
3 -						
Net Income	132,166,949	108,456,887	54,103,898	16,431,956	41,140,168	
Average total Stockholders' equity	1,806,873,922	1,770,230,394	1,678,966,413	1,655,943,895	NA	
Return on Equity (ROE)	**7%**	**6%**	**3%**	**1%**	**NA**	**4%**
4 -						
Market Price of Common Stock (Average "A" & "B")	15.75	17.25	8.18	4.51	NA	
Earning per share	0.84	0.69	0.34	0.10	NA	
Price-earnings Ratio (P/E)	**19**	**25**	**24**	**43**	**NA**	**28**
5 -						
Dividend	74,220,101	963,659	736,022	385,042	634,807	
Net Income	132,166,949	108,456,887	54,103,898	16,431,956	41,140,168	
Dividend Payout Ratio (DPO)	**56.16%**	**0.89%**	**1.36%**	**2.34%**	**1.54%**	**12%**
6 -						
Dividend	74,220,101	963,659	736,022	385,042	634,807	
Market Equity value	2,594,950,000	2,845,600,000	1,351,500,000	740,300,000	NA	
Dividend Yields (DY)	**2.86%**	**0.03%**	**0.05%**	**0.05%**	**NA**	**0.75%**

1 - Market / Book Ratio (M / B):

The M / B ratio averaged 1.14 meaning that the market price of Solidere stock is 1.14 times its book value.

The above results also indicate that year-end 2005 was the best year in terms of generating the highest overall Market to Book ratio of 1.72 which was reduced in year-end 2006 to 1.57 but still remained above average compared to the previous years understudy.

The overall results for Solidere common stocks are lower than the results obtained in our BLOM and Byblos bank analysis, which had an average M / B ratio of 6.55 and 2.26 respectively. On the other hand 2005 remains the best year for all the companies understudy where higher M / B ratio was recorded.

2 - Debt Ratio:

As indicated in the above table, Solidere had an average debt ratio of 19%. This ratio was considerably lower than the two banks that we have studied previously which had an average debt ratio of above 90% for the years understudy. This ratio was lower in 2005 and 2006 than the other years understudy indicating that the performance of the company was better during these two years than the other years in spite all the political and economical turmoil that the country was passing through. The results also indicate that 2005 was the best year for the entire companies understudy and especially for Solidere, which recorded the lowest debt ratio of 14%.

A sounder way of calculating the debt ratio can be by taking the debt *"Loans from banks and financial institutions"* of the company and dividing it with *"Total Assets"*. This can produce a debt ratio of 1.27%, 6.05%, 11.01%, 15.12% and 15.04% for the years 2006 till 2002 respectively. These results changed our finings in the previous paragraph, and concluded that 2006 noticed a major decrease in the debt ratio as compared to previous years, which was due to the fact that the liquidity of the company increased as a result of selling more land during the year.

3 – Return on Equity (ROE)

The above table shows that Solidere had an ROE ratio of 4% on average throughout the years understudy. This ratio was on an increasing phase reaching its peak in 2006. These results indicate that management is able to provide a yearly steady and increasing return on shareholders' investment. This increase was due to the increase in net income from year to year except for the year 2003 which recorded a decrease in net income of 60% compared to 2002 and recorded the lowest ROE ratio of 1% for the period understudy.

4 - Price-earnings Ratio (P/E)

Solidere P/E ratio averaged 28 for the years under study, indicating that on average shareholders are paying US$28 for each dollar of projected earnings per share.

The above table indicates that the P/E ratio had rather fluctuating results for the years understudy starting from a P/E of 43 in 2003 (where the market price per share was the lowest) and reaching 19 in 2006 (with a market value per share lower than 2005). Results were stable for the years 2004 and 2005 where the increase in market price was consistent with the increase in earning per share.

5 - Dividend Payout Ratio (DPO)

For Solidere, the DPO ratio averaged 12% for the years understudy. We noticed that the DPO ratio continued to fall down from the years 2002 to 2005, as the proportion of the increase in cash dividends paid were lower than the increase in net income recorded at the end of each year, *(refer to the Net Income growth calculated at the bottom of the Income Statement),* except for the year 2003, which had a decrease in net income by 60% as compared to 2002, thus, had a higher DPO ratio of 2.34%.

Year 2006 had an exceptional result as compared to the previous years with a DPO ratio of 56.16%. This was due to the fact that a very high amount of dividends were paid during the year by the amount of USD 74 million compared to almost USD 1 million dividends paid in 2005. These results were much high than the 22% increase in net income in 2006 as compared to 2005.

6 - Dividend Yields (DY)

Solidere DY ratio decreased throughout the years understudy and averaged 0.75%. The primary reason for this trend was that market equity values grew at a much faster average annual rate than dividends except for an increase of DY ratio in 2006 which was due to the high dividends of USD 74 millions paid during the year and a decrease in market equity value of 9% in 2006 as compared to 2005.

Conclusion

The financial performance of Solidere highly depends on its stock price which is listed on Beirut Stock Exchange, since the shares of Solidere are all offered to the public.

As plotted on the shares movement graph above, the market value per share for both "A" and "B" shares noticed a lot of ups and downs during the period understudy. This was due to different political and economic events that occurred in Lebanon during this period. Thus, Solidere shares are highly volatile to any instability in the country, which is a serious disadvantage of going public in Lebanon and the main reason why BSE is not noticing any increase in the number of listed companies in Lebanon.

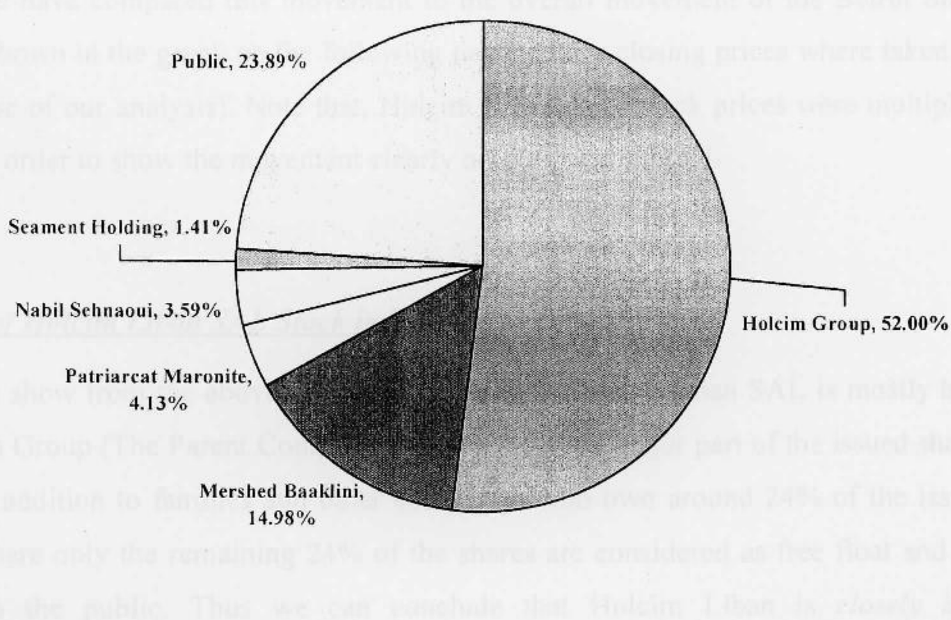
Solidere is trying to minimize this volatility and diversify its portfolio through the opening and handling of new projects outside Lebanon by using its expertise gained in Lebanon.

D - Holcim Liban SAL

(Ernst and Young: 2008) Holcim Liban SAL is a joint stock company registered and incorporated in Lebanon in 1929. The company is engaged in the production and sale of cement and other related services. The company's registered head office is at Antelias, Lebanon. The factory is located on plots subject to the municipalities of Chekka, Hery, and Kefraya in the North of Lebanon.

Holcim Liban is a subsidiary of Holcibel S.A., Belgium. The ultimate parent company is Holcim Ltd., Switzerland holding which holds 52.12%. The shares of the company are listed on Beirut Stock Exchange.

Holcim Liban SAL Ownership Structure



Source: Zawya 2008

Holcim Liban SAL major shareholders include Holcim Group, Mershed Baaklini (Baaklini family), Nabil Sehnaoui (Sehnaoui family), Patriarcat Maronite, and Seament Holding and the rest are offered to the public.

Key Officers

Javier De Benito: Chairman

Vincent Bouckaert: Chief Executive Officer

Historical movement of Holcim Liban SAL Stock prices:

We have obtained the stock movement of Holcim Liban SAL from the Beirut Stock Exchange research department for the period starting in January 2, 2004 till September 25, 2007.

We have compared this movement to the overall movement of the Beirut Stock index as shown in the graph on the following page. (Daily closing prices where taken for the purpose of our analysis). Note that, Holcim Liban daily stock prices were multiplied by 50X in order to show the movement clearly on the graph plotted.

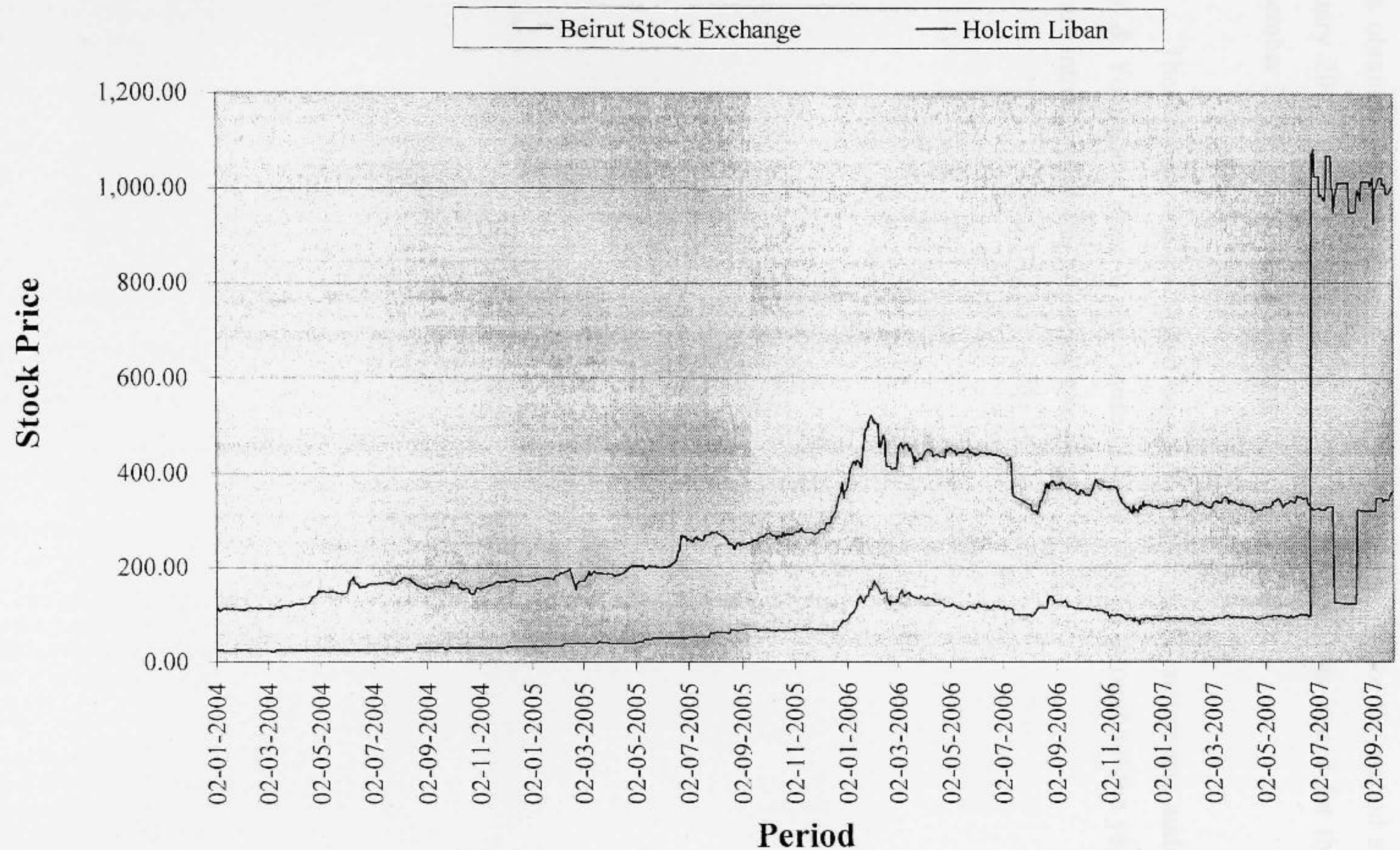
Analysis of Holcim Liban SAL Stock index:

As show from the above Ownership structure, Holcim Liban SAL is mostly held by Holcim Group (The Parent Company) who controls the major part of the issued shares (52%), in addition to families and other companies who own around 24% of the issued shares, where only the remaining 24% of the shares are considered as free float and are offered to the public. Thus we can conclude that Holcim Liban is *closely held* corporation, under strong control of management, especially Holcim Group which holds and controls the top managerial positions.

Despite the fact of that company is closely held, its share market value noticed movements consistent with the overall movement of the Beirut Stock Index. This market value was on a consistent rise from the beginning of the period understudy till the end. This increase reached its peak during February 2006 like all major stocks listed on BSE and the companies that we have studied in our paper. This increase, as mentioned before, was due to the increase in Arab investments in Lebanese stocks due to a large liquidity resulted from the increase in oil prices. The increase in Arab investments was also due to the increase of the confidence in the Lebanese economy.

Looking to the Graph on the following page, one can notice a share increase at the end of June 2007, which was due to a reverse stock split of 1:12 in addition to a reduction of the par value from LL 12,000 to LL 10,000 by distributing LL 2,000.

Holcim Liban Index



Source: Beirut Stock Exchange and Holcim Liban SAL

Financial Ratio Analysis:

In order to have a more comprehensive understanding of Holcim Liban SAL we have obtained the Financial Statements of the Company for the period starting from 1 January 2003 till 31 December 2006. (No audit report was issued for the year-end 31 December 2007 as of the date of this study)

These ratios are calculated based on the financial statements audited jointly by Ernst & Young and Price Water House Coopers (PWC) throughout the years understudy and are introduced in the following two pages.

Holcim Liban SAL Consolidated Balance Sheet:

	2006 LL'000	2005 LL'000	2004 LL'000	2003 LL'000
ASSETS				
Non – current assets				
Property, plant and equipment	303, 768,176	304, 948,202	303,064,426	319,718,239
Investment properties	17, 566,931	18, 026,360	18, 026,360	18,026,360
Intangible assets	87, 090,414	91, 844,639	19,924,161	21,606,055
Other financial assets	17, 680,856	20, 597,675	17,251,762	19,578,596
	426, 106,377	**435, 416,876**	**358, 266,709**	**378, 929,250**
Current assets				
Inventories	45. 096.547	50, 678,212	45,211,865	30,638,271
Accounts receivable, prepayments and other debit balances	56. 119.250	46, 745,995	49,580,437	31.330,711
Bank balances and cash	39, 345,018	45, 473,047	55,154,911	42,203,525
	140, 560,815	**142, 897,254**	**149, 947,213**	**104, 172,507**
TOTAL ASSETS	**566, 667,192**	**578, 314,130**	**508, 213,922**	**483, 101,757**
EQUITY AND LIABILITIES				
Equity				
Issued capital	234. 192,509	234, 192,509	234, 192,509	234. 192.509
Treasury shares	-	(221,080)	(546,725)	(207,668)
Revaluation and other reserves	72, 812,027	68, 964,712	70,085,438	94.709.420
Retained earnings	33, 064,806	42, 944,255	18,889,637	(20,026,927)
	340, 069,342	**345, 880,396**	**322, 620,859**	**308, 667,334**
Minority interests	9, 211,799	8, 501,299	5,715,166	5,120,530
Total equity	**349, 281,141**	**354, 381,695**	**328, 336,025**	**313, 787,864**
Non – current liabilities				
Loans and borrowings	102. 909,488	20, 108,001	125,791,683	125.507.395
Employees' end of service benefits	10, 067.339	12, 353,075	10,539,502	10.318.405
Provision for risk and charges	1, 560.538	1, 507,500	1,507,500	1.507,500
Deferred tax	687.279	687,279	858,796	905.796
	115, 224,644	**34, 655,855**	**138, 697,481**	**138, 239,096**
Current liabilities				
Accounts payable and accruals	68, 412,986	47, 263,345	35,005,846	26,602,698
Loans and borrowings	26, 491,799	132, 547,093	-	-
Provision for risk and charges	1, 646,647	1, 646,647	1,646,647	1,652,546
Income tax payable	5, 609,975	7, 819,495	4,527,923	2,819,553
	102, 161,407	**189, 276,580**	**41, 180,416**	**31, 074,797**
Total liabilities	**217, 386,051**	**223, 932,435**	**179, 877,897**	**169, 313,893**
TOTAL EQUITY AND LIABILITIES	**566, 667,192**	**578, 314,130**	**508, 213,922**	**483, 101,757**

Source: Holcim Liban SAL (Consolidated Financial Statements audited by Ernst & Young and PWC)

Holcim Liban SAL Consolidated Income Statement:

	2006 LL'000	2005 LL'000	2004 LL'000	2003 LL'000
Revenue				
Net sales	226, 190,096	241, 590,857	191,867,497	145,205,540
Production cost of goods sold	(145, 878,483)	(145, 104,961)	(119,945,499)	(96,321,599)
GROSS PROFIT	**80, 311,613**	**96, 485,896**	**71, 921,998**	**48, 883,941**
Distribution and selling expenses	(16, 401,921)	(23, 742,236)	(21,180,014)	(17,373,893)
Administration expenses	(14, 642,425)	(17, 877,345)	(8,896,618)	(7,756,955)
Other expenses / income	(4, 072,498)	9, 147,594	(6,055,803)	(1,752,992)
Financial cost, Net	(10, 723,755)	(13, 778,493)	(11,744,930)	(11,143,472)
PROFIT BEFORE TAX	**34, 471,014**	**50, 235,416**	**24, 044,633**	**10, 856,629**
Income tax expense	(5, 821,403)	(8, 370,011)	(4,568,451)	(2,395,023)
PROFIT FOR THE YEAR	**28, 649,611**	**41, 865,405**	**19, 476,182**	**8, 461,606**
Attributable to:				
Equity holders of the parent	27, 247,854	39, 114,178	18,671,982	7,737,134
Minority interests	1, 401,757	2, 751,227	804,200	724,472
	28, 649,611	**41, 865,405**	**19, 476,182**	**8, 461,606**
Basic/ diluted earnings per share	**116**	**168**	**80**	**33**
Remark:				
Yearly net income growth	**-32%**	**115%**	**130%**	**NA**

Source: Holcim Liban SAL (Consolidated Financial Statements audited by Ernst & Young and PWC)

Ratios Table:

	2006	*2005*	*2004*	*2003*	*Average*
1 -					
Market price of 1 share of Common Stock	2,683	2,563	1,010	754	
Book value of 1 share of Common Stock	1,000	1,000	1,000	1,000	
Market / Book Ratio (M/B)	**2.68**	**2.56**	**1.01**	**0.75**	**1.75**
2 -					
Total Liabilities	217,386,051	223,932,435	179,877,897	169,313,893	
Total Assets	566,667,192	578,314,130	508,213,922	483,101,757	
Debt Ratio	**38%**	**39%**	**35%**	**35%**	**37%**
3 -					
Net Income	28,649,611	41,865,405	19,476,182	8,461,606	
Average total Stockholders' equity	351,831,418	341,358,860	321,061,945	156,893,932	
Return on Equity (ROE)	**8%**	**12%**	**6%**	**5%**	**8%**
4 -					
Market Price of Common Stock	2,683	2,563	1,010	754	
Earning per share	116	168	80	33	
Price-earnings Ratio (P/E)	**23**	**15**	**13**	**23**	**18**
5 -					
Dividend	32,980,371	16,363,302	4,105,766	8,012,126	
Net Income	28,649,611	41,865,405	19,476,182	8,461,606	
Dividend Payout Ratio (DPO)	**115%**	**39%**	**21%**	**95%**	**67%**
6 -					
Dividend	32,980,371	16,363,302	4,105,766	8,012,126	
Market Equity value	628,420,469	600,177,852	236,540,289	176,523,604	
Dividend Yields (DY)	**5%**	**3%**	**2%**	**5%**	**4%**

1 - Market / Book Ratio (M / B):

The M / B ratio averaged 1.75 meaning that the market price of Holcim Liban stock is 1.75 times its book value.

The above results also indicate that year-end 2006 was the best year in terms of generating the highest overall Market to Book ratio of 2.68. This was the direct result of the increase in Market value per share as compared to prior years understudy. Note that during 2005, the market value per share increased almost 150% compared to 2004, thus resulting in a M / B ratio of 2.56 which is also high compared to the prior years.

The overall M / B ratio results for Holcim Liban stocks are lower than the results obtained in all the other companies that we have studied in this paper meaning that Holcim generates the lowest value for its shareholders as compared to the other three companies.

2 - Debt Ratio:

Holcim Liban had an average debt ratio of 37%. This ratio was higher in 2005 and 2006 than the other years' understudy which was due to the fact that the increase in total liabilities was at a much higher percentage than the increase in total assets. Upon examining the Balance Sheet on the company, we noticed that during 2005 the company had a total "Loans and borrowings" of LL (000) 152, 655,094 compared to LL (000) 125,791,683 in 2004, thus an additional debts of LL (000) 25,863,411 was borrowed by the company in order to finance working capital requirements. Total "Loans and borrowings" in 2006 was LL (000) 129,401,287 lower than 2005, which reduced the debts ratio by 1%.

3 – Return on Equity (ROE)

The above table shows that Holcim Liban had an average ROE ratio of 8% throughout the years understudy. The ROE ratio was the highest in 2005 (12%), where the company recorded the highest net income for the period understudy of LL (000) 41,865,405 an increase of 115% as compared to 2004. Although net income decreased in 2006 as compared to 2005 the ROE ratio was averaged at 8%. The Low ROE ratios in 2004 and 2003 were due to low net income recorded in those years.

4 - Price-earnings Ratio (P/E)

Holcim Liban P/E ratio averaged 18 for the years understudy, indicating that on average shareholders are paying US$ 18 for each dollar of projected earnings per share.

A P/E ratio of 23 was recorded for the year-end 2006. This result was due to the fact that the Market Price of common stock increase by 5% compared to 2005, where earning per share decrease by 31% compared to 2005, thus, resulting in a high P/E ratio. Note that the P/E ratio in 2003 was also 23 similar to year 2006 although both Market price per share and the Earnings per share were both lower compared to 2006.

5 - Dividend Payout Ratio (DPO)

For Holcim Liban, the DPO ratio averaged 67% for the years understudy. We noticed that the DPO ratio varied in the years understudy from a low of 21% in 2004 to a high of 115% in 2006. This variation was the direct result of the variation in the proportion of the cash dividends paid to net income recorded at the end of each year. *(Refer to the Net Income growth calculated at the bottom of the Income Statement).* Dividends paid were the highest in 2006 although net income was lower as compared to 2005.

6 - Dividend Yields (DY)

Holcim Liban DY ratio averaged 4% throughout the years understudy. We noticed a high DT ration for the years 2006 and 2003 of 5% as compare to the other years which had a relative low DY ratio. The primary reason for this was that market equity values grew at a much lower average annual rate than dividends paid. The DY ratio was the lowest in 2004 of 2% where Holcim Liban had the lowest dividends paid as compared to the other years understudy.

Conclusion

As a listed company on the Beirut Stock Exchange, Holcim Liban SAL has around 24% of its shares offered to the public and the majority of the shares are controlled by the ultimate parent company (around 52%). This fact made the company's market value per share under the control of management, thus any fluctuations in the price can be observed by actions taken by management. But the financial performance of the company highly dependent on the political and economic conditions in Lebanon as can be noticed in the movement of the ratios calculated in the above table.

d) Correlation between the Beirut Stock Index and the four selected companies in our sample

A – With Respect to *Daily Prices*

In order to draw a conclusion about the correlation of the Beirut Stock Index with the listed stock on the BSE for the four companies that we have studied, we have performed a hypothesis testing by choosing the Daily Prices of the Beirut Stock Index and the Daily Prices of the following companies:

- X Variable 1 – BLOM
- X Variable 2 – Byblos Bank (Common Stocks)
- X Variable 3 – Byblos Bank (Preferred Stocks)
- X Variable 4 – Holcim Liban
- X Variable 5 – Solidere "A"
- X Variable 6 – Solidere "B"

The null hypothesis: Beirut Stock Index is not correlated with the stock prices of the four selected companies (BLOM, Byblos Bank, Holcim Liban, Solidere).

<u>Correlation:</u>

	BSE	*BLOM*	*Byblos Common*	*Byblos Preferred*	*Holcim Liban*	*Solidere "A"*	*Solidere "B"*
BSE	1.0000						
BLOM	0.9290	1.0000					
Byblos Common	0.7225	0.7190	1.0000				
Byblos Preferred	0.0777	0.1309	0.2350	1.0000			
Holcim Liban	0.1481	0.3589	0.0245	(0.0466)	1.0000		
Solidere "A"	0.9659	0.9656	0.7251	0.0660	0.2621	1.0000	
Solidere "B"	0.9658	0.9652	0.7242	0.0669	0.2618	0.9997	1.0000

Interpretation of the correlation results

In order to determine the level of significance for the correlation results obtained, we have calculated the *t critical* for each index and analyzed the results.

We used the following formula in order to calculate the *t critical*:

$$t\ critical = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

Where,

r is the correlation coefficient

n is the number of observation

If *t critical* is greater than 2 we can conclude that the correlation between the Daily Prices of the Beirut Stock Index and the Daily Prices of the 4 selected companies is Significant.

If *t critical* is less than 2 we can conclude that the correlation between the Daily Prices of the Beirut Stock Index and the Daily Prices of the 4 selected companies is Not Significant.

	t Critical *(In absolute terms)*
BLOM	75.12
Byblos Common	31.26
Byblos Preferred	2.33
Holcim Liban	4.48
Solidere "A"	111.57
Solidere "B"	111.48

The *t* critical of the selected companies are all greater than 2, thus, we can conclude that the correlation between the Daily Prices of the Beirut Stock Index and the Daily Prices of the 4 selected companies is Significant.

Conclusion:

The above result confirms that there is a significant correlation between the Beirut Stock Index and the selected four companies with respect to Daily Prices directing us toward rejecting the null hypothesis.

B – With Respect to *Percentage Daily Returns*

In order to draw a conclusion about the correlation of the Beirut Stock Index with the listed stock on the BSE for the four companies that we have studied, we have performed a hypothesis testing by choosing the Percentage Daily Returns of the Beirut Stock Index and the Percentage Daily Returns of the following companies:

- X Variable 1 – BLOM
- X Variable 2 – Byblos Bank (Common Stocks)
- X Variable 3 – Byblos Bank (Preferred Stocks)
- X Variable 4 – Holcim Liban
- X Variable 5 – Solidere "A"
- X Variable 6 – Solidere "B"

The null hypothesis: Beirut Stock Index is not correlated with the Percentage Daily Returns of the four selected companies (BLOM, Byblos Bank, Holcim Liban, Solidere).

<u>Correlation:</u>

	BSE	*BLOM*	*Byblos Common*	*Byblos Preferred*	*Holcim Liban*	*Solidere "A"*	*Solidere "B"*
BSE	1.000						
BLOM	0.044	1.000					
Byblos Common	0.011	0.306	1.000				
Byblos Preferred	0.008	(0.005)	(0.011)	1.000			
Holcim Liban	(0.004)	0.048	0.019	(0.001)	1.000		
Solidere "A"	0.078	0.328	0.261	(0.017)	(0.004)	1.000	
Solidere "B"	0.081	0.280	0.247	(0.013)	0.006	0.763	1.000

Interpretation of the correlation results

In order to determine the level of significance for the correlation results obtained, we have calculated the *t critical* for each index and analyzed the results.

We used the following formula in order to calculate the *t critical*:

$$t\ critical = \frac{r \sqrt{n-2}}{\sqrt{1-r^2}}$$

Where,

r is the correlation coefficient

n is the number of observation

If *t critical* is greater than 2 we can conclude that the correlation between the Percentage Daily Returns of the Beirut Stock Index and the Percentage Daily Returns of the 4 selected companies is Significant.

If *t critical* is less than 2 we can conclude that the correlation between the Percentage Daily Returns of the Beirut Stock Index and the Percentage Daily Returns of the 4 selected companies is Not Significant.

	t Critical *(In absolute terms)*
BLOM	1.30
Byblos Common	0.31
Byblos Preferred	0.23
Holcim Liban	0.13
Solidere "A"	**2.34**
Solidere "B"	**2.42**

The *t* critical of Solidere "A" and "B" shares are both greater than 2, thus, we can conclude that the correlation between the Percentage Daily Returns of the Beirut Stock Index and the Percentage Daily Returns of the Solidere "A" and "B" shares is Significant.

And, since the t critical of all the other indices are all less than 2, we can conclude that the correlation between the Percentage Daily Returns of the Beirut Stock Index and the Percentage Daily Returns of the 4 selected companies is Not Significant.

Conclusion:

The above result confirms that there is a significant correlation between the Beirut Stock Index and the Solidere "A" and "B" shares with respect to Percentage Daily Returns directing us toward rejecting the null hypothesis for Solidere company.

The results also indicate that there is no correlation between the Beirut Stock Index and all the other companies with respect to Percentage Daily Returns directing us toward not rejecting the null hypothesis.

VI – Conclusion

Since its independence, Lebanon has been through varying political and economic crises which have changed the features of the country several times, but in all these changes the fact remains that Lebanon is a service oriented liberal economy based on individual initiatives. As an open market, Lebanon played for years a transitory role between the West and the East. All this however, ceased by the start of the civil war at the end of the seventies, in addition to the destruction of the country's infrastructure and many of its active economic sectors.

This gloomy picture soon changed into a bright one in the early nineties after the end of the civil war and the establishment of a new government and the revival of most of the basic economic sectors, which turned Lebanon again into service oriented economy and regained its role in the area.

The huge reconstruction projects, especially in Downtown Beirut and the reopening of the Beirut Stock Exchange brought back investors confidence in the economy and a bright outlook for the future.

However, things were worsen again in February 2005, as Prime Minster Raffic Hariri was assassinated. The country entered, once again, into a vicious cycle of political and economic turmoil and an era of instability and insecurity started thumping the country.

The country has entered into a recessionary phase and even stagnated during the July 2006 War and the following months. Key economic sectors, especially the service sectors, got major blows. Beirut Stock Exchange trades were all affected, and the number of listed companies was frozen.

Lebanon is currently in a wait-and-see phase, till the political climate calms down and the economy regains its strength and role again in the region.

Lebanese common forms of companies are divided into *Companies of Persons* (including: Partnership, Simple Commandite, Particular Partnership or Joint Venture and Limited Liability Companies), *Companies of Capital* (including: Joint Stock or Limited and Commandite Shareholding) and *Other types of Companies* (including: Holding and Offshore companies, Branch or Representative Office, insurance and banks).

Taxation laws in Lebanon depend on the type of the company and mainly divided into three types: One which depends on the income of industrial, commercial and non-commercial activities. A second type imposed on salaries and allowances. And a third type imposed in income generated from movable capital. In addition to Value Added Tax (VAT) which was introduced recently in the country.

Lebanon's economy is supported mainly by family-owned businesses which dominate the private sector. For this reason, Initial Public Offering (IPOs) suffers from a major setback, since the majority of these companies do not like the idea of losing control of their firms or bringing additional investors to their companies who interfere with the policies and strategies set by management, who also are family members or relatives. However, the rapid growth of these family-owned businesses and the open market economy of Lebanon will have a major effect on changing the ownership structure of these firms. Since, in order to compete in the "Big Village", Lebanese companies have to change and develop in order not to lose market share and compete with other regional and multinational companies. On the other hand, the increase in liquidity in the Gulf area, as a result of high oil prices, will bring additional capital to Lebanese firms in the form of equity investors. This will require the transfer of the family-owned businesses into a public company, whose shares will, hopefully, be listed on Beirut Stock Exchange, which should play a major role in the advancement and development of public companies in Lebanon through IPOs.

The Lebanese economy and the industrial sector in particular, are not very diversified, mostly consisting of small and medium size enterprises (SMEs) with few sub-sectors consisting mainly of the following industries: plastic, textile, furniture, paper, cement and wood. These SMEs lack the backing of the government who should support these industries by enforcing favorable conditions and rules for these firms to operate and compete with neighboring countries.

An entire section of this paper was devoted to studying and exploring the Beirut Stock Exchange. We started by providing an overview of this Exchange, its administration and organizing body, the listing requirements, the cost of going public in Lebanon, rules concerning foreign investors and a correlation with other stock markets, where although the results confirmed that there is a significant correlation between the BSE and both the S&P 500 index and the Egypt Hermes index with respect to percentage daily returns, in our opinion these results are merely due to chance, since, there is no structural relation between the BSE and these two indices or any other index included in our study.

A survey was conducted in order to enforce our understanding of IPO in Lebanon and its major advantages and concerns. The results of this survey showed the Lebanese stock market is still in its infancy when compared to others equity markets in the region. Diversification is achieved by Lebanese companies by investing in markets outside Lebanon and not by bringing additional investors into the firm. Most of the Lebanese companies are family-owned and the members of the family do not like to lose control of their firms causing a major setback for the IPO process in Lebanon. Although going public is a cheap way of brining investors to the company, many Lebanese firms like to bring venture capitals or silent partners instead of going public. The inefficiency of the Lebanese market and the dominance of families will make it hard to companies to know their true value even if they go public.

On the other hand, IPOs can be considered as a possible compensation tool which reduces the agency problem between shareholders and management. Stock options can also be used as a tool which would reduce possible cash flow problems.

Many of the individuals whom we surveyed did not have a clear idea about the underwriting process of IPOs in Lebanon and the costs associated with such a process.

No concern was raised about the reporting and disclosure requirement after going public unless such acts expose the competitive information about the firm.

A major setback of IPOs in Lebanon is the political and economic conditions of the country, which imposes the post-ponement of IPOs in Lebanon till better conditions are revealed.

In the last section of this paper, we examined closely four listed companies on the Beirut Stock Exchange, where we have analyzed the historical, ownership structure and the financial performance of these companies by presenting their Balance Sheet and Income statements and calculating major financial ratios.

The result of our analysis reveals that, although the ownership structure differs among these companies, they adhere to the fact that all of them have diversified into markets outside Lebanon in order to minimize the effects of unstable conditions that the country is passing through. Most or all of these companies had healthy financial performance in spite all the turmoil that the country is exposed to. These facts are a testament about the value of going public despite terrible circumstances in Lebanon.

Also when testing the correlation between the Beirut Stock Index and the four selected companies in our sample, first, with respect to daily prices, the results confirmed that there is a significant correlation between the Beirut Stock Index and the selected four companies with respect to Daily Prices.

A second correlation test was performed with respect to percentage daily returns where the results of our testing confirmed that there is a significant correlation between the Beirut Stock Index and the Solidere "A" and "B" shares with respect to Percentage Daily Returns. The results also indicated that there is no correlation between the Beirut Stock Index and all the other companies with respect to Percentage Daily Returns.

In our opinion, the results of the second test (with respect to percentage daily returns) is more accurate than the results of the first test (with respect to daily prices), since the latter is the result of what is called a Random walk, which is when a relation appears between two variables having Random walks, where in fact there is no relation as is the case in the first test.

Appendix A

Reasons of going / not going public – Summary

Scott Bauguess (2006)

a) Why go Public?

Lack of other financing choices

1. Private financing unavailable
2. Too much debt, so firm optimizes capital structure

Allow current investors to cash out

1. Founders demand liquidity, want to sell stake in firm
2. Issue seasoned equity – "secondary share offering"
3. Firm is valued by the market, shares sold get market price

Future source of capital

1. Establish the firm in public capital markets for future capital raising (SEOs, bond issuances)
2. Lowers the cost of capital (cost of equity mitigates cost of debt)
3. Diversification / Risk sharing
4. Increases transparency of firm actions

Employee compensation

1. Firm can offer incentive contracts – stock options.

b) Why not go Public?

Going public is costly and may not be appropriate for all firms, even when they are in need of additional financing

Ownership is diluted

1. Decision making is delegated to an increased number of owners
2. Founder (entrepreneur) loses control

Public monitoring increases

1. SEC filing requirements (Disclosure)
2. Competitors benefit from transparency
3. Regulators have increased authority (legal restrictions to public firms)

Direct financial costs

1. Filing costs of prospectus and subsequent federal filings – requires additional staff
2. Investment banks and new investors charge the firm via large transactions costs
   - Shares are under priced (can be greater than 15%)
   - Underwriters collect fees (7% of gross proceeds)

Appendix: B

Top IPOs for the Region

a) Top 10 IPOs for the Region in 2007:

1. DP World UAE, Transport $ 2.822 billion, 17% equity offered Lead Manager: Deutsche Bank	**2. Development Bank** Saudi Arabia, Financial Services $ 2.807 billion, 70% equity offered Lead Manager: Samba Financial Group
3. Saudi Kayan Petrochemical Saudi Arabia, Oil and Gas $ 1.88 billion, 45% equity offered Lead Manager: Samba Financial Group	**4. Deyaar Development** Saudi Arabia, Oil and Gas $ 882.59 million, 55% equity offered Lead Manager: Millennium Finance Corporation
5. Kingdom Holding Saudi Arabia, Financial Services $ 860.91 million, 5% equity offered Lead Manager: Samba Financial Group	**6. Air Arabia** UAE, Transport $ 713.03 million, 55% equity offered Lead Manager: Shuaa Capital
7. Jabal Omar Development Saudi Arabia, Real Estate $ 537.01 million, 30% equity offered Lead Manager: Bank Al Bilad	**8. Compagnie Generale Immobiliere** Morocco, Real Estate $ 430.97 million, 20% equity offered Lead Manager: CDG Capital
9. Talaat Mostafa Group Egypt, Conglomerates $ 412.36 million, 10% equity offered Lead Manager: Hermes Holding Company	**10. Al Khalijj Commercial Bank** Qatar, Financial Services $ 337.99 million, 17% equity offered Lead Manager: Commercial bank

Source: Executive: 2008

b) Top 10 IPOs for the Region in 2008:

1. Saudi Mobile Telecommunications Saudi Arabia, Telecom and IT $ 1.5 billion, 40% equity offered Lead Manager: Banque Saudi Fransi	**2. EgyptAir Airlines Holding** Egypt, Transport $ 1 billion, 20% equity offered Lead Manager: Goldman Sachs
3. United International Bank Bahrain, Financial Services $ 800 million, 40% equity offered Lead Manager: Global House Company	**4. International Petroleum Investment Company** UAE, Financial Services $ 544.57 million
5. Power and Water Utility Company for Jubail and Yanbu Saudi Arabia, Power and Utilities $ 466.6 million, 30% equity offered	**6. DEPA United Group** UAE, Construction $ 400 million Lead Manager: Morgan Stanley – UBS
7. Prince Abdul Aziz Bin Musaed Economic City Saudi Arabia, Real Estate $ 399.9 million, 30% equity offered Lead Manager: Deutsche Bank	**8. Damas Jewellery** UAE, Consumer Goods $ 272.32 million, 25% equity offered Lead Manager: HSBC Financial Services (Middle East)
9. Chemanol Saudi Arabia, Oil and Gas $ 200 million, 50% equity offered Lead Manager: Samba Financial Group	**10. Future Pipe Group** UAE, Basic Materials $ 108.9 million Lead Manager: Shuaa Capital

Source: Executive: 2008

Appendix C
Taxation in Lebanon

Tax or mandatory contribution	Payments (number)	Notes on Payments	Time (hours)	Statutory tax rate (%)	Tax base	Total tax rate (% profit)	Notes on TTR
Social security contributions	12		100	21.5%	gross salaries	24.1	
Corporate income tax	1		40	15.0%	taxable profits	10.9	
Capital gains tax	0	paid jointly	-	10.0%	capital gain	0.5	
Tax on interest	0	withheld	-	5.0%	interest income	0.1	included in other taxes
Stamp duty	1		-	0.3%	contract value		small amount
Value added tax (VAT)	4		40	10.0%	value added		not included
Vehicle tax	1		-	varies			small amount
Totals:	19		180			35.4	

Source: World Bank, "Doing Business 2008" Economic Data: Lebanon.

Appendix D
Getting Credit in Lebanon

The following table summarizes legal rights of borrowers and lenders, and the availability and legal framework of credit registries in Lebanon.

Getting Credit Indicators			**Indicator**
Credit Information Index	Private credit bureau	Public credit registry	5
Are data on both firms and individuals distributed?	No	Yes	1
Are both positive and negative data distributed?	No	Yes	1
Does the registry distribute credit information from retailers, trade creditors or utility companies as well as financial institutions?	No	No	0
Are more than 2 years of historical credit information distributed?	No	Yes	1
Is data on all loans below 1% of income per capita distributed?	No	Yes	1
Is it guaranteed by law that borrowers can inspect their data in the largest credit registry?	No	Yes	1
Coverage	0.0	4.7	
Number of individuals	0	122,952	
Number of firms	0	11,589	
Legal Rights Index			4
Does the law allow all natural and legal persons to be party to collateral agreements?			No
Does the law allow for general descriptions of assets, so that all types of assets can be used as collateral?			Yes
Does the law allow for general descriptions of debt, so that all types of obligations can be secured?			Yes
Does a unified registry exist for all security rights in movable property?			No
Do secured creditors have absolute priority to their collateral outside bankruptcy procedures?			No
Do secured creditors have absolute priority to their collateral in bankruptcy procedures?			No
During reorganization, are secured creditors' claims exempt from an automatic stay on enforcement?			Yes
During reorganization, is management's control of the company's assets suspended?			No

Does the law authorize parties to agree on out of court enforcement?	Yes
May parties have recourse to out of court enforcement without restrictions	

Source: World Bank, "Doing Business 2008" Economic Data: Lebanon.

The methodology used by the World Bank was developed in <u>Djankov, McLiesh and Shleifer</u> (2007) and is adopted here with minor changes.

Appendix E
Starting a Business in Lebanon

Registration Requirements:

No:	Procedure	Time to complete:	Cost to complete:
1	Designate a Lebanese lawyer	1 day	LBP 6,000,000 (annual retainer) + LBP 100,000 (legalization of the Power of Attorney before the Bar Association)
2	Deposit capital in a bank and obtain the certificate of deposit	2 days	no charge
3	Sign by-laws before the Commercial Registry at the commercial court and register the company	3 days	see comments
4	Have company's books stamped at the Commercial Registry	3 days	LBP 110,000
5	Notify Ministry of Finance of commencement of operations within two months of registration for tax and salary contributions withdrawal arrangements	2 days	no charge
6	Register at the National Social Security fund	35 days	no charge

Source: World Bank, "Doing Business 2008" Economic Data: Lebanon.

Appendix F
The Stages of a Typical Venture's Development and Financing

	Seed	Start-up	Early Development	Expansion	Profitable but cash poor	Rapid Growth	Bridge / Mezzanine	Harvest
Development of Venture	Concept development; basic business plan; product prototypes; exploring market potential	Detail bus. plan; assemble mgmt. team; test prototypes / services; finalize product/ service lines	Securing initial PP&E; initial products sold	Securing additional PP&E; develop marketing strategy; expend production capacity; working capital needs emerge	expend production capacity; working capital needs grow	Marketing strategies refined	Marketing and R&D	Recap.; Buyout; Sell to acquirer; Go public
Years	0 - 1	1 - 3	3 - 5	3 - 5	3 - 5	3 - 5	5 - 7	
Sources of financing	Bootstrap; angels	Angels; VC; corporation; university	Angels; VC; government	VC; government; banks	VC; banks; retained earnings	VC; banks; retained earnings	VC; banks; retained earnings	
Securities Typically issued	Personal loans; common stock	Notes w/warrants; conv. pref. stocks; partnership	Guaranteed bonds; notes w/warrants; conv. pref. stocks	Guaranteed bonds; secured debt; conv. bonds; conv. pref. stocks; common stock	Secured debt; conv. bonds; conv. pref. stocks; common stock	Subordinated debt; conv. bonds; conv. pref. stocks	Subordinated debt; conv. bonds; conv. pref. stocks	

Appendix G
Registering Property

Registration Requirements:

No:	Procedure	Time to complete:	Cost to complete:
1	Obtain an updated Real Estate Certificate from the Land Registry	1 day	LBP 10,000
2	Obtain an official cadastral map	1 day	LBP 20,000
3*	Obtain an urban plan certificate from the Urban Planning Authority and the Municipality	10 days (simultaneous with procedures 4, 5, and 6)	LBP 6,000
4*	Inspection of the property by the Tax Authority to get an official estimate of its rental value	10 days (simultaneous with procedures 3, 5, and 6)	no cost
5*	Obtain an official estimate of the rental value of the property from the Tax Authority	1 day (simultaneous with procedure 3, 4, and 6)	LBP 5,000
6*	Obtain tax clearance from the Municipality	3 days (simultaneous with procedures 3, 4, and 5)	LBP 8,000
7	Preparation of the sale agreement by an attorney, notary public, or qualified facilitator	2 days	LBP 750,000 (minimum set by the Beirut Bar Association)
8	Apply for registration at the Land Registry	About 10 days	LBP 74,000 (Flat taxes) + 5% of property value (Transfer tax) + 5% of the sum of Transfer Tax and Flat Taxes (Municipal Tax) + LBP 5,000 (stamp duty on new deed) + 0.3% of property value (stamp duty) + 0.1% of property value (bar association tax)

Source: World Bank, "Doing Business 2008" Economic Data: Lebanon.

Appendix H

The registration requirements, procedures and costs associated with setting up a business in Lebanon

1	Designate a Lebanese lawyer	1 day	LBP 6,000,000 (annual retainer) + LBP 100,000 (legalization of the Power of Attorney before the Bar Association)
2	Deposit capital in a bank and obtain the certificate of deposit	2 days	no charge
3	Sign bylaws before the Commercial Registry at the commercial court and register the company	3 days	see comments
4	Have company's books stamped at the Commercial Registry	3 days	LBP 110000
5	Notify Ministry of Finance of commencement of operations within two months of registration for tax and salary contributions withdrawal arrangements	2 days	no charge
6	Register at the National Social Security fund	35 days	no charge

Source: World Bank Group (2008)

Comment related to step 3 in the above table:

To register the company, promoters must submit the following documents: - Articles of association. - Commercial circulars. - Minutes of the first general meeting of the partners. - Registration application and a draft of the registration certificate to be issued. - Document attesting the capital deposit. - Partners' identity cards or passports (copy). - Documents evidencing that the company is entitled to occupy the premises where it exercises its activities. Fee schedule for company registration: - Tax for the magistrates' mutual fund: LBP 375,000 lump tax + 0.15% of the capital. - Stamp duty: equal to 0.3% of capital + LBP 750,000 lump sum tax, in addition to LBP 52,500. - Tax for the Lebanese Bar Association: 0.1% of capital. If the bylaws are not signed before the Commercial Registry, additional fees are levied: - Notarization of the articles of association: LBP 8,500 for each page. - Notarization fee: LBP 100,000 lump sum. - Notary public tax: 0.1% of capital.

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